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PUBLIC AID TO MAJOR FOREIGN AIRLINES — PART I

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It has been generally understood that the major airlines of the world have continued in recent years to depend on public aid, but few attempts have been made since the end of World War II to inquire comprehensively into the forms and amounts of such aid. The interest of the Senate Committee on Interstate and Foreign Commerce in the problem of separation of subsidy from United States air mail payments led it to engage, in April 1951, the services of Aviation Advisory Service to make a study of the subsidies and other public aid received by eleven major foreign airlines. It is not for the writer, who was associated with Aviation Advisory Service in this project, to pass judgment on the success with which the task was accomplished. The study undoubtedly revealed many facts not previously generally known or appreciated in this country. It is important to realize, however, that no inquiry into this problem conducted over a limited period of time and with limited facilities can be expected to uncover all the relevant facts or to produce results which may be considered as definite for all purposes. The many difficulties that encounter the investigator in this field may be roughly grouped into three categories:

1 This article is based largely though not exclusively on the data presented in "Report on Subsidy Policies of Foreign Airlines" (hereafter cited as "Subsidy Policies") by Aviation Advisory Service, printed in Separation of Air Mail Pay from Subsidy, Hearings on S. 436 ... before the Committee on Interstate and Foreign Commerce, U.S. Senate, 82nd Congress, 1st session, Part 2, pp. 781-872, where much additional information will be found, and on the sources there used.


8 Aerolíneas Argentinas, Air France, British European Overseas Corporation (BEA), British Overseas Airways Corporation (BOAC), KLM Royal Dutch Airlines, Linea Aeropostal Venezolana (LAV), Panair do Brasil, SABENA, Scandinavian Airlines System (SAS), Swissair, and Trans-Canada Air Lines (TCA).
(1) Deliberate secrecy. The significance of this factor varies from country to country, but it is nowhere entirely absent. It is less important in the democratically governed nations of Western Europe and North America than in most other parts of the world.

(2) Character of published sources. Even where there is no deliberate effort to hide the facts, much information is published, if at all, only in government and company documents which are difficult to obtain outside of the country of publication, inadequately indexed or identified, and soon out of print. Even if he successfully surmounts the linguistic barrier, which is often a definite though not insuperable obstacle to full understanding, the investigator is likely to find himself in the midst of a chaotic mass of budgetary and other legislation, decrees, orders, regulations, notices, parliamentary debates and committee reports, appropriation accounts, administrative agency publications, company reports and releases, authoritative but unofficial (or semiofficial) articles, printed interviews with government or company officials, and the like, from which bits of valuable information may have to be extracted through page-by-page scrutiny and then pieced together like a jig-saw puzzle.4 There is never a certainty that all possible sources have been found and exhausted. Furthermore, the unwary investigator may fall into the trap of differences in accounting, budgetary and operating practices. Perhaps most important is the fact that published documents cannot be depended upon adequately to portray all the innumerable advantages that an airline may derive from a close working association with its government.

(3) Uncertainties of definition and identification of the subsidy element. These uncertainties are intrinsic in the problem, and would remain to plague the investigator even if he had ready access to all the information normally available to government officials in the countries concerned. They increase in range as he moves from the more direct to the less direct forms of government aid. Even in cases of so-called “direct subsidy,” however, there is room for uncertainty as to the significance of such offsetting factors as preferential treatment of mail and government passengers and cargoes, government participation in the making of company policies, and provisions for the recapture of subsidies out of future profits. The difficulties inherent in the attempts to segregate the subsidy element in mail payments are familiar to most readers of this Journal.5 Perhaps the greatest of all are uncertainties encountered in defining and segregating the subsidy element in such forms of “indirect aid” as construction and maintenance of airports and other ground facilities, and expenditures for the development of new types of flight equipment. In an intermediate position, in this

4 The work of Aviation Advisory Service was greatly facilitated in this respect by the cooperation of United States Government agencies and other public and private organizations, and by the material collected in Europe by Mr. Selig Altschul.

5 See, in this connection, Separation of Air Mail Pay from Subsidy, Senate Report No. 629, 82nd Congress, 1st session (reprinted in abridged form in this Journal, Summer 1951, p. 320), and the Hearings cited supra, n. 1.
respect, are such forms of aid as investment of public funds in air transport enterprises, guarantees of airline borrowings, and sale to airlines of surplus equipment at nominal or below-cost prices. The benefits derived by the airlines from some forms of public aid, furthermore, cannot be easily broken down year by year.

No attempt will be made here to present an extensive theoretical analysis of the problems of definition and segregation of the subsidy elements in the various forms of public aid to carriers. The concept of "subsidy" is elusive. It is possible to regard most forms of public aid as simply payments for services rendered by the carrier to the community which would otherwise remain unperformed. It is believed useful, however, before presenting the data country by country, to summarize here the principal forms in which such aid is given, or may be suspected to be given, to the airlines covered in the study made by Aviation Advisory Service.

**Forms of Public Aid**

(1) **Direct subsidy.** This is the form of public aid which generally presents the least difficulty to the investigator. Outright or contingently repayable grants of money have been regularly or occasionally made in recent years by governments to their national airlines in all of the countries studied. Such grants are typically designed to cover all or a part of the operating losses of the airline. Sometimes they are given specifically in return for the operation of services on certain routes.

(2) **Mail payments.** Most of the major foreign airlines are paid for the carriage of international mails by their governments on a straight ton-mileage basis at rates equal to or lower than the rates established by the Universal Postal Union for payments for similar services performed by airlines of other countries. Aviation Advisory Service proceeded on the assumption that mail payments at these rates contain no subsidy element. This assumption, though not unchallengeable, seemed to be reasonably adequate for purposes of the inquiry, but the significant data on mail revenues of the airlines studied were collected and presented.

