

The role of a state-owned airline

 By [Rob Baker](#)

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Whilst government has a clear role in delivering essential services to the needy, you won't find many of the millions of suffering South Africans at airports or on flights. Quite the opposite in fact, as once you've become a "jetsetter" you've arrived at a space unavailable to the poor. So, why are government involved in the airline industry?

It's great for the jetsetters, but rather extraordinary when one thinks about their other pressing responsibilities, that government feels sorry for these well-heeled travellers not getting a good enough deal from the private sector airlines, to the extent that they feel the need to run a few airlines to help provide them with an even better service.

Transport services provided by passenger rail services and intercity buses are far better targeted at helping the poor than airlines (it's a debate for another day whether these are better operated by the private sector).

Having said that, there are some valuable roles a state-owned carrier could play:

- Flying routes which whilst they might not be financially viable on a stand-alone basis, have fringe benefits which make it in the interests of the country to fly the routes.
- The State needs to have a certain amount of airlift capability in the event of war breaking out. It makes economic sense that in times of peace, surplus airlift capability (which is only required during a war) be used to ferry cargo and passengers around (this could also be achieved by wet leasing the planes).
- Setting an example for the private sector in the form of the transparency of its decision-making processes, and quality and speed of its financial reporting.
- It's theoretically possible that an airline could reduce volatility in flight prices by only ever flying routes where the monopoly prices are too high.

What is vital is that the State should first ensure that they do no harm. A particularly harmful practise is to, for a short period, charge a financially unsustainable airfare, which results in companies with smaller balance sheets than government going bankrupt. The end result is passengers paying higher fares.

Encouraging competition

This takes us to the single most important role of the state in the airline industry, and that is to encourage competition. Competition is the magic ingredient which keeps airfares low and encourages innovation. What SA really needs is jobs, and cheaper flight routes make the cost of business lower, thereby making SA businesses more efficient.

To foster competition we should try open up South Africa's skies to airlines from all nations, but we should want the other countries to open up their skies to South Africa too. Another way of increasing competition is to remove bilateral restrictions on the number of airlines flying between South Africa and other countries.

With the "Long Term Turnaround Strategy" being put in place, now is a great time for the public to get involved in sharing their thoughts on the future form of state-owned airlines.

The LTTS is the plan which is being put together mainly by SAA, but also involving the other carriers, to end their run of losses and plan for the future. The plan includes inter alia:

- Creating an entity called SAA Group Holdings which will be responsible for operating the 3 state-owned carriers: Mango Airlines, SAA and SA Express.
- Forcing government officials to use state-owned airlines.
- Fleet-replenishment plans & a cost-management & revenue enhancing framework.
- Identifying which flight routes may have "far-reaching diplomatic implications" if the state-owned carriers stop flying them (Beijing and Mumbai are mentioned as possibilities).

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