

The Economics and Development of the British Independent Airlines since 1945

A thesis presented for the degree of Ph.D. by
B.K. Humphreys, Institute for Transport Studies,
University of Leeds, 1973.

ABSTRACT

Since the end of the Second World War the privately-owned airlines, the so-called Independents, have gradually established for themselves a position of major importance within the UK air transport industry. Initially restricted solely to charter operations, they have been successful in obtaining from successive Governments, especially, but not only, Conservative Governments, a relaxation of legislative restrictions on scheduled services, until today they operate an extensive scheduled service network. Similarly, they have been responsible for pioneering vehicle air-ferries, air trooping and, more recently, packaged holidays by air in the UK. But despite a fairly impressive history of achievements, the fact remains that since the war the private sector as a whole has been characterised by an apparently high degree of economic instability. This thesis examines the Independents' post-war record and concludes by tentatively advancing several possible explanations for their lack of stability, in particular the political environment within which they have been forced to operate, an absence of sufficient financial backing and the ease of entry into the air transport industry.

"The problem of flying is not in the air but
only in the fact that sooner or later you
have to come down to earth again."

Orville Wright.

Preface

This study of the economics and development of independent air transport in the UK has benefitted from discussions with a number of people. In addition to my supervisor, Professor K.M.Gwilliam, I would particularly like to thank the following: Mr.R.J.Bull and Mr.J.Story (British Air Services); Mr.M.A.Elgood (Monarch Airlines); Mr.A.J.Kinnear (Donaldson International Airways); Mr. Kinnersley (British Midland Airways); Mr.R.F.Whittles (Britannia Airways); Mr.D.K.Wozencroft (Court Line Aviation); Dr.D.H.Aldcroft (University of Leicester); Mr.J.Brownlow; and Mr.J.Hines. The typing and diagrams are the work of Mrs.J.Booth and Miss D.S.Surridge. Needless to say, I accept full responsibility for the analysis and conclusions of the thesis and for any mistakes contained therein.

B.K.Humphreys,

October 1973.

Errata

Page 114 should include the following footnotes :

57. 'Flight', 10/8/67, p.204-5.

58. Ibid., 10/10/68, p.557.

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Abbreviations

AAJC	-	Associated Airways Joint Committee
ABC	-	Advanced Booking Charter
APEX	-	Advanced Purchase Excursion
APT	-	Advanced Passenger Train
ARB	-	Air Registration Board
ATAC	-	Air Transport Advisory Council
ATLB	-	Air Transport Licensing Board
BAB	-	British Airways Board
BAC	-	British Aircraft Corporation
BACA	-	British Air Charter Association
BAF	-	British Air Ferries
BAS	-	British Air Services
BCAL	-	British Caledonian Airways
BEA	-	British European Airways
BIA	-	British Island Airways
BIATA	-	British Independent Air Transport Association
BMA	-	British Midland Airways
BOAC	-	British Overseas Airways Corporation
BOAC Ltd.	-	British Overseas Air Charter Ltd.
BR	-	British Rail
Britavia	-	British Aviation Services
BSAA	-	British South American Airways
BUA	-	British United Airways
BUA (CI)	-	British United Airways (Channel Islands)
BUAF	-	British United Air Ferries
BUIA	-	British United Island Airways

BU(Manx)A	-	British United (Manx) Airways
CAA.	-	Civil Aviation Authority
CAA	-	Central African Airlines
CAB	-	Channel Air Bridge
CAB	-	Civil Aeronautics Board (US)
HSDT	-	High Speed Diesel Train
IATA	-	International Air Transport Association
ICAO	-	International Civil Aviation Organisation
IT	-	Inclusive-Tour
ITX	-	Inclusive-tours on scheduled air services
JA	-	Jersey Airlines
LAC	-	Lancashire Aircraft Corporation
LAMS	-	London Aero and Motor Services Ltd
Pan Am	-	Pan American Airways
Q/S/VTOL	-	Quiet/Short/Vertical Take-Off and Landing
RAS	-	Railway Air Services
UTA	-	Union de Transports Aériens
VLF	-	Very Low Fares

Definitions .

Operational Data :

- Passenger-miles - the number of passengers carried multiplied by the distance they flew.
- Seat-miles available - the total, for all revenue flights, of the number of seats actually available on each flight, multiplied by the route-mileage of that flight.
- Available capacity short ton-miles - the total, for all revenue flights, of the usable capacity available (in short tons) on each flight, multiplied by the route-mileage of that flight.
- Passenger load-factor - the percentage of the revenue passenger-miles to the available seat-miles flown.
- Overall load-factor - the percentage of the total revenue short ton-miles flown to the usable capacity short ton-miles flown.
- Load in short ton-miles - the load carried (in short tons) over each stage, multiplied by the route-mileage of that stage.
- Stage flight - that part of the flight between two consecutive stopping places.
- Tons - usually 'short' tons of 2,000 lbs.

Categories of Operation :

- International services - services flown wholly outside the UK or wholly or partly between the UK (including Great Britain, Isle of Man, Channel Islands and Northern Ireland) and places outside.
- Domestic services - services flown entirely within the UK.
- Scheduled services - services shown in published timetables and flights supplementary thereto.

- Cabotage services - services flown wholly within or between territories controlled by the UK.
- Non-revenue flights - operations (including training, test and positioning flights, and flights or parts thereof not completed) and traffic for which no remuneration is received, and including such flying in connection with charter and special flights.
- Non-scheduled services - all air transport flights for remuneration other than scheduled services.
- Separate-fare charters - those where the charterer re-sells part of the capacity of the aircraft, eg. to the public at large, to an organisation, etc.
- Inclusive-tours - separate-fare charters where the cost to the passengers includes the cost of accommodation.
- Advanced Booking Charters - separate-fare charters that must be paid for at least 90 days before departure.
- Affinity-group - a group of persons which has an entity of its own and which is not formed or constituted primarily for the purpose of air travel.
- Exempt services - single-entity charters and charters to Government Departments.
- Single-entity charters - those where the charterer has exclusive use of the whole capacity of the aircraft and does not dispose of any of it to third persons for reward.
- Sub-charters - charters to other British or foreign operators.
-

INTRODUCTION

Since the end of the Second World War civil aviation has experienced one of the fastest rates of growth of any industry in the world, scheduled services averaging an annual increase of almost 14% (see Table 1.1). Despite its relatively small size in the U.K. economy, with an average annual level of gross domestic fixed capital formation of less than £50 million in recent years and by 1970 a workforce of only some 75,000¹, civil aviation in fact has been, and remains, of considerable economic, political and strategic importance to the country. Throughout most of this period British air transport has been dominated by the two nationalised air Corporations, B.O.A.C. and B.E.A. But increasingly over the years the privately-owned airlines, the so-called 'Independents', have been gaining in size and importance, until today they account for well over 30% of total U.K. output, in terms of load ton-miles performed. This thesis is essentially concerned with this development and its implications for civil aviation generally in Great Britain.

Table 1.1 Scheduled World Air Traffic Trends

	1950	1960	1971	Annual increase 1950-1971 (%)
Passengers carried (m)	31	106	328	11.9%
Passenger-kilometers (m)	28,000	109,000	408,000	13.6
Average trip length (km)	875	1,030	1,245	1.7
Total tonne-kilometers (m)*	3,490	12,340	50,690	13.6

Excludes USSR and People's Republic of China

* includes passengers, baggage, freight and mail.

Source: International Civil Aviation Organisation (ICAO)

1. Thompson and Hunter The Nationalised Transport Industries, 1973, p.37.

An 'independent airline' in this context has been taken to refer to a privately-owned British company primarily operating fixed-wing air services, both scheduled and charter. But of necessity it has not been possible to adhere too pedantically to such a definition. For example, airlines in which the Government or a State Corporation has a minority, or even a controlling, interest have usually been included in the study, since on the whole they exhibit the same general characteristics as those operators that are completely owned by private individuals or companies. Similarly, no definite limit on the minimum size of a carrier has been stipulated. The distinction between an airline and an air-taxi operator is, naturally, blurred at the margin and has changed markedly over the years. A fairly large airline in 1946 would probably be regarded as very small by 1970s' standards. As a 'rule-of-thumb' measurement those companies that today operate scheduled services and/or aircraft of the minimum size of a DC-3 have been included.

Aims of the Study

When one examines the post-war history of the private sector of the British air transport industry one factor seems to stand out above all, namely the very large number of bankruptcies and forced mergers that have taken place among the Independents. During the late 1940's some 100-150 privately-owned airlines were established in the U.K. Appendix II lists some 70 such companies in existence in April, 1949, of which today only one is still operating in approximately the same form, Cambrian Airways, and even that is now publicly controlled. The number of airlines operating, of course, was rapidly reduced to manageable proportions. But the key characteristic of the private sector has remained the fact that each year

several companies are forced to suspend operations, and almost as quickly new carriers are established. The primary aim of this study, therefore, is to examine the development and economic characteristics of the Independents in an attempt to explain this high degree of instability.

One of the main problems encountered during the study has been a lack of sufficiently detailed or comparable statistics. The private airlines have traditionally been very secretive about their work, primarily, they claim, because of the highly competitive nature of the air transport business. Much of this tradition still remains. Official data published by government departments or regulatory bodies likewise leaves much to be desired, although a considerable improvement has taken place relatively recently. Britain compares unfavourably in this respect with the United States, where, in a far more competitive environment, a huge amount of airline data is published each year. This short-coming in the available statistics partly explains the historical nature of the thesis. But an examination of the history of the private sector of the air transport industry can also be justified in its own right. Longfellow wrote:

Look not mournfully into the Past.
It comes not back again. Wisely
Improve the Present.

Such a position is most definitely not taken in this study. An examination of the way in which the existing situation came about, it is suggested, is extremely important in understanding the Present and in improving the Future.

One factor that has made the post-war development of British civil aviation so unusual and interesting is the political environment within which it has taken place. Lennox-Boyd once remarked; "We agree with the distinguished pilot who said a few days ago that ice and the politician

were the greatest menaces which civil aviation had to face today."

Similarly, Sir Myles Wyatt, when Chairman of Air Holdings Ltd., wrote:

"In most well-conducted industries the assessment of future prospects is determined by considerations of general economic growth, technical efficiency, purchasing habits and so forth. Political considerations are important, but by no means overshadow all else. In the British air transport industry, by contrast, political considerations are paramount and other factors, although of fundamental importance, are relegated to second place." 3

There appears to be a certain lack of appreciation and serious study of the implications of governmental interference in air transport. The Edwards Report, for example, after noting on its very first page that "the structure of world civil aviation has been fashioned by many forces amongst which economic logic has played only a modest part," went on to comment: "We have been surprised how often the evidence we have received has appeared to overlook the historical and political factors which make up the institutional basis of the air transport industry."4 It is hoped that this study, in addition to its primary aim, will go some way towards filling this gap.

Following from this, a further point should be made. Throughout the study quotations by politicians and by those employed in the civil aviation industry will be used extensively to illustrate certain points. It is important to remember the situations in which these statements were made. Rhetoric is the politician's tool of trade. But, as will become clear as the thesis progresses, there is often a wide margin between what politicians say, especially when not encumbered with the problems of power, and what they actually do when in office. A similar dichotomy is also to be found among

2. Hansard, House of Commons Debates, Vol 422, col. 618, 6/5/46.
3. Sir Myles Wyatt: 'Is there a Government Air Transport Policy?' Modern Transport, 25/1/64, p. 14-15.
4. 'British Air Transport in the Seventies' Cmnd. 4018, p.1. (Hereafter referred to as the Edwards Report).

spokesmen for the independent airlines. Because the Independents are part of the private sector, often competing with larger, State-owned companies, there is a tendency to regard them as aggressive upholders of a competitive economic system, and indeed this is the image they usually attempt to present to the public. But it is not always strictly correct, as Mr. Roy Jenkins aptly pointed out when he was Minister of Aviation:

"The picture sometimes built up of the independents as rugged free enterprisers of the air, anxious in open competition to meet and beat everyone on the tarmac, is to a large extent a fallacy. Once in, they want protection as much as anybody else... This is a field in which poachers turn into gamekeepers more quickly than in some other fields." 5

Justification for the Study

Is it really of any great importance that each year several private airlines are forced out of business? A number of factors would, it is suggested, lead one to answer this question in the affirmative. Firstly, it seems reasonable to conclude that a very high level of economic instability, such as that experienced by the Independents since the war, is a reflection of something inherently wrong in the make-up of the industry. The isolation of the causal factors involved, therefore, would in itself be of interest to civil aviation and perhaps even to other industries. Secondly, each airline failure results in a considerable amount of inconvenience to the public and the company's employees, as well as often involving the owners and creditors in financial loss. There have been numerous occasions when large numbers of passengers have been stranded abroad as a result of an airline ceasing operations. Similarly, there must be a strong feeling of job insecurity among employees. When visiting independent airlines one is often struck by the very high proportion of managerial staff who have worked for several extinct carriers.

One pilot fairly recently, for example, having been made redundant on numerous previous occasions, got only as far as being measured for his uniform before his new employer in turn went bankrupt.

But the most important factor is the possibility of a connection between economic instability and air safety. Such a correlation is extremely difficult, if not impossible, to prove, and some commentators have denied that it exists at all. Cooper and Maynard, for example, describe the issue of safety as a large red herring: "The main safeguard will remain that a bad safety record results in no-one flying with the airline in question (or, more to the point, no-one being willing to fly the plane.)"⁶ The suggestion that waiting until large numbers of passengers and crew are killed in aircraft accidents is a satisfactory way of dealing with the problem of air safety appears, to say the least, extremely pessimistic and to be approaching the subject from the wrong direction. On a rather more realistic level, Wheatcroft comes to the following, and today more widely accepted conclusion:

"Some years ago I held the view that adequate safety levels could be achieved solely by a regulation and inspection of technical standards in airline operations. But I am now persuaded by the opinions of many people who have spent their lives in the field of safety regulation that there is a direct connection between technical standards and economic stability in airline operation. There seems to be a real danger that technical standards will begin to slip when an airline is in serious financial difficulties." 7

Although it is probably impossible to prove categorically that such a correlation does in fact exist, there is strong circumstantial evidence that appears to point in this direction. A special review of U.K. air safety by the Board of Trade, covering the period 1955 to 1967, concluded that the record of the independent operators as a whole was inferior to that of the State Corporations so far as causal factors involving shortcomings of the flight crew, the airline and airworthiness were concerned:

6. M.H. Cooper and A.K. Maynard: 'The Price of Air Travel', Hobart Paper 53,

7. S. Wheatcroft: "The Influence of Operational and Technical Factors on Air Transport Regulations," The Aeronautical Journal August, 1970 p.624.

"The inevitable and relative instability of the climate in which the smaller operator functions introduces problems of staffing and provisioning which militate against the attainment of high standards... The lack of financial resources has a significant and far-reaching effect on environment and morale, leading inevitably to some effect on operational standards."⁸ The ratios of deaths per 100 million passenger-miles in BOAC and BEA were 0.35 and 0.53 respectively, while the corresponding figure for the Independents was 2.99; in terms of actual numbers of passengers killed these three ratios represented 114, 110 and 620 deaths (see table 1.2).

Table 1.2 Accident Rates for U.K. Operators, 1957-1964

	Notifiable accidents per 100 m.aircraft- miles	Notifiable accidents per 100,000 aircraft-hours	Notifiable accidents per 100,000 stage flights	Passengers killed per 100 m. passenger-miles
BOAC	3.71	1.34	5.03	0.35
BEA	9.78	2.19	2.92	0.53
BOAC & BEA	6.12	1.78	3.45	0.41
INDEPENDENTS	15.12	3.41	4.01	2.99
ALL OPERATORS	9.27	2.43	3.74	1.15

Source: Board of Trade: "The Safety Performance of U.K. Airline Operators: Special Review," Appendix G.

8. Board of Trade: 'The Safety Performance of UK Airline Operators: Special Review', 1968, p. 19 and 28-9.

Table 1.3 Accident Rates for UK Airlines on Scheduled and Non-Scheduled Operations, 1963-1967

	Notifiable accidents per 100 m.aircraft- miles	Notifiable accidents per 100,000 air- craft-hours	Notifiable accidents per 100,000 stage flights
Scheduled Services			
BOAC	2.48	1.1	3.5
BEA	8.25	2.1	2.6
BUA Group	4.36	1.1	1.0
BUAF	4.83	0.7	0.4
British Eagle	8.02	1.8	2.1
Other Independents	31.84	5.2	5.1
All Operators	6.77	2.0	2.7
Non-Scheduled Services			
BOAC	-	-	-
BEA	7.73	2.1	3.4
BUA Group	5.84	1.6	4.0
BUAF	-	-	-
British Eagle	8.98	2.6	10.1
Other Independents	18.22	4.1	11.3
All Operators	10.60	2.8	7.7

Source: Edwards Report, p. 208.

To a large extent the relatively poor record of the private airlines can be explained by the fact that a greater proportion of their output is accounted for by charter flying (see Table 1.3). Between 1957 and 1966

one out of every 212,000 scheduled passengers was killed in an air crash, against one in every 40,000 on charter flights.⁹ Charter operations tend to be less safe because of the more likely use of small airports, where navigational and visual aids are inadequate or non-standard and compare unfavourably with those at larger airports; because of the irregularity of the services, so that pilots are unable to become fully accustomed to the route; and so forth. But in addition it would appear that the Independents as a whole also have an inferior safety record than the nationalised airlines on scheduled services and that the charter safety record of the Corporations is better than that of most of the private operators.¹⁰ This is not to suggest, of course, that individual privately-owned airlines do not have a safety record as good as, if not better than, either BOAC or BEA, as can be seen from Table 1.3; Mr. Freddie Laker, for instance, claims that since the war there has not been a single fatality on one of his airlines, although between 15 and 20 million passengers have been carried.¹¹ But overall the air safety record of the Independents has undoubtedly been inferior to that of other British airlines, and a possible explanation may well be found in the excessively high level of economic instability that has characterised the sector since the war.

9. Ibid. Particular care should be taken when comparing air transport accident statistics. They lend themselves to widely different interpretations. The main problems arise from the small number of observations each year, especially for individual or small groups of airlines, and the lack of a universally accepted yardstick. Recent figures suggest that charter operations are now safer than scheduled services. This would partly reflect the greater participation of the large national carriers in the charter market and the domination of that market by inclusive-tour services (in operational terms these are now virtually scheduled services). A longer period is probably needed before the true situation becomes totally clear.

10. See also R. Doganis: 'How Safe are Air Charters'. Journal of Transport Economics and Policy, January, 1968.

11. T.V. Interview, B.B.C.1, 8/10/72.

Structure of Thesis

The thesis is divided into two fairly distinct sections, although there is a measure of over-lap. The first part, Chapters two to six inclusive, contains a historical narrative of the post-war development of the Independents, paying particular attention to the airlines' attempts to establish themselves as scheduled service carriers and to the political environment within which they have been forced to operate. The second part deals in detail with certain aspects of the Independents' operations: finance, scheduled services and the three main areas in which they have specialised since the war, vehicle-ferry services, trooping and inclusive-tours. Throughout the study the main, although not the exclusive, emphasis will be placed on an examination of the economics of airline regulation rather than operation, for it seems logical that the principal causal factors of economic instability are to be found in this area. By this we mean that there is really very little difference between publicly and privately-owned airlines in the actual operation of an air service; British Caledonian's services from London to New York do not differ in any meaningful sense from those of BOAC, except in the restrictions imposed by the licensing authorities. It is more relevant to direct one's attention to the regulatory field, to determine why certain airlines are favoured, why others are refused access to the more lucrative markets, and so forth. This is the approach adopted in this study.

NATIONALISATION AND A LABOUR GOVERNMENT1945-51

The period of the first post-war Labour Government, 1945-1951, was crucial to the development of air transport in Britain, for it was during these years that the basic structure of the industry was established. The 'mixed' two-sector type of economic system that had evolved by the end of 1951, comprising the two nationalised Corporations on the one hand and numerous privately-owned operators on the other, survived the next twenty years remarkably well, despite periodic attacks and reforms. It is, therefore, important to examine in detail the policies and incidents that resulted in the establishment of this particular type of system, especially as it could be persuasively argued that it is the structure of the industry that has been largely responsible for many of the problems which British air transport has had to face since the war.

The Swinton Plan

Long before the end of the Second World War it was quite obvious that when peace eventually came a new civil aviation policy would be required. Consequently, upon his appointment as the first Minister of Civil Aviation in October, 1944, Viscount Swinton rapidly set about preparing the necessary blue-print. The document that emerged, known as the Swinton Plan, was presented to Parliament as a White Paper in March, 1945.¹ Although published by the Coalition Government, the Plan in fact shows all the signs of being a Conservative brain-child. Before the war Tory policy, as evolved by Kingsley Wood, had favoured the concentration of the nation's effort in the international field behind a single, publicly-owned airline, leaving most domestic and charter services to private enterprise.²

1. "British Air Transport," 1945, Cmd 6605.

2. Corbett: 'Politics and the Airlines', 1965, p. 105-6..

As a result the British Overseas Airways Corporation was established in 1939 with the exclusive right to receive a State subsidy for overseas services. The problem with this scheme, as Brancker points out, was that the Government effectively became the owner of an air operating concern without giving itself very many safeguards.³ A single 'chosen instrument' was also felt to be too unwieldy to be operated efficiently in the post-war world, and instead three new Corporations were proposed, linked together by a common denominator, the participation of BOAC.

The underlying philosophy of the Swinton Plan is summarised in the White Paper as follows: "It is.... the essence of the Government's plan that those interests concerned in transport by sea and by land should be brought into a real and effective partnership with the organisations which will be responsible for transport by air."⁴ The same principle, together with that of regulated competition, have remained at the heart of Conservative policy throughout most of the post-war period. The first of the three Corporations, basically the existing BOAC, was to be responsible for the North Atlantic and Commonwealth routes, with extensions to China and the Far East. The airline was to be wholly State owned, but allowance was made for the participation of shipping companies in subsidiaries and in certain routes on which it was thought they could make a "useful contribution".⁵ The exact extent of any maritime participation, however, was never enunciated.

The second Corporation, expected to be the most profitable and in which the Government intended BOAC to have a substantial, though not a majority, shareholding, was to serve the European and domestic routes.

3. Brancker : "The Effect of Nationalisation on Air Transport." Journal of the Institute of Transport, 1949, p. 109.

4. Cmd. 6605, p.4.

5. Ibid, p. 4-5.

The pre-war rigid division between internal UK and Continental operations was abandoned, permitting the development of connecting services. The main shareholders, apart from BOAC, were to be the railway companies, short sea shipping lines and travel agencies, although other pre-war operators were offered the chance either of sharing in the capital of the new Corporation or of joining with it to form joint subsidiaries to run particular routes. In addition, the door was left ajar for the participation of outside carriers in the development of new routes, while the operation of charter aircraft was left open to anyone.⁶

The third Corporation was to be responsible for the development of routes to South America and owned primarily by the four British shipping companies engaged in the South American trade who, in January, 1944, had joined together to form British Latin American Airlines Ltd. Again BOAC was to be a shareholder, but with a smaller interest than in either of the other two Corporations. In addition to the common participation of BOAC, the three airlines were also to co-operate in the overhaul of aircraft and in the establishment of a combined training organisation. The Plan provided for the Minister of Civil Aviation to "have a general control over broad aviation policy"; he had the right of veto over appointments to the boards of the two non-nationalised airlines and retained the power to appoint the directors of BOAC. The three Corporations would be required to continue operations on all the routes assigned to them and could not terminate a scheduled service without the Minister's permission.⁷

The Swinton Plan was, of course, a compromise, a hotchpot of policies designed to satisfy a large number of conflicting pressure groups. Herbert

6. Ibid, p.5-6.

7. Ibid, p.6-8; "The Economist", 17/3/45, p. 337-8.

Morrison summed up the views of the Opposition and at the same time emphasised the compromise appearance of the White Paper during the debate on the 1946 Civil Aviation Act:

"(Lord Swinton) said, 'What can I do to get some scheme through this Cabinet of conflicting points of view?' He said, 'I will have three corporations, 'and he had three. He had one with substantially, if not predominantly, a railway interest. He said to himself, 'That will square the railway interests.' He had another with a very strong shipping flavour about it, and he said 'That will square the shipping people, the Conservative believers in private enterprise.' It was real political genius. It satisfied both the railway Conservatives and the shipping Conservatives. Finally, he produced a public-ownership corporation, the BOAC, and he said, 'That is for the Socialists'... That was the Swinton Plan, one for the railways, one for shipping and one for the Socialists." 8

Whether or not the proposals were "real political genius", certainly in practice many of them would have had to be radically modified. The Plan affords several examples of policy proposals that did not make economic sense, the inevitable result of trying to reconcile too many diverse pressures. This is particularly striking in the attitude taken towards the important question of subsidies. The White Paper states:

"It is the intention that the agreed schedule of services on the European routes and the Latin American Service should be operated without subsidy... (The Commonwealth routes, however,) are so essential in the interests of Commonwealth communications that His Majesty's Government will be prepared to afford the necessary financial help to enable BOAC to operate them."⁹

Likewise, challenged to say what would happen if the Corporations lost money, Sir Stafford Cripps, Minister for Aircraft Production, replied:

"First of all the Corporation bears the loss. If this exceeds its reserves it will have to give up the service and somebody will take it on."¹⁰

8. Hansard, House of Commons Debates, Vol. 418, col 425, 24/1/46.

9. Cmnd. 6605, p.8.

10. Longhurst: "Nationalisation in Practice", 1950, p.78.

Thus, it would seem that there was a total failure to appreciate a fact that was obvious to most people in the industry, namely that all the operating companies, even the European airline, would inevitably need subsidising after the war, and indeed that in the short run the subsidies would have to be considerably greater than they had been before 1939. Who exactly was going to take on the routes that the Corporations abandoned, since almost every company of any size who had ever shown any interest in air transport had already been included in the Plan, was anyone's guess.¹¹ Overall, therefore, the thinking behind the Swinton Plan was vague and lacked an appreciation of the immense changes that the Second World War had brought about in civil air transport.

Labour's Plans:

Although the Labour Party was strongly represented in the Coalition Government, and indeed Sir Stafford Cripps was Minister of Aircraft Production and often spoke in the Commons on behalf of Viscount Swinton, the principles embodied in the Swinton Plan were very different from those that had become associated with Labour during the war. Social-democratic parties throughout the world had for some time been discussing the feasibility of 'internationalising' air transport, as distinct from the pre-war pattern by which each country established and protected its own airlines and often used them for the exercise of national power (Lufthansa probably being the best example of this type of development). The first positive move towards the internationalising of air transport came with the Australia-New Zealand Co-operative Agreement of 1944, which proposed the formation of a world authority to own and operate the main trunk air routes.¹² The French Government had supported a similar approach at the

11. Ibid.

12. Cooper: "Some Historic Phases of British International Civil Aviation Policy." International Affairs, 1947, p. 198; Worcester: "Roots of British Air Policy," 1966, p.130-1.

1932 Disarmament Conference, while the Canadians suggested not complete internationalisation of civil aviation, but an authority "to ensure that, so far as possible, international air routes and services are divided fairly and equitably between various member states."¹³ It was with this background, therefore, that the Labour Party published its post-war blueprint for air transport, "Wings for Peace".

Thus, "Wings for Peace" was inevitably a rather idealistic document, very much in the mainstream of left-wing political thinking at the time. Labour saw it as "the only programme which can adequately safeguard the world's peace against the dangers that result from the use of civil aviation as an instrument of national policy."¹⁴ Basically, it made three proposals:

- i) the establishment of a World Air Authority with wide-ranging functions, including the provision of various international services, such as weather reports, health control, etc.
- ii) the establishment of a unified World Airways, owned and operated by the World Air Authority, or, as a second-best solution, a system of Regional Air Unions.
- iii) the immediate internationalisation of civil aviation in Europe, while the ground was still particularly fertile for such a development.¹⁵

Despite its undoubted importance, "Wings for Peace" had a number of serious short-comings. For example, it failed to foresee, perhaps not unexpectedly, the appearance of the post-war phenomenon of third-world nationalism, which

13. Thornton: "International Airlines and Politics," 1970, p. 126; Wassenbergh: "Post-war International Civil Aviation Policy and the Law of the Air," 1957, p. 76.

14. The Labour Party: "Wings for Peace", 1944, p. 18.

15. Ibid, p. 15; see also Jenkins: "British Airlines", Fabian Research Series, 1953.

was later to have a considerable effect on international air transport. Secondly, it did not really face up to the problems created by the very close association between civil aviation and national defence, especially in relation to a country's aircraft manufacturing potential. But probably more important in the short-run was the fact that the implementation of such a policy was quite outside the control of any single government.

The latter point was clearly illustrated at the Chicago Conference of 1944. An international meeting to determine the future development of civil aviation had become necessary because, in the words of Schenkman: "As a result of war-time expansion, the technical development of air transport had outdated the political framework available to accommodate this new and revolutionary means of transportation."¹⁶ At Chicago the motion proposing the full internationalisation of air transport was vetoed by the United States and Brazil, although the U.S. statement did admit that while such a solution was right in principle, in an imperfect world it was more a matter for later consideration and not in any case relevant to a fledgling industry.¹⁷ The U.K.'s position, set out in a White Paper,^{17a} was broadly in line with that of Canada in supporting an international

16. Schenkman: "International Civil Aviation Organization", 1955, p.60.

17. Worcester, *op.cit.*, p. 130-1.

17a. "International Air Transport," 1944. Cmd. 6561. The positions taken at Chicago by the U.S.A. and Britain largely reflected the relative economic power of the two countries in the field of civil aviation and were, of course, a reversal of their historic economic policies. America's predominance stemmed primarily from the fact that during the war it had achieved a near-monopoly of the production of transport aircraft and its airlines had continued to operate relatively normally. It is interesting to note that by the early 1970's the positions had apparently been reversed, with Britain favouring a more liberal approach and America insisting on restrictions. (see Chapter X).

authority with power to issue licences and control rates and frequencies. It is interesting to note, however, the influence that the Labour members appear to have had on the Coalition Government in this sphere of policy, and perhaps the bargaining that must have taken place explains the apparent acceptance of the Swinton Plan by Labour Ministers. Adolf A. Berle reported back to the U.S. State Department the following discussion with Winston Churchill and the Lord Privy Seal, Beaverbrook: "My private opinion is that the British never really intended to press for complete international control of aviation but made the contention for the benefit of certain members of the British Cabinet who have taken advanced public positions in favour of internationalism not only in aviation but in general."¹⁸

Nationalisation:

Thus, partly as a result of the Chicago Conference, by the time that the Labour Government came to power in July, 1945, it was widely accepted that a more practical solution to the problem of the future development of British civil aviation than that contained in "Wings for Peace" had to be found, and not surprisingly thought tended to revolve around the already prepared Swinton Plan. Indeed, it was reliably reported that up to October 24th (Labour's policy proposals were published in the form of a White Paper in December) the Cabinet intended to adopt the Swinton Plan with only one modification - that the shipping and travel interests, while participating in the two new Corporations, should do so as minority rather than majority shareholders. On that day, however, a group of Labour back-benchers threatened to organise a revolt in the Parliamentary Party, and

18. Quoted in O'Connor: "Economic Regulation of the World's Airlines: a Political Analysis," 1971, p.28.

the Government, fearing the kind of split in the ranks that had recently occurred over the National Insurance Bill, capitulated and proposed complete public ownership.¹⁹ It is difficult to visualise how a Government apparently so committed to the internationalisation of air transport and the nationalisation of all internal public transport could have done anything but effectively exclude private enterprise from civil aviation. But on the other hand, the policy finally adopted did differ from normal Labour nationalisation practice in two significant respects: there was no single, central body to control the administration and management of air transport, and the question of co-ordinating civil aviation with other modes of transport was almost totally ignored.

The White Paper, "British Air Services",²⁰ followed Conservative policy in proposing the formation of three separate airlines, each with its own geographical area of responsibility. Thus, routes between the U.K. and other Commonwealth countries, the U.S.A. and the Far East were to be operated by the existing BOAC. U.K. domestic services and routes to the Continent were given to a new company, British European Airways (BEA), formed by the amalgamation of the European division of BOAC and those independent airlines operating scheduled services within Britain. Finally, routes to South America were to be the responsibility of another new company, British South American Airways (BSAA).^{20a} These three operators became Britain's 'chosen instruments.' They had the exclusive right to fly regular services, the only competition allowed being from foreign carriers on international routes. Within the U.K. those private airlines not absorbed into BEA were permitted only to carry out such functions as charter operations, aircrew instruction, and ambulance and rescue flying. The idealism of "Wings for Peace", however, was not entirely abandoned; the White Paper

19. 'The Economist,' 10/11/45, p. 669 and p. 673; see also Hansard, op.cit., 6/5/46, Vol. 422, col 620.

20. Cmd. 6712.

20a BSAA was absorbed by BOAC in 1949 following a series of accidents involving its Tudor IV aircraft. BSAA Report, 1948/49, p.10.

opens with a pledge to work towards a single international owning and operating body and goes on to say: "The plan His Majesty's Government now present to Parliament is necessarily a national plan, but it has been so formed that it can be readily fitted into any future scheme of international organisation." ²¹

The Civil Aviation Act received the Royal Assent in August, 1946. BEA had been established in February of the same year as a Division of BOAC so that a nucleus organisation could be built up by August 1st. On that date BEA took over the European services of 110 Wing, 46 Group, RAF, which had operated for a short time under the aegis of BOAC. Domestic services, however, continued to be operated by a group of independent airlines under charter to the Corporation. When war had broken out in 1939 an organisation known as 'National Air Communications' was set up to operate in pool all air transport services within the UK and to the Continent. This was absorbed into the RAF in May, 1940, while most of the remaining carriers, mainly railway-sponsored, formed the Associated Airways Joint Committee (AAJC) to operate skeleton services. The only airlines outside this group were Allied Airways (Gandar Dower) and, of course, BOAC, both of which operated services throughout the war. ²²

BEA eventually absorbed the AAJC airlines on February 1st, 1947. The purchase price was £550,000, of which £305,529 represented "the excess of the cost of the shares in the AAJC companies over the estimated value of the net tangible assets of those companies at the date of acquisition." ²³

21. Cmd. 6712 p.3. If the plan could in fact have been fitted into a future international scheme it was, as we have seen, a fortuitous accident.

22. Masfield: "Some Economic Factors in Air Transport Operation." Journal of the Institute of Transport, 1951, p. 84-5; Ministry of Information: "Merchant Airmen," 1946, p. 31-3.

23 BEA Annual Report, 1946/7, p.14.

The eight carriers involved were:

Great Western and Southern Air Lines
 Highland Airways
 Isle of Man Air Services
 North Eastern Airways
 Railway Air Services
 West Coast Air Services (ceased operations, June, 1946)
 Scottish Airways
 Western Isles Airways.

Allied Airways was added to the list on April 12th²⁴. The only other privately-owned scheduled carrier was Channel Islands Airways, which began operations in June, 1945, and was registered in Jersey. The States of Jersey and Guernsey rejected nationalisation and insisted on preserving the identity of their own airline. When, however, the British Government refused to allow Channel Island Airways to operate to and from the UK, the Insular Authorities gave in and the airline was nationalised.²⁵

It might be relevant here to quote at length the main Conservative criticism of the 1946 Act, for to a large extent it foreshadowed later civil aviation policy, both Tory and Labour. Lennox-Boyd, speaking in reply to Herbert Morrison during the Bill's Second Reading in the House of Commons, said:

"First and foremost, we deplore the monopolistic feature of this proposal. No one is to be allowed to start a scheduled service...We believe that there should be an executive council, an organisation similar to that in operation in the United States where the Civil Aeronautics Board have contrived to give competition and service within the framework of a general Government supervision. We favour an independent tribunal to which any independent operator can apply in regard to routes at home and overseas. If the tribunal is satisfied that there is inadequate service, or no service at the moment, on a particular route and the tribunal is also satisfied as to the financial soundness of a proposal and technical ability of the people concerned, they would have the power to grant a licence to operate over that route." 26

24. Ibid, p.4.

25. Scott-Hill and Behrend: "Channel Silver Wings," 1972, p.8.

26. Hansard, op.cit., 6/5/46, Vol. 422, col 622.

The Charter Companies

By 1946, therefore, both the main political parties had been forced to tone-down their earlier civil aviation policies, although a large gap still separated them. The task now is to examine how the airlines, especially the Independents, reacted to the new political and economic environment. It is important to remember that the Second World War had an enormous effect on air transport development throughout the world. According to Brogden, in six years the aircraft manufacturers and the airline industry achieved the equivalent of twenty years normal peacetime development.²⁷ Similarly, Frederick estimates that "at the close of hostilities we found ourselves probably fifty years further ahead in air transport techniques, in aeronautical knowledge, in the development of flying equipment and devices which could be adapted to commercial use, and in public acceptance of this new means of getting about the world than we would have been if the conflict had not taken place."²⁸

The immediate post-war period was marked by the appearance of numerous small air charter companies, just as the end of the First World War had seen the mushrooming of private bus operators in and around London. During 1946 and 1947 hardly a week went by without the establishment of another airline; on the small island of Jersey alone there were over a dozen registered charter companies at this time.²⁹ For the country as a whole it is very difficult to say with any certainty how many carriers were in existence; no reliable estimate has ever been made. But during the period of the Labour Government the total probably approached 150. The casualty rate, of course, was almost as high, and indeed, Mr. Peter

27. Brogden: 'Australia's Two-Airline Policy,' 1968, p.34.

28. Frederick: 'Commercial Air Transportation,' 1961 p.v.

29. Behrend: 'Jersey Airlines,' 1968, p.11.

Masefield's description of the pre-war British airlines "flitting like brief shadows across the scene"³⁰ applies even more to their post-war successors. A similar situation appears to have evolved in several other countries. In France, for example, by the end of 1946 there were already some 30 charter companies operating mainly between North Africa, France and the U.K.,³¹ while in the U.S.A. the Civil Aeronautics Administration later estimated that approximately 3,600 carriers were established during the immediate post-war years.³²

Two factors in particular favoured this rapid growth. Firstly, during the war large numbers of men had been taught how to fly aircraft and had become interested in the possibilities of air transport; most of them now suddenly found themselves in the labour market. Secondly, the Allied governments began to dispose of thousands of surplus aircraft at very low prices. In total over 13,000 DC-3s had been built (including some 2,000 in Russia), 4,000 of which were disposed of by the U.S. Government alone at the end of the war. Between 1942 and 1946 1,163 DC-4s were also built,³³ as well as thousands of bombers that were capable of conversion to civilian use. It was possible, for example, to buy Halifax bombers from the Ministry of Supply for between £100 and £1,700 each, with spare engines selling for a little over £10 each.³⁴ Thus, with a very small amount of initial capital it was relatively easy to set oneself up as an air charter operator. The trick was to stay in business.

Most of these companies, of course, were small, almost 'one-man' affairs. But some had become relatively large and well-established,

30. Masefield, op.cit., p.83.

31. Sundberg: 'Air Charter,' 1961, p.25.

32. Thayer: 'Air Transport Policy and National Security,' 1965, p.93.

33. Miller and Sawers: 'The Technical Development of Modern Aviation,' 1968, p. 103, p.124 and p.134.

34. Laker: 'Private Enterprise in British Air Transport'. Journal of the Royal Aeronautical Society, 1966, p.332.

such as Airwork, Hunting Air Travel, Lancashire Aircraft Corporation (LAC), Scottish Airlines and Skyways. With the introduction of the Civil Aviation Act their field of operation was effectively limited to various types of charter activity. In fact, the Independents were positively encouraged to seek this type of work: "We give to independent charter operators freedom of enterprise, and freedom of competition against these publicly-owned undertakings... We genuinely desire that private enterprise should have a fair field in charter flying and good luck to it."³⁵ Given this encouragement and the current demand for air transport services, it is not surprising that for those airlines that managed to stave-off bankruptcy the immediate post-war years proved to be a period not only of expansion, but of near-boom. During 1947 member companies of the British Air Charter Association (BACA) flew eight million aircraft-miles, compared with four million in 1946, and carried 136,357 passengers. If the figures for Airwork, Skyways and other non-members are included, the private sector in 1947 flew approximately 15 million aircraft-miles and carried 250,000 passengers and 3,000 tons of cargo. The three nationalised Corporations, on the other hand, managed to fly a total of 40 million aircraft-miles and carry 585,000 passengers and 4,700 tons of freight,³⁶ although of course they were still in the midst of reorganisation. From the residue of work left for the Independents, ambitious operators were able to gradually rebuild a private sector in the industry, primarily by adapting themselves skilfully to the new situation and to new opportunities. The reasons for the early success of the sector as a whole, despite individual failures, can probably best be seen by examining the type of work to which they turned.

35. Herbert Morrison; Hansard, op.cit., col 615.

36. 'Aeroplane,' 9/7/48, p. 56.

A major factor in civil aviation at this time was the considerable amount of capacity shortage that existed on scheduled services (a reflection of the continuing war-time disruption of air services and the problems of obtaining new equipment) and the State airlines were finding it very difficult to meet demand. It was often necessary to book months in advance to fly to European destinations and a year for South Africa and Australia.³⁸ To a large extent, this explains the amount of work given to the charter companies by the Corporations. We have already mentioned that between August, 1946, and February, 1947, U.K. domestic services were operated by several independent carriers on behalf of BEA. But numerous other similar arrangements continued long after these particular companies had disappeared. Skyways, for example, operated BEA's once-weekly flight to Helsinki, and Scottish Airlines operated the same Corporation's Prestwick-Belfast, Renfrew-Belfast and Aberdeen-Renfrew-London services. BEA did not inaugurate its first regular all-cargo service until August 10th, 1947; prior to that date a number of charter companies had been used, and indeed continued to be widely used for some time afterwards.³⁹ According to its Annual Reports, BOAC spent £321,799 during 1946/47 on the 'charter of aircraft and crews' and a further £180,624 in 1947/48. The corresponding figures for BEA were £104,370 (August-March) and £173,651. There is also some evidence to suggest that the Government turned a purblind eye to the open flouting by many companies of regulations concerning charter flights, mainly no doubt because of the excess demand situation. For example, after an accident to an aircraft belong to Spencer Air Lines at Croydon early in 1947 it was found that none of the passengers had apparently chartered the aircraft and all had paid separate fares.⁴⁰

38. Ibid, 30/5/47, p. 573.

39. Ibid., 17/1/47, p. 83; 27/6/47, p. 689 and 15/8/47, p. 199.

40. Ibid, 30/5/47, p. 573.

The nationalised Corporations were far from the only customers for this type of charter work. A number of British airlines found a valuable market in providing services and advice to foreign companies and governments. Airwork, the largest private air transport company in Britain, had contracts for the technical management and operation of fleets of aircraft in Iran, Iraq, the Sudan and Ecuador; in December, 1948, it signed a three-year agreement with Pakistan Aviation Ltd., to act as technical consultants in the development of aircraft and engine overhaul workshops and a training school that eventually involved about 200 Airwork personnel being sent to Pakistan.⁴¹ Scottish Airlines flew regular scheduled services for Icelandic Airways, KLM, Air France, Compagnie Belge des Transports Aeriens and Faroe Airways, as well as providing all the equipment and technical assistance for the new carrier, Luxemburg Airlines.⁴² London Aero and Motor Services Ltd. (LAMS) had subsidiaries operating in Australia and South Africa and in January, 1948, signed a contract with the Jewish Agency in Palestine for the establishment of Jewish National Airways.⁴³

Several companies also managed to obtain a number of fairly large-scale general charter contracts, an important pre-requisite in attaining any degree of stability. For example, following a critical shortage of milk in Britain during the autumns of 1947 and 1948, the Ministry of Food chartered a large number of aircraft to supplement the shipping services in transporting extra supplies from Northern Ireland. The operation involved the movement of a daily average of 12,000 gallons in 1947 and 30,000 in 1948, employing eleven charter carriers. A further airlift was necessary in 1950 when milk supplies in Britain were again getting low.⁴⁴ Similarly, Airwork gained a long-term contract to carry

41. Ibid., 15/8/47, p. 193-5; 'Flight', 30/12/48, p. 775.

42. 'Flight', 22/1/48, p. 90.

43. Ibid., 8/1/48, p. 48.

44. Swann: '40 Years of Air Transport in Northern Ireland,' 1972, p. 37-8.

Muslim pilgrims the 1,900 miles from Mombasa to Teddah.⁴⁵ Skyways was chartered by the Colonial Office to fly a weekly service from Nairobi to Mauritius carrying passengers, freight and mail, while Hunting Air Travel signed an agreement with the Overseas Food Corporation (of the 'groundnuts scheme' fame) which between November, 1948, and October, 1949, involved the movement of 2,000 passengers between London and East Africa.⁴⁶

Most of the work mentioned so far, of course, primarily involved the 15 to 20 larger carriers. The smaller companies had to rely on the fairly bouyant, but less certain and probably more competitive, general charter market, and despite the relative prosperity it was mainly these airlines that faced financial difficulty and bankruptcy. For those with initiative, however, opportunities still existed. Olley Air Services, and later Solar Air Services, for instance, built up a quite successful business flying passengers to all the major horse-race meetings and the Isle of Man T.T. races. A number of airlines developed close ties with shipping companies, flying crews and spares around the world. Two further events must have also aided the general development of the charter operators. One was the establishment in August, 1946, of the British Air Charter Association to act as spokesman and pressure group for the industry; its original membership of 23 had increased to 41 by the end of 1947.⁴⁷ The other was the opening of the Baltic Exchange air freight section in August, 1947, making it easier to 'marry' cargo and aircraft and so obviate the common diseconomy that arises when one-way cargoes have to bear the cost of the return flight

45. 'Flight', 10/10/47, p. 433.

46. Ibid., 22/1/48, p. 90 and 3/11/49, p. 581.

47. Ministry of Civil Aviation: 'Civil Aviation Report,' 1946/47.

without pay-load.⁴⁸

The charter airlines' period of relative prosperity, however, proved to be short-lived. By the spring of 1948, most companies, especially the smaller ones, were beginning to feel the strain of a slack winter period. Business activity continued at a fairly low level and it seemed inevitable that some of even the larger carriers would be forced into liquidation. The smaller operators were hit by a disappointing fruit season, previously a major source of income for them; it was far too short and rates were only half those charged in 1947.⁴⁹ As the major airlines recovered from the immediate post-war chaos it was only to be expected that they would have less use for the charter companies' services. The fact that the supply of scheduled service seats was catching up with demand may well explain the more stringent enforcement of charter regulations. In May, 1948, for example, Ciro's Aviation became the first company to be prosecuted under the Civil Aviation Act for failing to furnish documents and information concerning flights to South Africa required by the Minister.⁵⁰ On the whole, therefore, the situation looked rather bleak for the Independents. They were saved by two important developments during the second half of 1948. Probably the more significant in the long run was the decision by the Government to allow certain privately-owned airlines to operate scheduled services within the U.K. as 'associates' of BEA. But in the short run even more important was the Berlin Airlift, which created, in Mr. Freddie Laker's words, the "launching paid for private operators."⁵¹

48. 'The Economist', 30/8/47, p. 380.

49. 'Aeroplane', 23/7/48, p. 112.

50. Ibid., 14/5/48 p. 590.

51. Laker, op.cit., p. 331.

The Berlin Airlift:

The Berlin Airlift was not the first operation of its kind in which the Independents had participated. During the autumn of 1947, for example, BOAC and several charter companies had carried out two major airlifts between India and Pakistan. The first, "up to that time the biggest air charter in the history of civil aviation," involved the carriage of 7,000 employees of the Pakistan Government and their families from Delhi to Karachi, as well as 1,500 passengers in the reverse direction and over 50 tons of food and medical supplies.⁵² During the second operation, "the greatest civil air evacuation which has ever been attempted," a total of 35,000 people were airlifted between the two newly independent States.⁵³ Altogether, well over 1,200,000 aircraft-miles were flown and the two evacuations produced a gross revenue of £435,840 for the charter companies.^{53a} Similarly, in May, 1948, Airwork secured a contract valued at £1,200,000 for the time charter of five DC-4s to the International Refugee Organisation of Geneva. During the first year of the agreement some 17,500 displaced persons were carried between Hamburg and Montreal.⁵⁴ But such operations almost pale into insignificance when compared with the Berlin Airlift.

The British civilian side of the Airlift, officially described as "the greatest and largest air supply operation ever attempted, or ever likely to be attempted again,"⁵⁵ began on July, 27th, 1948, with the deployment of two Lancaster tankers belonging to Flight Refuelling; other companies began operations from August 4th. The blockade of Berlin by the Soviet Union was finally lifted early in May, 1949, but civilian flights continued until August 15th in order to build up strategic reserves in the city. At its peak ⁴⁸ British civil aircraft of all types

52. BOAC: "Operation Pakistan," 1948, p.1-3.

53. Ibid: 'Operation India,' 1948, p. 3-4.

53a Ibid Annual Report, 1947/48, p. 13.

54. 'Aeroplane', 28/5/48, p. 649.

55. H.M.S.O.: "Berlin Air Lift", 1949, p. 6.

were involved, including even a few flying boats.⁵⁶ The reason for using the independent airlines to such an extent was quite simply that there was no alternative. Neither the R.A.F. nor the U.S.A.F. had the capability to perform the whole task without seriously impairing their operations in other parts of the world, while the sole use of the Corporations would have caused severe disruption to their scheduled services. Altogether 25 British carriers took part in the Airlift, including ESAA, BOAC and Flight Refuelling⁵⁷ (see Table 2.1), under the direction of E.P. Whitfield, BEA manager in Germany.

56. Wyatt: 'British Independent Aviation - past and future'.
Journal of the Institute of Transport, 1963, p. 109.

57. As neither the R.A.F. nor the U.S.A.F. had any tanker aircraft in service, Flight Refuelling Ltd., a private company founded in 1936 by Sir Alan Cobham and not really an air transport operator, had to be extensively used to carry fuel in modified bombers. Rodrigo: "Berlin Airlift," 1960, p.44.

Table 2.1: Berlin Airlift Civil Operators

Company and period of operations.	number of aircraft employed	Sorties	Hours	Tonnage carried
1. Air Contractors 4/8/48-10/11/48	3	386	1,066	1,376.6
2. Airflight 3/9/48-12/7/49	3	967	2,669	8,416.6
3. Air Transport Charter (C.I.) 4/8/48-10/11/48	1	205	562	742.6
4. Airwork 10/11/48-12/2/49	2	74	218	370.6
5. Aquila Airways 4/8/48-15/12/48	3	265	700	1,409.2
6. Bond Air Services 4/8/48-15/8/48	12	2,577	6,425	17,131.4
7. British American Air Services 11/12/48-12/7/49	3	661	1,985	4,462.9
8. British Nederland Air Services 21/9/48-14/11/48	1	76	230	276.4
9. BOAC 20/10/48-25/11/48	3	81	224	294
10. BSAA 23/9/48-10/8/49	7	2,562	6,973	22,125.2
11. Ciro's Aviation 6/8/48-10/11/48	2	328	930	1,177.4
12. Eagle Aviation 26/8/48-15/8/49	4	1,054	2,471	7,303.8
13. Flight Refuelling 27/7/48-10/8/49	12	4,438	11,611	27,114.6
14. Hornton Airways 24/9/48-18/11/48	1	108	301	397.5
15. Kearsley Airways 4/8/48-20/11/48	2	246	679	888.6

Table 2.1 (cont'd)

16. L.A.C. 16/10/48-12.7.49	13	2,760	8,715	16,413.2
17. Scottish Aviation 4/8/48-14/8/48 and 19/2/49-12/7/49	5	497	1,514	3,174.7
18. Silver City Airways 18/9/48-5/2/49	4	213	619	896.4
19. Sivewright Airways 13/10/48-15/11/48	1	32	87	116.1
20. Skyflight 17/9/48-6/10/48	2	40	105	276.1
21 Skyways 16/11/48-15/8/49	8	2,749	7,348	23,488.3
22. Trans World Charter 23/9/48-14/11/48	2	118	332	415.4
23. Trent Valley Aviation 4/8/48-10/11/48	1	186	504	665.5
24. Westminster Airways 4/8/48-23/11/48 and 15/12/48-12/7/49	6	772	2,314	4,343.9
25. World Air Freight 6/10/48-8/10/48 and 24/12/48-15/8/49	3	526	1,212	3,703.2
Total		21,921	approx 60,000	146,980.2

Source: Stroud: 'Annals of British and Commonwealth
Air Transport, 1919-60,' p. 649-50.

Table 2.2: Berlin Airlift, Total Sorties and Tonnage.

Total sorties	RAF -	65,857
	U.S.	189,963
	British Civil	21,984
	Total	<u>277,804</u>
Total tonnage	RAF	394,509
	US	1,783,573
	British Civil	<u>147,727</u>
	Total	2,325,809

Source: Rodrigo: 'Berlin Airlift', 1960, p. 215.

Nb. figures given in Table 2.2 do not exactly correspond to those given in Table 2.1. There are several different estimates of the quantities involved, but Stroud's figures are more likely to be correct. Compare also Donovan: 'Bridge in the Sky', 1970, p. 198; HMSO, op.cit., p 50; and Merer: 'The Berlin Air Lift'. Journal of the Royal Aeronautical Society, 1950, p. 519.

It is difficult to over-estimate the importance of the Berlin Airlift, especially if viewed together with the change in Government policy towards the Independents that began in 1948. During the Airlift British airlines had transported almost double the total tonnage of mail and cargo carried by all UK civil aircraft on scheduled services over the previous 23 years.⁵⁸ Wheatcroft lists three ways in which the status of the private companies was changed. Firstly, it gave them an accumulation of operating experience which would have taken them many years otherwise to acquire. Secondly, it persuaded the Government of the value of the privately-owned airlines as a military transport reserve, and indeed their later extensive use in the field of trooping can to some extent be seen as a direct outcome of the Berlin

58. Merer, op.cit., p. 519.

Airlift. Finally, it considerably increased the financial strength of the companies, since they were able, for the first time, to engage in a really large-scale transport operation.⁵⁹ Even those airlines that were not directly involved in the Airlift benefitted from the general buoyancy of the charter market. Shortage of aircraft, especially the larger ones, was often so acute that rates were pushed up dramatically.

Associate Agreements:

The second major development during 1948 was the introduction of 'associate agreements'. Since the passing of the 1946 Civil Aviation Act the Government had remained quite adamant that all scheduled services within the UK were the sole preserve of BEA. As late as July, 1947, Mr. George Lindren, Parliamentary Secretary to the Ministry of Civil Aviation, had said that "it would be at variance with the Act to allow charter companies to run scheduled services where the Corporations were unwilling to do so."⁶⁰ Despite such statements, however, by May, 1948, the Government had back-pedalled somewhat and allowed a number of independent airlines to operate certain regular services as 'associates' of BEA, for an experimental period of six months⁶¹ (which was later extended.) Such associate agreements were drawn up by BEA and defined exactly how the services were to be run. The main reason for this change of heart seems to have been a realisation that the Corporation would not be in a position within the immediate future to maintain all the domestic routes which had been taken-over in 1946/47 and for which a demand apparently existed without incurring very heavy losses. This was a period when the Government was finding it difficult to raise the capital needed for the rebuilding of the economy

59. Wheatcroft: "Air Transport Policy" 1964, p. 33-34.

60. Quoted by 'Flight', 3/7/47, p. 17.

61. Ibid., 27/5/48, p. 572.

and in particular for the vast new public sector, so that any short-term means of tapping private risk capital must have appeared attractive.⁶²

The device of making companies associates of one of the Corporations was provided for under Clause 14, sub-section 4, of the 1946 Act, probably originally intended to cover the need for one of the nationalised airlines contracting for temporary or emergency operations.

It states:

"In this Act the expression 'associate' in relation to any of the three Corporations means any subsidiary of the Corporation, or any undertaking which (a) is constituted for the purpose of providing air transport services or engaging in any other activities of a kind which the Corporation has power to carry on; and (b) is associated with the Corporation under terms of any arrangement for the time being approved by the Minister as being an arrangement calculated to further the efficient discharge of the function of the Corporation." 63

During this trial period associate services were restricted to routes on which the demand was seasonal, such as routes to holiday resorts, and to short-distance ferry services. Cambrian Airways became the first Independent to be awarded a licence, for the route between Cardiff and Weston-super-Mare, which had been closed down by BEA as uneconomic. Altogether 20 charter companies were licensed to operate scheduled services on 11 routes and inclusive-tours on 13.⁶⁴

In June, 1948, Lord Pakenham succeeded Lord Nathan as Minister of Civil Aviation. One of his first official actions, on July 21st, was to appoint Marshal of the RAF Lord Douglas of Kirtleside to undertake an investigation into the operation of associate agreements and their relation to the Civil Aviation Act. Lord Douglas' report recommended that until

62. Corbett, op.cit., p. 152-3.

63. Civil Aviation Act, 1946, 9 and 10 Geo.6, c.70.

64. Ministry of Civil Aviation, op.cit., 1948/49, p.23.

BEA was in a position to provide all the scheduled services in the country for which there was a justifiable demand, charter companies should continue to be allowed to operate certain routes as associates of the Corporations. The Government announced that the Air Transport Advisory Council (ATAC), under the chairmanship of Lord Terrington, was to consider each application for a licence and recommend acceptance or rejection, although the final decision had to rest with the Minister.⁶⁵

In order to assist and guide the Council along the lines of Government policy Lord Pakenham issued a directive. This laid down that when applications for licences were being considered the ATAC should pay attention to the cost of supplying ground and navigational facilities and avoid recommending the route if such additional expenditure seemed necessary. The Minister also insisted that the Council should have the right to fix the maximum and minimum fares to be charged, but that in general fares should not be less than those charged by the Corporations, except by agreement with them. Provision was made for the submission of applications to the Corporation for comment, and also that any company granted permission to operate scheduled services should not employ its staff on terms less favourable than those offered to the employees of the nationalised airlines. Finally, the Council was directed not to recommend the award of an associate agreement licence for more than two years at a time.⁶⁶

The ATAC had been established under the 1946 Act to consider, firstly, any representation from the public about the facilities provided

65. 'Flight', 3/2/49, p. 129.

66. Hansard, House of Lords, 26/1/49, Vol. 160, cols. 350-354; ATAC Report, 1949, p. 13-14.

by the three State Corporations and the charges made for them, and, secondly, any question concerning air transport which the Minister might refer to it. As there had been very few representations from the public the Council had had little to do during the first two years of its existence. But that now changed. In 1949 it received a total of 231 applications for licences and finally recommended that 24 independent airlines should be made associates of BEA to operate 59 scheduled services (two were subsequently rejected by the Minister) and 26 inclusive-tours. The following year, out of 177 applications the Council recommended the licensing of 80 scheduled services and 16 inclusive-tours, nearly all of which, like the previous year's, were for periods of one year only. This time the Minister rejected four of the proposed routes.⁶⁷

By 1950, however, increasing dissatisfaction was being voiced by the Independents about the period of operation granted to them. One year, or even two, was not enough, they argued, to enable them to plan ahead with any degree of certainty. They were particularly worried about the difficulty of raising capital to finance the purchase of new equipment. As a result of these protests, and after consultation with BEA, it was decided that associate agreements should be extended to a maximum period of five years.⁶⁸ This only partly solved the problem. The ATAC Report for 1951 commented:

"It has...become even more apparent that there is only a limited field in which Independent Companies can hope to operate associated services economically under the present arrangements... The experiences of the past year suggest to the Council that the Independent Companies are unlikely to seek an increase in the number of scheduled services under associate agreements with the Corporations, unless they can be given longer tenure and better opportunities to plan their operations on a basis giving more economical use of their aircraft." 68a

67. 'Flight', 4/1/52, p.16-17. The ATAC had replaced the Air Transport Licencing Authority, established in 1938 to rationalise domestic air services - Ministry of Information, op.cit., p.30.

68. 'Flight', op.cit.

68a. p. 11-12.

For such a development, however, the private operators had to wait for a Conservative Government.

Thus, from 1949 the basic principle of a Government monopoly in British scheduled air transport ceased to exist in fact, although it was to continue as a legal concept for many more years. It was, furthermore, a Labour Government that first opened the door, albeit only slightly, to the participation of private operators in the provision of regular air services. Table 2.3 illustrates the beginning of the recovery of the private sector in this sphere.

Table 2.3: The Independents' Scheduled Services, 1946-1949 (000's).

	Revenue passenger -miles flown	Passengers carried	Revenue ton-miles flown			Total
			Passengers	Mail	Freight	
1946	30,060	229.4	2,329	67	113	2,509
1947	1,987	14.2	149	8	14	171
1948	330	12.9	24	-	-	24
1949	5,965	59.1	463	-	209	672

Source: Ministry of Civil Aviation: 'Civil Aviation Reports,' 1946/47 and 1948/49.

There is no doubt, of course, that the Government regarded the associate agreement device as a purely temporary solution to a difficult problem. Lord Pakenham warned the Independents that they would be unwise to consider the new opportunities opened for them as a thin end of the wedge to their benefit. Three principles, he said, guided him in allowing the private airlines to operate scheduled services as associates of BEA:

"The first was that we must look to the time when the Corporations run all the internal scheduled services; secondly, that there is a limit to the burden that can be imposed on the taxpayer during the period while they are cutting down their costs and actually developing their network; thirdly, that it would be wrong in the meanwhile to deny the public any facilities that can be offered under reasonable conditions by private companies...(I believe that) nationalised air transport is the only conceivable form of air transport in this country." 69

But over the next two years this policy began to look more and more like a semi-permanent arrangement, and when the Conservatives returned to power in 1951 it took on a different complexion and became the very 'thin end of the wedge' about which Lord Pakenham had spoken.

Depression:

The new scheduled services that the Independents were allowed to operate, of course, were still relatively few in number and it would be some time before they would make any positive contribution to the financial strength of the airlines concerned. In addition, as long as the Labour Party remained in power there would always be a major element of uncertainty about such services. A BACA report, for example, noted that the "Associate agreements are granted only with the approval of the Minister and are in no way permanent. They have helped the companies but the companies cannot depend upon a continuance of the agreements. The Corporation is already taking over some of the routes which were started and developed by the companies."⁷⁰ Meanwhile, the position of the private operators, especially those engaged actively in the general charter market, deteriorated markedly.

