SAA's Debt Relief and Recapitalisation

Standing Committee on Appropriations

Barriers to entry in SA's Airline Sector

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Introduction and background

- Based on a CCRED study on barriers to entry in the airlines sector
- Substantial entry since deregulation in 1991
- Of the appx 15 private airlines that entered SA’s domestic market, only 2 are still in operation
- Structural barriers do not seem to prevent entry i.e. high cost of entry, high operational costs and legal barriers
- However strategic barriers seem to prevent sustained participation

Strategic barriers to sustained entry

- The airline industry is fraught with cases of abuses of dominance
- The airline industry tends to protect incumbent state carriers allowing them to take part in anti-competitive conduct
- Predatory conduct:
  - U.S. v American Airlines (1999)
  - Air Canada (2001)

SAA's conduct

- SAA is the dominant (56%) market share (SAA and Mango)
- Relationships with smaller airlines on secondary routes e.g. SA Express
- SAA has a history of anticompetitive conduct
  - 2 times for abuse of dominance (R60 m)
  - Confirmed Nationwide Airlines judgement of R104.5 m damages claim
  - 3 times for price fixing (R58.5 m)
- Highest no. of Competition Act infringements by a single firm in SA

SAA's exclusionary conduct

- Leverage relationships with other airlines to effect its dominance in domestic routes in which it does not normally operate
- Able to match prices of LCCs
- SAA acquired new aircrafts then leased old aircrafts to Mango
- **Government guarantees and bailouts**
  - May facilitate SAA and associates' ability to match entrants' prices despite sustaining substantial losses
  - Distort market by rewarding inefficiency(Mncube, 2014)

Entry leads to real benefits

- The study found that it has been the entry of new airlines that has led to **real benefits** for consumers, not SAA.

1) Routes that experienced entry benefited from a drop in prices – by as much as 39% on some routes in 2014/15
2) Entry of new airlines coincided with increases in passenger traffic
3) More flights to less popular, smaller destinations from which tourism has benefitted

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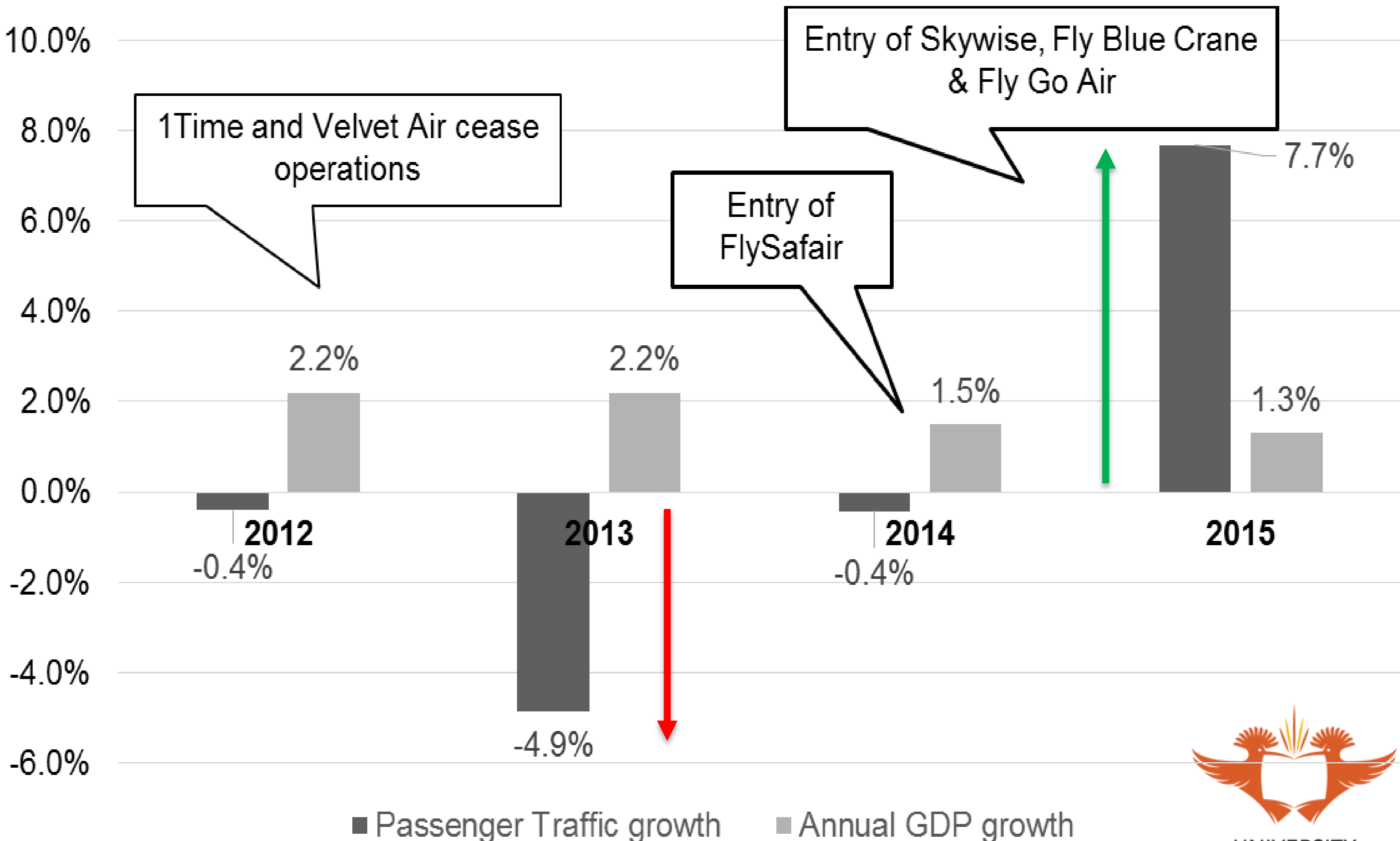
1) Reduced ticket prices

