LIBERALISATION: AIRLINES SHOULD FOCUS ON THEIR CORE BUSINESS

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The views expressed are his own

On the face of it, the bid by Kenya Airways to manage Kenya's busiest international airport, Jomo Kenyatta International Airport, JKIA makes great sense. After all, that is what some airlines do. Ethiopian Airlines and Qatar Airways both run their main hub airports, Bole International Airport and Hamad International Airport respectively. What is good for the goose is surely good for the gander.

There are, however, some important differences between Kenya Airways and Ethiopian Airlines and Qatar Airways that need to be looked at. Firstly let us take the ownership structure. Kenya Airways is a private airline (despite a recent increase in government shareholding). Initially government owned, the airline was privatised in an acclaimed process in 1995, in which the government gave away its majority shares to other shareholders, including strategic partner, KLM. The government retained a 23% shareholding.

The second important issue to consider is that the airline has been on a loss making trajectory in recent years. This is indeed the problem that the bid seeks to remedy. But what is not being looked at is the reason for the loss-making.

Kenya Airways has a dynamic CEO, Sebastian Mikosz who was brought on board to revive the airline and put it back on track. Mikosz is former CEO of Lot Polish Airlines and is reputed to have turned around the fortunes of Lot. He has also previously run his own carrier. Airline business is not for the faint hearted, and is mainly about managing costs. Warren Buffet is apocryphally quoted to have stated that the fastest way to become a millionaire is to start off as a billionaire and then invest in an airline! Mikosz has largely succeeded in cutting costs.

JKIA on the other hand has performed well, even though it has not fully exploited its potential. It is a profitable publicly owned airport. It is managed by Kenya Airports Authority or KAA that manages all publicly owned airports in Kenya. KAA appointed Norwegian national, Jonny Andersen as its CEO after a protracted and highly charged boardroom battle, triggered by political considerations. The airport is on an expansion trajectory. It has consistently handled more passengers and its performance has seen it rated as one of the best and most improved airports on the continent. It has, however, gone silent on the proposed second runway that would have seen it substantially upscale its operations. This came close on the heels of the cancellation of a Green Field terminal.

It may soon rue the decision not to expand and embrace the expected expansion of air transportation on the continent. JKIA is seen as the crown jewel of KAA and a major contributor to its income.

There are definite advantages in having preferential treatment in an airline's hub. Many airlines go about this by obtaining a stake in a terminal for its operations. There is also merit in looking for synergies in the operations of an airline and an airport. This is better achieved by making operational agreements.

Airports are large businesses and valuable strategic assets. International airports provide the main gateways to a country. They are some of the most important security installations. Although one may be tempted to derisively refer to an airport as a short road (runway) with a hotel (terminal) at the end, the reality is, of course, much more complex than this! The 4km 'road' at JKIA provides the region with a direct link to destinations in over 50 countries, and can connect a traveller with every corner of the globe. Airports are also profitable economic engines. The USA's commercial airports account for 7% of its 20 trillion dollar national GDP.

The dilemma facing Kenya Airways largely epitomises the difficulties of liberalisation and privatisation of aviation in African countries. It provides a case study of airline privatisation in the continent and brings to the fore challenges faced by airlines in a liberalised environment. Liberalisation is not easy, and models from USA, Europe or Asia may not necessarily work in Africa.

Kenya Airways was the first African flag carrier to be privatised. Some of the documented benefits of privatisation of state owned enterprises are the reduction of excessive bureaucratic control, incompetence, mismanagement and corruption. Privatisation of Kenya Airways did not disappoint. The airline improved in service delivery, performance and resource allocation. It achieved sustained profitability for one and half decades. The state, however, has recently managed to sneak back and regain undue influence and control. The airline first ran into headwinds when it decided to expand its fleet. In this process, the government increased its shareholding from 23% to 29.8%. It is important to note that some of the shenanigans that led to massive losses and its near-collapse would not have gone through the boards of truly private corporations or would have, at the very least, resulted in severe sanctions on the directors and managers. Publicly quoted privatised entities should equally be held to a high level of accountability and reporting.

The gambit by the beleaguered airline to run East Africa's largest airport is reminiscent of putting a bandage on your foot because you have a toothache. Kenya Airways has undoubtedly had a horrible decade.

Irregular expansion is the first fault line in Kenya Airways' gloomy fortunes in recent years. The airline embarked on an ambitious but ill-advised and irrational fleet expansion, purchasing

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aircraft and opening up several unsustainable destinations. This was followed by a precipitous contraction, forcing the airline to dispose of these new, barely used aircraft at a great loss. To compound issues, the airline lost tonnes of money in an ill thought-out fuel hedging plan. The fuel hedging debacle, together with other operational issues, saw the airline make unprecedented losses in Kenya's corporate history.

