Public Aid to Major Foreign Airlines - Part II

Oliver J. Lissitzyn
PUBLIC AID TO MAJOR FOREIGN AIRLINES — PART II*

By OLIVER J. LISSITZYN

Assistant Professor of Public Law, Columbia University; member of the New York Bar. Formerly with the Council on Foreign Relations, Inc.; author of International Air Transport and National Policy (1942) and articles on international law and air transport problems; Air Transport Command, U.S. Army Air Forces, 1943-1945; legal analyst, American Airlines, Inc., 1946-1948.

PART I of this article dealt with the public aid received by the major British and French airlines. The present part is devoted to the public aid given to the major airlines of the smaller European states and of Canada and three South American republics. These nations differ from the United Kingdom and France in having less extensive political and military interests in other parts of the world and less incentive to maintain and develop strong national aircraft manufacturing industries. This difference is reflected in their air transport policies and in the demands made by their national interest upon the respective airlines.

THE NETHERLANDS

KLM Royal Dutch Airlines (Koninklijke Luchtvaart Maatschappij, N.V.) began operating in May 1920. Initially a purely private corporation, it has become largely state-owned through successive investments of public funds. Today the Government controls some 98% of the company's stock (see below) and has a corresponding voting power in the stockholders' meetings, but private shareholders are entitled to nominate a certain proportion of the board of directors and the board of control. KLM owns half (15 million guilders) of the stock of Garuda Indonesian Airways, the other half being held by the Indonesian Government.

Although one of the primary functions of KLM, particularly before the separation of Indonesia, was to provide a link between the Netherlands and its rich colonial possessions, commercial considerations have always played an important part in the company's policies. Unlike the British and French "chosen instruments," it has been under no compulsion to restrict its purchases of American-made flight equipment and use domestic products. Nevertheless, it has not been free of dependence on public aid.

Direct subsidy.74 KLM received direct subsidies from the begin-
ning of its activity until World War II. Subsidy payments totalled about 9½ million guilders in the period from 1919 to 1938. In the four years immediately preceding the War the subsidy remained fixed at 547,800 guilders per year. The company made profits in 1946, 1947 and 1948, and did not need or receive any direct subsidies for these years. In the first half of 1949, however, its operating privileges in India, Pakistan, Burma and Ceylon were suspended as a sanction against the military action of the Netherlands in Indonesia, and its Amsterdam-Jakarta service was rerouted via Mauritius and other points. This rerouting, accomplished largely at the request of the Netherlands Government motivated by political and military considerations, resulted in additional expenses, lower frequencies, and reductions in pay-load capacity owing to the necessity of carrying more fuel. The loss caused by this emergency was estimated at 27,200,000 guilders. Other unfavorable developments, including the effects of the devaluation of the guilder and two accidents, brought the total deficit for 1949 to 39,687,582 guilders ($10,437,834). To cover the bulk of these losses, a direct subsidy of 27,200,000 guilders ($7,153,000) was granted by a law of August 21, 1950; in addition, a non-interest-bearing loan of 10,000,000 guilders ($2,630,000) was made by the State to the company. Since this loan is repayable out of future profits only, with the provision that any unpaid balance remaining after 1964 is to be cancelled, it may be regarded as in effect a direct subsidy contingently recapturable out of future profits. The balance of the 1949 deficit in the amount of 2,487,582 guilders ($654,234) must be considered as ultimately falling almost in its entirety on the national treasury, since the State owns about 98% of the company's capital. For 1950 the company received no direct subsidy, its deficit of 2,230,188 guilders being slightly overbalanced by "accrued profits from previous years" which enabled it to show a net surplus of 55,987 guilders.

Mail payments.75 Before the War payments for the carriage of mail between the Netherlands and the East Indies were on a guaranteed-load basis and contained a subsidy element. Since the War KLM has been paid at UPU rates for the carriage of Netherlands mail on international routes, and at rates reported to be considerably below UPU rates for the carriage of mail between Amsterdam and Jakarta. In 1950 the mail revenue of KLM was $1.09 per ton-mile and amounted to 10.5% of the company's total revenue.

Capital investment.76 This has been the most important form of public aid to KLM in recent years. The Dutch Government has invested the following amounts in the company's capital stock:

75 Lissitzyn, supra n. 9, pp. 187-188; KLM, Annual Reports, and Annual Survey, 1950, p. 33.
76 KLM, Annual Reports and Annual Survey, 1950; Lissitzyn, supra n. 9, pp. 118-119, 186; Law of August 21, 1950 (No. K 366); Interavia Air Letter, June 13, 1950. See also U.S. Civil Aeronautics Board, Koninklijke Luchtvaart Maatschappij (KLM), (mimeographed, October 5, 1948).
In addition, 5,010,000 guilders are believed to have been invested in KLM stock by the government-owned Netherlands Railways. Privately owned shares thus probably account for only 1,944,000 guilders of the total outstanding stock of 122,954,000 guilders at the end of 1950. Of the State investment in the company's stock, 58,000,000 guilders represent a conversion in 1946 of previous government loans, and 50,000,000 guilders represent a similar conversion under the law of August 21, 1950. The authorized capital of KLM was raised in 1950 from 100 million to 200 million guilders, but no new stock appears to have been issued to private investors. In proposing the 1950 law, the Government stated that the company would find it impossible to raise the necessary funds in the commercial money market.

During the profitable years from 1946 to 1948 the Government, as holder of some preferred shares, received dividends in the total amount of 88,000 guilders. In addition, it received in 1946 a sum of 2,242 guilders as its 10% share in undistributed profits. As a further offset to the aid received by the company in the form of capital investment and otherwise, government officials are carried on the Amsterdam-Jakarta route at reduced rates.

In addition to making investments in the stock of the company, the Government has also made funds available to KLM on loan and by guaranteeing borrowings from private sources. Most of such loans have been eventually converted into stock, as already explained. At the end of 1949 the company owed the Government 12,069,000 guilders for four Constellations and was indebted in the amount of 33,200,000 guilders to Herstelbank, a government agency similar to RFC in the United States. This indebtedness was redeemed with the capital and subsidies provided by the Government under the laws of August 21, 1950, which also authorized the Government to make new loans to KLM up to 15 million guilders ($3,945,000) and to guarantee borrowings from other sources up to 50 million guilders ($13,150,000). By the end of 1950, this authority had been utilized to guarantee KLM’s indebtedness to private creditors in the total amount of 21,402,165 guilders.778

Provision of equipment. From August 1, 1947, until the end of 1949 KLM operated an inter-island service in the East Indies for the account of the Netherlands East Indies Government and with aircraft provided by the Government. The financial results of this operation were not included in the general accounts of the company, and there

77 This debt is believed to have arisen out of the government guarantee of the loan of $3,161,813 made to KLM by the Export-Import Bank of Washington for financing the purchase of Constellations. See infra.
778 In 1952 the government was reported to have guaranteed a loan of $7,000,000 obtained by KLM from the World Bank. N.Y. Times, March 22, 1952.
AID TO FOREIGN AIRLINES

is no available indication of the extent, if any, to which the company benefited by this arrangement.78 KLM has benefited by ECA grants and Export-Import Bank loans guaranteed by the Government (see below).

Training of personnel. KLM has probably benefited by the employment of some graduates (including pilots, navigators and engineers) of the government civil aviation school, appropriations for which for the two years 1949 and 1950 totalled 13,069,000 guilders.79

Special favors. KLM has operated a number of special services for the Netherlands Government, notably air surveys and a charter service for the transportation of emigrants to Australia in 1951.80 There is no available indication of any subsidy elements in these arrangements.

Ground facilities. Since most of KLM’s operations are conducted outside of Netherlands territory, the benefits derived by it from government expenditures on ground facilities are not large. The Netherlands supports two weather ships in the North Atlantic. The total civil aviation budget of the Netherlands for 1950, exclusive of the direct subsidy granted to KLM, was 23,926,664 guilders ($6,292,713); the expected receipts offsetting this expenditure were 2,007,000 guilders. A ten-year government project of airport development published in 1949 calls for a total expenditure of about $38,000,000.81

The Schiphol Airport at Amsterdam has been operated since 1950 by a special airport authority in which 60% of the interest is held by the national Government and 40% by the city of Amsterdam. The Government is to bear 100% of the capital cost of runways and 60% of the capital cost of buildings and installations. The operating loss of the airport in 1950, after depreciation and capital charges, has been estimated at 1,480,000 guilders. The landing fees per 1000 kilograms are 2 guilders for inter-continental traffic, 1.50 guilders for European traffic, and 1 guilder for domestic traffic.82 Since KLM has a monopoly of domestic traffic and is reported to account for about 80% of all landings at Schiphol, this scale is of some benefit to it.

