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Options for the restructuring of state ownership of South African Airways

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Background: South Africa adopted an economic policy that included both deregulation and privatisation in line with the 1980s' global trends. Economic deregulation of the domestic air transport market was implemented in 1991 and partial privatisation of South African Airways (SAA) 8 years later, in 1999. This was reversed in 2002. SAA's poor financial performance since 2012, its insolvency and future funding needs resulted in mixed messages on the future ownership of SAA. Since 2004 the policy of full ownership of state-owned enterprises (SOEs) ruled out SAA's privatisation. SAA's escalating losses prompted the Minister of Finance and National Treasury to favour the introduction of a strategic equity partner (SEP) to invest in a minority shareholding in SAA.

Objectives: This article examined options for the restructuring of state ownership of state-owned airlines in South Africa.

Method: Contemporary privatisation trends and the level of state ownership of airlines in Europe and elsewhere were identified. The preferred methods of airline privatisation and their economic benefits were determined.

Results: Contrary to the freeze of privatisation in South Africa, increased trends in privatisation were identified elsewhere. In particular, share issue privatisations (SIPs) on listed securities exchanges were favoured to SEPs. South African Airways' financial circumstances demonstrate the need to eliminate SAA's losses and to resolve its insolvency.

Conclusion: The South African official definition of privatisation needs to be broadened to include SIP instead of being limited to the sale of shares in SAA. The SIP method of privatisation is ideally suited to resolve SAA's capitalisation and subject SAA to market and regulatory disciplines.

Background

A salient element of the economic reform of air transport policy from a monopoly market (in which a state-owned enterprise [SOE] has a sole franchise and is protected from competition) towards a competitive market with competing operators relates to the ownership of the SOE, which affects its ability to obtain funding and to compete as well as its behaviour in the market.

Regulatory reform in Organisation for Economic Co-operation and Development (OECD) countries reflects a shift from using public policy instruments, such as public ownership of enterprises or restrictive economic regulation, to a greater reliance on market mechanisms and incentives to pursue consumer welfare, industrial and employment objectives (Gönenc, Maher & Nicoletti 2000:5).

The International Civil Aviation Organisation Secretariat (ICAO Secretariat) reported that the privatisation of government-owned airlines was one of the 'pre-eminent transformations in air transport' (ICAO Secretariat 2016). The ICAO Secretariat found that the motives for airline privatisation were 'highly diverse' and ranged from 'purely economic considerations' including the improvement of 'operating efficiency and competitiveness' to a more 'pragmatic desire to reduce the heavy financial burden imposed by state-owned airlines on governments' (ICAO Secretariat 2016). The growth in privatisation and transnational ownership results from financial problems faced by many governments and state-owned airlines (UN ESCAP 2005:171).

Contrary to the 1996 White Paper on Transport Policy statement, which envisaged a 'reduced direct involvement in operations and in the provision of ... services, to allow for a more competitive environment' as well as the trends identified by the ICAO Secretariat, the South African government increased the scope of its operations to cover all airline business areas (geographically with intercontinental long haul, African regional and domestic services) in three business models (full service network, low-cost carrier, and feeder or regional airline operations) (RSA 1996).

As identified herein, South African Airways' (SAA's) poor financial performance due to expanding losses is not accommodated in the national budget but funded by guaranteed loans, which is not sustainable. Solutions may be found in the restructuring of the full state ownership and privatisation of state-owned airlines in South Africa.

Objective

This article focuses on the restructuring of state ownership and privatisation of state-owned airlines in South Africa. The approach is limited to the restructuring of the current full state ownership rather than ancillary topics like the reasons for SAA's poor financial performance, restructuring of SAA's business operations, SAA's responses to competition or the distortive impact of state funding on maintaining a competitive air transport market. The ideological, political and labour perspectives of advantages and disadvantages of privatisation or state ownership are excluded as a result of Macchiati and Siciliano's (2007:123) findings that most airline privatisations are undertaken as a result of government dissatisfaction with a state-owned airline's financial performance.

Introduction

Historically, the privatisation of state-owned airlines in South Africa was not successful. The partial privatisation of SAA in 1999 was reversed in 2002 (Hill 2005; ICAO Secretariat 2009), and Sun Air, which was fully privatised in 1997, was closed down in 1999 (Brown 2002; Radebe 1999b). From 2004 onwards, the privatisation of SOEs gave way to a policy of restructuring of SOEs under full government ownership (Jerome 2004:10) and more recently to an expanded role for government in the economy (OECD 2015) based on a commitment to a 'development state' in which SOEs are expected to play an important role in the economy (Kane-Berman 2016).

In 1991, South Africa fully economically deregulated domestic air transports in line with a broader economic policy of deregulation and privatisation (Department of Transport Chief Directorate: Civil Aviation [DOTCA] 1990, 1991). This followed the earlier total economic deregulation of the domestic air transport market in the United States (US) in 1978 (Gesell 1990) and the European Union (EU) process of liberalisation thereafter (Deutsches Zentrum für Luft- und Raumfahrt 2008:27).

In contrast to the reversal of privatisation of SAA and the freeze on the privatisation of SOEs in South Africa in 2004, an increasing trend in privatisation transactions worldwide from 2012 to 2016 reached record high transaction values in 2015 (Megginson 2016:3). This trend included notable airline privatisation transactions in the form of share issue privatisations (SIPs), also referred to as privatisation initial public offerings (PIPOs), which are especially notable in China (Jones et al. 1999:2; Megginson 2010a:2; Megginson & Netter 2000:19, 39). The increased extent of privatisation of most major EU national airlines is also considered an important indicator.

The above-mentioned international trends and the previous experience in part privatisation of SAA, which was based on a strategic equity partner (SEP) from 1999 to 2002, illustrate the applicability SIPs to SAA in favour of the introduction of an SEP to invest in a minority shareholding in SAA, as proposed by the South African Minister of Finance and National Treasury (since 2013) (National Treasury 2014).

Research methodology

This conceptual study is based on a literature review of international privatisation trends (especially since 2004). In particular, the focus is on the privatisation of airlines to determine trends and practices for possible application in South Africa in the light of contemporary developments relating to South African state-owned airlines.

Literature study

Background context to economic deregulation and privatisation

Hoj, Kato and Pilat (1995:39) observed that the trend of regulatory policy in OECD countries shifted towards deregulation, with an increasing emphasis on promoting competition. Deregulation was accompanied by privatisation in several countries, including Japan, the United Kingdom, Australia and New Zealand (Pera 1989:181). Within Europe, wide-ranging deregulation was accompanied by privatisation, which fundamentally changed the role of public enterprises (Pera 1989:165).

In 1987, the Republic of South Africa's (RSA's) broader economic policy of regulatory reform reflected a policy of privatisation and deregulation, in which the two concepts were combined as opposed to distinct separate and mutually exclusive policies of deregulation or privatisation (RSA 1987:1). Regulatory reform of the air transport sector in South Africa took place within the context of an economy-wide economic system of privatisation and deregulation (Smit 1992:7).

A striking difference between the economic deregulation of the South African domestic air transport market in 1991 (DOTCA 1990, 1991) and that of the US (which is generally regarded as the test case for government deregulation) (Gesell 1990) is the total absence of any state-owned airlines in the US prior to (and following) deregulation (Deutsches Zentrum für Luft- und Raumfahrt 2008:6; Forsyth 1998). State ownership of the dominant airline in South Africa's air transport sector, SAA, was more analogous to the

European context, where Németh (2011:2, 5) observed that (before full liberalisation of aviation markets) most sovereign states operated state-owned 'flag carriers' or 'national champions'.

