Impacts of deregulation on the airline industry in South Africa: A review of the literature

Oswald Mhlanga
University of Mpumalanga
Private Bag X11283
Mbombela 1200
South Africa

Email: osward.mhlanga@ump.ac.za

Abstract

Deregulation of air transport has had major global impacts on the domestic air transport markets, with effects ranging from stimulation to changes in the structure and functioning of these markets. In South Africa, deregulation has had wide-reaching effects on the domestic market. The purpose of this article was to investigate the impacts of deregulation on the airline industry in South Africa. A literature review was performed to examine the effects of deregulation in the domestic air transport market in South Africa. The study showed that deregulation has benefited passengers by including a wider variety of airlines to choose from and more frequencies throughout the day, making connecting flights to hubs more accessible. However, deregulation has also resulted in the entry of a lot of LCCs which has resulted in overcapacity in the South African domestic market and negatively affected the performance of airlines. Although deregulation broke the monopoly held by the state-owned carrier and reduced its market share, state-funded support for SAA is seen by many to have skewed the market and to have provided the airline with a competitive advantage. Partial and selective deregulation, designed to maintain the protection of national carriers, represents a considerable threat to private operators, thereby rendering the aviation business unprofitable, something that stifles the region’s tourism prospects.

Keywords: Monopoly, overcapacity, performance, passengers, state-owned carrier

Introduction

Airline deregulation has long been a subject of controversy. Much has been written about it, much has been argued about it, but the controversy still continues. The purpose of this paper is to determine whether airline deregulation has been good, bad or just difficult. It has been said that deregulation has been both helpful and harmful depending upon who you are. This is true. For the purposes here, it is important to take an overview of the situation from a South African perspective.

Deregulation is the act or process of eliminating regulations and restrictions from a given industry, or the reduction or removal of centralised power in a particular industry usually enacted to create more competition within the industry (Wensveen, 2011). In the airline industry deregulation is the removal of economic regulations such as entry and exit control, tariff regulation, route protection and the tightening of control over quality factors such as safety (Abate, 2013). The aim with deregulation in general, is to remove unnecessary restrictions and government interference in the market (which also includes the air transport industry), with the main objective being to promote economic activity and expose it to market forces, that is, the working of supply and demand (Njoya, 2013).

Pirie (2006) asserts that deregulation means a change in regulation away from any present system. Heinz and O’Connell (2013) claim that deregulating the transport industry implies free entry and exit for any operator with the addition of freedom to also set fares and pick which routes they will fly. Nonetheless, a major purpose of airline deregulation is to promote competition among airline carriers, leading to price reductions (Uzodima, 2012). Deregulation
was first advocated in the U.S. in the 1978 (Heinz & O’Connell, 2013) and then in other Anglo Saxon economies (Graham, 1993).

It was, and still is, a part of a sweeping experiment to significantly decrease ticket prices and eliminate entry control for new airline hopefuls (Njoya, 2016), and eliminated governmental restraints by giving airlines the freedom to set their own fares. That singular action ushered in a new dawn in the industry and a new business climate emerged (Surovitiskikh, 2012), and contributed to the emergence of low-cost carriers in the US. As a result, low-cost competition exists on 70% of American routes (Adeyeye, 2016).

This had a profound effect on the American air transport market as it allowed for more competition, the entry of new airlines and the creation of a new hub-and-spoke-systems of air routes (Ismaila, Warnock-Smith & Hubbard, 2014). Almost immediately following the deregulation of the airline industry in USA, carriers began revamping their route-structures for greater efficiency and moved into markets they had not served previously. Some of the effects deregulation brought to the aviation industry include hub and spoke systems, competition, growth in air travel, frequent flyer programs, computerised reservations and code sharing. According to Williams (2016), US airlines are free to compete and determine routes, fares and schedules based on their own market and profit projections.

In South Africa, a large number of airlines took delivery of expensive new aircraft, thereby dramatically increasing their foreign debts, depleting their foreign exchange earnings, and requesting subsidies from their governments to pay these debts (Kuuchi, 2016). Due to the crippling debt problem of most of the South African airlines, it was not possible for the government to continue subsidising unprofitable airlines (Ndlovu, 2001), forcing deregulation to later spread to South Africa (Chingosho, 2011). Consequently, one state airline, Sun Air was privatised. Since then the airline industry in South Africa has grown tremendously as its economy has expanded, and the air passenger volumes have increased. The rapid growth of air travel in South Africa is a result of the increase of demand due to the rise of black middle class and an increase in the numbers of flights. To understand this outcome we need institutional analysis and geographical analysis.

