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PRIORITY DIRECTOR

SECTION ONE OF TWO

_____ SENDS
REF A. DIRECTOR _____
B. _____

1. FOLLOWING IS A REWRITE OF REF B DRAFT IN THE LIGHT

REF A DRAFT. WE WOULD APPRECIATE HQS EARLY COMMENTS ON IT. WE HAVE TOLD CCA WE ARE TRYING HARD TO GET OUR "LIST" TO THEM ON 1 MARCH AND HOPEFULLY NLT 2 MARCH THEIR DEADLINE. THEY HAVE AGREED, SAYING ^{THEY} THEY FULLY APPRECIATE THE DIFFICULTIES OF DEVELOPING SUCH A PAPER SO QUICKLY, WHEN WE HAVE SO MUCH ELSE TO HANDLE AT THE SAME TIME. IT SEEMS OBVIOUS IN DISCUSSIONS ABOUT THE PAPER THAT ^H THEY ARE PROMPTING, AND EXPECTING, A STRONGER PIECE OF PAPER THEN THE ONE WE ARE NOW PREPARING TO HAND THEM.

2. WE ASSUME _____ IS BEING KEPT UP TO DATE AND PARTICIPATING.

3. QUOTE STATEMENT OF PROBLEMS FLOWING FROM CURTAILMENT OF CAT SERVICES AND A PROPOSAL:

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APPROVED FOR RELEASE
 DATE: 05-May-2009

THE PROBLEMS ASSOCIATED WITH THE CURTAILMENT OF
CAT'S SERVICES CAN BEST 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

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PROPERTY OF BOTH ASSOCIATED COMPANIES THROUGHOUT THE FAR EAST.

THUS CATCL'S TWICE WEEKLY ALL CARGO SERVICE CURRENTLY CARRIES A LARGE VOLUME OF CARGO OF ASSOCIATED COMPANIES FROM TAIWAN TO SOUTHEASTASIA POINTS IN ADDITION TO THE QUANTITY CARRIED ABOARD PASSENGER FLIGHTS. ALSO, FOR THE LAST NINE MONTHS OF 1967, FOR EXAMPLE, SOME 65 PER CENT OF ALL CATCL PASSENGERS ON THE BANGKOK/HONG KONG SEGMENT CONSISTED OF EMPLOYEES OF ASSOCIATED COMPANIES.

BEYOND THIS CATCL HAS BEEN THE VEHICLE THROUGH WHICH IMPORTANT REDUCED FARE ARRANGEMENTS 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.

THE OFFER OF CHINA AIRLINES TO DO WHAT IT CAN TO FILL THIS TRANSPORTATION REQUIREMENT IS APPRECIATED

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BUT UNFORTUNATELY MUCH OF THE DEMAND CANNOT BE SO MET SINCE 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, AND EVEN IF IT IS ASSUMED THAT IN THE LONG TERM CAL MAY DEVELOP SIMILAR RELATIONSHIPS, IT WILL NOT BE IN A POSITION TO EXTEND THEIR BENEFITS TO A NON-ASSOCIATED ENTERPRISE. NOR COULD CAL LOGICALLY BE EXPECTED TO GEAR ITS SERVICES TO THE NEEDS OF A PARTICULAR CUSTOMER, PAYING ONLY REDUCED RATES; ITS INTERESTS WOULD UNDERSTANDABLY LIE IN MAXIMIZING THE APPEAL OF ITS SERVICES TO THE TRAVELING PUBLIC.

IT IS ALSO CLEAR THAT ANY EFFORT TO SUBSTITUTE AIR ASIA AND AIR AMERICA AS NON-COMMON CARRIERS FOR CATCL AS THE PARTY TO THESE ARRANGEMENTS WOULD RESULT IN LARGE-SCALE CANCELLATIONS THEREOF, IN MANY CASES BECAUSE OF SPECIFIC PROHIBITIONS IN THE OTHER CARRIERS' POLICIES. WE WOULD THEREFORE PROPOSE AS A SOLUTION TO THE FOREGOING REQUIREMENTS THE FOLLOWING: ~~SECRET~~

A) RENAMING AND REORGANIZATION OF CATCL TO DISTINGUISH ITS NEW ROLE FROM ITS PAST ACTIVITIES;

B) CONTINUANCE OF CATCL AS REPOSTURED AS AN AUTHORIZED NON-SCHEDULED CARGO CARRIER, WITH AUTHORITY TO TRANSPORT THE PERSONNEL OF ASSOCIATED COMPANIES ON A NON-REVENUE BASIS.

C) RELINQUISHMENT OF ALL SCHEDULED INTERNATIONAL AND DOMESTIC ROUTE AUTHORITY SUBJECT ONLY TO THE RIGHT TO OPERATE ON A SIMILARLY NON-SCHEDULED BASIS BETWEEN TAIPEI AND TAININ (AND KAOHSIUNG).