State ownership of most European airlines was the cause of subsidisation of EU states' underperforming carriers, which, according to Gudmundsson (2010), became the 'key biasing factor' in the European liberalisation process. This contrasted with the US, where airlines were never state-owned. As a result, the European playing field had to be levelled by 'blocking state aid on the one hand, and increasing the financial viability of the carriers, on the other' as state aid provides the 'capacity of blocking competition by raising barriers for more efficient carriers' (Gudmundsson 2010:22).

Privatisation defined and methods of privatisation

The term 'privatisation' or 'denationalisation', as it was previously known, has diverse meanings in different countries. According to Megginson (2010a), mostly, privatisation implies 'the sale of state-owned assets or equity to private investors (foreign or domestic) in exchange for cash payments'. In 'transition economies', privatisation involves the (Megginson 2010a):

> entire transformation of a command economy into a market-oriented one with private ownership. This is typically accomplished (at least initially) through voucher privatisations, essentially giving stock away free or at nominal cost to all citizens. (p. 2)

In modern China, privatisation involves state enterprises selling 'newly issued stock to private investors', but not the 'surrender of state control over these enterprises' (Megginson 2010a).

Megginson (2010a) identified five basic techniques for divesting government-owned assets. These are:

- 'asset sale or trade sale' – the direct sale of a company to another firm or group of investors
- 'share issue privatisations (SIPs)' – public offerings of ordinary shares to private investors on national and international stock markets
- 'voucher privatisations' – the distribution of exchangeable purchase rights to citizens for free (or at nominal cost), which can then be converted into SOE shares
- 'grant of concessions' to private companies for a sole right to operate existing assets for a fixed period upon a large upfront cash payment
- 'public–private partnerships' which use project finance techniques to build new public-owned assets using private capital. (p. 7)

The South African government's definition of privatisation is currently limited to one of these techniques: 'the full or partial sale of state-owned enterprises to private individuals or companies' (National Treasury 2018:178).

Reasons for privatisation of state-owned enterprises

Borrmann et al. (2013) summarised the following motives for privatisation, which were initially identified by Cavaliere and Scabrosetti (2008) and Pricewaterhouse-Coopers (PwC 1989):

- Reasons identified by Cavaliere and Scabrosetti (2008:1) are as follows:
  - reduce national budget deficits and the stock of national debt and decrease of government expenditure in the form of subsidies
  - foster financial market development
  - increase efficiency.

- Additional reasons identified by PricewaterhouseCoopers (PwC 1989) are as follows:
  - reduction of state intervention in the economy
  - more competitive market environments facing state-owned enterprises
  - market discipline on former state-owned enterprises
  - enlargement of the number of owners (shareholders)

Methods of privatisation

Privatisation through a sale of state property takes two principal forms:

- Direct sales (or asset sales) of state-owned enterprises (or some parts thereof) to an individual, an existing corporation or a group of investors (Megginson & Netter 2000:19, 39). These could also include a 'strategic investor' and management or employee buyouts (Georganou 2015:8).
- Share issue privatisations in which some or all of a government's shareholding in an SOE is sold to investors through a public share offering, also referred to as PIPOs (Megginson & Netter 2000:19, 39).

Essentially, SIPs raise capital for the SOE on listed securities markets, which dilutes government's ownership (shareholding) in the SOE as opposed to direct sales of share interests in an SOE. This provides an immediate source of new share capital to the SOE. Although the percentage shareholding of the government in the SOE is reduced, the remaining shareholding benefits from the increase in shareholders' value attributable to the investment of new share capital into the SOE. Direct sales (or asset sales) of SOEs involve the sale of all or part of government's shareholding in the company, usually for cash to the benefit of the shareholder rather than the SOE.

In 1999, Jones et al. (1999) identified SIPs as the preferred method for privatising large SOEs as SIPs:

> offer the economic advantages of organised capital markets as well as potential political benefits such as the opportunity to develop support for privatisation by preferentially allocating the shares to domestic voters. (p. 2)

This trend of increasing use of SIPs as a method of privatisation was confirmed by observers including

Megginson and Netter (1997:1), Jones et al. (1999), Saffar (2014:1, 2) as well as Kikeri and Phipps (2008).

Share issue privatisations dilute state ownership of companies and may lead to performance improvements, but states retain majority ownership and control. Improving corporate governance is essential (Kikeri & Phipps 2008).

Sun, Tong and Wu (2013:1460, 1467) also identified the trend of international listing in many countries. This is the result of limitations of certain domestic markets to absorb rapid and large-scale SIP activities. By listing shares in developed overseas markets, SOEs from the less developed countries leverage the foreign markets' better accounting, governance and legal standards, effectively using foreign listings as a means to force SOEs to conform to international standards.

Jones et al. (1999:3) established that governments usually do not sell an entire SOE, or even a controlling stake, in an initial SIP, but more share issues typically follow the initial offer. The first SIPs are generally under-priced, on average based on fixed price method, where the government sets the share price several weeks in advance of the offering date. Tender offers or book building is typically used only for institutional or foreign tranches (Jones et al. 1999:3, 4).

Share issue privatisations are generally well received by investors. Jones et al. (1999) found, in their sample of 630 SIPs from 59 countries, that 90% of SIPs were:

> oversubscribed, and the governments' share allocations almost always guarantee significant portions of the offers to domestic and retail investors, as opposed to foreign and institutional investors. Employees are usually favoured with preferential allocations of stock at discounted prices. (pp. 2, 4)

Sometimes governments insert:

> control restrictions in the charters of privatised firms, or retain golden shares, designed to ensure that the privatised firm will not be fully controlled by foreigners nor can be successfully targeted for hostile takeover. (Jones et al. 1999:2, 4)

Based on a sample of 149 SIP matching firms of similar pre-SIP firm size and profitability, Jiang, Heng and Zhao (2006) established that Chinese SIPs substantially improved the profitability of SOEs in the same way as SIPs were noted to improve firm profitability almost around the world.

The following two sections highlight the extent of international privatisation transaction trends in general and then, more specifically, notable worldwide airline privatisation transactions.

Increased trend of privatisation internationally

Distinct 'important historical phases of privatisation' were identified by Megginson (2010b:2, 4, 5, 2014:2, 2015:2):

- The first phase began in the United Kingdom and lasted until the recession of 1990 to 1991, which briefly halted almost all equity offerings worldwide.
- The second phase lasted from 1992 until late 2000 (followed by the global stock market crash in March 2000). During this period (privatisation's Golden Era), privatisation programmes were adopted enthusiastically by governments around the world, especially in Europe and Latin America. Roughly half of all the proceeds raised by governments through privatisation over the past three decades were raised during these 9 years.
- The third phase began in 2002, with the recovery of economies and stock markets from the 'Crash of 2000', and lasted until the 'greater Financial Crisis of 2008–2009' which brought a virtual halt to privatisations, when governments financially rescued 'failing banks by purchasing large blocks of (mostly preference) equity'. During this phase, Megginson (2010) noted, 'privatisation was muted in Europe and, in some cases, was even reversed in Latin America, but spread decisively to other regions, especially Russia, the Middle East and, most spectacularly, Asia', especially in China.
- The fourth phase of 2010 and 2011 demonstrated 'spectacular failed, cancelled and withdrawn privatisation transactions' because of unstable purchase consortiums, the inability to make payments, unqualified potential buyers, low bids, low foreign limits of shareholding as well as low pricing.
- The fifth phase of the new global privatisation wave was identified from January 2012 onwards. Megginson (2015b:2) stated that this phase dwarfs the total for any comparable previous period, and the years 2014, 2015 and 2016 represent the highest annual levels of privatisations ever (Megginson 2016:3).

