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ECONOMIC INTELLIGENCE REPORT

**POLICIES AND CAPABILITIES
OF POLISH CIVIL AVIATION**



CIA/RR 59-21

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CENTRAL INTELLIGENCE AGENCY

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W A R N I N G

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Office of Research and Reports

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FOREWORD

In civil aviation, as in other economic activities, the Sino-Soviet Bloc is increasing its competition with the Free World. The growing interest of Communist leaders in penetrating the airspace of the Free World, together with the recent development of new, high-performance transport aircraft in the USSR, has spurred the need for a more intensive study of developments in civil aviation in the Sino-Soviet Bloc.

It is important, therefore, to evaluate the imminent expansion of the civil air networks of the Sino-Soviet Bloc in relation to those of the Free World and the effect of such expansion on the position of the US as a leader in world aviation. Poland has been chosen as the second of the European Satellites to be studied because, like Czechoslovakia, it occupies a pivotal position in civil aviation both within the Bloc and between the Bloc and the Free World. Poland, however, lacks both the advantages of Czechoslovakia in geographic position as an important exchange point and the potential of the Czechoslovak State Airlines for competition with the Free World.

This report has been coordinated within CIA but not with the other agencies of the US Intelligence Board.

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POLICIES AND CAPABILITIES OF POLISH CIVIL AVIATION*

Summary

In the field of civil aviation, Poland ranks second in importance only to Czechoslovakia among the European Satellites. Polish Airlines (Polskie Linie Lotnicze -- LOT), however, is a small operation not comparable in performance with even a local service carrier in the US.** Like Czechoslovakia, Poland occupies a favored position within the Sino-Soviet Bloc, having priority in receiving new types of aircraft from the USSR and occupying a pivotal position in civil aviation both within the Bloc and between the Bloc and the Free World. Poland became a member of the International Civil Aviation Organization (ICAO) when it was formed and LOT is a long-standing member of the International Air Transport Association (IATA). As a member of ICAO and IATA, LOT shares routes with Western European airlines and is faced with the necessity of meeting the economic competition of the West. On the other hand the position of LOT in the coordinated air network of the Bloc is circumscribed by joint action taken at the spring and fall meetings of the Satellite airlines to coordinate schedules within the Bloc.

Up to 1958 the US-UK Satellite Air Policy and the restrictions imposed by COCOM had denied Western aircraft to the Sino-Soviet Bloc, and the standard aircraft built by the USSR for airlines of the Bloc were not suited to long international flights. In 1957, however, with the sanction of COCOM, LOT acquired 3 second-hand Convair 240 aircraft built in the US. With this equipment and Soviet Il-14's,*** LOT instituted flights to London and Athens. Recently, officials of LOT have mentioned the possibility of buying Viscount turboprop transports or Comet 4-engine jets from the UK, Lockheed Electras from the US, or Il-18's**** from the USSR. Lack of foreign exchange and the fear that the flow of spare parts for Western aircraft might be stopped may inhibit such purchases from the West. On the other hand,

* The estimates and conclusions contained in this report represent the best judgment of this Office as of 15 April 1959.

** Allegheny Airlines, with 22 aircraft of the DC-3 type, transported 450,000 passengers in 1957, whereas the peak for LOT in 1957 was 224,300.

*** The Il-14 is a reciprocating twin-engine transport with a capacity of 21 to 26 passengers.

**** The Il-18 (Moskva) is a 4-engine turboprop transport with a capacity of 75 to 100 passengers.

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rumors of unsuccessful flight tests of the Il-18 may discourage Polish acquisition of the transport from the USSR. Naturally the Poles are hesitant about making the extensive financial commitments necessitated by modern, high-performance aircraft, without being sure of performance and traffic potential. Unless modern aircraft are acquired, however, LOT will be unable to compete effectively on the international routes now scheduled and will find itself restricted to short hauls and chartering operations where the price of transportation outweighs considerations of speed and comfort.

