

**SAT Briefing Paper****Special Assistant to the Deputy  
Director for Support****11 September 1968****Acting Deputy Director for  
Support****Executive Director-Comptroller  
Room  Hqs****1 to 2 -**

**This may not have all the information you had in mind. Please let us know if additional points need to be covered.**

**John W. Coffey****Att  
Briefing Paper**A-DD/S:JWC/ (11 Sept 68)**Distribution:**

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\*1 cy of SAT Briefing Paper was forwarded to ER on  
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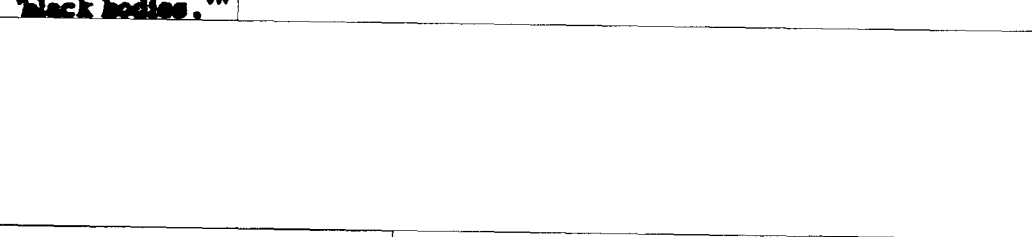
Briefing Paper to Amplify ExComAir's Recommendation Regarding Equipment for Southern Air Transport (SAT)

Current Assets

	<u>Pacific Division</u>	
B-727	2 (leased)	
DC-6	1	
DC-7	-	
DC-4	-	
C-46	-	

Current Activity

SAT (Pacific Division) assets are currently committed to a Military Airlift Command (MAC) contract and support of the clandestine services. This latter support is reflected in FE Division's statement of requirements: "SAT (Pacific Division) operations through the Far East presently make a relatively small but significant contribution to FE Division air support. This support is in the form of logistics lift between Okinawa and Southeast Asia and in the way of discreet movement of project personnel, cargo, and black bodies."



The guideline or goal of the Department of Defense is that carriers should have 60% commercial business and 40% military. This allows for a reserve capacity for MAC contracting in the event of an emergency.

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Necessity [redacted]

The operational use [redacted] is based solely on contingencies. It is necessary, however, in order to retain the Supplemental Certificate of Convenience and Necessity by which SAT (Pacific Division) is able to operate in the Far East. The Pacific Division cannot continue to function without [redacted]

Financing

Lockheed has agreed to accept the two DC-7's on a turn-in basis and to finance the purchase of one L-100-20 on a seven year payout. The second L-100-20 would be purchased by Air America with money borrowed from the Manufacturers Hanover Bank and Trust Company. The aircraft would then be leased to SAT. It will be recalled that the B-727 aircraft were purchased with funds borrowed from the Manufacturers Hanover Bank and Trust Company. Air America in that instance had \$19 million of borrowing authorization and this has been reduced through payments to about \$6 3/4 million at this time. Existing and anticipated business [redacted] [redacted] indicates that the purchase of these two aircraft can easily be paid off in the next ten years with adequate annual income after taxes.

Assessment of Political Risks

The acquisition of two L-100-20 aircraft is a one for one replacement of obsolete equipment. Lockheed is manufacturing 70 of these aircraft so that two in operation by SAT will not be overly conspicuous. Indeed, continuing operation of the obsolete DC-7's may attract more attention. As to the competitive posture of SAT, the introduction of much more efficient equipment will increase their commercial posture. There is no intent, and indeed SAT will assiduously avoid, entering the highly competitive passenger charter arena. SAT has gained considerable expertise in the transport of livestock which is business that is not eagerly sought by other carriers. The industry forecast of the growth of air cargo business indicates that the market will be expanding as fast as the air facilities to meet it. This means that the aggressive supplemental carriers will be able to focus on new business for expansion rather than being overly concerned about taking business from competitors. On balance, we consider the political risks to be small.

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**Attachments:**

- A. SAT Six Months Report - January through June 1966, 67, and 68
- B. Memorandum for Chairman, ExComAir fm Chief  dtd 27 May 68
- C. L-100-20 Operating Forecast
- D. SAT Cash Flow Projection for Ten Years

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