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27 APR 67

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REC'D 20 APR 67

TO FEJ [redacted]

Status Report on CATCL negotiations

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~~SECRET~~  - TELEPOUCH  
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 TO - CHIEF,  /ATTN--   
 INFO - CHIEF, FAR EAST DIVISION  
 FROM -   
 SUBJECT - STATUS REPORT ON CATCL NEGOTIATIONS  
 ACTION - NONE  
 REFS -  24 APRIL 1967

1. ON THE EVENING OF 19 APRIL 1967, DR. WANG WEN-SHFR CATL BOARD CHAIRMAN, VISITED MINISTER OF COMMUNICATIONS SHEN-YI TO TELL HIM OF HIS PLANNED FORTHCOMING TRIP TO THE UNITED STATES, TO HAVE DISCUSSIONS WITH PRINCIPAL SHAREHOLDERS ON PERSONAL MATTERS, AND "ABOUT THE POSSIBILITIES FOR REORGANIZATION OF THE <sup>co</sup> COMPANY AND SHAREHOLDER MEMBERSHIP, IN ACCORDANCE WITH THE NEW COMPANY LAW" /PASSED BY THE LEGISLATIVE YUAN IN JULY, 1966, WITH A COMPLIANCE DATE OF 18 JULY 1967/.

2. DR. WANG ASKED SHEN-YI IF THERE WERE ANY NEW INPUTS ON THE STATUS OF CURRENT CATL/GRC RELATIONSHIPS THAT HE ~~WAS~~ <sup>MIGHT</sup> REFLECT TO THE OWNERS WHEN HE SAW THEM IN WASHINGTON. AT THIS POINT, MINISTER SHEN-YI SAID, IN WHAT DR. WANG DESCRIBES AS "A BURST OF FRANKNESS," "WEN-SAN, IF YOU REALLY WANT TO KNOW - THE ONLY BASIC PROBLEM WITH CATCL AS FAR AS THE GOVERNMENT IS CONCERNED IS THE MATTER OF OWNERSHIP AND CONTROL . . ."  
 SHEN-YI THEN TOOK NOTE OF THE CONTROL YUAN VIEWS AFTER THE 1964 CAT CRASH, WHEN THE TRANSPARENCY OF THE

~~SECRET~~  - TELEPOUCH,  PAGE 1 CONTINUED

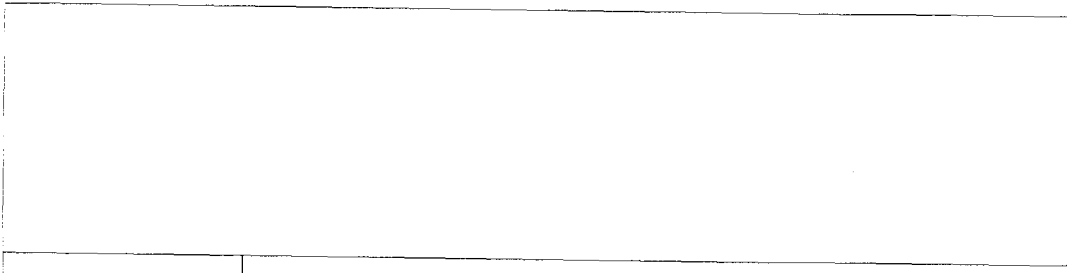
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[ ] - TELEPOUCH, [ ] PAGE 2

[ ] CAPITALIZATION AND SHAREHOLDER STRUCTURE WAS CRITICALLY HIGHLIGHTED, AND SAID, APPROPRIOS OF RE-ORGANIZATION-- "IF YOU COULD REORGANIZE THE COMPANY SO THAT THERE WERE GENUINE CHINESE OWNERSHIP AND PARTICIPATION, AND THEREAFTER IF YOU COULD SELL SHARES IN SUCH A COMPANY TO INFLUENTIAL CHINESE HERE LOCALLY WHO WOULD STAND UP AND FIGHT FOR YOU IN TAIWAN, THERE IS NO QUESTION BUT THAT YOU COULD CONTINUE IN BUSINESS AS LONG AS YOU WISHED - IN FACT, UNDER THOSE CIRCUMSTANCES, THE GOVERNMENT WOULD WANT YOU TO STAY IN BUSINESS."