(3) **Capital investment.** In all of the countries studied except Brazil the governments have supplied all or a part of the basic capital requirements of their major national airlines through investment in stock or otherwise. Many governments have supplied funds to their airlines through short-term or long-term loans and have facilitated the raising of money by guarantees of borrowings from private sources. Owing to difficulties of repayment, many such loans and guarantees have been converted into equity capital. The magnitude of the ele-

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ment of subsidy contained in all such forms of investment depends on the terms on which capital would otherwise be available to the airlines. In many cases, private capital could not be raised at all without government backing. Losses incurred by governments as a result of investments in airlines may be regarded as a form of direct subsidy. Capital gains or profits distributed to governments, on the other hand, may be regarded as offsets to the subsidy element.

(4) **Provision of equipment.** Many airlines have benefited by operating equipment made available by their governments free of charge or at below-cost prices. Additional benefits may have accrued to some airlines (principally BOAC, BEA and Air France) from government expenditures for the development of new types of aircraft, but such benefits may have been substantially offset by restrictions upon the airlines' freedom of choice of equipment.

(5) **Training of personnel.** Many airlines have profited in some degree from government programs for the training of aviation personnel. In France, the Government specifically underwrote for four years the expenses of training flight personnel for Air France; in most other countries, government training programs have been less directly designed to benefit commercial aviation, but the airlines have been able to benefit by the existence of pools of personnel trained in the military services and possibly by government-sponsored primary training.

(6) **Tax exemptions.** Most of the airlines studied enjoy some tax exemptions. The importance of this form of aid varies widely and is usually difficult to determine without specialized studies of the tax systems of the countries concerned and of the beneficiaries' books.

(7) **Special favors.** National airlines often enjoy a preferential position with respect to the award of government contracts and the transportation of government officials and cargo. They may also have special advantages in operating ground services used by other air carriers. Such advantages need not involve expenditures of money by the governments concerned, and are not to be regarded as subsidies, but they nonetheless operate as a form of aid to the national airlines.

(8) **Ground facilities.** In all countries public funds in varying amounts are expended for the development, maintenance and operation of airports, aids to navigation and other ground facilities used by airlines. Since such facilities generally serve not only the national airline, but also other commercial operators, private fliers, and military aircraft, it is virtually impossible to segregate the subsidy element hidden in them. Figures of government expenditures for such facilities, and of payments recovered from the airlines using them, may give, however, at least a rough idea of the magnitude of the element of public aid involved.

(9) **Effect of foreign exchange controls.** National airlines not infrequently derive incidental benefits from the currency controls en-

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7 In Venezuela, even a government guarantee did not suffice to assure success for a bond issue attempted to be floated by LAV. See *infra* (Part II).
AID TO FOREIGN AIRLINES

forced by their governments and designed primarily to conserve foreign exchange. Such benefits are of course not to be regarded as subsidies, since they do not involve any expenditures of public funds and normally strengthen rather than weaken the financial position of the governments concerned. They may, nevertheless, confer significant competitive advantages on the national airlines and thus operate as a form of aid to them.

The operations of many of the major foreign airlines have been facilitated in recent years not only by aid received from their own governments, but also by dollar grants made available by the United States for the purchase of equipment under the European Recovery Program and by dollar loans from the Export-Import Bank of Washington. It may be noted that the airlines benefited by ECA dollar grants have been required to deposit equivalent amounts in local currencies with counterpart funds; ECA aid is not, therefore, directly reflected in the financial statements of the airlines concerned. In some instances, counterpart funds have in turn been used for local projects of benefit to commercial aviation, such as airport construction.

Caution is essential in attempting to interpret the data on subsidies and other forms of public aid here presented. Since the subsidy element in many such forms cannot be precisely determined or related to specific years, comparisons of the extent to which the various airlines are “self-supporting” in terms of ratios of direct subsidies to commercial revenues may be very misleading. This is also true of comparisons in terms of direct subsidies per plane-mile or ton-mile. An additional obstacle to valid comparison is the artificiality of many exchange rates and their frequent fluctuation. Conversion of subsidy figures into a single monetary standard such as the United States dollar often cannot be accomplished without distorting the values symbolized by such figures. Fluctuations in the values of particular currencies, furthermore, are an impediment to the ascertainment of trends.

THE UNITED KINGDOM

There are at present two “chosen instruments” of British air transport policy — British Overseas Airways Corporation (BOAC) and British European Airways Corporation (BEA). Together with British South American Airways Corporation (BSAA), which was merged with BOAC in 1949, these entities are commonly referred to as “the Corporations”. BOAC, the oldest of the three, was set up on April 1, 1940, under the terms of the British Overseas Airways Act, 1939,8 as successor to the largely privately-owned Imperial Airways, Ltd., and British Airways, Ltd.9 The new Corporation was an offspring not of visionary Socialist doctrine but of the desire of the Tory cabinet of Neville Chamberlain to have an airline in the management of which the na-

8 2 & 3 Geo. 6, c.61.
tional interest would be put ahead of commercial considerations. The two other Corporations were set up on similar lines by the Labor Government on August 1, 1946, under the provisions of the Civil Aviation Act, 1946.10 BEA succeeded to the British European Airways division of BOAC and also took over, as of February 1, 1947, the services of small privately-owned domestic operators the most important of which had formed during the War the Associated Airways Joint Committee. BSAA inherited the nascent organization of privately-owned British South American Airways, Ltd. Each of the surviving two Corporations has several operating subsidiaries as well as interests in other companies. Some small privately-owned carriers are "associated" with BEA for the purpose of operating certain domestic services.

The Corporations consist of from 5 to 11 members appointed by the Minister of Civil Aviation, and are required to follow directions of a general character given by the Minister. They are classed in British legal terminology as "public corporations" and are expected to operate "national interest" routes even if the latter are commercially unprofitable.