The domestic flights of LOT, which average only 260 kilometers (162 statute miles) in length, are too short to be economical and have shown large deficits for several years. In 1956 the Parliamentary Committee for Transportation took steps to "modernize" air transport. In addition to extending international routes, the committee undertook to make domestic services profitable. The tariff in effect from 1954 to 1957, which was based on first-class railroad fares, attained a high load factor but brought in only 49 percent of expenditures. In November 1957 the fares were increased by about 130 percent, and the result was a reduction of more than 70 percent in the number of passengers carried, and the abandonment of some routes followed. On 1 February 1958 the fares were lowered to about 60 percent above those in effect before November 1957. The load factor has not been reported since that time, but a Polish writer concludes that no tariff measures could assure the profitability of domestic air transport in Poland, and it is assumed that the line is still operating at a loss.

Since 1945, LOT has suffered from a conflict in operational procedures, and its efficiency has been impaired by the heterogeneous character of the aircraft received from the USSR and the West. The Five Year Plan (1956-60) envisaged an increase of 50 percent in the ton-kilometer volume of air transport, dependent largely on the development of international routes. Indications are that hesitation in acquiring new types of aircraft has prevented LOT from registering increases in ton-kilometer performance. The ultimate accomplishment of the 5-year objective will necessitate not only the introduction of modern aircraft on the international routes of LOT but also the improvement of the Warsaw airport to afford safety to airlines flying into Poland under reciprocal air agreements.

LOT, in short, has little potential for competition in world civil aviation, and its initiative is hampered further by the limitations of Polish foreign exchange and by the close coordination of the air operations of the Sino-Soviet Bloc.

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I. Developments in Civil Aviation.

A. Before 1954.

1. General.

The development of civil aviation in Poland has paralleled political changes in the government. The Polish Airlines (LOT), which discontinued operations in 1939 under the Nazi occupation, resumed its activities in 1945. Immediately after World War II the USSR began to influence developments in civil aviation by exerting pressure on LOT to purchase Soviet aircraft and to employ Soviet advisers on detail. At the same time, the Poles were acquiring Western aircraft such as the DC-3 and the French Languedoc transport. In April 1945 the Polish government-in-exile had become a member of the International Civil Aviation Organization (ICAO). LOT subsequently became a member of the International Air Transport Association (IATA). The cooperative relationship between LOT and airlines of the West balanced Soviet influences, and the Polish inventory of aircraft was divided about equally between Soviet and Western aircraft.

2. Effects of the Communist Regime.

From October 1947, when the Communists came into complete control of Poland, to 1954 the aviation policy of Poland was one of collaboration with the airlines of the Sino-Soviet Bloc and partial isolation from the West. Two factors influenced developments in civil aviation in the Bloc during this period: (a) the increasing coordination of air services throughout the Bloc and (b) the US-UK Satellite Aviation Policy, which was to deny air equipment from Western sources to the Bloc and to restrict the airlines of the Bloc to their own airspace.

In 1949 the USSR allotted Poland the Il-12,* and since 1950 economic collaboration with other members of the Soviet Bloc has fostered the close coordination of air networks and the standardization of equipment and operational procedures. At the end of 1950, LOT was serving the European Satellite capitals of Berlin (Schoenefeld), Budapest, Bucharest, and Prague. It also had routes to the West, including scheduled flights from Warsaw to Brussels, Paris, and Stockholm. During 1951-54, LOT retained its routes to the West and extended its services within the Bloc. A route to Sofia was added, and in 1951 the first coordinated program for scheduling of Bloc airlines was adopted.

* A reciprocating, 2-engine transport designed in 1947 as a replacement for the DC-3 but carrying only 18 passengers.

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3. Effects of Change in Civil Air Policy of the USSR.

Until late 1954 the USSR had excluded from its airspace all foreign airlines, including the various East European carriers in which the USSR shared ownership. Although LOT did not fall within the latter category, the operations of Polish civil aviation were circumscribed both by their dependence on the USSR for aircraft and auxiliary equipment and by the close coordination of routes within the Sino-Soviet Bloc. Then, in a reversal of policy, the USSR withdrew from ownership in joint airlines; concluded reciprocal air agreements with the European Satellites, Communist China, and North Korea; and awarded routes to Moscow not only to the Satellites but also to the airlines of Finland and the Scandinavian countries.

The changes in Soviet policy also resulted in an exchange of rights among the European Satellites and in the allotment to the Satellites of Soviet aircraft of the same type as that used by the Soviet carrier, Aeroflot.* Poland, like Czechoslovakia, received the new Soviet Il-14 to fly the route to Moscow shared with Aeroflot.