3. MINISTER SHEN-YI TOLD DR. WANG "OFF THE RECORD" THAT-- "WE IN GOVERNMENT FEEL THAT IN CHINA AIR LINES WE HAVE ANOTHER CHINA MERCHANTS SHIPPING LINE PROBLEM, WHERE THE GOVERNMENT HAS TO PICK UP THE BILLS FOR BAD MANAGEMENT AND OVERSIZED PAYROLLS BECAUSE A POLICY DECISION WAS MADE IN THE FIRST PLACE TO BACK THEM WITH ROC MONEY THEY NEEDED TO GET STARTED." /N.B.--



1 SHEN-YI THEN SAID-- "IF YOU REORGANIZE WITH A COMBINATION OF CHINESE AND AMERICAN CAPITAL AND STAY IN BUSINESS, THE GOVERNMENT WILL DO EVERYTHING IN ITS POWER HEO ASSIST AND ENCOURAGE YOU."

4. AT THIS POINT, DR. WANG SAID TO SHEN-YI THAT SUCH A REORGANIZATION WOULD BE FEASIBLE ONLY UNDER THE CONDITION THAT IT WERE TO BE JOINT EXERCISE OF PRE-  
 CONDIT<sup>ION</sup> 54-5 85-2343 5835 59 288,5 3734-8 3 91 843

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[ ] - TELEPOUCH, [ ] PAGE 2 CONTINUED

~~SECRET~~ [ ] - TELEPOUCH, [ ] PAGE 3

SENT CATCL FACILITATIONS BY AACL, WHO WOULD HOPEFULLY HAVE THE MAINTENANCE CONTRACT FOR CATCL, SINCE HAVING CATCL FURNISH ITS OWN MAINTENANCE<sup>CE</sup> CAPABILITY WOULD BE OUT OF THE QUESTION. <sup>SHEN</sup> SHEN-YI THEN REPLIED TO THE EFFECT THAT IF DR. WANG COULD BRING ABOUT A REORGANIZATION SUCH AS THAT WHICH HE, SHEN-YI, HAD DESCRIBED, AS A SENIOR GOVERNMENT OFFICIAL, HE FELT THAT THERE WOULD BE NO PROBLEM WITH JOINT USE OF THE FACILITATIONS AND THAT HE FELT CERCFIN AACL COULD CONTINUE TO USE CATCL'S EXISTENCE AS THE REASON FOR KEEPING THE RIGHTS ENJOYED THUS FAR. IN FACT, HE WAS QUOTED DIRECTLY AS SAYING-- "IF THIS GOES THROUGH, YOU WOULD HAVE NO REASON TO JOIN IN A PAPER WITH AACL ASKING AS YOU DID FOR EXTENSION OF CATCL FACILITATIONS TO THEM, SINCE THEY WOULD REMAIN IN BEING FOR BOTH OF YOU."

5. THE MORNING OF 20 APRIL, SHEN-YI CALLED DR. WANG AT HIS HOTEL, RECALLED THEIR CONVERSATION OF PREVIOUS EVENING, AND SUGGESTED THAT BEFORE HE, DR. WANG, RETURNED TO THE UNITED STATES HE SHOULD PAY BRIEF VISITS TO GENERAL CHANG-CHUN, SECRETARY-GENERAL TO THE PRESIDENT, AND TO PREMIER C.K. YEN, TO EXCHANGE VIEWS WITH THEM ABOUT SOME FORM OF REORGANIZATION BEING CONSIDERED WHICH COULD ENLARGE CHINESE PARTICIPATION ON A PRIVATELY-FINANCED BASIS. SHEN-YI SAID THAT EVEN THOUGH HE UNDERSTOOD THAT SUCH CONSIDERATION WAS AT THIS TIME PROVISIONAL, HE FELT THAT EVEN ITS POSSIBILITY SHOULD BE NOTED BY THESE PEOPLE, WITH WHOM HE WOULD THEN DISCUSS THE MATTER AGAIN. DR. WANG THEN TOLD THE MINISTER THAT IT WAS BY NO MEANS CERTAIN THAT SUCH A REORGANIZATION COULD OR WOULD BE APPROVED BY