Like their major prewar predecessors, the Corporations have needed and received much public aid in various forms. According to an unofficial but authoritative publication, an expert calculation of the total cost to the Government of a "typical year" of British civil aviation suggests a figure of £71 million ($286,130,000).11 The official estimate has been approximately £25,000,000 ($100,000,000) exclusive of expenditures for the development of new types of aircraft.12 Despite these expenditures, not all of which can be considered as aid to British-flag airlines, the accumulated net deficits of the Corporations since 1946, minus capital reserves, stood at £1,476,874 on March 31, 1951.13

Direct subsidy. Imperial Airways had received by 1939 about £6 million in direct subsidies, and, just before the War, was being paid at the rate of £1,425,000 per year. The grants made to British Airways and some domestic operators were much smaller. By the Act of 1939 the Government was empowered to cover BOAC's deficits up to the

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10 9 & 10 Geo. 6, c.70. The provisions of the 1946 Act and other legislation were consolidated by the Air Corporations Act, 1949, 12, 13 & 14 Geo. 6, c.91. For details of organization and development see Reports of the Ministry of Civil Aviation and the Reports and Accounts of the Corporations, published as House of Commons Papers. See also U.S. Civil Aeronautics Board, BEA, BOAC, BSAA (mimeographed, July 30, 1948). It has been officially stated that the new Conservative Government of Winston Churchill contemplates no change in the ownership of the corporations. Weekly Hansard, H.C., No. 206, col. 2968, December 5, 1951.

11 "The Cost of Civil Aviation," The Economist, January 1, 1949, p. 23, 24. In the present article the pound is converted into dollars at the following rates: For fiscal years 1940-41 to 1949-50—£1 equals $4.03; for subsequent years—£1 equals $2.80. The devaluation actually took place in September 1949. Approximate figures are converted into round numbers.

12 160 H. L. Deb. 5 s., 474-477, February 2, 1949. The figure given was based on the budget of the Ministry of Civil Aviation for 1948-49 (see infra).

annual amount of £4 million. During the war period from September 1, 1939, to March 31, 1946, when special arrangements were in effect, BOAC and its two predecessors received a total of £12,657,406 to cover operating losses.14

By the Acts of 1946 and 194915 the Government was empowered to make grants to the three Corporations and their associates up to the total amount of £10 million for the eight months ending March 31, 1947, a like amount for the fiscal year ending March 31, 1948, and £8 million for each subsequent fiscal year until 1956. Although these "Exchequer grants" are intended to be deficit-covering in nature, the Minister of Civil Aviation has discretionary power, within the statutory limitation and subject to the Parliament's power of the purse, to determine their amounts. The grants appear in fact to have been generally made on a deficit-covering basis up to the statutory limit.16

The aid given by the Government to the Corporations since 1946 in the form of Exchequer grants may be summarized as follows:17

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>BOAC</th>
<th>BSAA</th>
<th>BEA</th>
<th>Total</th>
<th>Total in United States Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-47</td>
<td>8,899,165</td>
<td>none</td>
<td>2,635,275</td>
<td>11,534,440</td>
<td>46,483,793</td>
</tr>
<tr>
<td>1947-48</td>
<td>6,300,000</td>
<td>260,000</td>
<td>3,400,000</td>
<td>9,960,000</td>
<td>40,138,800</td>
</tr>
<tr>
<td>1948-49</td>
<td>5,250,000</td>
<td>500,000</td>
<td>2,150,000</td>
<td>7,900,000</td>
<td>31,837,000</td>
</tr>
<tr>
<td>1949-50</td>
<td>6,850,000</td>
<td>1,585,000</td>
<td>7,435,000</td>
<td>19,600,000</td>
<td></td>
</tr>
<tr>
<td>1950-51</td>
<td>6,000,000</td>
<td>1,000,000</td>
<td>7,000,000</td>
<td>19,600,000</td>
<td></td>
</tr>
<tr>
<td>1951-52*</td>
<td>5,000,000</td>
<td>700,000</td>
<td>5,700,000</td>
<td>15,960,000</td>
<td></td>
</tr>
</tbody>
</table>

Notes to Table: *August 1, 1946, to March 31, 1947, plus grants to cover losses of Associated Airways Joint Committee from April 1, 1946, to January 31, 1947. **Appropriations.

In addition, grants ranging up to £80,000 per year have been made to certain "associates" of the Corporations such as Tasman Empire Airways and British Commonwealth Pacific Airlines, Ltd.

Bahamas Airways, Ltd., a wholly-owned subsidiary of BOAC, gets an annual subsidy of £5,000 from the colonial government.18

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15 Supra n. 10.

16 For criticism and justification of the procedures by which the amounts of the grants have been determined see 4th Report, Committee of Public Accounts, Session 1950 (H.C. 138/50), and 1st Report, Committee of Public Accounts, Session 1950-51. (H.C. 100/50-51). In 1950-51, the grants were quite generous, enabling BOAC and BEA to show surpluses of £2,055,523 and £45,753 respectively. See the Reports and Accounts of the Corporations for 1950-51.

17 The figures here given are derived from the annual Civil Appropriations Accounts (with Reports of the Comptroller and Auditor General), Class VI, for 1946-47 to 1949-50, Reports and Accounts of BOAC and BEA for 1950-51, and Civil Estimates, Class VI, for 1951-52. For 1946-47 these figures are considerably higher than the commonly cited amounts of £8,076,844 and £2,157,937 for BOAC and BEA respectively which are found in the Corporations' Reports and Accounts but apparently do not reflect subsequent retroactive adjustments shown in the Civil Appropriations Accounts.

Although the Exchequer grants are deficit-covering in principle, the statutory limitation on their amounts has not permitted the Corporations’ losses to be fully covered for all years. As of March 31, 1951, the Corporations had accumulated deficits (minus capital reserves) of £1,476,874 — £987,948 for BOAC (with BSAA) and £488,926 for BEA. Since the entire capital of the Corporations is provided or guaranteed by the Government (see below), these deficits are ultimately a charge on the British Treasury.