In 2016, Megginson (2016:2) identified the following international privatisation trends:

- Worldwide, governments realised \$319.9 billion (€289.5bn) in privatisation sales in 2015, which is 46% more than the \$218.8bn (€166.5bn) total for 2014, which also exceeded the previous record of \$265.2bn (€184.3bn) for 2009 by 21%.
- The global value of privatisations, 266.4 bn (€241.4bn), in 2016 was the second highest recorded.
- Share issue privatisations accounted for over 95% of the total number of privatisations in 2015 and 87% of the total value. Auctions, targeted stake sales, convertible bond offerings and asset sales accounted only for 5% of the number and 13% of the value of privatisations. In 2016, SIPs represented 93% of the total number of privatisations and 81% of the total value of privatisations.
- China was the leading privatising country in both 2015 and 2016, with the value of transactions of \$173.2bn (€158.4bn) in 2015 and \$148.0bn (€134.0bn) in 2016. The total values of transactions in China represented over half of the worldwide total for both 2015 (54.1%) and 2016 (55.6%).
- The United Kingdom was the second leading privatising country in 2015 (13 deals, worth \$34.8bn [€32.1bn]), while Australia (5 deals worth \$25.7bn [€23.3bn]) was the second in 2016.

- EU governments raised $87.1bn (€80.0bn) in 2015 and $37.8bn (€34.0bn) in 2016, which represented 27.2% and 14.2% of global annual values.
- There were only a few failed, withdrawn and cancelled specific privatisation sales in 2015 and 2016.
- The United Kingdom's 'Brexit' vote and global uncertainty relating to the US presidential election in November paused some European privatisation programmes.
- The large number (903) and value ($586.3bn [€530.9bn]) of privatisation transactions completed in 2015 and 2016 indicate that the 'massive global privatisation wave' that began in 2012 continues unabated (Megginson 2016:2).

Megginson (2015) identified that most Chinese industrial SOEs are privatised through SIP. Two types of Chinese SIPs were identified:

- SOEs directly privatised via independent initial public offerings (IPOs).
- Partial privatisation by listing subsidiaries using an 'equity carve-out', in which a subsidiary (for future listing) is established by the parent SOE, which remains entirely state-controlled. The SIP programme injects liquidity into the most debt-laden SOEs. (p. 2)

Megginson (2015b:4) concluded that 'privatisation as a core national economic policy appears to be in good health' and that 'the privatisation wave seems to be both spreading and deepening around the world'.

The exceptional growth in the annual values of privatisation transactions and the extent to which the value of transactions is generated outside the EU are summarised in Table 1 and illustrated in Figure 1.

TABLE 1: Privatisation transaction values.

Year	World	EU	EU to world (%)
1988	39.0	7.8	20.10
1989	28.0	14.2	50.80
1990	24.0	12.6	52.40
1991	46.0	28	60.90
1992	39.0	12.7	32.50
1993	60.0	27.1	45.20
1994	76.0	39.6	52.10
1995	80.0	43.8	54.80
1996	100.0	51.4	51.40
1997	162.0	63.5	39.20
1998	140.0	66.1	47.20
1999	140.0	75.1	53.60
2000	180.0	70.9	39.40
2001	43.8	27.1	61.80
2002	69.2	22.5	32.60
2003	46.6	29.4	63.10
2004	94.0	68.1	72.50
2005	140.0	84.5	60.40
2006	116.0	51.5	44.40
2007	138.0	54.5	39.50
2008	110.9	75.6	68.20
2009	265.2	55.9	21.10
2010	213.6	46.8	21.90
2011	94.4	26.4	27.90
2012	189.4	37.6	19.90
2013	193.7	67.4	34.80
2014	218.8	77.8	35.60
2015	319.9	87.1	27.20
2016	266.4	37.8	14.20
Grand total	**3633.9**	**1362.8**	**37.50**

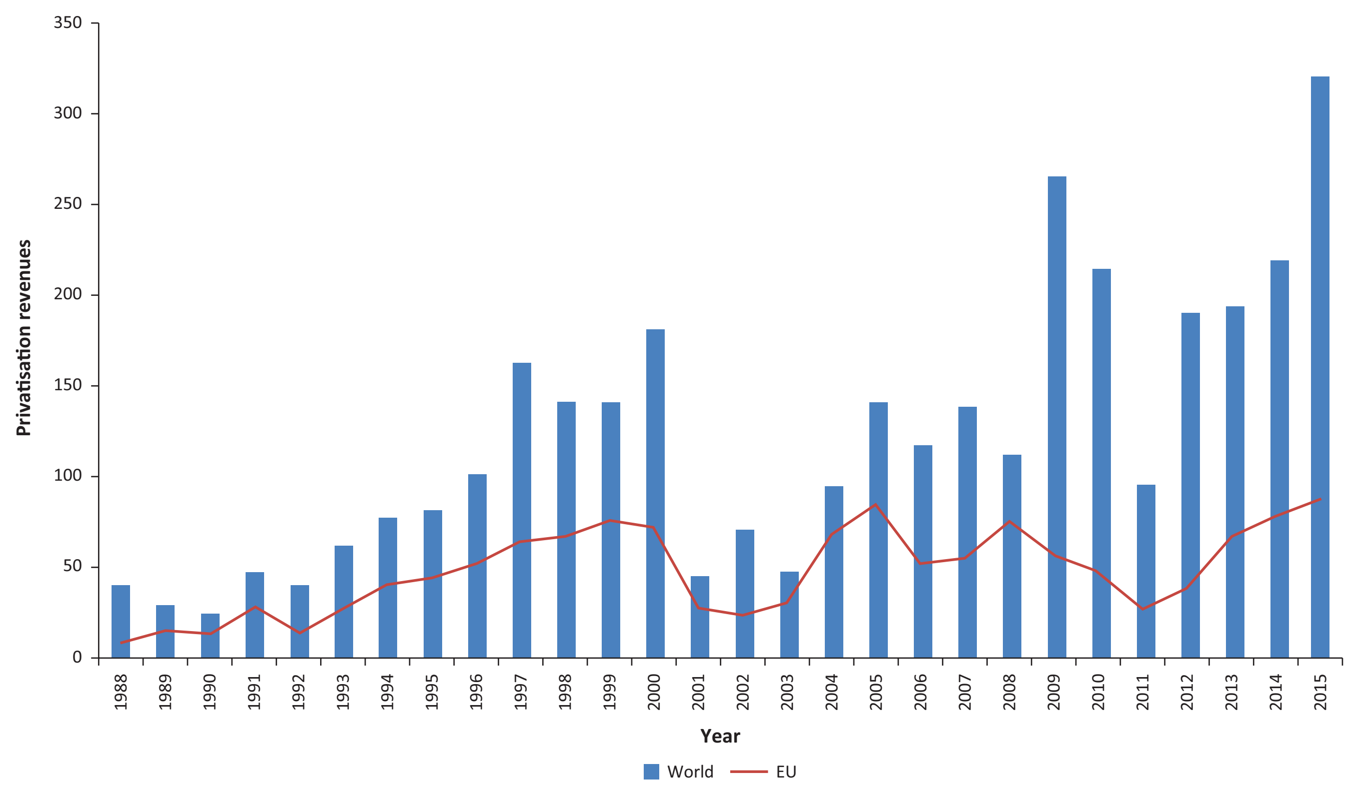
Source: Megginson, W.L., 2016, `Privatization trends and major deals in 2015 and 2016', *The PB Report 2015/2016*, p. 5–32, The Privatization Barometer, viewed 20 August 2016, from https://assets.kpmg.com/content/dam/kpmg/it/pdf/2017/01/ThePBReport2015-2016.pdf

EU, European Union.

