Brace for takeoff of low-cost flights

The oil price dropped to its lowest level in five years yesterday, lubricating the South African market for more low-cost airlines.

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Jetsetters - domestic tourists and business people - have had to swallow sharp increases in ticket prices over the past two years as only two companies remained after the demise of 1Time late in 2012.

Domestic passenger volumes have been growing by 5% a year, meaning that the number of people flying has doubled every 15 years, according to aviation industry commentator Linden Birns.

Contributing to this is a black middle class with the appetite and money to travel, said Birns.

"This is a local and regional phenomenon and not dissimilar to what China has been experiencing," he said.

In the past few months, one new player, FlySafair, has wooed consumers with low prices, and another, Skywise, has announced plans to start selling tickets in February.

Industry analysts believe lower fuel prices present airlines with the opportunity they have been waiting for.

"These carriers use older aircraft that cost as much as 25% to 30% more in terms of fuel than modern aircraft," said Guy Leitch, publisher of SA Flyer magazine.

The price of Brent crude oil has been dropping for months, yesterday dipping to below $52 a barrel. In September it was still trading at more than $100 a barrel.

Consumers have started feeling the relief in lower prices for petrol and diesel. At midnight, prices fell by more than R1 a litre.

But the prices of other goods and services are usually more sticky and the benefits take time to flow through to the rest of the economy.

New low-cost airlines would not mean bargain flights for everyone, said Birns, MD of the Plane Talking website.

"Some cheap fares are being offered, but they are mostly loss leader fares offered by the new low-cost market entrants and counteraction by the established players seeking to defend their market share. We're not seeing entire plane-loads of passengers travelling at those fares or airlines operating all of their flights at those fares," he said.

Only the national carrier, SAA, its low-cost subsidiary Mango and Comair, which operates British Airways domestically as well as Kulula.com, have been flying South Africa's most profitable routes since 2012.

Leitch thinks troubled SAA will take its time to adjust prices, first raking in revenue after heavy losses. The carrier's political bosses changed last month from the Public Enterprises Department to the National Treasury as the government tightened the rein on its finances.

Comair CEO Erik Venter is a vocal critic of the way SAA does its pricing and the sway it holds in the market, saying that it is first to increase its fares when oil becomes more expensive but last to cut them when crude drops.

Though Comair has been able to buy new airplanes, 1Time could not do the same in time and failed in the end because it was under-capitalised, according to Leitch.

Skywise is run by 1Time founder Rodney James.

Leitch and Birns think new aircraft need to be high on the agendas of both FlySafair and Skywise.

"The lower fuel price will give startups an opportunity to survive until they can afford to buy more fuel-efficient airplanes," said Leitch.