69. Hansard, op.cit., 2/2/49, vol. 160, col. 493.

70. BACA: 'A Case for the Independent Air Transport Companies in the UK', 1950, p.9.

The downturn in the fortunes of the Independents showed itself in a number of ways. In December, 1949, Hunting Air Travel lost its lucrative contract with the Overseas Food Corporation to BOAC under circumstances that led to protests from Hunting and BACA about unfair competition from the State airline.⁷¹ Similarly, Skyways withdrew its services between Nairobi, Mauritius and Johannesburg because of uneconomic loads and a lack of government subsidy.⁷² Perishable fruit and flowers, which had once formed the mainstay of air freight traffic, were by 1949 being carried almost exclusively by rail, partly because the airlines had tended to neglect this market during the lucrative Berlin Airlift and partly because the railways were increasingly able to compete in terms of both price and service with the use of refrigerated vans.⁷³ But the major problem, with the ending of the airlift to Berlin, was that of over-capacity, and it was primarily this factor that resulted in 1949 being a year of cut-backs and general slump for the private operators. In July, for instance, Skyways was forced to lay-off 400 employees because of the depressed state of the charter market.⁷⁴

Since the war it had hardly been an infrequent occurrence for a small independent airline to be forced into liquidation, but now both large and small companies were facing difficulties. In December, 1949, Westminster Airways, which had been formed in 1946 by four Members of Parliament, was wound up as a result of "the restrictive provisions of the Civil Aviation Act, 1946, and other restrictions on the activities of

71. 'The Economist,' 24/12/48, p. 1431-2, and 'Flight,' 3/11/48, p. 581.

72. 'Flight', 4/8/49, p. 140.

73. 'The Economist', 19/1/52, p. 174.

74. 'Flight', 21/7/49, p. 68.

independent charter companies."⁷⁵ The following March, Kearsley Airways went out of business. The company issued a statement, which in many ways reflected the general attitude and apprehensions of the Independents:

"After thoughtful consideration of the present charter market situation and the prospects for the future, the directors of Kearsley Airways Ltd., have decided to cease air operations. The current unstable conditions have been caused by circumstances and events which are already well known and could only be retrieved, it is thought, by changes which are difficult to foresee in the immediate future." ⁷⁶

Probably the greatest surprise came in June, 1950, when following the termination of its contract with BOAC to fly a scheduled service to the Persian Gulf, the largest British independent airline, Skyways, was forced into voluntary liquidation. The company was re-formed as Skyways (1950) Ltd., to carry on operations, but on a much reduced scale; in March, 1952, it was taken over by Mr. Eric Ryland's LAC.⁷⁷

It is not difficult to discover the underlying cause of the private operators' problems. The restrictions of the 1946 Act, despite the complaints from the airlines themselves, can only provide a partial answer. Far more important was the excessive number of small companies still trying to scratch a living. Appendix II lists some 70 air charter carriers registered in April, 1949, almost half of whom probably had no more than four aircraft each. The smaller operators could usually, though far from always, manage to keep their heads above water during periods of relative prosperity. But when the charter market became depressed, in order to keep going they were forced to resort to the only effective weapon at their disposal - price-cutting - which proved disastrous for everyone in the industry. As T.L. Logan, secretary of the Airbrokers'

75. Ibid., 8/12/49, p. 731.

76. Ibid., 16/3/50, p. 254.

77. 'The Economist', 17/6/50, p. 1359.

Association said at the time:

"Rates in any market fluctuate, but bear a mean relation to the current conditions. Aircraft operators can compete by the shading of their quotations or by offering better conditions, but the wholesale slashing of prices is not only suicide for the company quoting but causes needless depression of the market generally and eventual elimination even of the soundest operators." 78

In other words, what was taking place was the long-overdue weeding-out of the smaller, less efficient carriers; unfortunately, they also took with them some of the less secure larger airlines.

An uneconomic price-level was not the only difficulty facing the small and medium-sized independent operators at this time. Those that had remained solvent since the war were usually able to cover their prime costs and such overheads as salaries, hangars and depreciation of existing aircraft based on their original cost. But the problem was that the original cost in most cases had been artificially low, since the planes had been bought very cheaply as surplus war-stock. Even those companies making relatively healthy profits found it extremely difficult to accumulate sufficient reserves over four or five years to buy replacement aircraft at current prices unless they were backed by another company prepared to inject fresh capital. An operator of a Dakota (DC-3), which might have cost about £4,000 in 1945, would need £60,000 or so to replace it. Fleet renewal was becoming more and more urgent, partly in order to remain competitive in the world charter market and partly because the ex-bomber aircraft, with which many of the Independents were equipped, were nearing the end of their operational life. The situation was made worse by the fact that the major scheduled airlines, the normal source of supply for charter operators, had replacement problems of their own and were releasing few of their older aircraft.⁷⁹

78. 'Flight', 30/2/50, p. 399.

79. 'The Economist', 26/2/49, p. 381.

Estimates of the amount of paid flying time needed to remain solvent varied considerably, but on the whole indicate why the smaller company found it difficult to finance the purchase of new equipment out of retained profits. One company operating Dakotas reported that each plane had to earn at least £5,000 a month to meet all operating expenses and the cost of replacing the aircraft at current prices. This would involve flying 20,000 miles each month, or more than 100 revenue hours, and such figures were rarely attained by the smaller carriers. Other sources suggested that a similar aircraft would have to operate for at least 700 revenue hours per year to cover prime costs and provide for new equipment at a rate somewhere between historic and replacement cost. Since by 1949 there was a year-round excess of capacity in small aircraft and a seasonal excess in larger planes, it is not surprising that many companies faced severe financial strain when forced to modernise their fleets.⁸⁰ The American charter market, on the other hand, was booming and a number of British operators took advantage of the high prices being paid there for second-hand aircraft to sell out and leave the industry during 1950/51. By the end of 1950 the membership of BACA had already fallen to 25.⁸¹ The larger companies, of course, were in a more favourable position, partly because they often had access to sufficient financial resources to ride out a slump and re-equip their fleets, but partly also because they were usually more efficient and able to achieve higher aircraft utilisation figures. The York aircraft owned by Skyways, for example, were flying 2,500 revenue hours per year (compared with 1,800 for BOAC's Yorks), while the same company's DC-4s achieved 3,600 paid flying hours a year (against 3,000 by BOAC's Constellations).⁸² But then even Skyways was forced into bankruptcy.

80. Ibid.

81. Ibid, 19/1/52, p. 174; 'Flight', 31/8/50, p. 249-50.

82. 'The Economist', 26/2/49, p. 381.

The general economic situation in which the Independents found themselves is reflected in the experiences of numerous individual companies, several of which were to become famous in later years. For example, East Anglian Flying Services (Channel Airways) had been founded in 1946 by Sqn. Ldr. R.L. (Jack) Jones. By 1951 business was so poor that Jones was forced to dismiss the entire staff with the exception of one boy, and the airline was only kept ticking over by carrying out pleasure flights.⁸³ Eagle Aviation was established in 1948 by Mr. Harold Bamberg with a single Halifax bought for £500. After a period of flying fruit from Spain and Italy Bamberg bought two more Halifaxes to take part in the Berlin Airlift. By the early 1950s, however, the general downturn in the charter market had caught up with him and he sold his entire fleet, reportedly saying that he did so as a personal protest against the Government's civil aviation policy.⁸⁴ But probably the best-known aviation entrepreneur of the era is Mr. Freddie Laker. He was a trained engineer and at the end of the war, after serving in the Air Transport Auxiliary, worked for BEA and LAMS. In 1947 he founded Aviation Traders to buy and sell aircraft and spare parts. When the Allied airlift to Berlin began he bought 12 Halifaxes from BOAC for £42,000 (of which he borrowed £38,000 from a friend); half were operated on the Airlift and half used for spares. With the end of the Berlin emergency, during which he had made a handsome profit, Laker correctly foresaw what was about to happen in the charter market. Unlike most of his contemporaries, therefore, he withdrew completely from air transport operations and instead began buying up some 6,000 surplus aircraft engines and 100 bombers, which he melted down and sold for scrap.⁸⁵ The wise investment of the money he made from this operation was to prove a very important factor in financing Laker's later aviation activities.

83. 'Aeroplane', 29/9/66, p.5. Channel eventually went bankrupt in 1972.

84. Jackson: 'The Sky Tramps', 1965, p.78-9. Eagle closed down for the final time, after a chequered history, in 1968.

85. Ibid., p. 77-78; T.V. interview, BBC1, 8/10/72.

The Slump in the charter market lasted throughout 1949 and into 1950. But for those companies that managed to remain solvent 1950 in fact proved to be far from unrewarding. In November, 1950, Eric Rylands, as Chairman of BACA, commented: "It is becoming abundantly clear that if the independent operators are to survive, a proportion of their work must come either directly or indirectly from the Government."⁸⁶ This is exactly what had already begun to happen, and is the major factor behind the 1950 recovery. The Korean War, which began in June, gave new opportunities to a number of carriers, as well as pushing up charter rates generally. More important, however, was the beginning of air troop-ing on a large scale, a development that was to prove the main source of income for the Independents over the next decade or so. In 1950 the Government spent a total of £250,000 on chartering aircraft from the private airlines; during 1951/52 contracts worth £4.5 million were placed.⁸⁷

By the end of 1951, therefore, after six years of expansion and depression, optimism and gloom, a much slimmer, healthier independent ^{industry} airline/ emerged, one that had achieved a foothold in the operation of scheduled services, could look forward to large, profitable government contracts, and, perhaps above all, saw the return to power of a Conservative Government committed "to restoring a wide measure of private enterprise in the air."⁸⁸ But the real importance of these six years lies in the fact that out of the political, economic and social disruption of post-war Britain emerged a civil aviation structure that, with its many problems and contradictions, was to last for the next twenty years.

86. 'Flight', 9/11/50, p. 411.

87. Hansard, op.cit., 16/7/52, Vol. 503, col. 2157; 'Flight', 16/3/51, p.322.

88. Lennox-Boyd, 'Flight', 16/11/51, p. 631.

Chapter III

NEW, BUT SCRUBBY PASTURES, 1951-60

Despite the fact that 1951 proved to be a relatively prosperous year for the privately-owned airlines in the UK, at least for those that managed to remain solvent, the Independents as a group were far from satisfied with their situation. Mr. Eric Rylands, Chairman of the British Independent Air Transport Association (BIATA), which replaced BACA in 1951, claimed that the airlines had been living in what was virtually a "Gestapo police-state".¹ Government policy, it was argued, was still far too restrictive, especially with regards to scheduled services. Apart from actually obtaining work, however, the main problem was that the Independents did not have the stability nor prospects to attract large-scale financial backing, and without capital they were not able to purchase more modern equipment and expand their activities. Thus, the victory of the Conservative Party at the 1951 General Election was generally welcomed in private air transport circles.

The Tories were after all firmly committed to an expansion of the opportunities open to the independent operators. Their 1951 policy statement had been suitably vague, merely saying: "For civil aviation we favour a combination of public and private enterprise."² But that of 1949 had gone much further: "For the full development of mercantile aviation, scope must be given to the pioneering spirit of free enterprise. We shall, therefore, review the structure of the Corporations and of the

1. 'Flight', 16/11/51, p. 631.

2. Conservative and Unionist Central Office: 'Britain Strong and Free,' 1951, p.22.

Ministry itself, so as to eliminate unnecessary functions and restore as wide a measure of private enterprise as possible." ³ On acceding to office, the Conservatives quickly re-affirmed that this was still their policy.

"The private operators have...been allowed to get a foothold - though only a small one - in the field of the scheduled services. But there are some of us who feel that the private operator can play a more important part in the development of civil aviation...It is the intention of the Government to help forward the sound development of civil aviation, to reduce the cost of air transport to the taxpayer and to give greater opportunities to private enterprise to take part in air transport development, without in any way impairing the competitive strength of our international air services." ⁴

For its part, BIATA issued a public statement setting out in detail the administrative changes it would like to see introduced. The main demands can be summarised as follows:

- i) the amendment of existing legislation so as to restore a wide measure of freedom to private enterprise.
- ii) The reservation of charter operations primarily for the independent companies as long as scheduled services were mainly reserved for the nationalised airlines.
- iii) the establishment of an independent Statutory Licensing Body for the examination and approval of applications to operate regular services.⁵

In November, 1951, the new Minister of Transport and Civil Aviation, T.S. Mackay, informed BIATA and the ATAC that he was about to consider future policy with a view to giving the Independents more scope. Meanwhile, approval to operate new scheduled services as associates of the Corporations was temporarily restricted to a maximum period of one year. Over the

3. Ibid. 'The Right Road for Britain,' 1949, p.29.

4. Lord Leathers: Hansard, House of Lords, 15/12/51, vol.174, cols.821-2.

5. BIATA Annual Report, 1951/52, p.12.

following few months Mackay and, from April, his successor, Lennox-Boyd, held a series of meetings with BIATA and other interested parties to assist in the formulation of such a new policy.⁶

The 'New Deal'

The Conservatives' civil aviation policy, the so-called 'New Deal', was eventually introduced in May, 1952. It is interesting to note that the process of easing the restrictions on charter companies was to a large extent an international phenomenon. For example, in France, Europe's other major air transport nation, a similar development had already taken place. As Sundberg points out, throughout Europe and, to some extent, North America "the previous division of air carriers into scheduled airlines and the irregulars came to be abandoned more or less completely and the latter category was in many respects assimilated to the former."⁷ This trend is clearly reflected in the number of former charter companies that became members of the International Air Transport Association (IATA), such as Transports Aériens Intercontinentaux and Union Aéromaritime de Transport in 1952, Hunting in 1953, Airwork in 1955 and Eagle and Skyways in 1957.⁸ The formation of BIATA, to replace the British Air Charter Association, might similarly be viewed as part of the same process; the private carriers no longer wanted to be identified solely with charter operations.

The primary intention of the new British policy, according to Lennox-Boyd, was to "tilt the emphasis on greater competition in the air."⁹ The opportunities open to the private carriers were enlarged, although

6. Ibid., p.11-12.

7. Sundberg: 'Air Charter,' 1961, p. 31-2.

8. Ibid., p.32; 'Flight', 19/7/57, p.93.

9. 'Flight', 6/6/52 p. 596.

within the framework of the existing law, partly because of the Government's heavy legislative programme. In other words, the associate agreement device was retained, as was the ATAC as a quasi-independent licensing authority with powers of recommendation only. Under the Conservatives, however, associate agreements emerged as something rather different than had been originally envisaged. In Corbett's words, they became a "hunting licence for privately-owned airlines to catch what traffic they could" from the State Corporations.¹⁰

The main points embodied in the New Deal were:

- i) the broad field of charter operations was reserved primarily for the Independents; the Corporations were not permitted to maintain a fleet of aircraft specifically for this type of work; 10a
- ii) in future associate agreements would be granted for periods of up to seven years (ten in special cases) to give the security required for the acquisition and outlay of capital;
- iii) the Independents could apply along with the nationalised airlines for any new overseas or domestic service not forming part of the Corporations' existing networks, providing such new services did not "materially divert traffic" from existing operators; they could also apply for any route from which a British airline had withdrawn for other than temporary or seasonal reasons;
- iv) the Independents were particularly encouraged to apply for licences to operate all-freight services (the Corporations were refused permission to apply for such services for one year) and other special services (such as vehicle-ferries, third-class services on certain routes, inclusive-tours, etc.) that were not directly competitive with the nationalised airlines. 11

10. 'Politics and the Airlines', 1965, p. 153. The Corporations no longer, of course, had any say in the granting or terms of any associate agreement.

10a. In fact, BEA had wound up its separate charter section in 1950: "Our policy is...to operate charter flights only as extensions of our normal scheduled services and then only in so far as aircraft and crews are available which will not be required for scheduled services or duplicates." BEA Annual Report, 1950/51, p. 12-13.

11. ATAC Annual Report, 1952/53, Appendix E, p. 29-35.

There can be little doubt that the policy eventually decided upon was a compromise solution. It promised the private operators the possibility of a larger and more secure share of British air transport, but a fairly moderate rate of growth and the continuance of the Corporation's supremacy. In addition to the heavy legislative programme, an important factor in determining the make-up of the new policy may well have been a desire to establish something relatively permanent that would not be immediately reversed should Labour return to power. BIATA, for example, following its meetings with the Minister, reported: "It was clear, as these talks developed, that the Government were anxious to avoid a head-on conflict with the Labour Party on Civil Aviation policy."¹² But like most compromises, the 'New Deal' failed to fully satisfy anyone. Certainly the Opposition disliked the proposals, regarding them as the thin end of the wedge in an attempt to reduce the relative importance of the State airlines. Likewise, despite the similarities between the Government's policy and that of BIATA, the Independents were far from over-joyed.

The main complaint of the private operators still revolved around the problem of finance. They argued that a type of 'vicious circle' had been created: the new opportunities were neither wide nor secure enough to attract sufficient capital, and without large-scale financial backing it was impossible to take full advantage of the new policy. Mr. Eric Rylands, on behalf of BIATA, expressed "profound disappointment that the door to the development of British air transport is to be left little more than ajar." He went on to criticize the Government's continuation of the "Socialist policy of wet-nursing the Corporations."¹³ But this initial reaction was soon followed by the more considered judgment that the

12. BIATA Annual Report, 1951/52, p.12.

13. 'Flight', 6/6/52, p. 696.

Independents would fully exploit the new areas opened up to them, while pressing for a more liberal policy. By the end of 1952 even Mr. Rylands had to admit that although the 'New Deal' still seemed to provide too much protection for the 'haves' and not enough opportunity for the 'have nots', the privately-owned airlines had nevertheless gained ground and approached 1953 with more hope than earlier years had given.¹⁴

Growth of Scheduled Services:

Despite their initial disappointment the independent airlines did indeed take full advantage of the more permissive legislative environment. Trooping and vehicle-ferry operations expanded rapidly, but it was the growth of scheduled services that was seen as most significant and which attracted most attention. Apart from strengthening their domestic scheduled services, the Independents also pioneered various 'cut-price' operations. One of these was the introduction of Colonial Coach Services on certain cabotage routes. According to the terms of reference given to the ATAC by the Minister, any British airline could operate such 'third-class' services "providing the proposed service is of such a nature as to generate a new class of passenger traffic without material diversion of traffic from the 'normal scheduled services' of any other previously approved UK operator." In order to prevent traffic diversion from an established carrier, Colonial Coach services had to

- " (a) provide a lower class of service than that of normal scheduled services, for example as regards type of aircraft, shorter stage lengths, passenger amenities, baggage allowance, etc., and
- (b) be operated to a stated frequency closely related to the requirements of the new class of traffic in the territories in which rights may be exercised and at a fare not exceeding a fixed sum (without rebates) low enough to ensure dependence on the new class of traffic." 15

14. BIATA, op.cit., foreword.

15. ATAC, op.cit., p.31.

The idea, therefore, was to give the private carriers the opportunity of providing international scheduled services, while at the same time minimising the effect on the Corporations. The new services were designed to cater for those passengers unable to afford full air fares but who were prepared to accept less comfort and convenience. The first Colonial Coach service was operated jointly by Airwork and Hunting once a week from June, 1952, between London and Nairobi. Both companies had been active for some time on this route, using the device that later became known as affinity-group charters. Operating a 25-seat Viking, the journey took nearly three days, compared with some 24 hours by BOAC; the fare, however, was £98 single, £180 return, against the Corporation's £140 and £252 respectively. The success of the initial venture (by mid-June it was already fully booked each way until the following November) led to its extension to West and Central Africa and Gibraltar.¹⁶

A rather similar development was the introduction of so-called 'Coach-Air' services between England and the Continent, inaugurated by

Skyways in September, 1955. The concept had been devised during the late 1940's by Mr. Eric Rylands for use between Blackpool and the Isle of Man.¹⁷ T.R. Hawkes, of Silver City Airways, argued that the object of this type of service was "to offer an entirely new form of integrated public transport; one which differed in method, fares and service from anything at that time in existence."¹⁸ The first Coach-Air route involved a coach journey from London to Lymington, a flight by a DC-3 aircraft containing 32 seats (the same number as the coach) to

16. 'The Economist', 31/6/52, p. 840-3; 'Aeroplane', 17/4/59, p. 452; Wyatt: 'British Independent Aviation - Past and Future'. Journal of the Institute of Transport, 1963, p. 110.

17. 'Aeroplane', 23/9/65, p. 4-5.

18. Hawkes: 'Air Ferry Integration with Surface Transport for the Carriage of Passengers'. Journal of the Institute of Transport, 1958, p. 381.

Beauvais, some 80 miles north of Paris, and finally a train journey into the French capital. Again the intention was to 'create' rather than 'divert' traffic by offering a less comfortable service at a cheaper price than ordinary scheduled flights. As in the case of the earlier vehicle air-ferries (see chapter IX) the total cost was kept down by minimising the actual distance flown and maximising the use of surface transport. The cheapest fare by Skyways was £7-25p. night tourist return, compared with £9.95p. by BEA, (the Independent also offered a £6.5p. 'no passport' day return with six hours in Paris); travel time between city centres was $5\frac{1}{2}$ -6 hours, against the usual $3-3\frac{1}{2}$ hours.¹⁹

It soon became obvious that a fairly large latent demand existed for this type of operation; in its first year Skyways carried over 50,000 passengers between London and Paris. Despite a measure of opposition from French Railways, a number of other routes were inaugurated over the following few years with varying success: Skyways also operated to Brussels, Vichy, Nice, Dijon and Tours; Silver City began 'Silver Arrow' services to Paris and Brussels; Air Kruse a 'Blue Arrow' service to Lyons; Eagle a 'Swiss Eagle' service to Basle; and Air Charter routes to Calais, Rotterdam and Ostend.²⁰ Thus, the development of both Colonial Coach and Coach-Air operations can be viewed as attempts by the Independents to gain a foothold in the scheduled sector of air transport by exploiting a demand for cheap travel. It might be said that government policy had forced them to discover that a large section of the travelling public are highly cost-conscious, something which it took the larger established operators a considerable

19. Davies: 'A History of the World's Airlines', 1964, p.316-7; 'Flight', 29/7/55, p. 146.

20. 'Aeroplane', 1/7/60, p. 13-5.

time to discover. Equally, however, it could be that in the case of Coach-Air Services the Independents were competing not so much with the scheduled carriers by means of price-cutting, but with surface transport concerns by offering improved service at a small premium cost. Coach-Air services were considerably quicker than their rail/sea counterparts with fares only marginally higher. The truth probably lies somewhere between the two.

In announcing the 'New Deal' policy the Minister of Transport and Civil Aviation had placed particular emphasis on the opportunities open to the private sector in the field of scheduled all-freight services. The nationalised airlines in fact were not allowed to expand their scheduled freight network during the twelve months up to July, 1953. Here again the Independents were far from slow to exploit the possibilities. Both Airwork and Hunting applied to the ATAC for authority to operate on the North Atlantic. Airwork was successful and received a ten-year licence, adding US Presidential approval in April, 1954.²¹ This was rather unfortunate for BOAC, which had itself intended to inaugurate a freight service on this route in the near future and was already negotiating to buy special freighters. At the request of the Minister the Corporation and Airwork held discussions on the possibility of co-operating in the running of the service, and there appears to have been a move in this direction, although with no discernible results.²²

Other scheduled all-freight services were also soon established. In January, 1955, for example, Airwork began operating between London and Frankfurt, while Hunting-Clan (as it was now called) followed in July with a freight service between the UK and Africa, in association with BOAC.²³ In November, 1954, Skyways had similarly entered into an agreement

21. Ibid, 23/4/54, p.508.

22. 'The Economist', 13/2/54, p. 482-4.

23. 'Flight', 7/1/55, p. 29 and 8/7/55, p.62.

with the State airline to operate the latter's freight services to Singapore and Hong Kong (from Singapore Qantas took over as far as Australia). The Corporation had been losing between £150,000 and £200,000 per annum on these routes, primarily because of the excessive cost of keeping a small unit of York aircraft just for freighting purposes. Skyways was chartered to carry any freight that could not be accommodated on BOAC's scheduled services.²⁴ In fact, the Corporation wanted to purchase a holding in the private carrier. The Minister at first agreed, but four days later withdrew permission "when it had become clear to me that the proposed agreement discriminated against other independent operators."²⁵

A further sign that times were improving for the privately-owned airlines was the fact that several of them were able to finance the purchase of modern aircraft, such as Viscounts, to replace their obsolete equipment. Their initial fears on this count largely proved groundless because of the considerable influx of capital from a number of shipping companies during the early 1950's. In May, 1953, for example, Hunting-Clan was able to order three Viscount 700's (later increased to five), the first of which was introduced on domestic and international routes in June, 1955.²⁶ Airwork soon followed with an order for three Viscount 700's for delivery in the first half of 1956, and in June, 1955, Transair ordered two of the extended Viscount 800's.²⁷ Thus, the private operators, especially the larger ones, appeared to be enjoying a rapid and relatively prosperous expansion. As might be expected, their initial rate of growth

24. Select Committee on Nationalised Industries: 'The Air Corporations', 1958/59, p. 190-1; BOAC Annual Report, 1961/62, p. 53.

25. Hansard, House of Commons, 5/4/54, vol. 526., col. 9 (Written answer).

26. 'Flight', 22/5/53, p. 641 and 29/4/55, p. 541.

27. 'Aeroplane', 27/8/54, p. 268 and 1/7/55, p. 23.

far exceeded that of the Corporations (see Tables 3.1 - 3.3).

TABLE 3.1 : Scheduled Services Operated by the Independents
1950/51 - 1959/60 (Percentage increases in bracket.)

	Passengers carried	Passenger- miles(000's)	Freight(ton- miles)(000's)	Mail(ton-miles) (000's)
1950/51	55,512 (-)*	10,732 (-)*	440 (-)*	9 (-)*
1951/52	74,426 (34.0)*	14,598 (36.4)*	941 (113.9)*	11 (22.2)*
1952/53	123,957 (66.7)	29,245(100.0)	1,240 (31.8)*	15 (34.4)*
1953/54	244,791 (97.4)	56,481 (93.5)	2,410 (212.2)	23 (55.3)*
1954/55	337,228 (37.7)	86,038 (52.2)	2,930 (19.4)	44 (91.3)
1955/56	506,331 (50.1)	123,312 (43.4)	9,610 (228.0)	43 (-2.3)
1956/57	637,413 (25.9)	149,456 (21.2)	6,567 (-31.7)	40 (-7.0)
1957/58	755,617 (18.5)	173,013 (15.8)	7,958 (21.2)	34 (-15.0)
1958/59	769,878 (1.9)	188,955 (9.2)	11,033 (38.6)	34 (-)
1959/60	950,029 (23.4)	218,700 (15.7)	15,124 (37.1)	17 (-50.0)

Traffic results for years ending 31st March unless marked with an asterisk (30th June). Excludes inclusive tours.

Sources : from BIATA Annual Reports and Ministry of
Transport and Civil Aviation.

TABLE 3.2: Passengers Carried by the Independents 1952/53 - 1959/60.

	International Scheduled	Colonial Coach and Coach	UK Domestic Scheduled
1952/53	7,000	-	68,000
1953/54	43,200	4,870	100,000
1954/55	65,752	10,128	148,722
1955/56	92,681	13,456	218,910
1956/57	178,736	15,457	283,688
1957/58	239,414	15,970	337,103
1958/59	229,179	17,000	229,087
1959/60	274,938	19,130	336,413

Sources: ATAC and BIATA Annual Reports.

TABLE 3.3: Percentage changes over previous years in passenger-miles flown by the Corporations and Independents, 1953/54 - 1955/56 (Scheduled Services).

	BOAC	BEA	Independents
1953/54	+3.6	+28.7	+ 93.1
1954/55	-4.2	+22.1	+ 53.6
1955/56	+19.7	+22.8	+ 43.3

Source: from Ministry of Transport and Civil Aviation.

Retardation

From the mid-1950's a feeling of frustration began to establish itself among the privately-owned airlines. As the decade wore on the momentum of the expansion of scheduled services slowed down dramatically, and it increasingly became obvious that the 'New Deal' was failing to provide the firm foundations on which the Independents hoped to build a stable and profitable future. As 'The Economist' noted: "The changes made in 1952 opened up to the independents a whole vista of new, but as it turned out somewhat scrubby pastures."²⁸ To some extent a retardation in the rate of growth was inevitable - the private sector obviously could not sustain a very high growth rate for long - but the down-turn came so quickly and was so sharp that the airlines were soon demanding action on the part of the Government to rectify the situation, and they continued to voice their dissatisfaction with official policy throughout the remainder of the 1950's. As early as December, 1954, for example, the chairman of BIATA, Air Commodore Powell, was arguing that a review of the 1952 policy was essential, not only to establish the position of the independent operators on a sounder basis, but also to accelerate the overall expansion of the air transport industry.²⁹

The following year, M.H. Curtis, the new BIATA chairman and managing director of Hunting-Clan, returned to the same point and summed up the principal complaint of the Independents:

"The compromise policy of 1951 (sic) has in application shown itself to be at best a 'shot in the arm'. It has kept a sorely sick patient alive, but it still remains to be seen whether the doctors considered that they had then finished their job so that the patient was merely now suffering a longer drawn-out, and very costly, demise. Or whether the doctors were in the meantime investigating the root causes of the disease and getting ready to administer a further 'shot' which would not only restore the patient

28. 23/2/55, p. 657-9.

29. 'Flight,' 10/12/54, p. 817. .

to competitive fitness - but ready him for starting a whole family of healthy off-spring! At the present an atmosphere of disillusionment is developing among the independent operators and the patient anxiously hopes for some straight talking from its doctors - in this case the Government." 30

The 1956/57 BIATA Annual Report similarly repeated the demand for a re-examination of current policy:

"The broad background of the year which is now under review... clearly emphasises, once again, the urgent need for considerable re-thinking on the question of the future of the independents and of British air transport. More than anything, perhaps, it indicates that the limits of current Government policy have been reached in all but a few cases as far as the independent airlines are concerned." 31

The available statistics appear to support the private operators' view that their early gains were increasingly being threatened. During the second half of the 1950's the Independents' rate of growth was appreciably less than that of the Corporations; their share of Britain's total air transport effort fell from approximately one-third in 1956 to one-quarter in 1959. Such activities as trooping, vehicle-ferry operations and inclusive-tours, of course, continued to record rapid advances. But, on the whole, the expansion of scheduled services reached a peak in 1955/56, and thereafter was relatively static until 1959 (see Table 3.1). This is important because a large proportion of scheduled activity, with its high revenue rates, was regarded as essential for an airline's continued security and profitability. By 1958/59 scheduled services still only accounted for 22% of BIATA-member companies' total output, compared with air trooping's 49%. The proportion of UK scheduled capacity produced by the private sector rose from 1.8% in 1952/53 to 9% in 1955/56, but fell to 6.6% the following year,³² although the share began to recover towards the end of the decade.

30. 'Financial Times', 5/9/55, p.7.

31. p.6.

32. BIATA Annual Reports.

As far as domestic services were concerned, the main problem for the Independents centred on the fact that most of their output was concentrated on the 'holiday' routes, primarily to the Channel Islands and the Isle of Man. As the decade wore on the situation improved somewhat, but not nearly fast enough.

TABLE 3.4: Number of Passengers Carried by the Independents on UK Domestic Scheduled Services, 1953/54-1955/56 (000's).

	1953/54	1954/55	1955/56
Channel Isles	49	69	98
Isle of Man	42	54	67
Other	9	25	54

Source: BIATA Annual Reports.

The inevitable result of this situation was that the private operators experienced very severe peaking problems, since most of the traffic would naturally be concentrated during the summer months. Thus, their peak month/trough month ratio for domestic services was 32.3 : 1 in 1953/54 and 23.1 : 1 in 1955/56, compared with BEA's 4.1 : 1 and 3.2 : 1 respectively.³³ There had been only a marginal improvement by the end of the decade. In 1959 privately-owned airlines were operating just two trunk routes, London-Newcastle (BKS) and London-Liverpool (Starways). Table 3.5 shows the results of a survey carried out by 'Flight' in 1959; the Independents' peak/trough ratio was still 12 : 1, against 3 : 1 for BEA.

33. From Ministry of Transport and Civil Aviation: 'Operating and Traffic Statistics of the UK Airways Corporations and their Associates.'

TABLE 3.5: Sample Capacity Offered on UK Domestic Routes, February and August, 1959.

	Seat-miles available (000's), February, 1959.	Seat-miles available (000's), August, 1959.	Peak/trough ratio.
BEA	19,803	55,573	3 : 1
BKS	496	4,945	10 : 1
Jersey Airlines	453	4,715	10 : 1
Silver City	66	4,609	70 : 1
Cambrian	250	2,045	8 : 1
Derby	130	1,886	14 : 1
Channel	-	1,669	-
Scottish	-	497	-
Transair	-	353	-
Starways	310	310	1 : 1*
Morton	24	297	12 : 1
Eagle	-	156	-
Don Everall	-	86	-
Total	25,532	77,141	3.5 : 1
Independents only	1,729	21,568	12 : 1

* = Starways only operated a single route, the business-orientated London-Liverpool service.

Nb. The above figures relate to capacity offered; since BEA's load-factors were generally better than those of the Independents, the peak/trough ratio of traffic actually carried would be even less favourable to the latter.

Scheduled freight services appeared to have enjoyed a more buoyant expansion, despite the considerable decline in 1956/57 following Airwork's withdrawal from the North Atlantic (see below). Unfortunately, some of this growth may be fictitious, since it seems probable that on certain major long-haul freight contracts 'load ton-miles' and 'capacity ton-miles' were treated as synonymous. The more likely situation is that freight traffic also rose to a peak in 1955 with Airwork's Atlantic service, dropped dramatically the following year, and by 1959 had only risen slightly above the 1955 level.³⁴

The Set-Backs

Airwork's attempt to establish itself as a scheduled all-freight carrier on the North Atlantic illustrates the frustrations felt by the Independents at this time. As we have seen, freighting had been singled out by the Government in 1952 as an area of activity particularly suitable for participation by the private sector. Yet, according to the airlines, when licences were eventually granted they were so riddled with restrictions as to be of little commercial value. Inaugurated on March 1st, 1955, Airwork's thrice-weekly North Atlantic Service was abandoned just over nine months later because of continuing losses. According to a statement issued by the company the deficits were primarily the result of four factors. Firstly, although BOAC and foreign airlines serving Britain under bilateral agreements were allowed to carry mail, and the Post Office had informed Airwork that it was willing to use the Independent's services, the Government had refused to grant the necessary permission. Secondly, in order to make the most economical use of its aircraft, Airwork also wanted to operate passenger charters, but the

³⁴. BIATA Annual Report, 1958/59; 'Flight', 20/11/59, p. 574.

British Government had refused to take action to obtain US authorisation. Thirdly, Airwork's licence had included Milan and Stuttgart; the Government, however, had failed to negotiate traffic rights on the airline's behalf to these points and there had been a long delay in obtaining rights for Düsseldorf. Finally, a large amount of traffic which otherwise might have moved through London had been diverted to Continental airports, such as Frankfurt or Amsterdam, because of the lack of British duty-free zones for cargo in transit; the average load-factor on the outward journey, for example, was considerably higher than that on the return flight.³⁵

The following March all the remaining Airwork scheduled freight services were withdrawn : "Experience since December last has shown conclusively that the Continental services (which have been serving London, Manchester, Birmingham, Frankfurt and Düsseldorf) cannot be economically operated separately from the larger North Atlantic cargo service."³⁶ It is probable that Airwork exaggerated some of the difficulties involved and was itself far from blameless for the failure of the services. After all, it was well aware of the restrictions placed upon the operation before it decided to go ahead. But to most of the Independents the episode was indicative of the situation in which the Government had placed itself and of the problems that the private sector faced. Having expanded the opportunities open to the Independents, and in particular delineated certain areas of operation in which the private airlines were encouraged to partake, the Government appeared to be unwilling to carry through its policy to its rational conclusion, and instead seemed to be creating new difficulties.

35. 'Flight', 23/12/55, p. 949 and 30/12/55, p. 979.

36. Ibid., 16/3/56, p. 305.

A rather similar situation arose over the Colonial Coach services. When Airwork and Hunting-Clan were initially granted seven-year licences to operate to Africa they were permitted to use only obsolescent aircraft, such as Vikings, in order to minimise the threat of competition to BOAC. They accepted these conditions, but confidently expected to be allowed in time to operate more modern types. Unfortunately, the ATAC kept rigidly to its terms of reference, with the result that both companies had to sell-off new equipment purchased primarily for these routes.³⁷ Originally BOAC had also operated relatively old aircraft to Africa, Argonauts and Canadair IV's, because of equipment problems of its own. But by early 1957 the Corporation was preparing to introduce more competitive Britannias. The situation was made worse for the Independents because of two further developments. Firstly, several African colonies were gradually obtaining their political independence, which meant that air services to them would no longer be classed as cabotage. Colonial Coach services, therefore, would shortly not be permitted to these States. Secondly, early in 1958 the IATA-member airlines were due to introduce on the Atlantic routes a third-class (known as T.34) standard of service and fare, in addition to economy and first-class standards. T.34 would undoubtedly spread to Africa sooner or later and would be priced at about the same level as Colonial Coach services. The problem for the Independents was that under the existing terms of reference to the ATAC they would not be allowed to share in this new class of traffic, while their own Colonial Coach services would be severely undermined, if not destroyed.³⁸ Thus, the outlook for the private sector as far as international scheduled services were concerned was not very bright.

37. Ibid., 6/1/56, p.27 and 5/4/57, p.457.

38. 'The Economist', 23/2/57, p.657-9.

Supporters of a strong private enterprise system of air transport suffered a further blow in the mid-1950's with the beginning of what appeared to many as the gradual absorption of a number of the larger independent operators by the nationalised airlines. The first privately-owned carrier in which a Corporation purchased a shareholding was Jersey Airlines (JA). In March, 1956, BEA withdrew its old Rapides from service³⁹ and handed over the routes on which they had operated, between the Channel Islands, Alderney and Southampton, to JA, at the same time acquiring a 25% interest in the Independents' parent company, Jersey Airlines Development Corporation. The intention was obviously to rationalise the operations of BEA and JA on the Channel Island routes by transferring the local services, which had been losing money heavily, to an airline that was, hopefully, better suited to operate them. JA would then 'feed' traffic into the Corporation's trunk routes.⁴⁰ In fact, the arrangement did not prove completely satisfactory and was terminated in 1961. BEA's 1961/62 Annual Report records: "This decision... followed the introduction of the Civil Aviation (Licensing) Act of 1960 when it became evident that conflicts of interest might arise as a result of BEA being both a shareholder and a competitor of Jersey Airlines."⁴¹ Shortly afterwards JA was absorbed by the Air Holdings Group.

BEA made a similar type of arrangement with Cambrian Airways. In May, 1956, it was announced that a ten-year agreement had been signed between these two airlines for the integration of certain services to

39. In fact, BEA continued to operate Rapides on the routes between Lands End and the Scilly Isles until the mid-1960's.

40. Wheatcroft: 'Air Transport Policy', 1964, p.42; Scott-Hill and Behrend: 'Channel Silver Wings', 1972, p.13-14.

41. p.63.

the Channel Islands and in the West Country. Cambrian took over responsibility for all Liverpool-Channel Island routes and agreed to introduce a service linking Manchester with Cardiff, Bristol and Jersey.⁴² This was followed in February, 1958, by BEA's acquisition of one-third of the shares of the Cardiff-based airline.⁴³ Again BEA was using an Independent to operate unremunerative feeder services, although an additional factor may have been the need to answer criticisms from Welsh nationalists that the Corporation had virtually ignored Wales (especially when compared with Scotland, where there was a separate BEA division.)

Cambrian itself must have realised that serious financial problems lay ahead and that a major injection of new capital would be needed. Over the previous five years the airline had experienced an annual rate of traffic growth of the order of 50%, so that the forecast of a 15% increase in 1958 implied a considerable retardation. In fact, even a 15% growth rate proved quite unrealistic, and traffic actually fell. Cambrian blamed its difficulties on the world-wide recession in the travel business and on the fact that the Empire Games were held in Cardiff, which encouraged people to stay at home. But the airline's problems must have been more serious and deeper than these explanations suggest. It was forced to cut-back its operations drastically, including at one point the sale of the entire aircraft fleet, although the position began to improve from the spring of 1959 and services were resumed with aircraft leased from BEA. There appears to have been an unwillingness on the part of the private shareholders in the company to provide further funds (this was admittedly a period of credit squeeze), so that it fell to the Corporation to bail out the Independent.⁴⁴ It is interesting to note that BEA did not

42. 'Flight', 25/5/56, p. 658.

43. Ibid., 14/2/58, p.221.

44. Ibid., 19/9/58, p.502 and 10/10/58, p. 604; Cambrian Airways Ltd, 'Report and Accounts, 1964; History of the first 30 years', 1965, p.14-15.

feel compelled to dispose of its shareholding in Cambrian after the introduction of the 1960 Act. Similarly, the purchase of interests in Cambrian and Jersey Airlines contrasts with the failure of BOAC to obtain permission to invest in Skyways in 1954.

The affair of the purchase of Central African Airlines (CAA) by BOAC may not have been vital to the post-war development of Britain's private airlines, but it must have been even further confirmation to the Independents, if any were needed, that the Government was not prepared to take their side at the expense of the Corporations. In February, 1957, it was announced that the Hunting-Clan group of air transport companies and the British and Commonwealth Shipping Company were negotiating in Salisbury with the Central African Government for the purchase of a controlling interest in CAA, which the previous year had incurred a loss of over £250,000.⁴⁵ Hunting-Clan was probably primarily interested in the African company's traffic rights to London, South Africa and the Middle East; in other words, as a way round the British licensing regulations, especially in the context of the growing threat to Colonial Coach services.

BOAC and South African Airways made no secret of their opposition to the deal, and the following May the Corporation entered into an agreement which guaranteed the African airline a total revenue of £1,750,000 over a ten-year period in return for the right to operate its services between the UK and the Federation of Rhodesia and Nyasaland. These services had been operated by BOAC and CAA for some years in pool, and it was apparently the latter carrier that had initiated the negotiations.⁴⁶ Nevertheless, the terms of the agreement certainly appeared very generous. For little or no effort on its own part, CAA

45. 'Flight', 22/2/57, p. 260; 'The Economist', 16/2/57, p. 587-8.

46. Hansard, op.cit., 29/5/57, vol.571, col. 398.

was being guaranteed a profit of £175,000 per annum, three-times BOAC's total net operating surplus in 1956. The Corporation, on the other hand, argued that in fact such a sum "is within the earning capacity of the pooled operation of the route."⁴⁷. It was rumoured that Pan Am. was also interested in CAA, and it may well be that the British airline's action was primarily intended to prevent an American incursion into a traditionally European domain. But inevitably the Corporation's investment was seen as an attack on the private operators, an attack, further, that was sanctioned by the Government. The Conservative Bow Group issued a Memorandum pointing out that the deal would involve the payment to CAA of between 20 and 25 new pence out of every £1 revenue earned by BOAC on the route:

"It would appear that no airline today, and certainly not BOAC, is so profitable as to offer such terms for acquiring new business. The inescapable conclusion is that BOAC has deliberately, as an act of long-term policy, undertaken to incur heavier losses, or reduced profits, for the express purpose of avoiding competition from private enterprise British companies." 48

Some Improvement

Despite the overall poor performance of the private sector, there is some evidence of recovery towards the end of the decade. In particular, important developments took place in the field of Colonial Coach services. After repeated protests from the airlines about the doubtful future of their international services on cabotage routes, the Minister of Transport and Civil Aviation eventually asked the ATAC, in ⁴⁹ February, 1957, to advise him "urgently" on the situation.

47. Ibid.; 'Flight', 24/5/57, p. 685.

48. Bow Group: 'Private Enterprise and British Air Transport', 1957, p.3.

49. 'The Economist', 23/2/57, p. 657-9.

The Council reported in June and its recommendations were accepted by the Government. In the short term, Airwork and Hunting-Clan were given permission to use more modern aircraft, such as Viscounts and Hermes, on their routes to Nairobi and Salisbury, although the approved frequency was slightly reduced to take account of the increased capacity. Further, because Ghana was no longer a colony, the two Independents were allowed to operate tourist-class services to Accra via the West African route (Bathurst and Freetown) with no restriction on the type of aircraft employed. In the longer-term, Airwork and Hunting-Clan were to provide T.34 (third-class) instead of Colonial Coach Services on their existing routes to Nairobi, Salisbury and Accra, on the basis of BOAC having 70% and the two independents together 30% of the UK share of the total capacity needed for the new class of service. It was estimated that these were the approximate proportions in which tourist and Colonial Coach traffic were then divided between the three airlines. BOAC was to continue to cater for the UK share of the higher classes of traffic on these routes. 50

The new proposals were a disappointment to many people on both side of the political spectrum. In the House of Commons Mr. Paul Williams summed up the feelings of a large part of the private sector. "I... come to the conclusion on this alteration that the independents are losing a proportion, and quite a severe proportion of the traffic which they pioneered, in which they risked their all and are being forced to let go this traffic to the Corporations which previously had shown little interest in this field." 51

The Opposition, on the other hand, regarded the proposals as yet another example of the erosion of the State airlines' services for the

50. Hansard, op.cit., 26/6/57, vol. 572, cols. 38-40 (Written Answers).

51. Hansard, op.cit., 22/7/57, vol. 574, col. 130.

benefit of private enterprise. BOAC employees even threatened to strike over the matter.⁵² Similarly, the Select Committee on Nationalised Industries noted: "An arbitrary division of traffic between BOAC and the independent companies, based on a definite percentage of traffic, will hinder the efforts of BOAC to improve the efficiency of this service and to expand their activities."⁵³ Nevertheless, while such arguments were proceeding, Airwork and Hunting-Clan took full advantage of the new regulations; at least they now knew exactly where they stood. Viscounts were introduced on the Colonial Coach 'Safari' services to East and Central Africa in October, 1957, and on the IATA-rate tourist services to Ghana the following January.⁵⁴ Both companies placed further orders for new equipment during 1958.

Before the second part of the proposals could be implemented, however, further developments took place. In December, 1958, Eagle dropped what was described at the time as a 'bombshell' by applying to the ATAC for licences to operate services on certain British cabotage routes at about half the current scheduled air fares. The routes involved were London to Aden/Singapore, Nassau/Kingston, Trinidad, Kano/Lagos, Nicosia, Malta, Gibraltar, Nairobi and Aden/Hong Kong. There is little doubt that these very low fares (VLF), as they were known, not only surprised and embarrassed the Government and the ATAC, but also the other private operators. Yet, despite their unpreparedness, the following February Airwork and Hunting-Clan announced a scheme that was to all intents and purposes a replica of Eagle's.⁵⁵ Again operating in

52. 'Flight', 6/12/57, p. 868.

53. 'The Air Corporations', para. 208.

54. 'Flight', 25/10/57, p. 666 and 29/11/57, p. 851.

55. Ibid., 26/12/58, p. 986 and 13/2/59, p. 232.

partnership, they proposed, for example, a return fare to Hong Kong of £245, compared with BOAC's £415-80p., while Eagle wanted to charge £19 return to Malta, against BEA's £52.60p. The Independents claimed that by using aircraft such as Britannias and DC-6s, cutting standards of seating and eliminating catering they could make the services pay.⁵⁶

The VLF proposals placed the Government in a difficult situation and were probably a major factor in forcing it to realise the failure of current policy. To permit the Independents to operate VLF services would have severely undermined the competitive position of the Corporations, but equally how could the Government justify politically the maintenance of what now appeared to be an excessively high fare structure? The dilemma was solved with the introduction of the 1960 Civil Aviation (Licensing) Act (see following chapter), after which the private operators were far less interested in cut-price services. Nevertheless, the problem of finding a replacement for the old Colonial Coach services still remained. From October 1st, 1960, international second-class fares were due to be reduced by between 10 and 16% on all routes other than the North Atlantic. The Government announced that British airlines (both Independents and Corporations) were also to be allowed to run additional third-class services to certain colonial territories at prices a further 14 to 16% below the new IATA tourist fares. Traffic was again to be pooled, with BOAC taking 70% of the British share.⁵⁷

Continued criticism of civil aviation policy by the independent airlines inevitably had an effect and eventually even the Government was forced to see the need for reform. The 'New Deal' had obviously failed to provide the private sector with stability and direction. The VLF affair had shown that the Government was still not prepared to face up to the inevitable result of a pro-Independents policy, namely a curtailment of the public sector.

56. 'The Economist', 21/3/59, p. 1091.

57. Ibid., 9/4/60, p.185.

In August, 1959, Harold Watkinson, Minister of Transport and Civil Aviation, indicated the general direction in which the Government appeared to be heading: "At home... my thoughts are turning very much to the concept of a freer pattern of air transport. This, I think, would be best achieved by the concept of a new, more independent licensing authority. This, of course, would need legislation and no doubt changes in existing legislation. It is, therefore, a matter for the next Parliament."⁵⁸ Thus, the ground was prepared for the 1960 Civil Aviation (Licensing) Act, although there was surprisingly little evidence to suggest that the Government had learnt the real lessons of the previous decade.

The Fifties

It is important to keep the criticism of Government policy in perspective. During the 1950's the private sector made considerable advances. Between 1953/54 and 1960/61, for example, their annual scheduled traffic (measured in load ton-miles) increased approximately 6½-times, compared with a 2½-fold growth by the nationalised airlines. During the same period their share of total British scheduled traffic rose from 4 to over 8%.⁵⁹ In addition, of course, troopings, vehicle-ferry operations and inclusive-tours expanded even more rapidly. But such statistics do not really give the whole picture; the fact remains that the 'New Deal' policy of 1952 failed to create the right political and economic conditions for the continued progress and stability of the private airlines, which was presumably one of its main aims. A 'Flight' editorial in 1953 commented: "Civil aviation in all its branches has great expectations from the present Government... (But) still there

58. Speech at annual luncheon of Air Registration Board - 'Flight', 14/8/59, p.26.

59. ATAC Annual Report, 1960/61, p.4.

remains this most debilitating atmosphere of transience; the feeling of no stability, a continued leaning towards temporary expedients in place of long-term planning." One can only add that nothing that occurred during the remainder of the 1950's would have altered this view as far as the independent airlines were concerned.

By 1959 the Independents, although as a group and, on the whole, individually much larger than in 1952, still lacked the "long-term security and opportunities for expansion," of which Lennox-Boyd had spoken when introducing the new policy. A possible explanation for this failure is not difficult to discover. Harris argues:

"In airways...the Government's main aim seemed to be to protect its own industries, accommodating private companies with the minimum disturbance rather than fostering genuine competition. The 'modus vivendi' achieved could only be temporary as the private companies continued to seek to expand, thus further limiting the operations of the public corporations, themselves already under pressure from severe international competition." 61

We shall return to this point in the following chapter. 'The Economist's' view of air transport policy during the 1950's might in the meantime serve as an apt conclusion to this chapter:

"Conservative policy in the early 1950's deliberately encouraged the independents to think they would get a larger share of the cake; Ministers have spent the subsequent nine years trying, with growing embarrassment, to find where to cut it from." 62

61. Harris: 'Competition and the Corporate Society', 1972, p. 201.

62. 13/2/60, p. 651.

Chapter IVTHE CIVIL AVIATION (LICENSING) ACT

By 1960 it was obvious to most that a new approach to the problem of air transport licensing in the UK was needed, or at the very least a tidying-up of existing legislation. The policy introduced in 1952, the so-called 'New Deal', had clearly failed to achieve its supposed prime aim, the establishment of a large, prosperous and stable private sector without materially harming the nationalised Corporations. This, however, was only one of the pressures tending towards a new look at civil aviation policy. An additional factor of some importance was a growing realisation of the unsatisfactory state of the law governing air safety in the area of charter operations, which were not fully covered by existing regulations. In particular, considerable publicity resulted from the crash of a Viking aircraft belonging to Independent Air Travel at Southall in 1958, in which seven people lost their lives.¹ The report of a public inquiry into the accident indicted the airline concerned, concluding that its operating and maintenance standards left much to be desired.² Although Independent Air Travel was soon forced to close down, the damage done to the image of the private carriers was substantial. Thus, the Government was pushed towards a policy of tightening up the regulations controlling air safety, as well as liberalising the restrictions on the operations of the Independents.

The Civil Aviation (Licensing) Act was introduced in February, 1960. It repealed the statutory monopoly that the nationalised airlines had enjoyed since 1946 over the scheduled routes they operated and

1. Hansard, House of Commons, 2/3/60, vol. 618, cols. 1225 and 1248-9.

2. Board of Trade : 'The Safety Performance of UK Airline Operators: Special Review', 1968, p.8-9.

granted licenses to all British carriers, Corporations and Independents alike, to operate their current route networks. In other words, the device that Wyatt described as "a mistake in concept and farcical in practice,"³ the associate agreement, was abolished, and with it the Corporations' automatic assumption of priority in UK air transport. Having thus cleared the ground, the Act stated that in future any British operator that wished to inaugurate a scheduled service would have to argue its case before a new licensing authority, the Air Transport Licensing Board (ATLB). The latter was to be an independent body under the supervision of the Council of Tribunals, appointed by the Minister but in no way directly responsible to him. Thus, unlike its predecessor, the ATAC, which was only advisory to the Minister, the new Board had executive powers. To assist it in the consideration of licence applications, the ATLB was directed to pay particular attention to the following matters:

- i) the technical and financial competence of the applicant,
 - ii) insurance provisions,
 - iii) fair terms and conditions of employment,
 - iv) existing or potential need for the proposed service,
 - v) the adequacy and tariff of any similar service already operating,
 - vi) any wasteful duplication of or material diversion from existing services,
 - vii) any expenditures or commitments reasonably incurred by existing operators.
- 4
- viii) any objections raised to the grant of the licence.

3. 'British Independent Aviation - Past and Future', Journal of the Institute of Transport, 1963, p. 109.

4. Gwilliam: 'The Regulation of Air Transport'. Yorkshire Bulletin, 1966, p. 20-21; 'World Airline Record', 1965, p. 242; Hansard, op.cit., cols. 1225-1233.

The only significant difference so far, therefore, between the old and new licensing procedures was that now the Corporations and Independents were treated as equals; the Act abolished the 'shot-gun marriage' anomaly of the associate agreements. It also attempted to close a loop-hole that had been found in the previous legislation and exploited by a number of airlines, that of 'closed-group' charters; these now came under the control of the licensing authority, just as inclusive-tours always had.⁵ In order to tighten-up the air safety regulations, the Act provided that in future all commercial carriers, without exception, would have to obtain an 'Air Operator's Certificate', proving that they were fit to operate commercial services.⁶ But the real innovation was that the Board was instructed to 'consider' all the aspects of a proposed service mentioned above - having considered them, it was perfectly entitled to discard them. Thus, unlike the ATAC, the Air Transport Licensing Board was not obliged to reject a new service simply because it might materially divert traffic from an established operator.⁷ This obviously gave the ATLB considerable liberty of action, if it chose to use it.

The only guidance the Act itself gave as to how the Board should perform its overall duties was that it should exercise its functions "in such a manner as to further the development of British civil aviation."⁸ In fact, the legislation specifically states that the intention was to leave the ATLB substantially unfettered in interpreting the Act. The new Minister of Aviation, Duncan Sandys, laid particular emphasis on this point during the Second Reading of the Bill : "The essence of this Board is that it

5. Wheatcroft: 'Air Transport Policy,' 1964, p.131-2.

6. Hansard, op.cit., col.1226.

7. 'The Economist', 20/2/60, p.734.

8. 8 and 9 Eliz.2, c.38, p.1.

will enable everybody to go before it and to argue out their case... The future pattern of British aviation will emerge progressively from the decisions of the Board and from the results of appeals to the Minister. A kind of case law will gradually be built up."⁹ This is exactly what the ATLB attempted to do, although with limited success. The Act also stipulated an appeals procedure. Any party disagreeing with the Board's findings could appeal to the Minister, who, after hearing the report of an independent Appeal Commissioner, was empowered to instruct the ATLB to take action on any licence or application as he saw fit. The problem was that neither the Act nor the regulations governing the procedure for appeals were specific about the grounds upon which an appeal could properly be made. For example, there were no clear rules about what new evidence was admissible, and so there was little to prevent an appeal case from becoming simply a re-hearing of the original application and objections.¹⁰ This greatly increased the power of the Minister at the expense of the ATLB and was to be a cause of considerable criticism of the 1960 legislation in later years. The Select Committee on Nationalised Industries was particularly critical:

"So long as the Board of Trade have power to settle appeals against the ATLB and against the advice of an appeal Commissioner any advantage of apparently independent judgment evaporates. It would appear that the present system might almost be described as creating the ATLB in order to have a body from which to appeal to the Ministry. The Board of Trade accepted that this was very largely what the system had come to in practice." 11

It is not intended here to examine in detail the way in which the

9. Hansard, op.cit., col. 1231.

10. Wheatcroft, op.cit., p. 139-140.

11. 'BEA', 1966/67, Report, p. xlvi. The Board of Trade took over the responsibility for air transport licensing in 1967.

Civil Aviation (Licensing) Act worked in practice, nor the reasons for its eventual failure; that should become evident during the following chapter. It is intended, however, to look at two particular aspects of the Act that appear to be of immediate relevance: firstly, the movement towards a greater degree of rationalisation among the privately-owned airlines that coincided with the introduction of the new legislation; and, secondly, the way in which the 1960 Act fitted into the general pattern of post-war attempts to evolve a satisfactory air transport licensing policy.

Rationalisation:

It was the Government's view that an important part of the answer to the problems facing the Independents in the late 1950s was the elimination, either by bankruptcy or merger, of most of the smaller, less secure British airlines and the establishment of a select group of relatively large and financially stable companies. Lord Manscroft, Minister without Portfolio, had made this clear in a speech in the House of Lords as early as 1957:

"The Government would welcome some reduction in the number of (private) companies if this is likely to result in the formation of larger and more firmly based companies. Such companies would be better able to afford the high cost of re-equipping their fleets with modern aircraft; and with a better fleet the companies would be able to bid more effectively in the international field for charter work, as well as to operate more efficiently the scheduled services allocated to them." 12.

Similarly, during the Second Reading of the 1960 Bill, Duncan Sandys stressed that the granting by the ATLB of an airline's application to

12. Hansard, House of Lords, 11/12/57, vol. 206, col. 1074.

operate a new route would depend to a large extent on "the ability of the applicant to convince the Board that his company possesses the resources needed to provide an effective and reliable service. With this in mind, I have been encouraging the independent airlines to get together and to form stronger units and I am glad to say that good progress is beginning to be made."¹³ Thus, like most of the provisions embodied in the new legislation, a measure of rationalisation had been Government policy for some time. It would be achieved by the combination of a stick, to force financially insecure operators into bankruptcy or merger, and a carrot, to encourage the formation of larger units.

At first sight it might appear that the policy achieved a measure of success. In particular, British United Airways (BUA), whose formation was announced on the same day as the new legislation, was just the type of company that the Government envisaged, in terms of both size and financial backing. It was by far the largest British private airline operating in 1960, with a total fleet capacity (measured in ton-miles per hour) of approximately 60,000, excluding its helicopter interests, or 28% of BOAC's and 44% of BEA's capacity.¹⁴ The financial backing for the new group came primarily from shipping interests, as the following list of shareholders indicates:

Blue Star	20%
Furness Withy.....	20%
Clan Line.....	16%
British and Commonwealth Shipping...	16%
Hunting.....	8%
T.L.E.B. Guinness.....	10%
Whitehall Securities.....	<u>10%</u>
	<u>100%</u>

15

13. Hansard, House of Lords, 11/12/57.

14. 'Flight', 11/3/60, p.352; however, both Corporations had a large number of new aircraft on order, which when delivered would reduce the percentages to 19 and 29 respectively.

15. Ibid, 8/7/60, p.41.

The BUA group was formed by an amalgamation of Airwork and Hunting-Clan, whose subsidiaries included Air Charter, Morton Air Services, Olley Air Services, Transair, Airwork Helicopters, Bristow Helicopters, Aviation Traders and Straights Air Freight Express of New Zealand. In February, 1962, the group was strengthened with the acquisition of British Aviation Services (Britavia), a holding company whose main operating subsidiary was Silver City Airways, to form Air Holdings Ltd. Britavia, which had recorded considerable financial losses in recent years, was owned by P and O (70%), Eagle Star Insurance (20%) and Cable and Wireless (10%) and contributed about 20% to the combined assets of Air Holdings. The latter accounted for well over half of the Independents' total capacity, while BUA was now 45% the size of BEA and 30% that of BOAC. Finally, in May, 1962, Jersey Airlines was also acquired.¹⁶

The formation of Air Holdings, therefore, was the most important result of the Independents' movement towards greater rationalisation that coincided with the 1960 Act. But it was far from the only such development. Probably almost as important in the long run, although in a rather different way, was the acquisition in March, 1960, of Eagle Aviation by the Cunard Shipping Company (discussed in detail in Chapter VII). Several other mergers also took place among the smaller private operators, for example: Air Safaris and Don Everall Aviation (November, 1960); Airtech and Chartair (November, 1961); Euravia and Skyways and Channel Airways and Tradair (both November, 1962). In addition, early in 1960, 'tentative discussions' about the pooling of resources (though not initially full integration) were held between BKS, Cambrian, Derby Aviation, Channel Airways, Jersey Airlines and Starways, but apparently the companies failed to reach agreement.¹⁷

16. Ibid., 1/2/62, p.158; 'Aeroplane', 8/2/62, p.143; 'World Airline Record', op.cit., p.254.

17. 'Flight', 22/4/60, p. 576, et.al.

Some at least of these mergers may well have resulted directly from the regulations embodied in the Civil Aviation (Licensing) Act or from Ministerial pressure. Other companies were not as fortunate and were forced to close down altogether. The ATLB reported that during 1961/62 ten airlines had ceased to operate air services of the kind requiring licences from the Board and in most of these cases financial weakness was the main or an important reason for their withdrawal. In addition, there was evidence of financial weakness in several other companies still operating air services and in two cases receivers and managers had been appointed.¹⁸ Clearly, a major factor behind this 'weeding-out' of the private carriers was the tighter control of British civil aviation that followed the introduction of the new legislation; in particular the power given to the ATLB to refuse applications for licences to operate services from companies with insufficient financial resources, the fact that much of the charter business on which the smaller companies depended now also had to be licensed, and the improved vigilance of the airlines' safety performance that resulted from the issue of Air Operator's Certificates.

