1. At their meeting on October 26th, 1927, (Cabinet 52 (27) Conclusion 8), the Cabinet had before them a memorandum by the Secretary of State for Air (Paper C.P. 236 (27)) dealing with the present position of British Commercial Air Transport and agreed to the appointment of a Cabinet Committee to review the question composed as follows:

- The President of the Board of Trade. (In the Chair)
- The Secretary of State for Air.
- The First Lord of the Admiralty.
- The First Commissioner of Works.
- The Financial Secretary of the Treasury.

The Terms of Reference of the Committee were:

"To review the present position of civil aviation in the British Empire, with particular reference to recent developments abroad and to consider and report what modifications of our present policy are desirable and practicable."

2. To enable us to fulfil our terms of reference we have examined a number of witnesses official and unofficial, including Sir Eric Geddes, the Chairman of Imperial Airways, Brigadier General Williamson of the Post Office, and representatives of the Air Ministry.

3. Statistics comparing the progress of British and foreign civil aviation were given in the memorandum circulated to the Cabinet by the Secretary of State for...
Air referred to in para. 1 above, and we do not think it necessary to restate the position in detail.

The salient facts to which attention was drawn in that memorandum, and which our investigation confirms, are firstly that British air transport is lagging seriously behind developments on the Continent and secondly that, without some modification of the existing arrangements, there is no hope of this situation being substantially remedied.

1. The cardinal feature of British civil aviation policy in the past has been the concentration of air transport in the hands of a single company who enjoy a monopoly of subsidy - Imperial Airways Ltd.

We are satisfied that at the present stage of civil aviation development this policy is sound and should be continued.

5. It is clearly, however, an essential condition that a company enjoying these advantages shall be efficiently and economically managed. We took full evidence from Sir Eric Geddes on the finances of Imperial Airways, devoting particular attention to such questions as overhead expenditure and administrative charges. We are generally satisfied that the company complies with this condition.

6. Imperial Airways has indeed made steady progress over the four years during which it has been in existence and figures were produced to us which established -

(a) That there has been a most satisfactory reduction in running costs over the period as a whole - a reduction from 3s.2d. to 1s.10d. per ton-mile for the latest type taken into service - due primarily to the introduction of machines of new and up-to-date design and that in consequence -
(b) The company is giving a markedly better return in ton-mileage flown for the amount of subsidy it receives than its French and German competitors—the subsidy rate per ton-mile flown in France working out at 2 times and that in Germany at about 4 times our own.

The evidence which we have had before us makes it clear that the progressive improvement of the efficiency of the aircraft employed by the introduction of new types is the chief direction in which a further reduction in working costs can be secured, and the day when civil aviation will become self-supporting brought nearer.

7. We attach the utmost importance to this aspect of the problem and recommend that the Air Ministry shall direct special attention to the improvement of the design of commercial aircraft and the research necessary therefor. We further recommend that in any revision of the existing contracts with Imperial Airways special provision should be made to enable the company to renew its fleet with machines of more up-to-date design at frequent intervals. Whilst we are informed that there is already regular consultation between the Air Ministry, Imperial Airways, and the aircraft manufacturing industry in matters affecting the design of commercial aircraft, we recommend that, to ensure that this renewal is carried out at the proper moment and in the most effective manner possible, some permanent machinery shall be set up to secure an even closer liaison.

8. The progress described in para. 6 above and the figures there given are hopeful signs, but we have reluctantly reached the conclusion that, under present arrangements whereby the first of a series of substantial progressive reductions in the subsidy is due next year, Imperial Airways operations may, if no action is taken, shortly be in danger of paralysis. There is a fear that either the company will
go into liquidation in the early future, or that, abandoning all attempt to continue the further progressive development of its technical equipment (both aircraft and engines) and operational methods, which is essential if the air transport industry is eventually to become self-supporting, it will stagnate on the "dole" (so to call it) of the existing subsidies until its two existing contracts expire in 1931 and 1934 respectively.