Reimbursement of expenses. In addition to Exchequer grants, the Corporations have also received monetary aid from the Government in the form of reimbursement of expenses for certain ground facilities on overseas routes, under a policy adopted by the Treasury in January 1948. Although most of the facilities operated under this policy are open to use by aircraft not belonging to the Corporations, the latter have been probably the chief beneficiaries. By March 31, 1950, net payments under this category had totalled £2,341,071 ($9,434,516). Most of this money went to BOAC and to International Aeradio, Ltd., a jointly owned subsidiary which operates many of the communications and related facilities for the two Corporations. This aid appears to be very similar to a direct subsidy in form, but caution must be used in classifying and interpreting it, since some of the facilities involved may be similar to those provided in other countries directly by the public authorities.

Mail payments. Although before the War the mail payments received by Imperial Airways under the “all-up” Empire Air Mail Scheme admittedly contained a subsidy element, in recent years the Corporations have been carrying British mail at ton-mileage rates equal to or below the UPU rates. The devaluation of the pound in September 1949 resulted in a considerable reduction of British Post Office payments to the Corporations in terms of postal gold francs. In May 1950, BOAC was being paid for the conveyance of British letter mail at the following rates in gold francs per metric ton-kilometer: London to Montreal, 4.17; London to New York, 3.96; London to Kingston, Buenos Aires, and Santiago, 3.47; London to Sydney, Hong Kong, and Johannesburg, 3.13. The average rate in 1950-1951 was 3.27 gold francs. At the same time, on these and comparable routes the UPU

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19 See supra, n. 13.
20 It must be noted that BOAC in 1950-51, and BEA in 1949-50 and 1950-51, had surpluses after Exchange grants, indicating a trend toward the elimination of these accumulated losses. As of March 31, 1950, the accumulated deficits of BOAC and BEA, minus capital reserves, stood at £4,000,552.
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rates at which foreign airlines were paid for carrying British mail and BOAC was paid for carrying foreign mail remained at 5.97 gold francs. BEA is now being paid for British letter mail on international routes at the rate of 2.9 gold francs as compared with the UPU rate of 2.99 gold francs for similar services, but for domestic letter mail it gets only 2.14 gold francs. Although the British air mail rates have lately been under renegotiation, it is not unreasonable to conclude that in recent years they have not contained an element of public aid even as large as that which may be regarded as hidden in the UPU rates. Mail payments have nevertheless remained an important source of income to the British airlines, amounting in 1950-1951 to 25.5% and 10.7% of the total operating revenues of BOAC and BEA respectively.

Capital investment. The Corporations have no equity capital. They are financed mainly by issues of “Airways Stock” at fixed rates of interest and with fixed maturity dates which may be guaranteed by the Treasury. The statutory limitation on all stock issues and borrowings of the Corporations is £60,000,000 for BOAC and £20,000,000 for BEA.

On March 31, 1951, the amount of outstanding stock was £34,436,310 for BOAC and £6,000,000 for BEA. All of this stock is currently held by the National Debt Commissioners, a government agency, and all of it is guaranteed by the Treasury. It bears interest at 2½ to 3 percent, and its maturity dates vary from 1960-70 to 1980-83. Some of the stock was issued slightly below or above par. BOAC has shown in its accounts a total profit of £234,490 on redemptions of stock during the four years 1947-48 to 1950-51.

Before the first issue of their respective stock in February 1949, BSAA and BEA were financed in part by loans from BOAC.

Financing of the Corporations has also been facilitated by government guarantees of short-term borrowings from private sources. The amounts so guaranteed from time to time have totalled, according to available information, at least £4,250,000 for BOAC and £5,000,000 for BEA. Treasury guarantees have enabled the Corporations to borrow funds at rates as low as 2%.

Provision of equipment. The British Government has spent huge amounts on the development and procurement of aircraft and other equipment for civil aviation, but the benefits of these expenditures to the Corporations have been offset in a considerable degree by the concomitant policy of restriction of purchases of newer and more economical equipment in the United States.

During and immediately after the War the Corporations used aircraft provided by the Government in large part free of charge or at nominal prices. For example, up to forty aircraft on free loan from the Government were operated by BOAC on “national interest” routes in the

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23 Reports and Accounts of the Corporations; Lissitzyn, supra n. 9, p. 171; Statement of Treasury Guarantee, April 19, 1950 (H.C. 55/50).
24 As of August 1, 1951, it stood at £34,340,000. Weekly Hansard, H.C., No. 199, Written Answers, 404, August 2, 1951.
Middle East for some years after the war. Twenty-five JU-52's reconditioned at a cost of about £10,000 each were leased to BEA in 1947 for operation at £20 per month, but proved to be so uneconomical that they were withdrawn after a few months in service. Six Lancastrians were leased in 1946 to BSAA at £2,000 a year; twelve Yorks, costing about £50,000 each, were sold to the same Corporation at £17,500, while BOAC obtained twenty-five of the same type at £17,400. Although most of the aircraft involved in such transactions were modifications of military types and not economical in commercial operation, they did enable the Corporations to develop their services in the crucial period immediately following the War when dollar exchange was scarce. It may be noted that BSAA in the first eight months of operation (to March 31, 1947) did not need an Exchequer grant and even made a small profit (£20,507).

Exact figures of the losses sustained by the Government on the aircraft provided to the Corporations are not available, but the Committee of Public Accounts of the House of Commons has estimated that by March 31, 1948, such losses totalled some £8,000,000 (§32,000,000). Published accounts show that by March 31, 1950, the expenditures of the Ministry of Civil Aviation on aircraft and associated equipment, exclusive of aircraft and equipment for the Ministry's own use, had exceeded the receipts from the sale and lease of aircraft by some £16,000,000 (£64,000,000). This figure may include some expenditures for the production of new types of aircraft which proved to be failures; on the other hand, it does not include the additional losses which are believed to have been sustained by the Ministry of Supply but which have never been publicly itemized.

In addition to flight equipment, the Corporations have also received free of charge considerable quantities of equipment for ground facilities in connection with the policy of reimbursement of the cost of operation of such facilities on overseas routes. The value of this equipment has not been publicly estimated.

