WRITTEN SUBMISSIONS TO THE STANDING COMMITTEE ON APPROPRIATIONS IN RELATION TO THE DRAFT SPECIAL APPROPRIATION BILL, B5 - 2021

Submission by:
College of Business and Economics, Johannesburg Business School - Department of Transport and Supply Chain Management, University of Johannesburg

- Prof Noleen Pisa (Head of Department)
- Prof Jackie Walters Director of the Institute of Transport and Logistics Studies Africa (ITLS)
- Dr Joachim Vermooten (Associate Researcher), Department of Transport and Supply Chain Management, University of Johannesburg.

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- Dr Joachim Vermooten, 439 Elizabeth Grove, Lynnwood, Pretoria, joachim@icon.co.za 0834682111.

Appearance before the Committee:
It would be appreciated if a presentation could be made by Dr Joachim Vermooten to the committee.

The aims and roles within the Organisation:
The Department of Transport and Supply Chain Management at the University of Johannesburg provides world-class tuition with undergraduate and post graduate degrees in transport economics and logistics, academic research, bridging programmes as well as diplomas in transport and logistics management.

In addition, the Department conducts aviation research through its Masters and Doctoral research and publishes on a regular basis. The Department also facilitates the monthly Transport Forum discussions which feature contemporary transport issues from time to time.

The objective is to make representations to the committee on the following issues.

Objective of this submission
Within this context, the objective is to inform the Committee of:

- The South African policy choice of competition and the need to foster and 'maintain a competitive civil aviation environment' as is the underlying objective of the domestic air transport policy, as opposed to a policy of a State-subsidized monopoly.
- The conflict of interest of the Government in granting State financial aid to a State-owned airline and Government's role as enabler and regulator of the aviation sector.
- That the grant of State financial Aid to Mango is contrary to the assurances regarding equal treatment of airlines and the role of Government and State-owned airlines in an economically deregulated competitive domestic air transport market, as is contained in Government's air transport policies).
- The negative impact of State financial assistance (of the proposed appropriation) to a State-owned airline, Mango Airlines, that distorts the free working of competitive forces, which ultimately drive private sector competitors from the market, therefore reducing competition and other negative consequences on consumer welfare.
- Specific matters in relation to Mango and SAA's business rescue plan.

The appropriation is contrary to South Africa's Air transport policy
The appropriation of money to Mango Airlines (and SAA) is discriminatory and contrary to South Africa's air transport policy, which *inter alia* provides that:

- *Government will strive to level playing fields, and will promote competition*
- *The role of Government will be that of ensuring level playing fields, and regulation for safety, leaving the operator as much freedom as possible to provide customer service as demanded in a competitive environment*
- *The Government will in future not guarantee new loans to SAA or any other airline with Government interests, whilst private airlines have to borrow at their own risk*
- *Equal treatment of all participants (equally before the law and subject to the same rules)*
- *Airlines should be able to enter and exit from the market*
- *SAA to operate commercial basis*
- *SAA will not enjoy any privileges in terms of any legislation or any other practice as a result of it being … a Government enterprise*

In most modern economies, where the importance of air transport is recognised, State aid has been made available to all airlines pro-rata to their turnover just before the COVID19 pandemic outbreak. In South Africa only State-owned airlines are beneficiaries of such aid.

Contrary to the equal treatment principle, passengers and customers are wilfully exposed to the public to insolvency risk of Mango (and other State-Owned Airlines), which contrary to the principle that user's interests that should be taken into account.

Distortion of competitive markets
There is a very large body of academic resources and litigation, which demonstrates that State financial Aid of the nature contemplated to Mango is discriminatory, structurally unfair, and not in the best interests of the economy and consumer welfare.

Impact of the appropriation on SAA business plan
Taking away R2.9bn from SAA's business rescue plan in favour of the subsidiaries, implies that such amount would have to be provided to the affected creditors somewhere in the future. This implies that further money would have to be earmarked (appropriated) for SAA at a later stage.

- What elements of the June 2020 business rescue plan (June BR Plan) will not be funded due to the R2.7bn to SAA's subsidiaries? Have the creditors affected by the June R2.7bn underfunding agreed to not being paid? Or payment postponed?
- How and when will such underfunded creditors be paid?

Specific Mango Airlines Issues

- For what purpose is the R819m required by Mango Airlines? Who would be paid?
- The rationale for funding Mango has nor been made. On what basis should Parliament now provide any money for Mango?
- The is no Mango Act, by means of which the State should establish and maintain a LCC airline.
- No government guarantees have been provided for Mango. Why should Government now bail Mango's creditors for providing excessive and reckless credit to Mango? Where are scheduled air services lacking that would require State intervention and funding
- Government is not empowered to just dish out money just for any purpose. It has to comply to the PFMA prescripts on investments etc.
- The domestic air transport market is currently overtraded with too much capacity and flights for the low level of market demand. Why is it necessary for Government to incur

major losses and costs to provide additional capacity and flights when there is no need for it?

- Both SAA and Mango contemplates competition operations on the Johannesburg-Cape Town route. Surely some motivation should be made on why Government should fund a LCC airline in direct competition to SAA domestic services and other private sector airlines. The financial impact of two State-owned airlines with State financial backing in a price war on the same routes would be fruitless and wasteful.
- What is Mangos' financial position, as per a draft pro-forma set of financial statements.
- Mango's annual financial statements should be disclosed before any money id provided to Mango.
- What are the realistic projections of these operations for the next three or five years?
- This appropriation will represent the key to further funding, which is not available.
- It was a sole SAA project for which no justification was ever made to Parliament, that would ever require Government funding.
- Was any commitment of recourse to Government promised to any creditors of Mango, (tacitly or explicitly)?
- On what basis should money now be provided to fund all the creditors of Mango (to 100% of the debt owning), through this appropriation to Mango, whist that was not even done for creditors of SA Express nor for creditors of SAA. SAA's concurrent creditors were only offered 7.5c in the Rand.
- There does not appear to be any legal obligation to provide funding for Mango. As a result, any funding to Mango should require suitable motivation, including the counterfactual of not providing money to Mango.
- Mango's current status should be clearly disclosed and realistic projection of future results and funding requirements should be provided as well as how this would fit in with overall Government priorities etc. What will be achieved? What value would be obtained for money?
- What is the expected impact of the amount to be appropriated on private sector airlines?
- Can Mango do a better job than existing operators, and why
- Why does to State not provide funding to Mango's competitors on the same basis as Mango?
- Up to what level will Mango be allowed to continue to lose money at the current rate.
- What steps are taken to restructure Mango or to turn it around?
- Provide the details of Mango's turnaround plan and the cost thereof.
- What amount of funding does Mango require for the next three years at current levels of demand?
- Why would Mango's future losses have to be funded by the State?
- Why does the State need to hold on to Mango?
- Can Mango just be closed?
- Can Mango be sold? If not, why not?

Kind regards

- Prof Noleen Pisa (Head of Department)
- Prof Jackie ITLS - Africa
- Dr Joachim Vermooten (Associate Researcher)

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