It would appear, therefore, that the Civil Aviation (Licensing) Act was successful in achieving at least one of its prime objectives. Unfortunately, two further factors might contradict such a conclusion. Firstly, while numerous mergers and bankruptcies were taking place, reducing the total number of private carriers in existence, other operators were in fact being established. A survey by 'Flight' in August, 1962, found that since the introduction of the 1960 Act 12 airlines had ceased operations, but exactly the same number had begun air services. The survey concluded: "There is thus a 'prima facie' case for suggesting that the combined effect of the 1960 licensing system and the Air Operator's Certificate has not been such a deterrent to the 'little' man in independent air transport enterprise as may have been supposed."¹⁹ We will discuss

18. ATLB Annual Report, 1961/62, p.9.

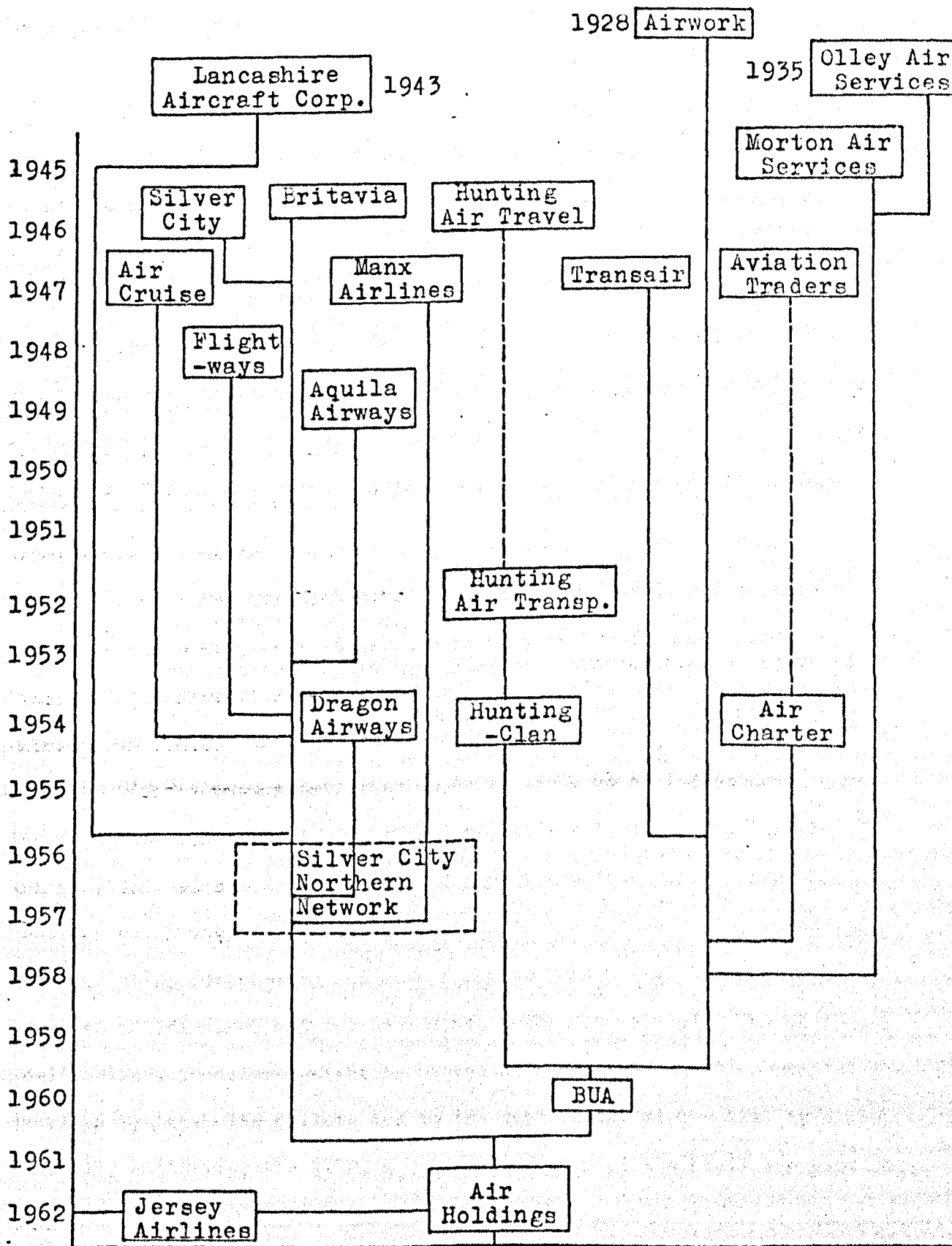
19. 'Flight', 23/8/62, p.264.

why this may have been so in the concluding chapter. In addition, however, there is evidence to suggest that several of the bankruptcies that occurred during 1960/61 were the result of severe price-cutting on the part of a small group of airlines, especially in the area of inclusive-tour charters, and so only marginally related to the new licensing legislation (see Chapter X).

The second factor that casts doubt on the effectiveness of the 1960 Act is that the process of rationalisation was not limited to the period immediately surrounding the introduction of the new licensing system. On the contrary, it was stretched out over a number of years. Figure 4.1, for example, clearly shows how the formation of Air Holdings was the result of a series of mergers taking place throughout the 1950s. As early as 1958, and probably before, Airwork had started to integrate its affiliates in order to create a single organisation and the name 'British United Airways' had already been tentatively decided upon.²⁰ A few months later Airwork announced that it intended to sell-off most of its fleet and dismiss a large proportion of its flying and ground staff, presumably in order to become a holding company.²¹ This is not to suggest, of course, that Government policy and pressure had no effect; they clearly did, especially among the smaller carriers. But at least in the case of the most important merger at the time that led to the establishment of BUA, probably of equal importance was the general economic climate prevailing in the air transport industry during the second half of the 1950s - and in particular the impetus supplied by the extensive investment in the Independents undertaken by the shipping companies.

20. Ibid., 26/12/58, p.985.

21. Ibid., 3/4/59, p. 475.



Based on diagram in R.E.G.Davies: 'A History of the World's Airlines', p.317.

Licensing Legislation:

A degree of rationalisation among the private operators was an important, but not a sufficient, pre-condition for the establishment of a more stable independent air transport sector. Just as necessary was the creation of the right political environment, in other words an effective licensing system. Since the late 1940s Conservative civil aviation policy had primarily consisted of regulated competition between public and private sectors controlled by a quasi-judicial licensing body similar to the Civil Aeronautics Board (CAB) in the United States. Just before the Tories were returned to power in 1951, for example, Lennox-Boyd had said:

"We are determined, when the opportunity comes again, to restore a wide measure of private enterprise in the air, to throw the lines open to private competition under proper regulation, and to have some system analagous to the Civil Aeronautics Board in the United States, which has given the benefit of co-ordination and the benefit of freedom of competition as well." 22

The CAB had been established in July, 1940, as an independent agency, together with a Bureau of Air Safety responsible to the Board for the investigation of accidents.²³ It had almost complete control over US domestic air transport, granting licences to operate services, encouraging and regulating competition and attempting to ensure that the airlines received an adequate, but not excessive, return on capital. The UK 'New Deal' policy, therefore, might be viewed as a 'watered-down' version of the American system. Its failure led to the replacement of the ATAC by a new licensing authority, the ATLB, a much closer copy of the Civil Aeronautics

22. Ibid., 16/11/51, p. 631.

23. The CAB had replaced the Civil Aeronautics Authority, established in August, 1938. Davies: 'A History of the World's Airlines', 1964, p.138-8. Similar quasi-judicial regulatory authorities have been established in Australia and Canada.

Board. The main attraction of the American system, apart from its relative efficiency and success when compared with British attempts in this field, probably lay in the non-political appearance of the licensing body. As we have seen, in theory at least both the CAB and the ATLB were independent, quasi-judicial authorities - committees of experts arriving at decisions after full consideration of all the relevant facts and owing no particular allegiance to any political party or ideology. In practice, of course, any attempt to remove decisions of this kind from the political arena is fraught with difficulties; any choice between two competing demands is a political action, although not necessarily a contentious one. This is why air transport licensing legislation clearly provides for the final authority (in other words, the right to decide appeals) to rest in the hands of the government (the relevant Minister in the UK or the President in the USA). As Geoffrey Rippon, Parliamentary Secretary to the Ministry of Aviation, told the Commons:

"The matters with which the (ATLB) will be concerned are questions of opinion and policy and not merely of interpretation of the law or of fact, as in the case of the air safety certificate. Parliament would wish that in the last resort the Minister should be the accountable authority." 24

As we shall see, the Civil Aviation (Licensing) Act was only moderately more successful than the previous policy in achieving its objectives. By the mid-1960s its failure had become obvious to all and a Labour Government was forced to appoint a committee of inquiry to investigate the whole future of British air transport. This raises the questions: Why did a CAB-type licensing system apparently work in America but not in Great Britain? What were the main differences between the US and UK situations? The one factor that seems to stand out is that

24. Hansard, op.cit., col.1310. In the case of the US CAB this is only true of international matters; in the domestic sphere its decisions are reviewable by the courts. See Corbett: 'Politics and the Airlines', 1965, p. 293 and 296.

without exception the airlines regulated by the CAB are privately-owned, while in Britain the industry is made up of both private and public sectors. This means that when two or more American airlines apply for a licence to operate a particular route, each has 'equality of opportunity'. There is no inherent reason for either the CAB or the Government to favour one company rather than another. As one commentator has remarked: "The regulation of equals is inherently easier."^{24a} This equality does not exist in the UK. It is true that one of the principal objectives of the 1960 Act was to ensure that all British carriers had the same opportunity to apply to the ATLB for licences to operate new air services. The crucial point, however, is that the final arbiter of the licensing system is not the ATLB but the Minister by way of his appellate function. It would not be surprising if a Labour Minister were to show bias towards the nationalised airlines. But why should a Conservative Minister do so?

The answer may well be in the fact that the Minister concerned also represents the interests of BEA and BOAC in the House of Commons. This is an over-simplification, since the legal relationship between Parliament, a Minister and the Board of a nationalised industry is extremely complex.²⁵ But in general terms it is clear that Parliament holds the Minister responsible for the financial performance of the State airlines. This dual responsibility has meant in practice that whenever a Minister has been faced with an appeal against an ATLB decision that might materially harm one of the Corporations, especially if the latter is at the same time also experiencing financial difficulties, he has tended to favour the

24a. Silberman: 'Price Discrimination and the Regulation of Air Transportation'. Journal of Air Law and Commerce, 1965, p.228. Quoted in Fruhan: 'The Fight for Competitive Advantage', 1972, p.159.

25. See, for example, Foster: 'Politics, Finance and the Role of Economics', 1971, p.11, 97 and 108.

public sector.²⁶ Professor Gwilliam, among others, has noted in passing: "In the event of a conflict of interests between an independent operator and a State corporation the Minister might normally be expected to show some special sympathy for the corporation within his department purview; the 1960 Act gave the ATLB no brief to show such preference."²⁷ This does not necessarily mean, of course, that such 'special sympathy' is wrong. As J.R. Baldwin, President of Air Canada, wrote: "I can find little logic in government ownership unless the airline is granted and is prepared to accept a special position in its relationship with the Minister and the government. Otherwise, what is the case for State ownership at all?"²⁸ But if this^{is} in fact true, then the airlines obviously do not have genuine 'equality of opportunity' when applying for licences to operate air services.²⁹

Clearly, it is impossible to prove categorically that the special relationship between the Minister and the nationalised airlines, if indeed it does exist, has resulted in the weighting of UK air licensing policy against the Independents. One can only suggest that it might provide a more or less partial explanation for certain developments described more fully in other chapters. The number of incidents involved is probably quite small, although their importance and influence have been considerable. The Minister's dual responsibility might well explain

26. An exception may be the period immediately following the return to power of a Conservative Government. See, especially, Chapter VI.

27. Op.cit., p.21.

28. 'The National Airline, the Government and the People'. Chartered Institute of Transport Journal, 1971, p. 139.

29. A possible alternative explanation for the behaviour of Tory Ministers is provided by Harris: "To understand the role of the Conservatives the behaviour, rather than the rhetoric, is particularly vital... For Conservatives pre-eminently defend the existing nature of society, without necessarily being able to identify unequivocally what the essence of the present 'status quo' is...What they defend at any given moment depends on what is being attacked rather than any prior assumptions." 'Competition and the Corporate State', 1972, p.13. Similarly, see Thompson and Hunter: 'The Nationalized Transport Industries', 1973, p.116.

the Government's somewhat contradictory attitude towards the private sector throughout the 1950s (for example, with regard to Airwork's scheduled North Atlantic all-freight service or the affair of the purchase of CAA). An even better example, or at least more blatant, is provided by the refusal of the Minister to permit Cunard Eagle to operate North Atlantic scheduled passenger services in competition with BOAC (see Chapter VII).³⁰

Two obvious ways of eliminating this bias suggest themselves: the total exclusion of private enterprise from air transport (or at least a reversal to the situation that existed between 1946 and 1948), or complete denationalisation. Both solutions would mean that no one airline or group of airlines would occupy a particularly favourable position, all would have equality of opportunity. But since neither of the main political parties appears prepared to go so far in the foreseeable future, either to the left or to the right, such solutions are obviously impracticable. It is the fact that the air transport industry in the UK is, and will probably remain for some time, a combination of public and private sectors that creates the problem. A solution, however, is needed; to quote Baldwin again: "Where a country has established a domestic environment in which the state enterprise must compete with similar private enterprises, the public at large can suffer if airlines suffer because of lack of clear government definition of intended role and relations between the two."³¹

One possible answer might be the delineation of 'spheres of influence'. In other words, the Government could determine in quite specific terms which services were to be provided and which geographical areas served by each individual airline or group of airlines, rather like the Labour Government did in 1946 for the three Corporations. This would greatly simplify the licensing process by removing a possible sphere of contention. The ATLB would judge each licence application on its merits, within the

30. Despite frequent reports to the contrary, this was in fact the second appeal against an ATLB decision; the first was made by Falcon Airways and rejected by the Minister. 'Aeroplane', 31/8/61, p.225.

31. *Op.cit.*, p.136.

constraints of Government policy and Ministerial directives, while the possible reasons for appealing against a decision would be reduced. The more overtly political decisions, such as the relative size of the public and private sectors, would be taken at Government level. In this way the likelihood of periodic Ministerial intervention for short-term political reasons is minimised, since the award of an additional route to an Independent is unlikely to materially harm a Corporation, and if the Minister does intervene he will clearly be seen to do so and have to explain the departure from policy. As the economic and political situation changed, of course, it might be necessary to re-define policy objectives. But this presents few problems, providing it is done in such a way and at such intervals so as not to create an atmosphere of uncertainty, which, as we have seen, has been one of the major faults of post-war British air transport licensing.

In conclusion, the Civil Aviation (Licensing) Act was the most important piece of legislation concerning air transport introduced during the 1950s and 1960s. But despite its importance and partial success, overall it must be judged a failure. As will become apparent in the next chapter, the 1960 Act did not bring about the hoped-for long-term rationalisation among the private operators and, perhaps even more important, it failed to find a satisfactory answer to the problems created by a mixed-sector industry. In the words of Roy Mason, the Civil Aviation (Licensing) Act created "a licensing system that was little better than an elaborate framework enclosing a policy vacuum." ³²

32. Hansard, op.cit., 18/3/70, vol. 798, col.431.

Chapter VFURTHER SCRUBBY PASTURES, 1960 - 1968

To a large extent the Civil Aviation (Licensing) Act of 1960 was a major piece of 'buck-passing'. Apart from the general instruction to "exercise their functions in such a manner as to further the development of British civil aviation," there was no declaration of Government policy to assist the ATLB in deciding long-term objectives. It was left to the Board, therefore, to interpret the Act as it saw fit. Mr. Clive Jenkins aptly summed up the uncertainty that this entailed: "I confess on a first examination that Mr. Sandys' Bill could have been worse. But then, on the other hand, perhaps it will be."¹ As we have seen, it was intended that a series of 'guidelines' would gradually evolve, based on ATLB decisions and appeals to the Minister, and that these would eventually clarify UK long-term air transport policy.

The first ATLB hearing of licence applications began in June, 1961, and dealt with intra-European routes. Not unexpectedly, a number of private airlines took advantage of the opportunities now open to them and applied for permission to operate extensive scheduled networks. But the expansionist plans of the majority were dwarfed by those of the two largest Independents, EVA and Cunard Eagle. When the hearings began there were altogether 78 applications (and 283 objections), of which 41 were from the two principal, shipping-backed carriers.² BUA issued a statement claiming that it was prepared to spend £17.5 million on new British aircraft should its applications be successful and that in their entirety its plans "would involve no more than 20% of the corporations'

1. 'Flight,' 1/4/60, p.458.

2. 'The Economist', 24/6/61, p. 1396.

traffic growth for the years 1961-65", assuming an annual average increase in passenger traffic of 14% for the public sector. In fact, a rather more objective observer estimated that the diversion would be more in the region of 55% of the Corporations' growth, of which 70% would be on BEA routes.³ This, of course, was the diversionary effect of the plans of a single airline, so that overall the Independents were clearly staking a claim to a major role in the future expansion of UK air transport.

In May and June, 1961, BUA took steps towards fulfilling its pledge and placed orders for two BAC VC-10s (plus an option on the purchase of a further two) and for ten BAC 1-11s (plus 5 options), the first airline to order the latter type of aircraft.⁴ Shortly before the ATLB hearings were due to begin it was announced that Cunard Eagle and BUA had come to a compromise agreement over their route applications. Broadly speaking, Eagle agreed to concentrate on UK domestic services and about a dozen Continental routes and BUA on the remaining UK-Europe routes. Their long-range spheres of interest had already been determined, BUA concentrating on Africa and Eagle being primarily interested in the North Atlantic. Consequently, Eagle withdrew 15 of its original 34 applications and BUA 9 of its original 31, although the two operators still overlapped on routes from London to Nice, Milan and Dublin.⁵

The ATLB published its decisions on the European applications the following November. Most of the new services were awarded to the two principal Independents, BUA receiving licenses to operate trunk routes from London to Paris, Genoa, Amsterdam, Milan, Zürich, Madeira, Basle, Athens, Barcelona, Torbes, Palma and Malaga, and Cunard Eagle between London and Glasgow, Edinburgh, Belfast, Dublin, Venice, Geneva and Stockholm, between Liverpool and Dublin and between Manchester/Birmingham

3. 'Flight', 27/1/61, p.128.

4. Ibid., 18/5/61, p. 674 and 8/6/61, p. 811.

5. Ibid., 15/6/61, p. 841.

and Nice. All the licences were for a period of seven years and the airlines were told that they could not inaugurate the new services until April, 1963, in order to soften the blow on BEA.⁶ In round figures, Eagle was granted approximately a third of the capacity it had requested and BUA one-half. The ATLB estimated that during the first three years of operation the new licences would divert from BEA some 46.8% of its forecast growth on international routes and about 17.5% on domestic routes.⁷

The Board declared that it was "in no doubt that some carefully regulated competition must, sooner or later, become a feature of the routes over which British aviation operates. The difficulty is to determine the point in time at which a route is ripe for such competition."⁸ This is the first example of the way in which the ATLB was forced, because of the lack of guidance in the 1960 Act, to introduce its own interpretations and views; in other words, the beginning of the creation of a 'case-law'. The word 'competition' does not, in fact, appear anywhere in the Civil Aviation (Licensing) Act and, further, Ministerial statements in the House of Commons during the passage of the Bill specifically denied that it was the Government's intention to promote competition between British carriers for its own sake. The Act made possible increased competition, but did not positively encourage it.⁹ In its 1960/61 Report the ATLB justified its interpretation by saying that it was "a popular view" that the new Act should encourage competition among British operators on a much greater scale than hitherto.¹⁰

6. 'World Airline Record', 1965, p.255 and 260.

7. 'Flight', 30/11/61, p. 838; Gwilliam: 'The Regulation of Air Transport', Yorkshire Bulletin, 1966, p.25.

8. 'Flight', 8/12/61, p.887.

9. Wheatcroft: 'Licensing British Air Transport'. Journal of the Royal Aeronautical Society, 1964, p.171.

10. p.5.

From April, 1963, therefore, for three years a proportion of BEA's estimated accumulated traffic growth on the routes concerned would go to the Independents; thereafter, the Corporation's traffic would resume its normal growth. This would obviously hurt BEA to some extent, but "the benefits of competition cannot be introduced painlessly." With regards to the licensing of a second British operator on a particular route, the Board declared that "it is a pre-requisite... that the route should have reasonably dense traffic and a reasonable rate of growth." What exactly was 'reasonable' was not specified, rather the ATLB thought it was more important to measure the applicant's likely traffic and set it alongside BEA's figures of expected growth on the route. If, during the first three years, there was no actual decline in the Corporation's traffic, then the Board's criterion for the introduction of a second operator would be satisfied.¹¹ In the long-run this formula proved to be untenable and had been abandoned by 1966:

"It was, we consider, valid when applied to a large number of applications considered at the same time. But the circumstances of 1961 are unlikely to be repeated and the validity of the formula becomes more questionable when it is applied to one application to obtain a single result. In recent cases, therefore, we have tended to move away from the theoretical approach and reach our conclusions on practical considerations." 12

It is difficult to envisage how a consistent 'case-law' could be built up without some form of theoretical basis. But by 1966, in any case, the whole licensing process had been undermined.

The ATLB was thus attempting to find a satisfactory formula that would permit the expansion of the Independents but have only a very limited, short-term effect on the Corporations, something that the Government had failed to accomplish during the previous decade. The

11. 'Flight', op.cit.; 'The Economist', 2/12/61, p.945-7.

12. ATLB Annual Report, 1966/67, p.5.

reactions of the private operators were mixed. On the whole, they welcomed the opportunity to considerably expand their scheduled networks and to compete with BEA, though they were disappointed that the new services granted were hardly sufficient to support a fleet of jet aircraft. BUA issued a statement saying: "Naturally we shall examine every possibility with the utmost care, but even taking the most optimistic view, it is certain that the Board have left us no margin." Similarly, Cunard Eagle said: "We welcome the decisions of the licensing board...(But) the licences granted to us today will provide sufficient work for two or three short-haul aircraft only."¹³ To a large extent, the history of the European and domestic licence applications of these two airlines over the next few years is very much the story of attempts to expand and liberalise these initial licences. BEA naturally appealed against most of the awards. The Commissioner, Sir Arthur Hutchinson, recommended that two of the licences should not be ratified, although in the event the Minister only refused to grant one of these, Cunard Eagle's London-Geneva route. In addition, however, he reversed the ATLB's decision concerning BUA's London-Zurich service, because of the difficulty of obtaining traffic rights.¹⁴

Further Expansion:

Once the licences had been ratified where necessary, the Independents took full advantage of the new opportunities. British Eagle (as it was now known) began domestic services in competition with BEA in November, 1963. But the private operators also continued to press for a liberalisation of the restrictions placed on their licences. In November, 1962, for example, a full year before the inauguration of its new domestic

13. 'Flight,' op.cit., p.888.

14. Ibid., 20/9/62, p.515. Difficulties in obtaining traffic rights also prevented the establishment of BUA's London-Paris service. (see Chapt. VI)

trunk routes, Eagle applied to the ATLB for an increase from one to two round-trips per day on its services between London and Glasgow and Edinburgh, arguing that the initial permitted frequency was insufficient for economic utilisation of aircraft. The Board refused the applications:

"We accept that there is a level of activity below which it is impossible to sustain the central organisation, with its many and varied specialist skills, which is essential for successful airline operation; but it is within our knowledge that some other independent airlines have achieved viability with a fleet capacity much less than that now planned by British Eagle."

On appeal, however, Eagle received permission to increase the number of weekly flights on the Edinburgh and Glasgow trunk routes from seven to ten and from seven to twelve respectively. In addition, the carrier was also awarded a licence early in 1965 to operate 17 services per week between Glasgow and Dublin, while British Eagle (Liverpool) (formerly Starways) was given permission to inaugurate a service between London, Chester and Liverpool at unlimited frequency.¹⁵ Other airlines similarly attempted to expand their route networks and increase frequencies. But these decisions relating to British Eagle were to prove particularly important over the next few years.

Outside Europe there were three main areas of expansion for the Independents' scheduled services. Eagle's aspirations on the North Atlantic and BUA's routes to Africa are discussed elsewhere. The other region was Latin America. BOAC had originally withdrawn its South American services in 1954 because of capacity shortages following the Comet crashes. They were resumed early in 1960. But a number of countries continued to impose severe restrictions on the services. Brazil, for example, limited BOAC to two 70-seat Comet IV flights per week between London and Rio and Sao Paulo, refusing permission to use the

15. Ibid., 24/10/63, p.682, et.al.

better suited^{and}/larger Boeing 707. Sir Giles Guthrie estimated that the Corporation, with load-factors of approximately 40%, was losing £1.25 million per annum on the routes. Consequently, in September, 1964, BOAC again decided to withdraw from South America.¹⁶

The Government announced that it would welcome attempts by other airlines to operate the routes. The possibility of this happening, however, seemed unlikely, since no company had attempted to take them over as 'lapsed routes' between 1954 and 1960, although BOAC had approached a number of Independents with a view to operating to South America on its behalf.¹⁷ Nevertheless, BUA now took up the challenge. The airline offered to fly a twice-weekly service using VC-10s (it ordered a further one in May, 1965, at a total cost of £2.8 million), estimating that it would be able to break-even on the routes by the second year. Services were inaugurated in October, 1964, after the Minister had granted a licensing exemption (because of the need to start as quickly as possible) and reached agreement with the relevant governments for the use of VC-10s, although BUA was still forced to schedule its flights at odd hours to avoid diverting local carriers' traffic.¹⁸

Thus, the Independents experienced a fairly rapid expansion of their scheduled services, during the first half of the 1960s. As we have seen, there was also large-scale rationalisation within the sector and numerous airlines were forced out of business (while other companies were just as quickly established). But for most of those that remained the period appears to have been one of growth and relative prosperity, especially when compared with the late 1950s. (see Tables 5.1-5.3). To take a

16. Straszheim: "The International Airline Industry", 1969, p.24; 'Flight', 10/9/64, p. 446-7; 'Aeroplane', 29/1/60, p.125.

17. BOAC evidence to ATLB. 'Flight', 15/6/61, p.837-8.

18. Ibid., 1/10/64, p.580 and 13/5/65, p. 727-8; Straszheim, op.cit., p. 45; ATLB Annual Report, 1964/65, p.7.

few examples, in 1965 BUA flew 202,343,000 passenger-miles on scheduled services, (compared with 112,629,000 in 1963), Cambrian flew 62,923,000 (against 49,612,000 in 1963) and BKS 103,701,000 (60,234,000)¹⁹ It is difficult to discover the actual financial situation of BUA and its associated companies since figures were usually only published for the group as a whole and even these results were influenced by extensive fiscal transactions and disposal of fixed assets, a by-product of rationalisation. In 1960 it seems likely that the airline itself lost almost £200,000, but was probably profitable thereafter. By 1964 the BUA group was returning a profit of £860,000 (£1.4 million post-tax, after adjustments), compared with £377,400 in 1961. Similarly, Cambrian recorded net profits of £35,557 in 1961, £54,849 in 1962 and £52,837 in 1963. After being placed in the hands of a receiver in 1961 with debts of almost £400 000, BKS managed to earn a surplus of £127,000 in 1962.²⁰

The Labour Government:

The election victory of the Labour Party in October, 1964, as one might expect, was not widely welcomed in independent air transport circles. The new Government's policies were confidently expected to discriminate against private enterprise aviation, indeed against private business in general. Mr. Fred Lee, a Labour spokesman on aviation, for example, had said in a speech early in 1963 that although a Labour Government would not nationalise the Independents, with the exception of BOAC-Cunard (see Chapter VII), the private operators would probably be confined to non-scheduled and ferry services, leaving the Corporations once more with a monopoly of ordinary scheduled routes.²¹ The inevitable atmosphere of uncertainty

19. Board of Trade.

20. 'Flight' and 'Aeroplane', various dates.

21. 'Aeroplane', 27/2/63, p.11.

and lack of confidence in the future that established itself among British carriers at this time is reflected in the announcement by Mercury Airlines in October, 1964, that it was to close down, despite the fact that it had just completed its best-ever season. Lord Calthorpe, Managing Director, said that hopes of a 'considerable injection of further capital' needed to keep the £53,000 company solvent had been quashed because of the formation of a Labour Government: "The syndicate who had been interested naturally wanted high returns for a high risk investment... but the syndicate felt that any high returns would be whittled down by various forms of taxation they feared from a Labour Government."²²

The new Minister of Aviation, Mr. Roy Jenkins, announced Labour's air transport policy in the House of Commons on February 17th, 1965. The vagueness of the Civil Aviation (Licensing) Act was such that no new legislation was felt to be necessary. In fact, the new policy proved to be much less radical than many had feared (or hoped). Private enterprise air transport was dealt with under three headings. Firstly, there would be no additional restrictions on the operation of inclusive-tours; indeed, the Minister said that he would ask the ATLB if its procedures for dealing with applications for this type of service could be simplified and expedited. Secondly, Jenkins said that he was not convinced that the national interest was generally served by more than one British airline operating on the same international route: "I do not, therefore, propose to re-open with foreign governments those cases where the ATLB has licensed parallel international services by British operators and it has so far proved impracticable to secure the necessary traffic rights

22. 'Flight', 5/11/64, p.775. The assets of Mercury Airlines were eventually acquired by BMA.

on acceptable terms." Any British carrier could, however, begin a genuinely new service with the full support of the Government. Finally, with regard to the thorny question of domestic scheduled routes "there may be a case for more enterprising development of air services by independent airlines and for giving them reasonable security of tenure," but such services would have to be co-ordinated with the country's general transport system, which was currently being studied by Lord Hinton. On domestic trunk routes, however, where the Independents were flying in competition with BEA, no increase in the frequencies of services would be permitted:

"In the short run, unrestricted competition might produce a better service to passengers, but probably at the cost of all the operators serving the routes in question doing so at a loss. The longer term results could well be to force up fares, or to lead to a lower frequency after one operator had been eliminated....In these circumstances it will be for (the independent airlines) to consider whether they wish to continue as at present, or to withdraw completely from these routes. Should they choose the latter alternative, BEA will revert to being the sole operator." 23

On the surface, therefore, the new policy was apparently intended to 'tilt' the licensing system once again in favour of the nationalised airlines. It is noticeable, for example, that following the Minister's statement BEA virtually ceased to object to applications for licenses to operate inclusive-tours,²⁴ presumably because the Corporation no longer felt threatened by the incursion of the Independents into its own principal sphere of activity, scheduled services. But despite earlier threats to limit the private carriers to charter and ferry operations, the new policy really changed the 'status quo' very little. The initial fears of the private sector on the whole proved groundless, primarily because of the changes that had taken place since 1951 in the attitude of the main body of the Labour Party towards public ownership. Nationalisation in itself was

23. Hansard, House of Commons, 17/2/65, vol. 706, cols.1186-89.

24. Select Committee on Nationalised Industries: 'BEA', 1966/67, Report, p. xliv.

no longer regarded as a vital part of a future government's platform; instead, growing emphasis was placed on more indirect forms of economic planning to control the economy and achieve social and political aims. The writings of a number of left-wing intellectuals during the late-1950s, illustrate this change of attitude. In 1958, for example, Peter Shore had written:

"If Socialists have been right to assume that private ownership of industrial property is the key to a capitalist society, they have been wrong in assuming that public ownership leads necessarily to a classless society. It does not. The power of industrial property remains, under public no less than private ownership, and the shape that it gives to society depends upon who controls it and the purposes for which it is used." 25

Similarly, C.A.R. Crosland maintained that:

"Post-1945 experience in the planning field strongly underlines... (the fact that) ownership is not now an important determinant of economic power... It can hardly be denied that public-monopoly nationalisation, despite considerable achievements in certain exceptionally difficult industries, no longer seems the panacea that it used to." 26

Revisionism such as this must have meant, despite the rhetoric to the contrary, that while the Labour Government would probably still tend to favour the public sector, it was much less hostile towards private enterprise.

Thus, the change in emphasis towards the private airlines that followed the return to power of a Labour Government was more apparent than real. But it was sufficient to bring strong protests from the Independents, and in particular from British Eagle. As we have seen, the latter company had been trying for some time, with only limited success, to persuade the ATLB to increase its permitted frequencies on the domestic trunk routes.

25. In Norman Mackenzie (ed.): 'Conviction', 1958, p.52-3.

26. 'The Future of Socialism', 1956, p. 468 and 470. See also Douglas Jay: 'Socialism in the New Society', 1962, and Socialist Union: 'Twentieth Century Socialism', 1956.

There was no way of making these services profitable, argued Eagle, unless the economic minimum of three round-trips per day was allowed (previously it had argued in favour of two such daily flights).²⁷

Eagle's reaction to the new policy was immediate; it announced that it would cease to operate all domestic trunk routes from February 20th. In retrospect, there is little doubt that this move was over-hasty and mistaken. Even without a new policy guidance, for example, it is not at all certain that the ATLB would have sanctioned further frequency increases, it certainly had not up till then. Some suggested that Eagle's Chairman, Mr. Harold Bamberg, was simply using the change of policy as an excuse to abandon unprofitable routes. During the first year of operation, that is in the twelve months up to October 31st, 1964, Eagle's new domestic services had lost some £300,000 and passenger load-factors had averaged only 24% on the London-Glasgow route, 26% on the London-Belfast route and a mere 13% between London and Belfast.^{27a} Mr. Roy Jenkins noted that "the alacrity with which (Bamberg) took (the decision to abandon domestic trunk services) suggests that he was not altogether sorry to withdraw from his commitment,"²⁸ while Mr. Anthony Millward, Chairman of BEA, thought that Bamberg was "the happiest man in Britain tonight".²⁹

27. In fact, there is an economic justification for Eagle's attempts to gradually increase the number of daily flights on the trunk routes, although the airline does not appear to have used it in arguing its case before the ATLB. It is widely accepted today that an increase in the permitted frequency of a carrier facing competition on a particular route will usually result in that carrier gaining a proportionately larger share of the market. Thus, the airline with the fewer daily flights is at a considerable disadvantage. See Hall: 'The Relationship between Frequency Share and Market Share in Air Transport.' Unpublished M.A. thesis, Centre for Transport Studies, University of Leeds, 1969. Also Wyatt's evidence to Select Committee on Nationalised Industries: 'BEA', 1967, paragraph 1834.

27a. 'Flight', 19/11/64, p. 858, and 21/1/65, p.84.

28. Hansard, op.cit., 1/3/65, vol.707, cols.951-2.

29. 'Flight', 25/2/65, p.280.

Such suggestions may be wide of the mark. But even if the intention of Eagle's management was simply to force a showdown with the Government, it had badly miscalculated. For BUA quickly announced that it intended to apply to the ATLB for permission to take-over Eagle's discarded routes (as well as for licences to operate between London and Birmingham and Manchester), flying at the same frequency, but with jets out of Gatwick instead of turbo-props out of Heathrow. Eagle immediately decided that it would resume services to Glasgow, and eventually also to Edinburgh and Belfast, using the excuse that the recent award of licences to operate the London-Chester-Liverpool and the Liverpool-Glasgow routes (see above) meant that it could now operate three flights per working day to Glasgow instead of two, one being via Liverpool.³⁰ Nevertheless, BUA pressed ahead with its applications.

The ATLB announced its decisions the following September, awarding licences to operate all three domestic trunk routes to BUA. The Board described the action of Eagle in withdrawing its scheduled services as a "disservice to the public" and said that the "stop-go" nature of the airline's operations must be a matter of concern since irregular and, to that extent, unreliable service on these important routes were not in the best interests of British civil aviation:

"...it was in our view highly conjectural when, if at all, they would in fact have resumed these services, on which they said they had incurred heavy losses, if BUA had not applied to operate from Gatwick. It is also clear from their evidence that the continuation of their services would depend on their being able to secure authority for higher frequencies than those already authorised."

Presumably because of the apparent unreliability of the previous operators, for the first time the ATLB spelt out a British equivalent of the American CAB's 'use it or lose it' rule. In granting BUA's applications, the Board insisted that the airline must produce evidence not later than January 14th in each of the five years after 1967 that throughout the previous calendar year the service had been operated at not less than the

30. Ibid., 25/5/64, p. 819 and 10/6/65, p. 896.

specified frequency. British Eagle appealed against the ATLB decisions, and was in fact allowed to resume services on the London-Glasgow route at a maximum frequency of two return flights per day. But BUA retained its three licences for domestic trunk services.³¹

The Downturn:

The Labour Government's 'hard line' policy towards the Independents in fact did not survive very long. As we have just seen, Eagle was allowed to operate on the London-Glasgow route again along with BUA and BEA, so that in this instance competition from the private sector was considerably increased rather than cut-back. Similarly, late in 1966 BUA received permission to increase the frequencies of its services to Glasgow and Belfast from 12 to 17 and from 7 to 12 per week respectively. But Eagle's applications for a restoration of the Belfast route and increased frequency on its Glasgow service were refused, primarily because, operating out of Heathrow rather than Gatwick, they presented a greater threat to BEA's traffic.³² In fact, the ATLB made it clear that it basically intended to ignore Roy Jenkins' policy statement and continue to act strictly according to the letter of the 1960 legislation: "We find nothing in the Minister's Statement to prevent us from reaching our own judgement, in accordance with our statutory duty, in the cases submitted to us."³³

In effect, therefore, as the Board of Trade later admitted, the ATLB had "thumbed their nose" at the Minister of Aviation.³⁴ In its second report the Board had said:

31. Ibid., 16/9/65, p.485; 'The Economist', 1/1/66, p.49.

32. ATLB Annual Report, 1966/67, p.10.

33. Ibid., 1964/65, p.4.

34. Select Committee on Nationalised Industries, op.cit., p. xlv.

"We must interpret the Act as it stands and not by reference to statements by Ministers regarding its intention and probable effect. We shall continue to rely upon our own interpretation of the Act unless we are overruled by a Court of Law." 35

It seems hardly credible that this was the intention of Parliament in 1960. Duncan Sandys had specifically stated that a 'case law' would gradually be built up, based on ATLB decisions and appeals to the Minister. The fault clearly lay in the lack of statutory directives in the Civil Aviation (Licensing) Act. Even given the Board's unilateral declaration of independence, however, it should still have been quite easy for the Government to impose its will. Yet the new policy, as enunciated in the House of Commons, was not pressed: "Cases dealt with after the Minister's statement, and in which he became involved by virtue of his appellate function, confirmed his willingness to consider individual cases on their merits and not in strict conformity with the 'guidelines'." 36 Thus, the accession to power of a Labour Government did not prove to be such a catastrophe for the private sector of the air transport industry as many had expected.

To some extent the Independents appeared to be doing quite well out of the new Administration. For example, a number of private operators invested a considerable amount of capital in introducing jet equipment. During 1965, Eagle ordered five and British Midland Airways (Derby Airways) two new 1-11 300s. The following year Lloyd International placed an order for a DC-8-63 (plus an option on the purchase of another), Channel ordered four 1-11 400s (plus two options) and Eagle two 707-320Cs. Finally, in 1967 Channel converted its options for the purchase of two 1-11 400s into firm orders and in addition announced its intention of buying five Trident 1Es. 37 Such a spending spree on new, expensive equipment was a major departure from the traditional role of charter companies as operators of

35. ATLB Annual Report, 1961/62, p.7.

36. Ibid, 1966/67, p.6.

37. 'Flight,' various dates.

obsolescent aircraft. It is partly explained by the very rapid expansion of the inclusive-tour market at this time (see Chapter X). But a few Independents followed the lead of EUA in using jets on their scheduled routes and, incidentally, forcing BEA to prematurely retire its turbo-prop aircraft.

Despite the impression that such expansion might give, however, the private operators were experiencing a number of serious problems. On the whole, traffic continued to grow at a fairly healthy rate. But profitability became more and more difficult to maintain as costs and capacity increased dramatically, while the ability to put up fares was restricted by the Government-imposed 'freeze' on wages and prices. Domestic scheduled services were particularly badly hit. The ATLB reported:

"We have sufficient evidence to leave us in no doubt that the general level of profitability in British civil air transport, and particularly in the operation of domestic scheduled services, is abnormally low, and certainly insufficient to finance, or support the financing of, successive generations of new equipment. By this we mean that airline companies are in many cases unable either to finance re-equipment from their own resources, or to show a return on current operations sufficient to inspire confidence in outside investors." 38

Such a view might appear to conflict with the large number of expensive new jet aircraft ordered by the Independents between 1965 and 1967. But ordering new equipment, usually under competitive pressure, is not the same as actually paying for it, as several airlines were to discover at their cost. Even the more fortunate found their debt ratios increased considerably, perhaps even excessively.

During 1966/67 UK airlines were expected to incur losses on domestic services in excess of £1.25 million, before meeting fixed interest charges of a further £1 million. Consequently, the ATLB was forced to grant fare increases intended to reduce the operating deficit

by approximately £1 million, although this still left a considerable annual loss.³⁹ The following August the Board was again considering applications to raise domestic fare levels when the Government imposed its statutory 'freeze', which ruled out nearly all price increases until the end of the year.⁴⁰ During 1967/68 internal air services were expected to lose £2.3 million, before interest payments, rising to over £3 million the next year. With the 'freeze' replaced by a period of 'severe restraint', therefore, fare increases were approved which over a full year's operation should have produced a surplus of some £1.75 million, before interest, providing a marginal profit for most of the airlines concerned. Unfortunately, although most domestic air routes are primarily business-orientated, their price (or substitution) elasticity proved to be such that the rise in revenue per passenger was accompanied by a marked fall in total traffic,⁴¹ so that the airlines' problems were far from solved. BEA, of course, accounted for a large proportion of domestic traffic and its losses are included in the figures already quoted. But the unprofitability of UK internal air services was undoubtedly an important, perhaps the major, cause of the downturn in the fortunes of the Independents, although as we shall see, a number of other factors also contributed,

To a greater or lesser extent all the privately-owned scheduled operators experienced financial difficulties at this time, but particularly badly hit was the largest Independent, BUA. During 1964/65 BUA's parent company, Air Holdings, recorded a trading profit of just £52,116 before tax recovery and other upward adjustments, and even this was

39. Ibid., p.25-6.

40. Ibid., 1966/67, p.7.

41. Ibid., 1967/68, p.13. For example, during 1968/69 in terms of the number of passengers carried, BEA's international scheduled traffic increased by 9%, while its domestic traffic showed no growth. BEA Annual Report, 1968/69, p.20. For a more detailed discussion of these fare increases see Gwilliam: "Domestic Air Transport Fares" Journal of Transport Economics and Policy, 1968, p. 203-4.

arrived at only after "taking to credit the sum of £141,967, being liquidated damages received in respect of a claim for late delivery under a contract for the purchase of aircraft." The company blamed its difficulties on the "continuing but reducing" loss on the operation of the South American services, the cost of crew training with the introduction of jet aircraft, the disorganisation resulting from the late delivery of the BAC 1-11 fleet, high interest charges and increases in labour and other costs. The airline's problems, however, were rather more deeply rooted and of a longer-term nature than these excuses might suggest and a firm of consultants was engaged to carry out a thorough study of its activities. In 1966 Air Holdings recorded a group profit of over £500,000, but the UK airlines within the company lost almost £330,000. The forecast loss for 1967 for BUA was £532,000, rising to an estimated £1.1 million in 1968 and £1.4 million the following year. By mid-1967 the carrier was describing its domestic trunk services as "heading for disaster." In an attempt to reduce costs, extensive economies were introduced; office staff, for example, were moved from central London to Gatwick.⁴²

The smaller UK regional carriers within the group were similarly losing money and an effort was made to rationalise their operations. BUA (Channel Islands), an amalgamation of Jersey Airlines and Silver City Airways Northern Division, lost £280,000 in 1967 and the deficit for the following year was expected to be at about the same level. In November, 1968, BUA (CI), BU (Manx)A and Morton Air Services were merged, despite strong staff opposition, to form British United Island Airways (BUIA). It was rumoured that the parent company had in fact attempted to sell-off one or more of these smaller subsidiaries; presumably, and not surprisingly, the move was unsuccessful.⁴³ Apart from its financial problems, the BUA

42. 'Flight', 3/11/66, p. 743, 4/1/68, p.6, et.al.; 'The Economist', 3/8/68, p.58.

group also experienced considerable unrest among its employees. A series of strikes during 1968 has been described as "probably the most acrimonious pilot-management conflicts that UK civil aviation has ever experienced."⁴⁴ The result of the troubled period through which the company was passing, as well as of the apparently unattractive future for private enterprise aviation in Britain, was extensive ownership changes. As early as October, 1965, for example, three of the shareholders in Air Holdings, owning 29% of the company, announced that they were pulling out of air transport altogether; their shares were absorbed by four of the remaining five investors. In 1968 two of those shareholders bought BUA and other related aviation undertakings from the Air Holdings group for approximately £16 million. Air Holdings retained Air Ferry, Aviation Traders, British Air Ferries and SAFE Air, while the new company, BUA (Holdings) Ltd., owned 92% by British and Commonwealth Shipping and 8% by Eagle Star Insurance, now controlled BUA, BUA (CI), BU (Manx)A, BUA (Services) and Morton Air Services, together with 51% of Bristow Helicopters, 70% of Sierra Leone Airways, 60-65% of Uganda Air Services and 60% of Gambia Airways.^{44a}

Appendix VII clearly shows that although the Independents' revenue continued to increase, their financial position as a whole deteriorated markedly. As a general rule, those most heavily engaged in the provision of scheduled services, especially on domestic routes, fared worse. To take a few examples, in addition to the BUA figures already quoted, despite the fact that Cambrian's traffic increased in 1965, profits, at £46,912, were some £75,000

44. Blain: 'Pilots and Management', 1972, p.285.

44a. 'Flight', op.cit.; 'The Economist', op.cit.

less than the previous year. Net trading profit recovered somewhat to £66,110 the following year, but even this represented only a 2% return on turnover. Cambrian's chairman, John Morgan, commented strongly in the company's 1966 Annual Report on the inadequate returns at current fare levels and said that "losses are inevitable if the airline is not allowed the rate for the job." He went on to point out that, with a few exceptions, there had not been an increase in domestic tariffs since April, 1963, during which time costs had risen by approximately 30%.⁴⁵ BKS again ran into financial trouble and BEA was forced to come to the Independent's aid, raising its shareholding from 30% to 50%. Lloyd International lost £44,548 in 1966, compared with profits of £665 in 1965 and £46,033 in 1964. Channel Airways was able to take only three out of six 1-11s and two out of the five Trident 1Es it had on order, which cost the airline £300,000 in lost deposits (BKS acquired two of the Tridents with the help of BEA finance). Finally, EMA had to turn to its main shareholder, Minster Assets, again for further capital when it came to paying for its 1-11s.⁴⁶

TABLE 5.2 : UK Airlines' International Scheduled Services (excluding vehicle-ferry operations) (expressed in millions of passenger-miles).

	Corporations	Independents	Total	Independents' Share(%)
1963	4,343	249	4,592	5.4
1964	5,212	262	5,474	4.8
1965	6,288	349	6,637	5.3
1966	6,694	419	7,113	5.9
1967	7,087	428	7,515	5.7

Source: from Board of Trade.

45. 'Flight', 19/5/66, p. 826, and 18/5/67, p.780.

46. Ibid., 24/11/66, p. 864, 28/9/67, p.534-5, and 16/1/69, p.81.

TABLE 5.3: UK Airlines' Domestic Scheduled Services
(excluding vehicle-ferry operations) (expressed
in passenger-miles) (millions)

	Corporations	Independents	total	Independents' share (%)
1963	613	200	813	24.6
1964	690	253	943	26.8
1965	756	289	1,045	27.6
1966	769	375	1,144	32.8
1967	789	411	1,205	34.1

Source: from Board of Trade

Thus, while the Independents were recording very rapid rates of growth in the field of inclusive-tours, as far as scheduled services were concerned they were experiencing considerable difficulties. Table 5.2 indicates that in terms of passenger-miles performed the private sector's share of international scheduled traffic remained relatively constant between 1963 and 1967, despite the transfer to BUA of the South American routes, which accounted for approximately 20% of this total.⁴⁷ On UK domestic routes (Table 5.3) the independent airlines were more successful, increasing their share of the market from 19% in 1960 to over 34% in 1967. But, of course, for most operators domestic services were far from profitable at this time because of the Government's 'freeze' on wages and prices. Altogether, the Independents' scheduled service traffic grew three-fold between 1960/61 and 1967/68, though this still represented only 10% of total UK scheduled traffic compared with 8% in 1960. Their share of total UK civil air transport output (scheduled and charter) increased from 25% in 1961/62 to 32% by 1967/68, but, as the

47. Bristow: 'The Independent Airlines', The Aeronautical Journal, 1970, p.632.

Edwards Committee was to note, "it is clear that this overall growth of traffic has not brought general financial stability to the private sector of the industry."⁴⁸

The Civil Aviation (Licensing) Act, designed as it was to inject a feeling of stability and confidence into the private sector of an industry that clearly lacked both of these characteristics, had obviously failed. The intervention of a Labour Government could have made, at most, only a marginal contribution to that failure. Rather the fault lay in the contradictions embodied in the whole approach to UK air transport licensing and typified by the 1960 Act, in particular the failure to fully understand the difficulties inherent in regulating a mixed-sector industry. The bankruptcy of the old policy and the need for something new were widely accepted, both within and outside civil aviation circles. The Select Committee on Nationalised Industries, for example, recommended that the ATLB should be deprived of its licensing and fare-fixing functions, and since this would leave it only with the role of a Consumers' Council, that the Board itself be abolished: "Your Committee believe that the ATLB have, on balance, not provided stability for British civil aviation."⁴⁹

In evidence to the same Committee BUA summed up the objections of the privately-owned airlines to the licensing procedure, and it is worth quoting this testimony in some detail. As far as scheduled services were concerned, argued BUA, the current system gave civil aviation the worst of both worlds. The Independents were sufficiently well organised to make an impact on the Corporations' business, but were too frustrated and inhibited by the licensing procedure and other matters to be able to operate properly. Each licence applica-

48. The Edwards Report, p.21 and 23.

49. Op.cit., p. xliv and xlviii.

tion was considered and judged by the ATLB on its own particular merits without any background of evolving policy, and there was hence no guidance as to whether any underlying policy had emerged, was emerging or was likely to emerge from the Board's decisions. Sir Myles Wyatt described the position of the Independents thus:

"What is certain is that unless there is a modification to the present policy there is no room in British aviation for a privately-operated airline...What is absolutely fundamental to the whole thinking of anyone connected with civil aviation today is the necessity of the British Government, which is the only body that can do it, to think out exactly what it is it wants and then make it possible for it to happen...(This uncertainty) has been a feature from the day the war ended, but it has become an increasingly serious factor year by year and now it has reached a proportion, due solely to the magnitude of the money we are talking about, where it is absolutely vital." 50

This was a considerable contrast to the way in which the Independents had initially welcomed the 1960 Act: "(We) look upon (1961/62) as a year of transition : transition particularly from a feeling of being not unreservedly welcome to a positive acceptance that private enterprise has and will continue to have a major responsibility in the general development of British air transport." 51

Yet again, therefore, the Government was called upon to step in and 'finally' settle the problem. On this occasion, the Government chose, in August, 1967, to appoint a Committee of Inquiry under the chairmanship of Professor Ronald Edwards to investigate the whole organisation of air transport in the UK and recommend reforms.

Praiseworthy as this action may have been, one cannot help thinking that it was in fact yet another example of the buck being passed; in other words, an excuse to put off the time when a decision would have to be made.^{51a} One immediate result of the establishment of the Edwards' Committee was that the larger private operators began

50. Ibid., Evidence, p.246 and 250.

51. BIATA Annual Report, 1961/62, p.7.

51a. As 'The Economist' once noted: "Appointing Committees is no substitute for policy." 29/10/60, p.483.

to manoeuvre in an attempt to stake their claims to a major role in a reorganised industry. This was the 'raison d'etre' for the applications to the ATLB by British Eagle, BUA, Caledonian and Transglobe in August, 1967, for licences to operate North Atlantic scheduled services. BUA and Transglobe withdrew from the contest following a directive from the President of the Board of Trade, but Eagle and Caledonian pressed ahead. The latter carrier wanted to operate services between London, Prestwick and New York and London, Prestwick and Toronto from May, 1969, and between UK and San Francisco/Los Angeles from May, 1970, while Eagle similarly applied for services from London to New York, Montreal, Toronto and San Francisco/Los Angeles.⁵² The Board announced its decisions the following May, refusing all the applications on the grounds that the route was not yet ready for the licensing of a second British operator and that neither applicant had established a sufficiently strong financial position from which it could embark on a major expansion of "this costly and exacting type."⁵³

The Collapse of British Eagle

The announcement on November 6th, 1968, that British Eagle was to cease operations as from midnight that day came as a severe shock to the industry, primarily because of its suddenness. The fact, however, that all was not well within the company had been more than evident for some time. It transpired that unsecured creditors were owed well over £6 million and, up to November, 1972, were unlikely to receive more than 15 pence in the pound.⁵⁴ It is important to examine the factors behind the bankruptcy of British Eagle in some detail, partly because of the relative size of Eagle within the private sector of the industry, but mainly because of the light that

52. 'Flight', 17/8/67, p. 246-7 and 28/12/67, p.1057.

53. Ibid. 20/6/68, p.915-7. In fact, the application of Caledonian Airways "only narrowly...failed to satisfy the Board." ATLB Annual Report, 1971/72, p 10.

54. British Eagle International Airlines Ltd., 'Letter dated 30/11/72 to unsecured creditors from F.S. McWhirter, British Eagle's liquidator.

the airline's collapse can shed on the general problems facing the independent carriers. Eagle was the second largest privately-owned airline in the UK, with a staff of 2,300, including 220 pilots, and a fleet of 25 aircraft: 4 Boeing 707s, 5 BAC 1-11 300s, 12 Britannias and 4 Viscounts, of which only two Britannias and two Viscounts were entirely free of charges. The reconstruction of the airline after the debacle of its association with Cunard (see Chapter VII) began in February, 1963, when Mr. Harold Bamberg bought back 60% of the company from the shipping line. Since then Eagle had expanded at a considerable, if somewhat erratic, rate, much faster than BUA. But most of this growth had been based on charter work, while BUA had been by far the more successful airline in the field of scheduled services.⁵⁵

With the benefit of hindsight, it is fairly easy to see that Eagle faced almost insuperable difficulties, and as time went on the problems it was encountering became more and more evident. In 1966 the airline, like BUA, had been forced to seek the help of consultants. In November of the same year three senior executives resigned. 'Flight' commented at the time: "The actual loss to the company of the experience and enthusiasm of these men is bad enough; what is worse are the signs of strain within the company that their resignations reveal."⁵⁶ The airline was re-structured following the purchase of the remaining 40% of the shares from Cunard towards the end of 1966. A holding company, Eagle International, was formed to control British Eagle International Airlines, British Eagle (Liverpool), Eagle Aviation (a charter subsidiary), the Knightsbridge Air Terminal, Eagle Aircraft Services and Sky Chef. During the summer of 1967 Eagle suffered a 20% fall in holiday traffic and was forced to declare redundant 31 pilots, 8

55. 'Flight', 28/11/68; 'The Economist', 12/8/67, p.593.

56. 17/11/66, p.826.

navigators and 9 flight engineers.⁵⁷ Just over a year later a further 418 employees were sacked and the Speke (Liverpool) maintenance base closed.⁵⁸ Thus, British Eagle's troubles appeared to be gathering momentum, although it must be remembered that most other private operators were also experiencing severe problems, not least BUA.

Table 5.4: Output of British Eagle International Airlines, 1963-1967 (in thousands of passenger-miles; passenger load-factors in brackets).

	Scheduled Services		Separate	Inclusive	Exempt Services
	International	Domestic	Fare Charters	- Tours	and Sub-Charters*
1963	32,448(60.3)	1,398(15.8)	2,111(79.9)	24,021 (82.1)	3,270
1964	36,622(40.4)	16,654(22.5)	77,421(61.5)	104,051 (81.4)	5,897
1965	41,449(44.9)	8,355(29.7)	178,171(89.9)	131,665 (82.7)	8,732
1966	51,732(48.0)	12,737(42.7)	264,435(68.5)	295,153 (82.3)	9,517
1967	59,453(44.9)	17,281(51.9)	228,630(62.9)	254,482 (77.4)	8,526

* measured in aircraft-miles (000's)

Source: Board of Trade.

The more immediate factors that led to British Eagle's bankruptcy are fairly easy to discover:

(i) Eagle was very heavily committed, perhaps even over-committed, to trooping work, which accounted for 52% of its total output in 1967 and 55% the previous year. The company's share of this market by 1967 at 33% (42% if the Corporations are excluded) was the largest of any British airline and almost double that of its nearest competitor, BUA. By the second quarter of 1968 its share had fallen to 21%, but this was still considerably greater than any other single operator.⁵⁹ By the mid-1960s trooping was no longer

a very profitable operation and was usually costed on a short-run marginal basis, as W.H. Hudson, Eagle's Commercial Director told the House of Commons' Estimates Committee: "When we consider these trooping tenders, they are always contested on what we would call a marginal basis; in other words, you add them on top of what you have got in other activities and they very rarely collect, because of the competitive nature of them, the full overhead allocation."⁶⁰ In the long run, such a large commitment to what was essentially an unprofitable type of business must have weakened Eagle's position to a considerable extent.

There was in fact one particular trooping contract, won by British Eagle from BUA in April, 1964, that came in for a great deal of criticism. This involved five flights per week, or 28,000 passengers a year, between the UK and Singapore and Hong Kong. It was suggested that in order to obtain this £3 million contract the airline had been forced to quote an excessively low rate, although such suggestions were strongly denied by Eagle itself.⁶¹ A letter published in 'Flight', for instance, claimed that bankruptcy was "inevitable from the day Eagle undercut BUA on the Far Eastern trooping contract. Those of us who knew the prices quoted knew it could not be done with a decent margin of profit."⁶² Such allegations contain an element of truth; the Far Eastern trooping contract was probably^{not} profitable by itself. But in October, 1964, the airline was also chartered to operate a series of UK-Australia migrant flights in association with Qantas.⁶³ Since the contract involved carrying

60. Estimates Committee: 'The Movement of Service Personnel and Stores', 1966/67, Evidence, Q.382.

61. 'Aeroplane', 9/6/64, p.11; 'Flight', 19/11/64, p.858.

62. 5/12/68, p.935, written by G.T. Abrahams.

63. 'Aeroplane', 22/10/64, p.15.

passengers in one direction only, although a return flight was paid for, Eagle was able to hire out the aircraft for the journey back to Britain. Fortunately the Far East garrison was being reduced, so that the flow of troops and their families was markedly greater from Singapore and Hong Kong to the UK than in the other direction. Eagle found it quite easy, therefore, to obtain a double payment for most of these flights. The Far Eastern trooping contract only really became unprofitable when the Australian agreement was cancelled. Nevertheless, the fact remains that overall trooping was not very remunerative (see Chapter VIII). That Eagle was left with such a large proportion of the total trooping market probably reflects its inability to gain other types of work or retain work it already had. In other words, too large a proportion of the airline's total output was accounted for by marginal work.

ii) Because of the decreasing size and poor profitability of government contracts, Eagle tried very hard to diversify its activities, especially into the expanding inclusive-tour (IT) market, but with only limited success. Large increases in inclusive-tour and separate fare charter traffic were indeed achieved in 1966 (see Table 5.4). The following year, however, the airline's share of the IT market fell from 19.75% to 16%, while its average load-factor on these services also declined (to 77.4% compared with an industry average of 82%). There is some evidence to suggest that Eagle only managed to maintain this share with the aid of extremely competitive pricing, which again must have eaten into its profits. Certainly, it suffered IT cancellations during the summer of 1968 valued at £1,075,000.⁶⁴ A major problem for operators such as

64. 'Flight', 14/11/68, p.767.

Eagle in this respect was the fact that vertical integration between airlines and tour organisers was increasingly pre-empting a large slice of the market, leaving relatively little work to be put out for tender (see Chapter X). Although Bamberg had long-term contracts and even owned tour companies, they were not sufficient and hence his attempts during 1968 to form closer links with the Transport Holding Company.⁶⁵

iii) Unlike BUA, Eagle never really succeeded in fully establishing itself as a scheduled service operator. Its expansion in the field of international services was relatively limited and achieved at the expense of a marked decline in load-factors. The problems it experienced on domestic routes have already been discussed. Eagle lost a considerable amount of money on the internal trunk routes, (although Bamberg claimed that the London-Glasgow service was just becoming profitable by the beginning of 1968)⁶⁶, while the London-Liverpool service was badly hit by increased rail competition. Undoubtedly, for most of the 1960s, the scheduled services were cross-subsidised by charter work. Bamberg also attempted to get round the restrictions of the British licensing system by establishing or helping to establish subsidiary airlines in the West Indies, Switzerland and Luxembourg but again with very limited success.

(iv) In late October, 1968, the ATLB announced that it intended to revoke Eagle's licence to operate IT charters between London and the Caribbean after an application by BOAC alleging irregularities in the conduct of the services. The Corporation also claimed that the operation was running at a loss.⁶⁷ This revocation was to be an important factor in the failure of the Independent to secure additional finance to keep going through the winter of 1968/69.

65. 'Flight', 14/11/68, p.767.

66. 'Flight', 15/2/68, p.216; whether this statement was strictly correct or not would largely depend on the allocation of overheads.

67. Ibid., 7/11/68, p.733.

(v) Finally, although more difficult to prove, there were quite evidently serious short-comings in the management of British Eagle. For example, 'Flight' published the following letter from Alan T. Ashwin, senior personnel officer at Eagle, one of several letters the magazine received making the same point:

"...I believe that British Eagle's collapse was due to poor management at senior and executive level...Harold Bamberg and the staff were sold up the river by a severe lack of communications within the company. I believe the chairman was insulated from the true picture by senior executive and senior management bumbling." 68

Similarly, offers of financial support from two merchant banks, Hambros and Kleinwort Benson, were tied to demands for managerial changes. In particular, the banks criticised Eagle for being production- rather than market-orientated, something which the airline's management apparently found difficult to accept.⁶⁹

These five factors that helped to push British Eagle into liquidation, however, were really only the superficial causes of the collapse. It may be a truism, but the basic reason for the bankruptcy was that the airline ran out of money. In other words, it did not have access to sufficient financial support to continue to operate and ride out the storm. Ever since its separation from Cunard, Eagle had been something of an anachronism among the larger Independents in its lack of capital backing from a stronger parent company; Mr. Harold Bamberg and his wife held 910,000 of the one million issued shares in the airline. To expand, therefore, it had to rely upon borrowed finance and re-invested profits, both of which have been notoriously difficult for a British private operator to obtain since the war. The problem worsened, of course, during the 1960s as the airlines were forced to purchase expensive jet equipment; even the second-hand Boeing 707s Eagle obtained from Qantas cost some £1.5 million each.