B. Changes in 1955-58.

1. Coordination of European Satellite Operations.

Beginning in 1955 the operations of LOT were coordinated more closely with those of other European Satellites. The other airlines represented in the coordinated program for civil aviation are Deutsche Lufthansa, East Germany; the Czechoslovak State Airlines (Ceskoslovenske Statni Aerolinie -- CSA); the Hungarian airline (Magyar Legikozlekedesi Vallalat -- MALEV); the Bulgarian carrier (Transportno Aviatsionnoye Bolgaro-Sovetskoye Obshchestvo -- TABSO)**; and the Rumanian carrier (Transporturi Aeriene Romine -- TAROM). The first step in coordination was to arrange for the airline of each country to make a circuit of several major cities, instead of single-stop round trips, in order to economize on aircraft and gasoline. 1/***

Since the inception of the program, representatives of the European Satellite airlines have met twice a year with officials of Aeroflot. These spring and fall meetings apparently have resulted

* Aeroflot is the trade name of the Soviet Civil Air Fleet (Grazhdanskiy Vozdushnyy Flot -- GVF).

** The airline retains the name indicating joint ownership by the USSR and Bulgaria, even though the USSR withdrew from the company in 1954.



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in the approval of summer and winter schedules for the group, as well as in the improvement of procedures that would bring the airlines of the Bloc more nearly into accord with standards which have been approved by ICAO and are used outside the Bloc.

In September 1957, representatives of the six European Satellite airlines, at a meeting attended by a representative of Aeroflot as an observer, concluded an agreement for technical-scientific collaboration. 2/ The provisions of the agreement are not available but reportedly were based on a study of the commercial, financial, and technical activities of the six airlines during the first half of 1957. Early in 1958, detailed measures were adopted to cover the development of routes, interline traffic, and advertising, 3/ moves obviously designed to foster the general drive by the airlines of the Sino-Soviet Bloc to penetrate the airspace of the Free World. A pooling arrangement adopted at the same conference led to the establishment of a coordinated airline network analogous to the European Consortium proposed by Italy to the Council of Europe in 1951.

It has been the custom of European airlines to share a route by giving each carrier an equal number of flights. For example, Poland and Czechoslovakia traditionally have flown the route to Zurich as follows: LOT shared the segment Warsaw to Prague with CSA, and Swissair flew the Prague to Zurich section with a frequency which permitted connections with both CSA and LOT. 4/ With the advent of jet aircraft, however, certain airlines in Europe and the US have worked out programs for pooling of aircraft. One of the recent agreements is that concluded between Swissair and SAS (Scandinavian Airlines System) by which SAS will lease from Swissair 2 of the 5 Convair 880 jet aircraft to be delivered in 1960. SAS, in turn, will lease to Swissair 4 of the 16 Caravelles now on order. All Caravelles are to be serviced in Scandinavian shops and all Convairs in Switzerland, thus reducing costs of maintenance. European carriers also have resorted to joint financing, the maintenance of stocks of spare parts, the pooling of revenues for certain routes, and the joint operation of sales offices. 5/

In July 1958, at a conference on civil aviation held in Dresden on the initiative of the USSR, each of the European Satellite airlines was assigned a role in keeping with capabilities of the parent country. Rumania and Bulgaria, which had the lowest capabilities for the development of civil aviation, were said to be limited to repair work. 6/ In August 1958, at a meeting held in Budapest, the group attempted to extend operations outside the Bloc by including Austria as a participant in a southeast European air pool. 7/

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2. Expansion Beyond Airspace of the Bloc.

The reversal of Soviet policy in 1954 included not only the liberalization of entry into Soviet airspace by the European Satellite and Western carriers but also launched a vigorous campaign to extend the routes flown by Communist airlines into Western Europe and the Middle East.

