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PRIORITY DIRECTOR

SECTION ONE OF TWO

SENDS

1. THE FOLLOWING LETTER FROM MR P.K. MEI, DIRECTOR OF CATCL SALES AND SERVICES DATED 28 FEBRUARY ADDRESSED TO _____ AND COPIED TO DR WANG IS REFLECTIVE, WE BELIEVE, OF THE FEELINGS OF THE MAJORITY OF SEVERAL HUNDRED LOYAL AND AFFECTED CHINESE EMPLOYEES DIRECTLY ASSOCIATED WITH CATCL WHO HAVE SPENT MANY OF THEIR PRIME YEARS NURTURING IT IN THE FACT OF ADVERSITIES. MANY AIR ASIA EMPLOYEES PROBABLY WILL FEEL SIMILARLY AND FEAR FOR THEIR FUTURE

IN THE WAKE OF CATCL'S EFFECTIVE DEMISE. WE TRANSMIT IT AS OF POSSIBLE INTEREST TO HQS IN KNOWING THE _____ LOCAL CHINESE COMPLEXION _____

QUOTE. THE VITAL PROBLEM OF WHETHER CAT IS TO REMAIN IN BUSINESS HAS BEEN MUCH DISCUSSED FOR QUITE SOME TIME, AND THE B1018 ACCIDENT HAS BROUGHT US ADDED COMPLICATIONS AND DIFFICULTIES. IN THE COURSE OF MY FREQUENT CONTACTS AND CONVERSATION WITH OFFICIALS OF THE MINISTRY OF COMMUNICATIONS

APPROVED FOR RELEASE

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AND THE CIVIL AERONAUTICS ADMINISTRATION, I WAS GIVEN TO KNOW THAT ALL OF THEM REALIZE THE HIGHLY DELICATE NATURE OF THIS PROBLEM AND THE IMPORTANT POINT IS THAT NONE WOULD AND COULD ISSUE A WRITTEN ORDER TO SUSPEND OR TERMINATE CAT'S OPERATION. (THE REPORT THAT ONE "STRONG" MAN HAS "OBJECTED" CAT'S REORGANIZATION PLAN AND RULED "GO SLOW" ETC HAS BEEN SO FAR BASED ON VERBAL INFORMATION. THERE NEVER HAS BEEN ANYTHING WRITTEN TO CONFIRM IT.)

IT IS CLEAR THAT WHEN CAT FIRST VENTURED ITS SUGGESTION TO GRADUALLY PHASE OUT OF SCHEDULED OPERATION, THE IDEA WAS STRICTLY A WELL-INTENTIONED, CONSTRUCTIVE ONE IN THAT CAT WOULD GIVE PROFESSIONAL, TECHNICAL ASSISTANCE TO A CHINESE-OWNED AIRLINE AND THEREUPON SPARE MORE OF ITS EFFORT TOWARD BETTER SUPPORTING AIR ASIA'S OPERATION IN SOUTHEAST ASIA FOR THE CAUSE OF ANTI-COMMUNIST CAMPAIGN AS A WHOLE. UNFORTUNATELY, THIS GOOD, CONSTRUCTIVE INTENTION CAME TO BE DISTORTED BY SOME PEOPLE WHO HAVE TAKEN ITS ADVANTAGE TO ATTEMPT TO FORCE A CAT'S RETREAT. ACTUALLY THEY HAVE TRIED EVERYTHING POSSIBLE AND DONE EVERYTHING THEY COULD TOWARD SUCH AN END.

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I FULLY UNDERSTAND THAT THE MANAGEMENT IS AWARE OF THE PRESENT SITUATION AND MAY HAVE ITS OWN PLAN AND POLICY. HOWEVER, AT THIS GRAVE MOMENT, I FEEL OBLIGATED TO PRESENT MY HUMBLE POINTS OF VIEW WHICH I HAVE GATHERED FROM MY OWN SPHERE OF OBSERVATION AND JUDGMENT. FOR ONE THING, I DO FEEL THAT WE HAVE COME TO A STAGE WHERE A CLEAR-CUT DECISION MUST BE TAKEN WITHOUT HESITATION.

WE ARE NOW IN SUSPENSION OF OUR INTERNATIONAL SCHEDULED PASSENGER FLIGHTS BECAUSE WE LACK A JET LINER. OUR SUSPENSION OF FLIGHTS IS BASED ON OUR OWN ANNOUNCEMENT, AND NOT ON ANY GOVERNMENT ORDER. IN OTHER WORDS, AS SOON AS WE HAVE OUR JET PLANE, WE ARE AT LIBERTY TO RESUME OUR INTERNATIONAL SCHEDULED PASSENGER FLIGHTS AT ANY TIME. INSOFAR AS OUR ROUTING LICENSE IS STILL IN EFFECT, IT IS UNLIKELY THAT THE GOVERNMENT WOULD DISAPPROVE OR STOP US FROM RESUMPTION OF FLIGHTS. IT IS MY STRONG CONVICTION, THEREFORE, WE SHOULD IMMEDIATELY PROCURE THE JET PLANE WE NEED AND PUT IT INTO OPERATION FOR RESUMING OUR INTERNATIONAL SCHEDULED PASSENGER FLIGHTS. AT THE SAME TIME, I SUGGEST THAT WE COMPLY WITH THE CONCLUSION OF THE LATEST MEETING

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OF 3-MAN COMMITTEE TO SUBMIT A WRITTEN REPORT LISTING ALL THE DIFFICULTIES WE ARE PRESENTLY IN. THE MORE IN DETAILS OUR DIFFICULTIES ARE STATED, THE BETTER.