Large airline and aviation privatisation transactions between 2012 and 2016

Notable large airline privatisation transactions occurred between 2012 and 2015, as follows:

- The Japan national government successfully executed very large divestment of Japan Airlines ($8.47bn; €6.46bn) by means of an SIP in 2012 (Megginson 2015:29, 2016:23).
- In 2015, 61% in TAP, Portugal's national airline, was sold for a purchase price of €10 m plus the assumption of €338m of debt (Megginson 2015:17, 25).
- China Eastern Airlines raised $2.87bn (€2.61bn) in an SIP on the Hong Kong securities exchange and a direct sale of a 3.55% stake directly to Delta Airlines for $450m in July 2015 to further cement the two companies' Skyteam partnership (Megginson 2015:17, 25).
- Air China raised $1.933bn (€1.749bn) in a private placement in 2015 (Megginson 2015:17, 25).
- Spain raised $4.83bn (€4.27bn) in the IPO of a 49% stake in the airport operator Aena in February 2015 (Megginson 2016:4).
- Ireland raised up to €3bn by selling off its 25% stake in Aer Lingus to International Airlines Group (IAG) (Aer Lingus 2015; Megginson 2015:29).
- Ireland raised $1.557bn (€1.431bn) through a private placement of 100% in Aer Lingus Group PLC to Ryanair on 17 September 2015 (Megginson 2016:4).
- Greece raised $1.422bn (€1.3bn) through lease arrangements on 14 regional airports on 13 December 2015 (Megginson 2016:10).
- Greece raised $1.013bn (€915m) through a 99-year lease on 14 regional airports on 06 July 2016 (Megginson 2016: 10, 12, 21).
- Oman Air raised $359m (€335m) through a marketed follow-on (Megginson 2016: 18).
- Malaysia Airport Holdings raised $357m (€337m) through a marketed follow-on (Megginson 2016:18).
- Sydney Airport Holdings raised $357m (€337m) through a marketed follow-on (Megginson 2016:18).
- Singapore raised $1.126bn (€994m) using an IPO relating to aircraft leasing company, BOC Aviation, on 19 May 2016 (Megginson 2016:20).
- China's three largest airlines, Air China, China Eastern and China Southern, are listed on securities markets but are controlled by the Chinese government. Hong Kong's Cathay Pacific has a 20% stake in Air China, and Delta has a 3.6% holding in China Eastern (Wober 2017:6).



Sources: Megginson, W.L., 2016, 'Privatization trends and major deals in 2015 and 2016', *The PB Report 2015/2016*, p. 5–32, The Privatization Barometer, viewed 20 August 2016, from https://assets.kpmg.com/content/dam/kpmg/it/pdf/2017/01/ThePBReport2015-2016.pdf

FIGURE 1: Annual privatisation values 1988–2016 (Revenue is in US dollars [billion]).

Ethiopian privatisation proposals

On 05 June 2018, the executive committee of Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) decided to allow the sale of a minority interest to domestic and foreign investors in Ethiopian Airlines as well as Ethio-Telecom, hydropower plants and maritime transport enterprises, with the controlling interest to be retained by the government. Other SOEs such as the railway service, sugar plants, industrial parks, hotels and other manufacturing enterprises would be 'transferred to the private sector partially or fully' (Berhane 2018). The decision was based on the chronic foreign currency shortage, lack of adequate corporate reforms, and the reduction of the role of government in areas where the private sector can participate as well as the debt threshold of about 59% of the current gross domestic product (GDP) (Berhane 2018).

Recent unsuccessful strategic equity partners

Two recent unsuccessful SEPs demonstrate the risks associated with the sale of shares privatisations:

- The Indian government attempted an SEP sale of a 76% shareholding in Air India (including Air India Express). The new owners would have to take over $5bn of the airline's debt (two-thirds of the airline's total debt of about $7.8bn) (Jarvis 2018). However, no expressions of interest for the strategic disinvestment of Air India were received. The failure was attributed to the inclusion of both domestic and international routes, the inclusion of $5.1bn of debt, the retention of a 24% stake by the government as well as the compulsory retention of all 27 000 members of staff for a year (Stacey 2018).
- The Pakistan government hoped to raise up to $2bn through an international share offering in Pakistan International Airlines (PIA) (Megginson 2015:29). On 06 March 2018, federal cabinet decided to sell 49% of the shares of PIA; however, on 12 April 2018, the Supreme Court barred the government from proceeding with the privatisation of PIA without its permission as part of an interim order against sales of national assets at lower prices (Bloomberg 2018). A restructuring plan including the segregation of investments in hotel and real estate from the aviation, engineering, landing and handling, health care and flight kitchen as well as core and non-core liabilities would precede the sale of shares. Specified assets would be transferred into a new entity through schemes of arrangements. The restructuring involves carving out non-essential business segments, including hotels, real estate, precision engineering and legacy financing including liabilities. The Privatisation Commission intended to seek expressions of interest (EoI) from private investors for a 49% minority shareholding (SEP) of government-owned shares in PIA for consideration by the Cabinet Committee on Privatisation (CCoP) (Stacey 2018).

The following section discusses European airline privatisation in more detail.

European airline privatisation

During the 1990s, most of the European state-owned airlines required 'massive injections of new capital' (Macchiati & Siciliano 2007:129). State financial aids assisted the restructuring and recovery plans, which paved the way for subsequent privatisation (Macchiati & Siciliano 2007:130). British Airways was fully privatised in an IPO in 1987; Iberia Lineas Areas de Espana was partly privatised by a private sale of 41.2% in 2000 and an IPO of 53.5% in 2001; Deutsche Lufthansa was partially privatised through new equity issues not subscribed by the state with a dilution of 28.5% in 1989, a further dilution of 15.7% in 1994 and a public offering of 37.5% in 1997 (Macchiati & Siciliano 2007:132).

While most of the former national carriers (also referred to as full service network carriers – FSNC) in larger EU countries are now either entirely or at least to a significant extent privatised, some (often smaller) EU countries still have substantial interests in their national carriers. By 2008, the following FSNC airlines were already fully privatised: Aegean Airlines, Air Europa, Air One, British Midland International (bmi), British Airways, Brussels Airlines, Iberia, Lufthansa, Malev Hungarian Airlines, Spanair and SWISS. The majority ownership of three airlines, Air France–KLM, Aer Lingus and Austrian, was vested in private hands, while states retained minority ownership. Alitalia and SAS had about half (50%) state or private sector ownership. Governments retained majority ownership in two airlines (Finnair and LOT) with minority ownership held in the private sector. Governments retained full (100%) ownership in three airlines, CSA, Olympic Airways and TAP (Deutsches Zentrum für Luft- und Raumfahrt 2008:6).

The privatisation of state ownership of airlines increased from 2008 to 2015, notably TAP, Olympic Airways, CSA Czech Airlines, LOT Polish Airlines (LOT), Finnair, Alitalia, Austrian, Aer Lingus and Air France–KLM. Airlines where the percentage of state ownership remained the same are LOT (32% privately held), Finnair (44.22% privately owned) and SAS (50% privately held) (Aer Lingus 2015; Air France–KLM 2014; Bloomberg 2015; Brennan 2015; CAPA 2009; European Commission 2013; Finnair 2015a, 2015b; Goncalves & Bugge 2015; Šabí 2015; SAS Group 2015a, 2015b).

Notable reversals from private sector ownership to increased state ownership in Spanair and Malev Hungarian Airlines were not successful as such airlines ceased their operations, resulting in the loss of government state aid provided (Alitalia 2015; Baratech 2013; Browne 2012; Dragoni 2015; European Commission 2012). The level of private sector ownership, which includes listed companies, is illustrated in Figure 2. Twenty of the top 21 European FSNCs have private sector participation compared to full state ownership at the outset of European liberalisation. Twelve of the airlines are fully privatised, and the majority shareholding of another five are held privately. Governments retained control over three airlines with private sector participation.