26 BSAA, Report and Accounts, 1946-47. It may be significant that BOAC and BSAA made a total profit of £1,557,989 from the disposal of aircraft and other equipment in the three years 1948-49 to 1950-51. BEA's profit under this heading was only £75,666 in the same three years. See the Corporations' Reports and Accounts.
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Total amounts expended by the British Government for the development of new types of flight equipment for commercial use have never been publicly stated. The Treasury has taken the view that it is impossible to segregate the civilian from the military benefits of the aircraft development program, citing the development of engines as an example. Specific published estimates relate chiefly to the less successful types such as the Brabazons, the Tudors and the S.R. 45 Princess flying boats, although some figures for the more promising turbojet Comet are also available. The following estimates of development costs, made by Aviation Advisory Service on the basis of officially published figures and statements in Parliament, are believed to be conservative:

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brabazon I and II</td>
<td>£12 to £16 million*</td>
</tr>
<tr>
<td>Tudors</td>
<td>£6 to £10 million</td>
</tr>
<tr>
<td>S.R. 45 Princess</td>
<td>£7 to £10 million</td>
</tr>
<tr>
<td>De Havilland Comet</td>
<td>£4 million**</td>
</tr>
<tr>
<td>Solent flying boat</td>
<td>£2 to £3 million</td>
</tr>
</tbody>
</table>

Notes to Table: *Including the cost of two prototypes and of special runways and buildings at Filton (£5 to £6 million).
**Including the development of engines and cost of two prototypes. Cost exclusive of engines estimated at £1 ½ million.

It must be emphasized that these figures are given merely to indicate the magnitude of the British prototype development program, and not to imply that they are to be considered in their entirety as a form of subsidy to the Corporations, since the latter have so far derived no direct benefit from most of these expenditures. The sums spent by the Government for the development of relatively more successful types such as Airspeed Ambassadors, Handley Page Marathons, Hermes, and Vickers Vikings and Viscounts, do not appear to have been publicly revealed.

As already mentioned, the Corporations have been subjected to the national policy of restricting the purchases of American equipment to a minimum and promoting the development of the British aircraft industry. Although this policy has now been somewhat relaxed because of the evident failure of the British industry, at least until the development of the Comet, to produce aircraft comparable with the standard American types in performance and economy of operation, it has undoubtedly hampered the Corporations in their efforts to reduce operating losses and to compete on equal terms with American-

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30 1st Report, Committee of Public Accounts, Session 1950-51 (H.C. 100/50-51).
flag and Continental air carriers. On balance, therefore, it is by no means clear that the ambitious program of development and procurement of British-manufactured aircraft can be considered as a form of public aid to the Corporations.

**Training of personnel.** The United Kingdom has so far made no specific provision for government assistance in the training of commercial aviation personnel, although the Corporations have undoubtedly benefited by the existence of a large pool of personnel trained in the various phases of aviation in the military services. A shortage of pilots experienced by BEA gave rise in 1951 to official consideration of a scheme to attract pilots to civil aviation through national service training.

**Tax exemptions.** The Corporations are exempt from certain stamp taxes. More important is the rebate of virtually the entire amount of the tax on aviation fuel used outside the United Kingdom. In 1950-51 BEA paid a fuel tax of £200,000 (representing over 1/5 of its losses before Exchequer grant) on its domestic services where the full rate is collected, indicating the magnitude of the aid afforded to the international services by the rebate.

**Special favors.** The Corporations and their associates have a statutory monopoly of British-flag scheduled commercial air transport services within the United Kingdom and between the United Kingdom and all other countries. They have, furthermore, apparently enjoyed preferential treatment in the awarding of contracts for services to the Government. BOAC, for example, obtained a contract for the transportation of personnel of the government-controlled Overseas Food Corporation to East Africa although a private carrier, according to an uncontradicted statement in Parliament, had submitted a lower bid. The Corporations have also conducted, for the account of the Government, a number of research and development projects, apparently on a cost-plus basis, but there is no available evidence that a subsidy element has been involved.

**Ground facilities.** The expenditures of the British Government on airports and aids to navigation are of benefit not only to the Corporations but also to other users, including foreign airlines. It is impossible, on the basis of available data, to calculate the element of aid to the

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83 See 153 H.L. Deb. 5 s., 507, 534, January 21, 1948. At present the BOAC fleet is composed in large part of American-made aircraft (11 Constellations and 10 Stratocruisers) and 22 Argonauts (Canadairs, modified DC-4's made in Canada, with British engines, the purchase of which at the cost of £4,500,000 was made possible in 1948 through the agreement of the Canadian Government to the postponement of certain dollar payments to it; see 157 H.L. Deb. 5 s., 1123-1125, July 21, 1948, and 472 H.C. Deb. 5 s., 2248-2249, March 23, 1950). BEA has some thirty DC-3's and five American-made helicopters.

84 489 H.C. Deb. 5 s., No. 133 (daily), Written Answers, 215, July 4, 1951.

85 BOAC, Report and Accounts, 1949-50, p. 34


87 BOAC and BEA, Reports and Accounts. See also Civil Appropriations Accounts, Class VI, 1947-48 (H.C. 41/48-49), Report of the Comptroller and Auditor General, xxxiv.
Corporations hidden in such expenditures, but it may be useful to present a few figures showing the magnitude of the total effort.  

In the postwar years, the net annual expenditures of the Ministry of Civil Aviation (including the Exchequer grants to the Corporations and other expenses already discussed) rose from £6,845,330 ($27,586,680) in 1945-46 to a peak of £27,605,844 ($111,251,551) in 1947-48, only to drop to £21,134,729 ($85,172,958) in 1949-50. The appropriations for 1951-52 are £18,175,500 ($50,891,400). Gross expenditures under the main headings most directly related to the provision of ground facilities rose to a peak of £10,046,416 ($40,485,787) in 1948-49, but levelled off at £9,688,937 ($39,046,416) in 1949-50. The appropriations for 1951-52 are £12,446,600 ($34,850,480). These figures include the reimbursement of certain ground facility expenses of the Corporations, as described above. Offsetting these gross expenditures have been receipts from the operation of airports, which amounted to £1,225,407 in 1948-49 and £1,226,816 in 1949-50, and are expected to produce £1,594,000 in 1951-52.