And the airline has not managed to achieve a harmonious working relationship between management and employees. The management has had several acrimonious run-ins with its pilots and engineers. Despite the difficult operating environment in aviation, the root causes of the problems facing Kenya Airways are mundane and well within its control. These are reckless aircraft purchase, uncoordinated expansion, mismanagement of fuel hedging and poor labour relations. Nature was also unkind as during all of this there was an Ebola outbreak that led to many cancellations of Western African routes dominated then by the airline.

It is clear Kenya Airways cannot cure these problems by going out and getting an airport under its wings! In an adept move, it managed to bully its creditors, mostly public owned banks, into a situation where they were forced to exchange debt for equity in the foundering airline. The debt owed to government was also converted to equity, resulting in an increase of its shareholding to 48.9%. KLM's stake has now been reduced to 7.8% (from a high of 26.73%). This is akin to sneaking public ownership in again - through the back door.

Kenya Airways' interest in JKIA follows the script of the operations of its competitor across its northern border in Ethiopia. Ethiopian Airlines is state owned and obtains great advantages from government subsidy. It is currently having a heady run. It tops almost every list of Africa's leading airline: by passengers carried, in terms of aircraft owned, by the number of destinations reached. It is also the continent's most (if only) profitable airline. It is implementing its Vision 2025 programme in a bid to become the most competitive and leading aviation group in Africa. What is not in doubt is the formidable management experience that it has accumulated. It holds stakes in numerous airlines. It has been in talks with governments of Chad, Guinea, Equatorial Guinea, Djibouti, Nigeria, and Mozambique to set up carriers through joint ventures. It holds shares of Zambian Airways and Malawian Airlines. It runs Togo-based Asky Airline and has formed a new airline in Mozambique with full ownership. It is also buying a stake in Eritrean Airlines.

The path being walked by Ethiopian now may look similar to what Kenya Airways was up to a few years ago: aggressive fleet expansion and the opening of several new destinations. However its strategic plans are probably different. Ethiopian Airlines is experimenting with a multi-hub operation, with hubs in southern Africa, central Africa and western Africa. Will Kenya Airways also start buying airlines to match this?

Some of EA's current apparent strengths may well turn out to be liabilities in a future market that is fully liberalised. The company is already exploring the possibility of liberalising itself and selling minority shares to other African states. This may cushion it from rocky waters ahead.

Kenya Airways' private ownership is not necessarily a bad thing. The airline should learn to operate like a private entity and stop seeking to turn back the clock. Privatisation was the right thing to do; all the challenges it is facing can be traced back to the re-appearance of state influence in its operations. The airline should leverage its private sector ownership that provides it with freedom and agility. It is no longer hostage to bureaucratic strictures.

Kenya Airways should focus on the business of transporting air travellers safely, on time and at a reasonable cost. Many passengers are price sensitive, and the airline loses many passengers to its competitors because of this. Kenya Airways is generally more expensive than its competitors for many routes. There may be good reasons for this, but the average passenger is not interested in technical details of Air Serve Agreements and Freedoms of the Air. These are the issues that the airline should be working on, not looking for airports to run.

A fallacy that is floated by the proponents of the bid is that since Kenya Airways accounts for the greatest percentage of profit at JKIA, a collapse of the airline would automatically result in a collapse of the airport. This is not true, and is a case of the tail wagging the dog. The fates of the two facilities are not linearly and fatalistically linked. Nairobi is an economic hub in its own right, irrespective of the fate of the airline. In the worst case scenario, an unlikely collapse of Kenya Airways would provide other carriers with an opportunity to take advantage of the traffic in Eastern Africa's most vibrant city.

The proposed deal has the potential to bring both organisations to grief. It is disingenuous for a private company to adopt the operating model of a public company. The long-term strategies of the two organisations are different and even incompatible. JKIA may find itself throttled by the tactical plans of the airline. Currently the airline's only strategy is to keep afloat, even as it grasps at straws. JKIA should focus on being an airport. It should focus on its customers and strive to be more user-friendly. It should position itself internationally and market itself to all interested airlines.

Airlines are extremely important in enhancing connectivity, and they support other industries like tourism and commerce. They stimulate economic growth and provide employment. Experience from other regions shows that moving away from state ownership of airlines provides travellers with the opportunity to choose competitive fares. States should free their flag carriers and support them at an arm's length. This will encourage them to survive without killing the industry. All businesses that operate internationally require government support, more so airlines. Regulation should be put into place to allow optimal number of airlines to thrive, without spreading out too thin.

Kenyan Airways CEO Sebastian Mikosz

Adaptable airlines that restructure their operations will thrive in this nascent brave new world of aviation. The potential regional market is huge and neglected. One only needs to observe long-distance road transport between countries at various border points in Africa. These are potential air passengers crying out for affordable fares and direct links. ✈