KZN pushes SAA over Durban and Cape Town route

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South African Airways (SAA) is facing added pressure to fly on the loss-making Durban-Cape Town route after the KwaZulu-Natal government asked the national carrier to increase capacity on the route, using its own aircraft.

Simisa via Wikimedia Commons - Aerial view of Durban

SAA closed the route in 2010 after the airline bled more than R90m in losses. The airline said at the time that the route catered mainly for tourists, making it "price sensitive". It also said that SAA's low-cost subsidiary Mango was better suited for the route. Mango frequencies on the flight route have been increased to meet demand and South African Express began flying the route in 2011.

Bheko Madlala, the spokesman of KwaZulu-Natal MEC for economic development Sihle Zikalala, the ANC chairman in the province, confirmed that the provincial department had "ongoing engagements" with SAA about the airline flying the Durban-Cape Town route, using its own aircraft. "However, until these discussions have yielded results, we are unable to comment further," said Madlala.

SAA chairwoman Dudu Myeni has been particularly aggrieved by the route's closure. In November 2015, Myeni told Business Day in Parliament that the airline's board was challenging "past decisions", such as the closure of the Durban-Cape Town route, which "merely served to downscale the airline and inhibit its return to profitability".

Market size on route increased

SAA spokesman Tlali Tlali said that the national airline was not aware of the KwaZulu-Natal government's request for the carrier to fly the route. Tlali did say, however, that the market size on the route had increased 13% and serviced 900,000 passengers annually. SAA used a "standard route matrix" to decide which routes to fly. This included market demand and supply, yield potential and profitability forecasting, he said.

"We do not operate on the route. However, should we reinstate the service we will deploy aircraft that will match the demand," Tlali said. "SAA has options on aircraft choice with requisite capacity to service the route. A narrow body aircraft could be used. Capacity changes are always made based on demand," he said.

Reinstating the route would require approval from SAA's executive committee and board.

Technically insolvent

The airline is unable to table its 2014-15 results because it is technically insolvent and needs a R5bn government guarantee to retain its status as a going concern. An internal document showed that the airline's auditors found that it had made a R648m loss in the first six months of the 2015-16 financial year.

In July, it emerged that SAA had appointed unknown "boutique financier" BnP Capital to advise it on restructuring its R15bn debt and to raise the funding, in return for a R256m success fee.

The carrier said last week it had put the deal on hold after the Organisation Undoing Tax Abuse (Outa) said that BnP Capital's licence had been suspended by the Financial Services Board. Outa has warned the national airline that it not "simply put the deal on ice", as BnP Capital had been appointed unlawfully. Outa has asked SAA to cancel the deal or the organisation would lodge an urgent application to interdict the deal.

Tlali said SAA was seeking clarity from BnP Capital and expected a response from the company this week.

Source: Business Day