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C A B I N E T.

IMPERIAL AIRWAYS AND BRITISH AIRWAYS.

Memorandum by the Chancellor of the Exchequer
and the Secretary of State for Air.

1. Our colleagues will remember that the Cabinet decided (Cabinet 49 (38) Conclusion 17) that the questions of policy involved by the contemplated amalgamation of Imperial Airways and British Airways should be discussed informally at a meeting of Ministers.

2. That meeting has been held and those Ministers present agreed in principle to the proposed amalgamation. They further agreed that as the amalgamated concern would, in any event at the outset, be largely dependent on subsidies from His Majesty's Government it was necessary that the dividends should be restricted to the limits usually associated with public utility companies. Such restriction would be in accordance with the views expressed in the Cadman Report and with the Government observation thereon to the effect that the Government were "in agreement with the principle underlying the proposal, namely that public money should not be used for raising dividends to undue levels".

3. After consideration of alternative forms of organisation the meeting came to the unanimous conclusion that the most feasible form of organisation was that which had in fact been recommended to the Government Departments

concerned by Mr. Morison of Thomson McIntock and Company after a careful and detailed investigation. The scheme in question would involve the formation of a Public Corporation, under statute, to acquire the existing undertakings of Imperial Airways and British Airways at a figure to be agreed between the Government and the Directors of the two Companies and approved by their respective shareholders. The Board of the Corporation would be appointed by the Government, though subsequent vacancies might be filled by the Board itself subject to the approval of the Government. The Corporation would be a statutory body with certain statutory limits on its powers - in particular on the amount of its dividends or interest payable on its stock. The money required

- (a) for the purchase of Imperial Airways and British Airways (say, £3,000,000)
- (b) for immediate development (say another £3,000,000) and
- (c) for future development until such time as the Corporation could stand on its own feet,

would be found by the issue of fixed interest stock guaranteed as to principal and interest by the Government. The annual subsidy would continue to be paid and would be fixed in such a way as to cover the service of the guaranteed stock and to allow reasonable provision of reserves for development with a view to reduction of the need for future guaranteed capital. Capital would thus be raised on the cheapest possible terms and the subsidy, instead of catering, as at present, for dividends of $7\frac{1}{2}\%$ to 10% on ordinary shares would be required to cover the low rate of interest (3% to $3\frac{1}{2}\%$) payable on medium or long term guaranteed stock.

4. Sir John Reith, as Chairman of Imperial Airways, and Mr. Clive Pearson, as Chairman of British Airways, have agreed in principle to amalgamation and to a Public Corporation.

5. Legislation would be required to set up the proposed Corporation and to give the Treasury power to guarantee principal and interest on its stocks. The object of this memorandum is to seek the authority of the Cabinet for the preparation of the necessary legislation.

6. The date of the announcement to the House and the shareholders will have to be settled at the discussion with the representatives of the companies. Till that date it is most desirable that the decision should be kept completely secret.

(Int'l'd.) J.S.
" K.W.

3rd November, 1938.