SAA ON VERGE OF CANCELING OLD ORDER FOR 10 AIRBUS A320 PLANES

News / Airlines

South African Airways is close to canceling an order for 10 Airbus Group NV A320 planes, a move that will save the unprofitable state-owned carrier about 1.4 billion rand (US$104 million) in write-down charges.

"We have got all the approvals in place," Chief Financial Officer Wolf Meyer told reporters in Cape Town on Wednesday. "We just need to get final approval from the board." That will probably come within days, he said.

SAA ordered 15 of the narrow-bodied A320 planes in 2002 and another five in 2008. Price escalation clauses in the contracts meant the carrier had to write down the value of planes delivered so far by about US$10 million each, contributing to consecutive years of losses. The airline is cutting costs and searching for a new chief executive officer as it seeks a return to profit.

Instead of buying the A320 planes, the carrier plans to lease five larger Airbus A330 models, which will reduce fuel costs and be used on routes to the Middle East. The first delivery is scheduled for the second quarter of next year.

SAA obtained a guarantee from the National Treasury to continue as a going concern even as net losses widened to 2.55 billion rand for the year through March 2014. Results for the year through March this year are due to be released next month. A recruitment company has been appointed to find a new CEO and a candidate should be identified by the end of the year, spokesman Tlali Tlali said on Wednesday.

SAA has cut costs by 2.2 billion rand over the past three years and plans further savings of more than 2 billion rand by 2018, Meyer told members of Parliament's finance committee in Cape Town. While the carrier is benefiting from lower fuel prices, which account for about 35 percent of costs, a slump in the value of the rand against the dollar has eroded the benefit and operating conditions remain harsh and depressed, he said.

SAA Chairwoman Duduzile Myeni told lawmakers that pilots' salaries amounted to almost 2 billion rand a year and together with financing and plane lease costs were a major drain on the carrier's finances.

Lawmakers accused Myeni and SAA's management team of failing to adequately answer questions or spell out what was being done to restore the carrier to profit and instructed them to reappear before the committee within a few weeks.

"There isn't sufficient recognition of the gravity of the challenges you are facing," said Yunus Carrim, a lawmaker for the ruling African National Congress, who chairs the finance committee. "Your answers are very glib, there is nothing substantial. You don't seem to have taken enough care and consideration in your preparations."

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