**Literature Review**

Taaffe (1958) first analysed the impacts of air deregulation of the U.S.A and its changes during 1940s and 1950s within a geographical perspective and using maps. Other studies have investigated the process of air deregulation and its impacts on airline competition, service and pricing, focusing on the U.S. context (Fleming, 1991; Goetz, 2002). The main argument for air transport deregulation has been that markets are contestable, meaning that entry and exit should be costless and easy, that sunk costs are not high, and that the threat of entry is sufficient to prevent anti-competitive strategies from the incumbents (Bailey & Panzar, 1981).

Although the airline sector has many actors, it is a sector where multi firm production is more costly than production in a single firm (Baumol, 1977), but this claim has long been disputed by Caves, Christensen and Tretheway (1984). The literature reveals that deregulation has had both successes and failures. In addition to the economic studies on the subject, geographers have taken considerable interest in the airline industry under deregulation, focusing on the connectivity and accessibility benefits of air travel, network configuration (Lei & O’Connell, 2011). These studies do not apply indicators (indices) measuring historical changes in levels of airline competition, but tend to concentrate on the situation at one point in time.

Brazil, India, China and South Africa are all large developing countries, and each has seen rapid economic growth and so common lessons can be learned. Brazilian deregulation began in 1992 (Koo & Lohmann, 2013) and it did not produce an increased number of competitor airlines, since four airlines dominate the entire Brazilian market. Bettini and Oliveira (2008) provide empirical evidence that re-regulation periods further reduced competition as
demonstrated by the supply of seats over time. This is in sharp contrast to China where deregulation is still ongoing. The Brazilian experience shows that policy uncertainty can inhibit competition in the airline market.

Koo and Lohmann (2013) find that Brazilian domestic aviation is still undergoing major spatial restructuring in terms of its airport hierarchy, and this might also be occurring in South Africa. In short, Brazil's deregulation was not sufficiently effective in increasing the number of private airlines, but it did widen airport capacity and it produced lower yields (per passenger km), by as much as 50% (BNDES, 2010). India's aviation sector was state controlled until the 1980s and deregulation was introduced in the 1990s, but it has not delivered what was expected as many private airlines have exited the market (Nathan Associates, 2012). The South African experience differed from the other countries in the sense that a monopolistic market structure prevailed prior to deregulation. With deregulation taking effect, various new airlines entered the market to compete with SAA.

The experience of Brazil and India shows that policy uncertainty inhibits the entry of new competitors. The pace of these deregulation efforts will also be influenced by (1) the deregulation experience of these countries which is far from complete and (2) the pace of international deregulation. Although the entry of LCCs many not indicate successful deregulation, South Africa has seen a rapid entry of LCCs hence a high number of LCCs than both Brazil, India and China (The Economist, 2011).

The entry of airlines in the South African domestic market after deregulation

In 1991, South Africa's domestic aviation market was deregulated, providing a level playing field for airlines to compete against SAA (Pirie, 1992). There was to be free entry into markets, promotion of choice and competition, and the encouragement of private airlines (Shaw, 2011). The first phase of deregulation saw the creation of several new start-up airlines (Ssamula, 2008). The first airline to enter the market after deregulation was Flitestar in October 1991 (Chingosho, 2005). Flitestar chose to challenge SAA and to price its services similar to those of SAA; the airline targeted the business market and the upper end of the leisure market (Harris, 2001). Comair, however, held back and operated on the trunk routes, leaving Flitestar to challenge SAA on its home ground (Bennett, 2005).

