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BRIEFING PAPER - CATCL

Purpose - This paper is intended to review the situation as it exists with respect to CATCL. There is more than a linear foot of correspondence on the subject which has been generated in the last 20 months. The review cannot, therefore, cover every tangential aspect of the debate about courses of action. For the last nine months, an abortive effort was made to sell CATCL to a friendly private investor who we thought would be acceptable to the GRC. We must now decide on a course of action which will satisfy the objectives cited below and which will meet the continuing requirements of the companies. We must also determine what actions are necessary to implement the course of action selected.

Background - Basic to any discussion of CATCL, are the reasons for making a change. The reasons are not up for further discussion. While all parties may not agree with them, they represent the considered decision of the owners. They are:

- a. The political liability to the owners of operating an airline flying the flag of the GRC.
- b. The risk of a major air catastrophe with commercial passengers aboard.
- c. The dynamics of the industry which require forward development or retreat and the unwillingness of the owners to offer an increase in competition to other carriers.
- d. The absence of any operational need for the airline as a scheduled international commercial passenger carrier.

While these reasons also apply to the domestic service, they do so with much less force.

The aide memoire delivered to the President of the Republic of China in February 1966 and the letter from Mr. Grundy to the Minister of Defense were both couched in language to carry a sincere desire of the owners and affiliated companies to be helpful to the GRC and CAL. Indeed, subsequent actions have or should have confirmed that desire. Regardless of various

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reported conversations, there is abundant firm evidence that the GRC welcomed the request. In September 1966, Mr. Grundy requested the facilitations needed by Air Asia to support Air America/Air Asia in Southeast Asia. The GRC response was less than hoped for but there is every reason to believe that these facilitations will be provided or desired as an instrument of cooperation or presence in accordance with political objectives. It was thought at that time that one way of retaining the facilitations of CATCL for use by the affiliated companies would be to retain CATCL but to terminate the scheduled passenger service. This still appears to be feasible. In May 1967, following some activity by Mr. Wang Wen-san, a proposal was made to the GRC for overseas Chinese investors to buy CATCL, to continue its operation, and to share its existing authorization and facilitation with AACL. This proposal was agreed to in principle, but later action repudiated the agreement. Routes were taken away from CATCL and a flat denial of any permission to operate scheduled services to the U.S. was given to the investor syndicate. There can be little doubt that the GRC has decided to have one government-owned airline in its international service.

Present Status - CATCL has sold the CV-880 and substituted a B-727. Routes to Seoul and Manila have been taken away from CATCL and given to CAL. Remaining routes including the cargo routes continue to operate although revenue is off about 40 percent from last year. The Mau-Wang syndicate has asked the GRC if its denial of routes to the U.S. means a denial of the purchasers' proposal in any configuration. No answer has been received but it seems most unlikely that any guarantee satisfactory to the investors will be forthcoming.

Alternatives As Stated in DIR-42269 - We believe that the statement of facilitations needed as submitted by Mr. Grundy in September 1966 is still valid and the only question is how best to acquire or retain them, recognizing that all of them may not be absolutely essential and that some compromises may be acceptable. It seems that the most promising course of action is to continue CATCL as a cargo carrier in a secondary and complimentary role to CAL. Whether the routes should extend from Tokyo to Bangkok or only from Taipei to Bangkok is a matter of economics and not of policy. The same may be said of ticket agencies.

Actions Required

a. With whom in the GRC should this plan of action be cleared or coordinated?

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b. What form should the coordination take, i.e., conversations, written petitions, etc?

c. Who should do this - Mr. Grundy, Mr. Doole, Mr. Walker, Admiral Stump?

Timing - In the absence of overriding reasons for further delay, we should have this concluded by 31 March 1968.

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