# SAA guarantee a delaying device, says Comair

South African Airways' precarious financial position was laid bare in the High Court in Pretoria on Tuesday, 5 May, as competitor Comair challenged the financial assistance provided by the government to prop up the struggling airline.


Comair, the JSE-listed British Airways franchisee that operates kulula.com, argued the government was using the guarantees it gives to SAA as a "device" to raise funding from commercial banks and delaying the payments it would eventually make on behalf of the airline.

Comair said SAA would never be able to meet its debt obligations and was instead raising debt against fresh guarantees to pay for interest on older debt.

Legal council for Comair, David Unterhalter SC, said the Treasury was "binding the hands of Parliament" by effectively giving SAA a cash injection, without tabling the decision in Parliament.

In 2013 Comair challenged the R5bn government guarantee given to SAA and began legal proceedings against the airline. It also voiced its discontent when a further R6.5bn guarantee was given to the airline in February this year.

SAA has received more than R30bn in government guarantees and loans from the state since 1999. It has no equity and is now surviving on R14.5bn of government guarantees given to it after 2007. Its latest guarantee was given to it after it failed as a going concern, a recurring reason for guarantees.

The loss-making SAA has had nine turnaround strategies in 15 years. Four CEOs and one acting CEO have left in the past six years.

Last month acting CEO Nico Bezuidenhout said the airline's longterm funding structure had improved after the debt it raised through guarantees was restructured and consolidated to be paid off in three to seven years.

Bezuidenhout said most of its debt was short term and was raised when a guarantee was granted.

"The guarantees are a device for using financial institutions to provide funding to SAA that will eventually be paid by the government," said Unterhalter.

He said alternatives such as placing SAA in business rescue or recapitalising it, which would require parliamentary approval, needed to be considered.

Comair believes the guarantees to SAA have distorted the market. Since 1991, when the state deregulated the aviation industry, 10 airlines have closed.

Last week Skywise, a new entrant to the domestic aviation market, called for the government to remove SAA from the domestic market and leave it to the private sector.

Comair CEO Erik Venter said the government had set the rules for the aviation industry in the Domestic Aviation Transport Policy, the SAA Act, the Promotion of Administrative Justice Act, the Public Finance Management Act and the Constitution but was not playing by these rules. "If (SAA and the government) don't need to comply with those rules, we need to rethink our own strategy of being in this industry. The rules are all there, government has set all the rules, they just don't want to play by the rules," said Venter.

Transport analysts have called for SAA to apply the European system of financial aid to struggling national carriers.

In the European Union, government guarantees are seen as part of state aid. A restructuring plan is required before an airline receives a guarantee to show it can become viable within a set period. The airline compensates for the distortion of the domestic market as a result of the aid by reducing operations not required to make it sustainable.

SAA has increased its capacity in the domestic market.

Venter said an institution would usually provide a guarantee only if there was a high probability it would never have to honour the guarantee. "In this case, even Treasury said SAA would never be able to pay the guarantees. So it's not a guarantee, they are just deferring the fact that government is going to have to pay these amounts."

*Source: Business Day*