68. Ibid., 5/12/68, p. 935.

69. Ibid., 28/11/68, p.887.

Eagle's profit record was probably better than that of many other private carriers, but it was not that good. After losing £80,000 in 1963, the company was consistently profitable up to 1967, recording net profits of £350,000 in 1965 and £585,000 in 1966. These figures however, cannot be taken completely at their face value. As the ATLB pointed out the 1966 profit was largely the result of receipts and adjustments of a capital nature, while three-quarters of the estimated 1967 surplus of £350,000 would emanate from a capital gain on the sale of an aircraft. Operating losses in excess of £500,000 were forecast for 1968 and 1969.⁷⁰ In addition, the ATLB had been warning Eagle for some time that it was considerably under-capitalised; between January, 1966, and October, 1967, for example, long-term indebtedness increased from about £2.7 million to over £5.5 million, and there was a bank overdraft by the latter date of more than £400,000.⁷¹ During the ATLB hearings of the applications for licences to operate North Atlantic scheduled services an interesting light was shed on the relative financial strengths of Eagle and a rapidly growing private operator, Caledonian. The latter stated that its ten shareholders, who included companies such as Great Universal Stores, had firmly committed themselves to provide an additional £3 million worth of capital for the airline if the licences were granted. Eagle, on the other hand, could only tell the Board that plans were being drawn up to raise £1 million through the issue of unsecured stock.⁷² Given the company's financial condition it is difficult to imagine investors falling over themselves in the rush to provide Eagle with additional capital.

70. Ibid., 20/6/68, p. 915-7, et.al.

71. Ibid., 22/5/69, p. 820; ATLB Annual Report, 1968/69, p.16.

72. 'Flight', 8/2/68, p.180 and 15/2/68, p.212.

It was British Eagle's attempts to raise further financial support from two merchant banks to tide it over the bleak autumn and winter seasons that eventually forced it into liquidation. Negotiations with Hambros and Kleinwort Benson had started in March and by October 30th a deal had more or less been agreed upon, whereby the company would receive an injection of £1,750,000 (of which Bamberg would provide £250,000), plus a further sum in 1970. It was then that the banks heard about the revocation of the Caribbean IT licence and decided to withdraw. The licence in fact represented only 1,000 hours out of the total 37,000 hour 1969 programme. But it proved to be the straw that broke the camel's back. Hambros and Kleinwort Benson had totally lost confidence in the ability of the management to carry out effective reforms and of the airline to climb back into solvency.⁷³ There was no alternative but to go into voluntary liquidation. Thus, it might be said that the collapse of British Eagle in November, 1968, was far from unexpected. The Independent's position as one of the leaders of the private sector of the UK air transport industry had really been untenable ever since 1963. In its attempts to maintain that position it had become involved in too many marginal enterprises, and eventually forced into the type of desperate action typified by its flouting of the Caribbean licence rules.

As one might expect, the effect on the industry of the collapse of the private sector's second largest company was considerable. The uncertainty and loss of confidence that resulted brought the viability of a number of other carriers into question, including EUA. The situation was made worse for the Independents by the fact that many

73. Ibid., 28/11/68, p.887.

of them were finding it even more difficult than usual to raise additional finance since most banks and potential investors were awaiting the recommendations of the Edwards Committee on the future shape of the industry. It is indicative, for example, of the prevailing atmosphere of uncertainty that as a result of rumours of British Midland's need for further working capital, Manchester Airport foreclosed on a BMA Viscount which had been diverted there in bad weather. The aircraft was impounded for seven hours while the airport authorities demanded payment of £16,000 outstanding, much of which had been incurred by other airlines handled by BMA. When this was paid the airport demanded a further £5,000 for charges not yet invoiced. In the event, BMA received a capital injection of £150,000 from Minster Assets.⁷⁴

It is not surprising, therefore, that the imminent closure of several other operators was rumoured, especially as many airlines depend to a large extent on credit from their suppliers to tide them over rough patches. But in fact only one other major Independent was forced into liquidation, Transglobe. Formed in 1959 as Air Links, Transglobe was a relatively prosperous company, primarily owned by the Ocean Steam Ship Company (27%) and the Bolton Steam Shipping Company (34%), although a loss of £500,000 had been forecast for 1968/69.⁷⁵ In 1966 an American CAB Examiner had commented that "Transglobe appears to be in a sound financial condition and is conducting its present operations on a profitable basis,"⁷⁶ while the ATLB later noted that the airline had "survived shaky beginnings to achieve what appeared to be a relatively strong financial position for the scope of its operations, and we were surprised by the sudden decision of the shareholders to

74. Ibid., 5/12/68, p.923.

75. Ibid.

76. Ibid., 31/3/66, p.504.

put the company into liquidation."⁷⁷ The company itself attributed its losses to the use of propeller aircraft in competition with jets, especially on the North Atlantic, and said that it had been unable to raise the £1.5 - 2 million needed to keep going.⁷⁸ It seems more than likely, therefore, that the main reason for the collapse of the airline was a loss of confidence on the part of the two principal shareholders in the future of private enterprise British aviation in general and of operators such as Transglobe in particular. It was in this atmosphere that the Edwards Committee reported on UK air transport.

77. ATLB Annual Report, 1968/69, p. 16.

78. 'Flight', 5/12/68, p. 923.

Chapter VI

THE EDWARDS REPORT

The Report of the Edwards Committee of Inquiry into Civil Air Transport¹ has received extensive publicity and criticism since its publication in May, 1969.² The principal recommendations of the Committee are set out in Appendix V, while further reference to the Report, especially to its extensive research, will be made in subsequent chapters. Here we need only concern ourselves with those sections directly relevant to the activities of the independent airlines.

While noting that in many respects the performance of the Independents had been admirable, especially their role as commercial innovators and as a 'ginger group' to spur the Corporations, the Committee pointed out that their rapid growth had not brought general financial stability to the private sector. In particular, attention was drawn to the way in which the activities of the private airlines had been circumscribed by government policy. One of the main aims of the Report, therefore, was to eradicate this instability (p.21-3). The serious under-capitalisation of the private sector of the airline industry was also noted (p.34).

With regard to the economies of scale and specialisation the Committee concluded that there is no case for making airlines artificially larger than they need to be to secure the major advantages of size. Nevertheless, large scale is advantageous because of the

1. 'British Air Transport in the Seventies', Cmnd. 4018.

2. See, for example, Sir W. Hildred: 'British Air Transport in the Seventies', Political Quarterly, 1969; The Aeronautical Journal: 'A Symposium: Is There a Future for British Air Transport? A Discussion on the Edwards Report', March, 1970; and Thompson and Hunter: 'The Nationalised Transport Industries,' 1973.

economies that can result from a standardised aircraft fleet and the output of a standard type of service and when marketing strength demands a widespread geographical coverage of routes and sales outlets. Large airlines are also usually better placed to ride out periods of adverse economic results and to sustain the costs associated with technological innovation. But in all sectors of the air transport industry the quality of management is probably much more significant in determining performance than any of the factors related purely to airline size (p.78).

Next the Committee turned its attention to the problem of competition between carriers on particular routes. There can be no hard and fast definition, the Report says, of the point at which a route becomes capable of carrying competitive services. The licensing authority must be free to consider each case on its merits, and properly equipped to take all the relevant factors into account. Of the domestic air routes only those from London to Belfast, Glasgow and Edinburgh are capable of sustaining competitive services, and even in these cases not more than two airlines should be licensed for each route. Scheduled services to the Channel Islands and Isle of Man can and should be rationalised. On the routes where competition is authorised, growth of traffic should, in the initial stages, be shared between the two airlines through frequency regulation imposed by the regulatory authority on both carriers. On international routes, despite the obvious practical difficulties involved, the Committee concluded that double designation is desirable on the London-Paris and London-New York services, given a competitor who is equipped to hold his own in the 'big league' (p.98).

On the basis of these conclusions, the Report proposed that

by 1975 the shape of the UK air transport industry should be as follows:

- (i) A long-haul scheduled airline essentially based on BOAC's present world-wide network of operations and serving all present BOAC points except those conceded to the second force.
- (ii) A European and domestic trunk route scheduled airline essentially based on BEA's present network of services with the exception that non-trunk domestic services will be transferred to the British Air Services (BAS) group, and perhaps subject to some rationalisation in the negotiations over the second force.

These two carriers would be linked to ensure the most effective use of their resources and franchises.

- (iii) A second force scheduled airline which should be licensed to operate a viable structure of both long-haul and short-haul routes providing an additional source of management experience, expertise and initiative and serving as the second UK operator in those cases where double designation is in the British interest.

All three of these airlines would also provide capacity for inclusive-tours and other passenger charters and freight operations.

- (iv) A group of provincially-based airlines operating jointly with the common services of a parent company developed along the lines of British Air Services. This group of airlines would operate secondary domestic services in the UK, might also operate scheduled services to some European destinations and would compete for traffic in the European inclusive-tour market.

- (v) A small number of airlines specialising in the operation of inclusive-tour and other charters and, almost certainly, developing close relations with the major tour-promoting companies. One or two of these carriers might concentrate on freight charters (p.114).

Both BOAC and BEA should continue to be publicly owned. There may, however, be scope through BAS for airlines to which both the public and private sectors can contribute. The second force airline should be primarily privately controlled (p.125).

The Committee clearly recognised the need for rationalisation within the private sector. It therefore proposed that the second force airline should be formed by an amalgamation of the two largest Independents, BUA and Caledonian, with by 1975 a fleet of 45-50 aircraft and a scheduled route network of at least 4,000 million seat-miles to achieve the minimum scale necessary for economically viable operations. Some Corporation routes would have to be transferred to make this possible, in return for which there should be a public stake in the second force, the actual size of which would be related to the size of the concession. The Report maintained that there is an important role for several private companies in the operation of inclusive-tour and charter services and no reason why operations of this kind should not be profitable by themselves without the backing of scheduled services. Certain other fairly small-scale air transport activities, such as freight charter operations and third-level and air-taxi services, should be left for private companies to develop (p.107,142 and 150).

Finally, the Committee turned its attention to the problem of licensing. It was quite critical of a number of aspects of the role

and actions of the ATLB, particularly with regard to the duration of issued licences and the appeals procedure, although the fact that the Board had been operating within severe constraints was recognised. The Report, therefore, recommended that the future licensing system should allow appeals to a judicial body rather than to the Minister, but only on the grounds either that the licensing authority had acted 'ultra vires' or that its decision was perverse - that is, could not reasonably be brought within the Government's declared aviation policy as set out by the Minister in a statutory instrument. Provision might also be made for the suspension of action on licensing decisions for a limited period in certain circumstances pending a review of policy. The future licensing system should take a more positive responsibility for the economic regulation of the industry; should make more searching examinations of the airlines' financial prospects and results; and should work closely with those responsible for their technical regulation to ensure that safety standards are not impaired by financial or managerial weakness (p.161).

. In order to achieve these objectives, the Report continued, a Civil Aviation Authority should be established responsible for almost all the technical and economic regulatory functions performed by the Board of Trade, the ATLB and the ARB, for the civil side of the joint National Air Traffic Control Services, for operational research, for long-term airport planning and for the main work of traffic rights negotiations. The Authority should work to broad policy-lines determined by the Minister, who would also retain specific functions related to accident investigation. From time to time the Government should work out and state clearly and publicly its policy for civil

aviation. To allow flexibility, the duties of the CAA should be laid down in general terms in statute and the Government's policy directives should be in the form of statutory instruments (p. 256).

"To sum up we recommend a better integrated but flexibly-organised public sector, a second force mainly privately-owned, a mixed ownership group of small regional airlines, a private sector of inclusive tour and charter (including freight) operators; an industrial and financial structure conducive to competitive efficiency, safe operations and good human relations; and a semi-autonomous Authority devoted to holding and strengthening Britain's place in world aviation. These recommendations should, to quote our terms of reference, enable the industry to make its full contribution to the development of the economy and to the service and safety of the travelling public " (p. 267).

Reactions to the Report.

With the publication of the Edwards Report a great deal of relief must have been felt within the private sector of the industry. Not only had the economic situation been poor, but the bankruptcies of British Eagle and Transglobe had resulted in what the ATLB described as a crisis of confidence in independent air transport in which the future of several other airlines was uncertain.³ Furthermore, the doubts surrounding the Committee's possible recommendations resulted in a marked unwillingness on the part of many investors to provide additional capital for the Independents until their future was finally settled. Despite the relief, however, a number of airlines, in addition to BOAC and BEA, were far from overjoyed at the proposed special position that the second force carrier would occupy. But it was the reactions of the two largest private operators, BUA and

3. ATLB Report, 1968/9, p. 16.

Caledonian, together of course with that of the Government, that were the crucial factors.

Although in terms of passenger-miles flown per year BUA and Caledonian were roughly equal in size, they were very different in outlook. BUA was orientated primarily towards scheduled services, despite a solid charter base, and towards European and African markets. Caledonian, on the other hand, operated only charters and was mainly interested in the North Atlantic. In terms of staff and facilities BUA was much the larger of the two because of its wide-spread, labour-intensive scheduled service network and because of Caledonian's policy of buying various peripheral services from other companies (much of its aircraft maintenance, for example, was carried out by Sabena). Thus, the task of merging two such divergent airlines would have been difficult enough. The attitude of the two operators concerned hardly helped.

BUA adopted the more positive stance, although overall it probably over-reacted. It presented a six-year plan for route expansion, arguing that there was no need to join forces with Caledonian as the company had sufficient capability to become the second force airline alone. The plan involved the operation of unlimited frequency London-New York services from 1974 and the progressive transfer to BUA, between 1971-75, of BOAC's African trunk services. This would give the Independent, it was submitted, a rational route network and by the end of 1975 the minimum output on long-haul services of 4,000 million scheduled seat-miles per annum which Edwards had decided was essential for the creation of a viable major international airline. Financial requirements were assessed to be about £60 million for new aircraft and £25 million for ground facilities and working capital.

Of the 4,000 million seat-mile target, by 1975 BUA expected that its current long-haul scheduled services would be generating some 900 million: "Britain has no other independent long-haul carrier. To reach 4,000 million scheduled seat-miles implies the acquisition of another 3,100 million... of which something like 2,300 million... will have to come from BOAC."⁴

Caledonian's approach to the recommendations contained in the Edwards Report was radically different and made the likelihood of an amalgamation even more remote. It was framed rather more subtly than that of BUA and fell entirely within the Government's subsequent White Paper. "We have never asked," Caledonian maintained, "for the transfer of a single route from a State airline, nor for any preferential treatment - merely for a reasonable measure of equality of opportunity in future growth."⁵ The company's main reaction to the Report was published in the form of an article in its house magazine by chairman and managing director, Mr. Adam Thomson. He wrote in terms of "supplementing" BOAC on the North Atlantic and made only passing reference to the formation of a second force carrier. He described the Report as "unfortunately too full of emotive words like 'territorial concessions' " and argued that such an attitude leads to increased pressure from the Corporations and "the more hysterical pro-nationalisation unions," which in turn would, if accompanied by political timidity, lead to more airline failures. Caledonian also believed that the proposed route awards would not be sufficient to permit the second force airline to grow to the envisaged minimum size by 1975. Equally, the benefits of scale were not as great as Edwards thought and a smaller operator would be an equally viable proposition.⁶

4. 'Flight', 25/9/69, p.478 and 480.

5. Ibid., 26/3/70, p.453.

6. Ibid., 23/10/69, p.629-30.

Thus, the reaction of both the main private operators was far from encouraging for the implementation of the Committee's proposals, although tentative discussions between them continued. What of the attitude of the Labour Government? Its White Paper, 'Civil Aviation Policy', was published in November, 1969. The Government accepted many of the Report's recommendations, but with important reservations. The White Paper stated that the Government supported the concept of a second force carrier and that "there is a continuing and promising role for independent airlines having the necessary financial strength and managerial competence."⁷ There would not, however, be any transfer of routes from the Corporations. The second force would have to exist on the basis of charter work and dual designation, in particular on the North Atlantic. This was really not much of a concession, since without the incentive of extensive route transfers it is very unlikely that sufficient capital could have been attracted to enable the establishment of a second force airline on anything like the scale envisaged by Edwards; and only a very large carrier would have been able to compete effectively in the North Atlantic market.

The White Paper also acknowledged the need to establish a Civil Aviation Authority to

"regulate the whole economic, operational and technical environment of the industry within the terms of a published statement of objectives and policies. The Authority will implement the more positive economic policies that are now to be followed and will be responsible also for all aspects of air safety...There will be a limited right of appeal to the Board of Trade, on grounds that a decision cannot reasonably be brought within the terms of the policy then in force." 8

7. Cmnd. 4213, p.37.

8. Ibid.

There was to be little change, therefore, in the much criticized area of the appeals procedure. "The Government has equivocated," commented a 'Flight' editorial, "conceiving an authority that will have all the panoply and ceremonial of power but not much of its reality. There will continue to be, in effect, two licensing bodies".⁹

In fact, the whole approach of the Government to the Edwards Report might be regarded as equivocal, or schizophrenic as Mr. Leslie Huckfield M.P. described it.¹⁰ While realising that a solution had to be found and on the whole accepting the Report, there was clearly an unwillingness to carry out some of the more controversial aspects of the Committee's proposals. Further, as the General Election approached and pressure from the back benches built up, the Government appeared less and less inclined to make any concessions to the private sector. Thus, one is left with the impression that had Labour been returned to power in 1970 the 'status quo' in the air transport industry would not have been radically altered, nor the economic stability of the Independents markedly improved. This conclusion is reinforced by a report a few months later in 'The Sunday Times' of a statement by an un-named ex-Minister in the Labour Government to the effect that "there was never any intention of helping to create a second force. We only put the idea in to knock it down."¹¹

The Sale of BUA

Before the General Election could take place, however, the situation changed dramatically with a press leak that the majority shareholder in BUA, British and Commonwealth Shipping, was to

9. 20/11/69, p.756.

10. 'The Times', 11/3/70, p.29.

11. 9/8/70.

sell the airline to BOAC for approximately £9 million plus liabilities, and that the Government had approved the deal. As we have seen, like many airlines in the private sector BUA had for some time been experiencing financial difficulties and at one point appeared to be heading in the same direction as British Eagle. 'The Economist' noted that for many years "the only option for privately-owned airlines in this country has been whether to go with a bang or a whimper."¹² Obviously BUA decided to bow out with just a whimper. British and Commonwealth had clearly lost confidence in the future of private enterprise air transport in the UK. After the publication of the Government's White Paper it was evident that the likelihood of BUA being awarded the necessary territorial concessions to establish itself as a viable international carrier was extremely remote. Further, on the basis of their past record there was little reason to expect the Tories to be any more generous towards the Independents than Labour had been. Thus, British and Commonwealth was unwilling to continue any longer tying up capital in a venture that at best would show only a very modest rate of return in the foreseeable future. The company had after all waited a number of years for the promised break-through that would finally establish the private airlines on a viable basis, a break-through that always appeared to be just around the corner.

A take-over by BOAC, on the other hand, would conveniently get the Government off the hook with regards to the implementation of some of the more contentious recommendations by the Edwards Committee, just as the previous administration had welcomed BOAC's deal with Cunard in the early 1960s (see Chapter VII). The nationalised Corporations would have eliminated a troublesome competitor (especially if BEA had absorbed the Independent's domestic and European services)

12. 14/3/70, p.72.

and extended their own route networks. BUA's considerable charter traffic and large base at Gatwick might have been even more useful; BEA had recently established its own charter subsidiary, Airtours, while BOAC would soon have to follow suit in order to meet the greatly increased competition from non-scheduled operators on the North Atlantic.¹ One of the many ironies that were to emerge from this proposed merger, of course, was the fact that the Government had already rejected Edwards' suggestion that the Corporations should have a financial stake in a second force carrier.

The immediate reaction of the other privately-owned airlines was dramatic and bitter. There was wide-spread condemnation of 'back-door nationalisation' and various groups were organised to make counter-bids. "The death knell of British independent aircraft operators," said Mr. Freddie Laker, "is now being rung, unless this BOAC/BUA take-over is stopped in its tracks."¹⁴ Caledonian announced that it was applying immediately for licences to operate BUA's entire scheduled route network. Criticism from the Conservative Party was just as vocal. For the Government Mr. Roy Mason, President of the Board of Trade, firmly rejected such opposition and at the same time indicated why the formation of a second force carrier was unlikely under Labour:

"How can there be a take-over bid when BUA has come to the State-owned airline and asked to be bought out?... The critics say that the Government should have given more routes to BUA; that 'then' they would raise the cash and buy the planes. But that could only be done by cutting into BOAC and BEA, both of which are running profitably and competing very efficiently against rivals abroad." 15

It may well have been that the force of criticism of the proposed merger took the Government by surprise. In any event, within a matter of days of the initial announcement the Board of Trade performed an

13. For an expansion of the argument in favour of a BOAC/BUA merger see article by L. Huckfield M.P. in 'The Times', op.cit.

14. 'Flight', 12/3/70, p.369.

15. Ibid.

abrupt about-turn. Mr. Mason, despite back-bench opposition, told the House of Commons on March 18 that he had been misled by British and Commonwealth Shipping as to the prospects of forming a second force airline. He had not been aware that negotiations between BUA and Caledonian were still in progress. Consequently, approval for a BOAC/BUA merger would be withheld until matters had been clarified.¹⁶ Thus, the 'status quo' was restored and various interested groups, in particular Caledonian, again given the opportunity to bid for BUA, although this time in competition with BOAC. Before anything could be finalised, however, the General Election intervened.

The New Conservative Government and the Formation of BCAL:

It is important to remember that the Conservative Government elected in June, 1970, was markedly different from any other Tory administration since the war. It was different primarily because of the degree of its commitment, at least initially, to a competitive, private enterprise economic system. The stated policy of the Government included the hiving-off of peripheral nationalised concerns, a limitation of the trade union powers and the reversal of many of Labour's social policies. Such a commitment contrasted significantly with the so-called 'Butskellism' of previous Tory administrations. Under these circumstances, therefore, it is not surprising that the new Government should favour a strong private sector civil air transport industry and be prepared, unlike its predecessors, to restrict the growth of the public sector in order to achieve this aim.¹⁷ The 'shadow' Minister of

16. Hansard, House of Commons Debates, vol. 798, cols. 439-40.

17. John Seeking's pamphlet: 'Guidelines for the Airlines', published by the Conservative Political Centre in October, 1970, proposed a private shareholding in BOAC and BEA.

Transport, Mr. Enoch Powell, had even gone on record some time earlier supporting the complete nationalisation of BEA.¹⁸ Thus, the stage was most definitely set for the implementation of the Edwards Committee's proposals.

This new political environment is reflected in the announcement just four months after the General Election that from November 30 Caledonian was to acquire the entire share capital of BUA, so finally establishing the second force carrier. Caledonian paid £6,900,000 for BUA and its subsidiaries, with the exception of British Island Airways (BIA), and also agreed to buy from British and Commonwealth Shipping three BAC 1-11s with spares, costing over £5 million, which had been obtained in March, 1970, for use by the scheduled Independent. British and Commonwealth was to continue various other aircraft loan and leasing arrangements that it had previously arranged with BUA. The new merged carrier had capital and reserves totalling some £12 million, and with its staff of 4,400 and fleet of 31 aircraft (seven Boeing 707-320Cs, four V.C.-10s and twenty 1-11s) was comparable in size with Sabena, Swissair or Qantas. Total output during 1970 amounted to almost 500 million capacity ton-miles (see Table 6.1). Approximately 40% of total revenue was derived from scheduled passenger and freight services. British Caledonian (BCAL), as the new operator was to be called, also stated that it was planned to 'go public' in due course.¹⁹ Thus, to say that the second force airline was the largest Independent is a considerable under-statement; it overwhelmed every other UK carrier except the Corporations.

The take-over was clearly the result of a 'volte-face' on the part of both companies. Neither had initially been particularly interested in a merger

18. Hansard, op.cit., 1/3/65, vol.707, cols.1057-8.

19. 'Flight', 29/10/70, p. 660.

because of the apparently irreconcilable differences between them. Even with the resumed talks, following the attempted purchase of BUA by BOAC, there seemed little chance that a second force airline would in fact emerge. The crucial factor was the availability of substantial financial backing, which in the event BCAL appeared to have little difficulty in obtaining. The Independents have hardly been renowned for excessive profitability since the war. Yet the 18 new investors in the second force were almost all insurance companies or investment trusts,²⁰ who must surely have been aware of such a record. The explanation, of course, lies in the large carrot dangled by the Government, in the form of ample, and profitable, territorial concessions. Although a detailed policy had not yet been officially announced, there was little remaining doubt as to its general content and leanings.

The Conservatives' air transport policy was in fact outlined in a speech by the Minister for Trade, Mr. Michael Noble, to the House of Commons in November, 1970. The relatively brief statement included the acceptance by the Government of Edwards' proposals for the establishment of an Airways Board to control BOAC, BEA and BAS and a Civil Aviation Authority which "will bring together within a single independent authority, the responsibility for both the economic and the entire safety regulation of the industry."²¹ In a more controversial vein the Government also announced its intention to transfer routes producing £6 million in annual revenue from the Corporations to BCAL. It was this proposal that attracted most of the criticism from the Opposition. Mr. Roy Mason warned that the

20. *ibid.*; 1.9% of BCAL's capital was foreign owned, chiefly by ex-patriot Scotsmen living in North America. Hansard, *op.cit.*, vol. 805, 27/10/70, col. 89 (written answers).

21. Hansard. Vol. 807, cols. 236-7.

Labour Party "will not be bound by this shameful act and will, on return to office, return these routes to BOAC and BEA, without compensation."²² Mr. Mason denied that Labour had ever had any intention of launching a second force independent airline "on the basis of stealing profitable routes from the Corporations."²³ The Bill²⁴ under debate "is primarily concerned with annunciating Tory philosophy for the 1970's, hiving off State assets to feed private speculators."²⁵ British Caledonian's position was further strengthened in December with the announcement of the ATLB's decision to permit unlimited frequencies on its UK trunk services, despite the fact that BEA's domestic services were losing over £2 million per annum.²⁶

The New Policy

More details of the Government's policy were given in March, 1971, with the publication of the Civil Aviation Bill, which provided for the establishment of the British Airways Board (BAB) and the Civil Aviation Authority. One of the immediate tasks envisaged for the BAB was a review of the Corporations' affairs and organisation, and the Bill implicitly admitted the possibility of a BOAC/BEA merger. The CAA was charged with the task of regulating the air transport industry as a whole. But, against the advice of the Edwards Committee, Government departments were to retain responsibility for all international civil aviation relations, the investigation of accidents and all matters concerning aircraft noise. The Bill also provided for control to be exercised over the CAA by the Secretary of State for Trade and Industry, who "may from time to time... give guidance to the Authority in writing with respect to the performance of the functions conferred on it" (p.3). But a draft of any such written

22. *ibid.*, col. 257.

23. *ibid.*, col. 249.

24. Civil Aviation (Declaratory Provisions) Act 1971; effectively gave the Government rights to transfer routes from one airline to another.

25. Hansard, *op.cit.*, col. 245.

26. 'Flight', 17/12/70, p. 930.

guidance had first to be approved by Parliament. Again at variance with the Edwards' proposals, the right of appeal to the Minister against a decision by the CAA was retained. The Civil Aviation Act eventually became law on August 5th, 1971, and the CAA came into existence on April 1st the following year.²⁷

The broad objectives of Government policy for the British civil aviation industry were set out in Section 3(1) of the Act. These were:

- (i) to secure that British airlines provide air transport services which satisfy all substantial categories of public demand (so far as British airlines may reasonably be expected to provide such services) at the lowest charges consistent with a high standard of safety in operating the services and an economic return to efficient operators on the sums invested in providing the services and with securing the sound development of the civil air transport industry of the United Kingdom;
- (ii) to secure that at least one major British airline which is not controlled by the British Airways Board has opportunities to participate in providing, on charter or other terms, the air transport services mentioned in the preceding paragraph;
- (iii) subject to the preceding paragraphs, to encourage the civil air transport industry of the United Kingdom to increase the contribution which it makes towards a favourable balance of payments for the (UK) and towards the prosperity of the economy of the (UK); and
- (iv) subject to the preceding paragraphs, to further the reasonable interests of users of air transport services.²⁸

27. The Civil Aviation Act 1971, c.75; 'Flight', 23/3/71, p. 407-9.

28. The Civil Aviation Act 1971, p.2-3.

The more detailed instructions to the Civil Aviation Authority concerning its role and duties were contained in the Civil Aviation Policy Guidance,²⁹ published in February, 1972. In the area of licensing, the CAA was charged with maximising "the opportunities for the industry profitably to increase its share of the world civil air transport market (para.10)... The Authority should not reserve any particular type of operation exclusively to public or private enterprises by reason of their being publicly or privately owned or impose any particular balance as between public or private enterprises (para.12)...The British Airways Board Airlines should remain the principal providers of scheduled services. British Caledonian Airways...should continue to be the principal independent airline. The Authority should seek to ensure that these airlines have adequate opportunities to compete effectively in the world civil air transport market. For this reason it will need in general to limit, at least for some years to come, the grant to other British independent airlines of licences to serve additional international scheduled routes (para.15)...The Authority should encourage mergers that will, in its judgment, strengthen the industry in pursuit of the objectives without unduly impairing competition (para.18)"

On the thorny problem of licensing more than one British airline on a particular route, the Policy Guidance laid down four criteria to be satisfied:

(i) the traffic is likely to be sufficient to support competing services profitably within a reasonable time;

(ii) the choice and standard of services available to the public are likely to be improved and, in the case of an international route, either

- (iii) the aggregate share of total traffic that is secured by the British airlines is likely to be increased to an extent that will more than offset any lasting diseconomies, or
- (iv) where the British share of capacity is pre-determined, the licensing of a second airline within that share is likely to increase the total traffic secured by British airlines more rapidly than would otherwise be likely (para. 16)

In addition, shortly afterwards the Government had a change of mind and handed over to the CAA, rather than the Department of Trade and Industry, responsibility for the approval of IATA fare resolutions.³⁰

Route Transfers

While the new legislation was being drawn up and introduced British Caledonian had rapidly established itself as the second force airline. With the support of the Government it had greatly expanded its scheduled service network by means of dual designation on the North Atlantic and the transfer of certain routes from the Corporations. BOAC was forced to hand-over its services from London to Lagos, Kano and Accra in West Africa, valued in terms of revenue at approximately £4 million per annum. ECAL began operating these routes from April 1, 1971. The following June BOAC's service to Tripoli was added to the list. From BEA the Independent obtained a portion of the considerable London-Paris traffic. British United had held a licence for a scheduled service between Gatwick and Le Bourget (Paris) for some years, but had been unable to implement its plans because of the unwillingness of the French authorities to allow an expansion of the British share of the total market. This problem was overcome by giving ECAL a proportion of BEA's permitted capacity, leaving Air France's 50% share untouched. Thus, the second force was granted up to 28 flights per week from November 1, 1971,

30. 'Flight', 6/4/72, p. 464.

giving it some 12-13% of total traffic on the route. It stated that it did not want to join the BEA/Air France pool. Total revenue from the second force's new services, it was stated, amounted to some £6 million per annum.³¹

Caledonian, along with British Eagle, had applied unsuccessfully to the ATLB early in 1968 for licences to operate scheduled services to North America. However, on the basis of its merger with BUA, the recommendations of the Edwards Committee and the fact that BOAC's share of UK-USA air transport market had continued to fall from 34.1% to 24.4% between 1966 and 1970, the Independent re-applied in October, 1971. It asked for services with unlimited frequency from London to New York and Los Angeles, with Birmingham, Manchester, Prestwick and Chicago named as additional optional points. The ATLB granted BCAL's applications in full, awarding a 15-year licence from April 1st, 1973, considerably longer than the norm. In its decision the Board reported:

"Financial information...from shareholders convinced us that British Caledonian would have little difficulty in raising the money needed to cover any shortfall on these operations... Taking this vital factor into account, along with the drive and skill of British Caledonian's management which has impressed us most favourably, we are in no doubt that our proper course is to grant the applications now before us." 32

The award of the routes to North America was probably the most important single economic factor in the establishment of a viable second force carrier, and it was certainly something that Caledonian, and before it British Eagle, had been seeking for a number of years. But while the potential was considerable, so were the possible dangers.

31. *ibid.* 21/1/71, p. 82, and 11/11/71, p. 753. Nb. approximately 5% of London-Paris traffic is carried by 12 'fifth freedom' carriers. BUA had operated the London-Amsterdam route for some years in competition with BEA and KLM (see Chapter V). Edwards Report, p. 322-3. In August, 1973, BCAL also received licences to operate scheduled services from London to: Singapore via Bahrain; Boston, Atlanta and Houston; and Toronto via Prestwick.

32. ATLB Annual Report, 1971/72, p.10-11.

BCAL estimated that it would lose money for the first three years on the routes and that profits (with full allocation of overheads) would be achieved after five years. Only a large airline with extensive financial support could afford to take on such a challenge. Initial development costs (excluding the purchase of aircraft) were expected to amount to £3.1 million, including £700,000 for promotion and advertising and £800,000 for new equipment.³³

A Critique

We have refrained from offering any opinions on the recommendations of the Edwards Report until this point so that an overall view of both the Report and subsequent Government action could be attained. The Conservatives implemented most of the Edwards' proposals, although with some reservations. The most important results, as far as this study is concerned, were the establishment of both the second force airline and the Civil Aviation Authority. There is no doubt that the Edwards Report has proved to be a major contribution to our knowledge and understanding of the air transport industry and the Committee deserves a vote of thanks from anyone concerned with research into British civil aviation. Nevertheless, since its publication 'British Air Transport in the Seventies' has been subject to extensive criticism from a number of quarters, some at least of which would seem to be justified.

A great deal of criticism obviously came from those who were adversely affected by the implementation of the Committee's proposals.

33. 'Flight', 2/3/72, p. 311.

BEA, for example, concluded "from a practical point of view, and having regard to the realities of ^{the} international regulation of air transport, we doubt whether Britain would benefit (from the suggestions of the Edwards Report); on the contrary we believe serious harm would be likely to result."³⁴ The Trades Union Congress complained that in terms of revenue the Government had given more routes to the second force carrier than had initially been promised. It calculated that the gross revenue from the routes transferred from BOAC amounted to £7.4 million a year, plus a further £2 million from BEA. In addition, BCAL's new North Atlantic services will cost BOAC £11 million over the first five years. Thus, already, said the TUC, BOAC routes worth a total of £9-10 million gross revenue per annum and BEA routes worth £2 million had been given to the second force carrier.³⁵ BOAC agreed with some of these calculations, and also pointed out that it would have achieved a small profit in 1971/72 had it not been deprived of its lucrative West African and Libyan services.³⁶ On the other hand, 'The Economist' described the routes transferred to BCAL as "only a quarter of a loaf... the bare minimum to keep them alive, not enough to guarantee them a commercial future".³⁷

The establishment of a strong, privately-owned carrier was intended to introduce a larger element of competition among British airlines, especially of course 'vis-à-vis' the Corporations, and to increase Britain's share of particular air markets. In fact, neither of these objectives were

34. BEA Annual Report, 1968/69, p.36.

35. 'Flight'; 1/6/72, p. 789.

36. BOAC Annual Report, 1971/72, p. 3 and 13.

37. 'The Economist'; 8/8/70, p. 57.

achieved in any meaningful sense. In the case of the West African routes BCAL merely replaced BOAC, with the result that there was no alteration in Britain's share nor the competitiveness of the market: indeed, competition decreased on the service to Lagos since previously both BOAC and BCAL had operated the route.³⁸ BCAL's share of the total capacity of the Paris route resulted in a proportionate reduction in BEA flights, so again there was no overall gain for the UK. Competition was increased, however, on both the Paris and North Atlantic routes. In the latter case, because of the large number of carriers already in the market the addition of BCAL cannot be expected to have any major effect, although Britain's share of the total traffic available will probably rise somewhat. Further, in recommending dual UK designation on these routes the Edwards Committee almost totally disregarded the considerable body of opinion to the effect that licensing more than two airlines on a single route is a 'double-edged sword', with the resultant costs outweighing the benefits.³⁹ The Committee did note, however, that the introduction of competition on domestic trunk routes during the 1960s led to higher costs and fares, as well as improved service.^{39a} Thus, overall the formation of a second force operator has so far only marginally changed the degree of competition among British airlines and the UK's share of total air traffic.

38. 'The Economist,' 9/1/71, p.6; ironically, the CAA has since again licensed BOAC to operate to West Africa, but only with Concorde on the way to South Africa. 'The Financial Times', 10/5/73, p.33.

39. The most famous proponents of this thesis are probably Gill and Bates ('Airline Competition', 1949) who wrote: "The type of competition which this study has found to be most consistently ineffective or adverse as regards all the aspects of public interest considered has been that where more than two carriers have been authorized to serve major markets" (p.630). Similarly, Wheatcroft concludes: "There is a good deal of evidence to demonstrate that all the claimed advantages of airline competition are achieved where there are two operators, and that advantages tend to be offset by cost penalties when more than two airlines provide parallel services. There is no evidence that parallel licensing of British airlines will lead to a larger share of the total traffic for this country" ('Air Transport Policy', 1964, p.171; see also same author's: 'The Economics of European Air Transport', 1956, p.286). Caves ('Air Transport and its Regulation', 1962) and Jordan ('Airline Regulation in America', 1970) disagree with this view and propose a more competitive environment, while Thayer ('Air Transport Policy and National Security', 1965) favours regulated monopoly.

39a. p.82-4.

As yet the Civil Aviation Authority has hardly had sufficient time to establish itself and make its presence felt, although it has already adopted a more positive regulatory role than the passive, quasi-judicial one preferred by the ATLB, especially in the new field of Advanced Booking Charters (see Chapter X). The CAA is undoubtedly a major improvement on previous licensing bodies. Nevertheless, there are weaknesses in its make-up that may eventually create problems. Probably the most important of these is the possibility of Ministerial intervention, particularly via the appeals mechanism. The ATLB noted that "it is generally agreed that the machinery and history of appeals against the Board's decisions have been unfortunate, and have gone far to undermine the Board's authority."⁴⁰ The Government has stated that this danger is recognised and the intention is to make the CAA as independent as possible.⁴¹ We have already discussed why an appeals procedure is necessary (Chapter IV), and the periodic publication of the Government's civil aviation policy in the form of White Papers is clearly an advance on the earlier situation. A great deal still depends, however, on the interpretation rather than the letter of the law. The possibility of regular Ministerial intervention for short-term political reasons, so common in the post-war history of British air transport licensing, is still very much present. The fact that when introducing the 1960 Civil Aviation (Licensing) Act Mr. Duncan Sandys gave similar assurances about the independence of the ATLB does not give one any more confidence in the likely success of the CAA.^{41a}

Our main criticism of the Edwards Report, however, concerns the general approach of the Committee to the difficulties facing the air

40. ATLB Annual Report, 1970/71, p.4

41. Hansard, op.cit., cols.236-44.

41a. "It is my intention that the Board shall be as independent as it is possible to make it, for that is one of the primary purposes of the Bill. I have therefore kept down the Minister's powers to the minimum." Hansard, op.cit., 2/3/60, vol.618, col.1228.

transport industry. It is one of the main themes of this study that since the Second World War there has been a failure on the part of those in authority to recognise the problems inherent in a highly regulated industry made up of both public and private sectors. The Edwards Committee was no exception, and from this resulted several major defects. There was a tacit acceptance of a mixed-sector industry with very little adequate consideration of the problems involved or the alternatives. From the point of view of the independent airlines, one of the major problems has been the ease with which the small, marginal operator can be established and the disruption that often results. (This point is discussed further in Chapter XII). The Edwards Committee appeared to accept this and suggested that there should be "fewer private airlines than the present number." But it went on to say that "civil air transport should be organised so far as is practicable and economic to give opportunity for new entrants to the industry."⁴ Clearly, these two proposals appear to be largely mutually exclusive. Vaguely talking in terms of scrutinising a company's financial position and encouraging mergers is of little use, and has been shown not to work. The very real problem of the marginal operator will still remain and until this is solved there is little chance of the creation of an economically stable situation among the privately-owned airlines.

The whole approach of the Committee appears to have been coloured by its attitude to competition. Certainly Professor Edwards himself was a very firm believer in the merits of a competitive environment.⁴³ The result is that having read the Report one is left with the feeling that very different conclusions could have been drawn with equal validity from the same evidence. The justification for the establishment of a second force airline, for example, seems to be reduced to "a sense of fair play": "We are most anxious, if it can be done without damage to the total British

42. p. xiii and 11.

43. See, for example, the report of his lecture, 'The Case for Competition', in The Times, 3/11/70.

aviation effort, to give those who have ventured their resources in the building up of air services a fair chance to go on doing so."⁴⁴ Clearly the Government did not share the same 'sense of fair play' towards the public sector when it refused to compensate the Corporations for the loss of routes and traffic to the second force. Pryke has compared the attitude of the Edwards Committee on the advantages of competition and private ownership to that of economists associated with the Institute of Economic Affairs: "... such decisions and declarations derive almost entirely from an ideological commitment to private ownership and from its equation with competition."⁴⁵

It is not surprising, therefore, that the more controversial recommendations contained in the Edwards Report failed to find many supporters in the Labour Government (and even the initial White Paper probably went beyond what the majority of Parliamentary Party members would have wished.) It was fortunate for the supporters of such proposals that a more conservative Government was returned to power in 1970, a Government firmly committed to a policy of restricting the expansion of the nationalised sector - fortunate also that civil aviation reform was sufficiently high on the Tories' list of priorities to be implemented before the Government itself was forced to tone down a number of its policies. In other words, the major justification for the establishment of British Caledonian was political rather than economic. T.D. Keegan, Managing Director of Transmeridian Air Cargo, aptly summed up the situation: "Our second force will be an odd baby born out of forced wedlock by a shotgun-wielding father who foreclosed on the mortgages of the taxpayers who paid to develop the routes, and who presents these as a dowry to the bride of this rather uninspired wedding."⁴⁶

45. 'Public Enterprise in Practice', 1971, p.467-8.

46. 'Flight', 5/11/70, p. 706.

TABLE 6.1 British Caledonian (and Antecedents') Traffic, 1967-72

	Scheduled Services*				Charter Services		
	Passengers carried	Available seat-miles (000's)	Available capacity ton-miles (000's)	Weight load-ton-miles factor	Capacity ton-miles (000's)	BUA	Total
1967	320,393	575,553	89,605	53.0	50,435	91,161	141,596
1968	345,076	627,815	93,721	52.2	93,918	72,827	166,745
1969	502,233	695,951	100,920	53.6	180,336	112,878	293,214
1970	630,256	818,161	117,123	50.5	274,967	107,791	382,758
1971	783,632	1,134,642	148,295	48.1	-	-	516,269
1972	1,017,212	1,461,724	194,458	45.2	-	-	513,783

* = before merger scheduled services were operated by BUA alone.

Sources: Board of Trade and Department of Trade and Industry

Given its importance in the private sector, therefore, what of the future development of this 'political animal'? At first sight its prospects appear to be fairly good. By 1971, with a fleet of 33 jet aircraft, BCAL was carrying more passengers than BOAC and flying more passenger-miles than BEA. In 1970/71 a profit of £1.7 million was recorded,⁴⁷ achieved during a period of reorganisation, when most other international airlines were returning poor financial results and following a loss the previous year by BUA. BCAL claims to be making profits on its UK domestic trunk and South American routes and the new West African services. The improving buoyancy of the North Atlantic market has meant that the second force has been able to operate 19 flights per week to the United States from the summer of 1973, compared with the initial 12.⁴⁸

47. Although additional losses of £1.1 million were reported from the Blue Car tour subsidiary and hotel operations and as a result of the devaluation of the Argentine Peso.

48. 'Flight' 3/8/72, p.156-160, 4/1/73, p. 10-12 and 12/4/73, p.568; Financial Times, 2/4/73, p.4. Nb domestic services are not now (1973) profitable. During 1971/72 BCAL lost £190,000 on a turnover of £53 million. 'Flight', 20/9/73, p.466.

But against this trend neither the Tripoli nor the Paris routes are yet profitable; the latter in particular has not come up to expectations. In addition, to start operations on the North Atlantic is a very expensive business and at least initially BCAL will be competing with inferior equipment and frequencies against firmly entrenched opposition. The routes between Europe and North America are no longer the gold mine that they used to be and most airlines appear to be losing money on them (see Table 6.2). IATA summed up the current situation thus:

"The North Atlantic is a route on which a relatively elaborate fare structure has enabled the volume of traffic to be developed very considerably, but on which the extended use of special fares has reduced the average yield to a point where it is already below costs. It is an instance where the carriers may have been over generous to the public and have gone beyond the economic constraints which must apply to scheduled services." 49.

British Caledonian, therefore, may well find it extremely difficult to make profits on the North Atlantic in the foreseeable future.

Table 6.2 North Atlantic Air Passenger Load-Factors (%)

	1965/66 *	1972/73
First Class	36	30
Required ** First Class	61	59
Low Class	57	54
Required ** Low Class	52	70

* = includes Mid-Atlantic traffic.

** = required passenger load-factor for economically viable results, including reasonable return on investment.

Source : IATA.

Perhaps even more important, however, is the suggestion that the second force is under-capitalised. 'Flight' analysed detailed financial information for 1971 which the airline had been forced to file with the CAB in Washington in order to obtain a US Foreign Air Carrier permit (the same information is not publicly available in the UK), and concluded that BCAL "has to make more profits to attract private money for expansion and re-equipment." The Independent itself, on the other hand, has strongly denied that this is the case. There are ample funds available, it claims, to satisfy future plans for growth, and in awarding the North Atlantic scheduled service licences the ATLB appeared to agree (as indeed more recently did the CAA).⁵⁰ But the main problem that British Caledonian is likely to face in the foreseeable future stems from the fact that politics will remain more important than economics in the continued viability of the airline. The Labour Party has said that it will re-nationalise the transferred routes without compensation when it returns to power, which effectively might well bring into doubt the survival of BCAL in its present form. Although too early to say for sure, Labour does appear to be moving to the left of the political spectrum and to be taking a more aggressive stand in favour of the public sector. By the time of the next General Election, however, the second force will be firmly established. Given its relative importance in British civil aviation, the size of its work-force and the past record of political parties in fulfilling their pre-election pledges in the field of air transport, British Caledonian's future, while not completely assured, does not appear quite so bleak.⁵¹

50. 'Flight', 4/1/73, p.10-12; ATLB Annual Report, 1971/72, p.11; 'Financial Times', 21/8/73, p.9. BCAL might also care to note that kindness can hurt, as US experience has shown. The American CAB's generosity to the smaller trunkline carriers in the 1950's, for example, resulted in Capital Airlines being over-extended in terms of managerial ability and financial resources and forced to seek a merger with United in 1961. See Corbett: 'Politics and the Airlines', 1965, p.291.

51. Other recent developments in the areas of scheduled services and the air holiday market are discussed in Chapters XI and X respectively.

Chapter VIISHIPPING INVESTMENT

The first half of the thesis has examined the general development of the private sector of the UK air transport industry since 1945, paying particular attention to scheduled services and government policy. It now remains to look at certain other aspects of that development in detail. This chapter considers the problem of investment in air transport companies and especially the role played by the shipping industry.

Since the war Britain's privately-owned airlines have been notoriously under-capitalised. The Edwards Committee pointed out that the Independents have relied heavily on loans and credit for additional capital and that this has been one of the reasons for the sector's problems. The proportion of shareholders' funds to net assets employed declined progressively from 48% in 1963 to 37% in 1967. Over the same five-year period only some 3% of the additional finance required was provided in the form of permanent capital, while approximately 40% came from borrowing. Current assets increased by £5 million, but liabilities by £14 million, thus involving a net contraction in working capital of £9 million. "This suggests that the independent airlines have, in effect, relied to a large extent on extending credits from suppliers and others as a source of working capital."¹

There are obvious dangers inherent in this type of situation. Airlines can probably survive longer than most companies on credit and by hiring services and equipment, but certainly not for ever. Relatively large-scale financial backing is required for two main reasons. Firstly, most airlines find it necessary to periodically re-equip their fleets with more

1. The Edwards Report. p.34.

modern aircraft; this problem was exacerbated during the 1960s as many Independents adopted the policy of buying the very latest equipment rather than employing the cast-offs of the larger national flag-carriers. Secondly, and perhaps a more important factor, air transport is a highly cyclical industry, so that finance is needed to support operators during the inevitable 'trough' periods. A recent American study of 23 categories of consumption expenditure found that income elasticity was greatest for air transport. In other words, as incomes rise, spending on air transport increases proportionately more than most other forms of spending; when spending falls, therefore, any recession will be very sharp.² Unlike the larger airlines, very few private carriers are able to build up sufficient reserves during the relatively prosperous periods to carry them through the depressions. To quote Edwards again: "No airline without adequate financial resources can expect to ride out the periods of temporary difficulties which are certain to afflict businesses of this kind from time to time."³ Significantly, no British airline since the war has obtained further capital by Stock Exchange flotation in its own right. Finance has, however, been forthcoming from a number of sources, by far the two most important of which have been tourist interests (see Chapter X) and shipping companies.

Maritime concerns had taken an interest in aviation even before the Second World War and under the Conservative Party's plans for the post-war reorganisation of air transport they were destined to play a major role. With the complete nationalisation of British scheduled air services, of course, the Labour Government effectively excluded private companies from participation in the main stream of aviation

2. Heien: 'Income and Price Lags in Consumer-Demand Analysis'. Journal of the Royal Statistical Society, 1969, p. 268-9. Short and long-term income elasticities for air transport were both found to be 2.910 (price elasticities = -0.305).

3. Op.cit.

development. During the second reading of the Civil Aviation Bill, Herbert Morrison explained Labour's objections to the participation of other modes of transport:

"It is not desirable in our judgement that there should be an interlocking of managements between private railways and private shipping and publicly-owned air transportation. We are utilising the services of a certain number who are experienced in railway and shipping transportation, but we do not wish to be suspected of putting air transportation under the thumb of the surface means of communication." 4

Nevertheless, shipping interests maintained a foothold in the industry, albeit on a relatively modest scale. Several of the numerous charter airlines that were rapidly established, and almost as rapidly wound up, in the second half of the 1940s had close connections with the shipping industry, such companies as Chartair, Kearsley Airways and Culliford Airlines.⁵ But it was not until the early 1950s, with the return to power of a Conservative Government, that maritime interests were to play a major part in the development and financing of the Independents.

The British Labour Party was not alone in objecting to the participation of other modes of transport in civil aviation. In the United States it has long been held that there is a 'prima facie' case against the control of an air carrier by a surface carrier, although the Federal Aviation Act does not specifically prohibit such an arrangement.⁶ The President's Air Policy Commission in its famous 1948 report, 'Survival in the Air Age', recommended that: "the Civil Aeronautics Board prevent the control by surface carriers of the United States air transport system or any important segment thereof".⁷ Similarly, a fear that shipping interests, especially

4. Hansard, House of Commons Debates, 6/5/46, vol. 422, col. 614.

5. 'Aeroplane', 13/6/47, p. 631-2 and 12/9/47, p. 376; 'Flight', 23/10/47, p. 480.

6. Wheatcroft: 'Air Transport Policy', 1964, p. 36-7.

7. Quoted by Schnorr: 'Participation of Steamship Companies in Air Transportation', Cornell Law Quarterly, 1949, p. 595.

British, would achieve a dominant position in civil aviation was one of the major factors leading to the Labor Party's attempts to nationalise Australian air transport after the war.⁸ But on the whole, with the notable exception of the United States, most countries later relented and today shipping interests have large investments in aviation in such countries as Canada, France, Holland, Germany, Norway, Greece and Portugal, very often providing the main competition for a nationalised airline. In Canada, for example, Canadian Pacific Airlines, owned by the famous railway and shipping company, 'competes' with Air Canada, itself for most of the post-war period controlled by the nationalised Canadian National Railway. In France, the second largest airline, UTA, is controlled by the shipping Company, Chargeurs Réunis. There is an obvious potential danger in such a situation, which explains American and early left-wing opposition, that unless effectively regulated a surface carrier will restrict to its own advantage the development of an airline over which it has gained control. It has been suggested that this is exactly what happened in the UK before the war, when the railway companies acquired a number of domestic air operators. It is worth examining this episode in rather more detail in order to see the dangers that do in fact exist.

The Railways and the Pre-War Airlines

During the decade following the end of the First World War the railway companies increasingly had to face competition from a new and rapidly developing mode of transport, the internal combustion engine. Eventually the degree of competition began to hurt and,

8. Brogden: 'Australia's Two-Airline Policy', 1968, p. 48-9. This antagonism between the Labor Party and foreign shipping companies dated back to pre-war days.

from about 1928, the railways began to move into the road transport industry. By the end of 1931 they were associated in one way or another with some 47% of the total of 41,500 buses in the country, although they were not so successful in the field of road haulage, primarily because of the more atomistic structure of the industry.⁹ Similarly, in the area of air transport, the railways had received powers from Parliament to operate services as early as 1929, but it was not until April, 1933, that the Great Western Company inaugurated the first experimental service. The following March saw the establishment of Railway Air Services (RAS), owned equally by the four railway companies and Imperial Airways, to undertake air transport operations. The new company agreed to confine its activities to Great Britain, and for its part Imperial Airways undertook not to operate domestic services. Financially, the venture proved to be far from a success. Losses were incurred every year and between 1934 and 1938 the total deficit amounted to almost £200,000. The railways' aviation activities, however, were not confined to RAS. They invested widely in several other small airlines, so that by 1938 they had secured a financial, though not necessarily a controlling, interest in all but five of the 16 companies operating air services within the UK.¹⁰

9. Aldcroft : 'Innovation on the Railways'. Journal of Transport Economics and Policy, 1969, p. 104. Many of the early road transport companies at this time also established pioneer airlines, the so-called 'busmen's airlines'. See, for example, Parke: 'Britain's Internal Air Services', 1952, p. 2-3 (unpublished paper in Chartered Institute of Transport Library); Swann: '40 years of Air Transport in Northern Ireland', 1972, p. 14-15; and Whitworth: 'Some Impacts of Air and Road Transport on Railway Economics and Practices', Journal of the Institute of Transport, 1959, p. 163-5.

10. Aldcroft: 'The Railways and Air Transport in Great Britain'. Scottish Journal of Political Economy, 1965, p. 51-6; Parke: 'The Relationship of Rail and Air Transport in Britain'. British Transport Review, 1953, p. 459-60.

The reason for the railway companies active participation in domestic air transport was certainly not, therefore, simply a desire to make money. It was much more a matter of insurance. Having made the mistake of allowing road transport to firmly establish itself as a competitor, they were determined to gain a strong foothold in aviation at an early and relatively cheap stage. But by doing so they laid themselves open to the charge of restricting competition in their own interests. For example, to ensure that they controlled a large proportion of domestic air traffic the railways adopted highly competitive tactics, not always totally laudable. Their extensive financial resources enabled them to undercut their competitors for the Post Office airmail contracts, which were subsequently operated at a loss.¹¹ Similarly, from 1933 a booking ban was operated against the so-called 'busmen's airlines' then being established. Since most of the travel agents' business was accounted for by the sale of railway tickets, they were forced, on pain of being denied the right to sell such tickets, to deal only with certain airlines, namely RAS, Imperial Airways and foreign operators. This practice was finally abolished in 1938 after Government pressure had been brought to bear on those concerned.¹²

The main criticism of the railways' activities, however, was that, having obtained a major say in the development of domestic air transport, they chose to manipulate that development in such a way as to minimise the potential competition for their own services. It is true that the railway companies were successful in introducing a measure of rationalisation into an industry that sorely needed it. Further, there is no evidence to suggest that services deteriorated; on the contrary, facilities probably improved in the later 1930s

11. Aldcroft, op.cit., p.53.

12. Higham: 'Britain's Imperial Air Routes, 1918-39', 1960, p.270-1.

partly as a result of the railways' influence. The Maybury Committee (1937) on internal aviation found no reason to indict RAS and the Cadman Committee (1938) felt that the railways were making a useful contribution to domestic air transport and that they had "provided capital and experience in a proper and constructive manner."¹³

But at the same time there was a great deal of contemporary criticism of the role of the railway companies, and much of it seems justified. For example, although some attempt was made at rationalisation, it did not go nearly far enough, and by 1937/38 the railways were promoting new companies. Similarly, it is noticeable that most of RAS' operations were concentrated in the western half of the country in a line running from London to Glasgow, while the eastern side was almost totally neglected. It was in the west and north-west that the railways faced most of the competition from private airlines and where the advantages of air over surface transport were greatest because of the high proportion of over-water routes. The five domestic airlines in which the railways did not have a financial interest by 1938 were the ones that offered the least potential threat. Further, the railway companies avoided wherever possible establishing air services on mainline rail routes. Until 1938, for instance, RAS refused to introduce a service between London and Glasgow via Manchester, operating instead via Belfast. "The only conclusion we can draw... is that the railways delayed introducing a direct service until private operators entered the field. Had they done so alone it would merely have creamed traffic from their own ground facilities."¹⁴

13. Aldcroft, *op.cit.*, p.60 and 57.

14. *Ibid.*, p.59-61.

Thus, although the railway companies undoubtedly made a significant contribution to the development of domestic air transport in the UK, their efforts were, in Mr. Peter Masefield's words, "on the whole half-hearted."¹⁵ As Dyos and Aldcroft conclude:

"It might be argued that up to 1939 the railways had little time to reorganise their new interests efficiently. Far nearer the truth might be the suggestion that the railways had little intention of doing so. The railways were far more interested in acquiring a controlling interest in the airline companies to limit the competition than they were in promoting orderly expansion." 16

Association with the Shipping Companies

The Conservative Party retained the view that other forms of transport, and in particular maritime interests, should partake in the post-war development of British civil aviation. "Experience has shown", argued John Profumo, a Tory spokesman on aviation, "that a blend of public and private enterprise is best for this service. Close co-operation with shipping can often be of great value".¹⁷ On returning to power, therefore, the Conservatives openly encouraged shipping companies to invest in air transport, although not on the scale once envisaged. The annual report of the UK Chamber of Shipping for 1953 noted:

"In recent months there have been indications that the Government is prepared to encourage independent operators to participate in the development of air transport on routes not covered by or in activities supplementary to those of the Corporations... Shipowners must now consider whether there is open to them a sufficiently wide field not covered or likely to be covered by the Corporations and capable of expansion in which they would further the development of British air transport." 18

16. 'British Transport', 1969, p.394.

17. 'Flight', 20/5/55, p. 677.

18. Ibid., 5/3/54, p. 276.

Clearly the shipowners decided that such a field did indeed exist, for between 1953 and 1955 most of the major independent airlines became associated with shipping companies:

- October, 1953 - the Hunting Group (itself a major shipowner) and Clan Line Steamers formed a joint company, Hunting-Clan Air Transport, to take over Hunting Air Transport and Field Aircraft Services.
- February, 1954 - Furness Withy acquired a 'substantial interest' in Airwork.
- February, 1954 - P and O, through its subsidiary General Steam Navigation Company, acquired a controlling interest in Britavia.
- June, 1954 - Blue Star Line acquired a 'substantial interest' in Airwork.
- March, 1955 - Bibby Line acquired a 'minority interest' in Skyways.

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Thus, with the exception of Cunard's purchase of Eagle in 1960, the major influx of shipping capital took place within a period of just 18 months. As the Independents gradually rationalised their operations during the 1950s, maritime investment became concentrated in fewer airlines, so that by the early 1960s, it was primarily centred on the Eagle and BUA groups. The latter company for example, was owned by, among others, the Blue Star Line (20%) Furness Withy (20%), British and Commonwealth Shipping (16%), Clan Line Steamers (16%) and the Hunting Group (8%). With the acquisition of Britavia in 1962 P and O was added to the list. This group of investors, together with Cunard, remained the most important single source of finance for the privately-owned airlines during the 1950s and early 1960s; their impact on British independent aviation was considerable. But over the following years other shipping companies also took an interest in air transport. In late 1963,

19. Ibid., various dates; in addition, the London ship-brokers, Davies and Newman Ltd., formed a charter airline subsidiary in 1952 known as Dan-Air Services. By 1972 Davies and Newman's aviation interests accounted for 96.6% of the group's turnover and 68.6% of the £1.034 million operating profit. Ibid., 31/5/72, p. 839.

for example, the ATLB deferred a number of Caledonian's applications for inclusive-tour licences, presumably because of doubts about its financial standing. The licences were granted when the Donaldson Line acquired a 25% interest in the airline for a reported £32,000. After Donaldson had gone into liquidation in 1967, another Glasgow-based shipping company, Lyle Shipping, invested a further £125,000 in Caledonian.²⁰ Similarly, in 1965 Court Line paid some £125,000 for Autair, enabling the airline to undertake a major diversification and become the market leader in the rapidly expanding field of inclusive-tour charters (see Chapters X and XI). More recently the cross-Channel car-ferry group, European Ferries, acquired control of Invicta International, which had been experiencing financial difficulties.²¹

What motivated the shipping companies to invest so widely in aviation in 1953-55, and why were the Independents so willing to accept their help? As far as the airlines were concerned, their situation was basically the same as that of Caledonian in 1963, Autair in 1965 or Invicta in 1973, except perhaps on a larger scale, namely a lack of sufficient capital backing for expansion. By the early 1950s the private carriers found themselves presented with at least the promise of better, more secure times to come, but they were still equipped with obsolescent, even obsolete, aircraft. An editorial in 'Aeroplane' remarked: "The Independents have, in fact, gone about as far as they can go, unless and until the major financial problem of aircraft re-equipment can be solved,"²² Thus, the airlines found themselves caught in a maelstrom of aircraft obsolescence and equipment financing and welcomed investment capital

20. Ibid., 12/11/63, p. 828 and 14/9/67, p. 439.

21. 'Financial Times', 24/2/73, p.22.