Effect of foreign exchange controls.83 An advantage to KLM accrues from a requirement of special permission for the purchase in local currency of passages on the American-flag carrier other than those within Europe commencing or ending in the Netherlands and those between Amsterdam and New York. Such permission is generally not given if there is any alternative available and no Dutch interest is promoted by the trip.

80 KLM, Annual Survey, 1950, pp. 9-10, 12.
82 Owing to a misprint, this information does not appear correctly in “Subsidy Policies,” supra n. 1, p. 828. Most of the data presented in this paragraph are taken from releases of the Schiphol Airport Authority.
ECA and Export-Import Bank aid. By the end of 1948 ECA had allocated $8,000,000 for the purchase of American aircraft by KLM. As of March 31, 1951, ECA procurement authorizations for aircraft, engines and parts for the Netherlands totalled $29,562,000, while paid shipments by the same date totalled $25,417,000, including $10,400,000 in complete aircraft. The bulk of these shipments are believed to have been to KLM. The benefits derived by KLM from ECA grants are not shown in the company’s accounts, since an equivalent amount in guilders must be deposited with the local counterpart fund. The Export-Import Bank of Washington, as already indicated, financed the purchase of four Constellations for KLM by a dollar loan in the amount of $3,161,812 repayable in four years. This loan, which was guaranteed by the Netherlands Government, bore interest at 3%.

BELGIUM

SABENA (Société Anonyme Belge d’Exploitation de la Navigation Aérienne), the “chosen instrument” of Belgian air transport policy, was organized in 1923, replacing SNETA (Société Anonyme Belge pour l’Etude des Transports Aériens), set up in 1919 at the instigation of King Albert to develop certain experimental services. SNETA took a large block of shares in the new corporation and became a holding company. Although SABENA is in form a private corporation, with common and preferred stock, the Belgian Government, directly and through the colonial government of Belgian Congo, has always had an absolute majority of votes in the stockholders’ meetings. Since 1949 it has controlled 331,000 out of a total of 652,000 shares. Before 1949 the Government named four of the twelve members of the board of directors; in 1949, the number of directors was increased to fourteen, of which seven are named by various government ministers. The government directors may suspend for 15 days the execution of any decision of the board regarded by them as contrary to the public interest, and such a decision may then be definitely vetoed by the minister concerned.

Although SABENA is widely regarded as one of the more successful of the world’s airlines, it has not escaped the need for public aid, given largely in the form of capital investment as well as direct subsidies.

Direct subsidy. In the first 21 years of its existence through 1943 SABENA received approximately a total of 275,000,000 Belgian francs

---

84 Ibid., pp. 827, 870-871.
AID TO FOREIGN AIRLINES

in partly recapturable direct subsidies calculated on various bases, including 271,500,000 francs paid by the Belgian Government and 3,500,000 francs by the Belgian Congo Government. In 1939 the combined subsidy was approximately 28,500,000 francs, or $960,450 at the then prevailing rate of exchange.88 During the War, the company operated many services in Africa for the Allied Governments on terms which permitted the direct subsidy to be reduced to 4,727,324 francs in 1943 and to be eliminated in 1944. The profits earned by the company in the period 1944-1947 (particularly the profit of 123,607,172 francs made in 1946, the banner year) enabled it to repay (in depreciated francs) the entire amount — 103,000,000 francs — of past subsidies subject to recapture and to declare dividends in which the Government shared to the extent of about 1,000,000 francs. In 1948, however, SABENA sustained a net loss of 18,988,334 francs. The deterioration of the company's financial position led to the reinstatement of direct subsidy in a new form under the law of April 6, 1949,89 and the annexed by-laws, which provided for government assistance to SABENA in the full amount required for the amortization of the airline's flight equipment not covered by the company's own revenues. This subsidy is recapturable without interest out of one-half of future profits after provision for a reserve and for a 6% cumulative dividend on preferred shares. In 1949 and 1950 the direct subsidy received by SABENA in this form equalled the company's net deficits for these years and amounted to 89,152,795 francs ($1,783,056) and 20,638,021 francs ($412,760), or 11.2% and 2.1% of the company's total revenue, respectively.

Mail payments.90 Although before World War II the payments received by SABENA for Belgian mail may have contained an element of subsidy, in recent years they have apparently not exceeded the UPU rates. In 1947 and 1948 respectively, the average rates of the company's mail revenue were $1.63 and $1.51 per ton-mile, and mail accounted for 6.4% and 7.1% of the airline's total operating revenue.

Capital investment.91 The cash investments of the Belgian Government and the Congo Colony in SABENA preferred stock before 1949 may be summarized as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>B. Fr. 3,000,000</td>
</tr>
<tr>
<td>1927</td>
<td>2,000,000</td>
</tr>
<tr>
<td>1929</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>10,000,000</td>
</tr>
</tbody>
</table>

Of the total, 5,400,000 francs were invested by the Belgian Government and 4,600,000 francs by Belgian Congo. Common stock did not rep-

88 In this article Belgian francs are converted into dollars at the following rates: For 1939—1 B. franc equals $0.0337; for 1949 and 1950—1 B. franc equals $0.02.
89 Supra n. 86.
90 ICAO, Statistical Summaries, No. 6, p. 7, and No. 9, p. 11.
91 Belgium, Senate, Session of 1948-49, Document No. 94, January 19, 1949; Law of April 6, 1949, supra n. 86; SABENA, Rapports...
resent a separate cash investment since it was issued, before 1949, share per share to the holders of preferred stock, and in addition the Government and the Colony received some common stock in return for intangibles such as loan guarantees and the results of experimental studies in air transportation. Together they hold 31,000 shares of common stock out of a total of 52,000.

In 1949, as part of the reorganization designed to strengthen the company's finances, the stock capital, as represented by the preferred shares, was raised from 20,000,000 francs to 300,000,000 francs ($60,000,000), and the life of the company was extended for an additional thirty years. One-half of the new issue, or 140,000,000 francs ($280,000), was taken by the Belgian Government and the Congo Colony in equal parts, but this stock represented the conversion of a like amount of the indebtedness of the company to the two governments rather than a new cash contribution. The par value of the total investment of the public authorities in the preferred stock of the company now stands, therefore, at 150,000,000 francs ($3,000,000). No new common stock was issued in 1949.

Loans and Guarantees. SABENA has also benefited by loans received from the Belgian State or from the Congo Colony from time to time, and by state guarantees of borrowings from private sources. The debt of the company to the Congo Colony was reduced from 77,071,885 francs at the end of 1945 to approximately 73,000,000 francs ($1,460,000) at the time of the 1949 reorganization. From 1947 to the time of reorganization, however, the company borrowed some 227,000,000 francs ($4,540,000) from the Belgian Government. By partial conversion into equity capital in 1949, as explained above, this indebtedness to the public authorities was reduced to approximately 160,000,000 francs ($3,200,000). As of December 31, 1950, the company owed 147,056,337 francs ($2,941,127) to the Belgian Government and 16,499,558 francs ($329,991) to the Colony, indicating some new borrowings from the latter, since of the previous indebtedness of 73,000,000 francs to the Colony 70,000,000 francs had been converted by 1950 into capital stock under the 1949 reorganization plan. It is reported that an agreement published in December 1950 provided for the repayment of the remaining debt to the Belgian Government at 4% interest in twenty (instead of four) annual installments.

SABENA enjoyed state guarantees of some of its indebtedness from the very beginning of its existence. As of January 1946 the guaranteed debts of the company stood at 25,594,000 francs, but this indebtedness under an old guarantee was reduced to 11,892,000 francs by the end of 1950. Under the law of April 6, 1949, and the annexed by-laws, however, the company may be authorized to issue state-guaranteed bonds for the purchase of flight equipment. Bonds issued and guaran-

---

92 Including 100 shares held by the territory of Ruanda Urundi administered by Belgium under a United Nations trusteeship.  
AID TO FOREIGN AIRLINES

The total state-guaranteed indebtedness of SABENA thus amounted to 43,892,000 francs ($877,840) on December 31, 1950.

**Tax exemptions.** Under the law of April 6, 1949, the company is exempt from taxes on the issue of new stock and on the extension of the company's life for thirty years.

**Ground facilities.** The appropriations in the national budgets of Belgium for 1949 and 1950 to cover the net expenses of air route and airport facilities were reported to amount to 114,189,000 francs ($2,283,798) and 116,200,000 francs ($2,324,000) respectively, including in 1950 4,600,000 francs as the Belgian share in the cost of maintaining weather ships in the North Atlantic. The 1950 budget of the Belgian Congo was reported to provide about 18,500,000 francs ($370,000) for airport development and 8,384,000 francs ($167,680) for meteorological and communications facilities. SABENA, of course, is not the only user of ground facilities developed and maintained at government expense.

