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~~SECRET~~ 281334Z FEB 68 CITE \_\_\_\_\_

PRIORITY DIRECTOR  
SECTION ONE <sup>AND</sup> TWO OF TWO

*Duplicate & Corrected copy*

28 FEB 68 114 \_\_\_\_\_

\_\_\_\_\_  
SENDER  
REF: \_\_\_\_\_

1. PARA 11 REF, WE HAVE GOTTEN TO THE FOLLOWING STAGE IN DRAFTING "A LIST OF DIFFICULTIES CATCL WILL FACE IN DISCONTINUATION" AND PROPOSALS INVITED BY COL LAI. WHILE WE STILL ARE EDITING AND MASSAGING THE PAPER PROBABLY WE WILL NOT DEVELOP MAJOR CHANGES IN THE SHORT TIME REMAINING BEFORE WE HAVE TO SUBMIT IT TO CCAA TO ACCOMPANY THEIR REPORT TO MOC. HOPEFULLY WE HAVE CAPTURED THE GENERAL DIRECTION HQS DESIRES US TO GO AS EXPLAINED BY \_\_\_\_\_ AND \_\_\_\_\_ PERHAPS NOT. WE WOULD APPRECIATE HQS EARLIEST COMMENTS ON THE DRAFT AND OR INSTRUCTIONS ON WORDING TO BE ADDED, DELETED OR CHANGED. OUR DEADLINE FOR SUBMISSION IS THE 29TH OF FEBRUARY. WE MIGHT OR MIGHT NOT BE ABLE TO GET AN EXTENSION OF ONE DAY. THE CCAA CALLED TODAY TO COMISERATE WITH US ABOUT THE EARLY DEADLINES BEING GIVEN THEM AND THEM TO US BUT SAY MOC IS BEING GIVEN DEADLINES TOO. THIS IS TYPICAL OF GRC.

STATEMENT OF PROBLEMS FLOWING FROM CURTAILMENT OF CAT SERVICES

APPROVED FOR RELEASE  
 DATE: 05-May-2009

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AND A PROPOSAL:

THE PROBLEMS ASSOCIATED WITH THE CURTAILMENT OF CAT'S SERVICES CAN BEST BE UNDERSTOOD AGAINST THE BACKGROUND OF THE RELATIONSHIP BETWEEN CAT AND AIR ASIA AND BETWEEN AIR ASIA AND ITS PARENT COMPANY, AIR AMERICA. AIR AMERICA HAS FOR SEVERAL YEARS BEEN ENGAGED AS A CONTRACTOR TO THE UNITED STATES GOVERNMENT IN PROVIDING VITAL AIRLIFT AND OTHER SERVICES IN THE ANTI-COMMUNIST STRUGGLE IN ASIA. STARTING THROUGH A PREDECESSOR COMPANY DURING THE KOREAN WAR AND EXTENDING TO THE PRESENT DAY IN SUCH AREAS AS VIETNAM, LAOS AND THAILAND, THE COMPANY HAS BEEN THE LEADING COMMERCIAL AIR SUPPORT FACILITY IN THIS VITAL STRUGGLE AND HAS MOVED VAST QUANTITIES OF MATERIAL AND COUNTLESS THOUSANDS OF PEOPLE.

THE TECHNICAL SUPPORT THAT HAS MADE THIS AIRLIFT POSSIBLE HAS COME FROM AIR ASIA. CENTERED IN TAIWAN, IT HAS EMPLOYED AND TRAINED THOUSANDS OF NOW HIGHLY SKILLED CHINESE TECHNICIANS TO THE POINT OF PROVIDING AN AIRCRAFT MAINTENANCE AND OVERHAUL CAPABILITY UNIQUE IN ASIA.