Some figures of outlays for the principal airports are of interest. The total planned capital expenditure on the London Airport at Heathrow has been estimated at £26,000,000. The 1951-52 appropriation for this project is £3,140,300. It has been stated in Parliament that the construction, development and maintenance of Prestwick Airport in Scotland has absorbed £2,788,000 in public funds. The operating and maintenance expenses of Northolt Airport in London were estimated to amount to £479,492 in 1950-51 as against receipts of £259,029. In general, it has been estimated that landing fees cover only one-sixth of the Government's expenses for airports exclusive of capital charges.

Opportunities for hidden subsidies may be found in the close relations between the Corporations and the Ministry of Civil Aviation. For example, the Comptroller and Auditor General has found that as late as 1950 the full cost of central heating was not being included in the rentals charged to the Corporations for the use of hangars and other buildings.  

38 Civil Appropriation Accounts, Class VI, 1945-46 to 1949-50; Air Services Appropriation Account, 1945-46, Vote 8; Civil Estimates, Class VI, 1950-51 and 1951-52; 484 H.C. Deb. 5 s., 1954, February 27, 1951; Weekly Hansard, H.C., No. 198, col. 2263, July 21, 1951. Items directly related to civil aviation are also included in appropriations for Ministries other than that of Civil Aviation. 385 H.C. Deb. 5 s., 2020, April 2, 1947; Civil Appropriations Accounts, Class VI, 1951-52 (H.C. 119/50-51), Vote 17. These items are not included in the figures presented here. 389 8th Report, Select Committee on Estimates, Session 1947-48 (H.C. 202/47-48), viii.

40 Civil Estimates, Class VI, 1951-52 (H.C. 119/50-51), Vote 17, Subhead G.


42 478 H.C. Deb. 5 s., Written Answers, 366, October 25, 1950.


The Royal Air Force has given invaluable help to the Corporations through surveying and pioneering new routes before and during the War. It has continued to provide some services to civil aviation, notably search and rescue.

The Corporations have benefited by expenditures on ground facilities not only of the United Kingdom Government, but also of the local authorities, particularly in the overseas parts of the Empire, but details of such local contributions are to be found, if at all, only in the budgets and other official records of the entities concerned.

FRANCE

The present "chosen instrument" of French air transport policy, Compagnie Nationale Air France, was set up as of September 1, 1948, as successor to Societe Nationale Air France organized in 1933 through the merger of four private operators and the acquisition of the bankrupt Compagnie Generale Aeropostale. In the old Air France, the French State originally held only 25% of the stock and appointed 25% of the directors. In 1945, however, the privately held stock was nationalized with retroactive effect to September 1, 1944. In the new company the State holds all of the stock, but may transfer up to 30% of the shares to public or private entities including not more than 15% to private persons who must be of French nationality. The Government nominates at least one-half of the board of directors (Conseil d'Administration).

Air France does not hold a monopoly of French air transport, but enjoys special benefits and privileges in return for which it is expected to operate commercially unprofitable "national interest" routes. Privately owned French air carriers receive no direct subsidies and carry virtually no mail. Air France has several subsidiaries and affiliates operating in the overseas French territories, and is a stockholder in several privately controlled French air carriers. Like its predecessors, it has been a recipient of public aid in a variety of forms.

Direct subsidy. Before the War, Air France was entitled by contract to receive a subsidy which was fixed annually on the basis of the difference between operating costs and expected operating receipts per kilometer flown. In addition, the company received some subsidies from the French colonies and from foreign governments. In 1938, of Air France's total revenue of $12,667,000, 54.6% came from the French State subsidy and 4.1% from other subsidies.47

47 Lissitzyn, supra n. 9, pp. 174-181.
An agreement made by the company with the Government in 1946, which has remained in force after the reorganization of Air France in 1948, provided for a guarantee by the State of gross receipts per kilometer flown by type of aircraft in normal scheduled and non-scheduled services. The rates fixed for each type of aircraft have been frequently revised. The kilometric guarantee was to be calculated on the basis of provisional quarterly estimates. Definite accounts drawn up at the end of the year were to serve as a basis for adjustment of the subsidy paid for the year. There is provision for return to the State of any excess of revenues over the guaranteed minimum up to the amount of subsidies received, and a further provision for recapture of subsidies out of net profits remaining after the setting aside of certain reserves and payment of a 4% dividend. Any surplus remaining after these and certain other adjustments is to be divided equally between the company and the State. Mail and government cargo have priority, and the company must place its aircraft at the disposal of the public authorities on demand.

In practice, no definite annual accounts were drawn up at least until 1949, and the subsidies were apparently calculated on the basis of provisional and approximate figures so as to exhaust the appropriations made for the purpose. The subsidies granted by the French State, together with the subsidies received by the company from local governments in the overseas French territories, have been adequate to cover the company's operating losses. No complete accounts were published for the postwar period preceding September 1, 1948, but the amounts of direct subsidy received by Air France from the national treasury in the years 1946 to 1949 have been given as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in millions of francs)</th>
<th>Amount (in millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>969</td>
<td>8,149,000</td>
</tr>
<tr>
<td>1947</td>
<td>1,026</td>
<td>8,629,000</td>
</tr>
<tr>
<td>1948</td>
<td>1,067</td>
<td>4,983,000</td>
</tr>
<tr>
<td>1949</td>
<td>1,550</td>
<td>7,238,000</td>
</tr>
</tbody>
</table>

The company's annual reports, published regularly since the reorganization of 1948, show the direct subsidies received in recent years as follows:

- **French State**: 2,160,000,000 (1948-49), 1,926,996,000 (1950)
- **Overseas French territories**: 459,437,861 (1948-49), 110,000,000 (1950)
- **Total**: 2,619,437,861 (1948-49), 2,036,996,000 (1950)

Note to Table: *September 1, 1948, to December 31, 1949.*

50 "Subsidy Policies," supra n. 1, p. 798.  
53 Air France, Rapports Annuels; see also financial statements of the company published in J.O., 1950, p. 8088, and 1951, p. 8343.
The accounts also show that the unpaid balances of subsidies due for various years from 1944 to 1950 totalled 381,527,618 francs as of December 31, 1950. For 1951, the national budget contains an appropriation of 2,598,999,000 francs ($7,537,000) payable in subsidies to Air France and associated companies.

