

MEMORANDUM TO CABINET  
BY THE PRIME MINISTER

Air Melita Ltd

Honourable Ministers will recall that, in connection with a request made by Air Melita Ltd for Government support of its proposal to operate scheduled air services from Malta, it was decided on the 29th January, 1968 that "the question of Government's accepting in principle the proposals concerning the National Carrier issue and capital participation should be considered at a later date, after the Air Transport Licensing Authority had dealt with the applications ....."

2. After very close study, the Licensing Authority issued a Letter of Intent on the 27th September, 1968 wherein it declared its intention to issue the licences sought if the Company complied with certain prerequisites by the 27th December, 1968. The Letter of Intent requires inter alia that substantial ownership and effective control of the Company be vested in Maltese interests. (A copy of the Letter of Intent is at Appendix A).

3. Throughout the various discussions held between Government officials and representatives of both Air Melita Ltd and Aero Technique Ltd., it was made clear to the representatives that Air Melita should not assume that the Government would be taking up any part of the Company's capital. The representatives, on their part, held that while Air Melita would be able to obtain commitment towards equity from Maltese non-Government sources, they would prefer to see Government as the principal shareholder in Air Melita.

4. Air Melita is now formally asking whether the Government is interested in acquiring some portion or all of the majority of voting shares in the Company and suggests two forms for such participation:

- a) £1.0m. in Voting £1 Ordinary Shares  
or b) £1.0m. in 7% Preference Voting Shares.

5. Air Melita favour the latter form of participation and give the following reasons therefor:

- a) no dividends will be paid on Ordinary Shares during the first five to ten years as the profits will be required to finance the expansion of operations;
- b) investment by way of Preference Shares would assure for the Government a return whenever the Company is in a profit position;
- c) Preference Shares offer the maximum protection in the event of the liquidation of the Company since the rights derived therefrom rank immediately after those of the Company's creditors.

6. With regard to (b) above, the Company had projected that a profit position will not be achieved before the fourth year of operation. Air Melita, moreover, suggest that any profit derived by the Government should be utilized to advertise Malta and promote tourism.

7. While what is stated at 5(c) is factual, in so far as the amount subscribed by the Government would go towards meeting the financing of operations, no tangible assets will represent that subscription, so that in the event of liquidation of the Company it is unlikely that Government would recover any substantial part of its investment after the Company's creditors are met.

8. Hon. Ministers are invited to consider and decide on the following points:

- 1) does Government propose to acquire some portion or all of the majority voting shares of Air Melita?

In this connection it is relevant to point out that the Malta Development Corporation considers that airline services when operated with the approval of the Government qualify for assistance under the Aids to Industries legislation and that it is seeking Government confirmation of the correctness of its standpoint.

If the Corporation is correct in its assumption, it is for consideration whether direct participation by Government in the Air Melita enterprise would be proper when

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a statutory body in which the Government has a financial interest through its stock holding has been set up specifically to undertake such functions on behalf of the Government.

- ii) if it is decided that the Government should participate in Air Melita's capital, to what extent is it prepared to do so?

It is to be noted that such investment could only be made by legislative provision which, along with the source of the funds and the form of the investment, would be the subject of close study in the light of the decisions taken.

It is important that the decision of the Government, one way or another, be communicated to Air Melita before the 27th December by which date the period allowed by the Air Transport Licensing Authority's Letter of Intent lapses.

13th December, 1968.

OPM 553/67/II

OFFICE OF THE PRIME MINISTER  
AUBERGE D'ARAGOL,  
VALLETTA.

27th September, 1968.

Gentlemen,

With reference to the applications made to it by your Company on the 23rd November, 1967 the Air Transport Licensing Authority will be prepared to consider the issue of licences authorising your Company to operate scheduled air services on the following routes:

- a) Malta - Paris - Brussels - Oslo
- b) Malta - Nice - Amsterdam - Helsinki
- c) Malta - Cologne/Dusseldorf - Copenhagen
- d) Malta - Zurich - Stockholm
- e) Malta - Tunis - Lisbon
- f) Malta - Athens - Beirut

for a period of ten years, subject to the conditions of paragraphs 3a and 3b of Regulation 5 of the Air Transport (Licensing of Air Services) Regulations, 1949 and to the following basic conditions:

- a) at no time will the Authorised Share Capital be less than £2,500,000;
- b) the Authorised Share Capital shall be fully paid up within eighteen months from the date on which the licences become operative;
- c) the majority of shareholding carrying voting rights and the effective control of the Company shall be held and exercised by Maltese nationals or institutions owned and controlled by Maltese nationals;
- d) operations on two routes, to be indicated by your Company before the issue of the licences, will start not later than six months and on the remaining routes not later than twelve months from the grant of the licences;
- e) the Company will operate pure jet aircraft subject to the necessary Exchange Control authorization being obtained in the event that aircraft are obtained from non-sterling sources;
- f) the aircraft which will be operated by the Company will have been obtained by it either by outright purchase before the start of operations or by way of hire purchase arrangements vesting the absolute ownership of the aircraft in the Company within 10 years from the date of the licences;
- g) during the currency of the licences, no less than 40% of the Authorised Capital of the Company shall be held by Aero Technique Co. of San Francisco, California, U.S.A.;

Messrs Air Melita Limited,  
Valletta.

- h) the fares and cargo rates in respect of the licensed scheduled services shall be subject to the approval of the Government of Malta;
- i) the Company shall, during the continuance of the licences, provide regular scheduled services for the public wishing to travel between Malta and the places mentioned in the applications; the frequency of the flights shall vary according to the season and traffic requirements, the schedules being subject to the approval of the Director of Civil Aviation;
- j) the requirements of any law or instrument having the force of law for the time being in force in the Island relating to air navigation or air transport shall be complied with at all times during the currency of the licences in connection with all journeys made under the licences;
- k) nothing in the licences shall be construed as making the Government liable for damages should it be found impossible to obtain traffic rights or other facilities in the respective countries mentioned in the licences.

2. The above is an indication of the primary conditions under which the licences would be issued and is not a comprehensive resume' of all the conditions which will eventually be written into the licences.

3. The licences will be issued to have effect from the 1st January, 1969 if it is proved to the satisfaction of the Authority within three months from the date of this letter that:

- a) the Company's Authorised Share Capital of £2,500,000 in shares of £1 each has been subscribed and at least 30% paid up;
- b) subject to the condition at d) below, no less than 40% of the Authorised Share Capital has been subscribed by Aero Technique Co of California, U.S.A.;
- c) the Company holds firm and irrevocable financial commitments from banking and financial institutions for the provision of loan capital of not less than £4,000,000;
- d) satisfactory arrangements have been made for the majority of shareholding carrying voting rights and for the effective control of the Company to be held and exercised by Maltese nationals or institutions owned and controlled by Maltese nationals;
- e) definite commitments are entered into for the purchase of three aircraft, for the recruitment and training of crew, for the maintenance and handling of aircraft, both in Malta and abroad and for the recruitment of managerial staff.

3.

4. In the event that your Company does not satisfy the Authority in its absolute discretion on any of the above points within three months from the date hereof your applications will lapse and will be void and of no effect.

Yours faithfully,

sd. (H.F. Coppini)  
Secretary,  
Air Transport Licensing Authority.

jc

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