

## BOAC's New Capital Probed - 2

JUST as the size of BOAC's proposed reserve is a matter of arbitrary judgment, so is the proportion of equity capital proposed. This was suggested by Mr Keith Stainton for the Opposition during the committee stage of the Bill to wipe out BOAC's deficit. The first part of the committee stage was summarised in *Flight* for December 16, page 1035.

Mr Stainton wanted to see the equity (i.e., dividend) capital as £45 million out of the total £66 million, not £35 million as provided for in the Bill. Mr John Stonehouse, Parliamentary Secretary to the Ministry of Aviation, said that BOAC's capital was, in effect, being split into three "more or less equal parts"—loans, equity, and reserves. Mr Robert Carr thought this showed an amateurish and unprofessional approach on the part of BOAC's shareholders, the Government. Any private company chairman who regarded reserves as part of capital would be quickly replaced by a shareholders' committee.

Mr Ian Mikardo (Lab) said it did not matter "twopennyworth of cold tea" whether the figure was £31 million, £41 million, or £21 million. It might not matter to the Government, returned Mr Carr, and this was exactly his fear. One of the advantages of nationalised corporations, said Mr Carr, was that they had duties to carry out certain tasks, but we should not allow "the carrying out of them to be so intermingled with genuine commercial operations that they cloud issues and judgments and the yardsticks by which we measure efficiency." Nationalised companies should be subject to "the same disciplines and the same proofs of efficiency as any commercial undertaking."

Mr Carr also probed the interest rate proposed on the loan capital of £31 million, and suggested that it should be written into the Bill as Bank Rate plus  $\frac{1}{2}$  per cent. Mr Stonehouse rejoined that new loans above the £31 million would carry an

interest rate of  $6\frac{1}{2}$  per cent. An interest rate of 4 per cent on the £31 million, said Mr Stonehouse, would be of "no particular advantage to BOAC, for its principal competitors can generally raise money at a lower rate than that." Mr T. L. Higgins (Con) said that BOAC must be on the same basis as private airlines when they wanted to borrow money.

Mr Carr re-emphasised the Opposition's point that BOAC's chairman, not the Minister, should determine the dividend—it should be the board's judgment. He proposed an amendment that "the Corporation shall determine [dividend] after consultation with the Minister and with the approval of the Treasury." Mr Cranley Onslow (Con) added that this would not deprive the Minister of his power to decide reserves. Mr Carr said it was a change of emphasis—"trusting people to whom responsibility is deputed is beneficial to getting the best out of those concerned, to stimulating the highest sense of responsibility, and to stimulating the highest sense of effort of which people are capable." Putting responsibility for initiating the dividend on BOAC would, he argued, have "a significant effect on the general atmosphere and climate of operation and responsibility" within BOAC. Without making any promises, Mr Roy Jenkins, Minister of Aviation, said he would have another look at the wording. Mr Onslow, who said that public answerability was one of those things that public corporations most lacked, suggested a dividend "band" of 6 per cent to 10 per cent within which BOAC would enjoy autonomy of dividend-fixing, but Mr Stonehouse turned this down as "too rigid" in such a fluctuating business as air transport. Mr Carr and Mr Onslow said that the proposed dividend band could be different—say, 4 per cent to 8 per cent.

*To be continued*

### RECOUPING DEVELOPMENT COSTS

FOR the first time full details have been published of the formula used by the Government for the recovery of contributions made to civil aircraft development since 1960. The information appears as an additional note to Tables 1 and 2 of Appendix G of the Plowden Report (page 126). So far, to our knowledge, the only reference to these arrangements was that made in the *Second Report from the Estimates Committee, Session 1963-64: Transport Aircraft*.

In this it was explained that the arrangements "are based on a formula whereby the manufacturer has the opportunity of recouping his investment earlier than the Government, and that after this has occurred, the Government earns at a more rapid rate until it has made a surplus of 25 per cent, at which point it relinquishes further exploitation mainly to the manufacturer. The formula used is that the Government gets a quarter of the profits on sales until the manufacturer has recouped his investment; the proportions are then reversed, and the Government gets three-quarters of the profits until the Government investment has been recovered; the proceeds are then shared equally until the Government has made a surplus of 25 per cent, at which point the sharing reverts to 3 to 1 in favour of the manufacturer."

The Plowden Committee note puts it this way:—

"Since 1960 there has been a standard formula governing the shares which the Government and the manufacturers receive from the proceeds of sales of aircraft which have been launched by joint finance. Where the estimated launching costs are shared equally between the parties (and a 50 per cent contribution from the Government is now normal) the "margin" on each sale is distributed as follows:

- (a) 75 per cent to the company and 25 per cent to the Government, until the company's share of the margin equals their contribution to the launching costs, as estimated in the contract.
- (b) Thereafter, 75 per cent to the Government and 25 per cent to the company, until the Government's share of the margin

equals its contribution to the launching costs as estimated in the contract.

(c) Thereafter, 50 per cent to each, until the Government's share of the margin equals its contribution to the launching costs as estimated in the contract plus 25 per cent.

(d) Finally, 75 per cent to the company and 25 per cent to the Government.

(The margin, in some cases a fixed sum negotiated in advance and in others a variable sum, is the difference between the production cost of the aircraft and the actual selling price.

If launching costs are shared on other than a 50/50 basis, the recovery arrangements follow the same principle, adjusted to the ratio of the respective contributions.

### CENTRAL AFRICAN FUEL SITUATION

AS BOAC and British United services to Salisbury, Rhodesia, were modified because of the illegal Government's ban on British aircraft uplifting fuel there, a growing fuel-ferry service was being mounted into neighbouring Zambia by civil and military aircraft from Britain, Canada and the United States. BOAC VC10s are maintaining services to and from Johannesburg without uplifting fuel at their stop in Salisbury, but BUA is terminating its VC10 service at Lusaka, Zambia, and sending Salisbury-bound passengers forward by Malawi Airways.

Eight RAF Britannias which ferried over 100,000gal of fuel from Dar-es-Salaam, Tanzania, to Lusaka, in the weeks around Christmas are being withdrawn this month following the arrival of seven charter aircraft from four British companies. Caledonian, Lloyd International and Transglobe are each sending a Britannia, and Air Ferry two DC-4s and two Carvairs. Between 16 and 20 crews will be involved.

Canada and the USA are also joining the airlift—both taking on fuel in Leopoldville, Congo. The Canadians will fly Hercules aircraft direct to Lusaka, but the US operator, Pan American, will only fly to Elisabethville, Katanga, whence the oil will be taken to Lusaka by road.