~~SECRET~~ [ ] - TELEPOUCH, [ ] PAGE 3 CONTINUE

THE PRINCIPAL SHAREHOLDERS, AND HE DID NOT WANT TO BUILD UP EXPECTATIONS TO A POINT WHERE, IF IT DID NOT MATERIALIZE, IT WOULD DAMAGE THE COMPANY'S CHANCES OF PURSUING OUR ORIGINAL OBJECTIVE OF ESTABLISHING AN ALL-CARGO STATUS FOR CATCL. SHEN-YI REPORTEDLY THEN SAID THAT "NOTHING WHICH WAS DONE TO STUDY REORGANIZATION WOULD AFFECT THE POSITION YOU HAVE TAKEN AND ON WHICH YOU HAVE WORKED SO HARD." THE MINISTER ALSO SAID THAT HE WOULD NOT BE CONCERNED OVER THE ADDED TIME NEEDED TO CONDUCT SUCH TALKS, AS IT RELATED TO THE PRESENT ABSENCE OF A CO<sup>PE</sup>OPERATE POSITION ON THE EXECUTIVE YUAN RESPONSE TO THE 14 SEPTEMBER 1966 "NINE POINTS" LETTER.

6. THE MORNING OF 21 APRIL, DR. WANG HAD BREAKFAST WITH GENERAL CHANG-CHUN, IN RESPONSE TO SHEN-YI'S SUGGESTION. THEY DISCUSSED POSSIBLE CATCL REORGANIZATION, WITH THESE PRELIMINARY CONCLUSIONS--

A. SUCH A REORGANIZATION, IN CHANG-CHUN'S VIEW, "PRESENTS NO LEGAL PROBLEMS."

B. THE REPUBLIC OF CHINA BADLY NEEDS ADDITIONAL INTERNATIONAL AIR SERVICE.

C. FROM A POLICY STANDPOINT, DR. WANG'S VISIT TO THE UNITED STATES WOULD GIVE CHANG-CHUN "TIME TO WORK ON THIS WITH THE PRESIDENT AND THE OTHER MAN /CCK/." THE BASIC POLICY QUESTION CAME DOWN TO TWO ALTERNATIVES, IN CHANG-CHUN'S VIEW--

- 4? /1/ THE REPUBLIC OF CHINA WILL SUPPORT ONLY CHINA AIR LINES, OR  
/2/ THE REPUBLIC OF CHINA WPFL SUPPORT

L  
A N D PRIVATELY FINANCED CARRIERS AS WELL /OR MORE

~~SECRET~~ [ ] - TELEPOUCH, [ ] PAGE 5

PROPERLY-- WILL PERMIT PRIVATELY-FINANCED  
CARRIERS TO HAVE ROC FLAG STATUS/.

GENERAL CHANG-CHUN SAID THAT PERSONALLY, "I AM ALL  
FOR THIS" /REORGANIZATION/. HE ADDED THAT HE KNEW  
WHERE HE STOOD WITH THE PRESIDENT ON ALL MAJOR MATTERS,  
"ALL ONE OF HIS EARLIEST AND CLOSEST FRIENDS, WHO HAD  
SHARED THE SAME BEDROOM AND BATHROOM WITH THE GENERAL-  
ISSIMO ON THE MAINLAND IN THE OLD DAYS," BUT THAT HE  
DID NOT FEEL FULLY CONFIDENT OF HIS "RELATIONSHIP WITH  
THE OTHER MAN /CCK/ WITH WHOM I HAVE TO FEEL MY WAY."  
DR. WANG, AT THIS WRITING, HAS NOT YET BEEN ABLE TO  
GET IN TOUCH WITH PREMIER C.K. YEN.

