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CABINET

FUTURE OF THE CUNARD COMPANY'S PASSENGER SERVICES

MEMORANDUM BY THE MINISTER OF TRANSPORT

The Cunard Company have brought to the Government's attention the serious position of their North Atlantic sea passenger services. They have not explicitly asked for a subsidy. Nevertheless it needs to be decided whether the Government should do something to help.

2. The facts are set out in the Annex to this paper, which takes account of the views expressed in the Economic Policy Committee.

3. Without a subsidy the "Queens" will probably have to be withdrawn from service within the next year or so. Cunard's other North Atlantic passenger services may also have to be withdrawn, but there are possibilities of reorganising them.

Arguments for a Subsidy

4. If we do not keep Cunard's services going, we shall have to face the following consequences:

- (a) Our prestige will suffer. Foreign subsidised lines (particularly American and French) will pick up our traffic and so will be held to have won a victory.
- (b) There will probably be a net loss to the balance of payments (see paragraph 10 of Annex).
- (c) The Government may be held responsible, not only because we have withheld a subsidy for Cunard, but also because we have positively built up air competition (see paragraph 9 of Annex).

Arguments against a Subsidy

5. If, on the other hand, we keep Cunard's services going by means of a subsidy, it can be said that:

- (a) We shall be wasting the taxpayer's money on an old-fashioned type of service in a futile subsidy race. This is not the way either to national prosperity or to national prestige in any worthwhile sense.
- (b) The objections made to the earlier offer of assistance for building a replacement of *Queen Mary* have even more force now, in view of the decline in Atlantic passenger shipping.
- (c) It would be inconsistent to subsidise Cunard without subsidising other passenger lines.

Air Services

6. The Minister of Aviation has reported (C. (62) 86) that agreement in principle has now been reached by the Chairmen of the British Overseas Airways Corporation (B.O.A.C.) and Cunard on the formation of a jointly-owned

subsidiary airline, to operate on the North Atlantic route. In my view this reinforces the case against a subsidy, since:

- (a) it is looking to the future rather than to the past;
- (b) it may make it easier for Cunard to spread their overheads and thus keep some of their sea passenger services going.

Recommendation

7. I propose to tell Sir John Brocklebank that the Government is not prepared to subsidise their services. We hope he will nevertheless find some way of keeping some of his North Atlantic sea passenger services in operation, particularly in view of his impending agreement with B.O.A.C. I also propose to ask him to keep the Government informed as to his negotiations with the French Line, and on his plans for the disposal of his ships, in view of the interests of other British shipowners.

E. M.

*Ministry of Transport, S.E. 1,
25th May, 1962.*

ANNEX

Cunard's Present Position

In spite of vigorous retrenchment in the Cunard shore organisation to the lowest level (the Company say) consistent with current obligations, all the Cunard sea passenger services are operating at a loss. The "Queens" express service is estimated to show an operating loss of £613,000 in 1962 (making no allowance for depreciation, since the ships are fully depreciated already). The loss on the other passenger services, including cruises, is estimated at £1,161,000 after allowing for depreciation. Detailed figures are given in the Appendix.

2. These figures show an improvement on the operating losses for 1961 for the ships other than the "Queens". This is due in the main to the retrenchment in the Cunard shore organisation, to an estimated increase in passenger receipts from *Caronia* and *Mauretania* cruising, and to the withdrawal of the *Media* and *Parthia*, which were losing money. Nevertheless the Company see little or no prospect of further improvement on the basis of their existing pattern of services. Their views are summarised in the following paragraphs.

Cunard Company's Comments on Future Prospects for their Passenger Services

3.—(a) North Atlantic passenger carryings have deteriorated sharply since the "Q. 3" project was submitted. The expectation that 1961 would prove to have been an abnormally bad year may well turn out to be wrong. Ships on the New York/Channel route are continuing to lose passengers, particularly first class, to jet aircraft and to the shipping lines serving the New York/Mediterranean trade.

(b) The *Queen Mary* has little prospect of operating profitably. The *Queen Elizabeth* could only do so if large-scale alterations were carried out to enable her to carry more third-class passengers. The Company say such alterations would not be a commercial proposition in view of her age.

(c) Cruising in American waters and in the Mediterranean, combined with a passenger service designed to take advantage of the increasing trade on the Mediterranean route, might prove a commercial proposition. But to do this would require major conversions of the other ships of the Cunard fleet. Cunard have announced that the "Queens" will do some short cruises next winter, but they are not really suitable for this type of employment.

(d) Cunard's shore organisation expenses could be reduced by effecting some mutual arrangement between Cunard and the French Line. Sir John Brocklebank has discussed this with them but he is not hopeful that they will collaborate, at any rate in the immediate future. Apart from this, no further retrenchment in their shore organisation is possible, unless the "Queens" service is withdrawn.

(e) The withdrawal of the North Atlantic licence for the Cunard Eagle Air Line has also seriously affected their finances.

Courses of Action Open to the Cunard Company in the Absence of Government Assistance

4. The Cunard Company consider that, in the absence of direct Government assistance, they have only two choices:

(a) To abandon their passenger business altogether. Sir John Brocklebank comments that "any dispassionate accountant would advise us that this would be the best course in the interests of our shareholders".