BETWEEN THESE TWO VITAL FUNCTIONS CAT HAS BEEN THE BRIDGE, SERVING A KEY ROLE IN THE MOVEMENT OF PERSONNEL AND PROPERTY

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OF BOTH ASSOCIATED COMPANIES THROUGHOUT THE FAR EAST. BEYOND THAT IT HAS BEEN THE VEHICLE THROUGH WHICH IMPORTANT REDUCED FARE ARRANGEMENT HAVE BEEN CONSUMMATED WITH AIRLINES THROUGHOUT

THE WORLD. AS A RESULT OF BOTH CONTRIBUTIONS, AIR AMERICA'S VITAL OPERATIONS HAVE BEEN RENDERED MORE EFFECTIVE, AND AIR ASIA'S TAIWAN FACILITIES HAVE BEEN ABLE TO REMAIN COMPETITIVE DESPITE THE SIZEABLE DISTANCES TO KEY SOUTHEAST ASIA POINTS. IN THE PROCESS, TAIWAN'S TECHNOLOGY HAS BEEN ADVANCED AND A MAJOR CONTRIBUTION HAS BEEN MADE TO ITS ECONOMY.

A FEW FIGURES WILL SERVE TO HIGHLIGHT THE VALUE OF CAT'S CONTRIBUTIONS. CURRENTLY CAT'S <sup>5</sup> SCHEDULES DC-4 FREIGHTER FROM TAIPEI TO SOUTHEAST ASIA CARRIES AN AVERAGE OF 6500 POUNDS PER TRIP OF CARGO OF THE ASSOCIATED COMPANIES. THIS CARGO REPRESENTS A VALUABLE EXPORT ITEM TO TAIWAN'S ECONOMY. DURING 1967 65 PERCENT OF ALL PASSANGERS ON THE BANGKOK-HONGKONG SEGMENT CONSISTED OF EMPLOYEES OF THE ASSOCIATED COMPANIES. THE TOTAL VALUE OF PERSONNEL TRAVEL ALONE AT FULL RATES WOULD AMOUNT TO AN ESTIMATED \$116,000,000 NT ANNUALLY (A FIGURE THAT IS RISING RAPIDLY, TRIGGERED LARGELY BY INTENSIFIED COMMUNIST ACTIVITY IN SOUTHEAST ASIA) AND THIS TRAVEL HAS BEEN PROCURED FOR APPROX-

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APPROXIMATELY \$32,000,000 NT.

THE OFFER OF CHINA AIR LINES TO DO WHAT IT CAN TO FILL THIS TRANSPORTATION REQUIREMENT IS DEEPLY APPRECIATED BUT UNFORTUNATELY MUCH OF THE DEMAND CANNOT BE SO MET. MUCH OF IT EXTENDS TO AREAS BEYOND THE FAR EAST. THUS CAT HAS REDUCED FARE AGREEMENTS WITH 28 CARRIERS SERVING VIRTUALLY ALL CORNERS OF THE WORLD. RELATIONS WITH THESE CARRIERS HAVE BEEN DEVELOPED OVER A LONG PERIOD BY VIRTUE OF ONE OR MORE OF THE FOLLOWING FACTOR'S: A) INTERLINE EXCHANGE OF TRAFFIC; B) THE ABILITY TO OFFER THE OTHER CARRIER SOME FREE OR REDUCED RATE PRIVILEGES, EITHER FOR CARGO OR PERSONNEL AND C) CAT MEMBERSHIP IN IATA CLEARING HOUSE (FACILITATING CREDIT AND PAYMENT ARRANGEMENTS) AND IN IATA ITSELF (PROVIDING WORLD WIDE IDENTIFICATION). EVEN IF IT IS ASSUMED THAT IN THE LONG TERM CAL CAN DEVELOP SIMILAR RELATIONSHIPS, IT WILL NOT BE IN A POSITION TO EXTEND THEIR BENEFITS TO A NON ASSOCIATED COMPANY.