Early in 1956, Poland began to implement bilateral agreements which resulted in the establishment of routes to Yugoslavia, Austria, Denmark, the UK, and Greece. The international route-kilometers flown increased from 7,731 kilometers (km) in 1956 to 8,070 in 1957 and to 10,407 in 1958. 8/

This expansion was accompanied by advertising,* hitherto stigmatized by Communist propaganda as a capitalist weapon. Revised rates of foreign exchange were offered prospective travellers to encourage a greater flow of visitors. A tourist rate of 24 zlotys to US \$1 was offered in Poland compared with the official rate of 4 zlotys to US \$1. The acquisition of foreign exchange was a major objective in expanding the operations of the airlines of the Sino-Soviet Bloc into Western airspace, although the manager of LOT claims to have made a small profit also in international operations during 1957. 9/

II. Civil Air System.

A. Organization.**

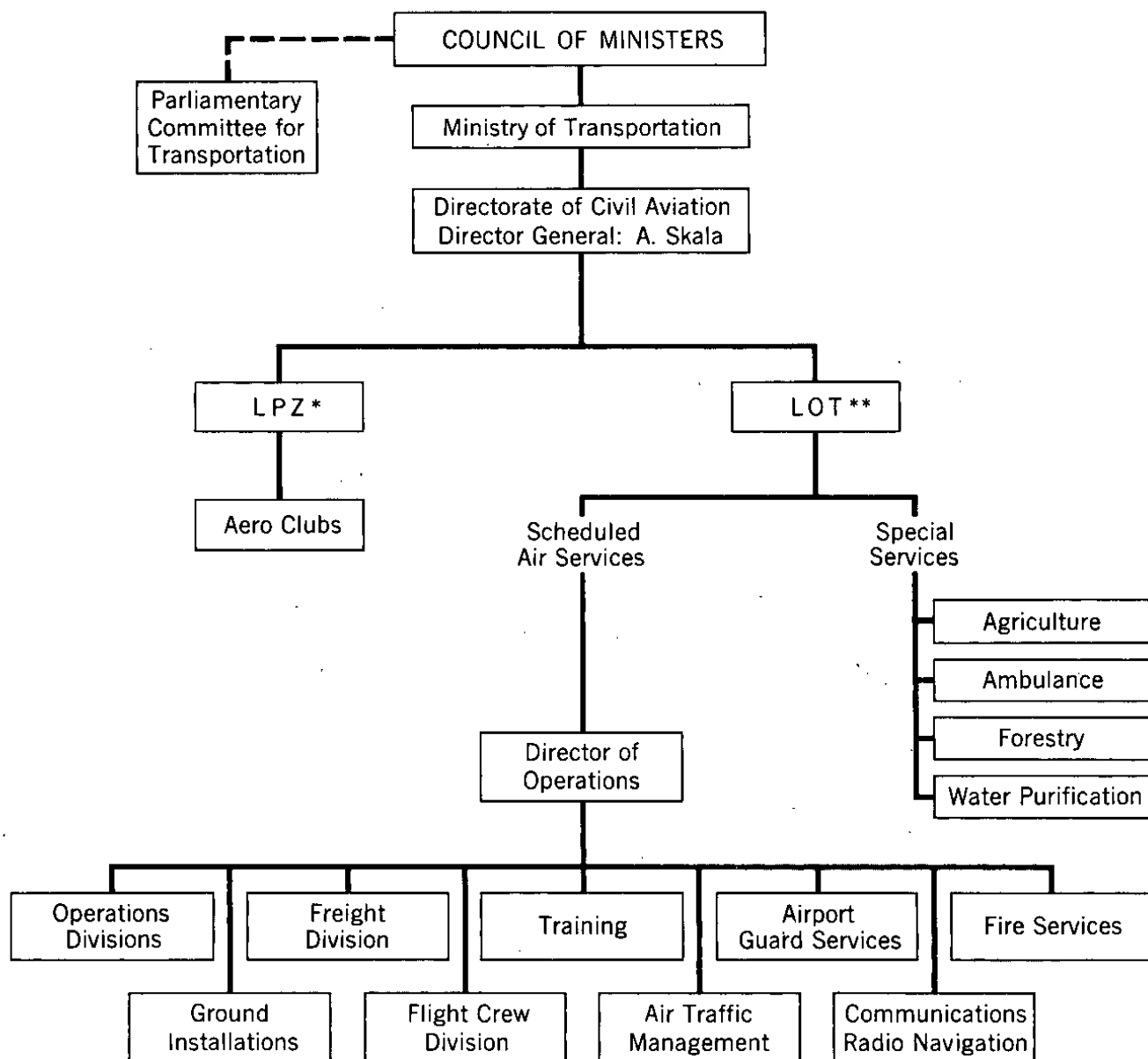
LOT is a state enterprise which is subordinate to a directorate of civil aviation under the Ministry of Transportation, and its organizational structure has been changed frequently. From 1945 to June 1949 the civil airlines were combined with other forms of transport under the Ministry of Transportation. 10/ In June 1949 the Central Directorate for Civil Aviation was established under the Ministry of Transportation. 11/ In February 1951 the Ministry of Transportation was split into the Ministry of Railroads and the Ministry of Highway and Air Transport. 12/ The latter ministry was placed in control of (1) construction, maintenance, and operation of all public roads and airfields and (2) the issuance of regulations with regard to road and air traffic. 13/ In March 1957 the Council

