

MEMORANDUM FOR THE CABINET  
BY THE HON. PRIME MINISTER

Application from the Malta Airlines to be appointed  
the national air carrier for Malta

Malta is now free to negotiate her own bilateral agreements with other States for the operation of scheduled air services. Under such agreements Government will be able to designate to the other signatory States one or more Maltese airlines to operate air services to and through the territory of those States. Substantial ownership and effective control of the designated Maltese airlines will have to be vested in Maltese nationals.

2. The Malta Airlines has submitted a request to be appointed as the "national air carrier" for Malta. This is stated to mean that Government would accept an obligation to designate only that company for operation on the existing services to foreign points and would grant the company the right of first refusal of designation on any other routes. Protection in this way is sought for a minimum period of ten years.

3. In anticipation of Government acceptance of this proposal the Malta Airlines have entered into an agreement with BEA, effective from 1st April, 1964, under which the company charters aircraft from BEA and operates them jointly with BEA on the direct service to London and independently on services between Malta and other countries. BEA may terminate this agreement at 90 days notice should Government not grant Malta Airlines exclusive rights, with BEA, on the United Kingdom route and first refusal to operate from Malta to other countries as the sole Maltese designated carrier. Royalty payments to Malta Airlines ceased from 1st April, 1964, and profits or losses on the operations are now shared between BEA and Malta Airlines.

4. Associated with this proposal are requests:-

- (a) that the Malta Airlines should be exempted from income tax for a period of ten years and be permitted to import equipment duty free;
- (b) that the associated company, Malta Aviation Services, which is the aircraft handling agency at the airport, should be granted a long-term tenancy there in place of the current one which is terminable at six months notice;
- (c) that Malta Aviation Services should be granted a long-term lease of land at the Airport on which to erect a building for administration, storage and equipment maintenance. Conversely, that Government should erect such a building and lease it to Malta Aviation Services on a long lease;
- (d) that Malta Aviation Services should be permitted to import aircraft handling equipment duty-free.

5. If Malta Airlines are appointed "the national air carrier" for Malta, they and BEA are prepared to enter into firm obligations:-

- (a) to use every endeavour with the International Air Transport Association to hold the Malta/London fare at its present level;
- (b) to guarantee minimum weekly operating frequencies, in the peak summer months and for a period of two years, of eleven round trips to London, five to Rome and five to Tripoli;
- (c) to provide up to 40 seats per week Malta/London for use by emigrants sponsored by Hon. Minister of Emigration, Labour and Social Welfare at a fare of £11. 10s. 0d;
- (d) to take full cognisance of the requirements of the flower exporters;
- (e) to train Maltese stewards and stewardesses;
- (f) to offer two five-year engineering scholarships to Maltese nationals every two years;
- (g) to cooperate fully with the Tourist Board;
- (h) to continue to provide financial assistance for hotel development.

6. Malta Airlines and BEA are anxious to see Government participate in the equity of and/or appoint a nominee to the Board of Malta Airlines. This would identify Government with the objectives of Malta Airlines and provide the opportunity for Government to influence the company's policy.

7. Until very recently no genuine alternative existed to providing Malta Airlines with some degree of Government support. Within the past few weeks, however, a preliminary proposal has been submitted to Government by the United Kingdom independent operator British United Airways to establish and develop a Maltese national airline. It is proposed that the new company should take over the services now operated by Malta Airlines and open certain additional services at the outset. Unlike the Malta Airlines/BEA scheme the proposed operations would ultimately be Malta-based. Initially, the company would depend on BUA for equipment and personnel, but Maltese nationals would be trained to take over in all grades. Workshops and other facilities would be set up in Malta as required. BUA would be prepared to undertake large-scale investment in hotel development, possibly without recourse to Government for financial assistance, and would foster inclusive-tour services from Northern Europe through its own travel organisations.

8. To accept the Malta Airlines proposition would virtually maintain the status quo by permitting BEA, through Malta Airlines, to continue to operate services out of Malta which would otherwise be precluded by the change in Malta's political status. BEA have provided Malta with a good service in the past at very low fares employing modern operating equipment. The Corporation claims to have

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subsidised the Malta routes to the extent of over £1 million in the past and believes it is entitled to recoup this loss now that traffic is increasing. Completely to reject the proposition and to opt to back another Maltese operator, such as the proposed BEA subsidiary, would preclude a BEA interest in routes other than those between the United Kingdom and Malta. Furthermore, traffic on the United Kingdom-Malta route would be shared between BEA and the Maltese operator, assuming that the United Kingdom Government continued to designate BEA for the route. In that event it is likely that BEA would withdraw their Comet service, limit their operations to the direct London/Malta route and concentrate on providing a service which would draw as much traffic as possible from the competing Maltese operator.

9. The choice is between supporting a partnership arrangement under which Maltese interests would be fully supported by the power and influence of BEA or of backing a local airline independent of BEA which would operate in competition with BEA. This could not, however, include fare competition. Another possibility would be to support no local airline, but to rely entirely on foreign airlines to satisfy Malta's needs. This is not recommended as Malta would be entirely dependent on the whims of the airlines concerned.

10. Assuming Government decides that a local airline warrants support Government would be well advised to protect that airline's interests by fully consulting it when negotiating rights for foreign airlines to operate into Malta. This is the interpretation which should be put on the request to be considered as the "national air carrier". Aviation is a highly expensive and competitive business and airline financing is essentially marginal. To permit unregulated operations into Malta would ultimately benefit neither the local airline nor the travelling public.

11. Hon. Ministers may wish to consider whether:-

- (a) negotiations with Malta Airlines should be opened on the basis that monopoly rights should be granted only on existing routes i.e. Malta-London, Malta-Rome and Malta-Catania and for a limited period, say three years, provided that firm guarantees were given to maintain minimum fares and adequate frequencies together with the other points at para. 5. The monopoly rights might exclude freight-only services, inclusive tours and car-ferry operations;
- (b) Malta Aviation Services should be granted a long-term tenancy at the airport of, say, ten years;
- (c) Government should agree in principle to construct the building required by Malta Aviation Services and lease it for a similar period. The type and size of building to be agreed with Government;
- (d) the request for income tax exemption should be submitted by Malta Airlines to the Aids to Industries Board;

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- (e) Government should undertake to expedite a decision on the granting of duty-free importation of aircraft spares and ground-handling equipment for all airlines. This is currently under consideration.

12. Government's bargaining position is strengthened through the intervention of British United Airways, but time is an important element because BUA is a commercial organisation which would be unlikely to retain its interest if Government appeared not to be actively considering its proposals.

24th October, 1964.

L-ARKIVJI NAZZIONALI TA' MALTA