22. 31/7/53, p. 129.

from any source. The smaller operators in other countries appeared to be experiencing similar problems and to have found the same solution. In France, for example, Chargeurs Réunis acquired UAT and Cie Générale Transatlantique secured control of Cie Air Transport.²³

The motives of the shipping companies were rather more complex. Some may well have envisaged a day when their investments would produce large dividends, although there was very little sign of this in the early 1950s. Most, however, like the railway companies in the 1930s, probably regarded the whole affair as a relatively cheap insurance policy. Harold Watkinson, Minister of Transport and Civil Aviation, had hinted at this in July, 1956:

"I wonder whether the air can go on developing at this rate without in the end - nobody knows when - making serious inroads into the shipping business. If that be true, is it really wise to impose a tight monopoly to keep those great companies, with all their knowledge and expertise, out of the air altogether." 24

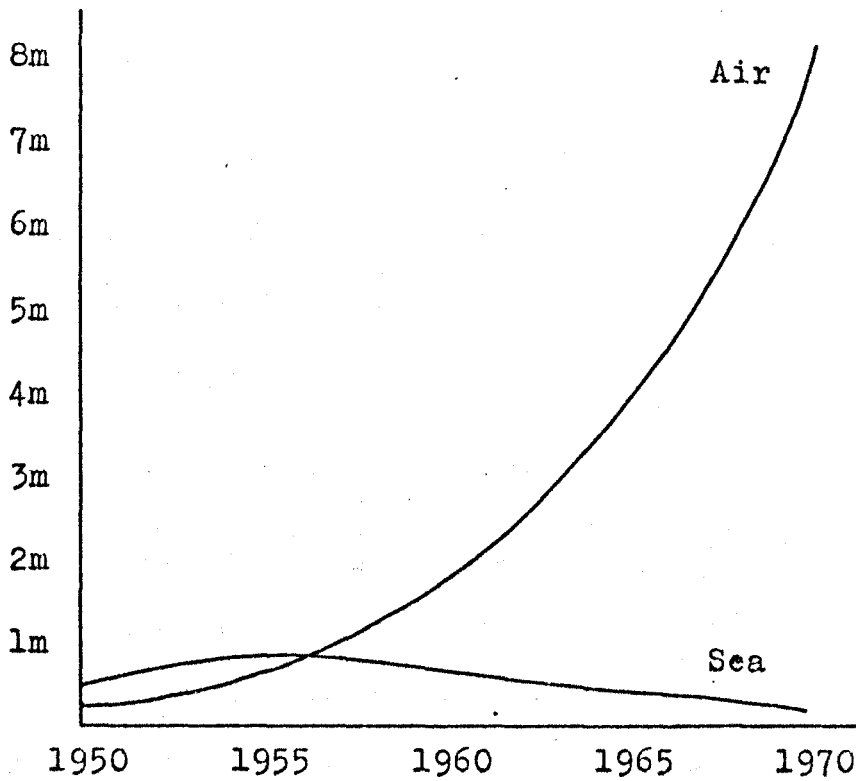
In fact, aviation had already made serious inroads into sea transport, especially passenger traffic. By 1957 the number of persons carried across the North Atlantic by IATA-member airlines was almost exactly the same as the number carried by sea, and the following year the number of sea passengers actually declined for the first time since the war. With the sole exception of 1962, North Atlantic sea passenger traffic has continued to fall, both in absolute and relative terms, ever since.²⁵ On the whole, however, the main interest and fear of the shipping companies during the early 1950s probably centred on freight rather than passenger traffic. Air freight was very much of an unknown at this time, with a number of experts making what turned out to be highly optimistic predictions about its future development and growth, as indeed they have

23. Sundberg: 'Air Charter', 1961, p.32.

24. 'Flight', 2/8/56, p.177.

25. See figure 7.1 and Appendix III; for a discussion of the reasons for the success of air transport on the North Atlantic see Brancker: 'Air and Sea Competition on the North Atlantic.' Journal of the Institute of Transport 1962, pp. 356-359.

Figure 7.1 : North Atlantic Air and Sea Passenger Traffic



Figures shown are in millions

Source : See Appendix III .

continued to do. In 1949, for example, the United States Civil Aeronautics Administration predicted that by 1955 US air cargo would equal the value of passenger traffic.²⁶

26. 'Financial Times', 11/10/49.

Wheatcroft points out that the operations of the airlines in the BUA group (and presumably this is also true of the constituent companies of pre-BUA days) had remarkably little overlap with the sea routes of their shipping shareholders. There was little scope, therefore, for a conflict of interest to arise.²⁷ An important factor here may well be that whereas the shipping companies were usually geographically quite specialised, the airlines, being still primarily charter operators, were forced to fly wherever there was a demand for their services. But there were a number of cases where the interests of an airline and a shipping company coincided. The most obvious and important example was probably that of the Cunard-Eagle partnership (see below). Similarly, Furness Withy's passenger and cargo services were particularly concentrated on the routes between the UK and North America, the same routes on which Airwork attempted in the mid-1950s to develop scheduled air freight and charter operations. The Blue Star Line provided agency and sales functions in Brazil, Uruguay and the Argentine, and Pacific Steam in Chile, for BUA's South American services.²⁸ The Bibby Line, the principal troopship operator, admitted that a major reason for its interest in Skyways was the fact that the latter held a number of air-trooping contracts.²⁹

But there are certain differences between the situation in which the railway companies found themselves before the war and that in which the post-war airlines were forced to operate. The railways were able to acquire a large proportion of domestic air traffic and so exert considerable influence on the development of that traffic. It would have been impossible for the shipping companies to have done the same with regard to post-war domestic or

27. Op. cit., p.36.

28. 'Aeroplane', 12/2/54, p.190 and 11/11/65, p.6.

29. Estimates Committee: 'First Report on Trooping', 1961/62, Evidence, p.91.

international air transport, for three main reasons. Firstly, most of Britain's civil aviation output is produced by the nationalised Corporations and, despite the political rhetoric, this 'status quo' was never seriously questioned during the 1950s and 1960s. Secondly, the Independents' charter and international scheduled services mostly face intensive competition from foreign operators, which are impossible to control or even co-ordinate to the benefit of the shipping industry. Finally, the whole legislative environment surrounding air transport is now much more severe and restricting. Thus, Wheatcroft is on the whole correct when he says that there has been little scope for a conflict of interests between the airlines and their shipping masters, although some of the shipping companies may not have been fully aware of this fact at the time of their initial investments. The main explanation for their involvement must have been the opportunity to invest at a fairly early stage in an industry that might one day challenge on a very large scale the position of their own industry and into which it might be necessary to transfer considerable resources, rather than an attempt to restrict or curtail air transport.

There can be little doubt that the financial backing provided primarily by shipping interests was of major importance to the privately-owned UK airlines. It enabled them to finance new equipment purchases and expansion and often to ride out business depressions (although not always, as the case of Transglobe illustrates). The shipping companies were also an important force in bringing about rationalisation within the private sector of the industry. It is more than a coincidence that most of the maritime investment in British independent air transport by the early 1960s was concentrated in one company, BUA. It was often also argued that the experience

and world-wide connections of the shipping firms would be a useful aid to the airlines. But at most this must have been a marginal factor; there is no evidence, for instance, that Eagle fared worse in the field of marketing and sales than any of the shipping-backed air carriers before 1960.

The same advantages cannot be said to have accrued to the shipowners. Despite the fact that they had been openly encouraged by the Government to invest in aviation, the shipping companies were extremely disappointed by the concessions granted to the private sector. The 1957 Company Report of Furness Withy noted: "In regard to Air, Government policy continues to hamper development in the manner hoped for when Shipping Companies were encouraged to play their part in expanding British Civil Aviation."³⁰ The restrictions on their operations merely served to exacerbate the Independents' poor financial results. In time, especially after the relative failure of the 1960 Civil Aviation (Licensing) Act, the shipowners responded to this situation by withdrawing from civil aviation. Thus, by 1967, of the original group of maritime investors in British air transport only the companies within the British and Commonwealth Shipping group and Davies and Newman were left (although a few other companies had, of course, entered the field). But disenchantment with profitability and Government policy may not have been the only factor involved. An important development in the shipping world at this time was containerisation, which completely revolutionised sea freight. It was now quite evident that the sea could easily hold its own in competition with the air for the carriage of most types of goods. Despite palletisation in air transport, which preceded the wide-spread use of containers, it

30. 'The Economist', 7/9/57, p. 804.

increasingly became clear that the airlines were not going to repeat with freight the success they had had over the sea with regard to passenger transport, at least in the foreseeable future. In fact, after several years of very rapid and steady growth the volume of freight carried by air in the early 1960s was still only some 0.004% of that carried by all forms of transport.³¹ Thus, the need for an insurance policy had become much less important.

Cunard Eagle.

It can be concluded, therefore, that the investment by British shipping companies in post-war civil aviation probably had a beneficial effect on the development of the Independents. But it is equally clear that the potential for a conflict of interests did exist. The story of Cunard's association with Eagle, and later with BOAC, as well as forming an extremely important chapter in the history of the privately-owned airlines, also illustrates some of these possible dangers.

By the late 1950s only Eagle of the larger British Independents was not closely associated with shipping interests. Such a position of independence, however, was rapidly becoming untenable, especially with the reorganisation of the private sector and the possibilities for expansion that materialised in 1960. Eagle needed large-scale financial backing to remain in the forefront of private aviation, and realistically this could only mean teaming up with a shipping company or merging with another air carrier, probably BUA. Harold Bamberg was fully aware of the situation:

31. Brooks and Scarlett: 'Britain's Mercantile Aviation', Aeronautics, 1960, p.91.

"There are two ways of getting the fitter, stronger companies which the Minister wants. In our case we can either merge or else stay separate and get a pretty hefty transfusion of finance to enable us to meet the necessary development. Quite frankly, to get the type of operation we have had, with a welter of international agreements, we have a situation in which large-scale finance is necessary." 32

Consequently, in March, 1960, Cunard announced that it was to buy 99% of Eagle Aviation from Bamberg for a reported £1 million.³³

Cunard had been the only large British shipping company without a stake in civil aviation. One does not have to look far to discover why it suddenly took the plunge. As the major British sea passenger-carrier on the North Atlantic it had been forced to stand by and watch as the airlines reduced its share of the traffic, at first relatively, but from the mid-1950s in absolute terms as well. As long as BOAC was licensed as the sole British scheduled airline to North America there was little chance of Cunard becoming involved in this newer and increasingly popular form of transport. The 1960 Civil Aviation (Licensing) Act, however, changed the situation considerably. It offered the Independents, at least if the Government was to be believed, an opportunity of competing with the nationalised Corporations on relatively equal terms. More specifically, it promised dual designation of British airlines on certain routes. This gave Cunard the opening it had been waiting for and it quickly completed the deal for the purchase of Eagle, a company well suited to Cunard's needs, because of its extensive experience on the North Atlantic, especially with its West Indian operations.³⁴

32. 'Flight', 26/2/60, p.273.

33. Ibid., 25/3/60, p. 245 and 2/6/62, p. 957.

34. Space has not permitted a discussion of these operations. Basically, like similar efforts by other private carriers, they were attempts to get around British licensing regulations. Their success and life-span were on the whole limited.

Early in 1961 Cunard Eagle, as the new company was known, applied to the ATLB for licences to operate scheduled passenger services to a number of North American cities. The airline already had UK approval, along with BOAC, for an all-freight service. Shortly afterwards it ordered two new Boeing 707-420s for delivery in 1962, with an option on a third, the first British Independent to order jets.³⁵ The application was based squarely on those sections of the 1960 Act that permitted the designation of a second carrier on a route where traffic conditions permitted. If competition between two British Airlines could not be allowed on the world's busiest, most important, air route, argued Cunard Eagle, where could it be allowed? The ATLB chose to treat the case as three separate licence applications; in other words, for routes to the US East Coast, to the US Mid-West and to Canada. Reporting in June, 1961, the Board rejected the latter two applications because the traffic on these routes was not sufficiently developed, but granted Cunard Eagle a 15-year licence to operate a daily London-New York service, with optional stops at Manchester, Prestwick, Philadelphia, Boston, Baltimore and Washington.³⁶

The application had naturally been opposed all along by BOAC and the Corporation now exercised its right to appeal to the Minister, Sir Frank Pritchard being appointed Appeal Commissioner to hear the case. As a result of this review, the Minister announced towards the end of 1961 that he had decided to over-rule the ATLB and rescind the licence, arguing that there were "too many seats chasing too few passengers" on the North Atlantic. BOAC, he claimed, had ordered sufficient aircraft to cater for all the traffic that might reasonably be expected over the next five or six years. Such a justification really fooled no-one and served only to gloss over the important underlying factors behind the decision

35. 'Flight', 20/1/61, p. 98 and 27/4/61, p. 577.

36. Ibid., 29/6/61, p.907; Wheatcroft, op.cit., p.137-8.

(as discussed in Chapter IV). John Seekings, in a Conservative pamphlet a few years later, described the Minister's announcement as "the supreme example of folly."

"...(The) government... was unduly influenced by the financial situation of BOAC... This action... destroyed the Licensing Board as an effective instrument of air transport regulation... For good measure, it also threw suspicion on the sincerity of the Tories' claimed support of private enterprise in aviation." 37

The 'adequate capacity' argument had never in fact been a major part of the BOAC case, and the Minister omitted to mention the fact (which emerged at the appeal) that during the ATLB hearing BOAC had ordered three more Boeing 707s.³⁸

Cunard was obviously in a very serious position. It had purchased £6 million worth of jet equipment and now had to find a use for it. Cunard Eagle Airways, after making a profit of approximately £100,000 in 1959, incurred a loss of about the same amount in 1960; the parent company itself lost £1.7 million in 1960/61.³⁹ One possible use for the long-range aircraft was on North Atlantic charter operations. But here too Cunard ran into trouble. The American CAB limited off-route charter services of both US and foreign scheduled carriers to 10% of their scheduled passenger-miles. Because of Cunard Eagle's West Indian activities the CAB insisted that this '10% rule' be applied to the British operator's charter applications; the inevitable result would have been an excessively low level of utilisation for jet aircraft. In retaliation the British Government threatened to limit or suspend US supplemental carriers' charter operations into the UK.⁴⁰

37. 'Guidelines for Airlines', 1970, p.6.

38. 'Flight', 30/11/61, p.859.

39. Ibid., 5/7/62, p.5; 'The Economist', 27/5/61, p.938.

40. Straszheim: 'The International Airline Industry', 1969, p.216.

Thus, the announcement that Cunard and BOAC were to establish a joint company to operate North Atlantic air services let everyone off the hook. In fact, this was far from a new idea. Shortly after taking over as chairman of BOAC in 1960, Sir Matthew Slattery had suggested to Cunard that the two companies should co-operate in a joint British venture on the Atlantic. He argued that shipping and civil aviation were now complementary rather than competitive. Cunard rejected the proposal,⁴¹ although not totally dismissing the basic concept, at least judging from its chairman's report for 1960:

"Nothing would give me more pleasure than to see a forecast made in 'Flight' of April 1st come true: 'So here we have (1) Cunard and Eagle working with rather than against BOAC, and (2) a tripartite British air corporation-independent-shiping partnership which will be of great advantage to Britain on what is after all the world's most important route.' " ⁴²

Indeed, a joint Cunard-BOAC venture on the North Atlantic had been suggested to Lord Winster, Minister of Civil Aviation, by Cunard's then chairman, Sir Percy Bates, just after the Second World War.⁴³

To say that Eagle's management, and in particular Mr. Harold Bamberg, were not particularly pleased with the new merger is a considerable understatement. They thought that Cunard had thrown away several years' hard work trying to establish Eagle as a major international air carrier. The partnership between the shipping line and the independent airline had never been a particularly happy one, especially at the managerial level. The two groups came from very different business environments. As one former employee put it to me, the Cunard people tended to distrust those in air transport, who "had larger expense accounts and didn't wear bowler hats." In addition, Cunard had never been very interested in the non-Atlantic activities of Eagle, which still accounted for most of the airline's output. It came as no surprise,

41. Select Committee on Nationalised Industries: 'BOAC', 1963/64, p.63.

42. 'The Economist', 14/5/60, p.690.

43. 'Flight', 17/3/62, p.771.

therefore, when Bamberg re-acquired 60% of Eagle Airways in February, 1963, renaming it British Eagle International Airways; he purchased the remaining 40% in 1967.⁴⁴

BOAC-Cunard

Although the outlines of the BOAC-Cunard deal were announced at the time, details were not published until December, 1965; not even the House of Commons was allowed to see them. Under the terms of the contract, a jointly-owned subsidiary was established on June 20th, 1962, to operate all British scheduled services on the North Atlantic (except those to Canada), including the Caribbean. BOAC contributed 70% of the capital and Cunard the remaining 30%⁴⁵; authorised capital was £30 million, of which £28 million was subscribed, £19.6 million by the Corporation and £8.4 million by Cunard. The shipping company undertook not to provide any air transport services to the agreed area of operations, or to areas through which the new carrier's or BOAC's services operated, except within Europe. The Cunard Eagle group might continue to operate charter flights anywhere in the world, but not in the agreed area unless BOAC-Cunard did not wish to undertake them. For its part, the Corporation would not provide air transport services to the agreed area, although it was free to transit the area as part of longer routes. In the event of BOAC-Cunard

"making a profit on revenue account in any year, after proper provision for obsolescence, such profit shall be applied in the first instance to the declaration of a dividend on share capital up to a figure of 6% in any year before any sums are carried to any reserve account."

BOAC contributed eight and Cunard its two Boeing 707s. BOAC-Cunard

44. Ibid., 21/2/63, p.251.

45. Cunard's share was increased from 25 to 30% at the instance of the Treasury. Select Committee on Nationalised Industries, op.cit., p.63.

then leased to the Corporation all its aircraft, engines, etc., for a sum per annum equal to "the obsolescence charge in respect thereof in the books of the company." Subject to various clauses, BOAC agreed to provide and sell to the new company - and the latter agreed to exclusively purchase from BOAC - "all the aircraft flying hours required to enable the company to provide the company's services."⁴⁶

Merger is really the wrong word to describe the BOAC-Cunard agreement. "BOAC-Cunard is not BOAC-Cunard Eagle," commented an editorial in 'Flight', "a partnership between a corporation and an independent. In the air transport sense the new partnership is 100% BOAC."⁴⁷ Similarly, Sir Basil Smallpiece, BOAC's managing director, maintained:

"For all practical purposes we are still the same people, doing the same work, flying the same routes...As it is the intention that BOAC-Cunard should not, at any rate for the present, have any staff of its own, but use the staff of its parent organisation, BOAC's staff in the new company's area will continue to be BOAC staff and do the same work that they have always done." 48

If this was the case, what benefits did the Corporation hope to gain from its partnership with Cunard?

One of the principal arguments put forward at the time was that BOAC would be able to take advantage of Cunard's extensive experience, sales network and reputation, especially in North America. The shipping company had, for example, 17 offices in the United States, 9 in Canada and 23 in Europe. But such benefits can easily be over-rated. Under an agreement signed in 1960, the North Atlantic Shipping Conference and IATA-member airlines had decided to operate a system of mutual exchange for booking facilities.⁴⁹ Cunard's offices, therefore, were already selling BOAC tickets. Even if an

46. 'Flight', 16/12/65, p. 1035 and 22/9/66, p. 505.

47. Ibid., 19/7/62, p.77.

48. Ibid., 2/6/62, p.957.

increase in such sales could confidently be expected, in the words of 'The Economist':

"Cunard's mammoth but Edwardian sales organisation... needs BOAC rather than the other way round; if it could not attract the additional business of selling BOAC's tickets, Cunard would be hard put to it to justify the present size of its sales force in North America and much encouragement for the merger with BOAC has come from the American end of the Cunard empire." 50.

At the same time, Cunard did not have a reputation for being one of the most advanced, go-ahead companies in Britain. The dynamic element in the Cunard/Eagle partnership undoubtedly came largely from the Eagle side, and most of these men left with Bamberg.

There were, however, two other advantages for BOAC in the deal. In the first place, its claim in evidence to the ATLB that it had ordered sufficient capacity for the next five or six years had proved highly optimistic. The Corporation now desperately wanted to purchase additional American aircraft, but was prevented from doing so by the Minister. Cunard Eagle's two Boeings provided a convenient solution to the problem.⁵¹ The other advantage that accrued to BOAC was the fact that the merger eliminated a competitor that had been, and could easily be again, a very irritating thorn in its side. The State airline had been successful in denying Cunard Eagle a North Atlantic scheduled service licence; but there was no guarantee that a future Minister would not reverse the situation. In addition, there was evidence to suggest that Cunard had opened negotiations with certain West Indian Governments with a view to the establishment of one or more national airlines in the Caribbean. One jet had already been placed on the Bahamas register in the

50. 23/6/62, p.1234.

51. Select Committee on Nationalised Industries, op.cit., Evidence, p.88.

name of Cunard Eagle (Bahamas) Ltd., which had licences for the Bermuda-London and Bermuda-Nassau-Kingston routes.⁵² This was potentially just as serious a threat to BOAC as the original ATLB decision, for it offered the possibility of avoiding the provisions of the Civil Aviation (Licensing) Act. A West Indian national flag-carrier, owned by Cunard, would be able to negotiate traffic rights throughout the world, including the US and Europe. To a large extent, therefore, the formation of BOAC-Cunard was simply a way in which the Corporation paid Cunard to stay off its routes. Sir Matthew Slattery referred to these potential benefits in evidence to the Select Committee on Nationalised Industries:

"Well, they turned...down (the proposal for a joint BOAC-Cunard company) and bought Eagle, and then they were very troublesome, being a frightful nuisance in the Bahamas, where they had set up a rival airline to Bahamas Airways, so that we both lost a quarter of a million a year. When they had the licence revoked they came along to us and said they had two Boeings on order and they did not know what to do with them. I desperately needed those Boeings to replace Comets and Britannias which were becoming hopelessly uncompetitive, and the combination of all these circumstances led me to suggest that they went back to my suggestion of 1960."⁵

Politically one can only describe the whole affair as highly dubious. Effectively what happened was that a private company had been allowed to buy one-ninth of a nationalised Corporation; BOAC had hived-off 45% of its turnover, the amount earned on the routes in question, into a separate company over which it did not have full control.⁵⁴ There was certainly no precedent for such an action. Nationalised undertakings had established jointly-owned subsidiaries with private firms in peripheral activities, but none had ever before allowed private capital to buy itself into the public sector. Parliament, however, was not permitted to know the details of the

52. 'The Economist', op.cit.; 'Flight', 18/4/68, p.589-90.

53. Op.cit., p.146-7.

54. Hardcastle: 'Easy Money for Cunard', New Statesman, 29/10/65. p. 634.

agreement or to discuss its correctness. BOAC-Cunard repeatedly refused to allow the contract to be published or even to be shown to the Shadow Cabinet by the Minister concerned, although the company had been obliged, under American law, to file a copy with the CAB before it could fly into the United States.⁵⁵ Whether there was any pressure from the Government in favour of the merger is not totally clear. The proposal was certainly referred to the Minister, Mr. Peter Thorneycroft, who took the view that it "might well be of benefit to British civil aviation."⁵⁶ Ian Mikardo, on the other hand, argued that the Government was more actively involved:

"I was closely associated with (the BOAC-Cunard deal) as a member of the National Joint Council for Civil Air Transport. The facts are that, without very heavy Ministerial pressure, BOAC would not have entered into that contract. There is no question about that. It was a shotgun wedding." ⁵⁷

Both the Government and BOAC's management denied that this was the case.

For Cunard, however, the situation must have been highly satisfactory. Although BOAC, like most airlines, lost money on the North Atlantic routes in 1961, they had been profitable for at least the previous two years.⁵⁸ It is not true, as has often been claimed, that the North Atlantic services are BOAC's most profitable (the Eastern and African routes have in fact made profits more consistently⁵⁹), but at the same time they are far from white elephants. BOAC-Cunard had agreed to hire all its capacity from BOAC, with the proviso that it never asked for less capacity than that represented by the ten original jets. In other words, after a relatively short period demand would undoubtedly outstrip this minimum capacity requirement

55. 'The Economist', 8/2/64, p.530.

56. BOAC Memo to Select Committee on Nationalised Industries, op.cit., Appendix 21, p. 275.

57. Hansard, op.cit., 22/11/65, vol.721, cols.69-70.

58. 'Flight', 5/7/62, p.5.

59. Select Committee on Nationalised Industries, op.cit., p.64.

and BOAC-Cunard would never have to worry about excess aircraft; that was the Corporation's problem. One cannot help agreeing with William Hardcastle's conclusion:

"Carve-up is a vulgar journalistic phrase, but it is one that comes irresistibly to mind when one gazes at the thick 'trenches' that the Cunard Steamship Company is slicing off the meaty profits of (BOAC)... A more solidly copper-bottomed formula for turning a profit could scarcely be conceived." 60

Similarly, even 'The Economist' was moved to remark: "Whatever one's views on nationalised versus private industry, the plain fact is that the arrangement between the two airlines comes close to making a gift of public assets to private investors, i.e. the shareholders of Cunard."⁶¹ Not only did Cunard gain access to an air route in which it was vitally interested, on a scale that it could not possibly have hoped to achieve on its own, but the investment proved to be highly profitable. After an initial loss of £450,000 in 1962/63, BOAC-Cunard recorded profits of £2,900,000 and £4,270,000 over the following two years. In 1956/66 Cunard itself would have incurred a loss of over £300,000 but for the dividend payments of £504,000 it received from BOAC-Cunard.⁶²

Naturally there had been a great deal of opposition to the whole affair, not least in Parliament. The Labour Party remained strongly opposed to the merger and insisted that a future Labour Government would re-nationalise BOAC-Cunard. Yet with the defeat of the Conservatives in 1964, the new Government appeared strangely ineffectual. Labour remained irreplaceably opposed to the agreement, but seemed either unwilling or unable to do anything about it. The Minister of Aviation, Roy Jenkins, told the House of Commons in

60. Op.cit.

61. 23/6/62, p. 1234.

62. Hansard, op.cit., 22/11/65, vol. 721, col.39; 'Flight', 22/9/66, p. 505.

November, 1965:

"I must say frankly to the House that I do not like this arrangement ... But, so far as BOAC was concerned, the contract was freely, even if mistakenly entered into. I have to deal with the situation as I find it. If at some fairly early date it were possible to dissolve this partnership in a way that did no commercial harm to BOAC and was a reasonable bargain from the point of view of public property, I would welcome such a development, and I have left Sir Giles Guthrie in no doubt about this." 63

To add insult to injury for the opponents of the merger, Sir Basil Smallpiece, who had been managing director of BOAC at the time of the contentious BOAC-Cunard agreement and who had subsequently retired from that position under strong Government pressure, became chairman of Cunard in November, 1965.⁶⁴

Government and public pressure may well have had an effect in bringing about the announcement in September, 1966, that the partnership was to be dissolved. But far more important was the financial position in which Cunard found itself. The shipping company was faced with serious capital shortages because of the need to modernise its container, tanker and passenger line operations. In addition, it would have had to find considerable new finance to maintain its share of the BOAC-Cunard equity, since the airline was likewise about to embark on a major re-equipment phase, in particular with the purchase of Boeing 747 'Jumbo' jets. The two partners issued the following statement on September 16th:

"On the proposal of the Cunard Steam-Ship Co.Ltd., BOAC has agreed to acquire for cash Cunard's 30% holding in BOAC-Cunard effective on October 15, 1966. The purchase consideration of £11.5 million is related to Cunard's proportion of the estimated net asset value of BOAC-Cunard. After October 15, 1966, the air routes now operated in the name of BOAC-Cunard Ltd. will be 100% BOAC... BOAC-Cunard Ltd. came into existence in June, 1962, and has traded successfully and profitably. The purchase agreement provides for the continuation of joint selling arrangements. Air/sea interchange will continue and be strengthened." 65

63. Hansard, op.cit., col.40.

64. 'The Economist', 13/11/65, p.755.

65. 'Flight', 22/9/66, p. 505.

At the time of the dissolution of the agreement BOAC-Cunard's fleet capacity, leased from the principal parent company, had increased from the initial ten 707s to four BAC Super VC-10s, eleven 707-436s and two 707-336C freighters. Thus, after four years, ended the "most flagrant example yet of public assets being used for the benefit of private shareholders."⁶⁶ While probably not materially effecting the overall growth and development of British civil aviation, the episode clearly had a depressing effect on the private sector, eventually contributing to the collapse of the second largest independent airline, British Eagle.

66. 'The Economist', 13/9/66, p.1106.

Chapter VIII

TROOPING

During the 1950s trooping, or the carriage of Servicemen and their families to overseas bases and back, was increasingly carried out by air rather than by sea. It was primarily to the charter airlines that the Government turned to perform the task, and throughout most of the period covered by this study trooping accounted for a very large proportion of the Independents' total effort. The first public recognition of the use of civil aircraft in this role appears to have occurred in August, 1950, when Mr. Arthur Henderson, Secretary of State for Air, referred in a speech at Plymouth to the use by the RAF of the resources of the privately-owned carriers. He said that charter aircraft were already carrying Royal Auxiliary Air Force squadrons and other units to their training camps in different parts of the UK and Germany and he hoped that the scheme would eventually have a much wider application.¹ In a debate in the House of Commons the following March, Henderson elaborated on the scheme, pointing out that some £250,000 had been spent during the previous financial year on the charter of aircraft for this purpose from both the nationalised and independent airlines.

"I think that it can be regarded as money well spent, not only because of the value of the service received, but also because it has helped to maintain a valuable and considerable potential represented by the civil aviation industry." 2

In fact, the principal reason for the use of civil operators rather than the RAF was that the expansion of Transport Command had been deliberately held back in favour of Bomber and Fighter Commands.

1. 'Flight', 17/8/50, p.204.

2. Hansard, House of Commons, 6/5/51, vol.485, col.252.

The carriage of troops by air, of course, was still regarded as an experimental, marginal exercise; the overwhelming majority of Servicemen at this time continued to travel by sea. But it was an experiment that proved successful and which in the long-run was to have considerable importance for the independent airlines.

Not long after Henderson's announcement in the Commons a number of sizeable trooping contracts were awarded by the Air Ministry to the charter carriers. In mid-1951, for example, Hunting Air Travel obtained what was claimed to be the largest passenger contract ever awarded to an independent transport operator. The agreement provided for the carriage of Service personnel and their families between the UK and Malta and Gibraltar, involving some 40-50 round-trips per month to each destination, or 30,000 passengers a year.³ Later in 1951 Airwork received an even larger contract, valued at over £1.25 million, for trooping operations between the UK and the Middle East.⁴ The return to power of the Conservative Party, and the introduction of the Tories' so-called 'New Deal' policy for civil aviation, gave an added fillip to the Independents' activities. In particular, trooping was singled out as one of the areas especially well suited to their type of operation; both BOAC and BEA were effectively excluded from participation.

Trooping rapidly established itself as an extremely important source of traffic and revenue for the private airlines. By 1955 it accounted for 67% of their total passenger-miles (see Table 8.1), and although this figure declined over the following years, it remained on average well over 45% until the mid-1960s. The growth of trooping operations is similarly reflected in a corresponding fall in the amount of general charter traffic carried by the Independents during

3. 'Flight', 17/8/51, p. 207.

4. Ibid., 9/11/51, p. 585.

the early 1950s. Government contracts increasingly provided the 'bread and butter' work, so that fewer airlines were forced to quote very low rates for the carriage of 'fill-up' cargo to keep their aircraft occupied. As a result much of this marginal traffic was no longer carried by air.

Table 8.1 : TROOPING OPERATIONS BY BIATA - MEMBER COMPANIES
1950/51 - 1965/66

	Passengers Carried	% of total	Passenger- miles performed (000s)	% of total
1950/51	4,926	-	-	-
1951/52	53,786	-	109,120	-
1952/53	88,285	-	192,500	-
1953/54	147,825	-	315,607	-
1954/55	214,594	-	387,546	67
1955/56	204,700	-	522,903	-
1956/57	157,035	-	516,302	-
1957/58	137,821	10	462,604	66
1958/59	142,085	10	419,557	49
1959/60	119,584	8	419,346	50
1960/61	171,138	8	520,346	45
1961/62	314,734	12	564,387	40
1962/63	396,540	14	750,727	49
1963/64	425,362	13	847,893	46
1964/65	156,121	-	646,618	-
1965/66	184,068	-	726,918	-

Nb. The table includes the majority of privately-owned airlines, but not all.

Source: BIATA Annual Reports.

Strategic Importance:

There seems little doubt that throughout the 1950s most of the larger private operators remained in business only as a result of the security provided by trooping contracts. The attempt by the Government to attain a measure of stability in the sector by giving the Independents a share of the scheduled service traffic was on the whole a failure. But even given this, initially at least trooping was in fact a very attractive type of work for the airlines. It involved the provision of a round-the-year service with a guarantee that every seat would be filled; there were no advertising costs, no sales effort, no load-factor problems, no peaks, no cancellations. Further, trooping flights usually took place on weekdays, leaving aircraft free at week-ends for use on holiday charters. The main attractions, however, must have been the sheer size of the contracts, making possible the optimum utilisation of equipment. For example, it was commonly accepted at the time that a Viscount had to be worked at least 2,500 hours per annum if it was to pay its way. Yet, according to G.H. Freeman, chairman of Transair, there was "no way in which you can get more than 1,000 hours a year out of seasonal flying...and you just can't justify the expensive purchase of Viscounts just for Inclusive Tours and seasonal work." On the other hand, under Transair's Mediterranean trooping contract, involving between 25 and 30 flights a month, its two Viscounts could each attain a utilisation rate of over 2,000 hours per annum, leaving less than 500 hours of general charter and holiday work for profitable operation.⁵

Thus, it is easy to understand the attraction of trooping for the airlines. The explanation of the Government's preference for the use of the Independents rather than the RAF or shipping companies was

5. Ibid., 4/10/57, p. 532-3.

partly a matter of cost (see below). But there would also appear to have been an element of subsidy involved. Trooping contracts were used as a means of supporting a fledgeling private sector. This seems to be the only rational explanation for the exclusion of the nationalised Corporations from participation and their later inclusion when the Government felt that the Independents could stand on their own feet. Such support was perhaps rather ironic in view of the frequent criticism voiced by the privately-owned carriers throughout the 1950s that the State airlines were 'subsidised monopolies'. An indirect subsidy was presumably justified on two counts: as a 'stop-gap' while the Independents were establishing themselves on a viable basis, especially as scheduled service carriers; and because of the potential strategic value of an air transport reserve.

The strategic importance of civil air transport has long been recognised. President Roosevelt described the airline industry as a "reservoir" of men and machines always available for the defence effort.⁶ His successor's Air Policy Commission noted in 1947: "The airlines have a fleet of aircraft of great value to the military services as a reserve in time of war. As a potential military auxiliary, the airlines must be kept strong and healthy."⁷ More recently, in the UK the Edwards Committee commented: "We take it... as axiomatic that a country with a strong and efficient air transport industry is strategically better placed than one without, even though it is not to be regarded or financed as part of the defence reserve."⁸

6. Thayer: 'Air Transport Policy and National Security', 1965, p.48.

7. Wheatcroft: 'The Economics of European Air Transport', 1956, p.203-4.

8. p.12.

The value of the charter airlines in this field was probably first fully realised and accepted during the Berlin Airlift, when the RAF lacked sufficient transport capacity and the Corporations were unable to provide aircraft without severely disrupting their scheduled services. After the Berlin episode both Labour and Conservative spokesmen repeatedly stressed the military importance of a strong non-scheduled airline industry. Although Berlin is the most famous example, the Independents were also called upon to support the RAF on a number of occasions over the next two decades. For example, several private operators, largely under the co-ordination of Airwork, helped in trooplifting to the Mediterranean during the Suez crisis. At the time it was estimated that approximately 200 privately-owned aircraft were available if the Government should require them, half of them large four-engined types.⁹

The role that the British Government envisaged the Independents playing in the military field has a number of similarities with the post-war development of the American 'supplemental' airlines. It might, therefore, be relevant to repeat the Civil Aeronautics Board's estimation in 1955, quoted by Thayer, of the contribution of the charter companies to national defence:

"An assessment of the importance of the irregular air carrier industry must include reference to the vital services rendered by these carriers in the interests of national defense... it is evident that the irregular air carriers have the necessary flexibility to meet the demands of the military, while...the certificated carriers, due to their commitments to render adequate service to certificated points, are not as flexible in meeting emergencies." 10

At the same time, however, Thayer's own assessment of the US non-scheduled operators should also be noted:

9. 'Flight', 17/8/56, p.240.

10. Thayer, op.cit., p.96.

"Simply stated, the facts of the matter have never supported the political image of the supplemental airlines. Their economic history demonstrates they had become largely superfluous by 1947, were sustained only by the Berlin and Korean emergencies, both of which occurred before the US had rebuilt its military strength, and are legal and economic anachronisms almost solely dependent upon Defense Department largesse". 11

It seems likely that, to a greater or lesser extent, the same can be said of the British independent airlines during the 1950s. Without indirect Government support the private sector would have experienced considerable difficulty in establishing an important position for itself in the UK air transport industry, despite large-scale backing from shipping companies. Such a policy had the special attraction of helping the Independents without significantly affecting the nationalised Corporations. Trooping was rarely referred to, of course, as a means of supporting the private operators. The justification was always economic, as in the evidence of Sir James Barnes, Permanent Under-Secretary of State at the Air Ministry, to a House of Commons' Committee:

"The basic reason (for air trooping) was the need to build up a substantial reserve of air transport resources. For example, when the Berlin air lift ceased, the charter companies were threatened with a very serious lack of business. It is also true that the cost of maintaining an air transport reserve of this character in the RAF would be very much greater than the arrangements we are now undertaking. What we have done is to take existing air transport capacity which, without wasting additional capital because it is already there, enables us to indulge in the experiments which we are now undertaking." 12

But trooping must really be regarded as a type of 'subsidy', at least to the extent that the Independents received a monopoly of a particular field of remunerative work, which otherwise they almost certainly would not have done. In other words, the justification for the introduction of large-scale air trooping was based squarely

11. Ibid., p.98.

12. Committee of Public Accounts, 1951/52, Evidence, p. 348.

on a combination of economic, political and strategic factors, although the decision to employ only the Independents was primarily a political one. There is no reason to suppose that the Corporations would not have been willing to take part in what was clearly at this time a profitable area of activity.

Air v. Sea Trooping

By 1951 a total of 21 ships with a combined tonnage of 204,000 gross tons were engaged in trooping operations, 16 owned by the Government and five chartered from private companies. Towards the end of the same year it was estimated that future overseas military commitments would require a trooping fleet of 13 ships. Over the years, except during emergencies, this number was gradually reduced, so that by early 1960 the last of the government-owned vessels on long sea voyages was withdrawn. This left five chartered ships, plus three publicly-owned troopships operating between Harwich and the Hook of Holland, a combined tonnage of 92,000 gross tons.¹³ The use of troopships was finally discontinued in 1962. Tables 8.2 and 8.3 give an indication of the size and time-scale of the transference of trooping operations from the sea to the air. By the mid-1960s only three classes of passengers were permitted to travel by sea : civilians employed by the Services, the families of Servicemen and senior officers of the equivalent rank of Major-General and above.¹⁴

13. Select Committee on Estimates: 'Trooping', 1961/62, Evidence, p.1.

14. Ibid.: 'The Movement of Service Personnel and Stores', 1966/67, para.4

Table 8.2: VOLUME OF TROOPING MOVEMENTS BY SEA AND AIR,
SELECTED YEARS, (000's)

	Sea	Air	Total
1950/51	423	18.5	441.5
1954/55	616	172.5	788.5
1958/59	323.5	136.5	460
1959/60	298.5	134.5	433
1960/61	225	174	399
1961/62	115	284 *	399
1965/66	5.5	-	-

* = Estimated. Nb. these figures are not strictly comparable with those in table 8.1

Sources: Select Committee on Estimates: 'Trooping', 1961/62, Evidence, p.19; Ibid: 'The Movement of Service Personnel and Stores', 1966/67, para.44.

Table 8.3: EXPENDITURE ON TROOPSHIPS, COMMERCIAL SEA PASSAGES
AND CHARTERED TROOPING AIRCRAFT, SELECTED YEARS, (£000's)

	Sea	Air	Total
1954/55	10,560	4,549	15,109
1958/59	7,803	5,574	13,377
1959/60	7,555	3,966	11,521
1960/61	5,694	4,320	10,041
1961/62	4,565	5,478*	10,043
1965/66	1,026	-	-

* = Estimated

Sources: as for Table 8.2

The main public justification for the increased use of air transport was that it saved both money and time and reduced the number of people in the 'pipeline' at any given moment. There was, however, some disagreement over exactly when the possible financial savings first became evident. An Air Ministry witness told the Select Committee on Estimates that the cost of air passages became generally less than that of sea passages about 1954/55. A Treasury witness, on the other hand, argued that there was no real turning point, but "the last and most notable stage" in the cheapening of air trooping came with the introduction of Britannia aircraft in May, 1959.¹⁵ In fact, as early as 1952 the Secretary of State for Air had claimed that it cost £4 less to fly a Serviceman to the Middle East than to send him by ship.¹⁶ Similarly, Sir James Barnes told the Committee of Public Accounts in the same year: "...I have satisfied myself that in each case they (i.e. air charters as distinct from troopships) are actually cheaper as conditions are now without taking account of the saving of time."¹⁷ Nevertheless, by 1961 there was absolutely no doubt about the financial and operational advantages of air trooping, as can be judged from Table 8.4.

15. Ibid., 'Trooping', 1961/62, para.8.

16. 'Flight', 5/12/52, p.692.

17. Op.cit., p.343.

Table 8.4: COMPARISON OF COSTS AND TIMING OF SEA AND AIR TROOPING, 1960/61

Route (UK...)	Approximate cost per passenger (£)		Journey duration (days)		
	Air Charter (all categories of personnel)	Troopship (Uniform- (Adult ed person family nel) members)	Air Charter	Troopship	
Gibraltar	a	2.7a	1.2a-2a	1	4
Malta	b	4.1b	1.7b-2.7b	1	8
Cyprus	c	3.4c	1.4c-2.3c	1	11
Aden	d	2.5d	1.5d-2.5d	1	14
Singapore	e	2.1e	1.5e-2.4e	1	23

- Notes: (i) letters substituted for confidential actual figures.
- (ii) cost per passenger by chartered aircraft includes the estimated cost of separate transportation of unaccompanied baggage.
- (iii) costs per passenger by troopship exclude the normal cost of messing for uniformed personnel and the cost of food for family members (which is recovered from latter group).
- (iv) troopship passages for children are charged at $\frac{1}{2}$ to $\frac{1}{4}$ the adult rate according to age.

Source: Select Committee on Estimates: 'Trooping', 1961/62, Evidence, p.22.

The disagreement over the time-scale of the relative cheapening of air trooping probably stems primarily from the fact that there are two ways of costing troopship operations. During the early 1950s it was thought vital, from a strategic point of view, to maintain a sizeable troopship fleet. Once this had been accepted as a 'fait accompli' it made sense to use the vessels rather than charter aircraft to carry troops. In other words, although the real cost of trooping by air was considerably less than sea trooping, the marginal

cost of the latter, once the ships had been paid for, was less than the cost of chartering aircraft. It was only with the decline in the envisaged strategic importance of such a reserve fleet, or the growing realisation that aircraft would in future be of more significance than surface vessels, that air trooping was able to take over on a large scale. As a memorandum from the Treasury put it: "So long as it is necessary to keep some troopships to meet possible operational requirements, it is obviously desirable to make the maximum use of them for normal trooping movements."¹⁸ A similar type of argument was to be used when trooping operations were transferred from the airlines to RAF Transport Command.

Disenchantment:

Despite their obvious usefulness for the independent operators, trooping contracts also brought problems, and it was not long before the airlines were complaining to the Government and seeking relief. The two principal drawbacks were the short duration and low revenue yield of most trooping agreements, both of which meant that it was often extremely difficult for the smaller companies to raise sufficient capital to purchase more modern, and therefore more efficient, aircraft. This point was strongly emphasised in the report of a civil aviation committee formed in April, 1957, by the Air League of the British Empire under the chairmanship of Sir Miles Thomas:

"The question of low yield from the business conducted by the independent companies is a dominant factor in their present situation. This, coupled with the insecurity of tenure

18. Select Committee on Estimates, op.cit. Evidence, p.76.

resulting from the extremely short term of the contracts granted by the Government..., has prevented them from obtaining the finance necessary to re-equip their fleets. These at present consist almost entirely of obsolescent aircraft. Indeed, so meagre is the return from the principal source of the independents' revenue that the committee find it difficult to believe that the majority of these companies can continue to operate indefinitely on their present basis of earnings." 19

Table 8.5 : SOURCES OF THE INDEPENDENTS' REVENUE, 1955/56

Type of Service	Load ton-miles (millions)	Estimated typical revenue rate per load ton-mile (d.)	Total revenue (£m)
Trooping	53.8	30	6.725
Charter and Contract	35.3	36	5.300
Colonial Coach	6.1	45	1.145
Normal International Scheduled Services	6.4	62	1.650
Vehicle-Ferry	4.6	42	0.805
Domestic Scheduled Services	3.1	54	0.700
Inclusive-Tours	2.5	35	0.365
Total Traffic Revenue			approximately £17 million

Source: 'Flight', 6/12/57, p.868.

To deal first with the question of low revenue yield, Table 8.5 would certainly appear to support the view of the Air League's committee. In terms of revenue per load ton-mile trooping yielded

19. The Air League of the British Empire: 'The Future of British Air Transport', 1957, p.11.

the lowest return of any of the Independents' activities. In addition, the charter companies' average revenue rate at approximately 36d per load ton-mile was already depressed compared with that of other airlines (the corresponding figures for BEA and BOAC were 64d. and 62d. respectively).²⁰ But at the same time it must be remembered that trooping was a particularly low cost operation for the reasons already stated, so that low revenue yields were not necessarily synonymous with low profitability. In any case, there was little that the Government could be expected to do, assuming that, apart from the strategic implications, one of its prime objectives was to obtain the best value possible for the taxpayers' money. If there was a problem it was mainly the result of the highly competitive environment in which the airlines operated.

The argument that most contracts were of too short duration to give companies the security they needed to purchase expensive new aircraft appears to be more valid. For most of the 1950s contracts were usually awarded for a period of one year, with a customary (and invariably exercised) option of a further year. The Independents pointed out as early as 1952 that the Government was more than willing to award ten-year operating contracts to the owners of two new troopships then under construction.²¹ There was, of course, a considerable difference between the capital cost of a new ship and that of a second-hand aircraft, but this did not stop the complaints from the private airlines, which gradually gathered momentum

20. 'Flight', 6/18/57, p. 868.

21. Ibid., 10/10/52, p. 476.

over the following years. The Government was certainly aware of the problem, and indeed by the early 1960s the average contract length had been extended somewhat to almost three years. From the Government's point of view, however, the advantages of short-term contracts were simply too great to be given up to please the Independents. The Estimates Committee reported in 1961/62:

"Your Committee would not expect any economy to result from committing the Air Ministry to longer contracts in the present state of the market. The Treasury do not expect any difficulty in obtaining tenders for contracts of the present length, and Your Committee consider that longer contracts would offer no financial advantage and would curb the freedom of the Air Ministry to make new arrangements to meet the changing requirements of the Service departments." 22

The Government was not, therefore, prepared to come to the Independents' help by awarding longer contracts. But it was sufficiently concerned to attempt to help them more directly in obtaining modern equipment, if only because the lower operating costs of such aircraft would inevitably reduce the overall cost of trooping. Consequently, in 1955 three Britannias were ordered for delivery in 1957/58, with the intention of eventually handing them over to the charter companies. Once the advantages in operating aircraft of this type became evident, it was argued, the airlines would experience less difficulty in raising the necessary finance. Tenders were called for in 1957, with the option of buying the Britannias and obtaining a five-year contract or leasing them under a three-year agreement. The tenders against purchase were in fact very poor, but on the basis of leasing it was estimated that some £1.5 million would be saved annually on the Far East service alone compared with the previous Hermes contracts. Thus, the Government's action in placing orders for the Britannias appeared to be justified.

Unfortunately, despite previous complaints about the difficulty of raising sufficient capital, a few of the larger Independents had in fact purchased modern equipment. Two or three of these companies on their own initiative quoted for the contracts on the basis of using their own aircraft, and this resulted in the saving of an estimated additional £250,000 on the routes in question.²³ For example, the Far East trooping contract was awarded to Hunting-Clan, whose principal shareholder, British and Commonwealth Shipping, had bought two Britannias primarily for trooping work. Similarly, Transair obtained the Mediterranean contract because it had previously ordered two Viscounts as a "calculated risk."²⁴ "Since then we have not really been frightfully attracted by the idea of buying aircraft for contractors to buy off us or hire off us."²⁵

The Corporations Demand A Share

By the early 1960s the number of airlines engaged in trooping had shrunk dramatically, mainly as a result of the mergers that had taken place in the industry and the run-down of British overseas military bases. There were only three major contractors by 1961/62:

Contract	Operator	Aircraft
UK-Singapore/Hong Kong	BUA	Britannia
UK-Aden/Nairobi/Cyprus	BUA	Britannia
UK-Gibraltar/Malta/ North Africa	Cunard Eagle	DC-6
Medair (within the Mediterranean area)	Cunard Eagle	Viking
UK-North West Europe	Silver City	Hermes 26

23. Ibid.: 'The Movement of Service Personnel and Stores', 1960/67, Evidence, Q.1225.

24. 'Flight', 24/4/59, p. 588, and 5/7/57, p. 29.

25. B. Humphrey-Davies, Assistant Under Secretary of State (Supply); Select Committee on Estimates, op.cit.

26. Ibid. 'Trooping', 1961/62, Evidence, p.23.

An important development at this time was the introduction of air trooping to Germany. A trial one-year contract was awarded to Silver City in September, 1960, involving about 50 flights (3,500 passengers) a month in each direction.²⁷ It is interesting to note the way in which Silver City worked out its tender for this contract. According to the airline's chairman:

"the price at which we tendered for this particular contract was unduly depressed because in fact we had these aircraft as a residual of the past and we quoted a price which in fact did not contain any element of depreciation of the aircraft because we had no use for them sufficient to occupy the time." 28

This type of marginal pricing was becoming more and more common in tendering for trooping work and was mainly responsible for the depressed, and worsening, revenue rates. The initial German experiment was successful and the following year a contract for the carriage of 11,000 passengers a month, using Viscount aircraft, was awarded to BUA.²⁹ This finally marked the end of sea trooping on a large scale.

The exclusion of the nationalised airlines from trooping work on the grounds that they had a near-monopoly of scheduled services could not be maintained after the passing of the 1960 Civil Aviation (Licensing) Act. In fact, the Corporation had for some time participated in small-scale 'ad hoc' trooping operations that were normally arranged at short notice.³⁰ But they wanted permission to carry large numbers of Servicemen and their families on scheduled services at reduced fares and to apply for long-term trooping contracts. At first the Government procrastinated and then referred the Corporation's application to the Air Transport Licensing Board. The ATLB eventually

27. 'Flight', 23/9/60, p.522.

28. Select Committee on Estimates, op.cit., p.58.

29. 'Flight', 13/7/61, p.62; 'Acroplane', 5/10/61, p.447.

30. Such work accounted for about 5% of the total air trooping activity by 1963. 'Flight', 4/4/63, p. 456-7.

reported that it felt itself unable "to come to any conclusion or to make any recommendations."³¹ In other words, the problem was rapidly dispatched back to its rightful place with the Government. Finally, in November, 1964, the new Labour Minister of Aviation announced that the State airlines' request was to be granted.³²

Both the Government and the Independents probably expected BOAC and BEA to move into charter trooping on a fairly large scale. Indeed, the Ministry of Defence admitted that it would welcome tenders from new entrants into the field, since by then the contracts were shared by just two airlines. But it later emerged that this was not what the Corporations had in mind at all. They were far more interested in filling up their empty scheduled service seats than in bidding for long-term charter contracts. BOAC stated that it "had no surplus aircraft for charters", while BEA similarly argued that it did not want to expand its existing fleet for Service charter work.³³ In addition, the rates quoted for seats on scheduled services were not sufficiently competitive, with the result that the nationalised airlines failed to make any notable impact in the area of trooping. In the first full year of the new scheme's operation, for example, BEA carried only 733 Service passengers at rebated fares, and total revenue earned barely exceeded £8,000.³⁴ Thus, the Independents on the whole maintained their monopoly of trooping work.

The RAF takes over

The RAF, like the nationalised airlines, had always carried a small proportion of trooping traffic, amounting to some 4-6% of the total by the beginning of the 1960s. The Independents had been

31. Ibid., 26/9/63, p. 532.

32. Select Committee on Estimates: 'The Movement of Service Personnel and Stores', 1966/67, para. 13.

33. Ibid., para. 14.

34. Ibid., para 16.

worried for some time about the consequences of a possible increase in this percentage. As early as December, 1957, the head of one airline mentioned in a speech that he viewed "with apprehension" the large expansion of Transport Command that would take place with the introduction of 13 new Britannia aircraft.³⁵ But it was not until the mid-1960s that the RAF began to carry a major part of the traffic. In evidence to the Estimates Committee in 1961 the Air Ministry stated that it had carried out a study of the comparative costs of making increased use for purely routine logistic purposes (i.e. trooping and/or freighting) of the RAF's Britannia units or of obtaining the same airlift capacity by chartering civil aircraft. The study concluded that charters were in fact more economical.³⁶

Nevertheless, the Select Committee recommended "that when the strength of Transport Command is increased, a higher proportion of its effort than at present should be devoted to trooping or freighting."³⁷ There was indeed a partial move in this direction, particularly following the order for five VC-10s for the RAF in 1961. By early 1963 Transport Command had already taken over the UK-Gibraltar/Malta services from Cunard Eagle.³⁸ It appears that at least BUA, who earned some £4 million annually, 55% of its total revenue, from trooping operations, saw the writing on the wall. The airline withdrew from one contract in order to use its VC-10s, previously employed on trooping for a while, on the new South American routes. BUA chairman, Sir Myles Wyatt, commented in 1964:

"Trooping as a cut-price enterprise has been successful, but for a long time it has been a decreasing proportion of our business and we should like to decrease the proportion still further." 39

35. 'Flight', 20/12/57, p.969; the number was later increased to 20.

36. 'Trooping', 1961/62, Evidence, p.96.

37. Ibid., para.26.

38. 'Flight', 4/4/63, p. 456-7.

39. Ibid., 1/8/63, p.158
and 28/5/64, p. 889;

'The Economist', 28/11/64,
p.1051.

By the time that the Estimates Committee again investigated trooping, in 1966/67, the RAF's share had risen to 13%⁴⁰, but this still left the operation as a whole very much in the hands of the civil airlines. The Ministry of Defence informed the Committee that it had established a Working Party to investigate whether Transport Command should undertake a larger proportion of the task. The conclusion reached was that a considerable expansion in air trooping by the RAF was indeed desirable, so that the charter airlines would be excluded from virtually all Service movements except those to Germany and 25% of those to the Far East. The estimated net saving that would result from the increased use of Transport Command in this way over the nine-year period, 1968/69 to 1976/77, would amount to £4,410,000.⁴¹

Unfortunately, as the Select Committee pointed out, the Ministry's costing was defective in many respects. For example, it was based on the premise that virtually all the costs incurred by Transport Command for trooping would be incurred in any case, whether the actual trooping took place or not, which is difficult to accept. Similarly, no mention was made of depreciation of the capital represented by the 14 new RAF VC-10s, nor of any increased maintenance or servicing costs as the aircraft get older. Finally, no allowance was made for a reduction in charter costs in future years, as had consistently happened up till then.⁴² The Committee was, therefore, highly critical of the Ministry of Defence's study:

"...the decision largely to abandon trooping by charter in favour of Transport Command was of an order of magnitude too great to undertake without a study of all the relevant consequences and the full costing of Transport Command's operations should have been an important factor in this study."⁴³

Trooping, however, was not the only activity that was being transferred; air freighting for the Services was also gradually taken

40. 'The Movement of Service Personnel and Stores', 1966/67, para. 10.

41. Ibid., paras. 24 and 31.

42. Ibid., paras. 32-34.

43. Ibid., para. 36.

away from the Independents, especially after the introduction of the RAF's new Belfast aircraft. The value of such air freight to the charter companies fell from £2,957,000 in 1965/66 to an estimated £2,451,000 in 1966/67, while the RAF's share rose from £2,033,000 to £3,124,000 during the same year.⁴⁴ Thus, in complete contrast to the previous report on trooping, the Estimates Committee recommended:

"that in considering the future ordering of aircraft for Transport Command... the possibility of making more use of the civil capacity of the charter companies and the Air Corporations, and of including them in future contingency plans, should be examined much more closely than hitherto."⁴⁵

So far the impression has been given that economic evaluation played an important part in determining whether or not to expand Transport Command. The reality, however, is rather different. The decision to cut-back on the use of civil airlines may have reflected the changing strategy of defence planners; increased emphasis was placed on the mobility of a UK-based military force rather than on overseas bases. It may have been felt that the need to transport such a force rapidly to trouble spots necessitated the expansion of the RAF's long-haul capacity. Equally, the fact that the Independents were now in a much stronger position, especially with the growth of their scheduled services and inclusive-tour charters, may have been taken into account. But it seems likely that a further factor was also of some importance, even if its relevance is not at first obvious, namely the decision by the Government to encourage BOAC to buy VC-10 aircraft. To see why there might be a connection it is necessary to look at the sorry history of this purchase in a little more detail.

44. Ibid., paras. 49-50; the value of Transport Command's airlift was calculated in terms of the money saved by not forwarding freight by charter.

45. Ibid., para.42.

In the late-1950s BOAC was faced with the problem of buying a fleet of long-haul jet aircraft to maintain its competitive position. It was permitted by the Government to purchase 15 Boeing 707s (later increased to 20) for the North Atlantic routes, but was warned that all future equipment must be British. Consequently, BOAC entered into negotiations with Vickers concerning the possible purchase of the proposed VC-10 aircraft for its non-Atlantic services. The Corporation envisaged a short-term requirement for about 25 VC-10s, plus an option on a further ten. This, however, was not sufficient for Vickers, who estimated that the break-even figure would be at least 45.⁴⁶ The result of the negotiations was that in April, 1957, BOAC announced that it had placed orders for 35 VC-10s, plus options on a further ten aircraft, despite the fact that the decision was widely believed in the industry to reflect a highly optimistic forecast of future traffic trends.⁴⁷

The Corporation did not want to even consider the possibility of converting the ten options into firm orders until at least August, 1962. In January, 1960, however, Vickers informed the airline that the financial position concerning the VC-10 was serious enough to jeopardise the whole project. The contract would only be continued with if the ten options were taken-up immediately. These ten aircraft were to be 'Super' VC-10s, a larger version of the 'Standard' VC-10 capable of crossing the Atlantic. There were undoubtedly two pressures operating on BOAC's management at this time. The one was a fear within the airline that the situation which resulted from the Comet disasters in the mid-1950s, when the Corporation suddenly found itself drastically short of capacity, would re-occur. The other came from the Government, which at the

46. Select Committee on Nationalised Industries: 'BOAC', 1963/64, p.17.

47. See, for example, 'Flight', 7/6/57.

time was actively engaged in promoting rationalisation within the UK aircraft industry, and in particular the formation of the British Aircraft Corporation (BAC), which was to include Vickers' aircraft-manufacturing subsidiary. In the event, BOAC did place orders, in June, 1960, for ten Super VC-10s; the contract was later modified to 30 Super and 12 Standard aircraft to keep the cost with the Treasury's capital authority.⁴⁸

With the appointment of Sir Giles Guthrie as chairman of BOAC a thorough review of capacity requirements was undertaken. By then it had become blatantly clear that too many aircraft had been ordered. Guthrie estimated that in the foreseeable future the Corporation would need a fleet of 39 long-haul jets, instead of the 62 currently in service or on order (20 707s, 12 Standard VC-10s, and 30 Super VC-10s). He wanted to cancel the Super VC-10s and order immediately a further six Boeing 707s. This, however, proved unacceptable to the Government. Instead, BOAC was told to take 17 Super VC-10s. To compensate BAC three more Super VC-10s were ordered for the RAF.⁴⁹ The connection, therefore, between this purchase for the RAF and BOAC's cancellation is indisputable. But this was the third order placed for VC-10s for Transport Command since 1961, the previous two instalments being for five and seven Standard aircraft. Although difficult to prove categorically, in view of the pressure exerted on BOAC to buy the aircraft, the financial positions of Vickers and BAC and the desire on the part of the Government to see the BAC merger succeed, it seems highly unlikely that the RAF's orders were placed on purely economic grounds. Despite previous purchases of Britannias and Comets, the addition of

48. Select Committee on Nationalised Industries, op.cit., p.21-22.

49. Hansard, op.cit., 20/7/64, vol.699, cols.39-49.

VC-10s to Transport Command's fleet was in fact a major departure from the role it had been performing since the war. For once these aircraft had been ordered, work had to be found for them, which could only mean an increase in the RAF's trooping activities, and a reduction in that of the Independents. As the Select Committee on Estimates remarked:

"It is now unfortunately too late for any change in the Ministry's plan to expand Transport Command to be made. In a sense it was already too late for any other system of trooping to be adopted once the decision was taken to buy the new VC-10 for the Services in the numbers then fixed, since some peace-time use for a proportion of the new aircraft's flying time had to be found." 50

Recent Developments:

By 1966/67 the main trooping contracts and contractors were as follows:

Contract	Operator	Aircraft
UK-Singapore/Hong Kong	British Eagle	Britannia
UK-Bahrein/Aden	BUA	VC-10
UK-Malta/North Africa and Medair	British Eagle	Viscount
UK-North West Europe	BUA	Viscount/BAC 1-11 51.

With BUA gradually withdrawing from trooping, Eagle was left as the major operator in the field, until the RAF took over. On its long-haul trooping commitments, Eagle employed six or seven Britannias, plus one or two reserve aircraft kept for 'ad hoc' requirements. To give some idea of the relative size of these contracts, British Eagle was carrying some 800 passengers per week between the UK and Singapore, compared with BOAC's eight scheduled jets each week to

50. Op.cit., para.41.

51. Ibid., Evidence, p.1.

the Far East with a total capacity of about 1,000 seats.⁵² But despite their size, trooping contracts were no longer a profitable source of business. The Edwards Committee noted:

"The history of competitive bidding for trooping contracts does not appear to have been entirely happy and we understand that the past rates for this traffic were forced down to levels which various witnesses have said were uneconomically low. It is not surprising, therefore, that trooping operations have contributed very little to the profitability of the independent airlines." 53

The RAF eventually took over responsibility for most trooping operations, so that to-day only two contracts remain. The largest of these is the UK-Germany agreement, from which BUA withdrew in 1969 on grounds of unprofitability. Britannia tendered successfully for the £1.5 million contract, involving approximately 2,000 hours of Boeing 737 mid-week flying per annum,⁵⁴ and claims to be operating the service profitably. The other contract is held by Monarch and consists of one Britannia flight per fortnight (about 2,000 hours a year) to Australia. Trooping accounts for some 9% of Monarch's output and is clearly only profitable if priced on a marginal basis.

