June 2008
English only

DOMESTIC MARKET DEREGULATION IN SOUTH AFRICA

(Submitted by the ICAO Secretariat)

1. BACKGROUND

1.1. South Africa's domestic market has been developed rapidly in late 1980s, growing from about 3 million to 4.5 million annual passengers. One of the major reasons for this growth was that State-owned South African Airways (SAA) devoted more capacity to domestic market in order to make up the loss of international traffic rights to the United States in 1986 and Australia in 1987 under economic sanctions. SAA had about 95 per cent of domestic market share throughout this period. However, SAA's domestic operation had been in a red with a over ZAR50 million deficit from 1988/89 to 1990/91. Such cumulative domestic losses, together with the lift of sanctions, made SAA refocus on the international arena, resulting in domestic traffic reduction to 3.7 million in early 1990s.

2. LIBERALIZATION OF REGULATORY FRAMEWORK

2.1. Since 1981, deregulation in the transport sector had been on the political agenda. In 1988, the Minister of Transport initiated a study on how best to liberalize the domestic market. In May 1990, the Domestic Air Transport Policy was developed, and subsequently incorporated in the Air Services Licensing Act of 1990. Under the Act, which came into force in July 1991, the domestic market was fully deregulated by eliminating restrictions on market entry and exit, capacity, frequencies, and tariffs. The Act also provided for the establishment of an independent Air Service Licensing Council, which is responsible for the licensing of domestic air service operators. One of the conditions for obtaining a licence is the requirement that an applicant be a 75 per cent South African-owned (reduced to 49 per cent in 1998) as well as under the South African's active and effective control.

2.2. In April 1990, SAA became a division of Transnet, a State-owned company operating several transport businesses[1]. The Government conditioned that SAA should operate on a commercial basis, and that profits on international routes should not be applied to subsidise domestic losses.

3. EFFECTS AND DEVELOPMENTS

3.1. In late 1991, Trek Airways started operations on the "golden triangle" (Cape Town–Durban–Johannesburg routes) under a new name of Flitestar, competing head-on with SAA. Comair, a long-established regional airline, also launched a scheduled service between Cape Town and Johannesburg in 1992, expanding later to the rest of the country. A round of "fare wars" between new entrants and SAA saw fares being cut by up to 60 per cent in several instances. In 1993, the Competition Board recommended that SAA increase its fares, upon a complaint from Flitestar. There were other entrants such as Sunair[2] and

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[1] In June 1999, a parent company of Swissair acquired a 20 per cent stake (with an option on a further 10 per cent) in SAA, but Transnet bought it back in February 2003 because of Swissair's bankruptcy.

[2] Sunair was initially established as Bop Air in the bantustan of Bophuthatswana. The airline was privatized in 1997, but ceased operations in 1999.

Phoenix Airways in 1994 and Nationwide Air in 1995. In addition, with the blessing of SAA, SA Express started operations in 1994, followed by a re-launch of SA Airlink. Both regional airlines took over several SAA's local routes and formed a three-airline alliance.

3.2. Despite the demises of several new entrants including Flitestar and Phoenix Airways in 1994–1995, the market has continued to be competitive with over 5 million passengers. Comair enhanced its competitiveness by becoming a British Airways' franchise in 1996, and acquiring a 25 per cent stake in its rival Sunair in 1997. Comair, together with Sunair and Nationwide Air, have eroded more than two thirds of SAA's market share on the "golden triangle" by 1997. Against SAA's aggressive responses such as increasing flight capacity and reducing fares, in 1998, the three airlines filed a complaint with the Competition Board. In 2000, Nationwide Air again filed a complaint on SAA's fare levels, but the Competition Board rejected the case.

3.3. The further competitive impetus was added in July 2001 when Comair launched the Africa's first low-cost carrier (LCC), kulula.com, which carried more than 300,000 passengers in its first year of operation. In February 2004, another private LCC, 1 Time, entered into Johannesburg–Cape Town route and quickly expanded to 10 destinations. kulula.com and 1 Time have so far captured around 25 per cent and 10 per cent of the domestic market, respectively, while SAA's market share has been steadily shrinking (about 50 per cent). In November 2006, SAA established its own LCC, Mango, to reclaim lost market share and attract low-income population using bus and rail travel.

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