However, with a long-standing influence in the industry, strong existing relationships with airports and suppliers, plus the unseen hand of government ownership, SAA was somewhat insulated from the worst effects of deregulation on its bottom line (Ssamula, 2008). Therefore, SAA continued to 'bully' private airlines in services for which it had a monopoly (Bennett, 2005). According to Pirie (1992), SAA continued to control airports and allocated landing slots to other airlines, which made it very difficult for new airlines entering the market. Ssamula (2014) concurs that access to air transport infrastructure and related facilities was identified as an advantage to SAA, due to the airline's dominant position in the domestic market for so many years. New entrants had to be satisfied with less than ideal positions, for example, the allocation of landing slots (Chalmers, 2001). Furthermore, SAA was the only airline that had a licence to operate the luggage conveyor belts at South African airports (Bennett, 2005). This meant that Flitestar's luggage would not be handled more quickly than that of SAA. Flitestar also shared the SAA Saafari central reservation system (Bennett, 2005). Galli (1997) claims that in 1991 various allegations of unfair pricing were made by Flitestar against SAA. Lunsche (1997) posits that the provision of aviation infrastructure and supporting services at airports (for example, CRS and ramp handling services) by SAA to new entrants was not done on the basis of cost-related pricing, but was rather seen as a way of SAA providing an over-priced service to such airlines (when compared with prices charged in the international market). At the time Flitestar entered the domestic market, SAA was the only airline authorised to conduct

3
ground handling services at airports (Galli, 1997). New entrants, like Flitestar, had no choice but to enter into an agreement with SAA for the ramp handling of all its A320 flights (Smith, 1998). Therefore, SAA overcharged these services to airlines like Flitestar to increase the airlines’ operating costs (Kemp, 2001).

Similarly, other airlines felt that SAA was not operating autonomously, without any government interference; neither was it operating as an economically viable business entity either (Lunsche, 1997). According to Bennett (2005), SAA’s financial results were published as part of the Transnet group, without the detailed explanations normally required in terms of the Generally Accepted Accounting Practice (GAAP). This made it almost impossible to determine whether any cross-subsidisation had taken place between other departments or sections of Transnet and SAA, or between the airline’s international and domestic services (Goldstein, 2001). SAA also scheduled Boeing 747 aircraft from their international fleet for domestic services, thereby achieving a cost advantage over other operators (Gleeve, 2014).

In 1992, Flitestar filed a complaint with the Competition Board accusing SAA of unfair competition (Grobler, 1996). The Competition Board found that since Flitestar’s entry into the market the pricing policy of SAA appreciably affected Flitestar’s profitability and viability (Lunsche, 1997). This had the effect of restricting Flitestar’s entry into the market and therefore restricting effective competition between the two airlines (Bennett, 2005). According to Ryan (1992), SAA reduced airfares to below levels where its competitors could operate profitably.

Furthermore, SAA did not decrease its seating capacity but increased the number of flights that were scheduled in close proximity to those of Flitestar (Galli, 1997). This excess capacity created by SAA was also regarded as anti-competitive behaviour (Ssamula, 2008). Consequently, in April 1994 Flitestar ceased to operate mainly due to high costs caused by a weakening exchange rate since the aircraft lease agreement was settled in US dollars (Federico, 2013).

After the demise of SA Airlink and Flitestar, four new airlines, SA Express (SAX started by SAA), Sun Air, Phoenix Airways, and Nationwide Airlines started operations in April, November and December 1994 and December 1995, respectively (Galli, 1997). In 1996, three privately owned domestic airlines (Sun Air, Phoenix Airways and Nationwide Airlines) filed a complaint with the Competition Board against SAA, accusing the airline of predatory behaviour (De Waal, 2001). The three airlines argued that SAA’s large capacity increases on a number of domestic routes, combined with pricing policies, were clearly below cost and constituted predatory behaviour on the part of a dominant market shareholder (Ssamula, 2008).

The airlines charged that on the Johannesburg-Durban route, SAA increased flight capacity by 50% and charged prices that could not even cover its costs (De Waal, 2001). Phoenix Airways began services in December 1994 using elderly Boeing 727-100s (Orlek, 2010). Without the start-up capital of Flitestar, unviable low fares, obsolescent equipment and foreign dollars for lease payments, Phoenix survived less than a year and the result was a take-over by the charter service airline Atlantic Airways in August 1995 (Bennett, 2005). After a few months in operation, Atlantic Airways also ceased operations due to rising fuel costs (Ndhlouvu & Ricover, 2009). Furthermore, Sun Air could also not sustain its operations and was wound up in 1999, which according to Antoinette (2004), was because of the wrong business model pursued.

