Lessons Learnt / Way Forward:

From the above case studies, it is prudent to reflect on the status of the South African aviation industry, with specific reference to state owned airlines, as it is clear that SAA is a critical component in the success of the tourism strategy for South Africa.

In the late 1990s, Government had a clear view that SAA would be developed into a strong, competitive, airline. It was also acknowledged that SAA would require a “get-fit” period during which it would be re-capitalized and positioned to compete in a liberalised market. This, however, did not materialise due to various reasons, including the bankruptcy and closure of Swissair after it bought a share in SAA.

It is public information that SAA was technically insolvent and that government stepped in to guarantee its debts to protect the investment and safeguard South Africa’s reputation as a responsible and credible investment destination. This action was also considered essential due to the potential negative impact on other parastatals and costs associated with similar debt.

At the time, commentators were swift to point out that the assistance to SAA was tantamount to providing the airline with unfair competitive advantage, and that a dangerous precedent was being set where SAA could expect, automatically, to receive continued state support in the future if things did not go well. We should be very clear that such criticism did not reflect on the simple fact that the scale and nature of operations between SAA and the private airlines in the country are totally different, that SAA has indeed been fined for unfair practices in terms of our own competition regime, and that the domestic airlines have taken significant advantage of SAA’s relinquishing of certain domestic routes, as well as increasing their own market share of the domestic market. Similarly, SAA is unique in the South African environment as the only carrier that has extensive international,
regional and domestic operations. Many of these actively promote the country’s strategic interaction with the international community. However, that said, it could be argued that the assistance provided to SAA arose out of the combination of a set of unique circumstances, and will not be repeated, and therefore the action cannot be seen as setting a precedent.

In addition, Government is well aware that the issue of inappropriate state funding has been the subject of intense discussion in a number of fora, including the ICAO 5th World Wide Conference of March 2003. That conference resolved, inter alia:7

“States may wish to continue providing some form of assistance to their airlines in order to ensure sustainability of the air transport industry and to address their legitimate concerns relating to assurance of services. However, States should bear in mind that provision of State aids/subsidies which confer benefits on national air carriers but are not available to competitors in the same market may distort trade in international air services and may constitute unfair competitive practices;

because of the lack of an acceptable quantification method and the existence of various non-monetary measures, it is very difficult to estimate accurately the full scale of State assistance and the impact of specific State assistance on competition. Given this difficulty, States should recognize that any actions against foreign airlines which receive State aids/subsidies might lead to retaliatory action by the affected State and hamper the ongoing liberalization of international air transport”

In this context, Government has already adopted a number of measures to address the economic and commercial stability and sustainability of SAA within the context of our own air services policy. Inter alia, these include the transfer of SAA out of Transnet by end of 2006. Consistent with the White Paper on National Transport Policy, 1996, the current unbundling of SAA from Transnet should ensure equal treatment of all participants in the air transport market as well as ensuring that SAA operates efficiently, effectively and on a sound commercial basis whilst positioning itself to taking up opportunities in the liberalising African skies as well as generally servicing the global market. Furthermore, the identification of options relating to the identification of possible partners for SAA is ongoing.

• Conclusion:

Evidence from around the world suggests that strong destinations are most effectively built in combination with strong national airlines (state owned and/or private). Thailand, Singapore, Hong Kong, Australia and Dubai are all proof of this.

7 ICAO 5th World Wide Conference, Consolidated Conclusions, Model Clauses, Recommendations and Declaration, Revised 10 July 2003, p11