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17 January 1968

MEMORANDUM FOR: Mr. Alan M. Warfield

SUBJECT: Comments on CATCL Briefing Paper (Draft of 10 Jan 68)

1. This memorandum is responsive to your request of 10 Jan 68 for my comments on the contents of your briefing paper on the CATCL situation. My reactions are about as follows:

A. I am in essential agreement with the points you make under the headings: Purpose, Background and Present Status, which carries me to the penultimate paragraph on page three, entitled "Alternatives As Stated in DIR-  
[ ] It is to this paragraph and to those on page four that I wish to express myself.

(1) Facilitations: As far as GRC is concerned, they have responded to the 14 Sept 66 letter sent them in the names of AACL, AAM and CATCL. Their response of 27 Jan 67, conveyed over the signature of Minister Shen-yl, was never formally answered by anyone, even to this date. However conditional and unsatisfactory we may have found its terms, and however bothersome its wholly negative provisions were, the Ministry of Communications, as the agent of the Executive Yuan, regards the answer as satisfactory. Therefore, unless we now choose to write to MOC requesting clarification of the questionable provisions, or unless we were to denounce it in whole or in part, (neither of which courses of action I recommend) there is no apparent need to debate this issue further. Therefore, I suggest that this fact be taken into account, perhaps resulting in a rewording of the first sentence of the "Alternatives" paragraph. I do not think that we could make much of a case with GRC, in the year that has passed since their answer was promulgated, that AACL has suffered great harm from the application of its provisions. This does not mean that we may not be damaged by the 27 Jan 67 paper in the future, for the worst thing about it, in my view, is the elasticity of its language which gives a possibly vengeful administration in China the mechanism for turning off AACL's water any time they so desire, simply through a literal interpretation of some of the rubbery provisions therein. Certainly the Chinese would take umbrage at any request that we might make of them to "take their answer back and do it over," and even if they agreed to this suggestion, the ultimate response might be even less favorable.

(2) Future Actions: I agree wholly with your view about converting CATCL to a limited cargo capability in the event that the GRC gives a negative response to the Mau/Wang clarification letter which reached CIECD on 16 Jan 68. However, I think we should guard against taking any action to announce this intent

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until GRC does answer the last Mau/Wang communication. With the usual slowdown of government business circles just prior to and during the Lunar New Year on 30 Jan, this could mean that we might of necessity have to wait until perhaps mid-February before hearing from them. This is primarily because Minister of Economic Affairs K. T. Li, an adherent of the Mau/Wang plan, indicated to Dr. Wang in mid-December that if the clarification letter did come to him (and Dr. S. Y. Dao is under his jurisdiction) he would seek to call a meeting of all affected Ministries and Departments to hammer out a coordinated answer. This involves then: CIECD, MOEA, MOC, CCAA, the Department of Navigation and Aviation and quite possibly MOFA - and getting them all together and agreeing on a draft response is no easier in China than in Washington!

If for any reason the GRC fails totally their responsibility to respond to the Mau/Wang 16 Jan 68 letter, Dr. Wang indicated to me that he would be willing to write a final letter to CIECD, stating that in the absence of a written response, Mau/Wang have no other recourse but to assume that the 5 Dec 67 rejection letter applies not only to the 2 Nov 67 proposal, but to the 23 May 67 one as well. Dr. Wang would then state that in view of the apparent GRC policy shift, he and Mr. Mau will consider their responsibilities for carrying the 19 Aug 67 and 9 Sept 67 approvals forward at an end. A letter like this should not go out until 29 Feb 68, assuming silence on the part of GRC until that time. However, with Dr. Wang in Taipei, as he plans to be, I have no doubt he will have the GRC position pretty well scouted before that late a date.

Assuming again that GRC either gives Mau/Wang another negative letter or that there is no formal answer at all and the above alternative is elected, I recommend that immediately thereafter CATCL petition the Ministry of Communications by letter dated 1 Mar 68, for permission to terminate both domestic and international passenger services on 31 Mar 68. Reasons for termination cited should emphasize the declining revenues from both services, highlighting losses brought about by the Government order to suspend services to Manila and Seoul in October 1967. This petition should also take note of the rejection by the GRC of proposals to sell the airline to Overseas Chinese interests, and regret should be expressed that a mutually satisfactory solution could not be found during the many months that CATCL has been attempting to reorganize and recapitalize under new management. Inclusion of this in the petition is recommended in order to make it unattractive for the GRC to explain its stand over the termination of passenger service (locally a hot issue) simply by publishing the CATCL petition.

