

“Coloniser, c’est transporter”:

The Case of Virgin Nigeria

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Economics 240

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April 21, 2006

Nigeria, one of the most important countries in Africa due to both its large population (one-sixth of all Africans are Nigerian) and oil production, has long been without an effective airline of its own. Given the country's extensive international trade and high corruption levels, the commercial aviation sector has been an important but underperforming industry for much of its history. The purpose of this paper is to examine the recent changes in the country's international air linkages with more developed countries through the introduction of foreign investment and technical expertise in the creation of Virgin Nigeria Airways. This paper will also discuss the difficulties, both at home and abroad, in setting up the airline.

State-owned Nigeria Airways, which began operations in 1958, was one of the leading airlines in the continent before mismanagement and safety concerns eventually grounded the airline in May 2003. Allegations have been made that former government officials looted over \$400 million from the company, accelerating its demise.¹ Nigerian President Olusegun Obasanjo, as part of his party's goal of encouraging private sector development in order to reform the economy and reduce corruption levels, announced a search for an international strategic investor to provide financial and technical assistance in creating a replacement to Nigeria Airways. South African Airways, a previous alliance partner of Nigeria Airways, was seeking to expand its reach throughout the continent following the liberalization of the African aviation market by the Yamoussoukro Agreement.² South African had already bought a 49% stake in Air Tanzania, and coveted a similar opportunity in Western Africa to expand its scope network.³ South African was soon selected and began planning Nigerian Eagle Airways, but negotiations broke down, for reasons which remain unclear. After a second round of bidding, Virgin Atlantic Airways, the

¹ "Nigeria seeks lost airways money," *BBC News*, 24 November 2003, <http://news.bbc.co.uk/1/hi/world/africa/3231462.stm>.

² Rigas Doganis, *Flying Off Course: The economics of international airlines* (London: Routledge, 2002), 72.

³ Andre Viljoen, "South African Airways" (Durban: Indaba, 10 May 2004), 20.

second largest airline in the U.K., was selected.⁴ Virgin Atlantic had previously set up Virgin Blue in Australia, a fast growing competitor to Qantas Airways. Virgin Atlantic was selected not just for financial reasons, but also because of the greater stability the company offered (South African had recently undergone two leadership shakeups), Virgin Atlantic's positive and growing presence in the Nigerian market since its entry in 2001, and in the hopes that investment by foreign companies in non-oil industries would encourage others to follow. Virgin Atlantic provided a 49% ownership share, with the remainder held by Nigerian institutional investors. Initial capitalization was set at \$50 million, with plans to eventually expand this via an IPO on the Nigerian Stock Exchange. An estimated 20,000 jobs would be created both directly and indirectly by the new carrier.⁵ For its fleet, Virgin Nigeria would lease Virgin Atlantic A340-300s as they were being phased out and A320s from Bulgaria as a stopgap until used 737-300s could be obtained.⁶

Prior to Virgin Nigeria, air travel to most of the world (or even other parts of Africa) from Nigeria typically meant traveling via one of the major European gateways (see Appendix 1 for a map of routes by major airlines). Most longhaul services to Nigeria are operated by national airlines such as Air France, British Airways, KLM, or Lufthansa, with Lagos being the primary gateway.

Virgin Nigeria's entry to the skies was not without complications however. Public opinion was initially against the new company, citing the disgrace of such a large foreign ownership and the prominent use of the Virgin brand. "It is a private line, not a national carrier," said Razak Saidu of the National Union of Air Transport Employees, the country's airline labor

⁴ "Virgin takes to Nigeria's skies," *BBC News*, 28 September 2004, <http://news.bbc.co.uk/2/hi/business/3697710.stm>.

⁵ Virgin Nigeria Airways, "President Obasanjo and Sir Richard Branson Announce Launch of Virgin Nigeria," 28 September 2004, <http://www.virginnigeria.com/en/ng/press/pr2004-09-28.aspx>.

