

~~SECRET~~

19 OCT 1967

MEMORANDUM FOR THE RECORD

SUBJECT: CATCL PhaseOut

1. Objective - In reviewing negotiations on CATCL and trying to make sense out of all the conflicting interests, it is important to keep uppermost in mind the Agency's objective which is discontinuing scheduled commercial passenger service by a CIA proprietary flying the Chinese Nationalist flag.

2. Reasons for the Objective - The following are the most important reasons why the Agency adopted the above objective:

a. The DD/P stated unequivocally that there is no existing nor foreseeable operational requirement for CATCL.

b. The political liability vis-a-vis the GRC in CIA operating the Nationalist Chinese international airline is dangerous and unacceptable. Indeed, this liability extends to the total United States Government.

c. The ever present threat of an aircraft accident disaster involving the loss of lives is unacceptable. Inquiries would inevitably lead to CIA even if the relationship could not be proved.

d. In the dynamic airline business, an air carrier must either compete which is equivalent to growing, or to refuse to compete which is equivalent to dying. Any competition or expansion by CATCL would immediately draw strong objections from Mr. Nyrop, President of Northwest Airlines and perhaps others.

3. Alternatives - Three alternatives were considered when the decision was reached and later a fourth alternative was added. These are:

a. Complete liquidation and buying the logistical support to Southeast Asia from other carriers as, for example, CAL.

APPROVED FOR RELEASE □ DATE: 24-Sep-2009

~~SECRET~~

~~SECRET~~

- 2 -

b. Eliminating the scheduled passenger services but continuing CATCL as a purely scheduled cargo airline.

c. A junior partnership arrangement with CAL. This was found at an early date to be unacceptable to CAL who for years has had as one of its objectives the elimination of CATCL as a competitor of any kind.

d. The fourth alternative which developed after the DD/S representative was positioned in Taipei to conduct negotiations, is the sale of CATCL as a going concern to new acceptable Chinese investors. This alternative had the advantage of preserving jobs for CATCL employees, an immediate market for certain CATCL properties and equipment, and relief from the retirement termination and other benefits of employees of CATCL.

4. The Overseas Chinese Investor Group - Dr. Wang Wensan, a long time officer of CATCL, through his many contacts with overseas Chinese, organized a syndicate headed by Mr. William Mau, an American-Chinese residing in Honolulu. Overseas Chinese are regarded as Chinese Nationals for purposes of investment in Taiwan. Mr. Mau was attracted to the proposition as an adjunct to his hotel business which he hopes to expand. His idea would be to sell a package deal, i.e., your airplane tickets and your hotel accommodations. Exactly how well this syndicate is progressing is not clear, but recent reports say that they can live up to the commitment to the GRC in their letter to the Premier of the GRC in May 1967. This letter proposed an immediate investment of \$5,000,000 to be raised from overseas Chinese, with an additional \$5,000,000 to be raised locally on Taiwan and from U.S. Nationals and U.S. business investors. The proposal was accepted in principle but the qualifications were:

a. That 51 percent of the company must be owned by Chinese.

b. CATCL as presently incorporated would cease and the new ownership would become effective immediately, thereby providing for continuous juristic personality.

c. The flying rights are by law not transferable and, therefore, would have to be applied for by the new ownership.

~~SECRET~~

~~SECRET~~

- 3 -

5. CAL Tactics - CAL reacted strongly to this proposal and made their position clear to all the interested Chinese ministries. There are indications that their cause of eliminating CATCL altogether is supported by CCK who is understood to be the principal supporter of CAL and its role as a part of the Chinese Nationalist security air defense system, and who personally solicited approval of the GRC in having the Bank of China underwrite the purchase of two Boeing 727 aircraft which they now have and which are now in operation. Other elements of the GRC, principally the Ministry of Economics and the Ministry of Communications, are well disposed toward there being two Chinese flag airlines. They justify this on the basis of the impressive statistical increase in tourism, the desirability of competition in the transportation industry, and the influx of new money into the Nationalist Chinese economy.

6. Present Situation - Through rather high-handed methods, CATCL's flying rights to Korea and the Philippines have been terminated in favor of CAL. There was evidence of direct intervention by CCK to the Ministry of Foreign Affairs. Both the Korean and Philippine Governments are well disposed toward dual designation, i.e., two Chinese flag airlines having flying rights to their countries. However, this will require treaty modifications which will take time and, of course, will require a request from the GRC. All other CATCL routes are currently operational. It is hoped that the differences in the GRC can be resolved at an early date so that we will know whether or not the Mau syndicate can be expected to conclude the "sale." If the prospects for full GRC support are not favorable, the syndicate will undoubtedly disappear and we will proceed with one of the other alternatives. If, on the other hand, Dr. Wang and Mr. Mau are assured by the GRC of support and cooperation, they say that they are willing and anxious to proceed and have, in fact, lined up the initial \$5,000,000 investment.



Alan M. Warfield

ADD/S/AMW:bak(18 Oct. 67)
Distribution:
Orig. - DD/S Subject

~~SECRET~~