According to Ssamula (2012), in 1992 it was noted that the control of air transport infrastructure and related facilities by SAA was giving the airline an unfair advantage over its competitors. It was therefore recommended that these facilities and services be transferred to a separate company that would be in a more ‘neutral’ position to provide such services to both SAA and other private sector participants on an unbiased/equal basis (Federico, 2013). The result was the introduction of the Airports Company of South Africa (ACSA) in 1993 (Ssamula, 2014). The objectives of ACSA were the acquisition, establishment, development, provision, maintenance, management, control and/ or operation of an airport, or part of an airport, or a
facility or service at an airport crucial to the functioning of such an airport. SAA eventually lost control of the major airports when the Airports Company Act of 1993 established ACSA in 1993 (Pirie, 2006). Consequently, by the turn of the century, of the seven airlines that had the potential to challenge SAA's dominance three had failed, two were in alliance with it and only Comair and Nationwide remained to provide real competition both on international and domestic route networks (Ndhlovu & Ricover, 2009).

**The entry of low-cost carriers in the airline industry (2000-2016)**

The deregulation of the South African airline industry in 1991 paved the way for the entry of a number of low cost carriers (LCCs) in the domestic air transport environment (Business Day, 2012). The first low-cost carrier to enter the market was Kulula.com, established by BA/Comair. Kulula.com began operations in August 2001 (Bennett & George, 2004). In 2002, Sun Air was revived and started operating (Ndhlovu & Ricover, 2009), while in October 2006, SAA launched its own low cost airline, Mango Airlines.

In 2004, another low cost airline, 1Time, started operations while Sun Air was liquidated, which Antoinette (2004) attributes to cut-throat competition from low-cost airlines and the wrong destinations chosen. In March 2006, CemAir started operations (Shaw, 2011), while in April 2008 Nationwide was forced to cease all flight operations. In March 2011, another low cost airline, Velvet Sky, started operations, before being forced into liquidation in February 2012 after less than a year of operation, citing critical cash-flow levels as the instigator (Shaw-Smith, 2012).

In February 2012, Fly Go Air started operations, while in November 2012 1Time collapsed which Makalang (2016) attributes to high fuel prices, weak demand and fierce competition on its routes. In October 2014, another low cost airline, FlySafair, started operations. Skywise and Fly Blue Crane started operations in March and September 2015 respectively. However, a few months later, in December 2015, Skywise ceased operations (Young, 2015). Consequently, of the 17 airlines to enter the industry between 1991 and 2016, only eight are still in operation (Steyn & Mhlanga, 2016).

Other privately owned airlines such as Nationwide, Velvet Sky and 1Time, operating from 1995 to 2008, 2011 to 2012, and 2004 to 2012 respectively, had exited even after remaining in the market for significant periods (Mncube, 2014). The national carrier, SAA, had also suffered losses over the past decade, requiring several government bailouts and guarantees, including one in January 2015 and the most recent in September 2016. Table 1 below illustrates the history of airlines in the domestic market in South Africa on a timeline.

<table>
<thead>
<tr>
<th>AIRLINE</th>
<th>OPERATIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AIRLINE</strong></td>
<td><strong>FROM</strong></td>
</tr>
<tr>
<td>1 SA Airlink</td>
<td>March 1992</td>
</tr>
<tr>
<td>2 Bop Air</td>
<td>July 1979</td>
</tr>
<tr>
<td>3 Flitestar</td>
<td>October 1991</td>
</tr>
<tr>
<td>4 SA Express (SAX)</td>
<td>April 1994</td>
</tr>
<tr>
<td>5 Sun Air</td>
<td>November 1994</td>
</tr>
<tr>
<td>6 Phoenix Airways</td>
<td>December 1994</td>
</tr>
<tr>
<td>7 Atlantic Airways</td>
<td>August 1995</td>
</tr>
<tr>
<td>8 Nationwide Airways</td>
<td>December 1995</td>
</tr>
</tbody>
</table>

Table 1: The history of airlines in the South African domestic market after deregulation in 1991
From Table 1 above it is clear that during the development of the airline industry in South Africa from 1991 to date (early 2017), 17 airlines entered the airline industry, nine collapsed and eight are still operational. Only two airlines, namely SAA and Comair, have been operating for a lengthy period while the majority each had a very short lifespan, some of them surviving for only a matter of months.

**Impacts of deregulation on airlines in South Africa**

Heinz and O'Connell (2013) argue that the airline industry in southern African has undergone a major change since deregulation of the domestic airline industry in the early 1990s. Deregulation in South Africa has significantly affected the country’s air travel market (Williams, 2016). Introducing competition on domestic and international routes, and in particular on the highly popular routes of the Golden Triangle (Johannesburg, Cape Town and Durban routes), resulted in lower and more affordable fares and substantial growth in passenger numbers (Luke & Walters, 2013). Adeyeye (2016) claims that between 2002 and 2015, the percentage of South Africans travelling by air is estimated to have almost doubled from 4% to 7.4%.