⁶ Ulrich Klee, ed., *jp airline-fleets international 2005/06* (Zurich: Bucher & Co., 2005), 694,

union. Former Nigeria Airways workers threatened legal and sabotage actions to prevent Virgin Nigeria from commencing operations unless the government paid the \$68 million in pensions and salary owed to the company's 4,800 employees.⁷ Many Nigerians also viewed the privatization of such public services as a government failure in meeting social responsibilities. The irony of a British company announcing its participation in the new Nigerian flag carrier on October 1, Nigeria's Independence Day, did not go unnoticed. "Bravo! The British are Back" one critique was titled.⁸ Despite the difficulties at home, Virgin Nigeria began operations on June 28, 2005 from Lagos to London.⁹

Since it was first announced, Virgin Nigeria made it clear that it intended to fly to the U.S., Nigeria's second largest trading partner. Although airline services between North America and Western Africa have been virtually nonexistent for the last quarter-century ("a backwater compared with the North Atlantic highway"¹⁰), there is certainly demand for such a connection, as nearly 10% of American imported oil comes from Nigeria.¹¹ However, Virgin Nigeria's aspirations soon became a battleground for the American goal of ending the restrictions imposed by the Bermuda II Agreement (the bilateral treaty governing flights between the U.S. and the U.K), which prohibits more than two U.S. carriers (American and United) from serving London's preferred Heathrow Airport (others are forced to use the less convenient Gatwick), and restricts what U.S. gateways can be served from each of the two primary London airports.¹²

⁷ Christian Allen Purefoy, "Branson rides to rescue of Nigerian airline," *San Francisco Chronicle*, 26 November 2004, <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2004/11/26/BUGHDA11DG1.DTL>.

⁸ Femi Ojo-Ade, "Bravo! The British are Back," *Nigeriaworld*, 29 October 2004, <http://nigeriaworld.com/feature/publication/ojo-ade/102904.html>.

⁹ Virgin Nigeria Airways, "Virgin Nigeria Takes to the Skies," 28 June 2005, <http://www.virginnigeria.com/en/ng/press/pr2005-06-28.aspx>.

¹⁰ Anthony Sampson, *Empires of the Sky* (New York: Random House, 1984), 117.

¹¹ U.S. Census Bureau, *Statistical Abstract of the United States: 2002*, 570.

¹² U.S. Department of State, "Bermuda II Agreement," 23 July 1977, TIAS no. 8641, *United States Treaties and Other International Agreements*, vol. 28, pt. 5.

Continental Airlines, the fifth-largest U.S. airline, announced on December 9, 2004 that it would begin New York-Lagos service the following year.¹³ Continental was widely expected to be successful on the route not only because of its strong international performance, but also because of its dominance in Houston, the home city for many U.S. oil corporations. In fact, demand for Houston-Nigeria services was so strong that for many years, British Airways, unable to serve Houston from Heathrow due to Bermuda II, served Nigeria from Gatwick in order to assure it would retain the lucrative oil traffic. (British Airways eventually moved its Nigeria flights to Heathrow and today flies Heathrow-Houston via Chicago.) Continental later (March 2005) applied to serve Accra, Ghana as well, intending to use the one-hour distant Accra as a relatively safe stopover location compared to Lagos for its crews.¹⁴

Within two weeks of Continental's announcement, Virgin Nigeria filed a request with the U.S. Department of Transportation to fly between Lagos and New York.¹⁵ As part of its application, Virgin Nigeria noted that "although Virgin Nigeria is aware that U.S. airlines seeking entry into Nigeria have experienced difficulties in the past, the Government of Nigeria has assured Virgin Nigeria that it would promptly approve air service proposed by any U.S. air carrier,"¹⁶ a quid pro quo. But Virgin Nigeria quickly became a pawn in the U.S.-U.K. dispute over Heathrow access rights; the U.S. rejected Virgin Nigeria's application on the grounds that the bilateral agreement between the U.S. and Nigeria requires that airlines operating between the two countries be corporate citizens of those countries. Since Virgin Atlantic held a 49% stake in Virgin Nigeria, Virgin Nigeria should be viewed as a British airline and not a Nigerian one, and

¹³ Continental Airlines, "Continental Airlines Wins Approval for New York-Lagos Non-Stop Service," 9 December 2004, <http://phx.corporate-ir.net/phoenix.zhtml?c=85779&p=irol-newsArticle&ID=653371&highlight=>.

¹⁴ Continental Airlines, "Application of Continental Airlines, Inc. for an Exemption and Frequency Allocation," 2 March 2005, <http://dms.dot.gov/search/document.cfm?documentid=318086&docketid=20523>.

¹⁵ Virgin Nigeria Airways, "Application of Virgin Nigeria Airways Limited for a Foreign Carrier Permit," 22 December 2005, http://dmses.dot.gov/docimages/pdf95/378418_web.pdf.

¹⁶ Virgin Nigeria Airways, "Application of Virgin Nigeria Airways Limited for an Exemption," 22 December 2005, http://dmses.dot.gov/docimages/pdf95/378421_web.pdf, 9.

potentially also subject to the restrictions of Bermuda II.¹⁷ The U.S. Ambassador to Nigeria, noted that because Virgin Nigeria is, in the eyes of the U.S., “a British airline, it becomes a part of the larger civil aviation issues between the U.S. and the U.K.”¹⁸ Nigeria soon retaliated by denying Continental’s proposal to fly to Lagos. Although Virgin Nigeria finally received U.S. access rights the following year,¹⁹ the difficulties involved in securing them were certainly troubling.