52. Ibid., qs 301, 306 and 355.

53. p.22.

54. 'Flight', 17/4/69, p. 618.

In conclusion, therefore, trooping was a major factor in the post-war growth of the Independents, probably as important in the 1950s and early 1960s as inclusive-tours have become today. The transference of trooping from the sea to the air and the use of the airlines rather than the RAF were primarily matters of cost, although political and strategic factors also played a part. But the exclusion of the Corporations was quite simply a political decision of some importance. There appears to be some evidence to suggest that it was an indirect means of supporting the private sector in order to provide competition for the nationalised airlines and a strategic reserve in case of military emergencies. In other words, the evaluation of the economic factors involved was of only limited importance. This is equally true of the decision to expand Transport Command in the 1960s and deprive the Independents of most of their trooping work. By then, however, the private carriers had a much stronger base on which to build, partly as a result of the 1960 Civil Aviation (Licensing) Act, but probably mainly because of the growth of inclusive-tours and affinity-group charters. To a large extent the carriage of passengers in sun-hats has replaced those in khaki. Although the Independents still engage in trooping, its relative importance is minimal. Two points seem to stand out from this examination of trooping services. The first is the very low level of control the airlines appeared to have over their own environment. They were really only pawns in a political game of chess, which reflects the extent of political interference in the air transport industry. Secondly, given the economics of charter airline operation, the inevitable result of an over-competitive market was to reduce trooping to a marginal exercise. There are clearly potential dangers inherent in such a situation, especially when the marginally-costed work accounts for a large proportion of the output of a company or industry.

VEHICLE AIR-FERRIES

One of the more unusual aspects of the post-war development of the independent airlines has been the rapid growth and eventual decline of the cross-Channel vehicle air-ferries. The companies that pioneered car-ferry services operated almost on the periphery of UK air transport, discovering and exploiting a highly specialised corner of the total market. But the development of such airlines forms an important episode in the expansion of the private sector of the industry and is therefore relevant to any discussion of the overall stability of the Independents.

The early history of the cross-Channel vehicle air-ferries revolves very much around the airline Silver City Airways, founded in 1946 by an Australian mining group, based at the 'Silver City' of Broken Hill, to provide essential transport services while the world's airlines were being reorganised. A UK company, British Aviation Services (Britavia), initially appointed to manage the new airline, purchased Silver City's entire shareholding in 1948.¹ Britavia itself had been formed in 1945 to act as technical advisor to the British Aviation Insurance Company, and prior to absorbing Silver City had been primarily engaged in the ferrying of DC-3s from Europe to Canada for refitting by Canadair.² On July 14th, 1948, Silver City inaugurated, as an experiment, the world's first vehicle air-ferry between Lympne and Le Touquet, using a Bristol 170 Freighter on hire from the manufacturers. The service had to be operated initially strictly on a charter basis, as the Independents were not yet allowed to run scheduled services. The two terminal airports

1. Davies: 'A History of the World's Airlines', 1964, p.314.

2. 'Aeroplane', 7/2/47, p. 168-9.

were chosen because they offered the shortest possible air link between England and France, the air journey taking only some 25 minutes. The company charged £27 single for a medium-sized car and four passengers. This was considerably higher than by surface transport, but the sea-ferries were experiencing difficulties in coping with the increased post-war demand for travel and were fully booked for long periods in advance.

During the ten-week experiment 170 cars were carried across the Channel, sufficient to persuade Silver City to repeat the service the following year. By then, however, Government policy towards the Independents had changed and Silver City became one of the initial nine charter companies to sign an 'associate agreement' with BEA and receive a one-year licence to operate a scheduled service. Once established on a regular basis cross-Channel air-ferry services went from strength to strength. During 1949, the first full year of operations, 2,600 cars and 7,900 passengers were carried. By 1955 the number of cars carried had risen to over 42,500 and the number of passengers to some 166,000 (see Table 9.1). The airline's licence was renewed at the end of 1949, this time for a two-year period. By 1951 eight Bristol Freighters were employed on the Lypne-Le Touquet route during peak week-ends, and for the first time the service was continued throughout the winter. In March, 1951, Silver City gained the security that most of the privately-owned carriers had been demanding for some time with the award of a five-year licence. Following the electoral victory of the Conservatives later the same year the licence was extended to cover a ten-year period.⁴ In fact, vehicle-ferry services were exactly the type of activity that by the early 1950s both the Labour and Conservative Parties saw as most suitable for the Independents. They required the kind of highly

3. Davies, op.cit., p. 314-5.

4. The Times Review of Industry: 'Cross-Channel Air Ferries', 1955 ,

specialised equipment and knowledge that BEA did not possess, or indeed appeared to be very interested in acquiring. This probably explains why vehicle-ferry operations managed to remain relatively immune to the political arguments that inevitably arose whenever a private airline attempted to enter a scheduled service market where the State Corporations held a monopoly; hence, the unusually long periods covered by Silver City's licences.

The success of the Lympne-Le Touquet service resulted in the development of further routes, so that by the beginning of the 1955 holiday season a total of seven routes to the Continent were in operation; Ferryfield to Le Touquet, Calais and Ostend; Southampton to Cherbourg and Deauville; Gatwick to Le Touquet; and Birmingham to Le Touquet. In addition, two services were run to Northern Ireland. To operate this network Silver City had 15 car-carrying aircraft, including nine Bristol Mk.32 'Superfreighters'.⁵ The Mk 32s, costing almost £100,000 each, were larger versions of the Bristol 170, capable of carrying three instead of two medium-sized cars and eight extra passengers. It was estimated that the replacement of a 170 with a Mk.32 would result in a 33% rise in revenue per hour compared with an increase in total costs of only about half that amount. During 1953 Silver City also experimented with the use of a Breguet 'Deux Ponts' which carried six cars, three on each deck.⁶ As we shall see, the economic viability of vehicle-ferry operations depends to a very great extent on the use of the right type of aircraft, probably more so than with most other types of air service.

During the first two or three years vehicle-ferry services operated at a considerable deficit, but they eventually proved to be a fairly profitable undertaking. Silver City recorded a net

5. Ibid.

6. 'Aeroplane', 4/7/52, p.23-4 and 3/7/53, p.28.

profit after taxation of £48,478 in 1951, and a further £35,094 the following year.⁷ The airline's main operating base, Lympe, rapidly became unsuitable because of congestion, poor facilities and high landing fees. Consequently, in 1954 the company opened its own airfield at Lydd (renamed Ferryfield), built at a cost of £500,000.⁸ Ferryfield soon became one of the most important, if least well-known, British airports. During August, 1955, for example, it handled 58% of the total freight passing through UK airports, five-times the amount handled by Heathrow (13,262 tons against Heathrow's 2,712 tons), almost entirely a reflection of Silver City's vehicle traffic. At this time the Independent claimed to be the largest air cargo carrier in the non-Communist world, in terms of freight uplifted. (although not, of course, in terms of ton-miles performed).⁹ Also in 1955 Silver City received the Cumberbatch Trophy "for magnificent work on the cross-Channel car-ferries." In nearly eight years of operation the company had made more than 60,000 flights without injuring a single passenger.¹⁰ Such a rate of expansion naturally required extensive financial support, and in this respect also Silver City had been fortunate. Initially Britavia had been owned by a group of insurance companies and by Cable and Wireless (Holdings) Ltd. In February, 1954, the General Steam Navigation Company, a subsidiary of P and O, purchased the insurance companies' shareholding.¹¹ Thus, ample funds were presumably available for expansion.

7. Ibid., 9/10/53, p. 525; not all of this profit was made on vehicle-ferry operations; Silver City was also heavily involved in general charter work and later in normal scheduled services. The profit fall in 1952 reflected a decline in traffic, primarily a result of a reduction in personal travel allowance in 1952.

8. 'World Airline Record', 1965, p.257.

9. 'Aeroplane', 16/12/55, p. 959.

10. 'Flight', 18/7/58, p.79-83. Silver City's first fatal accident in fact occurred in late 1961, after more than 25,000 cross-Channel flights. Ibid., 9/11/61, p.748.

11. Ibid., 19/2/54, p. 198.

There were, therefore, a number of factors of varying degrees of importance behind the success of Silver City's vehicle-ferry operations. The services obviously met a very real demand at a time when the surface carriers were disorganised and unable to provide sufficient capacity. Geographically Great Britain was well suited to this type of activity, perhaps even almost unique (with the possible exceptions of New Zealand and Scandinavia). Similarly, the favourable publicity that resulted from an excellent safety record (a very important factor among small airlines at this time) and the ownership of its own airfield were advantageous to the company. But undoubtedly of particular importance was the policy of repeated fare reductions followed by Silver City. The cuts announced in January, 1955, for example, were the eighth in seven years.¹² Table 9.1 suggests a strong correlation between price reductions and increased traffic, although other factors, of course, also have to be taken into account. The growth in traffic carried was not only absolute; Silver City managed to increase its share of total cross-Channel vehicle movements from 7% in 1952 to 20% in 1958. By the winter of 1953/54 some air-ferry fares were below the corresponding sea fares.¹³

12. Ibid., 7/1/55, p.27.

13. 'Aeroplane', 17/7/53, p.87, 6/3/59, p.289 and 11/1/54, p.22.

TABLE 9.1 : Vehicle Air-Ferry Operations by Silver City Airways, 1948-1957

	Cars	Passengers	
1948	170	350	
1949	2,600	7,900	
1950	3,253	10,800	fare reductions
1951	7,529	30,137	" "
1952	6,896	28,836	travel allowance restrictions
1953	24,011	96,625	fare reductions
1954	30,966	112,214	" "
1955	42,589	166,219	" "
1956	33,191	125,243	fares increased; competition from CAB
1957	34,361	117,178	fare reductions

Source: 'Aeroplane', 11/7/58, p. 60, et.al.

Competition

In April, 1955, Silver City found its monopoly of cross-Channel air-ferry services challenged when, after a six-week trial the previous summer, Channel Air Bridge (CAB) began operations between Southend and Calais. The new carrier, a subsidiary of Mr. Freddie Laker's Air Charter, proved to be an immediate success and diverted a large volume of traffic from Silver City. By 1958 CAB's output had increased to some 15,000 cars per annum on three routes: Southend to Calais, Ostend and Rotterdam.¹⁴ But entry into the vehicle-ferry market was not all plain sailing. In particular,

¹⁴.Ibid., 4/3/55, p. 283 and 20/3/59, p.357.

CAB lacked the extensive financial backing enjoyed by Silver City and eventually Laker had to look around for further capital to finance continued expansion. Thus, in January, 1958, Airwork announced that it had "acquired a substantial interest in the air transport and engineering group of companies headed by F.A. Laker."¹⁵ With the financial support and lower overhead costs that resulted from being a member of a large group such as Airwork (and from 1960, of course, BUA), Channel Air Bridge now found itself in a very strong position to challenge Silver City's supremacy on the cross-Channel routes.

This was far from the only problem that faced Silver City at this time. A potentially even greater threat to its position came from the resurgence of surface operators. As we have seen, immediately after the war the sea-ferry companies had experienced great difficulty in meeting the demand for cross-Channel vehicle transport. But shortage of capacity was not their only failing. Being primarily owned by railway companies, the sea-ferries were on the whole conceived and developed as extensions of railway services and as feeders to them. Thus, most passengers and cargo travelled to and from the ports by rail, usually by special boat trains; the ports and services were never really designed to deal with road traffic.¹⁶ In addition, at first all cars had to be winched aboard the ships, with the exception of the small number that might be accommodated on the train-ferries. The air-ferry operators, therefore, enjoyed considerable advantage in terms of total journey time and convenience. But eventually the surface carriers began to re-orientate and improve their services. The first 'drive-on drive-

15. 'Flight', 31/1/55, p.157. Laker's other company, Aviation Traders, was also experiencing financial difficulties, partly as a result of the failure of its new aircraft, 'The Accountant'.

16. Whitworth: 'Some Impacts of Air and Road Transport on Railway Economics and Practices.' Journal of the Institute of Transport, 1959, p. 169.

off' dock was opened at Dover in 1953, for example.¹⁷ Gradually, the shipping companies became more competitive, reducing journey times and lowering fares. Their services changed from the original function as feeders to the railway network, and increasingly catered for a rapidly growing traffic separate from and, to some extent, competitive with rail (and air).

Increased competition from both Channel Air Bridge and the sea-ferry companies had a disastrous effect on Silver City. While CAB appears to have remained profitable, its principal competitor's financial position deteriorated markedly, recording a cumulative loss of over £114,000 by 1959.¹⁸ Silver City had in effect become involved in a type of 'vicious circle': in order to retain its share of the market in the face of more efficient competitors, the airline was forced to continue cutting fares, which only served to worsen its financial position; but not to have kept prices low would have meant the loss of even more traffic. Britavia's shareholders were apparently unable or unwilling to provide further capital. Certainly, P and O had seen a poor return on its 1958 investment in Hermes aircraft for Silver City's passenger services. As a result, Britavia began negotiations with the British Transport Commission with a view to the latter purchasing a minority interest in the air-ferry company. Unfortunately, an agreement failed to materialise, probably mainly because of British Rail's own financial difficulties.¹⁹

Britavia continued in its attempt to obtain re-equipment capital from other sources. Finally, in February, 1961, an agreement was reached with Silver City's French handling and sales agents, Campagne Air

17. Clegg and Styring: 'British Nationalised Shipping, 1947-1968', 1969, p.47; the drive-through terminal at Boulogne had been opened the previous year.

18. 'Aeroplane', 8/2/62, p.143.

19. 'Flight', 15/1/60, p.90.

Transport, in which the French National Railways were major shareholders. The French company received permission to operate three Superfreighters in its own right on vehicle-ferry services from Le Touquet and Calais to Lydd and from Cherbourg to Hurn. In return, French National Railways agreed to build a two-mile railway spur into Le Touquet airport. This agreement did not actually provide any more capital. But it did make possible a marked expansion of Silver City's international passenger traffic. (The airline also operated a rail/air link between London and Paris, as well as carrying supplementary passengers on its car-ferries). This in turn might enable the company to postpone the introduction of new equipment until it was in a sufficiently strong financial position to justify the expenditure to its shareholders. In addition, an association with French National Railways might make more difficult any further plans of Channel Air Bridge for expansion into France.²⁰ Silver City's weak position was reflected in the decisions of the Air Transport Licensing Board in November, 1961, on the flood of applications from private carriers to operate scheduled services within Europe. Silver City failed to obtain a single new licence for reasons that can be summarised by the Board's comments on its application for services to Marseilles and Genoa: "It did not appear to us that the applicant was willing to invest in the modern aircraft which will undoubtedly be required if this route is to be operated successfully."²¹

In an attempt to improve the economics of vehicle-ferry operations and at the same time meet the growing threat from surface carriers, Channel Air Bridge announced in 1959 plans to open several 'deep penetration' routes to the Continent. The following

20. Ibid., 24/2/61, p. 259.

21. 'The Economist', 2/12/61, p. 245-7.

year licenses were obtained for services from Southend to Lyons, Strasbourg, Dusseldorf and Bremen, and in 1962 services to Basle and Geneva were inaugurated.²² The problem with the shorter routes, exacerbated by increased competition, was that costs such as landing-fees and station charges accounted for an excessively high proportion of revenue. The relatively short time actually spent in the air also resulted in very low aircraft utilisation rates, averaging only some 1,000 hours per annum for a Bristol 170.²³ Turn-round time at Calais, for example, could be almost as long as the flight from Southend. The key to the successful operation of longer-distance routes was again to be the use of more efficient and productive equipment. CAB's trump card was the introduction of a new aircraft, the Carvair (or ATL 98), a modified version of the DC-4. There were ample supplies of obsolescent DC-4s available, at about \$200,000 each, and the conversions would be carried out by CAB's sister-company, Aviation Traders. The improved efficiency of the new aircraft is reflected in the estimate that on a 330-mile round-trip the cost of using a Bristol Superfreighter would amount to approximately £175, compared with £200 for the Carvair. But the latter had half as much speed and carrying capacity again as the older aircraft; in other words, productivity increased by almost 100%.²⁴ Thus, Channel Air Bridge's answer to the expansion of the surface carriers was to lessen the inherent economic disadvantages of the air-ferry operators by employing more efficient aircraft over longer distances.

CAB's plans only made Silver City's situation all the worse. The latter's problems were solved, however, in January, 1962, with the formation of Air Holdings, a merger of the BUA group and Britavia.

22. 'World Airline Record', op.cit., p.256.

23. 'Aeroplane', 19/6/59, p. 689.

24. Ibid.; 'Flight', 4/1/62, p. 10-13.

Channel Air Bridge amalgamated with Silver City to form a single unit within Air Holdings, known as British United Air Ferries (BUAF), with a monopoly of cross-Channel vehicle air-ferry services. This monopoly was temporarily challenged in January, 1964, when Air Ferry received licences to operate from Manston to Le Touquet and Ostend and from Belfast to Le Touquet. But in May of the same year Air Holdings purchased Le Roy Tours, Air Ferry's parent company, so restoring BUAF's monopoly.²⁵ This monopolistic position enabled BUAF to consolidate and rationalise its operations. Within a relatively short period, for example, there were two substantial fare increases.²⁶

Decline

Cross-Channel air-ferry traffic reached a peak in 1962 with 137,000 cars transported; by 1964 this number had fallen to 109,000 and to 101,000 two years later. Despite the lack of competition from other airlines, therefore, BUAF still faced serious problems. In May, 1966, Mr. Stephen Wheatcroft was appointed to undertake a thorough review of the carrier's operations and future prospects. Although never made public, reliable sources suggested that Wheatcroft's report came to two principal conclusions: first, that the deficit being incurred by BUAF stemmed primarily from the unfavourable results of the deep penetration routes and second, that these routes could not be made significantly more favourable by increasing fares or reducing costs, but only by raising more supplemental revenue from unaccompanied (i.e. without cars) passengers and cargo.²⁷ The realisation that the prospects of raising extra supplementary revenue in this way were remote eventually led the

25. 'Flight', 16/1/64, p.79 and 5/11/64, p.775; numerous other airlines, both British and foreign, have attempted to break into the vehicle-ferry markets to Europe and Ireland, but none achieved any durable success.

26. 'World Airline Record', op.cit.

27. 'Aeroplane', 5/7/67, p.4-5.

airline to abandon its long-distance routes. Seven deep penetration services were withdrawn in February, 1967, while the following September BUAF also closed down its air-ferry routes from Southampton to Cherbourg and the Channel Islands, because of their unprofitable, highly seasonal nature.²⁸

Table 9.2: UK AIR-FERRY SERVICES 1951-1963/64

	Passengers	Cars	Bicycles	Motor-Bicycles	Freight (short-tons)
1951	30,000	8,500	-	-	-
1952/3	51,000	-	-	-	-
1953/4	95,000	-	-	-	-
1954/5	112,658	31,896	5,000	7,500	641
1955/6	181,284	51,427	3,915	9,745	1,750
1956/7	156,026	44,349	2,399	7,785	3,702
1957/8	173,524	49,084	2,642	8,480	2,726
1958/9	224,612	65,612	1,935	7,463	5,850
1959/60	291,083	97,455	1,653	6,530	9,652
1960/1	358,030	115,316	1,641	6,081	12,718
1961/2	366,000	126,295	-	-	-
1962/3	409,000	134,888	-	-	-
1963/4	396,000	130,362	-	-	-

Sources: BIATA Annual Reports.

ATAC Annual Reports.

Table 9.3 : UK AIR-FERRY SERVICES, 1963-1971

	Passengers carried	Passenger- miles (000s)	Stage- flights	Freight* (short-tons)	Vehicles** (short-tons)
1963	391,461	35,207	57,704	204,723	177,719
1964	383,758	37,572	51,665	181,219	150,459
1965	363,068	36,799	43,936	151,954	128,857
1966	377,257	37,345	43,886	160,539	134,210
1967	277,791	22,852	32,520	119,322	96,429
1968	226,453	19,318	22,240	84,106	66,700
1969	239,695	21,718	21,086	70,538	52,508
1970	283,225	27,568	18,582	59,554	41,541
1971	277,629	28,614	13,075	34,216	19,680

* = Including vehicles

** = Included also in freight figures

Sources : Operating and Traffic Statistics of UK Airlines.

Board of Trade (Department of Trade and Industry)
Business Monitor CA5

Clearly, the basic problem stemmed from the fact that the carriage of vehicles by air across the Channel at a competitive price had rapidly become inviable. For example, the average-sized car weighs as much as ten passengers, but yields only some 10% of the revenue and takes up twice the volumetric capacity.²⁹ Similarly by 1971 a vehicle-ferry airline planned to charge £16 to transport a small car to Basle, while under the lowest IATA commodity rate the cost of air-freighting such a car to Switzerland should have been at least £50. In other words, in terms of revenue per load

29. Ibid.

ton-mile, "ferrying cars just doesn't, and never has, made sense."³⁰ Once the surface carriers had reorganised themselves sufficiently, the only future for a company such as BUAF lay in the carriage of that small sector of the market that is prepared to pay a premium fare in return for a marginal increase in speed and comfort. But even this traffic had to be supplemented by the carriage of unaccompanied passengers and cargo to achieve approximate viability. By 1968 air-ferry services accounted for only 5% of total cross-Channel vehicle traffic, compared with a peak of 27%.³¹ BUAF found itself unable to compete on price because of rapidly rising costs; the average hourly cost of both the Superfreighter and Carvair fleets rose by some 25% between 1962 and 1967. In addition, the Superfreighters were quickly approaching the end of their structural lives and rebuilding would have been uneconomic, while the Carvairs' capital and maintenance costs had exceeded expectations by a large margin.³²

In fact, BUAF only kept going as a result of cross-subsidisation within the BUA group, presumably because of its contribution to overheads. This contribution, however, was declining, while BUA itself was increasingly experiencing financial difficulties (see Chapter V). In an attempt to relieve the burden, the air-ferry carrier was restructured so as to form a more independent unit, and renamed British Air Ferries (BAF). The airline concentrated operations on just two UK airports, with the Carvairs based at Southend and the Superfreighters at Ferryfield. Economies were achieved by reducing the labour-force by 25% and removing the central reservations unit

30. Ibid., 11/2/71, p.186 and 2/2/67, p. 157.

31. Ibid., 15/8/67, p. 249.

32. 'Aeroplane', op.cit.

and headquarters from London to Southend.³³ The separation of BAF from BUA was finally completed in May, 1968, when British and Commonwealth Shipping bought out most of the other shareholders in the BUA group. Air Holdings retained Air Ferry, Aviation Traders and the two car-ferry operators, BAF and SAFE Air of New Zealand. The reorganisation and rationalisation of British Air Ferries appears to have been relatively successful. During 1969, for example, the company made a pre-tax profit of £6,514 on a turnover of £1,655,150.³⁴ Although this represented a return on revenue of less than 0.4%, it was an improvement on previous losses.

But BAF's problems were far from over. In February, 1971, Transmeridian Air Cargo announced that it planned to enter the car-ferry business and applied for licences to operate four routes: to Basle, Geneva, Milan and Marseilles. Yet again the key to the profitable operation of the new services was to be the introduction of a different type of aircraft, this time modified Canadair CL-44s capable of carrying 36 passengers, 12-14 cars and 10 tons of cargo. Transmeridian was a relatively prosperous general charter carrier, making a pre-tax profit in 1970/71 of £115,319 on a turnover of £2,447,690.³⁵ It planned to inaugurate services to Basle and Geneva in April, 1972. But these intentions were never realised, for in October, 1971, Transmeridian purchased BAF from Air Holdings.³⁶ British Air Ferries retained its identity, selling-off its old Superfreighters and concentrating on Carvairs and CL-44s. At the time of writing it operates a total of eight routes: Southend to

33. 'Flight', 7/12/67, p. 937 and 15/8/68, p. 248.

34. Ibid., 22/10/70, p. 636.

35. Ibid., 4/2/71, p. 145 and 4/11/71, p. 737.

36. Ibid., 18/11/71, p. 794.

Le Touquet, Ostend, Rotterdam and Basle; Coventry and Bournemouth to the Channel Islands; and Coventry to Ostend and Le Touquet. (The Coventry services are shortly to be discontinued).

Thus, the activities of such companies as Silver City, Channel Air Bridge and their successors in the field of vehicle-ferry operations formed an important episode in the post-war development of the UK independent airlines. They managed to discover and successfully exploit a highly specialised market, one to which their talents were particularly well-suited. But in the long run the market proved to be extremely limited, partly because of the inherent difficulties of operating what was basically a cargo service at low fares over ultra-short stage-lengths, and partly because of increased competition from surface carriers with lower costs.³⁷ At one time vehicle-ferry services accounted by a large margin for most of the private sector's traffic in the areas of scheduled freight and international scheduled passenger journeys. Today, however, such services are of strictly limited importance, being operated by just one company, and the question is not whether air transport will be able to increase its share of the market, but whether it will be able to maintain its current small proportion. With the Channel Tunnel project on the horizon, this seems very doubtful.

37. Although the shipping companies do not appear particularly efficient; despite the fact that cross-Channel fares are the highest in the world for a short sea journey, the sea-ferry companies on the whole have poor profit records; annual load-factors average only 26%, reflecting the highly seasonal nature of the traffic.

Chapter XTOURISMPart A Inclusive Tours

Someone once said that over the past 30 years there have been two great explosions - the H-Bomb and holidays abroad. Certainly international tourism has been one of the fastest growing industries since the end of the Second World War, expanding at over 11% per annum since 1950, compared with 9% for world exports as a whole and only 6% for those of primary products.¹ Of particular importance in Europe has been the development of inclusive-tours (ITs) or 'packaged-holidays'. During the 1960s the inclusive-tour charter was the fastest growing sector of the European air transport scene, with an annual average growth of approximately 30% between 1965 and 1970.² Each year more than £200 million are spent in Britain alone on buying over three million packaged-holidays.³ "The inclusive-tour charter," observes a recent US survey of European charter airlines, "having established its respectability beyond question, will be recorded by future historians as characteristic of the standards of life in Europe which evolved during the third quarter of the twentieth century."⁴ Similarly, the Edwards Report noted:

"We regard the record of IT traffic development as one of the most important credit items in the performance of British civil aviation in the recent past...We wish to stress

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1. Midland Bank: "The Increasing Importance of Tourism", Midland Bank Review, 1973, p.8.
 2. 'Flight', 21/9/72, p.391.
 3. Camkin: 'The Camkin Report on Package Holidays,' 1972, p.2.
 4. 'The Times', 7/9/71, Supplement p.iv.

here the great contribution made by the private sector in the development of inclusive tours. This was a field which was pioneered in Europe by the UK independent airlines." 5

Peters defines an inclusive-tour as "a trip undertaken for recreational purposes, planned in advance in all details (itinerary, accommodation, excursions, etc.) by a tour promoter for an inclusive price, paid for entirely prior to the commencement of the tour."⁶ Although the growth of ITs by air has been most marked during the 1960s, they in fact have a much longer history. They probably originated before the Second World War in the United States, operated between the northern cities of New York, Washington and Chicago and the coasts of Florida, California, Hawaii and the Caribbean. In Europe, packaged holidays by air had been offered by such airlines as Imperial Airways before the war, but their real growth dates from about 1948, appearing first in the UK and then spreading to Germany and Scandinavia. (These three countries still provide the bulk of IT tourists in Europe).⁷ Initially ITs were mainly organised for groups with special interests, such as pilgrims, club members or students, for whom the tour had a specific purpose other than tourist travel; in other words, what today we would call 'affinity-groups'. Gradually, however, they became simply a cheaper and more convenient way of enjoying a foreign holiday, with travel agents selling tours directly to individual members of the public.

According to Freddie Laker, the inclusive-tour business was pioneered in the UK by Airwork in association with Polytechnic Tours in 1948.⁸ But most commentators seem to agree that the

5. p.22.

6. Peters: 'International Tourism', 1969, p.77.

7. Ibid., p.78.

8. 'Flight', 13/7/61, p.60.

first real IT by air was organized by Horizon Holidays, a company formed by Vladimir Raitz in late 1949. The following spring Raitz advertised in 'The Nursing Mirror' a special air holiday in Calvi, Corsica. His duplicated brochure announced that holiday-makers would "live in large tents fitted with beds and mattresses, two to a tent...the best sanitation...meals are taken out of doors ...departures every Friday by Douglas Air Liner of the Channel Island Air Transport Company...the cost of the unique holiday is £35.10s." Although Raitz obtained very favourable rates from the airline, paying only £305 for each of 15 round-trips by a 32-seat DC-3, heavy losses were incurred. 300 packaged-holidays were sold in 1950,⁹ a load-factor of 62.5%. Horizon was forced to learn at a very early stage that the only way to make profits out of inclusive-tours, even in tents, is to achieve very high utilisation levels.

On the whole, it was the non-scheduled airlines that were called upon to operate IT services. From 1949 any Independent wishing to undertake a series of inclusive-tour charters had to negotiate an associate agreement with BEA. Under the so-called 'New Deal' policy introduced in 1952, however, the privately-owned carriers were actively encouraged by the Conservatives to expand their IT activities, while the Corporations were prevented from retaining obsolescent aircraft specifically for charter purposes. According to the new terms of reference given to the ATAC, any airline could apply for licences to operate, in parallel with normal scheduled services, those

"services confined to the carriage of passengers who pay an inclusive charge for air transport and hotel accommodation,... provided that such services are not likely materially to divert traffic which would otherwise be carried by any operator already authorised for the route." 10

9. 'Aeroplane', 15/7/65, p.4.

10. ATAC Annual Report, 1952/53, Appendix E, p.31.

The procedure followed by the ATAC to control IT activity (and essentially the same as that later employed by the ATLB) involved the application by an airline, in association with a tour promoter, for a licence to operate a specified number of services to a particular destination. After hearing objections from interested parties, the Council attempted to ensure that the total number of services approved would not materially harm the established scheduled carriers on the route;¹¹ in other words, the ATAC controlled total capacity. In addition, as a second line of defence, minimum prices were established under the so-called 'Provision I' rule, which restricted the total price of an inclusive-tour to not less than the lowest fare on a normal scheduled flight to the same destination.

Table 10.1: THE INDEPENDENTS' INCLUSIVE-TOUR TRAFFIC, 1953/54 - 1965/66 .

	Passengers Carried
1953/54	7,750
1954/55	23,418
1955/56	45,995
1956/57	92,081
1957/58	137,416
1958/59	180,014
1959/60	166,671
1960/61	198,689
1961/62	273,210
1962/63	387,000
1963/64	526,000
1964/65	832,000
1965/66	1,191,000

Sources: BIATA Annual Reports.

ATAC Annual Reports.

11. Wheatcroft: 'Air Transport Policy', 1964, p.31-33.

Throughout most of the 1950s the growth of IT charters operated by the Independents was rapid and steady (see Table 10.1). Between 1953/54 and 1958/59 the number of passengers carried on such services rose from 7,750 to 180,014. By the summer of 1956 British charter airlines were carrying on IT services 27% of the total air traffic from the UK to Spain, 21% to Austria and Munich, 18% to France, 17% to Northern Italy and 15% to Switzerland.¹² Inclusive-tours, of course, still accounted for a relatively small proportion of the Independents' total output, especially when compared with trooping. But they represented an increasingly important and profitable source of revenue and most privately-owned operators entered the market. Initially, at least, the field was dominated by Air Kruse, a company established in 1946 and taken-over by Silver City in 1953; at one time Air Kruse was probably carrying more packaged-tourists than the rest of the private sector put together.¹³

Opposition from BEA:

Such a rate of growth, despite the attempts at control, clearly presented a potentially serious threat to the European scheduled flag-carriers. The latter responded initially by introducing, in 1949, a group travel discount. Pressured in particular by BEA and Air France, both of which were facing increased competition from domestic private operators, the member-airlines of IATA passed the 'Common Interest Group Travel' resolution permitting companies to offer a discount of up to 10% to each of a party of 15 or more passengers. A 10% reduction was considered adequate at the time

12. BIATA Annual Report, 1956/57, p.11.

13. 'Flight', 2/8/62, p.158.

since competition came primarily from the chartering of an aircraft by a single group, which meant that costs were forced up as a double flight for each of the party's journeys was usually necessary. From the spring of 1950 European airlines also began to allow recognised tour promoters a discount of almost 17% off normal round-trip fares for IT passengers travelling on scheduled services.¹⁴ Numerous other such 'creative' fares were introduced throughout the 1950s. On the more negative side, BEA consistently objected to most applications for IT licences because of the possible material diversion of scheduled service traffic. The Corporation relaxed its position somewhat from December, 1954, when it informed the ATAC that in future it would not oppose "on grounds of possible diversion of traffic applications for IT Services, even when these services were to be on BEA routes, provided that the flights were to be flown on Fridays, Saturdays and Sundays during the months of July, August and September."¹⁵ But most other such applications continued to be opposed.

In fact, BEA appeared to benefit to a considerable extent from the expansion of international tourism. In most years during the 1950s the Corporation succeeded in carrying more inclusive-tour passengers on scheduled services than the whole of the private sector on charters, although it is very difficult to estimate how much of BEA's IT traffic was diverted from its own full-fare passenger traffic. Nevertheless, the nationalised airline remained constantly on the defensive and in the mid-1950s twice protested publicly, once to the ATAC and once in its Annual Report, about material diversion of traffic.¹⁶ Consequently, the European flag-carriers again went

14. Wheatcroft: 'The Economics of European Air Transport', 1956, p.135.

15. ATAC Annual Report, 1954/55, p.12.

16. 'Flight', 7/11/58, p.717.

on the offensive, offering more competitive terms to travel agents who booked blocks of IT seats on their scheduled services to prime holiday resorts (now known as ITX fares). The new rates were undoubtedly very successful. Despite a general recovery in the traffic carried by British airlines, the number of IT passengers carried by the Independents in 1959/60 fell to 166,671 from 180,014 the previous year. By 1960/61 ITX traffic in British aircraft exceeded by about 35% the IT charter traffic carried in aircraft of British registration to and from the Continent, and represented about 8.4% of total UK air traffic over this region. Prospects seemed so poor for the private sector that in evidence to the ATLB Mr. Freddie Laker suggested that special IT flights would be virtually finished in Europe within ten years! 17

This success on the part of the scheduled operators was not simply a matter of under-pricing their competitors; on the whole, the air fare part of a packaged-holiday continued to cost slightly less on a charter than on a scheduled service. But the scheduled airlines had a major advantage in being able to offer a customer greater comfort, better service, more modern and reliable equipment, perhaps more convenient departure times, and so forth. In addition, while profit potential for a tour promoter using a chartered aircraft was higher than using ITX fares, so was the risk. If, due to an unexpectedly low level of demand, he was forced to cancel an ITX booking he faced at most only a 'no show' fine; much more was at stake if he wanted to cancel a charter contract with a private airline. ITX fares also enabled the organisation of smaller and more flexible groups. Not all of the decline in inclusive-tour traffic, however, can be explained by the introduction of the ITX scheme. A second factor of some importance was the growth of 'closed-group' charters, both 'bone-fide' and spurious.

17. Ibid., 28/12/61, p. 1001 and 13/7/61, p.60.

As we have seen, a closed-group (or affinity-group) may be loosely defined as a group of persons which has an entity of its own and which is not formed or constituted primarily for the purpose of air travel. Services catering for such groups were not included in Section 24 of the 1949 Air Corporations Act, which reserved for BOAC, BEA and their associates, the exclusive right to carry passengers on scheduled air services; in other words, affinity-group charters did not require a licence from the ATAC. Section 24 defined a scheduled journey as:

"one of a series of journeys which are undertaken between the same two places and which together amount to a systematic service operated in such a manner that the benefits thereof are available to members of the public from time to time seeking to take advantage of it." 18

The loophole, of course, was the phrase "available to members of the public", and increasingly during the later-1950s the charter airlines attempted to exploit this situation to by-pass the licensing process by establishing spurious clubs and societies.

Large-scale exploitation of the closed-group anomaly began in 1958 when an independent airline was challenged in the courts as to the legality of such charters. Hunting-Clan, on behalf of Milbanke Tours, had applied unsuccessfully to the ATAC for permission to operate a series of inclusive-tours to Palma, Nice and Perpignan. Instead, the prospective tourists were told that their holiday plans would be secure if they joined the International English Language Association, for which Milbanke were the official travel agents. It was this action that was challenged in the courts. The magistrates of

18. Quoted by Wheatcroft: 'Air Transport Policy', 1964, p.131-2.

Feltham, Middlesex, decided that in fact the whole business was perfectly legal; in other words, flights on behalf of closed-groups were not available to members of the public and were not, therefore, scheduled services or inclusive-tours within the meaning of Section 24 of the 1949 Act.¹⁹ The magistrates' decision opened the flood-gates and the number of affinity-group charters increased very rapidly. The Independents benefitted from the situation, despite the decline in their inclusive-tour traffic, since their aircraft were usually employed to carry the members of the often spurious clubs and societies that sprang up. But the practice reached such proportions that in its 1959/60 Annual Report the ATAC claimed that it was seriously undermining the Council's work.²⁰ The 1960 Civil Aviation (Licensing) Act attempted to remove the loophole by licensing all flights for reward except those specifically exempted by the Minister. Unfortunately, this reform similarly proved to be open to misuse (see Part B below).

The 1960 Civil Aviation (Licensing) Act:

The legislation of 1960 also directly affected the Independents' inclusive-tour business as a result of the stipulation that the ATLB should investigate an airline's financial position before awarding it an air service licence. The intention was simply to ensure that an applicant airline was capable, both financially and commercially, of operating any service it might be granted. When applied to inclusive-tour licensing, however, the new regulations produced certain unfortunate results. At first, the inevitable delays that occurred while the

19. 'Aeroplane', 17/4/58, p.452.

20. p.6.

ATLB undertook the necessary investigation into each company's affairs forced many tour promoters to turn to foreign airlines. But even after the initial batch of investigations had been completed, the problem persisted. The whole licensing process, even for well-established operators, now took much longer, as each application was rigorously investigated. The inclusive-tour promoter, working within a rigid and limited time-scale, often could not wait for the Board's decision, especially as it was far from certain that the application would be granted, and so was again forced to turn to foreign operators. The latter had the major advantage that they were licensed by a Government department and refusal of an application to operate a non-scheduled air service might result in a political incident (such as reciprocal action by the airline's Government against a British carrier). Thus, it remained the case that if a UK airline was refused a licence to operate an IT service, the travel agent concerned would simply turn to a foreign operator in the knowledge that the latter would almost certainly be authorised. In addition, there is evidence to suggest that increasingly many tour promoters were initially contracting with foreign airlines in order to avoid the delays and difficulties that might result from employing a British carrier.²¹

Such a situation clearly made nonsense of any attempt by the ATLB to control British inclusive-tour operations. The effect on the airlines' IT business can be judged from Table 10.2. During 1962 and 1963 well over one-third of IT traffic between the UK and the Continent was carried by foreign airlines. In terms of revenue, this represented a loss of some £2 million in 1962 to British operators,

21. BIATA Annual Report, 1962/63, p.11.

among whom BUA was by now dominant in the field, carrying about 150,000 passengers per annum.²² But foreign competition was not the only problem that faced the Independents. The JT charter market was also excessively depressed as a result of the policy of severe price-cutting on the part of a small number of newly-established private airlines. Although these companies usually had a relatively short life-expectancy, they managed to depress charter rates sufficiently to financially embarrass several other operators.

Table 10.2: UK IT CHARTER TRAFFIC (OUTWARD PASSENGERS CARRIED), 1961-1971 (April-October inclusive; 000's)

	All Airlines	% Change	UK Airlines	% Change	Foreign Airlines	% Change
1961	295	-	225	-	70	-
1962	352	+20	222	-1	130	+87
1963	441	+25	261	+18	180	+38
1964	592	+34	397	+52	195	+8
1965	744	+26	555	+40	188	-3
1966	1,090	+47	898	+62	192	+2
1967	1,255	+15	1,004	+12	251	+31
1968	1,440	-	1,331	-	109	-
1969	1,759	+22	1,629	+22	130	+19
1970	2,170	+23	2,051	+26	119	-8
1971	2,698	+24	2,559	+25	139	+17

Nb. The statistics covering the pre-1968 period are not strictly comparable with those for the following period because of changes in the data to be included.

Source: ATLB Annual Reports.

Of particular note in this respect was a company called Overseas Aviation (Channel Islands), established early in 1958 by

22. 'Flight', 16/5/63, p.705-6.

a Mr. Myhill. Overseas Aviation experienced a very rapid rate of growth, increasing its available capacity by approximately 600% in less than 2 years. The company concentrated on inclusive-tour and general charter work, both within Europe and to points further afield, especially the Far East, Australia and South Africa. With its very fast rate of growth and price-cutting policy, Overseas Aviation clearly possessed the potential of being economically unstable. It was not a complete surprise, therefore, when the airline went into liquidation in August, 1961, stranding some 5,000 passengers abroad and owing, among others, Rolls-Royce and BP £250,000 each and BOAC £109,000. A few months before the crash Myhill had transferred Overseas' principal assets, the aircraft, to another company, Overseas Aviation Ltd., jointly owned by himself and his wife, which led one newspaper to comment that "whatever may befall the creditors of Overseas Aviation (Channel Islands) Mr. Myhill will be all right. Quite legally of course."²³ Apart from damaging the reputation of the independent airlines, both with the public and the tour promoters, the activities of such companies had two other important results. Firstly, the ATLB came under pressure to investigate even further the financial standing of UK airlines, necessitating longer delays before a licence could be issued. Secondly, the financial losses incurred by many of the tour promoters led to a drastic re-thinking on their part of the whole concept of IT charters. The conclusions one or two of them came to were to have important repercussions on the packaged-holiday market, and on the Independents themselves, during the following decade.

23. Ibid., 1/4/60, p.60, et.al.; 'Aeroplane', 2/11/61, p.567.

A New Type of Airline - Britannia Airways

Universal Sky Tours, at the time Britain's largest tour-promoter specialising in holidays by air, estimated that its total losses from the failures of independent airlines between 1958 and 1961 exceeded £250,000.²⁴ Such losses, together with the poor publicity that inevitably resulted from the stranding of thousands of holiday-makers abroad, were clearly unacceptable. Consequently, Sky Tours, in association with a firm of aviation consultants, J.E.D. Williams and Company Ltd., began an intensive study to determine how best to overcome the problem. The solution they eventually arrived at involved the establishment of an airline with two particular characteristics:

- (i) it should be almost wholly owned by Sky Tours; in other words, the tour promoter and the airline should be vertically integrated, in order to take advantage of the 'systems design' approach (see below) to inclusive-tour development; and
- (ii) it should be a highly specialised undertaking dealing almost exclusively with IT charters.

It was estimated that the implementation of these two fairly radical proposals would reduce the cost of a packaged-holiday from, say, £70 to about £35, and at the same time greatly expand the potential market.²⁵

Such an airline was indeed established, based at Luton with J.E.D. Williams as chairman and managing director. The company was initially known as Euravia, reflecting the UK's expected new role as

24. 'Flight', 7/2/63, p.182.

25. Ibid., 5/3/64, p. 355-8; Williams: 'Holiday Traffic by Air', Institute of Transport Journal, 1968, p.372.

a member of the Common Market, but later changed its name to a more patriotic Britannia Airways. Operations began in May, 1962, with three Constellations acquired from El Al.²⁶ Britannia differed from most other privately-owned airlines in a number of respects, apart from its specialist nature and close association with a tour promoter. For example, the prime aim of its founders was not profitability, but reliability. Similarly, greater emphasis than was normal among charter operators was placed on creating a standard of comfort and service comparable with that on international scheduled services. The introduction to the airline's first brochure announced:

"The formation of a new charter airline in this country is not likely to win a prize for the best idea of 1962. Nevertheless, there is a need for a charter airline designed to provide the British inclusive-tour passenger with scheduled airline standards of comfort, reliability and safety at a price the inclusive-tour operator can afford to pay. We think we have the formula by which this requirement can be met economically." 27

Britannia Airways was undoubtedly a very successful venture. The company quickly established itself as one of the largest and most important UK Independents. Traffic carried increased at a very rapid rate, primarily inclusive-tour passengers (see Table 10.3). In May, 1965, Thomson Industrial Holdings purchased the entire share capital of Riviera Holidays and Universal Sky Tours (including Britannia), further strengthening the financial position of the airline; Lunn-Poly was acquired at a later date. Today Thomson Holdings, as the combined group is known, is the largest inclusive-tour operator in the UK, while Britannia Airways will be operating a fleet of 14 Boeing 737s by 1974.

26. 'Flight', op.cit.; the new name was probably decided upon because by then the airline operated Britannia aircraft.

27. 'Aeroplano', 17/12/64, p.17-18.

Table 10.3: BRITANNIA AIRWAYS' TRAFFIC

	All Non-Scheduled Flights Aircraft-miles (000's)	Inclusive-Tours		Passenger-Miles (000's)
		Aircraft-miles (000's)	Passengers Carried	
1963	856	829	64,342	55,611
1964	1,383	1,227	105,555	90,710
1965	2,329	1,510	168,203	149,076
1966	3,550	2,614	283,260	252,440
1967	3,026	2,687	302,238	269,389
1968	4,739	4,065	432,600	398,131
1969	6,852	5,818	668,814	587,410
1970	7,967	6,264	688,961	629,289
1971	10,480	8,532	1,049,256	1,024,263
1972	14,706	11,955	1,477,993	1,430,707

Sources: Board of Trade: 'Operating and Traffic Statistics of UK Airlines'; Board of Trade (Department of Trade and Industry): Business Monitor, Civil Aviation Series.

The success of Britannia, and the rapid expansion of IT traffic generally, inevitably led to the establishment of other airlines specialising in packaged-holidays by air. Mr. Freddie Laker, for example, after leaving BUA, formed Laker Airways and acquired extensive travel interests. Monarch Airlines was established by two former directors of British Eagle, before the latter's collapse, and backed by the large Cosmos holiday and transport group. In addition, airlines that had previously concentrated on scheduled services or charter work such as trooping, began to enter the IT market on a large scale. The integration of travel and airline interests was far from new. In the early-1950s, for instance, Mr. Harold Bamberg had borrowed £50,000 and purchased Sir Henry Lunn Ltd., after failing to interest Thomas Cook's in his plans for organising packaged-holidays by air; he already owned Air Liaison Ltd. ²⁸

28. Jackson: 'The Sky Tramps', 1965, p.30.

But both the scale and degree of vertical integration increased substantially during the 1960s. The British experience in this respect contrasts with that in several other European countries, especially Germany, where horizontal integration has been more common.²⁹

The Economics of Inclusive-Tours:

It is important to remember that air transport is not a homogeneous product. In particular, one can differentiate between two broad groups of air travellers. On the one hand are those who travel to a specific destination for a specific purpose, perhaps to conduct a business deal or visit an ill relative. In this case, the price of the journey tends to be a secondary matter; the individual will presumably not make the journey unless his relative is ill. The normal way of satisfying this type of demand for air transport is by means of ordinary scheduled services. For the holidaymaker, on the other hand, price is usually the key parameter; in other words, demand is highly price elastic. Within certain limits, the actual destination is much less important to the holidaymaker than it is to the businessman. Hence, as Williams points out, a £35 holiday in Majorca does not compete with a £75 holiday at the same resort, but it does compete with a £35 holiday in Blackpool.³⁰ This is the market catered for by IT charters and creative fares on scheduled services.

Thus, because of the high level of price elasticity, the economies achieved by the 'packaging' of holidays, especially the

29. See 'The Economist', 15/6/68, p.61; during 1967, for example, four of the leading German tour promoters combined in order to stave-off the growing competition from the two mail-order houses, Quelle and Neckermann, who had entered the IT market on a large scale.

30. Op.cit., p.371.

lower air transport cost element, led to extremely large increases in demand. The charter concept has in fact been called the "chief catalyst of tourism." It appears that a type of 'circular process' was established, similar to that found by Deakin and Seward in transport generally,³¹ so that each round of traffic increases resulted in further economies, and so greater demand. Mr. Tom Gullick, formerly managing director of Clarksons, laid particular emphasis on this role of falling costs in the generation of demand:

"No one can deny that the revolution in package holidays over the past five years has been brought about by lower prices. In themselves the rates have broadened the overseas holiday market to everyone's advantage. I firmly believe that we have reached the current stage of market development only through the low-price policies of the major companies." 32

The outcome is obvious to anyone visiting Spain during the peak summer months. The number of visitors arriving by air in the 'Black-pool of Europe' has increased from 6000,000 in 1961 to some 5,400,000 by 1971; UK tourists to Spain rose from an estimated 600,000 to 2,300,000 over the same period.³³

The two main cost components in the price of a holiday are transport and accommodation. The cost of both of these elements to the individual holidaymaker is usually much higher than necessary, because neither the transport operator nor the hotel owner can guarantee permanent full utilisation of their respective businesses. Thus, if an airline is operating at a load-factor of only 50%, in order to remain profitable it must obviously charge a fare almost twice as high as it need charge if it were operating at 100% load-

31. 'Productivity in Transport', 1969, p.198: "These results suggest a circular process by which, given an elastic demand, increases in output lead to economies of scale, falling relative costs and prices and to increased demand and output at a second round; the process being reversible for the case of declining demand."

32. 'Financial Times', 13/10/71, p.21.

33. 'International Tourism Quarterly', 1971 No.2, pp13 and 65.

factors. It is this problem that tour promoters attempted to overcome by means of 'system design', a way of exploiting "the potential capabilities of the components of a system to make the system, taken as a whole, as efficient as possible."³⁴ When applied to tourist travel this basically involved the simple concept of 'matching' hotel beds and transport seats. The system design of holidays probably originated in 1930 when Mr. T.E. Langton, who was later to found Universal Sky Tours, hired a surplus coach for a whole season at a particularly low rate and made block bookings at boarding houses in Cornwall and Devon.³⁵ The modern tour promoter really only employs a more sophisticated version of the same basic system. He might, for example, organise a series of 14-day holidays using 100-seat aircraft, blocking-off 100 beds at a resort for the entire season and booking a series of charter flights at fortnightly intervals, each flight carrying 100 passengers to the resort and bringing back the 100 passengers who have just finished their holiday. In this way, both the airline and the hotel are relieved of almost all utilisation problems and marketing costs, while the promoter tour/is able to negotiate favourable contracts.

Broadly speaking, the rapid reduction in the real cost of a packaged-holiday was achieved in two ways. Firstly, as we have seen, the cost of transporting a passenger by air is almost invariably less on a charter than on a scheduled service (and the same principle can be applied to hotel costs). According to Doganis, other things being equal, a non-scheduled operation will in general cost 15-20% less per aircraft-mile than a scheduled one because of lower ticketing, sales, promotion and station costs. In addition, passenger-mile costs should be a further 40-50% lower because of the higher seating densities and load-factors on charter services. The cumula-

34. Williams: 'Holiday Traffic by Air', op.cit., p.372.

35. Ibid., p374.

tive effect, therefore, is that fares on non-scheduled services can be up to 65 or 70% below those on scheduled services.³⁶ The fact that most IT services today are effectively fairly large-scale scheduled operations, except for the latter's cost structure, serves to reinforce these advantages. The charter airlines also benefitted, perhaps even to a greater extent than their scheduled counterparts, from the improvement in aircraft productivity and reliability that resulted from the replacement of turbo-prop by jet equipment during the 1960s.³⁷ Similarly, there have been dramatic increases in the capacity of aircraft employed on IT charters. The Select Committee on Nationalised Industries estimated that if all other characteristics of design are held constant, each doubling of aircraft size will produce a 15% reduction in seat-mile operating costs.³⁸ The combined effect of all these factors has clearly been to greatly reduce total costs and hence stimulate the demand for packaged-holidays.

The second major area of cost reduction followed more directly from the application of system design to inclusive-tours and from vertical integration within the industry. By controlling both the tour promotion and transport aspects of a packaged-holiday, for example, companies were able to schedule aircraft departures throughout the day, so greatly increasing utilisation. Week-end peaks were

36. 'Air Transport: A Case Study in International Regulations.' Journal of Transport Economics and Policy, 1973, p.121; see also A.M. Lester in: 'Conference: The Air Charter Market and the Restrictive Effects of Current Bilateral Agreements.' The Aeronautical Journal, 1973, p.40.

37. See Miller and Sawyers: 'The Technical Development of Modern Aviation', 1968, p.205-210.

38. 'BEA', 1967, p.306; Mr. Freddie Laker has claimed that with his new DC-10s he will be able to keep seat-costs constant for ten years by progressively increasing seating capacity from an initial 300 to an eventual 400. 'Flight', 2/3/72, p.310.

levelled out by introducing 10- and 12-day holidays. Gradually the degree of vertical integration increased, so that today companies such as Thomsons or Clarksons own not only airlines and the actual tour 'packaging' concerns, but also travel agents, coach companies, hotels, local bars and gift shops, excursion operators, car-hire agencies, and so forth. Factors such as these again combined to help reduce or stabilise prices. Camkin recalls that the Horizon brochures for 1959 and 1971 both feature the same hotel in Majorca. In 1959 the hotel had few private bathrooms and no swimming pool; the flight by DC-3 took over four hours. By 1971 the same hotel had a private bathroom in each bedroom, a swimming pool and a paddling pool; the flight by a modern jet took just over two hours. Yet, despite the rise in the cost of living and currency devaluations, the prices of the two holidays were the same.³⁹ It is not surprising that the non-scheduled share of total UK-Spain air traffic has risen from 32% in 1962, to 58% in 1967 and to 83% in 1971.⁴⁰

The crucial factor, of course, in the profitable operation of such a system is a high level of capacity utilisation, which inevitably means fairly accurate estimation of future traffic trends. The importance of consistently high load-factors is illustrated in Table 10.4, adapted from a similar example quoted by Peters.⁴¹ Part A shows the cost of mounting an inclusive-tour from London to a popular Mediterranean resort such as Palma, selling at almost £40 per capita and utilising a 132-seat aircraft at a load-factor of at least 85% (that is 112 passengers). The distance from London to Palma is 811 statute-miles, so that the air fare component of the

39. Op.cit. p.3.

40. Edwards Report, p.58; 'Flight', 21/10/71, p.631.

41. Op.cit., p.120-1.

tour represents 0.92 pence per passenger-mile. But if the load-factor were increased from 85 to 100%, the fare component is reduced to 0.75 pence per passenger-mile and the net profit rises from £72 to £500, almost a seven-fold increase.

Table 10.4: COST BREAK-DOWN OF AN INCLUSIVE-TOUR

A.

Cost item	Amount (£)	% of total	Cost per head £ p.	
Charter aircraft	1,650	37.2	14	72½
Aircraft catering	30	0.7		25
Hotel (14 nights)	1,725	38.8	15	40
Ancillary transport	225	5.1	2	00
Gross profit margin	<u>808</u>	<u>18.2</u>	<u>7</u>	<u>25</u>
Total	£ <u>4,438</u>	<u>100.0</u>	<u>39</u>	<u>62½</u>
Gross profit margin	808	18.2	7	25
Advertising and promotion	280	6.5	2	55
Agent's commission	256	5.6	2	25
Running expenses	<u>200</u>	<u>4.5</u>	<u>1</u>	<u>80</u>
Net Profit	£ <u>72</u>	<u>1.6</u>		<u>65p</u>

B.

Cost item	Amount (£)	% of total	Cost per head £ p.	
Charter of aircraft	1,650	31.5	12	50
Aircraft catering	32	0.6		25
Hotel (14 nights)	2,033	38.9	15	40
Ancillary transport	225	4.3	1	70
Gross profit margin	<u>1,290</u>	<u>24.7</u>	<u>9</u>	<u>77½</u>
Total	£ <u>5,230</u>	<u>100.0</u>	<u>39</u>	<u>62½</u>
Gross profit margin	1,290	24.7	9	77½
Advertising and promotion	290	5.5	2	20
Agent's commission	300	5.7	2	27½
Running expenses	<u>200</u>	<u>3.8</u>	<u>1</u>	<u>50</u>
Net profit	£ <u>500</u>	<u>9.7</u>	<u>3</u>	<u>80</u>

In order to simplify matters somewhat we have so far concentrated solely on the effect of lower costs on the demand for

packaged-holidays. Undoubtedly, the economies achieved by the tour promoters were a major, perhaps even the prime, factor in stimulating demand. Customers were clearly attracted from other types of holiday, both abroad and at home. For example, by 1972 55% of British holidaymakers abroad went on packaged-tours, compared with only 30% in 1960.⁴² An examination of European scheduled air traffic shows a similar experience; the scheduled service contribution to the holiday market remained almost static at 6-7 million passengers per annum between 1965 and 1970, so that its share has fallen from more than two-thirds to well under half.⁴³ But one must also take into account the fact that disposable real incomes have been rising over this period as well, and it would appear that inclusive-tours have large price and income elasticities. According to Colley, between 1957 and 1966, for every 1% rise in income per head, UK Expenditure per capita on foreign travel rose by about 1.6%.⁴⁴ An additional factor may have been the trend towards longer holidays. In 1951 only 3% of all full-time workers in Britain enjoying a basic holiday entitlement had more than two weeks paid holiday a year; by 1971 this percentage had risen to 72, with 67% receiving three weeks and over.⁴⁵ It is, of course, impossible to place relative weights on each of these contributing factors; one can only say that, to a greater or lesser extent, they all had an effect in raising demand for packaged-tours.

42. Central Office of Information: 'Britain and International Tourism', 1972, p.17.

43. Pugh: 'Holiday Traffic', paper read at Royal Aeronautical Society's Convention: 'Aviation 's place in Transport', May, 1972, p.5.

44. 'International Tourism Today', Lloyds Bank Review, 1967, p.38; Askari found similar evidence for inclusive-tours in the United States: 'Demand for Package Tours.' Journal of Transport Economics and Policy, 1971. See also Pugh, op.cit., p.6.

45. Midland Bank, op.cit., p.10.

Table 10.5: UK AIRLINES OPERATING RESULTS BY TYPE OF SERVICE, 1966 (£m).

	BOAC	BEA	Independents ^b	Total
1. All Scheduled Services				
Operating revenue ^a	134.3	83.6	24.5	242.4
Operating expenditure	111.5	79.4	24.9	215.8
Surplus (Deficit)	22.8	4.2	(0.4)	26.6
Rev Ex ratio	120	105	98	112
2. IT charters				
Operating revenue	-	1.0	18.8	19.8
Operating expenditure	-	1.1	17.4	18.5
Surplus (Deficit)	-	(0.1)	1.4	1.3
Rev Ex ratio	-	91	108	107
3. Other Charters				
Operating revenue	3.1	1.8	20.3	25.2
Operating expenditure	2.6	1.6	20.2	24.4
Surplus	0.5	0.2	0.1	0.8
Rev Ex ratio	119	112	100	103

N.B. a = includes ITX passengers

b = financial year most closely corresponding to the calendar year 1966

Source: Edwards Report, p.33.

Finally, what effect did the rapid expansion of the inclusive-tour market have on the Independents, especially on their financial position? Table 10.5 shows that in fact by 1966 IT charters were by far the most profitable type of activity open to the privately-owned airlines. They contrast significantly with the losses incurred on scheduled services, a field into which the Independents had constantly attempted to enter in order to improve their economic stability (see Chapter XI). Although an excess of revenue over expenditure of 8% is not particularly awe-inspiring, it must be remembered that this is an average for the sector as a whole. Some airlines specialising in the carriage of IT traffic were undoubtedly returning better results at this time.

Time-Charters

The economic power that resulted from large-scale operations became more and more important. Inevitably, the value of individual contracts increased substantially and IT charters became very big business. For example, in June, 1966, Laker Airways signed a contract valued at well over £5000,000 to supply air transport to its sister-company, Lord Brothers, for the latter's 1967 packaged-holiday programme; Lyons Tours awarded a £5 million contract in April, 1969, to Channel Airways covering the three years 1970-72; Autair (Court) and Dan-Air won contracts worth £30 million from Clarksons for the 'time-charter' of ten aircraft for the 1970-74 seasons; and early in 1971 British Caledonian signed a three-year time-charter agreement worth over £11 million with Horizon Holidays.⁴⁶ The close association between tour promoter and airline that of necessity followed contracts as large as these, even where the companies were not part of the

46. 'Flight', various dates.

same group, clearly had advantages for all the parties concerned. But there were also inherent dangers. The collapse of British Eagle, for instance, was a major factor in producing a £130,000 loss for Lunn-Poly.⁴⁷ Similarly, it was presumably a fear that its largest customer, Clarksons, would go bankrupt or be acquired by a rival travel company that led Court to purchase 85% of the tour promoter's shares early in 1973.⁴⁸ Court had been trying for some time, with partial success, to reduce its reliance on Clarksons for the bulk of its IT business.

Nevertheless, it was on the basis of contracts such as these that the independent airlines were able to purchase fleets of expensive new jet aircraft. Unlike the charter operators of the 1950s the new 'holiday' airlines are mostly forced to provide a standard of comfort and service comparable to that on scheduled services. Almost without exception, these carriers now operate modern jet equipment, usually BAC 1-11s, but also Boeing 737s (Britannia) and 727s (Dan-Air). This type of development would have been unthinkable in the days of the 'string and sealing-wax' charter companies. On the whole, it has been made possible by utilising the principle of 'time-charters', the sale of equipped and staffed aircraft by the day, month or year. Buyers usually agree to purchase the equivalent of one or more aircraft (guaranteeing a minimum rate of utilisation) for a whole season or year. The airline's task of raising the capital to purchase new equipment (or more commonly nowadays, of leasing it) is thus made easier.

47. 'The Financial Times,' 22/1/71.

48. 'The Guardian', 21/4/73, p.22; Clarksons accounted for more than 40% of Court's business and lost £2.7 million in 1971 and an estimated £4.8 million the following year. Both Thomsons and American Express had held talks with the company with a view to purchasing an interest.