* Aeroflot set the example by advertisements in the New York press.

** For a chart showing the organization of Polish civil aviation, see Figure 1, following p. 6.

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Poland: Organization of Civil Aviation



*Liga Przyjaciół Żołnierza—League of the Friends of the Soldier (LPZ)

**Polskie Linie Lotnicze—Polish Airline

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of Ministers again merged all forms of transport in order to reduce the number of persons employed and to coordinate plans for investment. 14/ This reorganization was accompanied by a policy adopted by the Parliamentary Committee for Transportation, which took steps to modernize air transport. The program for modernizing LOT has emphasized international routes and concomitant needs stemming from the expansion of service outside the Bloc. Among the principal requirements for such expansion the Committee cited the need for new aircraft suited to long-distance routes and the revision of accounting and planning so as to improve operational efficiency and thus permit competition with foreign airlines. 15/

In addition to its control of LOT, the Directorate of Civil Aviation has the following responsibilities 16/: (1) the supervision of Aero clubs,* (2) the maintenance of liaison with other government agencies, (3) the issuance of air crew licenses, (4) the signing of official aviation contracts, and (5) the representation of Poland in ICAO. Like other Communist airlines, LOT has a dual role -- the operation of a commercial scheduled air carrier and the performance of special services to agriculture, public health, forestry, and water purification.

B. Routes.

1. Domestic.**

Poland offers frequent service on domestic flights from Warsaw to Gdansk/Gdynia, Krakow, Lodz, Poznan, Rzeszow, Szczecin, and Wroclaw. 17/ The number of flights ranges from 1 to 4 daily, and the density of the air route network is 0.57 km per 100 square kilometers. The total length of the unduplicated domestic network was 1,770 km in 1958. 18/

In 1956 the passenger load factor ranged from 80 to 90 percent, being highest on the routes from Warsaw to Krakow and Warsaw to Gdansk and lowest on routes from Warsaw to Rzeszow and Warsaw to Bydgoszcz. 19/ As a whole, however, these domestic operations lost money at a time when passenger load factors of 60 percent

* League of the Friends of the Soldier (Liga Przyjaciol Zolnierza -- LPZ).

** For a map showing the domestic routes of LOT in 1957-58, see Figure 2, following p. 8. For a map showing such routes as of February 1959, see Figure 4, following p. 8.

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in the US were yielding a profit. A change in policy in 1957 raised the domestic fares in an effort to reduce losses and reduced or eliminated service to certain cities which might be reached just as conveniently by railroad.*

2. International.**

The international flights of LOT serve Moscow and the capitals of all the European Satellites as well as Athens, Belgrade, Brussels, Copenhagen, London, Paris, and Vienna. In 1958 the unduplicated route-kilometers on the international network amounted to 10,407 km. 20/ Czechoslovakia, with an international network of 18,422 km, is the only European Satellite exceeding the international network of LOT. Whereas the international routes of LOT accounted for 76 percent of the length of the total network in 1955 and 1956 and 77 percent in 1957, schedules for 1958 reveal a slight increase to 85.5 percent.

There are indications that Poland may seek to extend its route to Athens to the Far East and ultimately to Communist China. Also envisaged is a Polish route to Rome, with an eventual extension to the Near East and Africa. 21/ Moreover, Polish membership in ICAO and the long-standing membership of LOT in IATA will tend to assist Poland in efforts to expand its international routes. Restrictions imposed by COCOM, which had denied Western aircraft to the Sino-Soviet Bloc, were revised in 1958. These revisions will permit LOT to acquire aircraft designed for longer flights.