IT IS ALSO EVIDENT THAT THESE AGREEMENTS WILL NOT SURVIVE ANY COMPLETE CESSATION OF CAT'S ACTIVITY AS A SCHEDULED COMMON CARRIER. AT THAT POINT, OF COURSE, INTERCHANGE OF TRAFFIC ON ANY REGULAR BASIS WOULD CEASE, AND NO QUID PRO QUO COULD BE

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OFFERED TO INDUCE A CARRIER TO EXTEND THESE PRIVILEGES. IN MANY CASES, THE CARRIERS OWN RULES WOULD RULE OUT AN AGREEMENT. ALSO AND MOST IMPORTANTLY, UNLESS IT MAINTAINS SOME FORM OF SCHEDULED COMMON CARRIER OPERATION CAT'S ELGIBILITY FOR MEMBERSHIP IN IATA AND IN THE CLEARING HOUSE WOULD CEASE. IT MAY BE NOTED THAT OF CAT'S REDUCED FARE AGREEMENTS 25 OF 28 PROVIDE FOR CLEARING ACCOUNTS THROUGH THE CLEARING HOUSE. THUS, THE LOSS OF THESE PRIVILEGES WOULD HAVE AN IMPORTANT IMPACT ON THE ECONOMIC PROSPECTS OF AIR ASIA.

THE MINIMUM SOULTION THAT WOULD PRESERVE THE INHERENT ADVANTAGES OF THE CAT VEHICLE IS THE SCALING DOWN OF CAT'S SERVICES TO A LIMITED SCHEDULED COMMON CARRIER SERVICE BETWEEN AIR ASIA'S BASE IN TAIWAN AND THE FOCAL POINT OF ITS MAIN CUSTOMER AND PARENT COMPANY ACTIVITIES, CURRENTLY VIETNAM, LAOS AND THAILAND. THIS SERVICE WOULD BE GEARED LARGELY TO MEET THE DEMANDS FOR TRANSPORTATION OF THE PERSONNEL AND CARGO OF ASSOCIATED COMPANIES. TO ASSURE RAPID MOVEMENT AND ADEQUATE PLANNING, THESE OPERATIONS NECESSARY MUST BE CONDUCTED ON A SCHEDULED BASIS. A REQUIREMENT THAT THE SERVICE BE CONDUCTED UNDER ANOTHER NAME, WHILE NOT UNDERSTOOD, COULD NEVERTHELESS BE ACCOMODATED, IF

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*25 Feb 68* [ ]

PRIORITY DIRECTOR  
FINAL SECTION OF TWO

[ ]

[ ] SENDS

CONSIDERED VITAL (ALTERNATIVE SENTENCE MAY BE INSERTED AT THIS POINT: "ALTHOUGH THE NEED FOR ANY SUCH RESTRICTION IS NOT EVIDENT TO CAT, ITS COMMON CARRIER TRAFFIC MIGHT BE LIMITED TO CARGO AND THE REDUCED RATE PASSENGERS OF OTHER AIRLINES").

INITIAL OPERATIONS WOULD BE WITH DC-6 TYPE AIRCRAFT AT APPROXIMATELY THREE FREQUENCIES PER WEEK. WHEN KAOHSUING OPENS AS AN INTERNATIONAL AIRPORT LATER THIS YEAR SUCH FREQUENCIES SHOULD BE PERMITTED TO TRANSIT THAT POINT ENROUTE TO AND FROM TAIPEI, WITH DOMESTIC TRAFFIC RIGHTS. THIS WOULD PERMIT READY ACCESS TO TAINAN, AIR AISA'S PRINCIPAL BASE AND A SOURCE OF MUCH OF ITS CARGO AND PASSENGER TRAFFIC.

