

MEMORANDUM FOR THE CABINET
BY THE HON. PRIME MINISTER

Malta Airlines

The Chairman of British European Airways has informed the Hon. Prime Minister that the Company will withdraw the request which is now before the I.A.T.A. Conference for increased U.K.-Malta fares in 1967. At the same time the Chairman of B.E.A. would wish the Malta Government to make up its mind about the question of the future of Malta Airlines which are operating air services from Malta under an agreement with B.E.A.. Under this agreement the Company charters aircraft from B.E.A. and operates them jointly with B.E.A. on the direct service to London/independently on services between Malta and other countries.

2. It will be recalled that in Memorandum No.333, it was stated that Malta Airlines had submitted an application asking that they should be appointed as the "National Air Carrier" for Malta with exclusive rights to operate air services to and from Malta; that Government should participate in the share capital of and/or appoint a nominee to the Malta Airlines Board and that the handling Company, Malta Aviation Services, should be granted a long term tenancy.

3. The application of Malta Airlines has been discussed further between the Company and the Director of Civil Aviation as a result of which it has been agreed that the tenancy of Malta Aviation Services should be dealt with on its own merits and separately from the question of Malta Airlines.

4. It has been pointed out to Malta Airlines that any Government would find it difficult to grant exclusive rights to a Company to operate air services to and from Malta and would lay itself open to criticism both in and out of the House of Representatives if it did so. Malta Airlines have agreed to drop their request for exclusive rights and for Government to hold shares in the Company.

5. In connection with their request for exclusive rights, Malta Airlines had also asked for the grant of first refusal for the operation of any new route that may be applied for by another company in the future. It was explained to Malta Airlines that the grant of first refusal to any air company was as difficult for Government to grant as exclusive rights. Malta Airlines were however asked to state which routes in addition to the ones they presently operated, they were interested in. It is understood they are interested in the following two routes:-

- (a) Malta-Tunis-London
- (b) Malta-Zurich-London

and if the necessary rights are negotiated, they would start operating them within a period of one year.

6. As was previously stated, the development of Civil Aviation has, in post-war years, been affected internationally through the conclusion of bilateral agreements. Under such an agreement, one country agrees with the other country that the air traffic between them should be shared equally between the airlines of the two countries. Up to date a very great number of these bilateral agreements have been entered into between States. As a free and independent country Malta is obliged to conclude similar agreements with the United Kingdom, Italy and Libya with whom air services are already in operation and possibly also with the U.S.A., Switzerland, Tunisia, the Netherlands etc. As a matter of fact discussions on such an agreement with the United Kingdom have been held and a draft agreement initialled.

7. In terms of a bilateral agreement, a Government is empowered to designate an airline or airlines to operate a route or routes and the other Government, party to an agreement, has to grant the necessary operating authorisation to those airlines forthwith. Thus when Malta concludes agreements with the United Kingdom, Italy and Libya these countries will immediately designate BEA, Alitalia and the Kingdom of Libya Airlines respectively. Indeed all three airlines are already operating to Malta. It is emphasized that, under a bilateral agreement, a country is entitled to half the air traffic to the other country and therefore if it designates more than

one airline/.....

one airline, the number of airlines so designated share in that one half.

8. Another feature of bilateral agreements is a clause stipulating that substantial ownership and effective control of an airline must be vested in the Government or the nationals of the country designating it.

9. Malta Airlines has been up-to-date the only airline in Malta who

- (a) has a licence to operate and has been operating air services to London, Italy and Libya;
- (b) fulfils the condition that it is substantially owned and controlled by nationals of Malta in that such nationals own 66% of the share capital;
- (c) has been authorised/allowed by the British, Italian and Libyan countries to operate into their respective countries ; and
- (d) can effectively operate the services Malta-Tunis-London and Malta-Zurich-London.

10. Obviously Malta Airlines cannot be designated in terms of bilateral agreements which do not as yet exist but in view of the above and of the fact that in the negotiation of bilateral agreements, Government delegations are normally advised by the airlines it is recommended that approval be given that Malta Airlines be informed, in writing, (a) that they will be designated as soon as bilaterals can be concluded with the United Kingdom, Italy, Libya, Tunisia and Switzerland and (b) that a Government officer will be appointed on the Board of Directors. Such approval will, however, be given on the following conditions:

- (a) that their designation under any bilateral shall not be deemed to grant of itself any exclusivity or monopoly and that applications by other airlines for licences to operate on any route would be subject to the procedure under the Air Transport (Licensing of Air Services) Regulations, 1949. (This in effect means that an enquiry would be held by the Air Transport Licensing Authority, at which the applicant would be required to justify his case. This would

give the opportunity to Malta Airlines to state their objection in public and it would be up to them to prove effectively, either on technical or economic grounds, that an application should not be entertained. This would put the onus of defending the case on Malta Airlines and not on the Government and any company wishing to start an air service would not be in a position to say that the Government is preventing it from doing so).

- (b) that they use every endeavour with the International Air Transport Association to hold the fares affecting Malta (especially the Malta/London fare) at their present level;
- (c) that they guarantee that the frequencies and total capacity offered weekly in future years shall be increased to cater for increased traffic;
- (d) that they provide up to 40 seats per week Malta/London for use by emigrants sponsored by the Department of Emigration and Labour at a fare of £11. 10s.;
- (e) that they take full cognisance of the requirements of the flower exporters;
- (f) that the Company identifies itself more conspicuously in its operations by
 - (i) having "Malta Airlines" painted on and in the fuselage of the aeroplanes operated by them instead of "BEA"; besides being an advertisement for Malta, this will help to make known the fact that the service is operated by a Maltese Company and not by BEA and it will obviate any allegation that the Malta Airlines is a non-operating company;
 - (ii) opening their own sales offices in Tripoli, Rome and London as soon as possible;
 - (iii) the catering, the Safety Instructions etc. on board having a Malta Airlines (and not a BEA) identification;

- (g) that they offer two five-year engineering scholarships to Maltese nationals every two years;
- (h) that no exemption from income tax will be granted by the Government;
- (i) that the Government will not be required to take up any share capital of the Company;
- (j) that any agreement concluded between the Company and any other airline or an aircraft handling company shall be submitted for the approval of the Director of Civil Aviation.

Condition (d), (e) and (g) have in fact been suggested by Malta Airlines themselves. During the past year, Malta Airlines have employed Maltese Stewards and Stewardesses; these now make the announcements both in English and Maltese.

11. With regard to the appointment of a Government member on the Board of Directors, it may be argued that he would be outvoted by the other members on the Board but it could also be pointed out that without doubt he could exercise influence to a degree if he threatens to resign. By appointing a member the Government would have a foot in the Company and thus be fully informed of its activities. As it is essential that the Government member should be in a position to make use of the information he gets it is suggested that he be appointed either from the Prime Minister's Office or the Department of Civil Aviation.

12. The advice of Hon. Ministers is sought on the above.

10th October, 1966.