Most Western European privatisations represented SIPs through IPOs, which injected new private sector share capital listed on securities markets into the airlines. This approach was also adopted by Turkish Airlines and Aeroflot, with the governments retaining 49% and 51% shareholding in the airlines, respectively (Wober 2017:5). The two privatisation approaches were combined in the privatisation of Qantas, the sale of shares to a strategic investor British Airways and an IPO. Following a capital injection into Qantas in 1993, 25% of Qantas was sold to British Airways. The remaining 75% was disposed of in a public listing in 1995. British Airways sold its 18.5% stake in Qantas in September 2004 (Wober 2017:6).

Consolidation of the European airline sector followed the privatisation of Europe's biggest airlines because of better access to capital and a less nationalistic mindset within the European Union. British Airways (BA) acquired British Caledonian in 1987, and BA and Iberia merged in 2011 to form IAG, which acquired Vueling in 2013 and Aer Lingus in 2015 (the Irish national airline had been part privatised through a stock market listing in 2006). International Airlines Group is 20% owned by Qatar Airways in listed stock market transactions (Wober 2017:4).

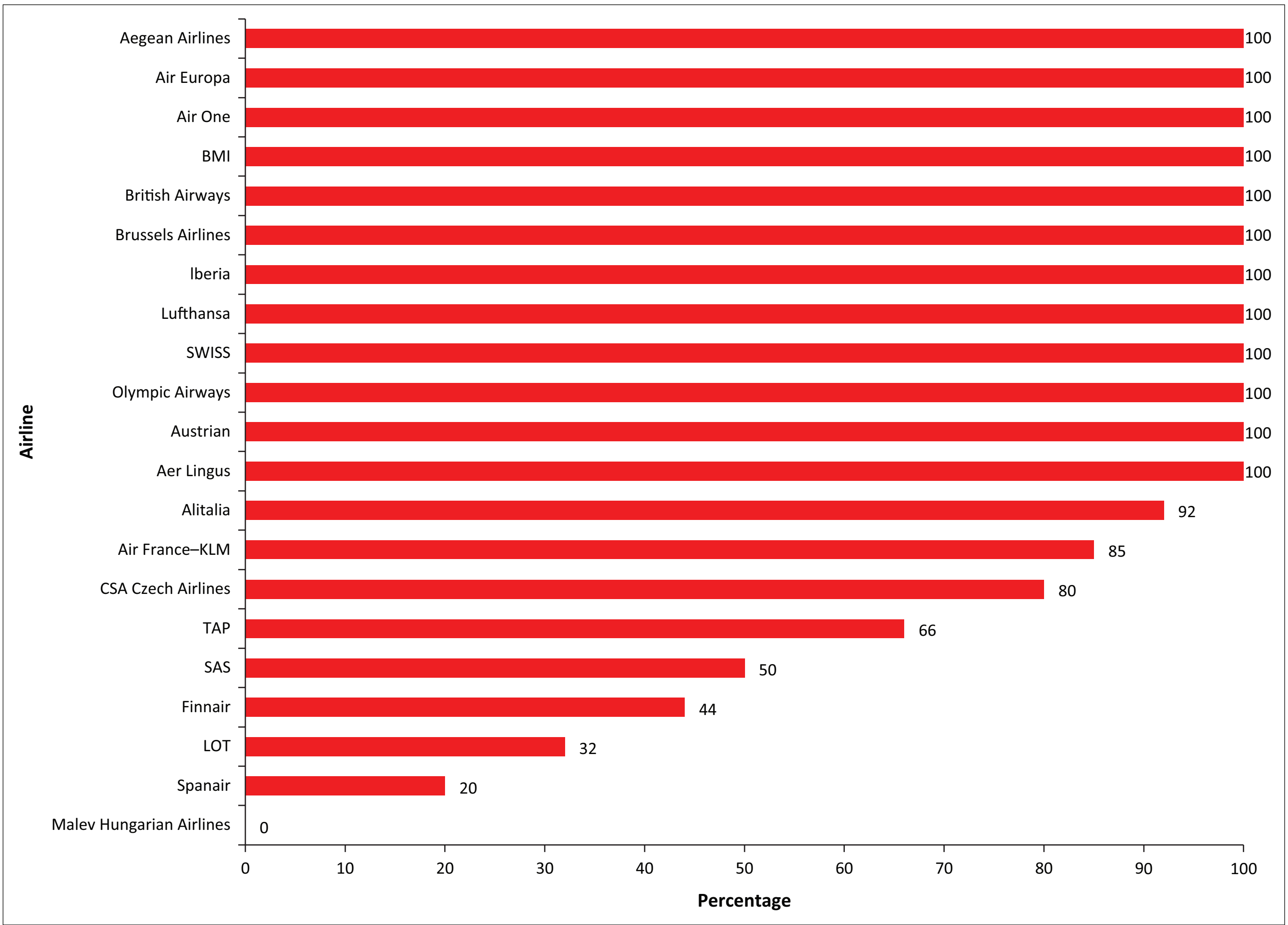
In 2004, Air France (IPO in 1990) and KLM (fully privatised in 1998) merged (Wober 2017:4, 5).

Lufthansa bought SWISS in 2006, Austrian in 2009 and Brussels Airlines in 2017, effectively completing the privatisation of neighbouring European airlines. Lufthansa Group, IAG and Air France–KLM are now three of the five most prominent European airline groups by passenger numbers (the other two are low cost carriers (LCCs) Ryanair and easyJet, which have never been state-owned) (Wober 2017:5).

The only Western European national airline not to be listed in its privatisation is TAP. The Atlantic Gateway consortium made a 61% investment, subsequently reduced to 45%, with the Portuguese government holding 50% and 5% owned by employees (Wober 2017:5).

The OECD regarded Alitalia and Olympic Airways as 'hard nut' privatisation cases, where governments were trapped between the 'fiscal burdens of subsidising financially unviable SOEs and, at the same time, strong public and employee resistance to either a restructuring or sell-off of the enterprise' (OECD 2009:8). In these cases, the SOEs were allowed to operate until they were essentially bankrupt. As noted by the OECD (2009):

> When the financial distress of the enterprise had become obvious to all involved, a strategic (in some cases foreign) investor was invited to buy a significant stake in the SOE for a limited sum to ensure the continued operation of the enterprise or acquire some of the most valuable elements of its value chain. (p. 8)