Percentage price changes on domestic routes, 2014 to 2015 (January and February, respectively)

Flight	% Change	FlySafair entry
Cape Town - George	-38.0	Y
Cape Town – Port Elizabeth	-35.4	Y
Port Elizabeth - Johannesburg	-27.9	Y
Johannesburg – Cape Town	-17.1	Y
Johannesburg - George	-11.7	Y
Johannesburg – East London	2.9	N
Johannesburg - Bloemfontein	5.1	N
Durban – Cape Town	-3.6	N
Durban - Johannesburg	-1.8	N

2) Increased passenger traffic

Total passengers for scheduled domestic flights in SA, 2011-2015



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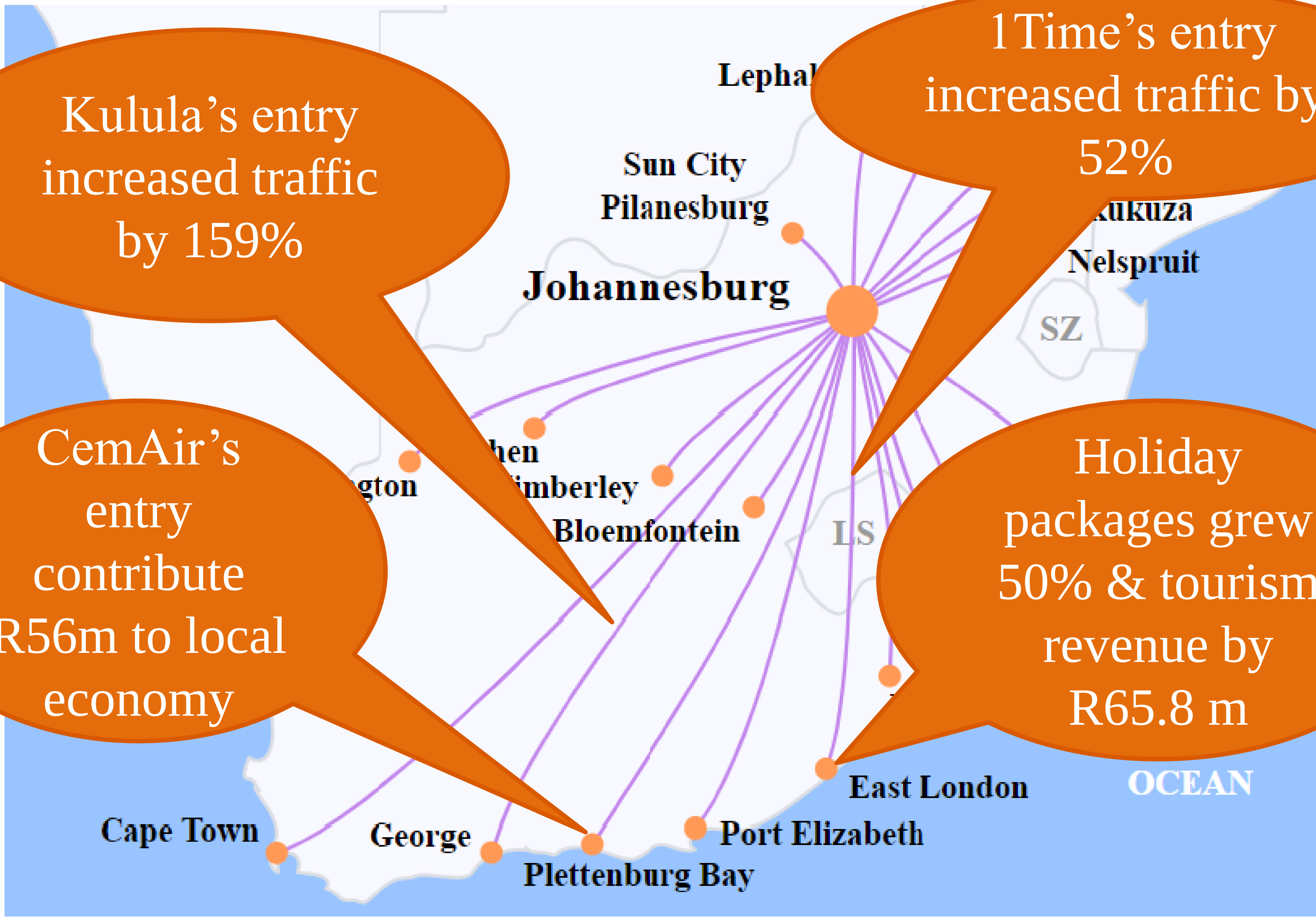
3) Increased traffic to smaller locations



Kulula's entry increased traffic by 159%

1Time's entry increased traffic by 52%

CemAir's entry contribute R56m to local economy

Holiday packages grew 50% & tourism revenue by R65.8 m

Conclusions and recommendations

- Entry = lower prices, increased passenger traffic and increase in number of tourists
- Subsidies to SAA have meant:
  - Exit of airlines and increased prices
  - Reduced passenger traffic and stifled tourism industry e.g. George and East London
- Policy considerations should be focused on encouraging entry
- Infringements of the Act should result in harsh penalties including at management level
- Serious re-evaluation of link to Mango, SA Express and Airlink required

END

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