

# BOAC 1960-61

Sir Matthew Slattery,  
Chairman, Reports on  
the Corporation's Year



CRITICISMS in past years that BOAC's annual reports have not been as full as they should have been cannot be repeated this year. The 1960-61 annual report and accounts, published on July 28, is the fullest and frankest in the corporation's history. Some 130 pages in length, it is double the length of last year's report, and as fat even as the fattest published by the airline world's most comprehensive reporter, BEA.

FORTUNE seems to have decreed that those responsible for BOAC's finances should continue to have a hot time. Until recently the pre-occupying problem was the excessive work-force that resulted primarily from the corporation having failed to expand as planned in the post-Comet 1 era. The consequent cost level of some 40 pence per c.t.m. gave BOAC no opportunity for making profits at IATA fares which were based on the costs of more streamlined rivals.

Over the past few years substantial economies have brought BOAC's costs down sharply. But the pot of gold still seems farther away than ever, for in 1960-61 a severe fall in revenue rates converted the previous year's marginal profit on operations into a £0.5m loss, while in the current year the average load factors have dropped so low that BOAC's deficit for 1961-62 will be very heavy indeed. The accounts for 1960-61 accordingly tell a story of an airline in transition—transition from a frying pan where costs are too high, into a fire where traffic is too low. The story is told by this *Flight* table:

TABLE 1: BOAC FINANCIAL SUMMARY

	£ million	
	1959-60	1960-61
BOAC operations—scheduled revenue ... ..	65.8	79.5
—contract revenue ... ..	2.9	3.8
—charter revenue ... ..	1.8	4.7
BOAC operations—total traffic revenue ... ..	70.5	88.0
—less operating expenses ... ..	66.2	83.7
—operating profit ... ..	4.3	4.3
Subsidiaries and associates—operating loss ... ..	0.6	1.5
Overall operating profit ... ..	3.7	2.8
Less interest on capital* ... ..	4.5	5.3
Plus sundry credits relating to previous years ... ..	0.3	0.6
Net addition to accumulated deficit ... ..	0.6	2.0

\* 1959-60—BOAC £4.0m, subsidiaries/associates £0.5m.  
1960-61—BOAC £4.7m, subsidiaries/associates £0.5m.

It would be unfortunate if these disappointing results were allowed to obscure the remarkable record of cost-cutting which BOAC has achieved in the past few years. In 1960-61 this process was particularly marked, the overall level of unit costs—including interest on capital—falling from just under 36 to just over 32 pence per c.t.m. This reduction was shared by all departments, with engineering showing the greatest economies. But while costs were being slashed, it was becoming increasingly difficult to sell the corporation's capacity and as a result the overall rate of revenue return fell slightly more sharply, from just under 36 to just under 32 pence per c.t.m. This was only to a limited extent due to reduced load factors, the main reason being simply that a larger proportion of the corporation's business consisted of low-rated traffic. Thus scheduled services showed a swing of passenger traffic from first-class to economy and of mail traffic from first class to second class, while low-rated contract services and charters accounted for a larger share of BOAC business.

This cheapening of the product was, of course, one of the first features of the difficult situation which ICAO so rudely predicted a few years ago when it attempted to measure the consequences of excess capacity that would be endemic in the airline industry in the early 'sixties.

If BOAC did badly in 1960-61—largely, let it be admitted, for reasons beyond its control—the corporation's subsidiaries and associates did even worse. In round figures their overall loss, after taking interest on capital into account, deteriorated from £1m to £2m. The main nigger in the woodpile continued to be BWIA. In 1960-61 this operator managed to lose £645,000 on revenues of £3.7m, to bring its accumulated loss over 13 years to £3.5m. The other main losers were Bahamas Airways, which achieved a financial miracle in losing £400,000 on revenues of £800,000, and Kuwait Airways, which lost well over £0.25m on revenues of £1.9m. The

only other really painful investment was MASCO (Mideast Aircraft Service Co) in Beirut; but in this case their loss of some £400,000 was exceptional as it marked the closing down of the organization and the transfer of its business to Middle East Airlines. Small losses were made by Aden Airways, Borneo Airways, Fiji Airways and MEA while Cathay Pacific, Gulf Aviation and Malayan Airways showed small profits.