(b) To abandon the "Queens" service. The remainder of the fleet would be redeployed as follows. *Caronia* would cruise all the year round. The four ships at present on the Canadian service (*Saxonia*, *Ivernia*, *Carinthia* and *Sylvania*, all of about 22,000 gross tonnage) would be modified for hot weather cruising. They, with the *Mauretania*, would maintain a New York/Channel service in the summer and would otherwise be used for cruising and in the Mediterranean.

The idea of their finding money for a new "Queen" is, of course, now out of the question.

5. The Company consider that Course (b) might be made to work particularly if, at the same time, the Cunard Eagle Airline could make its contribution to overheads on the London/New York route.

6. The Company have not made it clear when these changes would be introduced, but they do not contemplate any drastic changes this year.

Alternatives, if a Subsidy were Available

7. If the Government were prepared to give a subsidy, the following are among the possible alternative courses:

- (a) The "Queens" service might be maintained for the next few years, Cunard's other passenger services being reduced to an economic level or, if this was not possible, being withdrawn entirely. Cunard estimate that for both "Queens" they would need not less than £800,000 per annum. Moreover this would be no more than a short-term expedient, since the *Queen Mary* would have to be replaced in, say, five years' time if the weekly express service was to be continued, and the Government would have to find most of the cost of any such replacement.
- (b) The *Queen Elizabeth* might be kept in service, but not the *Queen Mary*. This might be done by an operating subsidy (at least £400,000 per annum) or a capital subsidy towards the cost (about £5 million) of converting her to carry more third-class passengers. Either course would be possible only if the co-operation of the French Line were secured, which is doubtful.
- (c) The "Queens" could go and Cunard's other sea passenger services be assisted to continue, if indeed they cannot manage without help. This might be the least costly course.

Foreign Subsidised Competition

8. The "Queens" direct competitors in the express service are the *United States* and the *France*. The *United States* had a 58 per cent. construction subsidy and receives an operation subsidy of about 28 per cent. The *France* had a 20 per cent. construction subsidy, and the Company's operating losses are made up by subsidy. Smaller foreign ships (United States, French and Italian), which compete with Cunard on the North Atlantic directly or indirectly, are also subsidised.

Air Competition

9. Cunard's plight is largely due to air competition. The Government itself has encouraged this. (Air line companies have in the past received direct subsidies, and are currently enjoying Government loans. In addition the Government pays heavily for the maintenance of navigational aids, airfields, etc., whereas shipping pays for its lighthouses and ports and is now being required to pay a larger part of the cost of Government expenses on law enforcement in connexion with safety, etc.) On the other hand, private enterprise air lines, financed by shipping companies, have not in practice been allowed as much opportunity as, in their opinion, they have been led to expect.

Foreign Exchange Earnings

10. In 1958 and in 1959 the "Queens" earned about £7 million worth of dollars (net of dollar disbursements) and £4 million in sterling. About another £9 million was earned by Cunard's other North Atlantic ships, making a rough total of £20 million. The current figure would clearly be lower. Also, some of these earnings would continue to be earned or saved—e.g., by B.O.A.C.—if the Cunard services were abandoned.

Future Scope for Passenger Liners

11. The indications are that passenger liners generally, and particularly the express luxury type, have a very limited scope in the future—except possibly for cruising. Neither the Americans nor the French have yet decided to build sister-ships for their present super-liners on the North Atlantic route. It is conceivable that nuclear-powered liners might be made to pay some time in the future, but

this is purely conjectural. It is also possible that, if Cunard withdrew from the North Atlantic it would not inevitably be the end of British operation there. Some other British company might possibly step in and operate without subsidy during the summer (though it would still be the end of the "Queens").

Cunard's other Interests

12. Cunard themselves are by no means firmly wedded to their passenger services. They clearly wish to develop their interests in the air, so far as they are allowed to do so. They have also recently invited tenders for four new cargo-liners (embodying latest techniques) suitable for North Atlantic container traffic, which is an expanding element in seaborne trade.

25th May, 1962.

APPENDIX

THE CUNARD STEAMSHIP COMPANY LIMITED

VOYAGE OPERATING RESULTS OF PASSENGER AND CARGO SERVICES

(£000s omitted)

	<i>Actual, 1961</i>				<i>Estimated, 1962</i>			
	<i>Gross Profit</i>	<i>Depreciation</i>	<i>Organisation Expenses</i>	<i>Net</i>	<i>Gross Profit</i>	<i>Depreciation</i>	<i>Organisation Expenses</i>	<i>Net</i>
"Queens" Express Service	1,924	—	2,203	279	1,375	—	1,988	613
Other Passenger Services including Cruises ...	991	1,234	1,687	1,930	1,595	1,234	1,522	1,161
Total Passenger Ship Services	2,915	1,234	3,890	2,209	2,970	1,234	3,510	1,774
Cargo Ship Services	882	433	825	376	1,299	433	740	126
	3,797	1,667	4,715	2,585	4,269	1,667	4,250	1,648

5th May, 1962.

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