competition commission south africa

25 YEAR CELEBRATION

PORTFOLIO COMMITTEE ON TRADE, INDUSTRY AND COMPETITION MEETING WITH THE PORTFOLIO COMMITTEE ON TRANSPORT

COMPETITION MATTERS IN THE BUDGET AIRLINE INDUSTRY

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01 April 2025

OVERVIEW OF THE PRESENTATION

1. DIFFERENCE BETWEEN FULL-SERVICE CARRIERS AND LOW-COST CARRIERS

2. EVOLUTION OF THE MARKET

3. IMPLICATIONS AND IMPACT

4. CASES BY THE COMMISSION AND INSIGHTS THEREFROM

FULL-SERVICE CARRIER (“FSC”) VS LOW-COST CARRIER (“LCC”)

- The fundamental differences between FSC and LCC airline companies are reflected in their –
  - Strategic Focus
    - FSCs focus their business model on **network profitability**, whilst LCCs carriers prioritize **route profitability** focusing on high volume routes (e.g. JHB-CPT/DBN/GRJ/ELS/PLZ)
  - Fleet Utilization
    - FSCs operate multiple aircraft types to accommodate different route densities and higher frequency, whilst LCCs try to stick to one type of large aircraft (737s) to minimize costs
  - Ticket Prices
    - FSCs ticket prices are higher than that of LCCs as costs are higher and ancillary services are included in the price of FSCs
    - Competition amongst LCCs matters for LCC pricing and separately amongst FSCs