In addition to the kilometric subsidy, special direct grants are occasionally made to Air France and its subsidiaries from the national treasury. In 1948 a total of 32,750,000 francs was appropriated to enable Air France to acquire stock in Transports Aeriens du Pacific Sud (TRAPAS) and to pay the accumulated deficits of this local operator in the French Pacific. In 1949 71,000,000 francs were appropriated to cover the share of Air France in the cost of works at the Paris Airport. For several years the Government also reimbursed the company's flight personnel training expenses (see below).

The direct subsidies received by Air France amounted to 8.3% of the company's total revenues in the sixteen-month period ending December 31, 1949, and to about 7% in 1950. They enabled the company to show profits of 73,172 francs and 10,325,595 francs for these two periods respectively.

Mail payments. Before the War, Air France's mail revenue was believed to contain a subsidy element and was the principal source of the company's income (53% of total revenues before direct subsidy in 1938). It has since greatly diminished in importance, making up only 10.8% of the company's operating revenues in 1948. The rate of mail revenue has declined from $3.52 per ton-mile in 1938 to $1.05 in 1948. On international services, Air France is currently paid for the carriage of French mail at UPU rates. For letter mail carried within the French Union the company is paid at the reduced rates of 2 gold francs and 4.7 gold francs per metric ton-kilometer on European and non-European services respectively, instead of the UPU rates of 3 and 6 gold francs; there are corresponding reductions for other classes of mail. Domestic air mail in France is carried under a separate contract which provides for the operation of special services for the exclusive transportation of mail, with all operating expenses reimbursed by the French Postal Administration. In 1948 these expenses amounted to 212,172,963 francs. It is not believed that French mail payments currently contain an appreciable element of subsidy beyond that which may be regarded as hidden in the UPU rates.

Capital investment. The French State holds all of the capital
stock of Air France, as reorganized in 1948, in the amount of 10 billion francs ($29 million at the 1950-51 rate of exchange). Of this amount, 8,055,639,683 francs represent a conversion of loans made by the State to the company in the years 1946-1948 for the acquisition of equipment, and 1,500,000,000 francs represent a cash investment made in 1949. The nature of the investment represented by the remaining 444,360,317 francs does not clearly appear from the available sources.\(^5\)

Since 1949, new long-term Treasury loans have been made available to Air France. The company's indebtedness to the State has increased from 4,134,763,143 francs at the end of 1949 to 7,841,190,611 francs at the end of 1950. A further loan of 3,498,000,000 francs has been authorized for 1951, probably bringing the total indebtedness to about 11,350,000,000 francs ($33 million) by the end of 1951. These loans, which are designed for the purchase of equipment, bear interest at 3%.

In addition to making capital available to Air France through loans and acquisition of stock, the Government is authorized to guarantee the company's borrowings. The sources do not indicate whether the five-year loan in the amount of 1,050,000,000 francs obtained by the company in 1951 from private banks is so guaranteed.

A virtual guarantee of profit to any private investment that may be made in the stock of the company appears to be extended by the law of July 21, 1950,\(^6\) which provides that a 5% dividend on privately held shares is to be entered among the general charges of the company for fifteen years beginning with 1951.

**Provision of equipment.** The agreement of 1946 provided that the State would sell or lend aircraft to Air France on terms to be fixed by supplemental agreement. The contents of the first supplemental agreement between the company and the State, approved on May 31, 1950,\(^60\) have not been published. The Treasury loans to the company made in 1946-1948 and then converted into capital stock, as already explained, were designed to cover the cost of aircraft and ground equipment acquired by Air France from or through the Government. It is impossible to state, on the basis of available data, whether the Government incurred any losses through these transactions. Reports that forty Languedoc 161's and five or six Latecoere 631 flying boats were acquired from the Government in 1946 at one franc each cannot be substantiated. Both of these types proved to be a burden on the company, although some 31 Languedocs were still in operation in 1950. It has

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\(^5\) It may be significant, in this connection, that by decree of March 16, 1950, J.O., 1950, p. 3068, shares in the old Societe Nationale Air France held by the Government of Czechoslovakia (and amounting to somewhat less than 5% of the capital of the old company) were transferred to the French State as of August 31, 1948.


been also reported that the company had the use of a number of JU-52’s at the charge of one franc per kilometer flown.\(^{61}\) Some JU-52’s, in part on loan from the State, were being operated on local services in Africa as late as 1950.\(^{62}\)

The purchase of American-made equipment for Air France has been materially aided by ECA grants (see below).

Of possible though doubtful benefit to Air France may be the efforts of the French Government to develop new types of aircraft. These efforts, motivated largely by the desire to promote French prestige and the French aircraft manufacturing industry, have been lately concentrated on three types — Breguet 763 Deux Ponts (Two Deck), SE 2010 Armagnacs (four-engine), and SO 30 Bretagnes (twin-engine). The Breguets are being built by a private company, while the other two types are the products of state-owned plants. Air France has been under pressure to order new French aircraft in preference to the probably less expensive and more economical American types, and recent reports indicate that it has been authorized to order twelve Breguet 763’s and eight SE 2010’s. The total development and production cost of fifteen SE 2010’s, including engines and other equipment, was estimated at 12,982,000,000 francs.\(^{63}\) In 1950 Air France was reported to be willing to take eight SE 2010’s at a price equivalent to the estimated price of Constellations, 450 million francs per aircraft, and calculated at 75 million francs per year of service over a period of 6 to 8 years. The Government estimated the production cost of each SE 2010 at 770 million francs if all fifteen were built, and expected an approximate loss of 300 million francs on each, or a total of 2,400,000,000 francs ($6,960,000) on the eight expected to be ordered by Air France.\(^{64}\) Yet it is not clear that this loss may be regarded as a form of public aid to Air France, since the company has expressed preference for American-made aircraft.

