

SA Express, SAA merger underway

The process to merge South African Express (SA Express) with South African Airways (SAA) is underway, public enterprises minister Pravin Gordhan said on Wednesday, 15 August 2018.



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In his presentation to Parliament's Portfolio Committee on Public Enterprises, the minister said the first step had already been taken.

"The first step of consolidating SA Express with SAA has just been concluded, which was to place both airlines within one shareholder ministry. SAA has been transferred back to the department," he said.

President Cyril Ramaphosa earlier this month transferred the administration of the South African Airways Act and accompanying functions from the Minister of Finance back to the Minister of Public Enterprises.

The transfer was signed by the President on 25 July 2018 and gazetted on 1 August 2018. In December 2014, government announced the move of SAA from the Department of Public Enterprises to National Treasury.

In his update, Gordhan said the boards and executive leadership of both airlines have been tasked with identifying quick wins to stabilise the two state-owned airlines. These quick wins include technical, fuel and route rationalisation.

He said the SA Express board is expected to submit a bankable business model for commercial recovery and long-term sustainability.

In May, the Civil Aviation Authority (CAA) announced the suspension of SA Express's air operator's certificate and the certificates of airworthiness (CoA) of nine of the 21 aircraft being operated by the airline.



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The CAA reinstated its Aircraft Maintenance Organisation (AMO) certification on 22 June 2018. Subsequently in July, SA Express announced that it was readying itself for take-off.

It has undergone a stringent and rigorous process to meet the regulator's high standards.

On Wednesday, Gordhan said SA Express - with its new interim chief executive officer, Siza Mzimela - would commence operations next week.

"The entity has received an airline operating certificate from the Civil Aviation Authority and will resume a flight schedule shortly," said the Minister.

He said the airline plans to build continuously on its flight schedule.

At a media briefing in May, Gordhan said government wanted to merge national carrier SAA with SA Express and Mango, as the three airlines fly to the same destinations.

The Minister told Parliament on Wednesday that SA Express continues to face liquidity and solvency challenges. While government has provided the airline with a government guarantee of R1.74bn, the department says immediate recapitalisation is required.

In addition, the airline is in the process of finalising its annual financial statements for the 2016/17 and 2017/18 financial year due to going concern challenges.

Gordhan said the lack of revenue generation due to the grounding of the airline has exacerbated the challenges of the airline. This is against the backdrop of allegations of high levels of corruption, among other things.

Eskom

The minister also gave the committee an update of other State-owned companies (SOCs) falling within the ambit of the Department of Public Enterprises.

Government has reviewed the board of directors of Eskom, Denel, Transnet and SA Express, which now have new and experienced boards.

Regarding the power utility, Gordhan said when it came to governance issues, lifestyle audits of senior management were in progress.

There have also been investigations into irregular supplier contracts, with five no longer doing business with the utility that runs 25 power stations. They recovered R902 million from McKinsey, which has apologised to South Africa for its role in State capture.

Denel

When coming to the armaments manufacturer, projections show the entity is likely to post a record loss. Denel experienced liquidity challenges with unpaid creditors at R1.1 billion. This resulted in suppliers withholding supplies, further putting operations under pressure.

“As a result, the SOC is likely to realise a significantly lower revenue than planned in the 2017/18 Corporate Plan,” Gordhan said, adding that temporary reprieve was received, with Denel getting R580m.

Meanwhile, irregular expenditure for 2016/17 was at R116m, with the newly acquired division, Denel Vehicle System, responsible for R83m.

Disciplinary hearings were held for 144 cases and no instances of criminal proceedings were instituted.

The minister said the new board, which was put in place in May is getting to the bottom of all the forensic reports to ascertain if more disciplinary actions could be taken. Also, lifestyle audits are yet to commence.

Minister Gordhan said the SOC models must be reviewed to ensure their sustainability and that they play an effective role in the economy, while also driving transformation and localisation.

He said corruption and state capture have had a dire impact on SOC's.

“[The] failure of SOC's has major downstream impact on other industries and SMMEs and to the economy,” he told Parliament.

The Department of Public Enterprises has six SOC's under it.

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