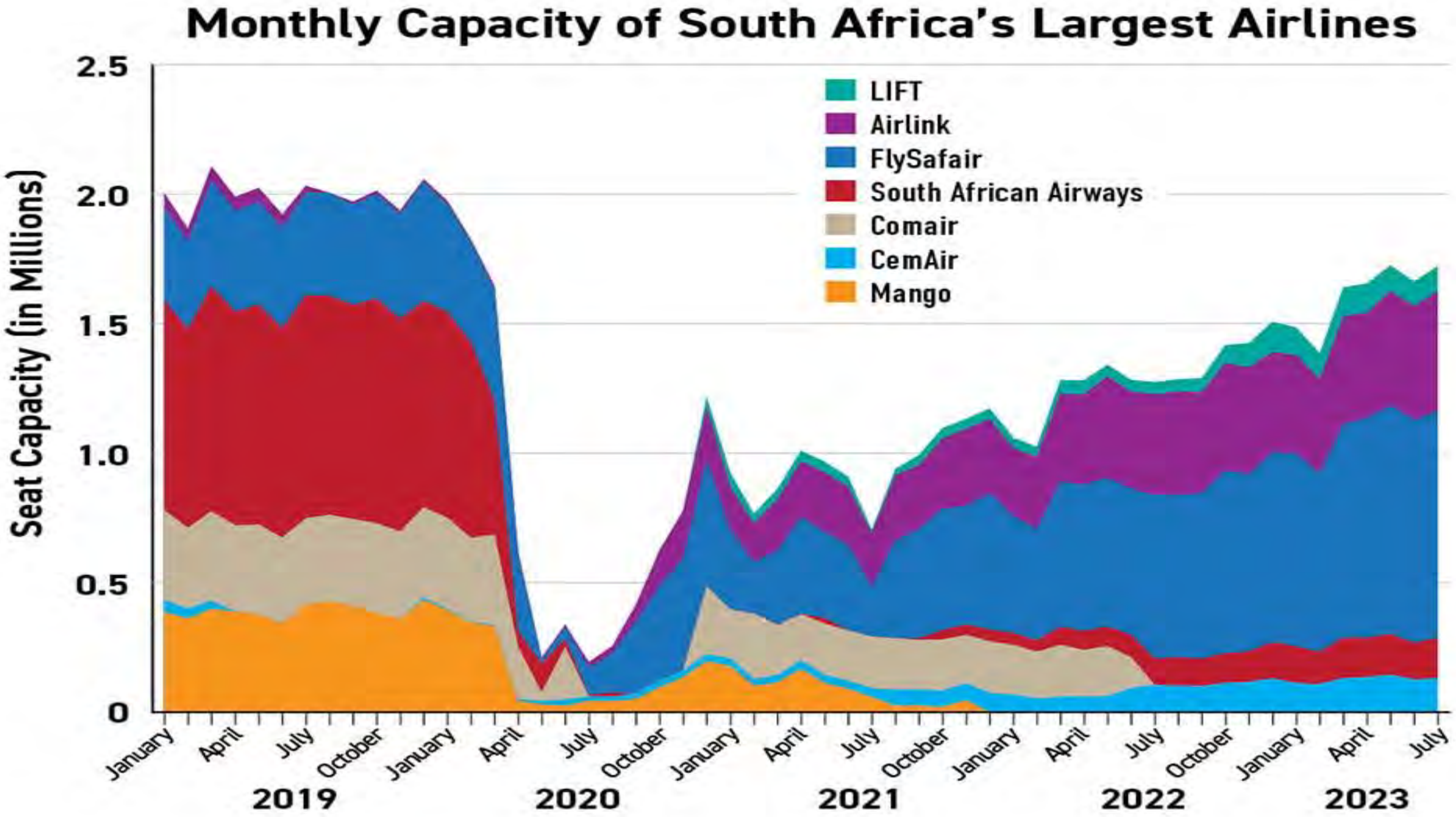
EVOLUTION IN THE MARKET

- Pre-covid there was generally quite healthy competition amongst LCCs on the high density routes
  - Three major LCCs namely Kulula, Mango and Flysafair each with a sizeable market share and hence similar efficiencies and costs.
  - Similarly for FSC there was competition between SAA and Comair on higher density national and regional routes but more limited competition on low density national and regional routes operated mostly by SA Airlink with CemAir and SA Express
- Covid resulted in a major restructuring of the SA LCC and FSC airline market resulting in far less effective competition
  - During Covid SAA and Comair both downscaled then ceased operations incl. their LCCs Mango and Kulula. SA Express also ceased to operate.
  - This effectively left the market to Flysafair, Airlink and CemAir which all expanded their capacity

EVOLUTION IN THE MARKET

  - The closure of the two largest airlines did provide scope for the entry of Lift but on limited routes (JHB-CPT) and scale
- Post-covid both SAA and Comair did return to the market but not as effective competitors
  - Comair tried to ‘buy back’ lost market share but lacked the cost efficiency and ultimately collapsed, removing both the FSC and LCC Kulula from the market
  - SAA’s return has been on a much smaller scale and without the LCC Mango
  - Flysafair and Airlink have continued to expand by putting more capacity onto routes and expanding into new routes, with Lift and CemAir doing so too but on a smaller scale
- This has left the market less competitive than pre-covid
  - For LCCs, Flysafair holds a dominant position with the only competition coming from Lift
  - For FSCs and smaller regional routes, Airlink, SAA and CemAir operate but on the smaller routes there is often only Airlink or CemAir

EVOLUTION IN THE MARKET



Source: Aviation Week Network (5 Sept 2023) The Pandemic Forced Major Changes Among South African Airlines

INVESTIGATIONS

- Following the exit of Comair in June 2022, the Commission warned the remaining airlines not to exploit the situation by charging higher prices and indicated that margins should remain the same as they were in the months prior to Comair's exit
  - The Commission monitored prices and margins for six months and this deterred any abuse as the Commission found that none of the airlines raised margins apart from some that were loss-making prior to Comair's exit
  - However, as the exit coincided with the oil price shock following the Russian invasion of Ukraine, fuel costs more than **doubled** on a monthly basis causing higher costs and hence prices
- However, the monitoring of prices did reveal that there are significant cost differences between the airlines which means that FSCs and Lift are not in a position to materially constrain Flysafair
  - FSCs operate smaller aircraft with less frequency and efficiencies even on major routes
  - Lack of scale and frequency of Lift also makes it less efficient

INVESTIGATIONS

- The difference in efficiency and cost is reflected in several predation complaints laid by Lift against other operators which the commission investigated and found to be without merit.
  - Lift vs Comair (2021Apr0009); where Kulula.com was an LCC; an
  - Lift vs Safair (2023Jul0028); where Safair is an LCC.
- In this context, predatory pricing would refer to an airline pricing its tickets on a particular route below the average variable or avoidable cost to provide services on that route. The complaints most likely reflect that Lift's own costs exceed the pricing of its rivals.

CURRENT MARKET POSITION

- The current market structure suggests that there are limited constraints on Flysafair
  - Lift is not of the same scale as the only other LCC
  - FSCs operate at a higher cost than LCCs in general and so unlikely to constrain pricing
- The market has evolved with LCCs now attracting business and time-sensitive customers that want frequency on routes as the LCCs now dominate overall capacity on the major routes and offer the frequency that FSCs used to offer and flexibility to change flights at an additional cost
- The nature of airline markets means it is costly for airlines with small market shares to 'buy market share' through putting a lot more capacity on the routes as they will have to carry losses for a period. It is easier for airlines with an existing large share to push more capacity.
  - This means the structure can be sticky.
  - FSCs may achieve this easier if traffic from international and regional flights is directed to their domestic flights. Airlink and CemAir have both done local carrier deals with global airlines

Thank You

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