I also recommend that reference be made, in this same petition, of the intent of the present CATCL owners to exercise that portion of their existing route licenses which permit the scheduled carriage of cargo, (as opposed to passengers and mail). However, this should be stated in low key, almost as an afterthought, so as to avoid having it picked up and made a separate major issue. Mr. Grundy

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may well feel that we should not signal our intention to run a scheduled cargo service, since we already have the explicit authority to do so in our present route licenses. If this is his view, I would recommend that it be adopted, since I sometimes share his feeling that the Chinese frequently can sit still for something unless it is officially called to their attention. My main reason for suggesting its inclusion in the termination petition is to forestall total revocation of existing route licenses, an action which might occur as a matter of routine on the part of CCAA. If we signal our intent, we might succeed in obtaining an amended route license permitting cargo carriage without too much difficulty.

(3) Advantages of Cargo Service: As a reminder, I include some of what I feel are the reasons for trying to stay in the cargo business with CATCL in the event the Mau/Wang sale falls through:

a. Retention of CATCL framework, and continued membership in IATA, would permit CAT to retain its own ticket stock, and it would probably avoid termination of existing interline agreements for the carriage of personnel of the complex, now in force with Pan American and Northwest, with resultant savings of a significant order in the movement of AACL/AAM personnel to and from CONUS.

b. Continuation of cargo service would also ease somewhat the blow directly affecting some 640 personnel in the CATCL system who would for the most part be terminated. Cargo service from Taipei southward would probably utilize about 150 people in all. If extended northward to Japan after passenger service ends, the estimate is roughly 200 people. The overall economics of cargo service from Tokyo to Bangkok would probably be better than from Taipei to Bangkok alone, especially if a decision is made to use the Boeing 727C for this purpose, on a frequency level of four times weekly (as noted in an earlier paper). If 20 or 21 seats were installed either in the 727 or the DC-6A, company personnel moving to and from Southeast Asia could be carried along with meaningful cargo payloads as a further means of reducing the dollar drain which would occur if all AACL/AAM personnel now moving intra-theatre either on CAT (non-revenue) or commercially at a discount were obliged to travel these routes at full fare. This idea must be viewed also in the light of the recently-adopted policy of granting annual home leave to AAM personnel, and the added numbers of travelers this means.

c. If a cargo CATCL remains in being, it would be possible to continue the existence of the Saigon office, for example, as an off-line sales entity, furnishing limited cover in that area and also operating at a comfortable profit margin. Although historically unpopular, it would seem desirable for the skeleton CATCL to seek contracts with international carriers as a General Sales Agent throughout the existing system, with a view toward further reduction in the overall costs of carrying self-interest cargo and company personnel. Returns commercially on the TPE/HKG/BKK cargo service came to 86¢/plane mile in November, and while this does not meet the DOC on a DC-4, it is a

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substantial portion thereof, and a meaningful offset when compared to what it would cost to haul our own cargo by other commercial means.

2. **SUMMARY:** If it really is the aim of the GRC (or CCK) to totally destroy CATCL, then the prospects for continuing any service at all beyond the termination of passenger service is dim indeed. Yet so long as CATCL does exist, even in a limited way, it could not only be an inexpensive yet valuable hedge against unknown future developments, both for GRC and U.S. [redacted] but it represents one more hurdle to be cleared before anyone can attempt to force AACL into a corner or out of business. I personally feel quite strongly that an attempt will be made on AACL before the end of 1968, probably at the instigation of CAL and its AACL-hating Board Chairman, General Hsu-Huan-sheng, former CAF commander. The vehicle for this attempt will probably be the rental contract for the 25,000 ping we hire from the Chinese Air Force at Tainan, which is up for renewal by 31 Dec 68. Negotiations for renewal will probably start about 1 Sept 68, which is when I think we will get their signal of an attempt to force AACL to sell, and to a buyer of their own choosing. We need promptly to prepare for this by actions we can take to strengthen our physical position in Tainan, and by enlisting the active support of the State Department, and through them the American Ambassador dealing directly with Chiang Ching-kuo as Minister of Defense, under whose jurisdiction Tainan AB comes. In the event that the GRC response on CATCL is wholly negative, Mr. Grundy must take steps immediately to avoid a personnel stampede to the exits that might make even limited cargo service infeasible, and that might trigger a similar exodus from AACL that could seriously hamper their operations. Under no conditions that I can presently envision regarding CATCL or even AACL, should we consider having Admiral Stump take an active part with the Chinese, either in person over there, or by letter, since as a result of the 5 Feb 66 aide memoire, the Chinese think of him as the architect of termination and withdrawal. I think we should seriously consider acquiring some of the Taiwan Sugar Company land adjacent to our AACL-owned property at Tainan as a hedge against rumors and stories that we are thinking about pulling out of Taiwan. This can be done reasonably and quietly under existing Executive Yuan authorizations, and the land itself represents a tangible and recoverable investment even if we do not rush to build on it. I hope you will see fit to explore this with Mr. Grundy during your visit to Taipei.

  
JAMES A. CUNNINGHAM JR.

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