Deregulation also enabled the entry of low cost carriers (such as Kulula, FlySafair and Fly Blue Crane) into the South African domestic market, thereby improving the competitiveness of the airline industry (McLennan, 2015). The entry of low-cost airlines such as FlySafair and Fly Blue Crane intensified competition in the industry (CAPA, 2016) as these LCCs adopted low pricing strategies to the detriment of airlines such as Comair, SAA and Mango (McLennan, 2015). This negatively affected the performance of airlines in South Africa as airfares declined along each of the 10 routes on which FlySafair and Fly Blue Crane entered (McLennan, 2015).

Markman (2016) claims that before deregulation in 1990 SAA controlled more than 95% of the domestic airline market. However, after deregulation in 1991 SAA lost market share to airlines such as BA/Comair, which in 1990 had 1% or 2% of the market, and other LCCs (Mondliwa, 2015). According to CAPA (2016), in 2016 SAA was estimated to control only 36% of the domestic airline market (see Figure 1).
However, Kuuchi (2016) posits that passengers benefitted enormously from the increase in competition arising from the deregulation because prices of air travel reduced dramatically and frequencies improved. To illustrate the effect of deregulation on airfares, Gleeve (2014) argues that deregulation led to a reduction in air prices, especially when considering that the cost of intra-regional travel in southern Africa is relatively higher than in other international regions, such as the EU. This was the experience in the South African domestic market following the entry of low cost-carriers such as FlySafair, where there was a reduction in prices along each of the 10 routes on which the airline entered (McLennan, 2015). According to Shaw-Smith (2012), the net effect of deregulation (from 1991 to 2012), was a 73% airline failure rate.

After deregulation benefits to passengers normally include a wider variety of service providers to choose from and more frequencies throughout the day, making connecting flights to hubs more accessible. Deregulation allowed the entry of Kulula on the Johannesburg to Lusaka route-pairing, thereby contributing to a 33 to 38% decrease in fares and 38% increase in the number of passengers. Additionally, Fly Blue Crane’s entry into the South African market contributed to a 20% increase in the size of the market (Gleeve, 2014). Consequently, more passengers than ever before are now flying, many of whom could not afford to do so before the deregulation of the industry (Markman, 2016).

Since the launch of low-cost, no frills airlines in South Africa (such as Kulula, Mango and FlySafair), enabled by deregulation, the domestic air travel market has grown by more than 50% (Njoya, 2016). The effect on a tourist route such as Johannesburg to George was significant, with passenger numbers doubling since 2000 (Christidis, 2016). On a sample in March 2016 of domestic flights, the budget carriers on average charged less than half the price of full-service airlines, and the latter’s prices also came down since the launch of low-cost flights (Williams, 2016).

On the Johannesburg to East London route, the entrance of LCCs such as Kulula, enabled by deregulation, increased air traffic by 52% between 2010 and 2015 (Sokana, 2015). This was a major factor in revitalising the Eastern Cape’s tourism industry and resulted in a more than 50% increase in holiday packages (Paelo, 2016). As one of the poorest regions in South Africa, tourism is a key contributor to the Eastern Cape’s economy (Sokana, 2015). Estimates are that the 52% increase in foreign tourists translates into 62 000 additional tourists per year, resulting in R65.8 million (US$10 million) in tourism expenditures (Paelo, 2016).
Deregulation also led to the formation of alliances with other airlines, as is evident from the agreement between Comair, Kulula and BA (Njöya, 2013). However, Steyn and Mhlanga (2016) caution that although deregulation opened the way for several competitors to enter the market in southern Africa, it had a major effect on privately owned carriers such as Skywise, Velvet and 1Time in South Africa with only a few of them surviving for any notable period.

The mixed financial results achieved by airlines in South Africa (especially SAA) after deregulation can be attributed to the fact that many new international airlines entered the domestic market through co-operation and code-share agreements with domestic airlines, as well as increased competition, which impacted negatively on profit margins (Speckman, 2015). Fierce competition resulted in new airlines (such as Flitestar and Phoenix Airways) having to cease operations due to operating losses that could not be recovered (Mondliwa, 2015). Due to deregulation there has been an increase in the number of airlines on particular routes in South Africa, thereby affecting airline performance (Eller & Moreira, 2014). This has resulted in the entry of a number of LCCs (FlySafair and Fly Blue Crane) which has resulted in overcapacity in the South African domestic market because the South African market is not large enough to support three LCCs (Ensor, 2016). Maqutu (2015) affirms that three LCCs are not sustainable in the long term-South Africa’s domestic market is too small and too seasonal to provide the scale that an independent LCC would need to thrive over the long term in a lacklustre economic environment.