By a supplemental agreement approved by decree of October 30, 1951,\(^{64a}\) the Government has accorded to Air France very favorable terms for the purchase, previously ordered by the Government, of twelve Breguet 763’s. The funds necessary for the purchase of the aircraft and of the initial lot of spares and accessories are to be provided by the Government on loan. The Government is also to reimburse the company for approved technical modifications if their cost is not borne by the manufacturer. Furthermore, the Government assumes 40% of the amortization and capital charges on the aircraft and the initial lot of spares of French origin. The aircraft are to be amortized over a period of four years, and the estimated part of the price borne by the company averages 312,500,000 francs per aircraft. The Govern-

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\(^{64a}\) Decree No. 51-1277, J.O., 1951, p. 11118.
ment also undertakes to purchase the aircraft if they are withdrawn from service with its consent, paying the company the non-amortized part of the price of the aircraft and of the initial lot of spares and materials. In addition, the Government guarantees, subject to revision, receipts from the operation of the aircraft at the rate of 680 francs per kilometer (on the basis of average daily utilization of five hours).

It should be noted that the state-owned aircraft manufacturing plants receive large investments of public funds in various forms. The development and production of French transport aircraft has been furthermore facilitated by ECA grants (see below).

Training of personnel. From 1946 to 1949 the Government reimbursed the expenses incurred by Air France for the training of flight personnel in the total amount of 888,722,374 francs ($5,574,577).65

Tax exemptions. Air France comes within the terms of the law of July 22, 1949, as implemented by decrees and regulations,66 exempting from the tax on production the construction, repair, modification and importation of aircraft, and of the material and equipment to be incorporated therein, destined for certain air carriers. This exemption is believed to be of substantial financial benefit. In addition, all agreements and transactions entered into pursuant to the law of June 16, 1948,67 which provided for the reorganization of Air France, are exempt from documentary and stamp taxes.

Special favors. No information is available on any agreements for special services that may have been made by Air France with various government departments other than the Post Office. The company has a virtual monopoly among French air carriers of the transportation of French air mail. Government officials are reported to be required to use the facilities of Air France in preference to other air carriers whenever possible, and to make arrangements through Air France for travel by other airlines when necessary.

Ground facilities. Although the French national budget carries large appropriations for various aids to civil aviation, the available figures do not clearly indicate the total amounts designed to be spent on ground facilities. The total civil aviation appropriations for 1950, including the direct subsidy to Air France already discussed, amounted to 23,760 million francs ($70,000,000).68 The expense of some services made available to commercial operators by the French Air Force, including search and rescue and radio communications in some overseas

67 Law No. 48-976, supra n. 45, Art. 16.
68 J.O., 1950, pp. 8520, 8532, 8608, 8976, 9754, 10895, 12130; 1951, pp. 239, 575, 5325, 5341, 9182, 9183, 9184, 9670, 9866, 10274. The discrepancy between the figure given here and that shown in “Subsidy policies,” supra n. 1, p. 793, is due to cutbacks in the 1950 appropriations enacted in August, September and October 1951.
territories, is not carried on the civil aviation budget. Contributions of the local budgets of overseas territories to the expenses of facilities used primarily on local services by Air France and its subsidiaries appear to have been 100 million francs ($470,000) in 1948.69

In France many airport expenses are shared by municipalities and chambers of commerce which receive a large proportion of landing fees and other airport revenues. The national Government's share in such receipts was 87 million francs in 1948 and was expected to be 150 million francs in 1951.70

The Paris Airport has been developed largely at national expense, but specific figures are lacking. In 1950 the Government lent to the Airport one billion francs ($2,900,000) for thirty years at 6%. In 1951 a further loan of 350 million francs was expected. These loans have come in part from the ECA counterpart fund. In 1951 the national budget provided for the first time an outright operating subsidy for the Paris Airport in the amount of 196,000,000 francs ($568,400).71

**Effect of foreign exchange controls.**72 Air France benefits in various ways from the French exchange controls. It is often easier for a Frenchman to pay his passage in francs than to obtain "hard" currency for transportation by a foreign airline. American air carriers are required to pay in dollars for fuel, oil and lubricants purchased in France, while Air France is under no such burden.

**ECA aid.**78 France has been by far the greatest beneficiary of ECA dollar grants for the development of European civil aviation. ECA procurement authorizations for civil aviation material for France totalled $51,957,000 as of March 31, 1951, while paid shipments of such material to France stood at $39,017,000 as of that date. In 1949 an ECA grant of $7,125,000 enabled Air France to purchase six Constellations. Since the company was required to deposit an equivalent amount in francs with the counterpart fund, this grant cannot be called a subsidy, but it has clearly been of substantial benefit to the airline. Of more doubtful benefit to Air France have been the ECA grants of $2,306,000 and $4,500,000 for the purchase of engines and parts by the manufacturers of Breguet 763 and SE 2010 respectively (see above), and additional grants for the reequipment of the manufacturing plants. The French counterpart fund has been drawn upon to finance the Paris Airport on a loan basis to the extent of 500 million francs in 1950, with 350 million francs more being requested for 1951, and to aid on a grant basis the reconstruction of war-damaged aircraft manufacturing plants to the extent of 394 million francs.

**(To be continued)**

69 See 12 *Revue Generale de l'Air* 658 et seq. (1949); 13 *ibid.* 272 et seq. (1950).
70 J.O., 1950, p. 4932; 1951, p. 5479. In 1950 the share was 151 million francs.
72 J.O., 1951, p. 4316.