WHERE SUCH A WRITTEN REPORT IS CONCERNED, I SUGGEST THAT WE INCLUDE THE FOLLOWING POINTS:

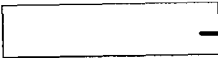
1) THERE IS NO SIGN OF AN EARLY END TO THE PRESENT VIETNAM WAR AS SOME PEOPLE SAW IT A YEAR AGO. ON THE CONTRARY, THERE IS EVERY INDICATION OF FURTHER ESCALATION OF THE WAR. AIR ASIA'S ROLE IS TO SUPPORT THE U.S. TROOPS IN AERIAL TRANSPORTATION. TO MEET SUCH AN IMPORTANT ROLE, AIR ASIA'S NEED OF SUPPORT OF THE TRANSPORTATION FROM CAT IS EVEN GREATER THAN BEFORE FOR OUR ANTI-COMMUNIST ^{AV} ~~CO~~ASE AS A WHOLE.

2) FOR MANY YEARS, IT HAS BEEN THE POPULAR HOPE AMONG BOTH GOVERNMENT AND PRIVATE CIRCLES HERE THAT CAT COULD EXPAND AND REORGANIZE INTO A MORE CHINESE-OWNED COMPANY. THIS HOPE WAS ON ITS VERGE OF FULFILMENT WHEN THE MAO-WANG GROUP OFFERED TO INVEST IN CAT AND HAVE IT REORGANIZED INTO A COMPANY WITH CHINESE CAPITAL IN THE MAJORITY. TO KEEP

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SUCH A HOPE ALIVE CAT MUST CONTINUE TO MAINTAIN ITS SCHEDULED OPERATION PENDING COMPLETION OF REORGANIZATION. IN FACT ONE BASIC TERM ON WHICH THE MAO-WANG GROUP AGREED TO INVEST IN CAT IS THAT CAT MUST MAINTAIN UNINTERRUPTED SCHEDULED OPERATION UNTIL THE REORGANIZATION IS COMPLETED.

3) CAT TODAY KEEPS A STAFF OF OVER 600. MOST OF THEM LOYAL CHINESE TECHNICIANS WHO CAME TO TAIWAN WITH THE GOVERNMENT OF THE REPUBLIC OF CHINA. IT IS AN UNDENIABLE FACT THAT THEY HAVE MADE A GREAT CONTRIBUTION TO THE DEVELOPMENT OF AVIATION INDUSTRY ON THIS ISLAND OVER THE PAST YEARS. GREAT DIFFICULTIES ARE ANTICIPATED IF CAT IS TO BE DISSOLVED AND ALL THE STAFF HAVE TO DISEMLOYED. BESIDES, CAT STAFF ARE HIGHLY TRAINED PERSONNEL WHO WOULD UNDOUBTEDLY PROVIDE THE MOST USEFUL AND VALUED ASSET WHEN ONE DAY CONTINENTAL CHINA IS RECOVERED AND REBUILT. IF

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PRIORITY DIRECTOR

FINAL SECTION OF TWO

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WE LET OUR STAFF GO AND DISSIPATE, APPARENTLY IT WOULD RUN AGAINST THE GOVERNMENT'S BASIC POLICY OF "PERSONNEL PRESERVATION." IT IS TRUE THAT CHINA AIR LINES HAVE AGREED TO GIVE EVERY PRIORITY IN EMPLOYING CAT STAFF IN CASE OF CAT DISSOLUTION. BUT FACTUAL DIFFICULTY EVIDENTLY REMAINS AS CAL COULD ONLY DO VERY LITTLE TO HELP BUT COULD NEVER ABSORB ALL CAT STAFF.

4) ANOTHER DIFFICULTY, WHICH IS NOT EXACTLY CAT'S ALONE, LIES IN COMPETING WITH THE FAST INCREASING FREQUENCIES OF ALL THE FOREIGN CARRIERS SERVING TAIWAN TODAY. THIS I BELIEVE IS ALSO A STRONG POINT FOR PRESENTATION IN OUR REPORT TO CCAA.

