

Memorandum for CabinetBEA Fares

With the exception of the inclusive tour fares (ITX fares available only to travel agencies for the purpose of constructing complete holidays), BEA increased all the fares on the London/Malta route as from 1st April, 1963, without the approval of the Air Transport Licensing Authority, and reduced the validity of return tickets to one month.

2. Basically, B.E.A. s case for the fares increase is the financial loss sustained by them over the whole route network out of Malta, and the extremely low rate per mile on the London/Malta route. They claim to have lost in 1962/63, £292,000 on the routes between London and Malta, and £165,000 on the routes between Malta, North Africa and Catania. They estimated that the fare increases would, in 1963/64, produce a profit of £91,000 on the London/Malta route, but leave a loss on the other routes of £150,000. D.C.A. understands that their financial results this year are rather better than their estimate.

3. Originally, BEA had offered, in return for our acceptance of the new fares, to re-introduce the original one-year validity for return tickets and to introduce a special low fare for group travel to Malta during winter. In spite of continued non-acceptance, BEA introduced the one-year validity ticket for flights from Malta to London (but not from London to Malta) and introduced the group travel winter fare.

4. BEA argue that, despite the increases, the fares on the Malta/London route are very low, that they have not discouraged the traffic which has increased more than forecast since the fare rises and that they produce only a meagre profit which is more than offset by the losses on the North Africa and Catania routes.

5. D.C.A. has heard that BEA may be prepared to make some downward adjustment in the fares, but he doubts whether it would be possible to force a complete return

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to the pre-1st April, 1963, fares, because any Maltese operators we may licence must now obtain a U.K. licence also, and London would not allow a "fare war" on the route.

6. D.C.A. suggests that we compromise on fares and try for:-

- (a) the re-introduction of a validity of one year on return tickets from London to Malta. There is evidence that visitors curtail their stay in Malta because of the one month restriction;
- (b) an increase in the frequency of winter operations to Tripoli. Libyan oil companies' personnel have complained that the present schedule is inadequate and there is some evidence that this is true;
- (c) the introduction of a summer ITX night fare. For the rest of the year the ITX fare is £29. 4s. but, in the summer, the tour organiser has to pay the normal fare of £38. 4s. mid-week and £43. 8s. at weekends. These fares are not sufficiently competitive to generate a demand for summer inclusive tour holidays to Malta. BEA may argue that this is the field for the inclusive tour charter operator and that, in any case, the existing hotels are already full in summer. The hotel beds are increasing, but it is unlikely that any U.K. tour operator would be prepared to risk chartering whole aircraft at this juncture for fear of inability to sell enough seats.

BEA's Position after Independence

When Malta becomes independent the United Kingdom will lose its right to use Malta as a bargaining counter in its negotiations for bilateral air services agreements with other countries, and the Government of Malta will inherit the concessions and landing rights which had been exchanged with other governments by the U.K. Government, in consultation with the Malta Government. It is natural, in such circumstances, for the U.K. to attempt to retain some interest in future developments by agreement with the Government of the newly-independent territory. This is normally achieved by creating a local company to operate in association with BEA (or BOAC), the U.K. "chosen instruments". The normal practice is to invite the local Government to put money into the BEA associate company, thus ensuring that the Government has an interest in supporting that local operator as its "chosen instrument". During the recent discussions with the Ministry of Aviation team we were advised that nearly all other emergent British territories had concluded, after study, that the most efficient and economic way of developing their air services was by the formation of a company which chartered its aircraft from BEA (or BOAC) and operated in partnership with the U.K. "chosen instrument".

2. Having sustained a considerable financial loss over the years on their Malta operations BEA believe they are entitled to retain their virtual monopoly over our routes in order to recoup their losses now that the traffic is increasing. No other operator can now fly on the Malta-London route without the authority of the U.K. Minister of Aviation or the U.K. Licensing Board, so that BEA now have no need to argue their case for a privileged position on the London route with us. After Independence the U.K. Government will designate its operator or operators for the route under the bilateral agreement we shall have to enter into with the U.K., but we shall then be free to designate our own operator for the route should we so wish. BEA are anxious that such operator will be acceptable to them and cooperate rather than compete with them. If

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Government has a stake in Malta Airlines, it would be natural for us to designate that company as our "chosen instrument". If we were to designate an operator with whom BEA were not prepared to collaborate (say Malta Metropolitan or Eagle) BEA threaten that they would reduce the frequency of their London services and abandon the routes to North Africa and points in Italy, in order to compete. They stress that the present frequency of the London-Malta service cannot be sustained on purely economic grounds, because of the limited traffic, and that this is only possible by subsidising the route from the revenue on the intermediate legs through Rome and Naples etc.

3. D.C.A. recommends that there are no reasons why we should be rushed into taking an early decision, and suggests that we should have time to consider whatever proposals BEA may come forward with as regards Malta Airlines, bearing in mind that the latter are licensed by us to operate existing services, in parallel with BEA, until 1971. It could also prove to be a case where Malta's interests would be served best by having no "chosen instrument", particularly if this involved investment by Government, although without a "chosen instrument" we would be forced to rely on the Island being served by other country's operators and by any Maltese operators prepared to fend for themselves without Government backing. In the latter case the Government would be expected to seek foreign operating rights on the local operator's behalf.

15th January, 1964.