In either event it is important to remember that not only the company but also the aircraft manufacturing industry as a whole will be affected. A healthy industry is a most important asset in Imperial Defence. At the present stage of development, the orders placed by civil air transport undertakings are necessarily only a small factor in the problem, but every extension of civil air transport is of direct assistance to the industry, and any diminution 'pro tanto' weakens its position. Nor except on a very limited scale can the industry secure a market abroad for its commercial aircraft, since the principal foreign countries make it a condition of subsidy that only aircraft of their national manufacture shall be utilised.

9. In short it appears unfortunately to be impossible to resist the conclusion that finance is the main, though not the only key to the problem and that unless the development of British civil aviation is to be abandoned, a revision of the existing agreements to provide for the continuance of a substantial subsidy over a term of years so as to give the company reasonable security of tenure is inevitable.

10. In view of the scale on which Foreign Powers are subsidising their air transport companies - the total provision in French Estimates for subsidy amounts this year to some three times, and that in German Estimates to over five times the British figure - and the consequent progress of civil aviation abroad as evidenced by the increased mileage flown
and opening up of new routes, we regard it as impossible for us to stand still. Moreover we find ourselves confronted by the 'fait accompli' of our existing commitments and this is a factor to which we have necessarily had to give great weight.

There are a number of state-owned aerodromes in England and in the Middle East (including the main terminus at Croydon upon which a large capital outlay has been incurred), and we are bound by international agreement to provide facilities at these aerodromes which involve a substantial annual expenditure on staff and maintenance generally. It is unthinkable that we should maintain these aerodromes for the sole use of foreign competitors, and that British aircraft should virtually disappear from them. Further since we are committed under existing contracts to a considerable expenditure on subsidies over a period of years, it seems to us important to ensure that this money is so far as possible productively spent. If there is no other alternative - and we have reluctantly reached this conclusion - we think it preferable that the present annual expenditure on subsidies (£230,000) should be somewhat increased with a view to securing real progress - by which we mean the development of improved types of machine and engine and the opening up of routes on which there is likely in due course to be a paying passenger and/or mail traffic - rather than that it should be frittered away on uneconomic services operated by obsolescent machines, which seems inevitable if the existing arrangements are not modified.

As regards the question of routes the company is at present operating (a) a number of services to the Continent and (b) a service in the Middle East, intended to connect Egypt with India, but so far (owing to difficulties with Persia) only open between Cairo and Bushire.

We were impressed with the evidence placed before us as to the degree of success which has attended this latter
service. It is clear that long distance Imperial services are likely to prove less unprofitable than short distance services to the Continent on which there is necessarily very keen competition with existing means of transport and we advocate a policy of closing down the less remunerative of these latter services and concentrating on the great Imperial routes which await development, in particular from England to India and South Africa, for which Egypt is an essential junction.

12. We recognise that the development of these Imperial services will entail an increase in the amount of subsidy at present payable, but we are satisfied that they possess considerable commercial potentialities particularly from the point of view of the carriage of mails. Nor does their importance end here.

We find that the natural commercial routes to India and beyond and to South Africa are virtually coincident with the great strategic lines of air communication which are essential if our Imperial air forces are to possess the full mobility which is required for their economical disposition at selected centres, whence they will ultimately be able to reinforce any threatened point with a minimum of delay. If it is necessary on strategic grounds that we should possess and maintain available for instant use a long chain of aerodromes between the different points of the Empire, it is clearly better that they should not lie fallow against emergency, but be put to profitable use in time of peace. It is important to appreciate that, if civil aviation were abandoned tomorrow, we should still have to develop and maintain these aerodromes and the requisite facilities for purposes of defence. This is only one of a number of points at which military and civil aviation react closely one upon the other. Our attention has, for example, been drawn to the need for the early development of British air transport in Egypt, where the present exclusion of foreign air transport companies, which is desirable both on strategic and other grounds, is likely to become politically
impracticable in the near future.