IT IS A COMMONLY KNOWN FACT THAT AIR PASSENGER TRAFFIC TO AND FROM TAIWAN HAS BEEN RAPIDLY ON THE INCREASE. TO MEET SUCH RAPIDLY RISING TRAFFIC, AS WELL AS TO SUPPORT THE GOVERNMENT'S ESTABLISHED POLICY OF PROMOTION OF TOURISM, CARRIERS SERVING THIS ISLAND HAVE BEEN CONTINUOUSLY INCREASING THEIR FREQUENCIES. AS OF THE PRESENT, JAL OPERATES 19 FLIGHTS TO TAIPEI WEEKLY AND 17 OF THEM CONTINUE TO GO ONWARD BEYOND TAIPEI ON THE BASIS OF THE 5TH RIGHT OF

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FREEDOM. IN OTHER WORDS JAL IS ENJOYING ITS TRAFFIC RIGHT TO TAIWAN ON A FREQUENCY OF 36 FLIGHTS PER WEEK. CATHAY OPERATES 15 FLIGHTS NORTHBOUND AND 16 FLIGHTS SOUTHBOUND, TOTALLING A FREQUENCY OF 31 WEEKLY IN TERMS OF TRAFFIC RIGHT. THAI INTERNATIONAL ALSO OPERATES 10 FLIGHTS WEEKLY TO TAIWAN, OF WHICH SEVEN FLIGHTS CONTINUE BEYOND TAIPEI, RESULTING A USE OF TRAFFIC RIGHT AT 17 FLIGHTS WEEKLY. MALAYSIA-SINGAPORE AIRLINES MAINTAIN SEVEN FLIGHTS WEEKLY TO AND FROM TAIWAN. WHERE CHINESE-FLAG CARRIERS ARE CONCERNED, COMBINED FREQUENCIES OF BOTH CAL AND CAT ARE ONLY 12 FLIGHTS TO JAPAN, 19 FLIGHTS HONGKONG (FOUR OF THEM CONTINUING ONWARD BEYOND HONGKONG, 3 FLIGHTS TO THAILAND (ONLY ONE OF THEM GOING BEYOND BANGKOK), AND ONLY 2 FLIGHTS TO SINGAPORE.

FROM THE ABOVE, IT IS OBVIOUS THAT ALL THE FOREIGN CARRIERS ARE OUT-CARRYING THEIR TRAFFIC RIGHT, AND THEIR COMBINED FREQUENCIES HAVE FAR EXCEEDED THE TOTAL FREQUENCIES OF THE TWO CHINESE-FLAG CARRIERS. THE CONTINUATION OF CAT FLIGHTS WILL DEFINITELY SUPPORT CAL'S OPERATION, AND THE TWO CHINESE-FLAG CARRIERS WILL MUTUALLY SUPPORT AND FEED

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EACH OTHER IN COMPETING AGAINST THE FOREIGN CARRIERS. THIS SUPPORTING ROLE ON THE PART OF CAT CAN BE READILY SUSTAINED BY STATISTICAL FIGURES OF CAT SALES ON CAL. (SINCE CAL COMMENCED ITS INTERNATIONAL SCHEDULED OPERATION IN LAST APRIL, CAT HAS SOLD OVER US\$200,000 ON CAL CARRIAGE OR FIVE TIMES AS MUCH AS WHAT CAL SOLD ON CAT.)

FURTHERMORE, I'M PLEASED TO REPORT THAT WORKING MORALE OF OUR STAFF REMAINS HIGH DESPITE THE RECENT B 1018 ACCIDENT. OUR PEOPLE ARE ALL EAGERLY LOOKING FORWARD TO EARLY RESUMPTION OF INTERNATIONAL SCHEDULED OPERATION, AND STAY LOYAL TO THE COMPANY. ALTHOUGH WE ALL KNOW THAT CAL HAS BEEN AT ALL TIMES TRYING TO LURE AWAY OUR STAFF WITH HIGHER PAY, I MUST SAY THAT THEY HAVE NOT BEEN SUCCESSFUL. THUS FAR, WE HAVE LOST TO CAL NOT MORE THAN 10 PEOPLE SYSTEM-WIDE AND NONE OF THEM ARE CONSIDERED KEY PERSONNEL OF OURS.

SALES-WISE, WE HAVE BEEN ALWAYS TRYING TO DO BETTER DESPITE ALL THE HANDICAPS. AS LATEST AS IN JANUARY 1968 OUR TOTAL SALES OF ALL TRAFFIC REGISTERED US\$488,081 TO COMPARE WITH US\$532,594 IN JANUARY OF 1967. IN OTHER

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WORDS, WE UNDER-SOLD ONLY US\$44,413 OR 8.34 PERCENT, EVEN AFTER LOSSING MNL AND SEL SERVICES. IT WOULD BE LOGIC TO SAY THAT THIS LOSS OF SALES HAVE BEEN WELL COMPENSATED BY THE REDUCED PAYROLL FROM NON-REPLACEMENT OF STAFF WHO LEFT OUR EMPLOY DURING 1967, BY LESS SPENDINGS ON ADVERTISING, RESERVATIONS AND OTHER RELEVANT EXPENSES.

IN CONCLUSION OF THE ABOVE, ALLOW ME TO REITERATE MY CONVICTION THAT AS SOON AS WE GET OUR REPLACEMENT JET AND RESUME INTERNATIONAL SCHEDULED PASSENGER FLIGHTS, CAT WILL BE ON ITS WAY AGAIN. IT WILL BE UP TO EVERY ONE OF US TO BRING BACK THE GOOD OLD NAME WHICH CAT RIGHTLY DESERVES. P.K. ME1. UNQUOTE

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