**ECA aid.** SABENA is believed to be the principal beneficiary of ECA procurement authorizations totalling $4,217,000 as of March 31, 1951, for shipments of aircraft, engines and parts to Belgium and Luxembourg. Paid shipments under such authorizations totalled $3,390,000 as of March 31, 1951, and included $1,613,000 in complete aircraft. Since the recipients of goods shipped under the ECA program are required to deposit equivalent amounts in local currency in a counterpart fund, the extent to which SABENA has benefited by the ECA dollar grants is not apparent from the company's annual reports.

**SCANDINAVIA**

Although the three Scandinavian countries (Sweden, Denmark and Norway) are independent states, their air transport activities are carried on for the most part by a single operating consortium known as the Scandinavian Airlines System (SAS), in which the three national companies, the Swedish ABA (Aktiebolaget Aerotransport A/B), the Danish DDL (Det Danske Luftfartselskab A/S), and the

---

94 Supra n. 86.
96 “Subsidy Policies,” supra n. 95, pp. 855, 871.
Norwegian DNL (Det Norske Luftfartselskap A/S), share the assets, profits and losses in the ratio of 3:2:2 respectively and have an equal voice in the management.

The first consortium agreement, signed on July 31, 1946, provided for the joint operation of the Scandinavian intercontinental services only. The aircraft for these services were made available by the three national companies in return for a "chartering fee," and each company also provided the flight crews for its aircraft and the sales and station services in its home country. The European services began to be operated on a joint basis in 1948 under a somewhat looser arrangement, each national company covering its own operating expenses and the revenues being divided in proportion to the capacity made available by each of the partners. The intercontinental consortium, known as OSAS (SAS, Overseas Division), published its own accounts, and only the shares of its profits or losses falling to each of the participants, as well as the "chartering fees" and other payments, were entered in the respective accounts of the national companies. The European organization, known as ESAS (SAS, European Division), which had many characteristics of a pool rather than a consortium, did not publish any financial statements, the operating expenses and receipts being directly included in the accounts of the respective participants.

The top-heavy administrative organization of SAS and the heavy losses sustained by the Scandinavian companies in 1948 and 1949 led to reorganizations of the Danish and Norwegian companies and the conclusion of a new consortium agreement. All of these arrangements were put into force as of October 1, 1950, although the new SAS agreement is dated February 8, 1951. Under this agreement, all the services previously operated by OSAS, ESAS and the three national airlines are to be flown by the new SAS as a single organization, the national airlines assuming the position of holding companies. Although each company remains the owner of record of the aircraft contributed by it, the consortium is accorded sweeping powers of control and disposal of such aircraft. The three companies are jointly and severally liable for the obligations of the consortium to third parties.

In the period from August 1, 1946, to the end of 1948, OSAS sustained a net loss of 9,489,771 Swedish crowns ($2,657,136), most of which was incurred in 1948; in 1949, however, it broke even (with a net profit of 30,889 Sw. crowns), and in the first nine months of 1950 it made a net profit of 4,152,501 Sw. crowns ($803,509). Under the old agreements, SAS received no public aid directly (except through the participation of the Scandinavian Governments in the maintenance of weather ships in the North Atlantic and other facilities). Its losses, if any, were borne by the participating companies which might receive public aid in direct subsidies, capital investment, or other forms. SAS is reported to be paid at UPU rates.

OSAS, Annual Reports. In this article Swedish crowns are converted into dollars at the following rates: For 1946 to 1948—1 Sw. crown equals $0.24; for 1949 to date—1 Sw. crown equals $0.1935.
for the carriage of international mail. In 1948, mail accounted for 13.5% of the total operating revenues of OSAS, and the unit rate of mail revenue was $1.97 per ton-mile.\textsuperscript{98a}

Although the new consortium agreement likewise provides for the sharing of losses by the participating companies, the three Governments have guaranteed for five years such direct aid as may be required by SAS up to the following annual amounts:

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>2,200,000</td>
<td>Sw. crowns</td>
</tr>
<tr>
<td></td>
<td>($425,700)</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>2,000,000</td>
<td>D. crowns</td>
</tr>
<tr>
<td></td>
<td>($290,000)</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>2,000,000</td>
<td>N. crowns</td>
</tr>
<tr>
<td></td>
<td>($281,000)</td>
<td></td>
</tr>
</tbody>
</table>

This aid, which is to be extended through the respective national companies, is repayable out of future profits at 1% interest, but the Governments concerned may waive repayment of any unpaid balances remaining in 1975.\textsuperscript{100a} Furthermore, operation of uneconomical domestic routes will be undertaken by SAS only on agreed terms, i.e., presumably against special compensation. The new consortium is exempt from taxes in all three countries.

The initial capital of the new SAS, contributed by the participating companies in the ratio of 3:2:2 as explained above, is to be 157½ million Swedish crowns ($30,466,250). Since most of the public aid by which SAS has benefited, particularly in the form of capital investment, has been extended through the national companies,\textsuperscript{102} the aid received by each of the latter must be here separately examined.

\textit{Sweden}

The original Swedish participant in OSAS was SILA (Svensk Interkontinental Lufttrafik A/B), a company organized at the end of the War which had an interlocking relationship with ABA and which was merged with the latter in 1948, retaining identity only as a holding corporation. SILA received no direct aid from the Government. ABA, however, has enjoyed public aid in a variety of forms.

\textit{Direct subsidy.}\textsuperscript{102} Before the War, ABA (founded in 1924) regularly received a direct subsidy from the Government which in 1939 amounted to 900,000 Sw. crowns and made up 12.7% of the company's total revenues. It declined during the War (in which Sweden was

\textsuperscript{98a} ICAO, \textit{Statistical Summary}, No. 9, p. 43b.

\textsuperscript{99} In this article Danish crowns are converted into dollars at the following rates: For 1945 to 1947—1 D. crown equals $0.20; for 1948—1 D. crown equals $0.21; since 1949—1 D. crown equals $0.145.

\textsuperscript{100} In this article the Norwegian crowns are converted into dollars at the following rates: For 1946 and 1947—1 N. crown equals $0.23; for 1948—1 N. crown equals $0.22; for 1949 to date—1 N. crown equals $0.1405.

\textsuperscript{100a} In the fiscal year ended September 30, 1951, SAS made a net profit of 2,540,000 Sw. crowns, making reliance on the guarantee unnecessary.—\textit{Intervia Air Letter}, March 6, 1952.

\textsuperscript{102} It is reported, however, that the Danish Government has extended a loan of $480,000 to SAS for the purchase of DC-6B's. \textit{American Aviation Newsletter}, February 11, 1952, p. 4.

neutral) to 450,000 Sw. crowns in 1945, when it was only 2% of the company's revenues. No direct subsidy was given in 1946 and 1947. In 1948-1949 the subsidy was reinstituted in the amount of 950,000 Sw. crowns (2.4% of the company's total revenues), but only for the purpose of inducing the company to operate certain domestic routes which were uneconomical. For the years 1949-1950 the subsidy was approximately 1,800,000 Sw. crowns ($348,000). In view of the purpose of this subsidy, it can hardly be regarded as a form of aid to SAS, which then operated only international services. The Government was reported to have approved subsidies for domestic services, to be operated presumably by the new SAS, in the amount of 500,000 Sw. crowns ($96,750) for each of the two years 1950-1951 and 1951-1952, with 200,000 Sw. crowns more guaranteed by local traffic committees. ABA is reported to have asked for a subsidy of 450,000 Sw. crowns for these services for the year beginning October 1, 1952.

Mail payments. In 1947 ABA’s mail revenue was $1.68 per ton-mile and made up only 5.6% of the total operating revenue. In 1948 this proportion declined to 3.0%, while the rate dropped to $0.52 per ton-mile, clearly indicating that mail payments have not been a source of public aid to the airline to any appreciable extent.

Capital investment. Through subscriptions in 1935, 1946 and 1947, the Government had acquired by 1948 a total of 24,416,000 Sw. crowns ($6,836,480) of the stock of the company, or 97.7%, while private interests held only 584,000 Sw. crowns. In the reorganization following the merger of SILA with ABA in 1948, ABA’s capital was doubled to 50,000,000 Sw. crowns, of which the Government took 50%, or 25,000,000 Sw. crowns, against a cash payment of 9,746,000 Sw. crowns ($2,728,880). The necessity for this cash payment is not apparent, in view of the Government’s previous holdings in the company, and it may perhaps be assumed that in the reorganization the Government sustained a capital loss of 9,162,000 Sw. crowns ($2,565,360).

The Government has also financed ABA through loans from a special air traffic loan fund. ABA’s indebtedness to the fund has fluctuated. From 2,128,000 Sw. crowns at the end of 1945 it has risen to 31,922,108 Sw. crowns ($6,176,928) on June 30, 1949. Further loans are reported to have been granted since then.

