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SESSIONAL PAPER
ON A GOVERNMENT GUARANTEE FOR A LOAN TO
THE EAST AFRICAN AIRWAYS CORPORATION TO
ACQUIRE A FOURTH SUPER VC 10 AIRCRAFT

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One of the main elements of the East African Airways Corporation's Development Plan 1967-1971 is the acquisition of a fourth Super VC 10, to be delivered in April, 1969. The need to purchase a fourth SVC 10 is related to the planned extension of the international services provided by the Corporation, and to the replacement of the Comet 4 by the SVC 10 on the Corporation's services to the European Continent and Britain. The British Aircraft Corporation is prepared to give a loan to East African Airways to enable it to purchase the additional SVC 10.

2. The substitution of SVC 10's for the Comets on the services to and from Europe and Britain will result in an increase of 336 in capacity ton-miles in 1967. This additional capacity and the greater passenger appeal of the SVC 10 aircraft are the basis for the estimate that in 1967 East African Airways will earn about one-half of the revenues estimated to be earned by the services of the EAA/BOAC/EUA pool. In this event, it is estimated that the East African Airways Corporation will earn a profit of £915,108 on these services in 1967, which is greater than the estimated profit on all operations in that year.

3. In addition, two SVC 10 services per week on the Aden/Pakistan/India services are planned, to replace three Comet services per week, and beginning in November, 1967, these services are to be extended to Bangkok and Hong Kong. It has been estimated that revenues will increase by about 48% because of the appeal of the SVC 10 aircraft, greater cargo space, and the possibility that traffic carried from south of the Sahara will now join East African Airways' services at Nairobi for the Far East, as opposed to changing aircraft at Cairo.

4. It is estimated that the profits on the operations of the East African Airways Corporation will increase from £447,421 in 1966 to £858,627 in 1967. The breakdown of profits by groups of services is as follows:

(a) Europe/Britain	£915,108
(b) Ethiopia/Aden/Pakistan/India/Far East		£ 15,229
(c) Zambia/Malawi, Ethiopia/Burundi	..	£ 72,652
(d) Charter flights	£ 98,698
(e) Domestic services, including Zanzibar/ Pemba	£130,498
(f) New routes to Lagos/Accra and to Mauritius via Dar es Salaam	<u>£112,562</u>
	TOTAL PROFIT	<u>£858,627</u>

5. As regards depreciation of its fleet the East African Airways Corporation is in a good position. Comet 4 aircrafts have been fully amortised, and modifications to these aircraft in 1966 will be written off by 1969. The rate of depreciation of the Friendship aircraft is 85% over seven years. These aircraft including engines and spare parts will be written off by 1971. The Super VC 10 aircraft will be completely depreciated over seven years. The first two SVC 10's will be depreciated in 1973, and the third SVC 10 will be written off in early 1974. It is intended that the fourth Super VC 10 aircraft will be written off by 1975. The entire DC 3 aircraft fleet will be amortised by the end of 1967.

6. The purchase of a fourth Super VC 10 aircraft is justified by the East African Airways Corporation on the grounds that the expansion of services necessitates another aircraft of such a capacity. The justification of purchasing a Super VC 10 rather than another type of aircraft is based on the following considerations:-

- (a) The Super VC 10 aircraft will remain competitive until 1975.
- (b) The passenger appeal of the Super VC 10 measured by the passenger load factor is higher than that of other aircrafts.
- (c) The Super VC 10 is an economical aircraft based on the market potential of the services which are and will be offered by the East African Airways Corporation. The break-even point for the Super VC 10 is at 50% of the passenger capacity. Estimates based on market trends show that the Super VC 10 will operate at above 50% passenger capacity

on services to Europe and Britain in 1967 and will eventually do so on the planned services to the Far East.

- (d) A new larger aircraft of a different type would cost considerably more than a Super VC 10. Besides the original costs being higher there would be additional cost in the form of back-up engine, spare parts, etc., as well as training costs.

7. Repayment of the loan which is to be given to the East African Airways Corporation by the British Aircraft Corporation for the purchase of the additional Super VC 10 will be made in pound sterling. East African Airways will be able to do this as it earns and disburses approximately two and a half million pounds (2½ m) per annum in foreign exchange under its operating income account.

8. Based on the above considerations, and assuming that the East African Airways Corporation will expand its international services as planned, the Super VC 10 seems to be the best choice of aircraft to purchase at this time. The East African Airways Corporation is planning for the replacement of the Super VC 10 aircraft by the mid-1970's.

9. Recognizing the need for the East African Airways Corporation to expand its fleet of Super VC 10 aircraft, in order not only to maintain its competitive ability in the face of increasing competition with other operators, but also to enable itself to develop further services at International level if it is to remain a viable and developing National Airline of the East African countries, and appreciating the healthy financial position of the Corporation, Government guarantee of the loan required by the Corporation for the acquisition of a fourth VC 10 aircraft is strongly recommended. It is most unlikely that any of the Governments guaranteeing the repayment of this loan will be called upon to repay any part of it.

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