IT SHOULD BE EMPHASIZED THAT IMPLEMENTATION OF THIS REVISED CATCL ROLE WILL REQUIRE MAXIMUM ASSISTANCE OF THE GOVERNMENT TO ASSURE THAT OTHER GOVERNMENTS IN THE FAR EAST DO NOT SO RESTRICT THE OPERATIONS AS TO NEGATE THEIR UTILITY TO AIR ASIA AND ASSOCIATED COMPANIES. CLEARLY AIR ASIA WOULD SUFFER A COMPETITIVE DISADVANTAGE VIS-A-VIS ANY ENTERPRISE LOCATED IN THAILAND, FOR EXAMPLE, UNLESS IT CAN DEPEND UPON FAST, WELL PLANNED CONNECTIONS WITH THE SOUTHEAST ASIA CENTERS THAT PRODUCE THE DEMAND FOR TECHNICAL AERONAUTICAL SUPPORT. AT THE SAME TIME, THESE

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PRIORITY DIRECTOR

FINAL SECTION OF TWO

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29 Feb 68

SOUTHEAST ASIA GOVERNMENTS, ZEALOUS TO PROTECT THE INTERESTS OF THEIR OWN CARRIERS, MAY ATTEMPT UNILATERALLY, UNLESS DISSUADED THROUGH GOVERNMENT-TO GOVERNMENT CHANNELS, TO RESTRICT OR PREVENT ENTIRELY CARRIAGE EVEN OF NON-REVENUE TRAFFIC OF ASSOCIATED COMPANIES BY CATCL IN ITS MODIFIED ROLE. CATCL MUST, OF COURSE, RELY UPON THE GOVERNMENT TO REPRESENT THE SCOPE OF ITS AUTHORITY TO SOVEREIGN FOREIGN GOVERNMENTS AND TO USE THE GOVERNMENT'S BEST EFFORTS TO ASSURE THAT AUTHORIZED TRAFFIC CARRIED BY CATCL IS ACCORDED ^{D THE PRIVI} ~~5-3 04010~~ LEGES OF ENTRY AND EXIT AT FOREIGN POINTS NORMALLY EXTENDED BY INTERNATIONAL CUSTOMS.

THESE PRIVILIGES MUST INCLUDE:

A) EXPEDITIOUS ENTRY, FREE OF OTHER THAN NORMAL CUSTOMS AND QUARANTINE FORMALITIES, OF CARGO, BOTH REVENUE AND NON-REVENUE; AND

B) EXPEDITIOUS ENTRY, FREE OF OTHER THAN NORMAL IMMIGRATION, CUSTOMS AND QUARANTINE FORMALITIES, OF NON-REVENUE PASSENGERS OF CATCL AND ASSOCIATED COMPANIES.

THIS SOLUTION OBVIOUSLY MARKS A SEVERE CURTAILMENT OF CATCL'S HISTORIC ACTIVITIES AND MAY BE, FOR LACK OF HISTORIC

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EXPERIENCE, AN IMPERFECT ONE. WE WOULD HOPE THAT THE GOVERNMENT WOULD RECOGNIZE ITS EXPERIMENTAL NATURE AND IN THE FUTURE ENTERTAIN ANY REASONABLE APPLICATION FOR ADJUSTMENTS, DEPENDING UPON THE ACCUMULATION OF OPERATING DATA AND THE CIRCUMSTANCES THEN PERTAINING.

THIS SOLUTION DIFFERS IN ONLY MINOR DEGREE FROM THE FACILITATIONS WHICH THE GOVERNMENT HAS INDICATED MIGHT BE ACCORDED AIR ASIA BUT WHICH, FOR THE REASONS ABOVE INDICATED, WOULD NOT MEET THE BASIC REQUIREMENTS, PARTICULARLY IN THE AREA OF REDUCED RATE TRANSPORTATION. WHILE VIRTUALLY NON-COMPETITIVE TO CAL, IT WOULD BE OF GREAT BENEFIT TO AIR ASIA IN FACILITATING THE MOVEMENT OF ITS OWN AND ITS PARENT COMPANY'S GOODS AND PEOPLE.

FINALLY, A BASIC DIFFICULTY OF A TOTAL DISCONTINUANCE OF CATCL IS THE MATTER OF THE HUNDREDS OF EMPLOYEES WHO WOULD HAVE TO BE TERMINATED. MANY HAVE SPENT A GOOD PART OF THEIR WORKING LIFETIMES WITH CATCL OR ITS PREDECESSOR. THE SOLUTION PROPOSED HEREIN WILL ENABLE CATCL TO PRESERVE A PART OF ITS STAFF OF TRAINED PERSONNEL ACQUIRED OVER THE YEARS, AND DIMINISH THE LOCAL IMPACT OF LARGE SCALE

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PERSONNEL TERMINATIONS.

YOU WILL UNDOUBTEDLY APPRECIATE THAT TAIWAN IS NOT IN THE BEST GEOGRAPHIC LOCATION TO SUPPORT THE SOUTH EAST ASIA ACTIVITIES OF AIR ASIA'S BEST CUSTOMERS, AIR AMERICA, AND ITS CUSTOMERS FOR AIRCRAFT MAINTENANCE, PRINCIPALLY THE UNITED STATES AIR FORCE. TO REMAIN COMPETITIVE FOR THIS BUSINESS, AND ESPECIALLY SO AGAINST GROWING CAPABILITIES IN SUCH PLACES AS THAILAND, AN EFFECTIVE LINK FOR THE RAPID AND CONVENIENT TRANSPORT OF THE CONCERNED GOODS AND PEOPLE BETWEEN TAIWAN AND SOUTH EAST ASIA, SUCH AS THAT PROPOSED HEREIN FOR A REORGANIZED CATCL, IS VITAL. UNQUOTE.

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