Sources: Deutsches Zentrum für Luft- und Raumfahrt (German Aerospace Center), 2008, *Airline business models – Analyses of the European air transport market,* Topical Report for the European Commission, vol. 6, p. 27, 06 December, viewed 05 April 2016, from www.ec.europa.eu/transport/modes/air/doc/abm_report_2008.pdf; Aer Lingus, 2015, *Aer Lingus has become a member of IAG (International Airlines Group),* viewed 10 November 2015, from http://corporate.aerlingus.com/ shareholdersandinvestors; Air France -KLM, 2014, Listening to our shareholders Our Governance, Air France–KLM – Annual report 2014, viewed 29 October 2015, from http://www. airfranceklm. com/sites/default/files/publications/annual_report_2014. pdf; Alitalia, 2015, *Governance shareholders,* Alitalia, viewed 10 November 2015, from http://corporate.alitalia.it/en/governance/shareholders/index.html; Bloomberg, 2015, Investors sought for LOT Polish Airlines; Treasury Minister Confirms, Company Overview of LOT Polish Airlines S.A., viewed 10 November 2015, from http://www.bloomberg.com/research/stocks/ private/snapshot.asp? privcapId=5491364; Browne, D., 2012, 'Low-cost Spanish airline Spanair collapses', *Columbus Direct,* viewed 10 November 2015, from http://www.columbusdirect. com/content/low-cost-spanish-airline-spanair-collapses; Centre for Aviation (CAPA), 2009, *Austrian airlines plummets as Lufthansa announces 'squeeze out' offer,* viewed 10 November 2015, from http://centreforaviation.com/analysis/austrian-airlines-plummets-as-lufthansa-announces-squeeze-out-offer-13619; Dragoni, G., 2015, 'From "patriots" to Emirs: Alitalia's years of living dangerously', *Italy Europe24*, 17 January, viewed 10 November 2015, from http://www.italy24.ilsole24ore.com/art/markets/2015-01-16/the-story-of-alitalia-s-final-years-from-the-shadow-of-financial-collapse-to-its-marriage-with-etihad-165939.php?uuid=ABue9FfC; European Commission, 2013, *Commission decision of 9.10.2013 addressed to: Aegean Airlines S.A. declaring a concentration to be compatible with the internal market and the EEA Agreement (Case No COMP/M.6796 - AEGEAN/ OLYMPIC II) C (2013) 6561,* Brussels, 09 October 2013, viewed 10 November 2015, from http://ec.europa.eu/competition/mergers/cases/decisions/m6796_20131009_20682_4044023_EN.pdf; Finnair, 2015a, 'Major shareholders', *Finnair Group Investors,* 31 October, viewed 10 November 2015, from http://www.finnairgroup.com/investors/investors_4_1.html; Finnair, 2015b, 'Ownership structure', *Finnair Group Investors,* 31 October, viewed 10 November 2015, from http://www.finnairgroup.com/investors/investors_4_2.html; Goncalves, S. & Bugge, S., 2015, 'Portugal picks American-Brazilian investor in sale of airline TAP', *Reuters,* 11 June, viewed 10 November 2015, from http://www. reuters.com/article/2015/06/11/portugal-tapidUSL5N0YX2UI20150611#zbYQ6m YldIUadUSz.97; O'Leary, M., 2015, 'International Airlines Group (IAG) seals deal to purchase Aer Lingus Airlines', *AvStop,* 19 August, viewed 29 October 2015, from http://avstop.com/august_2015/international_ airlines_group_iag_seals_deal_to_purchase_ aer_lingus_airlines.htm;Šabí, D., 2015, *Travel service becomes new shareholder of Czech Airlines*, Czech Airlines, viewed 10 November 2015, from http://www.csa.cz/en/portal/quicklinks/news/ news_tz/news_tz_data/tz_02042015.htm; SAS Group, 2015a, *Shareholders,* Investor Relations, viewed 10 November 2015, from http:// www.sasgroup.net/en/shareholders/; SAS Group, 2015b, *Share capital development*, Investor Relations, viewed 10 November 2015, from http://www.sasgroup.net/en/share-capital-development/

FIGURE 2: Comparison of the degrees of private ownership of top 21 European FSNCs in terms of seats per week in 2015.

Smaller and less profitable Central and Eastern Europe national airlines sought strategic investors to take a partial stake in the national airline (Wober 2017):

- AirBaltic (Latvia) has a 20% private German aircraft leasing investor.
- CSA Czech Airlines is now 98% owned by privately owned Travel Service, a leisure group that operates airline SmartWings.
- Air Serbia has Etihad as 49% strategic equity partner as a result of a 2013 sale of shares following which it achieved three successive years of profit in 2014–2016 (p. 5).

In the following cases, governments retained control over their national airlines (Wober 2017):

- Croatia Airlines, 97% government-owned, recovered in 2013 from a previous 4-year period of losses. However, Croatia's National Reform Programme for 2018 includes the search for a strategic partner for Croatia Airlines (Government of Croatia 2018).
- LOT Polish Airlines, 93% government-owned, returned to profitability following restructuring.
- Air Malta's search for a strategic investor was unsuccessful and is pursuing restructuring before partial privatisation would be resumed.

- Nordica was established as the state-owned Estonian flag carrier after the 2015 bankruptcy of the previous flag carrier Estonian Air. (p. 5)

Macchiati and Siciliano (2007:123) identified government dissatisfaction with a state-owned airline's financial performance as the typical rationale for airline privatisation. Similar dissatisfaction with SAA's financial performance and government's inability to fund losses are discussed below.

Summary of findings on international privatisation trends

Overall, the world is experiencing a new privatisation wave, more substantial than previous periods. Governments, their economies and investors have benefitted from this trend. Most of these are based on the SIP approach in which new investment is made into the operating entity instead of paid to the previous shareholders as a consequence of a sale of shares agreement under an SEP.

Governments prefer SIPs for the following reasons (Megginson & Netter 1997):

- Share issue privatisations are the only practical method of selling off the very largest SOEs, from both an operational and a financial perspective.
- A public share offering is by far the most transparent method of selling corporate assets.
- Governments have realised that they can modify the share allocation, pricing and other terms of a public share offering to achieve political as well as economic objectives.
- Share issue privatisations aimed (at least partly) at domestic investors have vastly increased the total capitalisation and trading volume of almost every major non-US stock market.
- Share issue privatisations develop domestic capital markets and promote an 'equity culture' among their nation's investors (p. 5, 6).

The shareholdings of most of the former national carriers in larger EU countries are now either wholly or mostly privatised, which eliminated the subsidisation of EU states' underperforming carriers as a result of their previous state ownership. Consolidation by privatised airlines was facilitated by better access to capital via securities market listings. A substantial number of recent large airline and aviation privatisation transactions demonstrate the advantages of SIPs over SEPs.

Minority partial privatisation of South African Airways

The South African government implemented the part privatisation of SAA with an SEP, the SAirGroup (Swissair's holding company) in a sale of shares of a 20% stake for \$230m (R1.4bn) as well as an option to acquire a further 10% as part of a later listing (IPO) of SAA (Radebe 2001b). As a result, the new investment by the SAirGroup flowed to SAA's shareholders and not into SAA (Radebe 1999a).

The intention was to 'speed up advances' made to ensure 'greater economic and financial efficiency', facilitate skills transfer, enhance international prestige and increase SAA's competitiveness (Radebe 2001a). To this end, SAA concluded exclusive commercial supplier contracts with companies in the SEP group (Qualiflyer Group) including aircraft financing transactions. This included a tie-up between SAA's Voyager programme and Swissair's Qualiflyer programme and 'collaborative activities in aircraft and engine maintenance, information technology, catering, ground handling, cargo and fleet management' (Radebe 1999a).

In 2002, the 20% interest was repurchased at a substantial discount to its original sale price, and SAA was extracted from the commercial supplier contracts with companies in the SEP group and aircraft financing transactions were unwound (Radebe 1999b). The Qualiflyer frequent flyer programme was dissolved in 2002 as a result of Swissair's bankruptcy and its divestiture of stakes in partner airlines (ICAO Secretariat 2009).

The case for retention of full state ownership of South African Airways

The motivation for maintaining full ownership in state-owned companies (SOCs) was explained by the Minister of Public Enterprises in the Department of Public Enterprises' Annual Report for 2017. The SOCs 'had important roles to play in accelerating the development of the economy, and ensuring poverty alleviation, inclusive growth and socio-economic transformation' with important roles that SOCs play in a developmental state generally, and specifically in supporting the 'attainment of the development goals defined in the National Development Plan' (DPE 2017:7).