C. Air Facilities.

A survey of air facilities is essential to an appraisal of the capabilities for civil aviation of any country. Modern aircraft necessitate new standards for length, for type of surface, and for weight-bearing capacity of runways. Poland has 102 airfields, of which 42 have hard-surfaced runways of 6,000 feet or more, thus qualifying as major airfields. 22/ Eleven of the airfields have runways of at least 8,200 feet, the minimum length for servicing jet aircraft. 23/ At Okecie, the civil airfield at Warsaw, the longest runway is 6,560 feet. 24/ To enter the jet age as a serious

* See E, p. 10, below.

** For a map showing the international routes of LOT in 1957-58, see Figure 3, following p. 8. For a map showing such routes as of February 1959, see Figure 5, following p. 8.

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competitor, however, Poland will be forced to make considerable improvement in its facilities, both in the construction of runways and in ancillary equipment.

The Poles recently received civil aviation communications equipment from Western sources* for Okecie, so that the European airlines making use of Okecie under reciprocal air agreements may operate safely under ICAO standards. Plans for the further improvement of runways at Okecie and at other civil airfields have been announced, but apparently their implementation depends on a solution of the financial difficulties of LOT.

D. Inventory of Aircraft.

As of October 1958 the inventory of aircraft of LOT consisted of 13 Il-14's, 4 Il-12's, 2 Convair 240's,** 30 DC-3's and Li-2's*** 25/ but no 4-engine aircraft. Like other airlines of the Sino-Soviet Bloc, however, LOT is in a period of transition as far as aircraft are concerned. The Li-2's and DC-3's which are used for domestic flights are being replaced by Il-14's. Poland contemplates having the older Il-14's accommodating 21 passengers converted to aircraft carrying 26 passengers, like those produced in East Germany, or 32 passengers, like those produced in Czechoslovakia.

Poland will require modern, high-performance transport for international flights in order to meet competition. In October 1957, LOT bought three Convair 240 aircraft second-hand from Sabena (Société Anonyme Belge d'Exploitation de la Navigation Aérienne), Belgian Airlines. The aircraft were overhauled completely, but 1 was wrecked on a training flight soon after its acquisition and the remaining 2 aircraft are quite inadequate to service the international routes of LOT. Poland now ranks second to Czechoslovakia among the European Satellites in equipment, the Czechoslovak airline CSA having acquired three Tu-104's**** in December 1957. The Poles long have desired to buy new transport aircraft but have been inhibited from buying from the West by lack of foreign exchange and by COCOM regulations which denied aircraft to the Bloc. With the recent easing of these regulations, the Poles are exploring the possibility of acquiring Western

* Some of the other Satellites, including Hungary and Czechoslovakia, also have received air-ground communications equipment from the West.

** The Convair 240 is a US reciprocating 2-engine transport accommodating 40 passengers.

*** The Li-2 is a Soviet version of the DC-3.

**** The Tu-104 is a Soviet 2-engine jet transport accommodating 70 passengers.

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aircraft. 26/ [redacted] LOT is interested in purchasing three Lockheed "Electra" transport aircraft. The price of the three aircraft with spare parts would be approximately US \$10 million.* Plans to make the purchase under credits from the US or through an arrangement with the Israeli airline El Al are being considered by officials of LOT. 27/ After the UK had rescinded the ban on the export of civil aircraft in August 1958 and after Polish officials had seen a demonstration of the Viscount in Warsaw, it was reported that a possible order for six Viscount 810's for LOT was contemplated. 28/ In addition, the Poles had demonstrations of the British Comet-4 and the Soviet Il-18. Some of the airline officials declared their preference for Western types, but the Polish press in November 1958 stated: "We will probably buy a turbo-prop Moskva [Il-18] airliner from the USSR. It is a 4-engine plane with a cruising speed of 600 km per hour and a pressurized cabin for 100 passengers." 29/ The Technical Director of LOT expressed particular interest in the purchase of six Il-18's.

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In the competition between East and West, Poland will probably avail itself of the most advantageous offer of new aircraft on the basis of both political and economic considerations.

E. Trends in Performance and Services.

Under the tariff in effect from 1954 to November 1957, which was based on first-class railroad fares, the domestic routes of LOT operated under satisfactory load factors but were financially unprofitable. As previously noted, average load factors were between 80 and 90 percent, a level which is unusually high. Income, however, amounted to only 49 percent of costs.