According to OBG (2017) similar sized domestic airline markets have two or fewer LCCs; for example, Vietnam has two LCCs, Saudi Arabia one and Chile does not have any. Even much larger Australia, which is about four times the size of South Africa, has only two LCCs (Maqutu, 2015). Maqutu (2015) cautions that approximately 17 million people fly in South Africa each year and the market is served by nine domestic carriers, which is far more airlines-per-person than there are in the US, Europe or China.

Mondliwa (2015) further argues that South Africa does not possess the requisite attributes of more developed markets that allow multiple LCCs to thrive. In Europe, competing LCCs such as EasyJet and Ryanair do not fly on the same routes or serve the same city pairings (Wood, 2016). However, in South Africa, LCCs cover the main domestic routes, since there are few commercially viable secondary routes to fly (Gernetzky, 2016). For instance, in South Africa, only Johannesburg has a secondary airport (Lanseria) (Wood, 2016).

According to Luke and Walters (2013) deregulation of the domestic aviation industry in South Africa introduced ‘turbulent’ times for the sector. Of the new entrants to the industry only three have survived in a very competitive market: BA/Comair, kulula.com and Mango (the latter being state-owned). Deregulation has however brought significant benefits to the travelling public as, for the first time, airlines are now competing against each other, offering the travelling public a choice of airlines and fares, especially between the ‘Golden Triangle’ cities (Paelo, 2016). It could also be argued that the low-cost revolution would not have taken place in a highly regulated market, as competition against SAA was not allowed prior to 1991 (Luke & Walters, 2013). It would have been nearly impossible, as the legislation at the time placed onerous conditions on any applicant that wanted to compete against SAA on the main routes (Speckman, 2015).

Airline deregulation in SA has also resulted in traffic stimulation, mainly at the expense of the full-service airlines (Alves & Forte, 2015). Although full deregulation effects could not be measured, the analysis shows that the development of the low-cost carrier market has contributed significantly to air traffic growth in the country. It also shows increased asset utilisation throughout the industry, as illustrated by the increasing load factors for both the low-cost as well as the full-service airlines (Mondliwa, 2015). Whilst the market still remains
somewhat limited in scope, the analysis shows that the entrance of the low-cost carriers has contributed significantly to the restructuring of the market in South Africa, providing competition to the full-service airlines, giving the South African travelling market choices and stimulating the market.

Conclusions

Whether deregulation has been good or bad is arguable. The passenger has benefitted from competition that produced lower fares. The airlines have suffered tremendous losses due to the competition. Trunk, regional, and local carriers have benefitted from the cooperation with each other, while the consumer pays more for traveling on a lower density route. Some lines succumb to financial ruin on account of the deregulated market. Meanwhile, many new carriers have had the opportunity to start on a new future.

Airline competition has increased after de-regulation in 1991. The percentage of monopoly and duopoly airports and air routes has also decreased. In the geographic context, over two thirds of the airports, and one half of the air routes have become more competitive. The deregulation process has increased the competition level among airlines. However, although deregulation broke the monopoly held by the state-owned carrier and reduced its market share from approximately 95% in 1990 to 36% in 2016, state-funded support for SAA is seen by many to have skewed the market and to have provided the airline with a competitive advantage (OBG, 2017).

Furthermore, the fact that the state is competing with privately-owned airlines in a deregulated market presents the conundrum of the state wearing two hats, acting as both a “referee and a player in the market’. Partial and selective deregulation, designed to maintain the protection of national carriers, represents a considerable threat to private operators, thereby rendering the aviation business unprofitable, something that stifles the region’s tourism prospects.

To become globally competitive, the South African government must create a level playing field for private and state carriers. Efficient airlines have a very positive effect on tourism. Tourists and others travelling for recreational purposes, if they are able to get to their destinations faster and more cheaply, are encouraged to travel frequently. If the airline industry is to have an even greater beneficial effect on tourism growth, there has to be increased competition.

References