This is the only part of the report that is disappointingly sketchy: the affairs of the associated companies, which accounted for £2m of the total £2.5m loss, are not as detailed as might be thought justified by Sir Matthew's statement that BOAC is "deeply concerned at the adverse results of some of the airlines in which it has invested." There are no traffic figures for the associates, financial results for MEA are not yet available, and there is no information about the price obtained for MASCO. More than two years have gone by since a Parliamentary select committee viewed with gravity a situation which BOAC now says—much as it said then—it is "examining exhaustively" and "taking vigorous steps to remedy." BOAC's problem here is that it does not have the power to beat some of its associates with the big stick they deserve: touchy problems of nationalism and politics call for tactful persuasion and not big sticks. Of course, BOAC can always sell its interests in millstone associates; but what happened when it did just this in the case of Bahamas Airways? Within a year of management by private enterprise, Bahamas Airways was beaten to its knees, and BOAC—anxious for its traffic rights—had to mount a costly rescue operation. The Bahamas Airways episode, about which the report is less than full, is an example of the lengths to which BOAC will go to preserve the traffic rights that are the *raison d'être* of BOAC Associated Companies Ltd.

The report contains much of interest about BOAC's equipment. Half the capacity is jet, and Comets provided a third of the total capacity. These aircraft, thanks to their high passenger-content, produce a higher rate of revenue than the 707s. Here are the fleet operating statistics for 1960-61, a *Flight* compilation:

TABLE 2: BOAC AIRCRAFT OPERATING STATISTICS, 1960-61

	Britannia 102	Britannia 312	Comet 4	DC-7C	Boeing 707	Total or Average
No of aircraft at year end	14	17	19	10	15	75
Output (c.t.m. million)	112	160	207	49	123	667
Revenue hours × 1,000	41	46	65	20	15	195
C.t.m./hr × 1,000	2.7	3.5	3.2	2.6	8.3	3.6
Daily utilization (revenue hours)	7.5	7.6	9.8	5.7	4.8	7.6
Aircraft operating costs: (£/hr)	238	268	284	246	504	278
(pence per c.t.m.)	21	19	21	24	15	19

The 7Fs "produced financial results better than anticipated." Late delivery of the 707s cost BOAC £2m; entire responsibility for the mods demanded by the ARB was accepted by Boeing. Delivery of 15 standard VC10s is set for November 1963–August 1964, and of the 30 Super VC10s for October 1964–October 1966. By 1967 BOAC's services will be entirely VC10/707, in the capacity ratio 67 : 33. Nigeria Airways will take two of the 15 standard VC10s.

Adding together the results for BOAC, its associates and its subsidiaries, 1960-61 showed an overall deficit of £2.5m after interest payment of £5.25m. After taking into account various credits which did not relate to the year 1960-61, a deficit of £2m was transferred to the profit and loss account to bring the corporation's accumulated deficit to close on £15m. The corporation now admits that this is lost capital. There is even a hint, in a lightly thrown away parenthesis on page 13, of possible "redemption"—which could only be by direct Government grant (for which new legislation would be required). However clean BOAC's house may become in the years that lie ahead there will be a big accumulated deficit under the carpet for many years yet.

Adverse as the 1960-61 results may be, an infinitely more fundamental problem that is apparent is the one of finding employment for the fleets of the corporation in the next few years. Perhaps the corporation's planners should take their eyes off the North Atlantic for a while and have a long, hard look instead at those many thousands of travellers between Europe and Australasia, and to a lesser extent between Europe and Southern Africa, who continue to prefer BOAT to BOAC.

TABLE 3: SOURCE AND DISPOSITION OF FUNDS, MARCH 31, 1961

Source	£m	Disposition	£m
Long-term BOAC stock	56	Fixed assets, net	117
Medium-term loans	94	Unamortised development expenditure	4
Short term—bank overdraft	4	VC10 progress payments	10
—net credit on current account	4	Subsidiaries/associates	12
		Accumulated deficit	15
	158		158

Notes: (1) Average capital actively employed on BOAC operations in 1960-61 = £103m. (2) Gross BOAC traffic revenue in 1960-61 = £88m.