



REPUBLIC OF KENYA

Sessional Paper No. 5 of 1969

**GOVERNMENT GUARANTEE OF
PURCHASE MONEYS
PAYABLE BY
THE EAST AFRICAN AIRWAYS CORPORATION
TO
BRITISH AIRCRAFT CORPORATION
(HOLDINGS) LIMITED**

Sh. 1 - 1969

SESSIONAL PAPER No. 5 OF 1969

GOVERNMENT GUARANTEE OF PURCHASE MONEYS PAYABLE BY THE EAST AFRICAN AIRWAYS CORPORATION TO BRITISH AIRCRAFT CORPORATION (HOLDINGS) LIMITED.

THE LOANS (GUARANTEE) ACT 1966

1. In accordance with section 5 of the Loans (Guarantee) Act 1966, the following information is laid before the National Assembly in connexion with a proposed guarantee by Kenya Government of one-third of the liability of the East African Airways Corporation for purchase moneys of the equivalent of approximately K£3,500,000 due by the Corporation to British Aircraft Corporation (Holdings) Limited.

2. The East African Airways Corporation which is firmly established as an international airline of repute and which is a self-financing and viable undertaking has, over the years, continued to expand its operations over international routes. It now provides a daily service between Nairobi and London with calls at intermediate cities in Europe, a regular service to Pakistan and India and a Far East service to Bangkok and Hongkong. The airline is a vital factor in the promotion of tourism to Kenya and to the Partner States of Tanzania and Uganda and provides valuable air cargo services particularly for the horticultural products of Kenya.

3. The international services of the Corporation are operated by a fleet of four Super VC 10 aircraft which in terms of reliability, comfort and passenger appeal rank second to none, a fact which is reflected in the profitability of the international route operations. These four aircraft, however, are inadequate to realize the full potential of the profitable international market in air travel open to the Corporation and if this potential is to be realized it is essential that an addition is speedily made to the fleet by a fifth aircraft. It was therefore decided by the East African Authority that the Corporation should purchase another Super VC 10 aircraft to be delivered to it in the first quarter of 1970.

4. To this end negotiations were concluded on 6th June 1969, between East African Airways Corporation and British Aircraft Corporation (Holdings) Limited for the purchase of a Super VC 10 1154 series aircraft at a cost of £3,838,425 sterling. In addition there are to be purchased a Rolls-Royce Conway Mark 550 B spare engine and accessories, an engine stand and an engine pod suitable to carry a Conway engine at a cost of £249,425 sterling, making a total contract price of £4,087,850 sterling equivalent approximately to K£3,500,000.

5. The terms negotiated for the purchase provide for payment as follows:—

- (a) five per cent (5%) of the total contract price upon signature of the contract;
- (b) the balance of ninety-five per cent (95%) of the total contract price, together with interest thereon at the rate of five and one-half per cent ($5\frac{1}{2}\%$) per annum calculated on the principal balances outstanding from time to time, to be paid over seven years in twenty-eight equal consecutive quarterly instalments starting three months from acceptance of the aircraft (which is to be by 28th February 1970);

(c) in addition, interest is payable (at $6\frac{1}{2}\%$) on portions of the purchase moneys (amounting to 15% thereof) for short periods prior to delivery dates (equivalent to predelivery instalments which would be payable on a cash purchase);

(d) all payments are in sterling currency.

6. These terms are subject to the payments under 5 (b) above being severally guaranteed one-third each by the governments of Kenya, Tanzania and Uganda (so that no one government is liable for more than one-third of the total of these payments). Thus Kenya Government's total contingent liability under its guarantee would amount to stg. £1,294,486 (equivalent to K£1,109,375) and the interest thereon. The guarantee is similar to that furnished by Government in respect of the fourth Super VC 10 aircraft recently introduced into service by the Corporation.

7. The East African Authority having authorized the purchase of this particular aircraft and the terms negotiated being more favourable than any not supported by the guarantees of the Governments of Kenya, Tanzania and Uganda it is right and proper that the required guarantee should be given by Kenya.

8. The current total contingent liabilities of the Government in respect of guarantees given under the Loans (Guarantee) Act 1966 (other than those specified in the Schedule to the Act) amount to the equivalent of K£28,732,225. With the guarantee of K£1,109,375 proposed by this Paper, the aggregate would be increased to K£29,841,600 of which K£12,796,600 falls within paragraph (a) and K£17,045,000 within paragraph (b), of section 3 (3) of the Act.