



Understanding the impact of liberalisation in the EU-Africa aviation market

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ABSTRACT

The aim of this paper is to discuss the impact of recent regulatory changes in air passenger transport between Europe and Africa. We quantify the impacts of liberalisation of the EU-Africa aviation market on air fare and service frequency using a two-stage least squares model approach. The analysis shows that inter-continental air services between Europe and Africa are mainly governed by bilateral agreements negotiated between the individual countries of the EU and the various African governments. Compared to the developments in the links between Africa and the rest of the world, the EU-Africa market appears to be losing momentum. The results of the econometric model suggest that EU-Africa routes which experienced liberalisation over the period 2002 and 2016 had 28% higher departure frequency and 14% lower fares than those routes without such a regime change. Furthermore, the results show that the presence of a low-cost carrier reduces fare by 31%.

1. Introduction

The European Union is Africa's second largest trading partner after China (Dollar, 2016), while Africa is Europe's fourth largest trading partner, representing 9% of exports from the EU and 8% of imports to the EU-28 in 2014 (Tralac, 2016). Moreover, Europe is the main source market for African tourism and the biggest destination for most African products due to its geographic proximity and good transport links.

The Africa-EU route, with approximately 1.2 million weekly non-stop return passenger seats in July 2016, is by far the highest passenger share in the total international air traffic to and from Africa. The second largest non-stop origin and destination inter-continental market is the Africa-Middle East route (800,000),¹ followed by Asia (90,000), North America (50,000) and Latin America (12,000) (Airline Leader, issue 32). Air traffic flow between Africa and Europe grew rapidly in recent years at a rate of 4.7% on average and this trend is expected to continue in the medium term (Boeing, 2016; Eurostat, 2018). This growth can be attributed to increased economic activity and higher propensity to travel, as urbanisation and domestic consumption in Africa expand and government-led investments in the aviation industry increase. Liberalisation of air transport has been identified as a major contributing factor for the growth of air traffic flow between both regions as evidenced by the example of Morocco that according to Bernardo and Fageda (2017) and InterVISTAS (2009) after signing an Open Skies agreement with the EU enjoyed a 20–35% increase in the number of

seats offered on pre-existing routes and a notable increase in the number of new routes offered. It is argued that the protectionist policies of intra-African air services have caused long haul route networks to focus on Europe and in more recent years, the Middle East (Airline Leader, 2016). Though collectively the EU remains Africa's biggest inter-continental passenger traffic flow, predominantly driven by Air France-KLM, passenger traffic between Africa and the Middle East/Asia has grown rapidly in recent years (in part by offering connecting flights to Europe). This growth has been driven by Emirates, Qatar Airways and Turkish Airlines with the latter forecasted to increase its share of non-stop capacity to 15% in 2025, up from 7% in Airline Leader (2016).

In recent years, there have been changes in the regimes governing air transport both between African countries and between the EU and Africa as evidenced by the creation of the African Single Air Transport Market by the African Union in 2014 and the conclusion of horizontal agreements between the EU and selected countries such as Morocco, Cape Verde and the members of WAEMU (West African Economic and Monetary Union) as reported by Daramola and Jaja, 2011; Dobruszkes et al., 2016; InterVISTAS, 2009; Surovitskikh and Lubbe, 2015. However these developments represent only a modest step towards liberalisation. European and African countries continue to artificially restrict air travel by limiting the number of inter-continental flights between them. Moreover, the EU-Africa air transport is mainly governed by restrictive bilateral agreements between individual African and individual European countries. Although the impact of restrictions on

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¹ A large proportion of the Africa-Middle East traffic is North Africa to the Middle East.

airline markets has been widely researched, there has been little discussion about the overall aviation regime between the EU and Africa. With few exceptions, previous studies have instead focused on the implications of aviation regimes between the EU and partners such as the USA (e.g. Humphreys and Morrell, 2009; Pitfield, 2009), the Middle East (Adler and Hashai, 2005), Asia (Khee-Jin Tan, 2015), and other major players including Russia and Turkey (Christidis, 2016).² This research is an attempt to address this gap by analysing the traffic trends and state of liberalisation of air services between the EU and Africa and estimating the impact of lifting market access restrictions for EU and African airlines on traffic, fares and frequencies.

The remainder of the paper is organised as follows. Section 2 reviews the existing literature on the impacts of air transport liberalisation. Section 3 examines the institutional context of the EU and Africa aviation relations. This is followed by an examination of the EU-Africa's air traffic trends and air traffic distribution by regions in Section 4 and the description of the econometric model in Section 5. Section 6 presents the results of the model and Section 7 summarises the key findings and concludes the paper.

2. Literature review

A large and growing body of literature has investigated the impact of air services liberalisation and provides evidence confirming that liberalisation is generally accompanied by market entries and greater competition, resulting in lower fares for consumers, greater number of people travelling, greater choice of airlines and routes, and improved service levels (Adler and Hashai, 2005; Dresner and Trettheway, 1992; Schipper et al., 2002; UK CAA, 2006). While this is true in principle, the impact of liberalisation in international aviation is influenced by various factors including the degree of liberalisation already undertaken, economic conditions and geographic position considerations (InterVISTAS-ga², 2006).