Tax exemptions. The Government has been reported to make special provision for the payment of certain taxes by ABA. According to these reports, it in effect exempted the company from a tax of 500,000 Sw. crowns ($96,750) on the issue of new stock under the SILA-ABA merger plan, and has proposed a special non-interest-bearing loan to the company to cover a tax of about 6 million Sw. crowns due in 1951 on a book profit made by ABA in connection with the reorganization of SAS.

103 ICAO, Statistical Summary, No. 6, p. 29b; No. 9, p. 43d.
104 ABA, Annual Reports.
105 "Subsidy Policies," supra n. 95, p. 837.
Special favors. The national carrier is believed to be favored in all transportation for the Government and other public authorities.

Ground facilities. Although the Government is known to have financed the development of airports and other facilities, detailed information is not available. Landing fees charged on domestic flights are lower than those charged for intercontinental traffic.

ECA and Export-Import Bank aid. ECA procurement authorizations for shipments of aircraft engines and parts to Sweden totalled only $180,000 as of March 31, 1951. The purchase of six DC-6's, presumably for SAS use, was facilitated by a loan to ABA and SILA in 1948 from the Export-Import Bank of Washington at 3½% interest in the amount of $2,155,000 guaranteed by the Swedish Government. This loan has been repaid.

Denmark

DDL is the oldest existing air carrier in the world, having been organized in 1918, although it did not begin operating until August 1920. It has been accorded public aid in various forms.

Direct subsidy. The Danish company has received subsidies from the public authorities since 1923. An agreement made in 1937 provided for a direct subsidy on the basis of kilometers flown per year on a sliding scale. The city of Copenhagen added 20% to what the airline received from the national Government. A ceiling of 600,000 Danish crowns per year was set over the two subsidies combined. The amount actually received in 1938 was reported to be 521,000 D. crowns or 21.4% of the company's total revenues. A new agreement made in 1948 provided for a flat rate of 0.50 D. crowns per kilometer flown up to a maximum of 2,500,000 D. crowns from the national Government. Copenhagen continued to add 20%. This agreement came to an end on October 1, 1950. An extraordinary subsidy of 1,000,000 D. crowns, to which Copenhagen added the usual 20%, was granted to the company in 1948 to cover part of the losses sustained in 1947. The subsidies, which are tax-exempt, received by DDL in recent years may be summarized as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>D. Cr.</th>
<th>($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>600,000</td>
<td>120,000</td>
</tr>
<tr>
<td>1947</td>
<td>1,800,000*</td>
<td>372,000</td>
</tr>
<tr>
<td>1948</td>
<td>3,000,000</td>
<td>630,000</td>
</tr>
<tr>
<td>1949</td>
<td>3,000,000</td>
<td>630,000</td>
</tr>
<tr>
<td>1950**</td>
<td>2,250,000</td>
<td>326,250</td>
</tr>
</tbody>
</table>

* Including 1,200,000 D. crowns in extraordinary subsidy.
** First nine months.

In 1949 the subsidy was 7.8% of the company's total revenues. By the law of December 20, 1950, the Government waived the repayment of 8,375,000 D. crowns in contingently recapturable subsidies granted

106 Ibid. p. 843.
107 Ibid., pp. 837, 870-871.
109 DDL, Annual Reports; “Subsidy Policies,” supra n. 95, p. 838.
under the 1948 agreement. The waiver does not apply to the subsidy received from Copenhagen, which for the same period totalled 1,675,-
000 D. crowns.

It has been reported that a subsidy of about 1,000,000 D. crowns was given to cover the estimated deficit on domestic services — presumably operated by SAS — for 1950-1951, but that the failure of the Government to renew this subsidy for 1951-1952 was responsible for the suspension of the domestic services on October 1, 1951.110

Mail payments. No information is available on DDL's mail revenue, but it is not believed to contain a substantial element of public aid.

Capital investment.111 In 1937, with a new issue of stock, the Government's holdings in the company dropped from 70% to about 17%. After increases in capital in 1943 and 1946, the state held 5,273,-
550 D. crowns out of 30,000,000, or about 171/2%. The company's heavy losses in 1948 and 1949 (a total of 19,050,439 D. crowns after direct subsidies) led to reorganization under the law of December 20, 1950, in the process of which the old stock was written down by 25%. The state thus suffered a capital loss of 1,318,388 D. crowns ($191,166). It took 14,190,000 D. crowns in new stock, and its holdings are believed to stand now at 18,250,006 D. crowns ($2,646,251), or slightly over 50% of the total stock capital of 36,500,000 D. crowns.

In 1948 the state guaranteed a 15-year 4% loan in the amount of 25,000,000 D. crowns ($5,250,000) contracted by the company. By the law of December 20, 1950, the Government was authorized for a period of five years to pay annual installments of up to 1,670,000 D. crowns ($242,150) on the balance of the loan outstanding as of September 30, 1950 (21,672,000 D. crowns). In return, it would receive non-voting stock entitling it to preference in case of liquidation of the company.

Tax exemptions.112 In addition to an exemption of direct subsidies from the income tax, DDL enjoys certain exemptions from stamp and documentary taxes. Certain other taxes are occasionally reimbursed to DDL.

Special favors.113 DDL is believed to have been favored in arrangements for official travel and possibly in the granting of contracts for charter flights to Greenland. Until 1950 it enjoyed a legal monopoly of scheduled air transport services under the Danish flag.

Ground facilities.114 Government expenditures for airport development reached a peak of 20,100,000 D. crowns ($4,221,000) in the year ending March 31, 1949, but have since declined to an estimated amount

110 Interavia Air Letter, August 24, 1951, and September 25, 1951.
111 DDL, Annual Reports; "Subsidy Policies," supra n. 95, pp. 838-839; Betaenking Angaende Udvidelse . . ., supra n. 97.
112 "Subsidy Policies," supra n. 95, p. 839.
113 Ibid.
114 Ibid.
of 5,500,000 D. crowns ($797,500) in the year ending March 31, 1951. The amounts collected in landing fees were 2,059,000 D. crowns in 1949-1950 and 2,196,000 D. crowns in 1950-1951. Rentals collected at the Copenhagen airport in 1950-1951 were estimated at 2,200,000 D. crowns.

*ECA aid.* Procurement authorizations totalling $847,000 for aircraft and accessories for Denmark had been approved by ECA by March 31, 1951. Shipments included $841,000 in complete aircraft. This dollar aid facilitated the purchase of two DC-6's for use by SAS, but was not directly reflected in the books of the company, which had to make an equivalent payment in local currency to the counterpart fund.

*Norway*

DNL was originally organized in 1927, but reconstituted as a new company in 1946. It has been heavily dependent on public aid.

**Direct subsidy.** DNL received regular subsidies before the War. In 1939 the subsidy amounted to 675,000 Norwegian crowns. After the War, no direct subsidy as such was granted until 1951, but the amount of 20,000,000 N. crowns ($2,810,000) in state-owned capital stock and government loans written off in the reorganization of 1950-1951 (see below) may be regarded as a retroactive subsidy for the years 1946 to 1950. Of this amount, 5,000,000 N. crowns ($702,500) are definitely assignable to the losses sustained in 1949. It is reported that an amount of 2,600,000 N. crowns ($365,300) has been appropriated for 1951 as a subsidy for domestic services operated by SAS.

**Mail payments.** DNL's mail revenue in 1947 and 1948 respectively was $1.47 and $1.79 per ton-mile and made up 5.3% and 4.1% of the company's total operating revenues. It probably does not contain any substantial element of public aid.

**Capital investment.** The pre-war company was entirely private in ownership. In the company organized in 1946 the state took 5,000,000 N. crowns in stock, or about 19% of the total capital. By the end of 1949 the accumulated losses of DNL had exceeded the total stock capital, 80% of which was written off in the ensuing reorganization. The state thus sustained a loss of 4,000,000 N. crowns ($562,000). Through conversion of indebtedness into stock (see below), the state's holdings were then built up to 15,000,000 N. crowns ($2,107,500), or 50% of the capital as it now stands.

Government loans to DNL from 1947 to 1951 totalled 45,000,000 N. crowns. They included the following:

---

115 Ibid., pp. 839, 871.
(a) 1947: 5,000,000 N. crowns ($1,000,000) converted into stock in 1950-1951.
(b) 1948: 20,000,000 N. crowns ($4,000,000), written down to 9,000,000 N. crowns ($1,264,500) and converted into stock in 1950-1951. The written-off amount of 11,000,000 N. crowns ($2,200,000) was termed a retroactive subsidy.
(c) 1949: 5,000,000 N. crowns ($702,500) granted in 1950 to cover losses for 1949. Written off in 1950-1951 as a subsidy.
(d) 1951: 15,000,000 N. crowns ($2,107,500). This loan was specifically designed to enable DNL to contribute its share of capital to SAS.