The guaranteed high level of utilisation that such contracts provided enabled Mr. Freddie Laker, for example, to establish his own airline, (which he described as a "contract carrier to the package holiday trade - a personalised airline") despite a capital requirement of well over £4 million.⁴⁹ Court would clearly have been unable to purchase two Lockheed Tristars (costing altogether about £23 million) without the backing of its five-year contract with Clarksons. In addition, airlines are able to offer tour promoters further flying-time on top of any minimum utilisation requirement at extremely attractive rates, because time-charters normally cover an aircraft's fixed costs for the full year. Horizon Midland's agreement with Britannia Airways provides for the use of a Boeing 737 between 1970 and 1974. Horizon has contracted to utilise the aircraft for a minimum number of flying-hours each year, with the hourly cost of chartering the Boeing being reduced progressively with utilisation in excess of the contracted minimum.⁵⁰ Similarly, in evidence to the ATLB in 1970, Britannia argued that under its time-charter agreement with Thomson Holidays it was guaranteed a level of summer flying which fully covered its fixed costs throughout the year, so that it could regard as clear profit virtually all revenue obtained from winter flying in excess of direct operating costs.⁵¹

Relaxation of Provision I

BEA continued to oppose applications to the ATLB for licences to operate IT charters on the basis of material diversion of

49. 'Aeroplane', 10/2/66, p.10.

50. 'The Times', 1/5/72, p.18.

51. 'Flight', 29/10/70, p. 664.

scheduled traffic. Initially the Board adhered rigidly to the Provision I rule, limiting minimum packaged-holiday prices to the equivalent scheduled service fare. According to Williams, however, the situation began to change from the summer of 1964. Britannia Airways was able to satisfy the ATLB that despite BEA's claim that its scheduled traffic to Palma had suffered because of IT over-capacity, total scheduled traffic on the Palma route was actually flourishing, but BEA's pool partner, Iberia, had managed to increase its share by offering improved services.⁵² Certainly, after 1964 the Board ceased to restrict IT charter capacity, noting that:

"After four years' experience of the inter-action of (scheduled and IT) ...traffic, we can find no evidence that inclusive-tours have been responsible for any material diversion of traffic from the scheduled carriers. On the contrary, BEA's total passenger traffic continues to grow at much the same rate as before the inclusive-tour charter traffic reached its present proportions." 53

Nevertheless, Provision I continued to be quite rigidly enforced.

The Independents as a group did not in fact want the complete abolition of IT restrictions; they were far too worried about the possible repercussions of a price-war. But BIATA did persuade the ATLB in 1966 to recommend the relaxation of Provision I in two particular areas where, it was claimed, tour promoters were making excessive profits, namely short holidays during the winter and those at remote destinations. The Board proposed, firstly, that the UK member-airlines of IATA should attempt to secure the introduction of special winter creative fares wherever such fares were available in the summer, and promote creative fares to other destinations where they were not yet being provided at all.

52. 'The Role of Private Enterprise in British Air Transportation,' Journal of the Royal Aeronautical Society, 1957, p.424.

53. ATLB Annual Report, 1964/65, p.5.

Secondly, it recommended that Provision I should be relaxed where the lowest scheduled fare was more than £75. Unfortunately, neither the scheduled operators nor the Government were particularly receptive to the suggestions and they were dropped.⁵⁴ With the devaluation of the pound, the President of the Board of Trade announced that for the winter of 1967/68 and the summer of 1968 minimum charges for packaged-holidays would be maintained at pre-devaluation levels. Meanwhile, an enquiry into such holidays was set on foot.⁵⁵

As a result of this enquiry, it was announced the following April that the post-devaluation arrangements would not be continued after October, 1968, with two important exceptions:

(i) for holidays by charter flight to points outside Europe the minimum price was set at either the lowest public scheduled return fare or the minimum charge agreed by IATA for a tour using scheduled services to the same destination, whichever was the lower; and

(ii) for an experimental period, winter holidays at most resorts in Europe and North Africa would be sold at 60% of the normal tourist return fare, or 50% in the case of a holiday of not more than eight days' duration.⁵⁶

It was clearly the latter that proved to be the major break-through. Most airlines specialising in packaged-tours did very little business during the winter months; between Christmas and March, 1967, for example, Britannia made only one revenue flight. Inevitably, this pushed down aircraft utilisation rates, and therefore forced up average costs. But by taking advantage of the marginally-

54. Ibid., 1966/67, p.15-18.

55. Ibid., 1967/68, p.18.

56. Ibid.

costed rates he could obtain from hotels and airlines, the tour promoter was able to offer very cheap short winter holidays abroad, and so create additional profits for everyone. The prices charged were often ridiculously low, perhaps only £9-£10 for a long weekend in Spain, so that demand was quickly stimulated. The number of passengers travelling on winter inclusive-tours from the UK rose from 6,940 in 1963/64 to 454,000 in 1970/71. Further, the trend seems to be accelerating and shows no sign of reaching saturation point. Horizon Midlands winter IT traffic increased from 2,600 in 1969/70 to 13,600 in 1970/71 and to 32,600 in 1971/72.⁵⁷ As we shall see, however, such a rapid rate of growth also created problems for the industry. Provision I was finally abolished by the Civil Aviation Authority, with effect from October, 1973, primarily because of the large-scale entry into the IT charter market of the scheduled operators (see below).⁵⁸

Retardation and Profitless Growth

The rate of growth of UK IT traffic during the 1960s was high by any standard, the number of outward passengers rising from 295,000 in the summer of 1961 to 1,090,000 by 1966. The independent airlines were relying more and more on the holiday market, a situation which dramatically conflicted with the view of 'The Economist' in 1957:

"A vigorous and well-equipped modern air transport industry, fighting for trade with international competitors with the same vigour as the merchant marine, cannot be developed out of the business of carrying holiday parties to the tourist resorts of Europe."⁵⁹

But the pace could not be maintained, and a retardation in the rate

57. 'The Times', op.cit.; in other words about one-third of total IT output, the same as Thomsons.

58. Ibid., 8/11/72.

59. 23/2/57, p. 657-9.

of growth began to appear during the 1967 season (see Tables 10.2 and 10.3). By any normal standards traffic was still booming; compared with the previous few years, however, the slow down was marked. The ATLB claimed that the rate of increase of inclusive-tour passengers on British airlines during 1967/68 was the lowest it had ever recorded.⁶⁰

The industry's troubles can partly be explained by the downturn in UK economic activity and the currency restrictions imposed by the Government, although the fact that other European countries experienced a rather similar trend suggests that other factors may also have been involved. It seems probable that after the initial success of the early 1960s, the momentum had temporarily run out and tour promoters were experiencing difficulties in further reducing prices. Of course, since hotel beds and airline seats have to be contracted for some time in advance, the retardation in traffic growth inevitably meant large financial losses for the tour companies, exacerbated by growing competition. But the airlines did not escape lightly either. The traffic downturn coincided with the introduction of jet aircraft by several private carriers, increasing available capacity and depressing load-factors and profits even further. In any case, the increasingly close ties between tour promoters and airlines inevitably meant that any difficulties encountered by one sector of the industry would certainly affect the other.⁶¹ Some operators fared better than others. Particularly badly hit, however, was British Eagle, whose 1967 summer holiday traffic fell 20% compared with the previous year and must have been a contributory factor in the company's collapse.

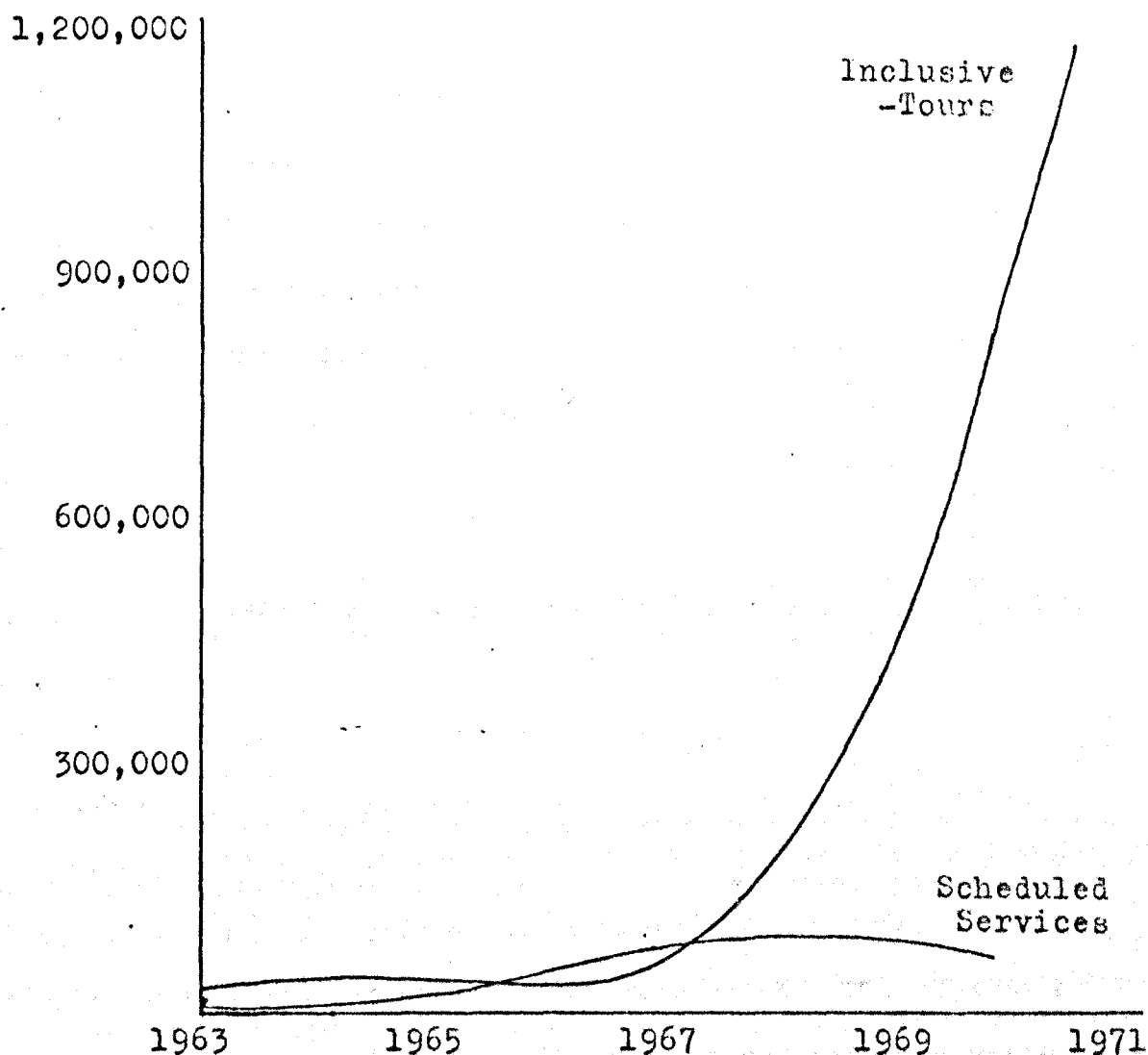
60. ATLB Annual Report, 1967/68, p.16.

61. These closer ties have meant in practice that the financial results published by some airlines are practically meaningless; there is no way of telling, for example, whether Thomson Holidays pay Britannia a fair market rate for the use of its aircraft.

IT traffic growth remained at a low level throughout 1967 and 1968, though it began to pick up again thereafter. It is indicative of the increasing importance of the holiday market for the Independents that one of the largest private operators, Court (Autair), abandoned all scheduled services from November, 1969, to concentrate on IT charters. Court's very rapid growth has mainly resulted from its close association with Clarksons, by the late 1960s the largest package-tour promoter in the UK, if not the world. The Independent's IT traffic rose from just 56,000 in 1967 to some 900,000 by 1970 (see Fig. 10.1). It also managed to return overall profits, in spite of losses on scheduled services, of £217,000 in 1968, £430,000 in 1969 and £670,000 in 1970.⁶² But despite the improvement in the holiday market, the privately-owned airlines and the travel companies still faced a number of problems.

62. 'Air Pictorial', April, 1970, p.116; 'Flight', 4/11/71, p.719.

Figure 10.1 : Number of Passengers Carried by Court
Line Aviation, 1963-1971.



One problem resulted from the growth of the scheduled operators' charter activities, and in particular that of BEA. The Corporation had decided upon a more aggressive policy in the holiday market as early as 1966, cutting its summer IT charter rates by an average of 20%. The following April it established a subsidiary, Silver Wing Surface Arrangements, to organise packaged-tours.⁶³ BEA's main assault on the market, however, was decided upon in February, 1969, namely the formation of a non-IATA charter subsidiary, BEA Airtours, to compete with the Independents on their own terms. In the long

63. 'Aeroplane', 8/7/65, p.9; 'Flight', 13/4/67, p.539.

run, Airtours aimed to capture 20% of UK inclusive-tour traffic. Equipped initially with seven Comet 4Bs, purchased from its parent-company and replaced during 1972/73 by ex-BOAC 707-430s, the company had sold "the larger part" of its capacity to travel companies by June, 1969, nine months before it was due to start operations.⁶⁴ Early results were similarly encouraging for the public operator. In its first year, Airtours carried 650,000 passengers (12% of the UK-originating European IT market) and reported a profit of £154,000; the following year 746,000 passengers were carried, although profit fell slightly to £145,086.⁶⁵ A move on such a scale by a national flag-carrier (and BEA was not the only European airline to establish a charter subsidiary at this time) into a field traditionally regarded as a near-monopoly for the private sector clearly presented a potentially very serious threat to the Independents.

The second problem that faced the travel industry was the fact that while traffic recovered and resumed a rapid rate of growth, profit margins slumped dramatically from about 1970. The main explanation for the increasing losses lay not with the airlines, but with the tour promoters. The degree of competition among the latter had risen dramatically, with companies attempting to stimulate

64. 'Flight', 5/6/69, p.916.

65. BEA Annual Reports; there seems to be some doubt as to the strict accuracy of these profit figures. Almost everyone I spoke to in the independent airlines claimed to have certain 'proof' that Airtours is cross-subsidised by BEA in some way, especially with regard to the capital cost of its equipment. Perhaps the fact that the private sector is so vociferous in its criticism indicates the potential threat it sees to its own position in the formation of Airtours. During 1972/73 Airtours carried 873,219 passengers and made a profit of £382,000, a return on average net assets of 14.7%. British Airways has also recently established 'Enterprise Holidays' to compete with Clarksons and Thomsons in the lower-priced holiday market. British Airways Annual Report, 1972/73, p.115.

demand and increase their own share of the market by keeping prices as low as possible. Aggregate figures published by the ATLB for 57 of the largest tour operators showed that turnover grew from £105 million in 1969 to £140 million in 1970 and £170 million the following year. A profit of £1.57 million in 1969, however, deteriorated into losses of £1.62 million and £8.67 million over the same period.⁶⁶ Further, on the whole it was the larger operators who incurred the biggest losses. Clarksons was probably the principal loss-maker, but far from the only one. Both Thomsons and Lunn Poly were said to have lost well over £500,000 each during 1970; one executive described Lunn Poly as "building up to a crescendo of mess",⁶⁷ The ATLB warned that

"the steady downward dive of our prices will affect the charter rates for aircraft and thus weaken the finances of airlines. Bankruptcies, too, may occur amongst tour organisers... The Board is now receiving representations from airlines about the serious inroad that is being made upon their revenues. The ambitions of the big tour organisers and the natural desires of the travelling public will have to be tempered by this important consideration."⁶⁸

The inevitable result of such a situation was pressure on the tour operators to cut margins closer and closer, leaving little in reserve to meet any unexpected problem that might arise. Hence the spate of complaints from IT customers that hit the headlines during 1971/72. For the airlines, schedules were often so tight that a single delay could have a cumulative effect for hours or even days afterwards. To a large extent, however, it might be said that the industry created its own problems. Several of the larger companies had clearly decided upon a low-price/high-volume policy in order to stimulate demand, and perhaps even force some of the smaller operators out of business, (despite the ease with

66. ATLB Annual Report, 1971/72, p.14; 'The Times', 8/11/72.

67. Ellison: 'Scheduled Air Fares - Has Miami the Answer?' Unpublished paper, 1971, Chartered Institute of Transport; 'The Sunday Times', 29/10/72, p.19.

68. ATLB Annual Report, 1970/71, p.5-6.

which new companies can enter the packaged-holiday market). Mr. Tom Gullick of Clarksons argued:

"The revolution in travel is by no means over. Bigger profits lie ahead for us all. But let us get more people abroad before we start worrying about how the fruits of victory should be shared." 69

In other words: "We must beat the iron while it is hot, but we may polish it at leisure" (Dryden). Unfortunately, the policy came rather badly unstuck. "There is no doubt," said Mr. Syd Silver, head of 4S Travel (Horizon's low-cost subsidiary), "that this price war has bitten much more deeply than any of us realised."⁷⁰ Faced with such a policy, however, the airlines acting individually in the highly competitive IT charter market, especially those not directly associated with tour promoters, had little hope of pushing air charter rates back to a more profitable level. As Mr. Adam Thomson, chairman of British Caledonian, pointed out:

"In the absence of effective price control, great purchasing power has been placed in the hands of tour organisers and, while more than adequate capacity remains available for IT charters, tour organisers have effective control of rates." 71

Clarksons were the archetype of a successful packaged-tour company in the late-1960s, setting their sights firmly on the "down-market," aiming at volume rather than profit. To a large extent, therefore, Clarksons mirrored and magnified the shortcomings of the industry as a whole. A very rapid rate of growth succeeded only in producing a considerable financial loss, up to £3 per holiday sold against a 'traditional' profit on packaged-holidays of £1 per capita. The sheer weight of the increased traffic volume seems to have proved too much for the company's managerial

69. 'Financial Times', 13/10/71, p.21.

70. Ibid., 24/5/72.

71. 'The Changing Shape of Air Transport in the 1970s'. The Aeronautical Journal, 1973, p.127.

structure, leading eventually to near-collapse. Clarksons' owners, Shipping and Industrial Holdings, blamed the losses on two weaknesses:

"First, in decisions on prices and other operational factors taken some time ago, and secondly on the explosive increase in the inclusive tours trade which proved too large for the organisational controls of the company."

Changes in relative currency alignments and adverse press criticism served only to exacerbate the situation, while Clarksons also succeeded in alienating large sections of the retail travel trade, which accounts for 80% of total inclusive-tour sales.⁷² Thomsons, on the other hand, were rather more fortunate (or had better management) and by 1972 had replaced Clarksons as market-leaders.

The remaining problems that faced the UK travel industry stemmed ironically from the very success of the winter holiday experiment. The popularity of such tours caught everyone by surprise, and the number sold increased dramatically each year. But in the long run low-price winter inclusive-tours can only be viable as long as most fixed costs are covered by the full-price summer traffic. It soon became evident that the rate of growth of summer ITs was slowing down, perhaps even grinding to a halt. For example, while total summer bookings taken between September, 1971, and February, 1972, remained virtually static (they rose by less than 1%), winter holiday bookings over the same period increased by 75%. Early signs suggest that IT growth during the summer of 1973 will be less than 5% .

"All this would be fine if tour operators insured that their winter business was profitable,...or at least contributed sufficiently to overheads to improve summer profits. Unfortunately this has not worked out for all but a handful of companies." 73

72. 'Financial Times', 17/10/72 and 26/5/72, p.46.

73. Mr. Wilf Jones, managing director of Cosmos Tours. 'Financial Times', 2/6/72, p.1. Unlike the losses incurred on summer ITs, those during the winter appear to have mainly fallen on the smaller companies. The latter account for some 60% of the winter market, while over half of the summer traffic is handled by the big four operators -Clarksons, Thomsons, Cosmos and Horizon.

The obvious conclusion to be drawn, therefore, was that a large number of tourists were taking their holidays during the winter months in preference to the summer. The downturn was especially noticeable during the so-called "shoulder months" of the season. Alternatively, there is some evidence to suggest that summer holidays were being spent in the UK and winter ones abroad. In other words, important changes were taking place in the country's holiday habits, few of which for once seemed to be evolving, initially at least, in a way that would benefit the tour promoters.

For the airlines, the growth of winter holidays naturally led to substantial increases in aircraft utilisation rates. Up to a point, this could only improve an operator's profitability. But it seems that the trend may have gone too far. One airline, for example, claims to have achieved an annual utilisation rate of some 4,000 hours on certain aircraft; when the aircraft in question were first introduced they were profitable at 2,300 hours, and a normal target level might be about 3,500. An excessively high level inevitably creates the danger of an insufficient margin in case anything goes wrong, and delays can be very expensive. Reid and Allen note:

"More intensive use of aircraft reduces unit costs since fixed costs are spread over a longer operating period, though there is a level of annual utilization beyond which rapidly rising maintenance costs (and the likelihood of delays - B.H.) make further use uneconomic." 74

Some independent airlines may well have reached that level.

One of the few bright spots for the travel industry appears to be the fact that previous failings are now fully recognised and steps are underway to correct them. Extensive managerial changes have been made throughout the industry, while most companies raised their 1973 prices by between 10 and 20% (representing a real in-

crease of up to 10%). In addition, recent legislation⁷⁵ has brought the licensing of tour promoters as well as airlines under the control of the Civil Aviation Authority and seems likely to result in closer scrutiny of the whole industry. "It looks as though," concluded a Thomson spokesman, "we are entering some semblance of a period of stability within the industry, in which prices can be allowed to reach realistic levels and proper attention can be given by all to the quality of holidays."⁷⁶ Whether or not increased prices will have any major effect on demand (which they should if inclusive-tours are indeed as price elastic as is claimed, unless incomes rise rapidly) will have to be seen. For those independent airlines not closely associated with holiday interests, however, the major threat to their IT traffic appears to be the growth of competition from the principal European scheduled carriers (see below).

75. 'The Civil Aviation (Air Travel Organisers' Licensing) Regulations 1972', No. 223.

76. 'The Financial Times,' 16/8/72, p 10.

Part B Affinity-Groups

As in the case of intra-European inclusive-tours, the exploitation of the long-haul affinity-group (or closed-group) concept only really got under way on a large scale during the second half of the 1960s. The development of this market in the UK was closely associated with a single independent airline, Caledonian Airways. It was Caledonian that first realised and attempted to meet the huge latent demand that existed for relatively cheap air transport between North America and Europe:

"It has always been the aim of Caledonian, even before the formation of the company, to develop North Atlantic inclusive tours along the lines of those pioneered by British independent airlines and tour operators in Europe with one essential and very important difference - that North Atlantic tours could be originated from both sides of the ocean." 77

In fact, of course, affinity-group charters rather than IT charters accounted for overwhelmingly most of the traffic carried by airlines such as Caledonian. European IT and general charters were also operated, but Caledonian's main emphasis has almost always been on the North Atlantic.

The explanation for the lack of success of packaged-holidays on the European model across the North Atlantic lies primarily in the restrictions imposed by the US regulatory authorities. Certainly, there is little reason to suppose that a demand for such tours does not exist, and indeed they were fairly common in the United States before the war (see above). In order to protect the scheduled carriers, however, the Civil Aeronautics Board now requires that an inclusive-tour must be at least seven days in duration and stop in a minimum of three cities, each 50 miles or more apart, and that the total price is no less than 110% of the lowest available scheduled service fare over

the same routes.⁷⁸ This makes the economies that result from bulk buying and the application of system design extremely difficult to achieve, and since most of the holiday traffic on the North Atlantic originates in the United States, the demand for packaged-tours has been severely restricted. The failure of the scheduled airlines to provide cheap air transport, therefore, led to the popularity of the less rigidly controlled affinity-group charter market.

The idea for a company such as Caledonian seems to have originated with a group of British Eagle employees in North America, and in particular with Mr. John de la Haye. As we have seen, Eagle had also been primarily interested in the North Atlantic market; it had in fact applied to the ATAC for licences to operate inclusive-tours on these routes as early as 1957.⁷⁹ But for a number of reasons Eagle failed to fully exploit the potential demand that clearly existed. De la Haye and his associates realised the possibilities and set about establishing their own specialised, low-cost charter airline. Finance came mainly from Mr. Max Wilson, who operated cheap flights from Luxembourg to Lourenco Marques (for South Africa),⁸⁰ although capital requirements were minimised by extensive leasing and outwork agreements. The initial groundwork put in by Eagle proved to be an important factor in Caledonian's success. Equally, however, the airline was probably fortunate in choosing the right market at

78. Stratford: 'Air Transport Economics in the Supersonic Era', 1973, p.198; see also Thomka-Gazdic: "Are Inclusive Tour Charters Scheduled or non-Scheduled Services", in McWhinney and Bradley (ed.) 'The Freedom of the Air', 1968, p.115-116.

79. 'Flight', 22/3/57, p.360.

80. Wilson had previously used Overseas Aviation (Channel Islands) before its collapse, and indeed initially Caledonian occupied the bankrupt airline's premises. Wilson relinquished his majority shareholding in 1962. Mr. Adam Thomson, previously deputy managing director, took over executive control from de la Haye in 1964. Ibid., 21/12/61, p. 968, et.al.

the right time. In 1961, Mr. Ralph Cohen of IATA forecast:

"...little by little the upward trend in the standard of living in many countries is approaching the descending curve of airline fares, and when they meet, there will be an explosion of tourism such as the world has never seen before." 81

It appears that this is exactly what happened in the United States, except that charter air fares were reduced to such an extent in a very short period of time that they came within the reach of even the lower income groups. In particular, the post-war population 'bulge' had, by the late-1960s, resulted in the large-scale expansion of that most mobile of the low income groups, students, who formed a large proportion of the affinity-group market.

Caledonian received Presidential approval for a CAB foreign air carrier permit in June, 1963, the first such permit issued for charter operations. An initial sales drive in Canada and the United States during 1963 was described as a "resounding success."⁸² From then on the airline went from strength to strength, recording very rapid increases in the number of passengers carried and in the size of its fleet. Between 1965 and 1969 Caledonian's available capacity expanded by 328.1%, compared with a non-scheduled capacity increase of 45.7% by BUA and 78.5% by UK airlines as a whole. Its UK-USA charter passenger traffic grew from some 15,000 in 1967 to almost 132,000 by 1970, representing 24.9% of the total market, against 39.9% for all UK airlines.⁸³ In addition, unlike many privately-owned operators in similar circumstances, a rapid rate of growth was accompanied by relatively healthy profits (See tables 10.6 and 10.7). By 1970, of course, Caledonian had become one of the two largest British independent airlines, capable of absorbing BUA to form the so-called 'second force'.

81. Quoted by Emery: 'The Role of the US Government and US International Air Carriers in Commercial Air Transportation over the North Atlantic.' Journal of the Royal Aeronautical Society, 1962, p.563.

82. 'Flight', 27/6/63, p.1010 and 5/12/63, p.991.

83. *Ibid.*, 22/10/70, p.635 and 3/2/72, p.164.

Table 10.6: CALEDONIAN AIRWAYS' TRAFFIC, 1963 - 1970.

	Passengers Carried		Passenger-Miles Performed (000s)	
	Inclusive-Tours	Other Separate Fare Charters	Inclusive-tours	Other Separate Fare Charters
1963	21,001	16,896	19,454	35,529
1964	59,336	22,302	57,601	58,111
1965	53,048	39,117	53,854	108,795
1966	69,378	52,878	74,322	169,440
1967	80,933	58,792	86,019	184,491
1968	87,816	85,159	87,343	334,713
1969	403,796	264,332	329,675	793,057
1970	447,270	339,323	399,929	1,334,446

Sources: Board of Trade: 'Operating and Traffic Statistics of UK Airlines.'

Board of Trade (Department of Trade and Industry):
Business Monitor, Civil Aviation Series

Table 10.7: Caledonian Airways' Financial Results, 1962/63 - 1969/70 (£)

	Revenue	Pre-tax Profits
1962/63	966,947	28,118
1963/64	2,310,585	90,614
1964/65	3,400,000	86,883
1965/66	4,605,512	205,085
1966/67	3,800,000	125,000
1967/68	6,000,000	220,000
1968/69	12,361,860	641,513
1969/70	16,697,059	549,544

Source: 'Flight' various dates; some figures rounded.

Growth and Abuse

Both Britannia and Caledonian, therefore, share a number of common features: they were both pioneers in their own fields; they both experienced very rapid rates of growth; and they were both, by airline standards, very profitable undertakings. Like Britannia also, Caledonian attracted a number of imitators. Firstly, several new airlines were established, such as Donaldson and Lloyd International, specialising in long-haul charters, especially affinity-groups. Secondly, many of the operators that had previously concentrated on intra-European packaged-holidays or scheduled services were attracted by the profits and traffic potential of the North Atlantic routes. By early 1971 almost every major British Independent had received a CAB foreign carrier permit for charter operations: British Midland, BUA, Britannia, Caledonian, Channel, Dan-Air, Donaldson, Laker and Lloyd. Inevitably, competition on this scale (and several Continental and American non-scheduled carriers were also jumping on the bandwagon) adversely affected Caledonian, whose share of the UK-USA charter market fell to 19.1% in 1971 (from almost 25% the previous year).⁸⁴ A major factor in the success of the private airlines in the long-haul market must have been the ready availability of a large number of surplus Boeing 707s and DC-8s, as the major flag-carriers re-equipped with 747 'Jumbo' jets.

The principal sufferers, of course, have been the scheduled operators, whose share of the North Atlantic market fell from 98% to 78% between 1963 and 1971 (see Table 10.8). According to IATA, at the present (1971) rate of growth charter traffic will have a 50% share of the trans-Atlantic passenger market by 1974; if the

84. Ibid., 3/2/72, p.164; Britain's share of the market rose from 39.9% in 1970 to well over 50% in 1971.

situation is allowed to continue scheduled airlines would inevitably have to reconsider their future, "and specifically whether they will be able to maintain a scheduled service operation on acceptable economic conditions."⁸⁵ An alternative way of looking at the problem is the fact that between 1963 and 1971 the average annual growth rate for non-IATA charter services on the North Atlantic exceeded 58%, compared with 15.2% for IATA scheduled services and 12.4% for IATA charter operations.⁸⁶ In addition, the Independents also began to enter other long-haul markets, especially that to Australia and South-East Asia. One Australian source estimated the loss to the BOAC/Qantas pool due to charter activity at £11 million in 1970. In this case, however, the Government took action and allowed BOAC and British Caledonian to sell seats on charter flights directly to individual members of the public, suspending any group-membership requirement⁸⁷ (see Chapter XII).

Table 10.8: NORTH ATLANTIC PASSENGER TRAFFIC, 1963-1971
(percentage shares).

	IATA Scheduled	IATA Charter	Non-IATA Charter
1963	84	14	2
1965	84	11	5
1967	83	9	8
1969	73	10	17
1970	74	8	18
1971	68	10	22
1972	72	11	17

Nb. does not include figures for non-IATA scheduled services, amounting to 2.3% of total in 1972.

Source: IATA.

85. Ibid., 2/3/72, p.312.

86. IATA: 'Agreeing Fares and Rates', 1973, p.237.

87. 'Flight', 12/8/71, p.242. The Government thus found itself in the ludicrous position of trying to police affinity-groups, while at the same time authorising, and therefore officially recognising, a series of charters that clearly did not conform to any recognised definition of an affinity group.

It might be relevant at this point to mention Mr. Freddie Laker's latest innovation, the Skytrain. If licensed by the American CAB, Laker intends to operate a limited, 'no-frills' scheduled service between London (Stansted) and New York, at prices not only considerably below normal scheduled fares, but probably also competitive with charter flights. Diversion of traffic from other scheduled operators is minimised by restrictions on capacity and by limiting the period during which tickets can be purchased to a few hours before departure. In other words, although operated on a regular basis and without any group-membership stipulation, the Skytrain is in effect a charter-operation, aimed specifically at that sector of the market unable to afford full fares, but prepared to accept a measure of inconvenience. Laker ordered two DC-10s mainly for the new project and has already received authorisation from the CAA. The economics of the Skytrain are illustrated in Table 10.9, although it is far too early to say whether the figures will in fact prove to be correct. It could well be, however, that if the service becomes as popular as Laker has forecast, its very success will attract so many imitators that everyone will lose money.

Table 10.9 : THE ECONOMICS OF THE LAKER SKYTRAIN
(London-New York Return Flight).

<u>Direct Operating Costs (£)</u>	707	DC-10
Fuel	1,311.66	1,678.14
Landing Fees	216.77	353.58
Handling Fees	708.88	1,066.54
Nav aids	131.10	177.88
Customs/Immigration/Health	125.28	160.92
Crew Hotel/Allowances/Catering	212.90	262.45
Cost per return flight =	£2,706.59	£3,639.51
<u>Total Costs (£)</u>	707	DC-10
Direct Operating Costs	2,706.59	3,639.51
Aircrew Costs	527.94	436.71
Cabin Staff Costs	154.06	256.73
Aircraft Depreciation*	995.64	5,716.70
Overhauls	1,238.04	1,810.00
Hull, Third-Party, Loss-of-Use and Spares Insurance	118.59	926.14
Training/Testing	44.30	103.09
ARB/CAA Fees	10.28	18.53
Ticket Sales	56.96	113.93
Advertising	136.61	273.23
General Overheads	577.75	693.30
Legal Fees in Connection with CAA Application	28.96	28.96
Cost per flight =	£6,595.72	£14,016.83
Average net fare =	£63.98	£63.98
Passengers required to break-even =	103.2	219.4
Break-even load-factor	<u>65.3%</u>	<u>63.6%</u>

* = for 707s, cost of hiring aircraft.

Assumptions: 3,272 hours per aircraft annual utilisation; average return flight time of 14.48 hours (chock to chock); 241 flights in summer, 211 in winter. Calculated at mid-1972 prices.

Source: 'Flight' 27/7/72, p.116-117.

The closed-group concept was blatantly and widely abused. Despite attempts to close the loopholes in the regulations in 1960, as the decade wore on the whole system became more and more of a farce. Under British law, in order to take advantage of the low fares offered to affinity-group passengers, an individual had to be a member for a minimum period of six months of a club or society, the primary purpose of which was not simply to supply cheap travel to members. But such rules were very difficult to enforce, and travel agents and airlines were easily able to establish phoney clubs and issue back-dated membership cards to ordinary members of the public. Thus, a Mr. White reported:

"We thought we were flying out yesterday. We were given forms to join the Park Preservation Society of America. We didn't leave because the flight was over-booked. So today we were told to join the Shakespearian Dramatic Society." 88

Illegal charters such as these were widely advertised in the press, and there seemed little that the Government could do about them, apart from the occasional well-publicised raid by officials, and subsequent flight cancellation. One of the most important protective barriers erected around scheduled services, therefore, had been breached. But really the national flag-carriers had only themselves to blame. The rules governing affinity-group charters dated back to an IATA traffic conference in 1953, which adopted the famous Resolution 045 (this also included restrictions on IT prices, known in the UK as Provision I). Resolution 045 permitted IATA members to enter into agreements

"with one person on behalf of a group, whose principal aims, purposes and objectives are other than travel, and where the group has sufficient affinity existing prior to the application for charter transportation to distinguish it and set it apart from the general public."

The vagueness of this statement led the Director General of IATA to urge "the members to clarify what they intended." Unfortunately, he was forced to report that "after hours of discussion, it was decided that the language just quoted should remain on the books, although no one had a clear idea as to exactly what it meant."⁸⁹ This lack of clarity on the part of IATA became embodied in national legislation, and hence the problems of the late-1960s.

Difficulties

To a greater or lesser extent, the mass entry of the UK independent airlines into the long-distance affinity-group market proved to be a near-disaster. Despite Caledonian's success, and the very rapid growth of USA-Europe air charter traffic, few Independents managed to earn profits. The principal explanation is not difficult to discover. Most of the private carriers had specialised in short-haul operations, usually intra-European inclusive-tours; they had little experience of the peculiarities and demands of long-haul air transport. Although quite large in terms of the average European IT operator, when compared with some of the charter airlines flying the North Atlantic, especially the American supplementals, the UK Independents appeared very small fry. Most had only one or two long-haul aircraft, a fleet size far below the economically optimum. In addition, they were entering one of the most competitive air markets in the world, with the level of competition increasing almost daily, particularly as a result of the diversion of capacity from the Pacific by the American supplementals with the de-escalation of the Vietnam war. (Altogether there were probably some 50 airlines operating between Europe and North America). Thus, any small carrier

89. IATA Bulletins, quoted by Pillai: "The Air Net", 1969, p.154-5.

attempting to operate long-haul intercontinental services will inevitably have an excessively high cost structure, especially when compared with larger airlines; if, in addition, the long-haul market is characterised by a very high level of competition, the result is often disastrous for the small operator.

The situation was made worse for the charter sector as a whole by the resurgence of competition from the scheduled airlines. This took two forms. Firstly, the flag-carriers inaugurated a policy of very low creative fares, such as special rates for travellers aged under 25, in order to attract traffic onto their regular services from the charter companies. Secondly, they followed the example of several European operators (or extended their own practice from the intra-European to the inter-continental markets) and established non-IATA charter subsidiaries. The new non-scheduled airlines either took the form of completely separate units, as in the case of BEA Airtours or Lufthansa's Condor, or of paper-companies, hiring all equipment and staff from parent carriers, such as BOAC's British Overseas Air Charter Ltd. There can be little doubt of the success of the new strategy. BOAC Ltd., for example, earned £15 million in revenue during its first year of operations, 44% above target; it contributed over £4.5 million to BOAC's overall financial position, half of its 2,249 flights being performed across the North Atlantic. ⁹⁰ Non-IATA transatlantic charter traffic actually fell in 1972 for the first time for many years, while that carried on IATA scheduled and charter services recorded both absolute and relative gains (see Table 10.8). According to IATA:

90. 'Financial Times', 2/4/73, p.4.

"The figures demonstrate quite clearly that the IATA airlines have made a break-through in the provision of low-cost air travel for the mass vacation and pleasure-travel public, and are in fact already meeting the broad public demand and the various Governments' objectives." 91

The combination of excessive competition and an inherently unfavourable cost structure led most of the UK independent airlines to abandon their long-haul charter aspirations. During 1971/72 British Midland's two Boeing 707s lost some £850,000, and BMA eventually withdrew from the trans-Atlantic market after gaining a £3.3 million contract to operate Sudan Airways' long-distance flights.⁹² Similarly, Britannia burnt its fingers badly and withdrew, leasing its two 707s to British Caledonian. The latter company itself, the pioneer UK airline in the field, drastically cut-back its 1973 trans-Atlantic charter programme from £8 million to £3 million, because of increased competition and uneconomic rates.⁹³ The rules governing affinity-groups were also more strictly enforced, especially by the CAB, and several carriers were fined. The fact that the trend in the European IT market was increasingly for holidays to be spent further afield made the retrenchment of companies such as Britannia doubly unfortunate; already the exploitation of resorts in East Africa and the Caribbean is well under way. Ironically, the one major Independent that did not enter the long-haul charter market, Court, is probably now in the most favourable position to take advantage of the trend towards longer-distance ITs. Court has extensive hotel and air transport interests in the Caribbean and in the UK recently purchased the Atlas group of companies, including the Airfair subsidiary, claimed to be Britain's largest independent Advanced Booking Charter organisation. Airfair's total capacity on the North Atlantic during 1973 will

91. Ibid., 8/1/73, p.27.

92. 'Flight', 1/2/73, p.146 and 1/3/73, p.280.

93. Ibid., 5/4/73, p.530.

amount to some 40,000 round-trip seats, mainly on BCAL and Pan Am flights.^{93a} In addition, of Court's three Tristar options still outstanding, the final two will probably be long-range versions capable of crossing the Atlantic non-stop. (Court's current Tristars occasionally fly to the Caribbean, but have to re-fuel in the Azores). In other words, Court appears to be in a position to minimise any cost disadvantage by operating a reasonably sized fleet of similar aircraft, and at the same time to have purchased a company with a sufficient number of passengers to fill those aircraft.

Early in 1973 an agreement was finally reached by the US Civil Aeronautics Board and the UK Civil Aviation Authority on a formula that would both meet the growing social pressures for cheap air travel and stem the wide-spread abuse of affinity-group charters, namely the introduction of Advanced Booking Charters (ABCs), known as Travel Group Charters in America. Basically, any individual can purchase an ABC seat, providing he does so at least 90 days in advance of the departure date and remains abroad for a minimum period of 14 days (10 in the winter). Closed-group charters are, therefore, superseded, although remaining in existence for genuine affinity-groups. A typical ABC rate is that offered by BOAC Ltd. of from £58 return between London and New York, compared with Laker Skytrain's £75 and the cheapest peak 22-44 day economy excursion fare on a scheduled service of about £125. After strong protests from the American supplementals, however, the CAB refused to accept the CAA's proposals for Advanced Purchase Excursions (APEX) and their associated part-charter rates, similar to BOAC's 'Earlybird' fares on cabotage routes - in other words, the blocking-off of a section of each scheduled aircraft's seating capacity and its sale to a travel organiser at low cost. APEX seats would be

93a. Ibid., 17/5/73, p.730; 'Financial Times', 9/5/73, p.12.

sold in the same way as ABCs and were designed to enable the scheduled operators to compete with charters.⁹⁴ But the possibility still exists that these rates will in fact be introduced in the foreseeable future. In its 1971/72 Annual Report EOAC commented that "it is high time that a degree of sanity and a semblance of order were restored" in the chaotic situation surrounding trans-Atlantic air fares. This is exactly what the regulatory authorities have attempted to achieve, although whether they have been successful, and in particular whether new loopholes in the law can be found, is as yet impossible to answer.

Conclusion

Tourism has been one of the key growth industries since the end of the Second World War. The British independent airlines have played an important part in developing the industry, and in turn have been greatly affected by it. Few of the privately-owned operators today would be viable without the income obtained from holiday charters. There seems little reason to suppose that the rapid expansion of international tourism will not continue into the foreseeable future. Certainly, a very large potential market exists; almost 40% of the adult population of Great Britain do not take holidays away from home each year, and the proportion is higher in most other Western European countries.⁹⁵ Intra-European charter traffic is expected to exceed domestic scheduled traffic in Europe by 1980, when it will probably number some 63 million passengers annually. A number of recent forecasts have indicated a continuation of the strong position already held by the inclusive-tour in Europe and beyond. A study undertaken by the British Aircraft Corporation estimated that by 1975 approx-

94. 'Financial Times', 10/3/73, p.16.

95. Peters, op.cit., p.8.

ately 4,800,000 holidaymakers will travel on IT charter flights operated by UK airlines, and that two out of every seven will travel in the winter season. With foreign airlines contributing a further 10%, the national total should be approaching 5,300,000. BAC forecast a 20% annual growth during the early 1970s, falling to 17% by 1975 and 11% thereafter.⁹⁶ The Economist Intelligence Unit's estimation, on the other hand, is that ex-UK IT sales will increase from over 2.8 million in 1971 to almost 6 million by 1980, with a similar slowing down in the second half of the 1970s.⁹⁷ Finally, recent calculations based on modified Roskill estimates suggest that over the next twenty years total air traffic between the UK and Europe and within the UK will increase 6.6-times, while IT traffic will record a 9.5-fold growth; in other words, the IT proportion of total traffic will increase from 45% to 60%.⁹⁸ Similarly, of course, rapid rates of growth can be expected in other holiday markets.

This does not mean, however, that the Independents will be able to maintain their share of the market. In particular, as we have seen, a major threat has developed from the scheduled carriers. Having stood back for many years and watched their prices under-cut and potential passenger traffic attracted away by the charter operators, the scheduled airlines at last stirred themselves into action. Their counter-attack, in the form of more competitive creative fares and the formation of charter subsidiaries, has proved remarkably effective. The smaller privately-owned operators stand little chance of surviving a price-war against the national flag-carriers, if one should develop. Further, recent developments bring into doubt the whole future growth pattern of packaged-holidays. Plans

96. 'The Times'; 7/9/71; subsequent events suggest that the winter holiday estimate may be on the conservative side.

97. 'International Tourism Quarterly.' 1971, No.1, p.61.

98. Wilkinson: 'Air Transport Development Between the UK and Europe - the Next Twenty Years!' Aeronautical Journal, 1972, p.344.

are being prepared to extend the ABC principal, and probably also APEX and part-charters, to intra-European routes, as the Edwards Report recommended.⁹⁹ Conceivably this could make the tour promoter redundant, for with ABC or APEX fares and a suitable marketing campaign by foreign hotel groups, it would be perfectly feasible for an individual to organise his own packaged-holiday at a reasonable price. But the greatest danger to the holiday airlines clearly comes from part-charters on scheduled services. Already BEA has experimented on flights to Spain and Portugal with an arrangement whereby up to 40% of the capacity of a regular flight can be chartered in blocks of as few as ten seats at a time.¹⁰⁰ If this experiment were extended, in association with APEX fares, it would present the most serious challenge yet to the IT charter airlines. The possibilities might well prove attractive to European air transport regulatory authorities, for such a plan would solve one of the most pressing current problems, namely the preservation of viable scheduled service networks. By 1971, for example, between Scandinavia and Spain 97% of total air traffic went by charter, and a number of scheduled services had to be withdrawn.¹⁰¹ Thus, the future for the independent airlines in the field of international tourism is not as bright as it might have appeared a year or two ago.

99. p. 177.

100. 'The Economist,' 3/7/71, p.73; BEA also operates IPEX (Instant Purchase Excursions) to Scandinavia, where purchase of a ticket is limited to a few hours before take-off.

101. 'Financial Times', 29/9/72.

Chapter XISCHEDULED SERVICES

The gradual expansion of the scheduled service networks operated by the British independent airlines since the war and the history of the licensing of those services have already been discussed. The purpose of this chapter is to examine scheduled services in more general terms, especially in relation to the past and, more importantly, future development of the Independents.

A Change of Emphasis

With the nationalisation of most of Britain's air transport output at the end of the Second World War the remaining privately-owned operators were effectively limited to charter work. Such a position, however, proved to be untenable and gradually over the years from 1949 the Independents have managed to obtain a fairly large share of scheduled service traffic as legislative restrictions were eased or removed. This has been basically true, as we have seen, irrespective of the political party in power. As far as the Independents were concerned, throughout most of the period, in fact until the mid-1960s, it remained an unwritten law that the higher the proportion of scheduled activity in their total output the better. The most important factor in the efficient and profitable operation of an air transport company was, and remains, a regular, steady stream of business, with as little peaking of traffic and as few slack periods as possible. In theory, scheduled services met these requirements, offering both relative security and higher revenues. Most charter flying, on the other hand, was unreliable, did not guarantee a high rate of utilisation of equipment, was very sensitive to business depressions and, because of the particularly

competitive nature of the work, resulted in low revenue yield and profitability. Thus, a purely charter airline could expect to have an average life expectancy considerably less than that of companies that achieved a mixture of charter and scheduled traffic. The aim of most independent carriers, therefore, was to obtain licences to operate scheduled services.

It must be emphasised, of course, that such a statement is a generalisation and that the better performance of the scheduled operators was only relative. The services they were permitted to fly were hedged with restrictions, and partly as a result the airlines operating them experienced a high level of instability. For example, according to one estimate, between 1945 and 1960 some 58 private carriers attempted to run UK domestic scheduled services, and 45 actually succeeded, of which by 1969 only two were still in existence under the same ownership. Of the remaining 56 airlines, 9 were still operating, but had been taken-over by other companies, while the remaining 47 had disappeared.¹ It was not until the passing of the Civil Aviation (Licensing) Act in 1960 that the Independents were given the opportunity of competing on a relatively equal basis with the Corporations and of creating viable route networks. Previously their regular services had been concentrated on the highly-peaked 'holiday' routes. The main exception to this rule, apart from vehicle air-ferries, had been the development of certain 'cut-price' services, such as Colonial Coach or Coach-Air operations. To a large extent, these were introduced as a direct result of the restrictions imposed by the Government. In other words, the private airlines were forced to search for new, unexploited sectors of the air transport market

1. 'Flight', 3/4/69, p.507.

to develop, and the outcome usually took the form of a service of lower than normal standard (in terms of journey time, frequency, type of aircraft, etc.) at a considerably lower fare.

During the mid-1960s, however, a significant change occurred in the attitude of the Independents towards the relative importance of scheduled services. This resulted almost totally from the very rapid growth of inclusive-tour and affinity-group charters, as described in the previous chapter. Two related developments took place. Firstly, a number of highly specialised IT and affinity-group operators were established, concentrating almost entirely on holiday traffic and usually closely associated with one or more tour promoters; such companies as Britannia, Caledonian, Monarch, Laker, and so forth. Secondly, other airlines, such as BMA, Dan-Air or Channel Airways, that had previously aimed at as high a level of scheduled activity as possible, began to divert a much larger proportion of their resources to IT and, later, affinity-group operations. There took place, therefore, an important and radical change in the make-up and orientation of the UK private sector. A completely new type of airline emerged and the previous close association of scheduled services with relative stability and profitability was brought into doubt, if not reversed. IT work expanded to such an extent that it could now provide the regular, steady flow of traffic necessary for viable air transport operation, although severe competition often reduced prices and profits. The most successful airlines in the second half of the 1960s in terms of growth, and even profitability, were those with a large proportion of their total output centred on the holiday market (see Table 10.5).

Britannia was the original airline to specialise in IT charters. But the change of emphasis among the Independents is probably best illustrated by the decision of Autair (Court) to abandon scheduled services completely, briefly referred to in Chapter X. Autair, a fairly

typical scheduled carrier among the UK private airlines, began fixed-wing air transport operations on a charter basis in 1960, although it had previously flown helicopters. Towards the end of 1963 the company received its first licence from the ATLB for a scheduled service, between Luton and Blackpool. Over the following few years the route network gradually expanded until by 1969 it also included London, Tees-side, Dundee, Carlisle, Hull, Belfast, Dublin and Amsterdam, representing some 12% of Autair's total turnover. In 1964 the airline carried 11,657 passengers (1,805,000 passenger-miles) on regular services, compared with 78,318 (17,953,000) by 1968. But most of the routes operated, with the notable exception of the London-Tees-side service, were unprofitable, losing some £150,000 per annum by 1969. Consequently, the company applied to the Government for a subsidy, in line with the recommendation of the Edwards Committee that in certain circumstances regional domestic services should be financially supported from general taxation.² Some help was received from the development areas, but the Government refused assistance, and as a result Autair announced that it would cease to operate any scheduled service from October 31st, 1969.³

During 1965 control of Autair had been acquired by the shipping company, Court Line. In fact, what seems to have happened is that the management of Autair realised the huge growth potential that existed in the IT market at a fairly early stage and decided to get in on the act. As the deputy chairman, G.H.G. Threlfall, said in early-1969, the IT business had changed radically and was expanding, booming and profitable, "therefore what incentive is there for airlines such as Autair also to be in the very

2. p.191; similarly, the Toothill Report on the development of the Scottish economy had concluded in 1962: "We regard the provision of adequate air services for business as a matter of such urgency to the satisfactory development of the UK economy...that we would be prepared if necessary to recommend an outright subsidy to provide it." (p.67).

3. 'Air Pictorial', 1970, p.114-7; 'Flight', 7/8/69, p.192-3.

difficult and far from profitable domestic-service field." ⁴ To fully exploit the packaged-holiday market, however, required finance, and hence the association with Court. It seems likely that the decision to abandon all scheduled services was taken some time before the application for a subsidy. Since then, of course, it has become more than evident that the management of Autair, and Court Line, made the correct decision. The airline has expanded extremely rapidly, becoming the largest IT operator in Britain, and even more important, it has consistently produced relatively healthy profits, especially when compared with such operators as BMA or Channel Airways, who continued to fly a large number of scheduled services.

Route Patterns and BAS

With the formation of the nationalised Air Corporations all the main trunk routes were naturally operated by BEA and BOAC. This has meant that since the war the Independents have been limited to seasonal routes, such as those to the Channel Islands, or to low-volume 'business' routes linking provincial cities within the UK and in the UK and Continent. There have, of course, been numerous exceptions to this general rule, especially since 1960 Eagle and BUA flew in competition with BEA on certain domestic routes; BUA operated extensively in South America and Africa; BCAL now operates a large route network, including London-Paris and London-New York; and so forth. But with the exception of British Caledonian today (and soon perhaps also Laker) it is still basically true that the Independents' scheduled services are limited to 'secondary' routes. The principal operators are British Midland Airways, Dan-Air/Skyways, British Island Airways, Northeast and Cambrian. None of these companies operate scheduled services to points outside Europe and their main emphasis

4. 'Flight', 3/4/69, p.509.

at present would appear to be the generation of traffic between provincial cities in the UK and Europe. Of these scheduled airlines the most important, in terms of the future development of UK air transport, are probably the two carriers within the British Air Services group, Northeast (known as BKS Air Transport until November, 1970) and Cambrian, with a combined fleet by 1972 of 4 1-11 500s, 3 Trident 1Es and 16 Viscounts.⁵

BEA has had a financial interest in Cambrian since 1958 and in Northeast since 1964, and has in fact saved both airlines from bankruptcy and liquidation on more than one occasion (see Chapter III). British Air Services (BAS) was formed in February, 1967, to look after BEA's interests in these two operators, and the following November BKS and Cambrian became wholly-owned subsidiaries of the new company. By the end of the decade BEA owned 70% of the shares in BAS, the balance being in the hands of private shareholders.⁶ There were a number of possible reasons for the Corporation's investment in two small regional carriers. They were intended, for example, partly to act as 'feeder' airlines, feeding traffic from the thinner routes on to BEA's trunk services. Similarly, each operator was closely identified with a particular region of the UK, potentially an important factor in generating air traffic from that area. But the principal justification for the Corporation's interest is clearly to be found in the economic sphere.

Aircraft operating costs on short-haul air services rise quite dramatically as sector distances decrease.⁷ These increased costs are usually only partly covered by higher fares per mile, with the result that few very short-haul services are profitable. BEA, for example, told the

5. BAS Annual Report, 1971/72, p.6.

6. Ibid., 1970/71, p.7-8.

7. To a large extent this reflects the greater number of landings and take-offs, reduced utilisation of aircraft and crew, etc., as well as a non-optimum use of the aircraft.

Select Committee on Nationalised Industries that no route of less than 260 miles (with the occasional exception of London-Paris) could be viable.⁸ Thus, it has been accepted for some time that any airline will experience considerable difficulties earning profits on very short, low density routes, especially if the airline in question has the cost-structure of a major national flag-carrier. A small, specialised company, however, with low overheads and relatively old equipment would probably be better placed to operate such routes, if not at a profit, at least at a reduced loss. Wheatcroft, in particular, has expounded this argument:

"My view is that the advantages of specialisation enjoyed by the small airline will outweigh the advantages of larger scale which the bigger airline may have. Indeed, the larger size of the major airline may be a positive disadvantage because of the difficulties of adjusting its operating and commercial practices to meet the special requirements of the secondary routes." 9

In addition, by forming a holding company to control Cambrian and Northeast it might even be possible to achieve, at least to some extent, the best of both worlds - the advantages of specialisation and the economies of scale. For example, apart from any advantage to be derived from an association with BEA, Northeast has been able to close down its Southend engineering base and transfer most of its aircraft maintenance to Cambrian's facility at Rhoose (Cardiff) Airport, while both airlines can make use of the same computer services.¹⁰

The Edwards Committee recommended that the BAS principle be extended, with the possible inclusion of other airlines:

8. 'The Air Corporations', 1958/59, p.xxvii.

9. 'Ten Economic Lessons from Short-Haul Airline Operations', Journal of the Royal Aeronautical Society, 1961, p.229. In his study of Canadian air transport, Wheatcroft similarly concludes: "In the operation of secondary routes an entirely different type of service can be provided and costs can be cut very considerably. It is very difficult, however, for a major operator to mix this type of service with the normal mainline standard." 'Airline Competition in Canada', 1958, p.36.

10. 'Flight', 19/8/71, p.282.

"We believe that the best pattern of UK domestic services for secondary business routes and holiday routes would be achieved by having, under the umbrella of an organisation like BAS, several small operating units which assumed the responsibility for developing services to and from and within a specified geographical area... We would hope that, in addition to Cambrian and BKS, the operating companies of the BAS group would include a Channel Islands airline (amalgamating the present services of BUIA and BEA), a Scottish airline,...perhaps an Isle of Man airline, and an East Midlands airline." 11

So far there has been only a limited movement towards meeting these recommendations. It has been an open secret that BMA was, and perhaps still is, keen to join such a group. But BAS has argued that BMA's financial position and route network are not conducive to a take-over. The regional group did, however, investigate the possibility of acquiring Channel Airways when the company went bankrupt. Although no further action was taken, there would appear to be at least some willingness to consider the purchase of further private operators.

Despite the fact that no other independent airline has yet been acquired BAS is being considerably expanded, particularly as a result of the reorganisation of the nationalised sector following the establishment of a British Airways Board (BAB). In its 'First Report on Organisation' the BAB made two recommendations concerning BAS. Firstly, it was proposed that the latter should become a subsidiary of the Board rather than of BEA; in other words, a third Corporation in addition to BOAC and BEA, to be known as British Airways Regional Division. Secondly, the Scottish Airways and Channel Islands Airways Divisions of BEA should also come within the ambit of BAS.¹² Thus, since Channel Islands Airways also operates extensively from the Midlands, the BAS group will cover most of the regions within the UK.

11. p. 109-110.

12. 1972, p.10; see also: 'Second Report on Organisation', 1973, p.7 and 9.

Table 11.1 BAS RESULTS- 1969/70 - 1971/72

	Revenue (£000s)	Operating Profit (Loss)£000s	Load ton- Miles (000s)	Passengers Carried	Passenger- Miles (000s)
1969/70	12,346*	(1,900)*	34,259	1,239,058	372,055
1970/71	11,119	230	39,089	1,433,294	410,976
1971/72	13,271	62	47,179	1,593,637	476,060

* = 18 month period, 1968/70

Source: BAS Annual Reports.

Airlines within the BAS group, therefore, are basically small regional scheduled operators. They do engage in some IT charter work, but mainly only in order to raise the utilisation of their jet aircraft to viable levels.¹³ Not unexpectedly given the nature and average stage-lengths of the routes operated, neither Cambrian nor Northeast, particularly the latter, has proved to be a profitable investment for BEA, at least judged in isolation.¹⁴ Although losses have been replaced by marginal profits (see Table 11.1), BAS has yet to pay any dividend on its share capital and still has an accumulated deficit of almost £4.5 million, covered by an interest-free loan from BEA. The interest on this loan would normally cost BAS an additional £250,000 - £300,000 per annum.¹⁵

It would appear, therefore, that in future years BAS (or more correctly British Airways Regional Division), backed by the considerable financial and operational resources of the British Airways Group, will be the prime operator of secondary air transport routes within

13. Charter work has increased from 17% of total output in 1968/70 to 24% in 1971/72, and will probably rise further as more jets are acquired. BAS Annual Reports.

14. In other words, it might be valid to make allowance for any additional traffic gained by BEA or BOAC as a result of the activities of BAS. Similarly, it might well be that BEA would have felt obliged to operate some BAS routes in its own right had the regional group not existed.

15. BAS Annual Report, 1971/72, p.8.

Britain and between the UK and the Continent. What about the independent scheduled airlines? With some reservation, one must conclude that their future does not appear to be particularly bright. G.H.G. Threlfall has noted:

"It occurs to me that if airlines were forced to study the history of UK air services over the last 50 years, they might then be slightly less keen on developing new domestic scheduled services themselves." 16

If the history of scheduled services operated by the Independents looks bleak, future prospects must seem even worse. Given the growing competition from surface carriers (see below), the only real growth areas are likely to be those services connecting provincial UK cities with European capitals and London with European provincial cities. Whether or not a small private airline would be able to construct a viable route network out of a series of such low-volume and disparate services appears doubtful. A more rational approach would surely be to concentrate these types of operations within the Regional Division of British Airways. Nevertheless, some airlines remain optimistic, and there always appear to be new operators prepared to risk their hand. Companies such as BMA, despite the large losses incurred in recent years, argue that by utilising obsolescent aircraft of low capital cost, such as Viscounts, supported by charter work, a viable scheduled operation is possible. BMA, gradually contracting its IT charter output, recently delivered its two BAC 1-11 500s to Transbrasil in exchange for three Handley Page Heralds; the latter will operate a new service linking London and Newquay.¹⁷ Only the record of future bankruptcies can prove whether such a policy is right or not.

16. 'Flight', 3/4/69, p.507.

17. Ibid., 19/7/73, p.85.

Surface Competition

In discussing the future size and shape of the scheduled air service network in Britain a further factor must be taken into consideration, namely competition from other modes of transport. Increasingly over the years the car has become the dominant form of transport, especially for journeys of less than 100 miles. The railways have their greatest comparative advantage in passenger transport in the dense flows between conurbations within the 100-300 mile bracket. Above 300 miles the speed advantage of the aeroplane becomes a predominant factor. Since the end of the Second World War, however, the distance over which rail enjoys a distinct advantage has gradually been eroded, from below by the car (aided by the motorway programme) and from above by aviation; the rail share of total passenger-mileage, for example, fell from 19.6% in 1957 to 9.5% in 1967.¹⁸ But it may well be that with the introduction of the Advanced Passenger Train (APT) in the UK the railways will be able to regain some of the passengers they have lost to other modes of transport, and in particular to the short-haul airlines.