The impact of liberalisation specifically in Africa has been addressed by a narrower, but growing, group of researchers (e.g. Abate, 2016; Ismaila et al., 2014; Surovitskikh and Lubbe, 2015). Ismaila et al. (2014) argued that liberalisation of bilateral air services in Nigeria would stimulate traffic by at least 65%. Daramola and Jaja (2011) argued that deregulation of domestic air services in Nigeria has resulted in a declining concentration of connectivity in a limited number of nodes and links as the service has expanded beyond first-tier cities like Lagos and Abuja. Surovitskikh and Lubbe (2015) identified a significant relationship between South Africa's aviation policy and air passenger traffic flows in three markets, namely South Africa to intra-Africa, South Africa to Southern Africa and South Africa to East Africa over the period 2000 to 2006. Using a gravity model, Abate (2016) argued that although liberalisation of air services between Ethiopia and other African countries has not impacted prices, it was responsible for a 40% increase in the level of air traffic movements. Fares did not decline because liberalisation did not result in new entrants therefore incumbent airlines felt no pressure to reduce fares.

The literature so far has focused on intra-Africa markets with little attention been paid on the EU-Africa aviation markets. Moreover, while the impact of liberalisation between the EU and other regions has been studied more extensively (Adler and Hashai, 2005; Humphreys and Morrell, 2009; Khee-Jin Tan, 2015; Pitfield, 2009), the literature on EU-Africa aviation markets has been limited to the examination of the EU-North Africa market (Bernardo and Fageda, 2017; Dobruszkes et al., 2016; Dobruszkes and Mondou, 2013; InterVISTAS, 2009; 2014; Myburgh et al., 2006; Schlumberger and Weisskopf, 2012). Khee-Jin Tan (2015) assessed the aero-political factors influencing the prospects of a comprehensive agreement between the European Union and the Association of Southern Asian Nations (ASEAN) and concludes that the

agreement alone cannot do much to stem the loss of traffic to sixth freedom carriers. He argues that other liberalising steps and areas of cooperation that promise mutual benefit should be pursued, particularly in terms of market philosophy, trading relations and people-to-people exchanges. Humphreys and Morrell (2009) examined the initial responses of US and UK airlines to removing the restrictions remaining in EU/US liberal air service agreements, particularly the major one relating to the air services between the US and the UK. They conclude that airlines responded by adjusting their capacity leading to a 5% increase of seats offered in total for the Heathrow/Gatwick to US market and an 8% increase in flights for summer 2008 compared to the previous summer. Christidis (2016) investigated the status of the EU's aviation relations with four important partners: USA, Russia, Morocco and Turkey. Using the Herfindahl–Hirschman Index as a measure of concentration at the airport level, the author argue that airline alliances, ownership limitations, political, geographic, demographic and economic factors influence the airline network dynamics and the spatial distribution of aviation. Pitfield (2009) studied the supply side changes resulting from the implementation of the EU-US Open Skies Agreement and discussed the data and methodological requirements of an assessment of the impact of the Agreement. The author concluded by suggesting that to assess this impact requires overcoming difficulties in data collection on fares and costs as well as data on what proportion of change in passengers is attributable to the agreement. Adler and Hashai (2005) showed that liberalisation in the Middle East would lead to a 51% increase in inter-country passenger flows.

Myburgh et al. (2006) found that air transport liberalisation in the Southern African Development Community region would lead to a 20% increase in air traffic and the creation of 35,000 new jobs in the tourism industry per se and another 37,000 new jobs in the wider regional economy. Schlumberger and Weisskopf (2012) argued that liberalisation of market access in the form of an Open Skies agreement between Tunisia and the EU would stimulate the market. In a recent study, InterVISTAS (2014) outlined the benefits that would accrue if 12 African nations were to implement the 1999 Yamoussoukro Decision (YD).³ The additional services generated by liberalisation between those markets would provide an extra 155,000 jobs and \$1.3 billion in annual GDP. Dobruszkes and Mondou (2013) argued that the Open Skies agreement signed between the EU and Morocco in December 2006 generated significant developments including the launch of many new low-cost services, a large expansion of regular air services in terms of the number of seats and routes supplied and a decrease in charter business. Similarly, Bernardo and Fageda (2017) use the Open Skies agreement signed between the EU and Morocco to investigate the effects of the liberalisation of the air transport market in a middle-income developing country. They found a 20–35% increase in the number of seats offered on pre-existing routes and a notable increase in the number of new routes offered. Using Morocco and Tunisia as case studies, Dobruszkes et al. (2016) studied the impact of liberalisation on tourism in Morocco and Tunisia with a specific focus on the methodology used to capture the tourism benefits of air transport liberalisation. Their results suggested that there is little evidence of a relationship between aviation liberalisation and tourism development. They conclude that available evidence is restricted mostly to the impacts of low-cost carriers on tourism.

One of the concerns arising from the liberalisation of international aviation is its impact on the profitability of home carriers. Liberalisation has the potential to weaken the market position and profitability of national carriers through increased competition.

³ The YD is a multilateral agreement among most of the 54 African states for liberalisation of air transport in Africa. It establishes principles for internal market liberalisation and fair competition within the air transport sector. Its aim is to provide safe, efficient, reliable, and affordable air services to consumers.

² These studies are discussed in turn in the literature review section below.

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