In 1948, the state also guaranteed a 12-year bank loan of 15,000,000 N. crowns ($3,000,000). This loan was secured by a first mortgage on flight equipment and real estate and bore interest at 1½%. It was to be converted in 1951 into a 25-year loan at 2½%. In 1951 the total amount of the company's indebtedness authorized to be guaranteed by the state was increased to 30,000,000 N. crowns ($4,215,000).

Provision of equipment. At the end of the War the Government turned over to DNL two DC-4's and thirteen DC-3's with engines and parts, valued at 10,174,124 N. crowns and covered by a part of the loan of 20,000,000 N. crowns made by the Government to the company in 1948 and later written off or converted into stock (see above). In addition, ten JU-52's with parts were also made available by the Government to DNL. This equipment is obsolete.

Training of personnel. Most of DNL's flight crews and some ground personnel received their training in the Norwegian Air Force.

Special favors. It is reported that all Norwegian Government employees must travel by SAS whenever possible. DNL, however, has no monopoly of Norwegian-flag air transport. A private airline, Braathens South American and Far East Air Transport A/S (S.A.F.E.) operates a scheduled service to the Far East.

ECA aid. The purchase of two DC-6's by DNL, presumably for SAS use, has been facilitated in part by ECA dollar grants. Procurement authorizations for shipment of aircraft, engines and parts to Norway totalled $961,000 by March 31, 1951. The shipments have included $822,000 in complete aircraft. The benefits derived by DNL or SAS from this aid are not reflected in the airlines' accounts, since equivalent sums must be paid by the recipient in local currency to the counterpart fund.

SAS: Summary

It is evident from the foregoing that the development and operations of SAS have in fact been in large part financed by the three Scandinavian Governments through the respective national companies, particularly in the form of capital investments. At least two of the three participants in the consortium have been saved from imminent bankruptcy in recent years only by energetic government intervention and the expenditure of public funds.
Switzerland

Swissair (Société Anonyme Suisse pour la Navigation Aérienne) was formed in 1931 through the merger of Ad Astra Aero Company and Balair Air Traffic Company. Originally it was purely private in ownership, but in the reorganization of 1947, when its capital was increased from 1,000,000 to 20,000,000 Swiss francs, it was provided that at least 30% of the stock must be held by the public authorities and agencies (federal, cantonal and municipal) who were to name 10 of the 27 members of the board of directors. At the latest report, such authorities and agencies actually held 30.6% of the shares. These proportions were preserved when the capital was written down to 14,000,000 francs in 1950. Although Swissair has continued to be managed on a business basis, it has needed and received public aid. The heavy loss sustained by the company in 1949 (3,637,805 francs) led to the introduction in 1950 and 1951 of new forms of such aid.

Direct subsidy. From 1931 to 1945 Swissair received a total of 7,323,819 francs in subsidies from the Federal Government and at least 1,661,391 francs from cantons and cities. The payments from all these sources, calculated on a deficit-covering basis, declined from 968,737 francs, or 45.1% of the company’s total revenues, in 1931 to 447,897 francs, or 11.4% of total revenues, in 1938, but shot up during the war years to a peak of 681,474 francs from the Federal Government alone in 1944. In 1946 and 1947, however, the company received no subsidies from any source. In 1948 and 1949 it was given assistance by the Federal Government in the annual amounts of 150,000 francs ($34,500) for the training of flight personnel; in 1950 this aid was raised to 500,000 francs ($115,000) per year and was 1.2% of the company’s total revenues. No subsidies from cantons or cities have been received since 1945.

Mail payments. The figures for pre-war subsidies given above include, for 1931, 1940, 1941, 1944 and 1945, unstated amounts of a special subsidy received from the Swiss Post Office. It is not believed that the mail revenues of Swissair since the War have included a sizeable element of public aid. The proportion of mail revenue to total operating revenue declined from 24.2% in 1938 to 7.8% in 1949, but rose to 11.5% in 1950, reflecting a heavy increase in mail traffic. The rate of payment per ton-mile has fluctuated, rising from $1.99 in 1938 to $3.24 in 1947 but dropping to $2.18 in 1950, when upward adjustments in mail rates were under consideration.

Capital investment. After the reorganization of 1947, the Fed-

119 Message of the Federal Council, August 23, 1950, supra n. 117; Swissair, Rapports. In this article Swiss francs are converted into dollars at the rate of 1 Swiss franc equals $0.23.
120 Message of the Federal Council, August 23, 1950, supra n. 117; Swissair, Rapports.
121 Ibid.
eral Government held 4,350 shares (of 500 francs each) of the company's stock, or 108% of the total, while various cantons and municipalities held 7,896 shares or 19.8% of the total. The combined holdings of the public authorities thus amounted to 12,246 shares (30.6% of the total) of the nominal value of 6,123,000 francs ($1,408,290). In 1950, these holdings were written down by 30%, representing a capital loss of 1,836,900 francs ($422,487).

As a result of Swissair's disastrous financial experience in 1949 and expectation of further heavy losses in 1950, the Federal Government devised new forms of aid to the company which are described below under "Provision of equipment." In addition, the law of April 10, 1951,122 authorized the Federal Council to make short-term interest-bearing loans to the company up to a maximum of 3,000,000 francs ($690,000).

**Provision of equipment.** By the law of September 28, 1950,123 which raised the personnel training subsidy to 500,000 francs (see above), the Federal Government was also authorized to purchase two DC-6B's (with parts), already on order for the airline, for approximately 15,000,000 francs ($3,450,000), and to lease them to Swissair. This provision was retroactive to January 1, 1950, and the terms of the lease were to be fixed by agreement with the company. It appears that the rental is so calculated as to provide for the full amortization of the purchase price over a seven-year period. The two aircraft concern have been since placed in service.

The Federal Council, in its message of August 23, 1950,124 also proposed that the Federal Government purchase eight other aircraft (DC-4's and Convairs) from Swissair at the book value of 17,500,000 francs, paying the company 3,500,000 francs immediately and "borrowing" the remainder from the company at 2% interest, the aircraft, of course, to be operated by the airline. This proposal was rejected by the Federal Assembly. Instead, the law of April 10, 1951,125 as implemented by an agreement between Swissair and the Government, provided for the setting up of an aircraft amortization fund to which the Federal Government is to make contributions up to a total of 15,000,000 francs ($3,450,000) over a period of ten years, normally in annual amounts of 1,500,000 francs, to the extent that Swissair's operating profits do not allow the company itself to contribute the necessary amounts. The fund is to be used for replacement purposes by way of insurance as well as depreciation, relieving the airline of an annual insurance charge of about 1,000,000 francs ($230,000). Swissair may draw upon the fund for loans for the purchase of new equipment up to the amount of its own contributions. The Government has the

---

122 *Bundesblatt*, 1951, I, 899.
124 Supra n. 117.
authority to contribute more than the normal annual amount of 1,500,000 francs when deemed necessary. The fund is to be dissolved after ten years; Swissair is entitled, upon the fund's dissolution, to receive from it the difference between the original and the disposal value of the aircraft the company then has. Any surplus then remaining is to be used to pay off the Federal Government's contributions, with the balance going to Swissair. It is clear that this arrangement provides, in effect, for a contingently recapturable equipment subsidy whenever the company's operating account makes it necessary within the ten-year period.

Training of personnel. As already mentioned, the Federal subsidy for the training of flight personnel was raised in 1950 from 150,000 to 500,000 francs per year.

Special favors. There is reason to believe that Swissair enjoys a favored position in providing certain ground facilities (including ramp service, limousines and documentation) for airlines at Swiss airports. The airline's revenue from “ground organization and commissions” rose from 1,574,812 francs (10.4% of total revenues) in 1946 to a peak of 5,245,108 francs (18.6% of total revenues) in 1947, then dropped to 3,805,772 francs (10.7%) in 1948 only to rise again to 4,550,062 francs (10.7%) in 1950. It may be significant in this connection that the Airport Fees Regulation of the Federal Aviation Department issued in 1946 provides that aircraft in scheduled services whose operators have no general arrangement with a Swiss air transport company for dispatching services must pay both on landing and on take-off a ground fee equal in amount to the corresponding landing fee plus 2 francs per passenger (with baggage) and 0.05 francs per kilogram of cargo. In return, such aircraft are provided with ramp and documentation services.

CANADA

Trans-Canada Air Lines (TCA), set up under the Trans-Canada Air Lines Act, 1937, has remained the “chosen instrument” of the Canadian Government for services over the Atlantic and across the United States border. Its capital stock is held by the Canadian National Railway Company, which is in turn wholly owned by the Canadian Government. The statutory authority to sell a part of the TCA stock has not yet been exercised by CNR. Of the seven members of TCA's Board of Directors, four are elected by the shareholders and three are appointed by the Governor in Council. The company's North Atlantic, Caribbean and Bermuda services are operated by a

---

126 Swissair, Rapports.
127 Eidg. Luftamt, Reglement über die Flugplatzstaxen, July 12, 1946 (in force as of September 1, 1946).
128 1 Geo. 6, c. 43.
129 See official statement of policy by Prime Minister King, April 2, 1943, The Canada Year Book, 1943-1944, p. 573.
wholly-owned subsidiary, Trans-Canada Air Lines (Atlantic) Ltd. Public aid in various forms has been given to TCA since its inception.