South African Airways' developmental role is part of the South African government's general objective to increase (rather than to reduce) the state's role in the economy, which the OECD identified as one of the corporate governance problems facing South Africa (OECD 2015). State-owned enterprises are now an integral component of the state's developmental agenda (Pitcher 2012:244). The state's increasing dependence on parastatals is the result of 'persistent concerns over equity, preferential procurement, and job losses' (Pitcher 2012).

The 'optimal structure of airlines' was expected to result from the restructuring of all South African state-owned airlines (SA Express, Mango and SAA) under the Executive Authority of the Ministry of Finance. This should, according to the Minister of Public Enterprises, 'address the financial sustainability challenges that SA Express continues to grapple with' (DPE 2017:8).

The Minister of Finance (Gigaba 2017) stated in his 2017 Medium Term Budget Policy Statement that:

> despite its current challenges, government remains convinced that retaining a national carrier is in the public interest. This enables the ability to have influence over our connectivity to all parts of the world, and not have to rely exclusively on the profit

> and scheduling considerations of global airlines which he regarded as being in South Africa's national interest. (p. 27)

In his view, 'SAA sells South Africa's economy, tourism and culture to every one of its passengers', an important contribution made by SAA to the 'nation's development'. In his view, this 'marketing and branding role' is not performed by 'global airlines' (Gigaba 2017:27).

The OECD noted that 'significant parts of the SOE sector' in South Africa are 'characterised by chronic under-performance with poor returns on government investments and continuous reliance on government support, whether in the form of explicit government guarantees or subsidies' (Balbuena 2014). State-owned enterprises benefit from favourable market positions, which can hinder rather than promote competition and private sector development (Balbuena 2014). Balbuena (2014) attributed some of these shortcomings to major corporate governance failures, including weak managerial accountability, excessive politicisation and unclear objectives.

Pitcher (2012) argued that South Africa's 'developmental state project looks less like that associated with Asian countries and more like that practised by Latin American governments until the 1970s'. Pitcher concluded that the 'current state in South Africa best approximates a Latin American desarrollista state' (Pitcher 2012:244, 248, 256, 257). According to Schneider (1999), a desarrollista state demonstrates the following characteristics:

- political capitalism – where profits and investment depend on decisions made in the state
- developmentalism – a dominant developmental discourse on the necessity of state intervention for industrialisation
- political exclusion of adult population or civil society
- appointive bureaucracy – a fluid, weakly institutionalised bureaucracy in which appointments structure power and representation. (p. 278, 280, 283, 285, 288, 291)

South African Airways' financial distress and the need for government to fund the continued losses

The SAA group incurred accumulated losses of R31.64bn (SAA 2018:107) since reporting as a corporatised entity in 2000 until 31 March 2017, by which time SAA was technically insolvent as a result of its liabilities exceeding its assets by R17.802bn (SAA 2018:107). The Minister of Finance estimated that 'based on current treasury estimates SAA will still need R2bn to R3bn a year over a period to survive' (Davis 2016). South African Airways, however, reported a loss of R5.569bn for the group and a loss of R6.142bn for the company for its 2017 year (SAA 2018:106). South African Airways projected its losses for 2018 at more than R5bn and for 2019 and 2020 around R2bn (Davis 2018). South African Airways' published annual losses from 2012 to 2017 amounted to R18.048bn, as set out in Table 2.

The financial results of SAA's geographic airline activities are opaque as the 'bottom line' losses are not appropriated or published by operating division. The exact nature of cost allocation and cross-subsidies is uncertain and would have to be considered on a bottom-line and 'stand-alone' perspective to aid strategic decision-making.

South African Airways is technically insolvent as a result of accumulated losses with liabilities exceeding its assets by R17.802bn by 31 March 2017 (SAA 2018:107). Some of the losses were attributed to SAA's 'dual mandate' of promoting both a developmental and commercial role. This required SAA to be 'commercially sustainable and, as the flag carrier, to support trade and economic enablement' (SAA 2015:15, 47), to fly unprofitable international routes and to maintain high staffing levels (Maqutu 2015).

South African Airways is financially distressed and trading under insolvent circumstances (Fikelepi 2015). Fikelepi (2015) urged the SAA board to:

> pass a resolution for business rescue … to enable a business rescue practitioner to take control to have a business rescue plan approved and after that implemented. If the Board decides that there is no prospect for business rescue, the directors are obliged to file for liquidation on an urgent basis. (p. 11, 12)

This was based on her conclusion that 'any further trading under the current circumstances constitutes reckless trading in terms of s. 22' of the *Companies Act 2008*. This requires the Board:

> to pass a resolution for a company's business rescue or alternatively, resolve to wind up or liquidate the company as soon as they become aware that the company is either financially distressed or is trading in insolvent circumstances, both factually, in that its liabilities exceed its assets, or commercially, in that it cannot pay its debts to creditors as and when they fall due. (s. 22)

The Auditor General (AG) reported that there was significant doubt regarding SAA's ability to continue as a going concern as a result of its history of losses, lack of capital and volatility in foreign exchange rates, along with maturing loans and working capital deficiencies, which indicate that a material uncertainty exists (SAA 2018:99).

South African Airways expects to post losses until 2021, when it expects to break even or post a small profit, according to its corporate plan (Creamer 2016). On 25 October 2017, the Minister of Finance announced that the government would

TABLE 2: South African Airways' losses incurred since 2012 in millions (latest restated numbers for 2017).

Variable	2012	2013	2014	2015	2016	2017
Total comprehensive loss attributable owners of the parent	-890	-1292	-2677	-6142	-1478	-5569

Sources: South African Airways (SAA), 2014, *Integrated report 2013*, SAA, 22 January 2014, viewed 21 April 2015, from https://pmg.org.za/committee-meeting/17021/
South African Airways (SAA), 2015, *Integrated report 2014*, viewed 21 April 2015, from http://www.flysaa.com/za/en/Documents/Financials/SAA_Front_section_copy.pdf

recapitalise SAA by R10bn for the fiscal year to 31 March 2017 (National Treasury 2017). Over and above a R10bn recapitalisation paid to SAA early in 2018, SAA requires a further R21.7bn (R9.2bn to settle matured debt owed to lenders and a further R12.5bn to take SAA to the 'break-even point') (Davis 2018; Lees 2018; Smith 2016). The government continues to help SAA secure funding with its existing lenders (National Treasury 2017).

Partial privatisation proposals

The Minister of Finance envisages that an SEP would provide the capital required to turn around SAA's performance to avoid it being a drain on taxpayers (National Treasury 2014). In February 2016, the Minister of Finance stated that the possible merger of SAA and SA Express under a strengthened board would be explored to engage a potential minority equity partner and to create a bigger and more operationally efficient airline (Gordhan 2016:19). This was confirmed by a later Minister of Finance who referred to plans to 'bring in a strategic equity partner' to 'play an important role in SAA's turnaround, as well as unlocking value for the fiscus which has invested significantly in the airline over the years' (Gigaba 2017:27).

Airline privatisation requires a track record of profitability and no government interference (Wober 2017:4). Investors usually require a return on investment (for the risks undertaken) to provide capital for investments (Gitman 2009:255). The Minister of Finance concluded that SAA required a clear commercial mandate and a credible turnaround programme together with the funding to sustain losses and fund the cost of a turnaround plan to avoid SAA remaining a drain on taxpayers (National Treasury 2014).

African Bank rescue as an example for South African Airways rescue

The rescue and restructuring of African Bank is a recent example of a successful restructuring based on government financial support measures and issue of new share capital listed on a securities exchange as would be the case for an SIP. African Bank was transformed into a smaller and sustainable business model and listed for new capital requirements. This model is an approach that could be applied to SAA.