Another concern for Virgin Nigeria has been that despite the original intent of governmental noninterference, that standard has not been fully upheld. On January 4, 2006, following the refusal of several Nigerian airlines to transport Hajj pilgrims to Mecca due to insufficient government payments, President Obasanjo ordered Virgin Nigeria to immediately use all its available aircraft to transport stranded Muslims from Abuja. (Able-bodied Muslims are expected to make an annual pilgrimage, the Hajj, to Mecca at least once in their lifetimes.) Saudi Arabia only allows Hajj flights within a certain timeframe, and Saudi authorities had allowed for an extension to 8:00 AM on January 6.²⁰ Virgin Nigeria cancelled its scheduled flights to Johannesburg and London, and planned to transport pilgrims to Jeddah (the nearest airport to Mecca), departing the night of January 5. Although the flight was not expected to arrive before the deadline, it was ordered to proceed anyways, and was eventually turned back by Saudi authorities.²¹

¹⁷ Continental Airlines, “Surreply of Continental Airlines, Inc. and Motion for Leave to File,” 3 February 2006, http://dmses.dot.gov/docimages/pdf95/384850_web.pdf.

¹⁸ John Campbell, “Nigeria: ‘Richer’ Relationship the Result of Nigeria’s Democratic Transformation, Despite Flaws, Says U.S. Ambassador,” interview by Reed Kramer, *allAfrica.com*, 25 February 2005, <http://allafrica.com/stories/200502250907.html>.

¹⁹ “Virgin Nigeria begins direct flight to US,” *Nigerian Tribune*, 15 February 2006, <http://www.tribune.com.ng/150206/news14.htm>.

²⁰ Ndubuisi Francis, “Why We Could Not Airlift Pilgrims,” *ThisDay*, 6 January 2006, <http://www.thisdayonline.com/nview.php?id=37501>.

²¹ “Saudis turn back Nigeria pilgrims,” *BBC News*, 6 January 2006, <http://news.bbc.co.uk/2/hi/africa/4587650.stm>.

Finally, Nigeria and other developing countries are potential beneficiaries of a proposal by French President Jacques Chirac first announced in January 2005. Chirac proposed levying a development tax on all airline flights worldwide, with funds raised being used to aid development in poor countries. In France alone, the tax is expected to raise €10 million (\$248 million) annually. United Nations Secretary General Kofi Annan hailed Chirac's initiative as an "innovative source of financing" to help reduce poverty worldwide.²² The airline industry has decried the new tax, arguing that it would hurt the very nations it intends to help.

"Passengers...are already contributing, as customers, to an industry which is of incalculable importance to the developing world....Airlines bring in the tourists who, in many disadvantaged countries of the world, constitute one of the most important sources of money and jobs. Air links facilitate trade, and give local producers access to global markets," the Association of European Airlines stated.²³

The tax-for-aid proposal certainly has the potential to retard the foreign investment in Nigeria that Obasanjo's government was hoping for through the creation and operation of Virgin Nigeria. While the airline has fared well thus far and has an ambitious growth plan (see Appendix 2), it remains uncertain if the carrier can remain viable in the long run given Nigeria's history of economic instability. However, the carrier's insulation from the government through the lack of public ownership is a positive step that many other developing countries are still reluctant to take. One final concern must be Virgin Atlantic's willingness to maintain its support in the face of adverse conditions in the future, and how well Virgin Nigeria would fare without the foundation of its British backing.

²² "UN chief hails new French air tax," *BBC News*, 28 February 2006, <http://news.bbc.co.uk/2/hi/business/4758786.stm>.

²³ Association of European Airlines, "Tax-for-aid: Why target our passengers, asks AEA," 9 March 2006, <http://www.aea.be/dbnetgrid2/htmleditor/UploadFiles/Pr06-012.pdf>.

Appendix 1: Longhaul Service to Nigeria, June 2005²⁴



²⁴ Author compiled from Official Airline Guides, *Worldwide OAG Flight Guide – June 05*, (Colchester (U.K.): OAG Worldwide, 2005).

Appendix 2: Virgin Nigeria's Current and Future Route Network²⁵



²⁵ Author compiled from "Virgin Nigeria links West Africa to Dubai," *Travel and Tourism News*, April 2006, <http://www.ttnworldwide.com/Articles.asp?Article=5354>.

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