Direct subsidy.\(^{130}\) The Trans-Canada Air Lines Act of 1937 provided for payment of subsidies by the Canadian Government to TCA in the amount of the company's net deficits until the end of 1939. Under this provision, TCA received $818,026 for 1938 (58.1% of total revenues) and $411,657 (14.9% of total revenues) for 1939. From 1940, the company was aided through mail payments calculated on a deficit-covering basis. Direct deficit-covering subsidies were reinstated after the War, however. These subsidies have been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Subsidy Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>$1,369,678</td>
</tr>
<tr>
<td>1948</td>
<td>2,933,240</td>
</tr>
<tr>
<td>1949</td>
<td>4,317,593</td>
</tr>
<tr>
<td>1950</td>
<td>1,325,206</td>
</tr>
</tbody>
</table>

It must be noted that these subsidies are given to cover the net deficits for the entire system; in 1950, for example, the surplus of $201,206 earned by the company on its North American services was applied to the deficit of $1,526,412 sustained by the North Atlantic, Caribbean and Bermuda services, yielding a system-wide net deficit of $1,325,206 which was covered by the direct subsidy. Preliminary figures for 1951 are reported to indicate an over-all surplus for the year, thus eliminating the direct subsidy.\(^{131}\) The net profits or losses (−) from the North Atlantic, Caribbean and Bermuda services have been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>$136,303</td>
</tr>
<tr>
<td>1948</td>
<td>−1,750,218</td>
</tr>
<tr>
<td>1949</td>
<td>−2,898,149</td>
</tr>
<tr>
<td>1950</td>
<td>−1,526,412</td>
</tr>
</tbody>
</table>

From July 22, 1943, to April 30, 1947, the trans-Atlantic service was operated by TCA for the account of the Canadian Government, with equipment provided by the Government, and its financial results were not shown in the company's published reports. The Government's capital investment in this service totalled $4,788,369. In addition, $308,775 was paid by the Government for Rolls Royce engines used in this service, and the company received $3,399,758 for mail carried on this route to June 10, 1945.\(^{132}\) Other details of the cost of this service to the Government are not available.

Mail payments.\(^{133}\) Until April 1, 1946, Canadian mail payments to TCA were calculated on a frankly deficit-covering basis. Their proportion to the total operating revenues of the company declined from 61.7% in 1940 to 40.4% in 1945. In 1946 mail payments were placed on a pound-mile basis and the proportion of mail revenue to

\(^{130}\) TCA, Annual Reports; Lissitzyn, supra n. 85, pp. 160, 439. All amounts given in this section are in Canadian dollars which in recent years have fluctuated in value between U.S. $0.90 and U.S. $1.00.

\(^{131}\) Interavia Air Letter, January 8, 1952.


\(^{133}\) TCA, Annual Reports; Lissitzyn, supra n. 85, pp. 160, 439; “Subsidy Policies,” supra n. 95, p. 866.
total operating revenue dropped to 29.4%. On July 1, 1948, an interim arrangement for an "all-up" mail service on North American routes came into effect, which provided for fixed monthly mail payments of $450,000. On the Atlantic, Caribbean and Bermuda services TCA is paid at ton-mile rates. The proportion of mail revenue to total operating revenues for the entire system has since been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>18.2%</td>
</tr>
<tr>
<td>1949</td>
<td>17.8%</td>
</tr>
<tr>
<td>1950</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

On the Atlantic, Caribbean and Bermuda services alone (with very little mail traffic on the Caribbean and Bermuda routes which were opened in 1948), the proportion of mail to total operating revenues has been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>13.4%</td>
</tr>
<tr>
<td>1948</td>
<td>10.3%</td>
</tr>
<tr>
<td>1949</td>
<td>11.4%</td>
</tr>
<tr>
<td>1950</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

The rate of mail revenue per ton-mile of mail carried on the North American routes has been as follows: 1940, $6.35; 1942, $2.82; 1944, $2.16; 1946, $3.12; 1947, $2.98; 1948, $2.03; 1949, $1.58; 1950, $1.48. The lower rates during the war years reflected the high war-time load factors. On the Atlantic, Caribbean and Bermuda services the average rate of mail revenue per ton-mile was $3.03 in 1948, $2.91 in 1949 and $2.98 in 1950, possibly indicating the presence of a subsidy element.

A new contract for the transportation of mail on the North American services was made early in 1951, providing for a sliding scale with minimum estimated ton-mileages and corresponding payments for the various months, the unit rate ranging from $1.31 per ton-mile in January to $1.08 in October.

Capital investment. The authorized capital of TCA, originally fixed at $5,000,000, was raised to $25,000,000 by the Act of December 18, 1945. The actual holdings of the Canadian National Railway Company in TCA have risen from $3,200,000 in 1938 to $4,600,000 in 1943-1945 and to $25,000,000 in 1948. Before 1946, this stock carried fixed interest at 5%; since then, the rate has been the same "as the Railway Company was called upon to pay on the advances to it by the Government for T.C.A. capital purposes," generally 3%. This interest is included among the charges of the company in its annual accounts.

In 1948 TCA borrowed $1,500,000 from Canadian National Railways. The debt was repaid in 1949. Since 1948, the Government has been making short-term advances to TCA chargeable to the annual subsidy.

---

134 TCA, Annual Reports.
135 9-10 Geo. VI, c. 81.
Provision of equipment. TCA obtained six unpressurized Canadian “North Stars” (modified DC-4's of Canadian manufacture with British engines) on loan from the Canadian Government to begin its commercial trans-Atlantic service in 1947. These planes were retired from TCA's service in the autumn of 1948, reconverted by the company to military specifications and returned (with the exception of one lost in an accident) to RCAF in 1949. It is reported that TCA paid no rental for the use of these aircraft, and that it purchased 24 military transports of the DC-3 type as war surplus at reduced prices. The Government is reported to have met 75% of the costs of development of an Avro Jetliner prototype, in which TCA, however, has shown little interest.

Special favors. Between 1947 and March 1949 TCA transported a large number of immigrants from Europe on charter flights under contracts with the Province of Ontario and the Government of Canada. Although this program accounted in 1948 for a charter revenue of $2,085,463, or 19% of the total revenues of TCA's Atlantic subsidiary, it was stated to be unprofitable because of the low rates charged and the lack of eastbound loads.

In December 1950 the company entered into a new agreement with the Government for the transportation of European immigrants, under which the Government makes up the difference between a special low rate paid by the immigrant (reported to be $160) and the full fare ($375 from London). It is reported that during the first half of 1951 about 3000 immigrants took advantage of this arrangement.

All Canadian National Railway ticket offices sell TCA tickets.

The Trans-Atlantic service operated by TCA at Government expense from 1943 to 1947 (see above under “direct subsidy”) undoubtedly saved the airline many development costs. Furthermore, "the company and its personnel thus acquired considerable know-how in trans-Atlantic operations."

Ground facilities. The total civil aviation expenditures and receipts of the Canadian Government, including capital and operating costs of ground facilities and the deficit-covering subsidies to TCA detailed above, but not mail payments, have been as follows in recent fiscal years ending March 31:

137 TCA, Annual Reports, 1948, 1949.
138 "Subsidy Policies," supra n. 95, pp. 864-865.
139 Ibid., p. 868.
142 Canada, Bureau of Statistics, Transportation Division, Civil Aviation in Canada, 1947, p. 2.
143 Canada, Department of Transport, Annual Reports; Canada, Public Accounts; Appropriation Act No. 4, 1950, 14 Geo. VI, c. 55; Appropriation Act No. 2, 1951, 15 Geo. VI, c. 2; Appropriation Act No. 4, 1951, 15 Geo. VI, c. 65. See also The Canada Year Book.
The receipts include airport revenues. In the period immediately following World War II the capital expenditures for civil aviation were very heavy, rising to $103,329,510 in 1946-1947. Up to March 31, 1950, the total expenditures of the Canadian Government on civil aviation since the beginning amounted to approximately $360,000,000, not including mail payments and the cost of acquisition of certain war-time facilities from the United States (about $90,000,000), while the receipts totalled only approximately $27,000,000. Provinces and municipalities have also contributed to the cost of ground facilities. TCA has probably been one of the principal beneficiaries of all these expenditures, though by no means the only one.