7. S U M M A R Y-- THERE APPEARS TO BE LITTLE  
DOUBT THAT MINISTER SHEN-YI SEES A POSSIBLE CHANGE OF  
OWNERSHIP FOR CATCL AS A WAY OUT OF MANY PROBLEMS FOR  
HIMSELF AND THE GRC. IT IS FAIR TO ASSUME THAT HE SUS-  
PECTS THAT A TRANSFER OF OWNERSHIP WOULD RESULT IN  
THE ADDITION OF MORE AIRCRAFT TO CATKM'S FLEET, WHICH  
WOULD RESULT IN INCREASED CHINESE PRESTIGE ABROAD,  
THE SOLUTION OF ONE OF HIS IMPLIED RESPONSIBILITIES--  
THAT OF BRINGING MORE TOURISTS /AND MORE DOLLARS/ TO  
TAIWAN /SEMI-COLEN/ THE AVOIDANCE OF POSSIBLE CHARGES  
THAT THE GRC IN GENERAL, AND MOC IN PARTICULAR, WAS  
AGAINST PRIVATE ENTERPRISE AND NOT INTERESTED IN HELP-  
ING PROMOTE FOREIGN INVESTMENT /SEMI-COLEN/ THE AVOIDANCE  
OF UNEMPLOYMENT FOR CATCL PERSONNEL /SEMI-COLEN/ THE  
OPPORTUNITY TO SLOW CHINA AIR LINES GROWTH DOWN TO A  
POINT WHERE IT MIGHT BE MANAGEABLE, ETC. IT WOULD  
APPEAR, BASED ON EXPERIENCE, THAT PREMIER C.K. YEN  
WOULD GO ALONG WITH SHEN-YI'S THINKING ON THIS TOPIC.

SECRET [ ] - TELEPOUCH, [ ] PAGE 5 CONTINUED

~~SECRET~~ [ ] - TELEPOUCH, [ ] PAGE 6

ALSO FROM PAST EXPERIENCE, IT WOULD BE POSSIBLE TO FORECAST ACTIVE SUPPORT FOR THE CHANGEOVER FROM GENERAL CHANG-CHUN, WHICH WOULD PROBABLY COUNT MEASUREABLY WITH THE PRESIDENT. HUANG SHAO-KU, THE DEPUTY PREMIER, MIGHT ALSO BE INCLUDED IN THE RANKS OF AFFIRMANTS. CHINA AIR LINES WOULD PROBABLY OPPOSE THE IDEA WITH ALL VIGOR THEY COULD MUSTER, AND WOULD APPEAL TO CCK TO USE HIS INFLUENCE TO PREVENT IT, YET THE DIMINISHED [ ] CONTROL OVER CATCL COULD HARDLY FAIL TO APPEAL TO THE MINISTER OF DEFENSE IF HE CAN BE CONVINCED OF ITS FACTUALITY. IN SHORT, THE CHANCES OF BRINGING THE PROPOSAL OFF APPEAR QUITE REASONABLY GOOD. IN ANY EVENT, IT SHOULD BE THOROUGHLY EXPLORED, AND SOURCES OF VENTURE CAPITAL QUIETLY IDENTIFIED, BOTH IN SINO-AMERICAN CIRCLES AND AMONG PURELY U. S. INVESTORS. IF CAL WERE ASSURED THAT A NEW CATCL UNDER INDEPENDENT OWNERSHIP DID NOT THREATEN ITS DESIRE TO BE THE FIRST TRANS-PACIFIC FLAG CARRIER FOR THE ROC, BUT WOULD KEEP ITS SIGHTS FIXED ON A REGIONAL ROLE, THEIR OPPOSITION MIGHT NOT BE SO VIGOROUS. PARENTHETICALLY, IT SHOULD BE NOTED THAT IN ANY EVENT, DOMESTIC AIR SERVICE NOW OPERATED BY CATCL WOULD BE TURNED OVER TO CHINA AIR LINES, TO FULFILL DR. WANG WEN-SAN'S ASSERTION THAT CATCL IS NOT "INTERESTED IN MAKING MONEY OUT OF ROC, BUT FOR ROC, THROUGH INTERNATIONAL SERVICES."

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