The APT has been described, perhaps somewhat optimistically, as the "biggest single advance in land transport technology that has ever taken place."¹⁹ Ironically, it incorporates a good deal of aerospace technology and almost one-third of the designers employed on the project at British Rail's technical centre at Derby were recruited from the aircraft industry; BR's advertisements even proclaim: "It's the only way to fly - by train." To reach speeds

18. Thompson and Hunter: "The Nationalized Transport Industries", 1973, p.154-5.

19. 'Flight', 19/10/72, p.540.

of up to 125 m.p.h. the APT requires only one-third of the power that a conventional train would need, and it is already being designed for speeds of 150 m.p.h. and above. Its main advantage over other high-speed forms of land transport is that it can operate on most existing railway track; it does not require the kind of large capital investment that was necessary for the 136 m.p.h. Tokaido Line in Japan. By 1974 BR hopes to have two prototypes in regular service, one electric and the other gas-turbine driven. By 1977/78 APTs should be introduced at a rate of 30 or 40 complete train sets per year, initially at 125 m.p.h., but gradually building up to higher speeds. The first route to be operated will be the electrified London-Manchester-Glasgow line. From about 1980 the gas-turbine powered APT will enter service on the London-Newcastle and London-Bristol lines. Between 1974 and 1980, however, BR also plans to introduce a new diesel locomotive on these non-electrified lines that will bridge the gap until enough APTs are available. The High Speed Diesel Trains (HSDTs) will similarly be capable of 125 m.p.h. Thus, by 1980 half the country's rail network will be operated by 125 m.p.h. trains; by 1984/85 all of the trunk services will be operated at this speed, while some will have reached 150 m.p.h. ²⁰

The introduction of high-speed trains will obviously have some effect on short-haul air services within the UK. The exact effect depends on a large number of economic, technological, political and social factors over the next decade or so, and crystal-ball gazing is rarely a very rewarding pastime. But some idea of the likely results might be gained by examining the effect on the airlines of

20. 'Financial Times', 8/11/72, p.31-33. These dates are, of course, provisional; recent reports suggest that design changes and industrial action may have caused the project to slip by up to two years. 'The Guardian', 23/2/73, p.8.

the electrification of the London-Manchester railway line in the mid-1960s. Electric train services, at an improved frequency and travelling at up to 100 m.p.h., were inaugurated from London to Manchester and Liverpool in April, 1966, and to Birmingham and Stoke-on-Trent in March, 1967. Journey time between London and Manchester was reduced from 3 hours 48 minutes to 2 hours 35 minutes. Unfortunately, because numerous promotional fare reductions accompanied electrification and because services had been extensively disrupted while the improvements were being carried out, it is difficult to determine the exact effect of increased speed and frequency on traffic trends. There can be little doubt, however, that it was considerable. During the first year, for example, the number of rail journeys between London and Liverpool rose by 55% and those between London and Manchester by 54%; receipts grew by 38% and 40% respectively. According to a British Rail study, over a six-year period rail passenger traffic on the route as a whole increased by 90%, of which an estimated 25% was diverted from the airlines and 15% from the roads, leaving 60% of new, generated traffic ²¹ (see Table 11.3). (Evans, on the other hand, argues that very little traffic transferred from road to rail ²²).

21. 'Financial Times', op.cit., p.31; Johnson: 'Main Line Electrification - A First Appraisal' Institute of Transport Journal, 1968, p.295-9; see also Centre for Transport Studies, University of Leeds: 'Intercity Modal Split in Great Britain: Air v. Rail: Final Report', 1971.

22. Evans: 'Inter-City Travel and the London-Midland Electrification.' Journal of Transport Economics and Policy, 1969.

Table 11.2: PASSENGERS CARRIED BY AIR ON THE LONDON-LIVERPOOL AND LONDON-MANCHESTER ROUTES, 1958/59 - 1971.

	London- Manchester	London- Liverpool
1958/59	76,802	6,902
1959/60	119,570	8,376
1960/61	185,930	15,744
1961/62	249,727	57,043
1962/63	315,016	60,001
1963/64	382,774	84,382
1964/65	424,263	112,624
1965/66	446,469	144,767
1966/67	336,190	115,574
1967/68	326,000	124,706
1968	317,000	130,000
1969	329,100	89,800
1970	335,200	94,400
1971	319,800	107,800

London = Heathrow and Gatwick

Sources: Edwards Report, p.85.
Board of Trade (Department of Trade and Industry):
Business Monitor, Civil Aviation Series.

Table 11.3: PASSENGER JOURNEYS BY RAIL BETWEEN LONDON AND MANCHESTER, 1964-1970.

	Rail	Total Gain	Air	Gain From Road	New Travel
1964	1,000,000	-	-	-	-
1966	1,400,000	400,000	160,000	80,000	160,000
1970	2,000,000	1,000,000	250,000	150,000	600,000

Source: Jones: 'High Speed Railway Running with Special Reference to the Advanced Passenger Train'. Chartered Institute of Transport Journal, 1973, p.50.

Thus, prior to electrification air transport had been able to compete fairly effectively on the North-Western route and had gradually cut into the railways' share of the market; an estimated 25% of all passengers travelling between London and Manchester went by air, compared with 52% by rail. Now the route is very much a marginal one (in the sense that the continuation of viable regular air services is brought into doubt), despite the fact that the airlines have been successful in regaining some of their lost ground, in particular with the introduction of more modern, and faster, jet aircraft. Nevertheless, BEA claims to have lost business worth approximately £12.6 million.²³ The inauguration of APT services will mean that many more routes will enter this marginal category. For example, each year over 700,000 passengers travel by air between London and Glasgow, the highest figure for a domestic route in Europe and exceeded by only ten domestic routes in the United States. The rail share of the London-Glasgow passenger market has fallen to 29%, against air's 41%, and air service frequency is now greater than that of rail's.²⁴ But the APT will reduce the BR journey time from the present six hours to four, and perhaps even to 3.5 eventually. Similarly, the 2½ hour run from Manchester to London could be shortened by a further 30 minutes.²⁵ Thus, with journey times between city centres and airports on the whole increasing because of traffic congestion, the speed advantage that the airlines now enjoy over other forms of transport is likely to be considerably reduced, if not totally eroded, on all domestic routes.

The reaction of the airlines to this situation seems to be a mixture of pessimism and optimism. Mr. C.A. Herring, chairman and managing director of BAS, has argued in a recent article that air transport is likely to remain

23. 'The Guardian', 3/2/73, p.16.

24. Thompson and Hunter, op.cit., p.155-6.

25. 'Financial Times', op.cit., p.31 and 33.

competitive on short-haul routes, such as London-Newcastle, for four main reasons:

- (i) APT fares are not expected to be significantly different from air fares;
- (ii) air transport will still be more convenient if a passenger's destination is in West London or if he is inter-lining (i.e. continuing his journey by air) at Heathrow or Gatwick;
- (iii) high frequency 'walk-on' air services could be introduced, with no reservations, but a guarantee of a seat for every passenger, similar to that operated by Eastern Air Lines along the North-East Corridor of the U.S.A.; and
- (iv) air journey times could be cut considerably as a result of certain technological developments, such as quiet, short or even vertical take-off and landing aircraft (Q/S/VTOL), which would enable airports to be situated far nearer to city centres.²⁶

Some of Herring's points, such as the development of 'walk-on' services, appear to be highly conjectural;²⁷ others seem clearly over-optimistic. For example, already air travel within the UK is on the whole considerably more expensive than travel by rail and even then most airlines are losing money at current fare levels.²⁸ The margin between rail and

26. 'Air Transport and its Contribution to Freight and Passenger Movement in the North-East Region.' Chartered Institute of Transport Journal, 1972, p.457.

27. Although it has recently been announced that British Airways are examining the possibilities of introducing such services on six domestic and international routes from 1975.

28. Domestic air fares seem particularly vulnerable to Government economic policy. The result is that not only are they below comparable international fares, but probably also often less than many US domestic air fares, despite greater competition and apparent airline efficiency in the American market. See Chapter V and 'The Economist', 25/9/71, p.90.

air fares on domestic trunk routes, therefore, is probably sufficiently wide for the APT passenger to bear a sizeable premium and still be financially better-off than his air counterpart. Similarly, any chance within the foreseeable future of a major technological break-through in the area of civil V/STOL aircraft seems remote, without taking into account the huge additional cost involved in providing new equipment and city-centre airports. It is significant that early VTOL designs were replaced by STOL designs, and have now largely become 'reduced'TOL. Great things were also expected of the helicopter as a form of mass inter-city transport during the 1950s, but such schemes rapidly proved to be economically inviable. The concensus of opinion among experts today would probably be that a similar fate would befall any V/STOL experiment attempted in the near future.

The main hope for the airlines, therefore, seems to be centred on the inter-lining passengers. Such passengers represent a fairly large proportion of domestic air traffic, accounting for approximately 40% of air traffic between London and Newcastle and almost 100% of the traffic on the ultra-short Birmingham to London route.²⁹ It is easy to see that a passenger from a provincial city booked on a flight out of Heathrow can often save a great deal of time and inconvenience by using a domestic air service rather than surface transport to get to London, despite any additional expense. The question, however, is whether inter-line passenger traffic alone is sufficient to support the present structure of short-haul air services within the UK. This must in fact be viewed as very doubtful, for if we assume, not unreasonably, that a large proportion of other air traffic is diverted to the railways, the initial reduction in passenger numbers must also produce a corresponding fall in the frequencies of air services (unless smaller aircraft are used). This should mean that a

29. Herring, op.cit. It should also be noted, however, that inter-line traffic revenue is diluted, exacerbating the overall financial position of domestic air services.

proportion of current inter-line passengers will no longer find the domestic air services sufficiently convenient to off-set the payment of a surcharge, and they will also transfer to rail, probably resulting in a further reduction in frequency levels. In other words, a 'cobweb' could be established, and it seems very unlikely that a viable scheduled air service network on anything like the present scale would be left when the cycle has worked itself out.

One further factor has to be taken into consideration. Air transport always has a distinct advantage over other forms of transport whenever there are geographical or political barriers to the free movement of traffic. Hence the importance of air services until quite recently to the economic life of a city such as Berlin and the proliferation of services linking provincial cities in Britain with fairly close Continental capitals. But even this advantage might be challenged by a combination of the APT and the proposed Channel Tunnel. Journey times (city centre to city centre) could be reduced to 2 hours 40 minutes between London and Paris, compared with the present 6 hours 50 minutes by rail and sea-ferry and 2 hours 30 minutes by air.³⁰ Already British Rail have plans to operate an extensive network of services via the Tunnel to various Continental cities, including an hourly service from London to Paris and Brussels and services from Manchester, Birmingham and Newcastle. BR estimate that the number of passengers using these services could be more than 8 million in the Tunnel's first year of operation, rising to 12 million by 1990, against about 3 million using the rail/sea services each year at present.³¹

In conclusion, therefore, the first point to make is that there are immense dangers in attempting to forecast accurately future transport developments. There are simply too many variables involved. Nevertheless,

30. 'Financial Times', op.cit., p.33.

31. 'The Sunday Times', 1/7/73, p.53.

one might say with some confidence that on the basis of past experience the future of short-haul domestic air services in Britain does not appear particularly bright. With the introduction of high-speed surface transport not only will the competitive position of the airlines on such routes as London to Manchester deteriorate further, but a number of other routes will become highly marginal. For example, in 1962 69,000 passengers travelled by air between London and Newcastle, compared with almost 230,000 by 1972, an average annual increase of 13%; air transport now accounts for approximately 25% of the total rail/air market on this route. But the inauguration of APT services to Newcastle (perhaps in 1977) will alter the situation dramatically. By 1980 some 90 high-speed trains could be operating along the East Coast route, each with the capacity of a 'Jumbo' jet, and the scheduled travelling time from London to Newcastle will be reduced from the present 3 hours 50 minutes to 2 hours 40 minutes, and later by a further 20 minutes.³² The airlines will undoubtedly find it impossible to maintain anything like their present share of the market.

In 1963 the Beeching Report on British Railways noted:

"Air transport is not competitive in terms of speed for inter-city distances of less than about 200 miles, nor is it competitive in terms of cost except while operating as the minority carrier able to keep a high load factor by creaming from the total flow. This restricts the routes over which air competes seriously with rail to the London-Manchester, London-Newcastle and London-Scotland routes." 33

The electrification of the London-Manchester line partially removed this route from Beeching's list; the introduction of the APT will almost certainly remove the Newcastle route and eventually perhaps even the Scottish routes. The APT might well offer competition to air passenger services on routes up to 500 miles in length. No wonder that Mr. J.C. Smith, BR inter-city planning manager, can say with confidence: "We

32. Herring, op.cit., p.454-5; 'Flight', 19/10/72, p.540.

33. British Railways Board: 'The Reshaping of British Railways', 1963, p.13.

think we'll slaughter the short-haul airlines."³⁴ Obviously, in absolute terms, British Airways will suffer most from any decline in short-haul traffic, but proportionately the smaller carriers could well be hurt even more. The latter will probably be left with three basic types of short-haul scheduled services:

- (i) the main trunk routes, especially to Scotland, but carrying markedly less traffic;
- (ii) those services connecting provincial cities in the UK with the Continent and Ireland (although if the Tunnel is built the long-term future of many of these might be brought into doubt); and
- (iii) those services catering for the 'cream' of current domestic traffic, passengers who are prepared to pay a large premium for a relatively small saving in time on routes not particularly well served by surface transport (such as cross-country routes, although with the extension of the motorway network these are decreasing in number).

Further, at present it seems likely that most of this remaining short-haul air traffic will go to companies within the British Airways Regional Division, with their large operational, financial and, perhaps, even political support. (A good case might be made for the eventual transfer of domestic trunk routes from BA European Division). Thus, the future for the privately-owned airline in the field of short-haul scheduled services would appear to be rather bleak.

34. 'Financial Times', op.cit., p.31. Similarly, Mr. Richard Marsh, BR chairman: "The modern jet aircraft is a fascinating vehicle, but it hasn't much future." The Guardian, 3/8/73, p.8.

CHAPTER XII

CONCLUSIONSummary

The primary aim of this study has been to examine the post-war development and economics of the privately-owned British airlines in an attempt to explain the very high degree of instability within the sector. It has been shown that with the accession to power of a Labour Government in 1945 the independent airlines were effectively excluded from the operation of scheduled air services. Nevertheless, a very large number of charter companies were established during the immediate post-war years, supported mainly by the boom in air travel, the disorganisation of the national carriers and certain international and national economic and political crises, such as the Berlin Airlift. Towards the end of the decade, however, competitive pressures and declining potential traffic proved too much and the number of operating air transport companies rapidly declined. At the same time, the Government's position similarly proved to be untenable and from 1949 licensing restrictions were eased somewhat to enable the Independents to operate certain scheduled services as 'associates' of the nationalised Corporations.

The Conservatives returned to power in 1951 pledged to extend the opportunities open to the private sector. This they did by further strengthening the associate agreement principle. Unfortunately, the new policy was not as successful as many in the private

sector had hoped. The Independents were still severely restricted and the Conservative Government did not appear prepared to face up to the inevitable result of the promises they had made, namely a reduction in the size of the public sector. Throughout the 1950s the privately-owned airlines depended overwhelmingly on troopings and vehicle-ferry operations as sources of revenue and traffic. Instability remained one of the key characteristics. The 1950s were also marked by a considerable amount of investment in the independent carriers by shipping companies and, allied to this development, by a gradual movement towards amalgamation within the industry.

Eventually the Government had to respond to the growing economic and political pressures for reform. The Civil Aviation (Licensing) Act of 1960 was in many ways a major victory for the Independents. They received a number of concessions, mainly at the expense of BEA and BOAC. But in the long run the Act failed to solve many of the basic problems facing the industry. Although the private operators were able to considerably expand their scheduled service networks and the movement towards amalgamation continued, the contradictions inherent in the Government's approach to air transport licensing soon surfaced again. While publicly arguing in favour of expanding and strengthening the private sector, the Government did not appear to be prepared to face up to the inevitable result of such a stance, namely a reduction in the size of the public sector. Further, the shipping companies began to withdraw their capital from the industry, while troopings services were greatly curtailed. Increasingly, the primary source of revenue for the Independents became the holiday market, from inclusive-tour and affinity-group charters. This in turn resulted in a

major re-orientation of the private sector companies away from scheduled services. The perennial problem of bankruptcies and forced mergers, however, still remained.

The election of a Labour Government in 1964 probably made very little difference to the overall situation, despite the political rhetoric. The Civil Aviation (Licensing) Act had clearly not succeeded, yet there appeared to be a lack of political will to introduce a more radical policy. Consequently, a committee of inquiry, the Edwards Committee, was appointed to investigate the whole future of civil air transport in the UK. The Committee reported in 1969 and recommended, 'inter alia', the establishment of a new, more independent, licensing body and the strengthening of the private sector by the formation of a so-called 'second force' airline, a private enterprise third Corporation large enough to compete effectively in the international air transport market. Fortunately for the supporters of such reforms, a Conservative Government was returned to power shortly afterwards, for this created the political environment in which the changes could be carried out. In the event, BUA and Caledonian merged to form BCAL, aided by the award of a number of new routes, including some forcibly transferred from the Corporations. The previous licensing authority, the ATLB, was replaced by the CAA with, in theory, a more clearly defined air transport policy to pursue. So far the results of that new policy, in terms of economic stability, have not been particularly encouraging

Conclusions:

Of the major conclusions that can be drawn from this study

three factors seem to overwhelm all else: the political environment within which the airlines were forced to operate, the extent to which an individual company had access to financial backing and the apparently inevitable tendency among the Independents towards 'marginal operation'. These three factors were primarily responsible for the high level of instability within the private sector of the British air transport industry.

As we saw in the introductory chapter, politics are of major importance to civil aviation throughout the world, much more so than in most other industries. This has been even more true in the British context because of the continuing controversy about the relative merits of public and private enterprise; air transport has been very much a 'political football'. But to a large extent such controversy is a red herring, for, despite the rhetoric, when in power the two main political parties have differed only marginally in their attitudes towards the privately-owned airlines in the UK. The Conservatives may have slightly 'tilted' the emphasis of their policy towards the Independents, and Labour towards the Corporations, but no more.¹ It might be said that, to a greater or lesser extent, one of the primary aims of both Labour and Conservative policies 'vis-a-vis' the private sector has been to create a stable private enterprise air transport industry in order to avoid the dangers of an overly-competitive environment.

1. This seems to be true of the nationalised industries in general. Tivey, for example, writes: "It is an oversimplification... to present controversy about nationalization as a crude political issue, with the Labour Party in favour and the Conservative Party against. The currents of opinion within the parties, and outside them, have been too complex, and too fluctuating, for any such generalization. Yet it remains true that, on balance, and taking one thing with another, the attitudes of the Labour Party tend to be benign and those of most Conservatives suspicious." The Nationalized Industries since 1960, 1973, p.15.

Such policies must, therefore, be judged to have largely failed, although the possibility exists that without government regulations more entrants to the industry would have been encouraged. Thus, neither party was prepared to fully implement the promises and threats made when in Opposition, with the result that the contradictions inherent in post-war air transport licensing policy never seemed likely to be eradicated. It was this licensing policy, however, that established the parameters within which the Independents were allowed to operate and so represents the prime cause of instability within the sector. It denied the private airlines high revenue services and viable route networks; it forced them to initiate cut-price operations in order to avoid legislative restrictions; it very often resulted in the Independents having to operate in excessively competitive markets; and so forth. The political environment, therefore, must take most of the blame for the instability of the independent air transport companies since the war.

Within the parameters set by licensing policy, however, the major cause of bankruptcy can be found in the failure to ensure sufficient capital backing. The air transport industry is inevitably prone to cyclical development. In the international context this takes the form of a re-equipment cycle and a very strong reaction to business depressions. The independent UK airlines have not on the whole experienced the former phenomenon, but they have fallen prey to trade recessions. It is in order to survive the 'trough' years of such a cycle that a carrier requires considerable capital reserves. To a large extent this problem is reflected on an annual basis, with a peaking of traffic during the summer months, which explains why most airline failures occur during the autumn and winter. But because of the very poor financial results achieved

by the private sector², largely in itself a reflection of the political problems mentioned above, it is almost impossible for a small independent airline to build up sufficient reserves during the good years to carry it through the lean. Hence the need for a parent company to whom an operator can turn for financial support. The Independents that survived and were relatively prosperous in the long run almost invariably had access to large-scale capital backing; those without such backing had a very short life-expectancy. This may be a generalisation, yet it is clearly sufficiently near the truth to stand.

The third explanation for the private sector's record of instability stems from the fact that entry into the air transport industry is relatively easy for a number of reasons; partly, for example, because of the difficulty of differentiating the end-product and partly as a result of the limited economies of scale possible in the general charter market.³ The major reason, however, is to be found in the surprisingly small amount of initial finance needed to establish an airline, despite the fact that civil aviation is a capital-intensive industry. Doganis notes that "to be competitive one must have the latest jet aircraft, and to make any inroads into the market several aircraft would be needed. This would need enormous financial resources."⁴ Such a view, while on the whole correct, ignores two important points. Firstly, few new entrants

2. For example, between 1962 and 1967 the Independents achieved an average Rev Ex ratio of only 102, that is a margin of 2% of revenues over expenditures: "This figure perhaps more than any other, illustrates the unsatisfactory nature of the overall financial results of the private sector of the airline industry." Their average rate of return amounted to 5.2%, considerably below a commercial rate. The Edwards Report, p.29.
3. This does not mean, of course, that it is easy to become established as a major, scheduled airline, particularly because of the political restrictions.
4. 'Air Transport - A Case Study in International Regulations.' Journal of Transport Economics and Policy, 1973, p.123. Doganis is referring particular to the IT market.

into an industry can expect to obtain a major share of the market immediately, so that the initial capital requirement is reduced. Secondly, it is quite easily possible to lease most of the main capital items, in particular aircraft,⁵ as well as many peripheral services (such as passenger ground-handling, aircraft maintenance, etc.), or purchase older, obsolescent equipment in the first instance. In practice, therefore, there have been few restrictions on entry into the non-scheduled air transport industry. The Civil Aviation (Licensing) Act, which required the ATLB to investigate a company's financial resources before granting it a licence, made little difference, especially to the pure charter operator.

An airline established on these terms, of course, would have little hope of long-term success. But in the short run it could considerably unsettle the market by resorting to price-cutting tactics in an attempt to establish itself. Probably the clearest example of this type of situation occurred in the early-1960s when several IT charter operators were forced out of business (see Chapter X). Control of access to the industry by what one might term the 'marginal carrier', therefore, has been a major problem throughout the post-war period and no solution has yet been found. Certainly, the Edwards Committee offered only a very limited answer:

"If the Government announces its acceptance of an important future role for the private sector, and its intention to create conditions that will shape the private sector broadly along the lines which we have suggested, it is inevitable that the private airlines (no doubt seeking advice from the authorities) will themselves work through mergers towards a rationalisation of the structure, for it will be clear to them that this will give them the best chance of getting the licences which they want." 6

5. Most well-established airlines are increasingly resorting to this practice, primarily for tax reasons. Risk is minimal, as long as the owner is able to sell the aircraft on the second-hand market at a reasonable price.

6. p.141.

With due respect, such a statement exhibits a large measure of naivety. Any movement towards rationalisation within the private sector is of only secondary importance when compared with ease of entry into the industry, (witness what happened during the early-1960s under very similar conditions to those stipulated by Edwards). As long as the formation of a one-plane company remains relatively easy there is little long-term hope of economic stability in the private sector of the UK air transport industry, for each bankruptcy and merger will almost invariably be matched by the appearance of a new operator.^{6a}

The political environment, finance and the tendency towards 'marginal operation', therefore, are the three most important areas to which attention should be directed if one wants to understand why so many private air carriers are forced out of business each year. These three factors, of course, are closely inter-related, just as there are other elements that should also be borne in mind. For example, adequate financial backing is a necessary, but hardly sufficient component in the make-up of a surviving airline. There have been numerous cases where a parent company has come to the conclusion that private enterprise air transport in Britain has no future, has tired of the continuing losses or found a more pressing need for its capital elsewhere, and decided to pull out. But it is the problems associated with the political environment, finance and 'marginal operation' that characterise the independent air transport industry within the UK.

6a. A similar type of argument has been put forward, and to a large extent discredited, in favour of tighter control of entry into the road haulage industry. Mainly for the reasons advanced in the introductory chapter, however, the air transport situation would seem to be rather different and to demand different solutions.

To a large extent, the post-war expansionist plans of the Independents and Corporations have been mutually exclusive, primarily because of the very small proportion of total output initially awarded to the private sector. Most countries that do not possess an exclusively nationalised or private enterprise air transport system have faced a similar problem. Many have succeeded in overcoming the contradictions involved by establishing firm guidelines to delineate specific areas within which the representatives of each sector are permitted to operate (the examples of Canada, France, or even Australia, come immediately to mind). Other countries, however, have been no more successful than Britain in this respect and, as in the UK, the result has often been economic instability among the less-favoured airlines. During the 18-month period ending October, 1972, for example, five West German charter carriers were forced to cease operations, including the country's second largest non-scheduled airline, Atlantis, whose bankruptcy resulted in 20,000 passengers being stranded abroad.⁷ Even in Scandinavia eleven charter companies went out of business between 1963 and 1970.⁸

As the study has progressed attempts have been made to arrive at certain other conclusions, especially about possible future developments in the private sector. It is quite clear, for example, that while the Independents will probably continue to operate troop-ing and vehicle-ferry services on a relatively modest scale, such operations will not account for a large proportion of their total output within the foreseeable future. In the field of scheduled services, prospects for British Caledonian appear to be fairly assured. But the future for the smaller operators is not so bright, in particular with the growth of British Airways Regional Division

7. 'Financial Times', 20/10/72, p.30.

8. 'Flight', 3/12/70, p. 865.

and such developments as the APT and Channel Tunnel on the horizon. The most important growth area for the Independents is undoubtedly the holiday market, and prospects here seem much better, especially for those airlines closely associated with the major tour promoters. Even in this market, however, potential dangers exist, particularly the growing threat from the larger national flag-carriers and excessive competition among the tour operators themselves. It is probably too early to determine whether or not the recent changes in licensing policy will be successful, and in any case much depends on the whims of politicians, but there is certainly some cause to doubt their complete effectiveness.

Finally, it has often been argued that one of the most important 'raison d'etre' for a private sector within the air transport industry is its innovatory role. There can be little doubt that since the end of the Second World War the Independents have been very important commercial innovators, as well as acting as a 'ginger group' to spur the nationalised Corporations. But it is easy to exaggerate such a role, and BOAC and BEA have probably done their share of innovation (in the use of computers and the development of blind-landing, to take two obvious examples). As we have seen, the primary reason for the entry into and development of new markets by the independent airlines has had little to do with any inherent advantages to be found in private enterprise companies. Rather it reflected the Independents' distinctly inferior position (in the sense of a lack of sufficient opportunities for expansion) and their attempts to circumvent legislative restrictions. Such a view would appear to square with Caves' conclusions from his famous study of air transport in the United

States. He found that large carriers, historically the more profitable, contribute most of the technical innovations, while small carriers (or large ones suffering from an unsatisfactory market situation) generally provide the marketing innovations: "Innovation for better or worse, is born of desperation."⁹

The 'Typical' Airline Failure:

Each airline failure is obviously unique, with its own particular causal factors. Nevertheless, if one were to generalise sufficiently it might be possible to construct a 'model' of a typical post-war independent airline. Such a company would, in all probability, be essentially a small carrier virtually excluded from the high revenue scheduled service market and consequently forced to search for other types of work. The only real hope of long-term success, or even survival, in these circumstances would seem to lie in finding a small niche in the market where the possibility existed of an unsatisfied, latent demand for air transport. Unfortunately, because most private airlines are relatively small, the only way to fully exploit the potential of such an opening would be to utilise a very large proportion, if not all, of a company's resources; in other words, the airline must specialise. Having done so, however, even if the venture is a success, the carrier will find itself in a potentially precarious position, for it is extremely vulnerable to developments completely outside its own control, especially of a political nature. Almost invariably just such a development will force the company to cease business or seek a merger with a more fortunate fellow airline.

9. 'Air Transport and its Regulation', 1962, p.425.

Such a model is, of course, a gross generalisation and numerous examples can be found that do not even remotely approximate to it. But at the same time a surprisingly large proportion of the history of the Independents can be profitably considered in these terms. A few examples will suffice here. The two main vehicle-ferry operators, Silver City and Channel Air Bridge, were very successful during the 1950s, capturing a large proportion of total cross-Channel traffic by exploiting the shortcomings of the surface carriers. Eventually, however, they were forced to merge and cut back on the scale of their operations because of two factors almost entirely outside their control: greatly increased competition from the sea-ferry companies and an inability to obtain economically viable aircraft (see Chapter IX). Similarly, the history of troop- ing services illustrates how decisions that have considerable effects on the Independents are often taken without any reference to their interests. Political and strategic considerations dominated the original decision to allow the private airlines to participate in trooping and it was primarily for political reasons that they were later deprived of this traffic (see Chapter VIII).

A more recent example involving a single company might be that of Lloyd International, formed in 1961 as a long-haul charter airline. By 1972 Lloyd had a fleet of three Boeing 707s and four Britannias and operated extensively as an affinity-group carrier on the North Atlantic. But its main interest really lay in the Far East. It had built up a considerable amount of 'ad hoc' freight traffic to and from this region and also operated a large, and rapidly growing, number of affinity-group flights. At this time it was very difficult to obtain cheap air passages to Australasia because of the unwilling-

ness of the Australian Government to permit charter operations. Companies such as Lloyd exploited what clearly appeared to be a large latent demand by flying charter groups, very often not strictly within the letter of the law, to places such as Singapore or Kuala Lumpur, from where passengers were able to continue their journey to Australia by a scheduled air or sea service. The potential financial saving from this unorthodox route was sufficient to attract a considerable volume of traffic, sufficient indeed to also attract complaints from the scheduled carriers. The British Government eventually responded by permitting both BOAC and BCAL to introduce low-far 'exempt' charters to India and South-East Asia, in other words to do openly what the non-scheduled carriers had been doing surreptitiously for some time (see also Chapter X).

Unfortunately for Lloyd this decision had the immediate effect of eliminating a large proportion of its total traffic. Few passengers wanted to travel on what was widely regarded as dubious, if not illegal, services, especially with the extensive publicity that had recently been given to stranded charter customers, when they could fly perfectly legally for the same cost with a reputable, world-famous airline. Almost overnight, the bottom fell out of Lloyd's main market and the carrier eventually had to appoint a receiver. It is not surprising that a note of acrimony crept into its press statement:

"The policy of successive British Governments in creating a privileged position for one private airline ("The Second Force"), culminating in the decision last year to exempt both British Caledonian and the national flag carrier (BOAC) from normal restrictions of air charter licensing on key routes to the Far East, has resulted in the almost total destruction of a substantial passenger business built up by Lloyd over 11 years." 10

10. 'Financial Times,' 17/6/72, p.30; Lloyd was unable to divert spare capacity to the only other possible market, the North Atlantic, because of further restrictions on charters on that route.

Thus, having discovered an unexploited market for air transport with a high price elasticity, and therefore considerable latent demand, and having found a way of developing that market by getting around the legislative restrictions, Lloyd was suddenly excluded from it by governmental action designed to protect the national flag-carriers.¹¹ It often seems that as far as the Independents are concerned there is only one thing worse than failure, and that is success.

Why do People Invest in Independent Airlines?

Compared with other industries the profit record of civil aviation has been very unimpressive.¹² But that of the UK Independents has undoubtedly been even worse than most other airlines. In 1923 someone bitterly remarked that "the only people who make profits out of aviation are the petrol people."¹³ The situation can hardly be said to have improved out of all recognition in the ensuing 50 years. Why then, despite a poor financial record and a clear tendency to bankruptcy, do people still invest their money in private enterprise air transport? The first point one must make is that the vast majority of potential investors wisely steer well clear of the industry. It remains true to this day that since the war no British airline has ever had a public quotation in its

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11. The actions of Lloyd and the Government are reported here simply to illustrate a point, without any comment on the morality of their respective positions.
 12. Straszheim, for example, writes: "The rate of return of all ICAO firms on operating revenues for the years 1955-63 was 0.94%. Capital-output ratios vary widely, with 0.80 an approximate industrial mean. This implies an operating return on capital of 1.1% over a 14-year span, compared with a normal return on private industry investments of perhaps 6-8% or even more." 'The International Airline Industry', 1969, p.26. See also Appendix VII.
 13. Quoted by Birkhead: 'The financial failure of British Air Transport Companies, 1919-24'. Journal of Transport History, 1959-60, p. 137.

own right on the Stock Exchange; Mr. Freddie Laker has described this as "the biggest single indictment against British Civil Aviation policy."¹⁴ Of those organisations that have invested widely in air transport most fall into one of two groups:

- (i) shipping companies, whose primary aim was to secure a relatively cheap insurance policy; and
- (ii) tour promoters, who were attracted by the potential economies resulting from the vertical integration of the packaged-holiday industry.

But this still leaves a large number of individual investors who have bought their way into, or more usually established their own, airlines. Perhaps the phenomenon can partly be explained by the peculiar attractions that aviation has for those engaged in the industry; it often seems to become almost an obsession. In studying the post-war history of the privately-owned airlines in the UK one cannot help but notice how the same names keep re-occurring, despite bankruptcies and mergers. Wg. Cdr. Hugh Kennard, for example, has been associated since the end of the Second World War with Air Kruse, Silver City, Air Ferry, Invicta Airways and BMA. Messrs. Barnby, Keegan and Stevens, in addition to establishing BKS Air Transport, had previously founded Crewsair; Keegan now controls Trans Meridian Airways and BAF, while Stevens is associated with Invicta Airways. One airline employee suggested that the main attraction of air transport was the gamble involved. Someone else argued that the prime stimulus was simply greed; despite the record of airline failures, there is always that pot of gold on the horizon, and this time success is assured!

14. 'Private Enterprise in British Air Transport'. Journal of the Royal Aeronautical Society, 1966, p.332.

Wheatcroft ¹⁵ alludes to both of these possibilities in turning for an explanation to Adam Smith's discussion in 'The Wealth of Nations' of the curiously low rate of profit in hazardous trades. Smith accounts for this by the fact that most men have an "absurd presumption in their own good fortune." He continues:

"Bankruptcies are most frequent in the most hazardous trades. The most hazardous of all trades, that of a smuggler, though when the adventure succeeds it is likewise the most profitable, is the infallible road to bankruptcy. The presumptuous hope of success seems to act here as upon all other occasions, and to entice so many adventurers into those hazardous trades, that their competition reduces their profit below what is sufficient to compensate the risk."

The comparison of the proprietor of an independent airline with an eighteenth-century smuggler might, in a number of cases, seem particularly apt, although no-one has made a fortune out of air transport in the UK.

Despite the implementation of many of the Edwards Committee's recommendations, there seems little in the present structure of the private sector of the air transport industry about which to be optimistic. The likelihood appears to be that things will continue more or less as they have been in the past. ¹⁶ Several of the twenty or so independent airlines still operating in the UK are probably losing money; certainly the sector as a whole is producing a relatively poor rate of return on its capital. During the 1971 and 1972

15. 'Licensing British Air Transport'. Journal of the Royal Aeronautical Society, 1964, p.171.

16. Assuming the current chaos resulting from oil shortages does not permanently alter the situation. At the time of writing it is much too early to see how in the long-term the Independents will be affected.

calendar years no less than six carriers either closed down completely or were forced to merge with other companies (Skyways, BAF, Channel, South West Aviation, Lloyd International and Sagittair). These were not small, unimportant operators - Channel, Skyways and BAF could all trace their history back to the early-1950s and beyond. It might be argued that such failures indicate that recent legislation is in fact working. The weaker airlines are being weeded-out, and a smaller, but stronger, private sector will be left. Unfortunately, the same two years saw the establishment of six new air transport companies. (Air International, Airline Services, Orientair, Ulster Airways, Alidair and International Air Services.) Thus, there would not appear to have been an improvement, or for the foreseeable future any real hope of an improvement, in the level of economic stability among the Independents. Following the failure of his own small airline, Mayflower Air Services, Philip Cleife wrote in 1966:

"And with the conclusion of my story comes the end of an era, for it is my conviction that I am the last of my line. The day is gone when the founding of an airline can ever be the creation of a single-handed dreamer." 17

Fortunately or unfortunately, he was wrong.

List of UK Independents, 1945 - 1973.

This list is intended purely as an indication of the annual casualty rates among UK independent airlines. It makes no claim to be exhaustive. Little is known about many of the early companies, while numerous dates remain speculative. It is often difficult, for example, to distinguish between the date on which a company is registered and that on which it begins operations or to determine when exactly the separate identity of an airline taken over by another company actually disappears. For those interested, fleet lists for a number of the airlines are contained in Merton Jones : 'British Independent Airline Operators Since 1946.'

Code : (?) = doubt about actual year.
 (M) = merged with or taken over by
 another operator.
 S.O. = still operating, (summer 1973).
 * = absorbed by BEA following
 nationalisation.
 ** = now part of British Airways
 Regional Division.

Company	Founded	Ceased Operations
1. ACE Freighters	1964	1966
2. Aerial Enterprises	1968	1970
3. Air Anglia	1970	S.O.
4. Air Bridge Carriers	1972	S.O.
5. Air Charter	1948	1960 (M)
6. Air Charter Experts	1947	?
7. Air Commerce	1938	1947*
8. Air Condor	1959	1960
9. Air Contractors	1946 (?)	?
10. Air Couriers	1938	?
11. Air Enterprises	1946 (?)	1955
12. Air Ferry	1961	1968 (M)
13. Airflight	1948	?
14. Air Freight	1946	1952
15. Air Freight	1971	S.O.
16. Air International	1971	1973
17. Air Kruise	1946 (?)	1961 (M)
18. Airline Services	1971	S.O.
19. Airlinks	1948 (?)	?
20. Air Safaris	1959	1962
21. Airspan Travel	1948 (?)	?
22. Airtech	?	?
23. Air Transport (Air Transport Charter(CI))	1947	1950
24. Airways Individual Reservations	1946	1947
25. Airwork	1928	1960 (M)
26. Alidair	1972	S.O.
27. Allied Airways	1934	1947
28. Anglian Air Charter	1950	1970 (M)

Company	Founded	Ceased Operations
29. Aquila Airways	1948	1958
30. Atlas Airways	1946	1948
31. Aurigny Air Services	1968	S.O.
32. Barclays International Airways	1947 (?)	?
33. Bardock Aviation	?	1965
34. Bees Flight	1947 (?)	?
35. Birkett Air Services	1947	1949
36. Black Isle Air Services	1961 (?)	?
37. Black Lion Aviation	1957	?
38. Blue-Air	1959	1960
39. Blue-Line Airways	1946 (?)	1949
40. Bond Air Services	1946	1950
41. Britannia Airways (Euravia)	1961	S.O.
42. Britavia	1945	1962 (M)
43. British Air Ferries (BUAF)	1963	1971 (M) (S.O.)
44. British Air Transport	1939	1951
45. British-American Air Services	1947 (?)	?
46. British Caledonian Airways	1970	S.O.
47. British Eagle Internat. (Cunard Eagle) (Eagle Airways)	1948	1968
48. British Island Airways (BUIA)	1963	S.O.
49. British Midland Airways (Derby Aviation)	1938	S.O.
50. British Nederland Air Services	1946 (?)	1951
51. British United Airways	1960	1970 (M)

Company	Founded	Ceased Operations
52. British United (CI) Airways	1962	1963 (M)
53. British United (Manx) Airways	1962	1963 (M)
54. British Westpoint Airlines	1962	1967
55. Brooklands Aviation	1947	?
56. Brymon Aviation	1972	S.O.
57. Caledonian Airways	1961	1970 (M)
58. Cambrian Airways	1935	S.O.**
59. Carbia Transport	1973	S.O.
60. Carlisle Air Navigation and Training	1948 (?)	?
61. Channel Air Bridge	1954	1963 (M)
62. Channel Airways (East Anglian Flying Services)	1946	1972
63. Channel Islands Airways	1945	1947*
64. Chartair	1946	?
65. Ciro's Aviation	?	?
66. Continental Airlines	1957	1960
67. Court Line Aviation (Autair)	1960	S.O.
68. Crewsair	1946	1953
69. Culliford Airlines	1947	1948
70. Dan-Air Services (Dan-Air/Skyways)	1953	S.O.
71. Dennis Aviation	?	?
72. Donaldson International Airlines	1969	S.O.
73. Don Everall Aviation	1957	1960 (M)
74. Dragon Airways	1953	1957 (M)

Company	Founded	Ceased Operations
75. Emerald Airways	1965	1967
76. Eros Airlines	1962	1964
77. Executive Air Transport	1960	1962
78. Fairflight Charters	1968	?
79. Falcon Airways	1958	1961
80. Finglands Airways	?	?
81. Goodhew Aviation	?	?
82. Great Western and Southern Air Lines	1938	1947*
83. Hastings and East Sussex Air Services	?	?
84. Highland Airways	?	1947*
85. Hornton Airways	1946	1950
86. Humber Airways	1968	S.O.
87. Hunting-Clan Air Transport (Hunting Air Travel)	1946	1960 (M)
88. Hyland Automobiles	?	?
89. Independent Air Travel (Independent Air Transport)	1956	1959
90. Inter-City Air Services	?	?
91. International Airways	1946	1949
92. International Aviation Services	1972	S.O.
93. Intra Airways (Intra Air Charter)	1969	S.O.
94. Invicta Airways	1964	1969 (M)
95. Invicta International Airlines (Invicta Air Cargo)	1969	S.O.
96. Irefly	1966	1967
97. Isle of Man Air Services	1937	1947*
98. Island Air Charter (Island Air Services)	1946 (?)	?

Company	Founded	Ceased Operations
99. James Stuart Travel	?	?
100. Jersey Airlines	1948	1962 (M)
101. J.F.Airlines (Jersey Ferry Airlines)	1971	S.O.
102. Kay Rings	1960	1961
103. Kearsley Airways	1946 (?)	1950
104. Kenning Aviation	1947	1950
105. Kestrel Aviation (Kestrel Internat. Airways)	1970	1972
106. Lancashire Aircraft Corporation	1946 (?)	1955 (M)
107. Laker Airways	1966	S.O.
108. Lees-Hill Aviation (Birmingham)	?	?
109. Lloyd International Airways	1961	1972
110. Lockwood Flying Services	1947	?
111. Loganair	1962	S.O.
112. London Aero and Motor Services	1946	1948
113. Londonderry Air Charter	1946	?
114. Loxhams Flying Services	?	?
115. Luton Airways	1958	?
116. Macedonian Aviation	1972	S.O.
117. Manning Airways	?	?
118. Manx Air Services (Manx Air Charters)	1947	1956 (M)
119. Mayfair Air Services	?	?
120. Mayflower Air Services	1961	1963 (M)
121. McDonald Aircraft	?	?
122. Mediterranean Air Services	?	?
123. Melba Airways	?	?
124. Merchant Airways	1951	?

Company	Founded	Ceased Operations
125. Mercury Airlines	1960	1964 (M)
126. Meredith Air Transport (African Air Safaris)	1952	?
127. Midland Air Cargo	1970	1973
128. Modern Transport	?	?
129. Monarch Airlines	1967	S.O.
130. Morton Air Services	1945	1968 (M)
131. Newman Airways	?	?
132. Nor-Air	1973	S.O.
133. Northeast Airlines (BKS Air Transport)	1952	S.O.**
134. North Eastern Airways	?	1947*
135. Northern Air Charter	1946	1948
136. North Sea Air Transport	1948	1951
137. North South Airlines	1960	1961
138. North West Airlines	1948	1951
139. Olley Air Services	1934	1953 (M)
140. Orientair	1971	S.O.
141. Orion Airlines	1957	1960
142. Overseas Aviation	1958	1961
143. Patrick Aviation	1947	1956
144. Patrick Laing Air Services	1947	1949
145. Payloads (Charter)	1946	1950
146. Pegasus Airlines	1958	1961
147. Peters Aviation	1967	S.O.
148. Phoenix Airlines	1968	1970
149. Progressive Airways (Tyler Aviation)	1970	1971
150. Raceways	?	?
151. Railway Air Services	1933	1947*
152. Rig-Air	1969	1970 (M)

Company	Founded	Ceased Operations
153. Sagittair	1970	1972
154. Scillonia Airways	1965	1969
155. Scillonian Air Services	1962	1966
156. Scottish Airlines (Scottish Aviation)	1939	?
157. Scottish Airways	1937	1947*
158. Severn Airways	1973	S.O.
159. Shorts Air Charter	?	?
160. Silver City Airways	1946	1963 (M)
161. Silver City Airways	1973	S.O.
162. Sivewright Airways	1946	1951
163. Skyflight	1946	1949
164. Skyfreight	1947	1948
165. Skytravel	1946 (?)	1949 (?) (M)
166. Skyways	1946	1952 (M)
167. Skyways Coach-Air (Skyways International)	1953	1972 (M)
168. Solar Flying Services (Solar Air Services)	?	?
169. Solair Flying Services	1962	1965
170. Somerton Airways	?	?
171. South Airlines	1959	?
172. South Coast Air Charter (Stramsway)	1963	1966
173. Southampton Air Services	1946	1947
174. South West Aviation	1966	1972
175. Spalding Airways	?	?
176. Starways	1948	1963 (M)
177. Steiner Air Services	1946	1948
178. Straight Corporation	?	?
179. Surrey Flying Services	1951	1955 (M)

Company	Founded	Ceased Operations
180. Tangiers Transport (London)	?	?
181. Tipper's Air Transport	1963	1967
182. Tradair	1957	1962 (M)
183. Tradewinds	1968	S.O.
184. Trak-Air	1968	1970
185. Transair	1946 (?)	1958 (M)
186. Trans European Aviation	1959	1962
187. Transglobe (Air Links)	1959	1968
188. Trans Meridian Airways (Trans Meridian Air Cargo)	1962	S.O.
189. Trans World Charter	?	1952 (M)
190. Treffield Aviation (Treffield Internat. Airlines)	1966	1967
191. Trent Valley Aviation	?	?
192. Tyne Tees Airways	1961	1965
193. Ulster Air Transport	1967	1970
194. Ulster Airways	1972	S.O.
195. Ulster Aviation	1946	1950
196. Union Air Services	1946	1949 (?)
197. Universal Flying Services	1947	1951
198. Universal Airlines (Swiss Universal Air Charter)	1959	1961
199. West Coast Air Services	1936	1946*
200. West Cumberland Air Services	1948	1949
201. Western Airways	1933	1949 (?)
202. Western Isles Airways	?	1947*
203. Westminster Airways	1946	1949
204. Westward Airways	1969	1970
205. William Dempster	1950	1953
206. Wolverhampton Aviation	1946 (?)	1954 (M)
207. World Air Freight	1947	1949 (?)
208. World Wide Airways	1960	1962

Appendix II : List of active independent air transport companies in operation in April, 1949.

Name	Number of aircraft	Scheduled Services	BACA member	Represented on Baltic Exchange
1. Air Charter	6		*	*
2. Air Couriers	11			
3. Air Enterprises	10	*	*	*
4. Airflight	2			
5. Air Freight				
6. Air Kruiise				
7. Air Transport (Charter)(C.I.)		*	*	*
8. Airlinks	1		*	
9. Airspan Travel	3		*	
10. Airwork	49	A		*
11. Aquila Airways	12	A		*
12. Barclays Internat. Airways	12	*		*
13. Bees Flight	2			
14. Birkett Air Services			*	*
15. Blue Line Airways	10		*	*
16. Bond Air Services				
17. British Air Transport				
18. British-American Air Services	3		*	
19. British-Nederland Air Services				
20. Brooklands Aviation	6	*	*	
21. Cambrian Air Services	10	*	*	
22. Chartair	6		*	
23. Ciro's Aviation	3		*	
24. Crewsair				
25. Derby Aviation				
26. Eagle Aviation	3		*	*

Name	Number of aircraft	Scheduled Services	BACA member	Represented on Baltic Exchange
27. East Anglian Flying Services	5	A		*
28. Goodhew Aviation	5	A		
29. Hastings and East Sussex Air Services				
30. Hornton Airways	7+	*		*
31. Hunting Air Travel	8		*	*
32. Inter-City Air Services	10			
33. Island Air Charter		*	*	*
34. Island Air Services	1			
35. Island Air Services (London)	2			
36. Jersey Airlines				
37. Kearsley Airways	4			
38. Kenning Aviation				
39. Lancs.Aircraft Corp.	42	*	*	*
40. Lees-Hill Aviation(B'ham)	3			
41. Lockwoods Flying Services				
42. Loxhams Flying Services			*	
43. Manx Air Charters	4		*	
44. McDonald Aircraft	4			
45. Morton Air Services	13	A	*	*
46. Newman Airways	5		*	
47. North Sea Air Transport			*	*
48. North-West Airlines	14	*	Has applied	*
49. Northern Air Charter		*		
50. Olley Air Service	13	*	*	*
51. Patrick Aviation	9	*		
52. Payloads Aviation		*		
53. Raceways	1			
54. Scottish Airlines	8	*	*	*
55. Shorts Air Charter Service	4			*

Name	Number of aircraft	Scheduled Services	BACA member	Represented on Baltic Exchange
56. Silver City Airways	11	*	*	
57. Sivewright Airways	9	*	*	*
58. Skytaxi	1			
59. Skyways		*		*
60. Solar Air Services	3		*	*
61. Somerton Airways	6			
62. Spalding Airways	4			
63. Starways				
64. Straight Corporation	20	*	*	
65. Transair	10			*
66. Trent Valley Aviation	3		*	*
67. Ulster Aviation	6	*	*	*
68. Universal Flying Services				
69. Western Airways	9	*	P	
70. Westminster Airways	7		*	
71. Wolverhampton Aviation	10			
72. World Air Freight	2			

A = application for scheduled service pending.

P = parent company is a member.

Source : 'Flight', 24/4/49, et al..

Appendix III

North Atlantic Air^a and Sea^b Passenger Traffic, 1948-70

	Air*	% change	Sea*	% change
1948	253	+ 21	501	+ 21
1949	273	+ 8	652	+ 30
1950	317	+ 16	691	+ 6
1951	342	+ 8	710	+ 3
1952	448	+ 31	844	+ 19
1953	523	+ 17	892	+ 6
1954	581	+ 11	938	+ 5
1955	692	+ 19	962	+ 3
1956	835	+ 21	1,011	+ 5
1957	1,019	+ 22	1,027	+ 2
1958	1,292	+ 27	964	- 6
1959	1,540	+ 19	881	- 9
1960	1,929	+ 25	879	-
1961	2,176	+ 13	785	- 11
1962	2,587	+ 19	820	+ 5
1963	2,836	+ 10	810	- 1
1964	3,551	+ 25	715	- 12
1965	4,092	+ 15	649	- 9
1966	4,700	+ 15	603	- 6
1967	5,505	+ 17	504	- 16
1968	5,753	+ 5	374	- 26
1969	6,777	+ 18	338	- 10
1970	8,018	+ 18	252	- 25

* Figures shown represent thousands

a = IATA airlines only

b = Trans-Atlantic Passenger Steamship Companies

Source : IATA World Air Transport Statistics.

Appendix IVMinisters Responsible for Air TransportMinistry of Civil Aviation :

Oct	1944	-	Aug	1945	Viscount Swinton
Aug	1945	-	Oct	1946	Lord Winster
Oct	1946	-	May	1948	Lord Nathan
June	1948	-	June	1951	Lord Pakenham
June	1951	-	Oct	1951	Lord Cgmore

Ministry of Transport and Civil Aviation :

Nov	1951	-	May	1952	J.S.Maclay
May	1952	-	July	1954	A.Lennox-Boyd
July	1954	-	Dec	1955	J.A.Boyd-Carpenter
Dec	1955	-	Oct	1959	H.A.Watkinson

Ministry of Aviation :

Oct	1959	-	July	1960	D.Sandys
July	1960	-	July	1962	C.E.P.Thorneycroft
July	1962	-	Oct	1964	J.Amery
Oct	1964	-	Dec	1965	R.H.Jenkins
Dec	1965	-	Jan	1967	F.W.Mulley
Jan	1967	-	Feb	1967	J.Stonehouse

Board of Trade :

Feb	1967	-	Oct	1967	D.Jay
Oct	1967	-	Oct	1969	C.A.R.Crosland
Oct	1969	-	May	1970	R.Mason
June	1970	-	Oct	1970	M.Noble

Ministry of Aviation Supply :

Oct	1970	-	Apr	1971	F.Corfield
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Ministry for Aerospace :

Apr	1971	-	Apr	1972	F.Corfield
Apr	1972	-			M.Heseltine

Appendix VThe Edwards Report : Principal Recommendations

The Committee regards the following as its principal proposals:

The Government should promulgate, by statutory instrument from time to time as necessary, clear statements of civil aviation policy indicating the importance to be attached to the various objectives.

The primary long-term objective should be to satisfy the individual customer at the lowest price, consistent with an economic return on the investment and a level of safety equal to the best in the world. Short-term policy must, however, reflect the country's urgent balance of payments problems.

British civil aviation in the 1970's should include a public sector, a mixed sector and a private sector.

The State Corporations should be confirmed in their role as the major operators of British scheduled air services and should also engage in inclusive tour and charter operations. The public sector should, however, be reorganised with a National Air Holdings Board having financial and policy control over BOAC and BEA. The objective would be to ensure the most effective deployment of operating facilities, marketing strength and traffic rights.

BOAC and BEA should retain their individual identities. There should be safeguards to avoid over-centralisation in the Holdings Board, a majority of whose members would also be on the boards of one of the Corporations or British Air Services (BAS).

BAS should be developed as a group of mixed ownership regional airlines for domestic routes (excluding the trunk routes) with some continental connections. Some subsidy is

justified for certain domestic routes on grounds of regional policy. The public investment would be held by the National Air Holdings Board.

The private sector should be encouraged to create a 'second force' airline, which should be licensed to operate a viable network, covering scheduled and inclusive tour/charter traffic, both long-haul and short-haul. Where it is decided to license a second British operator on a route it should be this 'second force' airline. It must be financially and managerially strong, should embrace more than one of the existing airlines and will probably take time to arrange. Viability will require some limited concession of Corporation territory. In exchange, and according to the size of the concession, the National Air Holdings Board should be entitled to take a financial stake in convertible loan stock or equity and also to appoint one or more directors to the 'second force'.

There will be room for other private airlines in inclusive tour and other passenger and freight charter operations where licensing and tariff regulation policies should be liberal. There will be increasing need for financial and managerial strength to maintain safe and efficient operations and we envisage fewer private airlines than the present number.

The private sector should be given a fair opportunity; no-one should be forced to sell out to the State, equally no-one should be bought out at more than true worth.

Good staff relations are essential to morale, efficiency and safety, and recommendations are made for improvements.

The Government statements of policy should constitute the terms of reference of a new statutory Civil Aviation Authority. This Authority would be responsible for the economic and safety regulatory functions at present dispersed between the ATLB, the

Board of Trade and the ARB. It should also be responsible for the civil side of the joint National Air Traffic Control Services, for operational research, for long-term airport planning and for the main work of traffic rights negotiation. The financial and managerial resources of airlines should be thoroughly probed and monitored by the Authority on grounds 'inter alia' of stability and safety.

The air transport business is changing substantially and rapidly. Holiday and personal travel is becoming increasingly important; the patterns of traffic and operating techniques will also continue to change. This will call for reappraisal of the roles of scheduled and non-scheduled operations and of pricing and of price control. The Civil Aviation Authority should use its influence in favour of flexibility and experiment. Competition should be regulated to the extent necessary to achieve the purposes of public policy, within the institutional and international framework.

Appendix VI

UK Air Transport Output in 1972.

	Available tonne- kilometres performed (000's)	Percentage of all UK tonne-kilometres performed (%)
BOAC	4,156	50.38
BEA	1,207	14.63
BCAL	1,062	12.87
Britannia	290	3.52
Dan-Air	253	3.07
Court	187	2.27
BEA Airtours	156	1.89
Laker	126	1.53
Tradewinds	118	1.43
BMA	103	1.25
Monarch	102	1.24
Trans-Meridian	90	1.09
Donaldson	90	1.09
Lloyd	74	0.09
Northeast	55	0.67
Cambrian	54	0.65
Invicta	32	0.39
BAF	25	0.30
BIA	19	0.23
Skyways	13	0.16
Others (33 operators)*	37	0.45

* Includes air-taxi operators.

Source : Civil Aviation Authority.

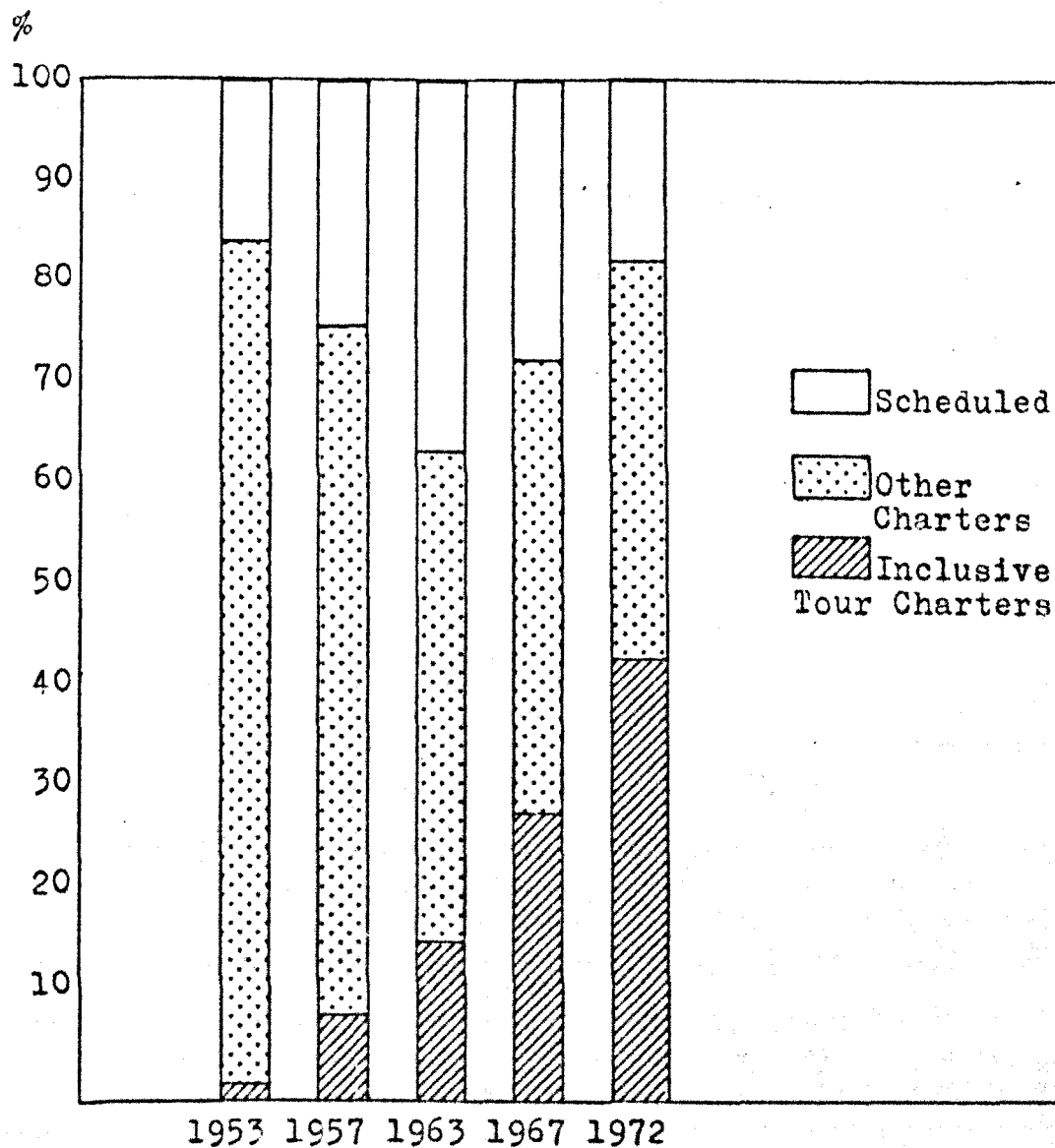
Passenger - Miles Performed (000's), 1972.

	Internat. Scheduled	Domestic Scheduled	Inclusive -Tours	Other Separate Fare Charters	Total
BOAC	8,767,245	-	47,528	1,122,796	9,937,569
BEA	2,944,678	812,168	37,339	817	3,795,002
BCAL	564,385	159,326	1,141,955	993,669	2,859,335
Britannia	-	-	1,430,707	271,006	1,701,713
Dan Air/ Skyways	31,760	19,809	1,260,119	274,936	1,586,624
Court	-	-	1,141,948	60,721	1,202,669
BEA Airtours	-	-	732,686	101,503	834,189
Laker	-	-	378,112	135,907	514,019
Monarch	-	-	425,882	31,623	457,505
BMA	8,432	95,489	192,831	110,537	407,289
Northeast	30,416	110,295	129,703	4,459	274,873
Donaldson	-	-	71,715	183,798	255,513
Cambrian	32,256	82,171	103,052	4,262	221,741
Invicta	-	-	72,076	9,138	81,214
BIA	8,751	51,357	85	1,332	61,525
BAF	37,991	631	3,476	1,883	43,981

Nb. The table does not, of course, include freight operators and operations.

Source : Dept. of Trade and Industry : Business Monitor,
Civil Aviation Series.

Output of UK Independent Airlines, 1953-1972.



Source : Civil Aviation Authority.

Appendix VII

UK Independent Airlines, Profit and (Loss) Statement, 1962 - 1970 (£m).

	1962	1963	1964	1965	1966	1967	1968*	1969	1970
Operating Revenue	22.3	31.2	39.5	49.6	63.6	65.9	52.0	79.3	101.5
Operating Expenditure	(23.2)	(30.3)	(37.5)	(47.9)	(62.5)	(65.0)	(48.7)	(73.2)	(95.6)
Profit (Loss) on Operating Account	(0.9)	0.9	2.0	1.7	1.1	0.9	1.4	3.4	3.3
Profit (Loss) after Taxation	(1.5)	3.3	2.7	1.7	2.0	0.3	0.7	2.3	2.9
Transfer to Reserves	(1.5)	3.2	2.6	1.1	1.7	0.1	3.9	4.0	4.7

* = Excludes British Eagle and Transglobe

Sources : Edwards Report, Appendix 15

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- (iii) the aggregate share of total traffic that is secured by the British airlines is likely to be increased to an extent that will more than offset any lasting diseconomies, or
- (iv) where the British share of capacity is pre-determined, the licensing of a second airline within that share is likely to increase the total traffic secured by British airlines more rapidly than would otherwise be likely (para. 16)

In addition, shortly afterwards the Government had a change of mind and handed over to the CAA, rather than the Department of Trade and Industry, responsibility for the approval of IATA fare resolutions.³⁰

Route Transfers

While the new legislation was being drawn up and introduced British Caledonian had rapidly established itself as the second force airline. With the support of the Government it had greatly expanded its scheduled service network by means of dual designation on the North Atlantic and the transfer of certain routes from the Corporations. BOAC was forced to hand-over its services from London to Lagos, Kano and Accra in West Africa, valued in terms of revenue at approximately £4 million per annum. BCAL began operating these routes from April 1, 1971. The following June BOAC's service to Tripoli was added to the list. From BEA the Independent obtained a portion of the considerable London-Paris traffic. British United had held a licence for a scheduled service between Gatwick and Le Bourget (Paris) for some years, but had been unable to implement its plans because of the unwillingness of the French authorities to allow an expansion of the British share of the total market. This problem was overcome by giving BCAL a proportion of BEA's permitted capacity, leaving Air France's 50% share untouched. Thus, the second force was granted up to 28 flights per week from November 1, 1971,

30. 'Flight', 6/4/72, p. 464.