Effect on foreign exchange controls. Until their recent abolition, the restrictions on the convertibility of Canadian currency had the effect of limiting the volume of travel on other than Canadian carriers.144

ARGENTINA

The present “chosen instrument” of Argentine air transport policy, Aerolíneas Argentinas, was set up in 1950145 through the merger of four airlines, Flota Aerea Mercante Argentina (FAMA), Aeroposta Argentina, Aviacion del Litoral Fluvial Argentino (ALFA), and Zonas Oeste y Norte de Aerolineas Argentinas (ZONDA), all of which had been nationalized in May 1949.146 The venture of the Argentine Government into the airline business began in 1946, when the four companies just enumerated were set up or reorganized as “mixed companies” with public and private capital.147 The state was to hold 20% of the capital in each of the three companies whose operations were primarily domestic (Aeroposta, ALFA and ZONDA) and one-third of the authorized capital (150,000,000 pesos) of FAMA, the company whose operations were primarily international. It appears that in fact the state held more than one-third of FAMA’s capital, since it took shares in the amount of 47,515,000 pesos while only 50,000,000 pesos were apparently taken by private investors. Heavy losses and

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditures</th>
<th>Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948-1949</td>
<td>$37,693,236</td>
<td>$2,588,276</td>
</tr>
<tr>
<td>1949-1950</td>
<td>39,790,802</td>
<td>5,354,301</td>
</tr>
<tr>
<td>1950-1951</td>
<td>39,916,026*</td>
<td>N.A.</td>
</tr>
<tr>
<td>1951-1952</td>
<td>39,890,464*</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

* Appropriations.

---

144 “Subsidy Policies,” supra n. 95, p. 868-869.
national interest considerations led the Government to abandon the
"mixed company" experiment in favor of outright government ownership and operation.

Aerolineas Argentinas is run as an autonomous legal entity by a
general manager and an administrative council appointed by the Gov-
ernment; its budget is included in the national budget. Public aid
has been continuously given to the Argentine airlines.

**Direct subsidy.** The Government guaranteed a 5% dividend on
the stock of the four "mixed companies" and thus undertook to under-
write their deficits which (with the 5% dividend) totalled 43,250,314
pesos ($10,224,873) in 1947 (including 22,530,921 pesos for FAMA)
and 75,544,071 pesos ($17,858,619) for 1948 (including 46,418,096
pesos for FAMA). For 1949 the combined losses have been variously
reported as 80 million, 100 million and 120 million pesos ($18,912,000
to $28,368,000 at the rate of $0.2364 per peso). In 1950 the losses
of Aerolineas Argentinas, covered from the national budget, were
reported to be 67,716,826 pesos ($11,119,103 at the rate of $0.1642 per
peso).

**Mail payments.** No complete figures of the mail revenues of Ar-
gentine airlines have been published. In 1948 FAMA is reported to
have received 2,610,356 pesos for mail carried to foreign destinations,
an amount that seems insignificant in view of the company's net loss
of 46,418,096 pesos for the year. The mail revenues of Aeroposta
Argentina accounted for 22.2% of the company's total revenues in
1947, and for less than 10% in 1948, after the rates had been re-
duced.

**Capital investment.** The state originally invested 2,000,000 pesos
in each of the three domestic "mixed companies" and 47,515,000 pesos
in FAMA, or a total of 53,515,000 pesos ($12,650,946). The privately-
held stock, which appears to have amounted to 24,000,000 pesos in the
three domestic companies and to 50,000,000 pesos in FAMA, or to a
total of 74,000,000 pesos, was reported to have been redeemed by the
Government at par value with 5% interest at the time of nationaliza-
tion, or for a total amount of about 77,700,000 pesos ($18,368,280 at
the rate of $0.2364 per peso). The total Government investment in

---

148 Supra n. 145.
149 Aurelio Gonzales Climent and Julio Palavea, supra n. 147. See also
budget message of June 28, 1948, Ministerio de Hacienda, Boletín, July 17, 1948,
p. 1456. In this article Argentine pesos are converted into dollars at the following
"free selling" rates: Before October 1949—1 peso equals $0.2364; between
October 1949 and August 1950—1 peso equals $0.1642; after August 1950—1
peso equals $0.1333. There has been in recent years another "free" market rate
of 14.03 pesos per dollar (see below).
150 "Subsidy Policies," supra n. 95, p. 801; Interavia Air Letter, February
151 The Aeroplane, June 15, 1951, p. 733.
152 Interavia Air Letter, March 8, 1950.
153 Aeroposta Argentina, Memoria y Balance General, 1948.
154 Supra n. 147; Interavia Air Letter, August 13, 1949.
the capital stock of the nationalized airlines was thus approximately 131,215,000 pesos ($31,019,226).

Although no complete information is available, it appears that the "mixed companies" at times received loans or guarantees from the Treasury or the national bank.\(^{155}\)

*Training of personnel.*\(^{156}\) The Argentine airlines may have derived incidental benefits from government subsidization of air clubs which give basic civil aviation training.

*Tax exemptions.*\(^{157}\) Aerolineas Argentinas is exempt from a variety of taxes, including income tax, taxes on fuels and lubricants, customs duties on equipment and material, and stamp taxes.

*Special favors.*\(^{158}\) Government employees are reported to be required to travel by the national airline whenever possible.

*Ground facilities.*\(^{159}\) The Government provides many ground facilities, including radio and weather services, but detailed information is lacking.

*Effect of foreign exchange controls.*\(^{160}\) Pesos accepted by foreign airlines from non-residents are not convertible and not available for local expenses, but are held in a blocked account. Pan American and Panagra were reported to have accumulated by 1951 in such blocked accounts pesos to the value of over $1 million at the free market rate. Aerolineas Argentinas can obtain dollars from the Central Bank of Argentina for expenses in the United States at the rate of 7.5 pesos per dollar while American carriers convert pesos at the free market rate of over 14 pesos per dollar.

Aerolineas Argentinas has been accused of quoting lower rates of exchange to passengers, with specific cases of sales of tickets to the United States at 11.5 pesos per dollar against the rate of 14.03 pesos per dollar used by American carriers, but this practice is believed to have been discontinued.

**BRAZIL**

Panair do Brasil, S.A. (PAB), the largest but not the only international airline under the Brazilian flag, has remained a purely private company. Until 1943 it was a wholly-owned subsidiary of Pan American Airways, but at present Brazilians hold a majority (52%) of the shares, with Pan American retaining a substantial minority interest (43.6% in 1948). PAB operates a dense network of domestic services as well as extensive international routes.\(^{161}\)

---

155 See, e.g., Decree No. 4157, February 8, 1946, Boletín Oficial, May 6, 1946, p. 8, which authorized the Banco de la Nación Argentina to advance 20,000,000 pesos to FAMA; and Aeroposta Argentina, supra n. 153, concerning a bank credit of 9,399,365 pesos obtained on certification of the Secretariat of Transport.

156 "Subsidy Policies," supra n. 95, p. 802.

157 Ibid.

158 Ibid.

159 Ibid.; see also Aurelio Gonzales Climent and Julio Palavea, supra n. 147.

160 "Subsidy Policies," supra n. 95, pp. 802, 803.

161 PAB, Relatorios Anuales; "Subsidy Policies," supra n. 95, pp. 846 et seq.
Until recently, PAB benefited heavily by payments received from Pan American under a contract providing for the sharing of costs of ground facilities used jointly by the two companies. PAB did not have to contribute to such costs unless it had averaged a return of over 10% on its capital over a number of years. In addition, Pan American paid to its subsidiary one-half of its own revenues from local cabotage traffic until it lost cabotage privileges in 1945. These arrangements yielded to PAB receipts which amounted to 52% of all other revenues in 1940 and to 59.9% in 1945. Since 1945 these payments have declined in amount and importance, averaging less than 10% of the company's other revenues in the three years 1948 to 1950.162 Before their recent decline, these payments could be regarded as containing an element of indirect subsidy to PAB from the Government of the United States through mail payments on "need" basis to Pan American Airways. PAB has also received some aid from the Brazilian public authorities.

Direct subsidy.163 For many years past, PAB has received a kilometric subsidy for the operation of certain routes in the Amazon valley. It is currently paid on the basis of a contract signed on September 26, 1947, which provides for payments of 5 cruzeiros per kilometer flown on the route Belem-Manaus and 15 cruzeiros per kilometer flown on the routes Manaus-Porto Velho and Manaus-Iquitos (Peru). Until 1948, the state of Minas Geraes likewise paid a small subsidy to PAB (693,848 cruzeiros in 1947). In recent years the total subsidies received by PAB for these essentially domestic operations have been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>Cr. 5,393,519 ($326,847)</td>
</tr>
<tr>
<td>1947</td>
<td>Cr. 6,226,730 ($342,470)</td>
</tr>
<tr>
<td>1948</td>
<td>Cr. 7,313,135 ($402,222)</td>
</tr>
<tr>
<td>1949</td>
<td>Cr. 7,510,265 ($413,065)</td>
</tr>
<tr>
<td>1950</td>
<td>Cr. 8,858,075 ($487,194)</td>
</tr>
</tbody>
</table>

These subsidies, however, have been largely offset by rebates allowed for travel by government officials, shown in the company's reports as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rebate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>Cr. 2,217,763</td>
</tr>
<tr>
<td>1947</td>
<td>Cr. 2,739,374</td>
</tr>
<tr>
<td>1948</td>
<td>Cr. 7,321,083</td>
</tr>
<tr>
<td>1949</td>
<td>Cr. 9,504,952</td>
</tr>
</tbody>
</table>

Law No. 1181 of August 17, 1950, provided for a new subsidy to Brazilian companies operating international air transport services at the rate of 10 cruzeiros per kilometer flown between the last stop in Brazil and the foreign terminal. In return, members of the Brazilian Congress and journalists travelling on business are entitled to a 50% discount. PAB received under this law a subsidy of 21,571,970 cruzeiros.