ASIDE FROM RETAINING THESE MINIMUM SERVICES ESSENTIAL TO ACHIEVEMENT OF THE OBJECTIVES OF OUR ORIGINAL PROPOSAL, ALL OTHER INTERNATIONAL AND DOMESTIC ROUTE OPERATIONS WOULD BE PROMPTLY TERMINATED. BECAUSE THE PROPOSED LIMITED SERVICES

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WOULD BE PRINCIPALLY UTILIZED FOR THE CARRIAGE OF ASSOCIATED COMPANIES' GOODS AND PERSONNEL AND BECAUSE SUCH FACILITATIONS FOR SUCH CARRIAGE ALREADY HAVE BEEN ACCORDED TO AIR ASIA BY THE GOVERNMENT AND FINALLY BECAUSE THE SERVICES WOULD BE OPERATED WITH LIMITED FREQUENCY OVER MARGINAL ROUTES, THE PROPOSED OPERATION OFFERS VIRTUALLY NO COMPETITIVE THREAT TO CAL. ON THE CONTRARY, THAT CARRIER SHOULD BENEFIT MATERIALLY FROM THE WITHDRAWAL OF CATCL FROM THE MAJOR FAR EASTERN MARKETS WHERE IT HAS DEVELOPED CHINESE IDENTIFICATION OVER THE YEARS, INCLUDING PARTICULARLY THE HEAVILY TRAVELLED SEGMENTS BETWEEN TAIPEI AND JAPAN. ADDITIONALLY, WE WOULD HOPE THAT SOME COOPERATIVE ARRANGEMENTS MIGHT BE DEVELOPED WHICH WOULD PERMIT SOME OR ALL OF THE PROPOSED SERVICES TO OPERATE AS SUPPLEMENTS TO CAL'S SCHEDULED SERVICES.

THIS SOLUTION SEEMS NOT TO DIFFER GREATLY FROM THE NON-SCHEDULED CARGO ROLE SUGGESTED FOR CATCL BY GOVERNMENT, BUT WHICH WOULD NOT FOR REASONS EXPLAINED SERVE THE ESSENTIAL NEEDS OF AIR ASIA. WHILE VIRTUALLY NON COMPETITIVE TO CAL, IT WOULD BE OF GREAT BENEFIT TO AIR ASIA IN RETAINING VALUABLE AIRLINE DISCOUNT ARRANGEMENTS, FACILITATING THE MOVEMENT OF

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AIR ASIA AND AIR AMERICA GOODS AND PEOPLE AND PERMITTING AN OPPORTUNITY FOR EARNING A MODEST AMOUNT OF SUPPLEMENTAL REVENUE TO HELP DEFRAY COSTS OF THE OPERATION. LIKEWISE IT WILL ASSIST AIR ASIA IN MAINTAINING ITS AND TAIWAN'S COMPETITIVE POSITION IN AIRCRAFT TECHNICAL SERVICES IN THE FACE OF RISING COMPETITION FROM SUCH AREAS AS BANGKOK.

FINALLY, ONE OF THE MAJOR DIFFICULTIES OF A TOTAL DISCONTINUANCE OF CATCL IS THE MATTER OF THE HUNDREDS OF EMPLOYEES WHO WOULD HAVE TO BE TERMINATED. A GREAT MANY HAVE SPENT A GOOD PART OF THEIR LIFETIME WITH CATCL OR ITS PREDECESSORS. THE SOLUTION PROPOSED HEREIN WILL ENABLE CAT TO PRESERVE IN GOOD PART ITS STAFF OF TRAINED PERSONNEL ACQUIRED OVER THE YEARS.

2. WE HAVE NO GOOD PROGNOSIS OF THE PROBABILITY OF OUR ABOVE PROPOSALS BEING ACCEPTED. PERHAPS THE CHANCE IS 50-50. CCAA IS SYMPATHETIC AND WOULD AGREE. THEY CALLED TODAY INVITING US TO SPEAK UP, DECISION IS OPEN. THOSE ABOVE MIGHT NOT AGREE WITH CAA. ON THE OTHER HAND THEY MIGHT FIND IT A WAY OUT FOR THEM AS WELL AS US RATHER THAN HAVING TO BE TOTALLY ARBITRARY.

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3. CAA'S REFERENCE TO NAME CHANGE AND REORGANIZATION PROBABLY REFERS TO HAVING A CHINESE PRESIDENT AND MAY RUN TO OWNERSHIP.

4. ADVISE, INCLUDING REGARDING ALTERNATIVE WORDING.

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