13. Sir Eric Geddes outlined to us a scheme for a weekly air mail service between London and Calcutta and we recommend that a commencement should be made with this service and that the Air Ministry should be authorised, in consultation with the Treasury, to negotiate an agreement with the company for its operation as part of a comprehensive revision of the two existing contracts. Whilst it is difficult to form exact estimates of the revenue which should accrue from this service when fully in operation, it is clear from the evidence of the Post Office representative that it should be substantial. As a condition of operating this service Imperial Airways will no doubt demand security of tenure over a considerable period, and we think that in return for such security of tenure, the Company should agree to a modification of the existing profit-sharing arrangement with the Government, whereby the Exchequer should receive a larger proportion of available profits at an earlier stage than at present. This might take the form of Government participation in profits either (a) from the start, whatever their amount, or (b) after the shareholders have received a materially lower rate of dividend than that at present provided for. We recommend that the Air Ministry, in consultation with the Treasury, should give special attention to this matter.

14. It remains to consider the most important question of the financial effect of our proposals. We should be most reluctant in the existing financial stringency to make any recommendations which would impose an additional burden on the Exchequer. The Secretary of State for Air, however, anticipates that as a result of estimates being relieved by the completion of certain works at Croydon and other capital services, he would be able to give effect to our recommendations if the Cabinet were prepared to authorise the stabilisation over a 10 year period of the Civil Aviation Vote of
Air Estimates (Vote 8) at approximately its present figure of £500,000. The exact amount in 1927 Estimates is £464,000, this being the net figure after credit has been taken for receipts from landing fees etc. We understand that it is the Secretary of State's intention that the average annual provision of £500,000 over a ten-year period should be calculated on the same basis, and that he contemplates that the programme in any particular year should be made the subject of detailed discussion with the Treasury precisely as at present.

Whilst we appreciate the need for the Cabinet to agree to at least a ten-year period, if any considered scheme of development is to be formulated, we are not prepared to recommend any specific sum, since we think this can only be determined in the light of the amount of subsidy for which a satisfactory agreement can be negotiated with Imperial Airways by the Air Ministry and Treasury in consultation.

We suggest, however, that the military and civil votes of Air Estimates should be regarded as a whole and that it should be understood that the stabilisation of Vote 8 at some such figure as that recommended by the Secretary of State for Air should be contingent on there being no resultant increase in the total Exchequer provision for Air Services.

We make no recommendation as to the treatment of any receipts from the proposed London-Calcutta mail service, since their disposal must necessarily be contingent on the precise character of the contract negotiated with Imperial Airways Ltd.
SUMMARY OF RECOMMENDATIONS.

15. Our recommendations to the Cabinet may therefore be summarised as follows:-

(a) That the policy of concentrating air transport in the hands of a single company - Imperial Airways Ltd. - be continued.

(b) That the Air Ministry be authorised in consultation with the Treasury to enter on negotiations with Imperial Airways to modify the existing agreements so as to provide:–

(1) For giving the company security of tenure over a reasonable period of years.

(2) For the development, in lieu of the less remunerative continental services, of long-distance Imperial routes, commencing with a London-Calcutta mail service.

(3) For the renewal of the company's fleet at frequent intervals with the most up-to-date aircraft.

(4) For the Government to secure more favourable participation at an earlier stage in the company's profits.

(c) That the Post Office should take special steps to promote the success of the London-Calcutta Mail Service.

(d) That over a 10 year period a sufficient amount should be provided on the Civil Aviation Vote of Air Estimates to permit of the policy outlined at (1), (2), (3) and (4) of (b) above being carried into effect - the figure to be settled annually between the Air Ministry and Treasury,
to whom each year's programme will be communicated for prior scrutiny and concurrence in the ordinary course.

(e) That machinery should be set up to secure the closest possible liaison between the Air Ministry, Imperial Airways and the aircraft manufacturing industry.

(Signed) P. CULLIFEE-LISTER.

(Chairman).

2 Whitehall Gardens, S.W.1.
23rd December, 1927.