163 PAB, Relatorios Anuales; ICAO, Digest of Statistics, No. 20, p. 46; "Subsidy Policies," supra n. 95, p. 849. In this article Brazilian cruzeiros are converted into dollars at the following rates: For 1946—1 cruzeiro equals $0.0606; for 1947 to date—1 cruzeiro equals $0.055.
zeiros ($1,186,458) for 1950.\textsuperscript{163a} In 1950, the subsidies for domestic and international services thus totalled 30,430,045 cruzeiros ($1,673,652) and were 8.55% of all revenues, while discounts for official travel amounted to 11,658,713 cruzeiros.

Mail payments. It has been unofficially reported that the mail revenue of PAB averaged as follows in dollars per ton-mile in some recent years: 1938, $8.59; 1946, $4.14; 1947, $5.07.\textsuperscript{164} These rates, much higher than the UPU rates, would indicate the presence of a subsidy element. In 1949, however, the company appears to have received 23,960,641 cruzeiros for 795,000 ton-kilometers of mail, or only $2.42 per ton-mile.\textsuperscript{165} Mail revenues have accounted for only a small part of the company's total revenues in recent years: 1946, 8.06%; 1947, 10.05%; 1948, 7.98%; 1949, 7.37%; 1950, 6.31%.\textsuperscript{166}

Tax exemptions.\textsuperscript{167} A law of February 9, 1951, granted exemption from import duties and consumption taxes on aircraft, engines, parts, gasoline, oil, radios, tools and other equipment for airline and airport operations to companies undertaking to carry government employees at a 50% discount and to air-cargo services carrying government freight at a 20% discount. Available information does not indicate whether PAB has benefited by this law.

Ground facilities.\textsuperscript{168} The Brazilian Government operates most of the airports used by airlines and spends considerable sums of money for ground facilities. The collection of airport fees at state-owned airports was suspended in 1947 and resumed in 1949 at a 20% reduction. PAB, with its extensive domestic network, must have derived substantial benefits from these measures.

Export-Import Bank loan.\textsuperscript{169} In 1946 the Export-Import Bank of Washington authorized a 4% loan of $3,000,000 to PAB for equipment purchases. $2,275,500 of this credit appears to have been used.

\section*{Venezuela}

Linea Aeropostal Venezolana (LAV) was set up in 1933 by the Venezuelan Government as successor to an airline purchased from French interests. It is operated as an autonomous government-owned legal entity independent of any particular government agency, and is managed by a President appointed by the Executive Power of the

\textsuperscript{163a} The company has stated that without this aid it could not have continued to operate international services. PAB, \textit{Relatorio Anual}, 1950, p. 5.
\textsuperscript{164} \textit{World Aviation Annual}, 1948, 482-483.
\textsuperscript{165} PAB, \textit{Relatorio Anual}, 1949. The figure of 795,000 mail ton-kilometers, found in \textit{IATA Bulletin} No. 18, p. 92 (June 1951), and evidently used in this computation, is much higher than the figure of 488,000 mail ton-kilometers shown in ICAO, \textit{Supplementary Date to Statistical Summary} No. 10, Addendum Sheet No. 27, February 1951.
\textsuperscript{166} \textit{Foreign Commerce Weekly}, March 26, 1951.
\textsuperscript{167} \textit{Subsidy Policies}, supra n. 95, p. 849.
\textsuperscript{168} \textit{Ibid.}, p. 870.
nation. Its budget is separate from the national budget, but appropriations may be made for it in the national budget and extraordinary aid may be given by executive decree. LAV has substantial interests in two other Venezuelan airlines, AVENSA (23%) and TACA de Venezuela (up to 60%). It has benefited by aid from the national budget.

Direct subsidy and capital investment. Grants of money have been apparently made by the Government to LAV without clear distinction between capital investment and operating subsidies. According to a reliable source, the "capital" of the airline provided by the Government and including deficit-covering grants increased from 1,600,000 bolivars ($481,600) in January 1946 to 53,000,000 bolivars ($15,953,000) in January 1951, with the heaviest increase taking place in 1948. The airline’s losses to 1951 are believed to have totalled more than 22,000,000 bolivars ($6,622,000), diminishing after 1949.

In 1946 LAV received 1,633,910 bolivars for 19 airports purchased by the Government, but there is no indication of a subsidy element in this transaction. An attempt by LAV to float a tax-exempt government-guaranteed 10-year bond issue in the amount of 6,500,000 bolivars at 6% interest compounded monthly failed in 1947.

Mail payments. In 1947 LAV’s mail revenue accounted for only 6.2% of the airline’s total revenues. No other reliable recent information is available.

Tax exemptions. LAV is reported to be exempt from various taxes, including customs duties on equipment and supplies.

Special favors. LAV acts as general travel agent for the Government, and is said to be favored in consular instructions for documentation of travel by foreigners. It is further alleged that LAV is in effect favored by the prohibition of operations after sunset, for which LAV, unlike some of its foreign competitors, is not equipped.


171 "Subsidy Policies," supra n. 95, p. 845. The more detailed but apparently less complete figures shown ibid., p. 844, were culled mostly from the files of Foreign Air News Digest, Foreign Commerce Weekly, Aviation Week and other periodicals. See also World Aviation Annual 1948, 469; The Aeroplane, June 15, 1951, p. 737; Jane’s All the World’s Aircraft, 1950-51, p. 870; Venezuela, Ministerio de Comunicaciones, Memoria y Cuenta (1948, for 1947), pp. 159, 216; Revista de Hacienda, XIV, No. 30, July 1949, p. 68; LAV, Informe y Balance, 1947 (mimeographed), and sources cited supra n. 170. In this article Venezuelan bolivars are converted into dollars at the rate of 1 bolivar equals $0.301.

172 Foreign Air News Digest, July 17, 1946.

173 Ibid., December 30, 1946, and May 19, 1947.

174 LAV, Informe y Balance, 1947 (mimeographed).

175 "Subsidy Policies," supra n. 95, p. 845.

176 Ibid., pp. 845-846.
The airline has free use of telegraph, telephone, radio and postal facilities.

LAV does not have a monopoly of Venezuelan-flag international air transport services, Aerovias Venezuela Europa (AVE) operating a scheduled service to Europe.

Ground facilities. Extensive ground facilities are provided by the Government in Venezuela. In 1949 the Government cancelled the balance owed it by three Venezuelan airlines (LAV, AVENSA and TACA de Venezuela) for landing fees at certain airports on domestic operations. The total indebtedness so cancelled was over 1,940,000 bolivars ($584,000), including 674,009 bolivars ($202,877) owed by LAV.

Some General Comments

It is evident that all of the major foreign airlines here studied have been dependent on public aid in varying degrees and forms. Although comparisons must be made with caution, it would seem that the airlines of some of the smaller European nations (KLM, SABENA, SAS and Swissair) received little or nothing in direct subsidies in the years immediately following World War II, but have since experienced greater need for public aid. The airlines of the larger nations—the United Kingdom and France—show, on the other hand, a trend toward self-support in recent years after receiving heavy deficit-covering subsidies in the immediate postwar period.

The apparently heavier need for public aid experienced by the British and French airlines need not be interpreted, however, as casting reflection on their management or efficiency. The difference has been in large part due to the policies of the respective governments. The far-flung political and military interests of the United Kingdom and France have called for the operation of many unprofitable "national interest" routes at the expense of the national treasuries. Such highly competitive routes as the North Atlantic have perhaps required relatively less in the way of subsidy support than many of the routes in the remoter regions of the world.

The British and French Government, furthermore, have been striving to develop and maintain their respective national aircraft manufacturing industries, and have put pressure on their airlines to use the national product in preference to the more economical and efficient American equipment. The airlines of the smaller European nations have been relatively free from such compulsions.

The effects of the devaluations of currencies in recent years, moreover, have been unequal owing to a variety of circumstances. Comparisons of greater validity and significance could be made only on the basis of detailed route-by-route analysis for which published information is not adequate.

177 Ibid., pp. 844-845.