Government support measures underpinned curatorship. This enabled the legal means through which the South African Reserve Bank (SARB) could transform African Bank into a smaller and sustainable business model (Marcus 2014).

The rescue of African Bank was achieved by the purchase by the SARB of a substantial portion of non-performing and underperforming assets and other high-risk loans from African Bank (as the 'bad bank') to separate them from a new entity (the 'good bank'). The 'good bank' was subsequently recapitalised by new capital of some R10bn underwritten by a public–private sector consortium (Marcus 2014).

The shareholders of the old African Bank lost everything, but the bondholders were able to recoup some of their debt investments by an effective swap for new instruments in the new African Bank, comprising a combination of new JSE-listed (Johannesburg Stock Exchange) debt and cash (Paine 2016). At the outset of the rescue, it was intended that the good bank's holding company would be listed on the JSE in due course and would include the acquisition at fair value of the various insurance entities within the African Bank Investments Limited (ABIL) Group (Marcus 2014). The new (good) African Bank's name was changed to African Phoenix Investments Limited (Phoenix) and its shares were listed on the JSE under the listing code AXL, and trading was resumed on 01 February 2017 (Paine 2016).

Findings and conclusion

The South African government's definition of privatisation as 'the full or partial sale of state-owned enterprises to private individuals or companies' is too limited (National Treasury 2018:178). This approach ensures that cash generated by new privatisation investment flows to the owner of the SOE which does not strengthen the balance sheet of the SOE at the time of privatisation. New investment in an SIP would increase the overall value of the SOE, of which the government would retain a smaller percentage shareholding. The previous partial privatisation of SAA involved a sale of shares which directly benefitted the shareholders. A future intention to list SAA was abandoned with the re-acquisition of the shares included in the part privatisation.

South Africa's freeze on privatisation since 2004 implies that South Africa did not avail itself of the capital investment and economic benefits associated with the global privatisation trends identified. By the retention of full ownership over SAA and prescribing non-commercial mandates, the government's shareholding lost all its value, and the government is committed to support SAA's losses, which cannot be accommodated (appropriated) in the national budget.

A trend of privatisation has replaced the previous paradigm of state-owned national carriers within larger EU member states. International trends indicate that most recent airline privatisations follow a different method than a sale of shares in terms of an SEP, generally through SIPs. Access to capital markets based on return on investment considerations under SIPs eliminated the need for subsidisation of carriers. The unsuccessful SEPs of Air India and PIA demonstrate that SEPs combined with restrictive conditions are not ideally suited to distressed state-owned airlines.

Partial privatisation through an SEP (sale of shares) would not improve SAA's capital base as new investment flows the shareholder in terms of a sale of shares and exclusively ties procurement of essential services to the SEP, as demonstrated by SAA's previous partial privatisation.

South African Airways' previous partial privatisation to an SEP, through a sale of shares, did not improve its capital base as the new investment flowed to its shareholders in terms of a sale of shares. South African Airways was compelled to conclude exclusive supplier agreements with the SEP group which restrict essential procurement to a single source.

The SIP approach is generally favoured as money flows into the privatised entity and normal freedom of procurement is retained. Financial discipline is imposed by securities exchanges as it requires raising of share capital in advance of viable projects, instead of requiring the government to retroactively close funding gaps for loss-making airlines. The JSE requires mandatory corporate governance compliance with the 75 key principles of the King Code and imposes strict financial disciplines for all companies listed on the JSE.

Non-commercial mandates resulted in unclear objectives, under-performance, continuous reliance on government support, corporate governance failures, weak managerial accountability and excessive politicisation of SAA.

South African Airways is incurring losses at a level which is unsustainable and is not accommodated in the normal annual budget. Apart from an R10bn recapitalisation, early in 2018, further funding of R21.7bn is required before SAA is expected to break even in 2021 (Davis 2018; Smith 2016). South African Airways, however, has not been able to implement any one of nine turnaround strategies previously presented to Parliament (Koornhof 2012). This inability to implement a turnaround plan affects the credibility of any subsequent turnaround plan, especially under conditions where no announcements of tempering or abandonment of government's non-commercial objectives were made. The funding requirements appear too large and the timescale for break-even too long without any return on investment to materialise.

Much of SAA's business activities are vertically integrated, and SAA also operates a number of airlines. These include a long haul intercontinental business as well as domestic premium and low domestic cost, as well as regional air services with narrow-body aircraft. A merger of SAA, SA Express and Mango is also being considered to reduce the economic overlap, 'internal' competition as well as capacity and price wars between SAA's airline businesses. In the interim, codeshare and franchise agreements have been concluded between SAA's airlines to maintain overall market dominance. There is, however, contamination of brands and service offerings, loss of management focus and a blurred business proposition under an overall development mandate. It is clear that SAA's broad mandate and integrated business model is unworkable and unsustainable from a financial perspective and that SAA's scope of activities and their financial requirements need to be reduced drastically.

Finally, ICAO and the United Nations identified that the privatisation of state-owned airlines was beneficial to the commercial behaviour of such airlines. In particular (UN ESCAP 2005):

- International Civil Aviation Organisation Secretariat concluded that the privatisation of government-owned airlines 'facilitated a commercially oriented outlook within a liberalized competitive environment' (ICAO Secretariat 2016).
- United Nations Economic and Social Commission for Asia and the Pacific stated that the 'existence of a plan and timetable for privatization will give a strong incentive to the management of parastatals to commence the internal reforms necessary to commercialize'. (p. 90)

Privatisation may therefore also assist in transforming SAA towards operating on a commercial basis.

Recommendations

The South African government's definition of privatisation should be expanded to include the other methods (techniques) of privatisation, especially SIPs, which is advocated in this article.

Non-commercial mandates should be replaced by fully commercial mandates to attract investment on standard investment criteria.

South African Airways' losses need to be eliminated, and the business needs to be turned around and placed on a commercial basis to represent an attractive investment for funding. The further funding of R21.7bn required before SAA expects to break even in 2021 implies that investment from an SIP or an SEP can realistically be expected only after that if motivated on reasonable returns based on a track record of profitability. South African Airways' current planning to break even in 2021 implies that such a track record can only be established after that.

Both minority SEP investment and private and institutional investors under an SIP would require sufficient returns on investment, based on a track record of profitability which would require a fundamental restructuring and change of direction of SAA's focus to commercial viability to eliminate losses before 2021. Hence, commercially based funding of SAA would depend on the expectation of reasonable returns on the investment. This would only be following SAA's turnaround, which is projected only to happen in SAA's 2021 financial year at the cost of a further R21.7bn. Another approach towards restructuring SAA's business activities is clearly required.

South African Airways' immediate insolvency (equity deficit) needs to be resolved by government as the accumulation of losses occurred under its ownership, and guarantees have been issued to specific creditors by government. A reduction of liabilities can be achieved by the sale of SAA's assets, which would reduce the scale and vertical integration of SAA to a smaller, more focused airline. Further capital transfers to SAA could be recovered upon later listing.

In the context of the African Bank rescue, SAA's corporate restructuring would require government to resolve the 'bad airline's' excessive costs, non-commercial operations and fund SAA's equity deficit. A new 'good airline' can then be established based on SAA's commercially viable operations, productive assets and liabilities. Adequate capitalisation can be financed by an SIP funding structure involving capital raised on securities markets or a capital injection by government. Such capitalisation, however, would have to be dependent on a realistic, viable business plan for the 'good airline' to develop a track record of profitability.

The SIP approach towards privatisation would enable SAA's re-capitalisation and subject SAA to market and regulatory disciplines, which would assist government's ability to regulate the industry rather than to control airline operations' activities directly.

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