In the face of this situation, an increase in fares obviously was necessary to attain profitability. The tariff put into effect on 15 November 1957 increased fares by about 130 percent to the level of railroad Pullman fares. The effect of this increase was to reduce the number of passengers carried on some routes to such an extent as to warrant their abandonment. Katowice, for example, which was formerly served by 12 flights a week from Warsaw and 6 flights from Lodz, was removed from the domestic schedule. The airfield at Katowice was undermined by coal mining operations, but no other airfield was substituted, and the area was denied air service. Bydgoszcz had had three round trip flights per day to

* Dollar values are given in current US dollars throughout this report.

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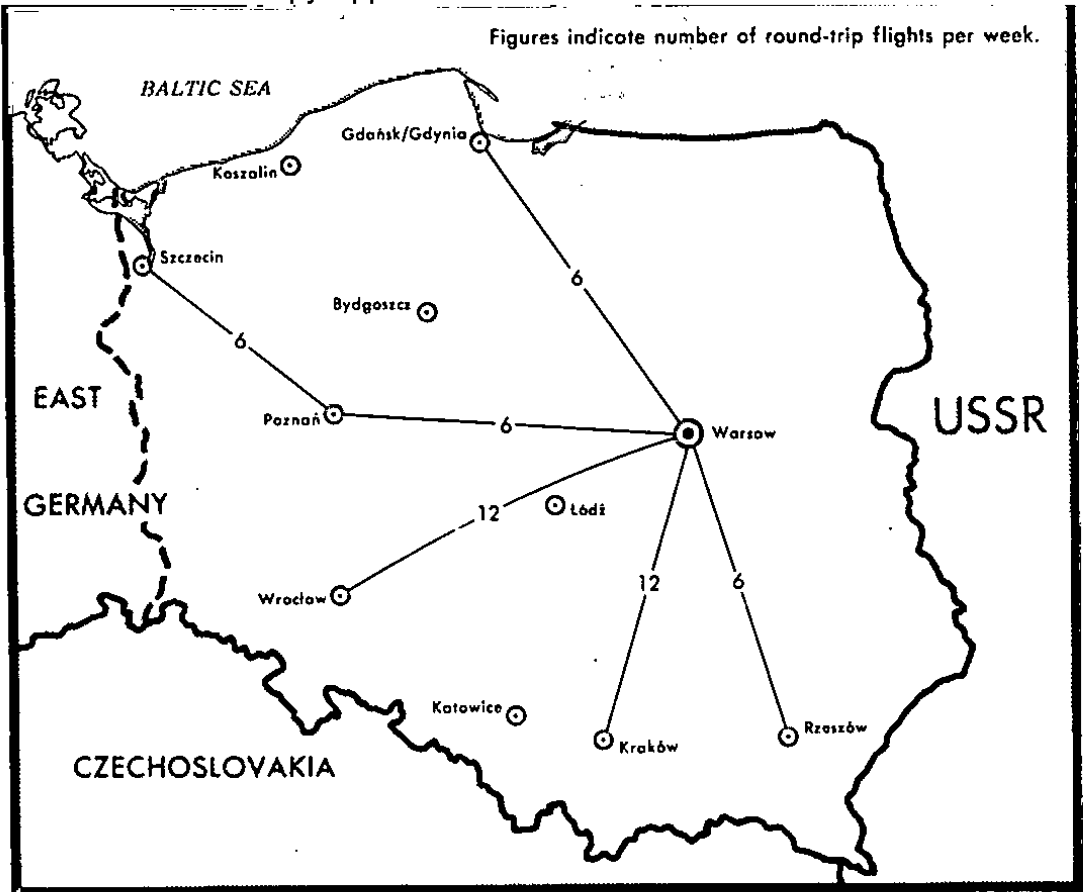


Figure 4. Poland: Domestic Air Routes of LOT, February 1959.



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other cities in Poland in 1954 but no longer appeared on the schedule in 1958. Henceforth, travelers were to utilize rail and highway transport which, for shorter distances, was presumed to be adequate and thus to render airline service unnecessary.

The combined effect of the higher fares and subsequent abandonment of some flights was to reduce the number of passengers carried by more than 70 percent. In spite of the loss of traffic, the airline was able to reduce its costs to such an extent that the actual deficit was reduced. Revenues still met only 50 percent of the costs.

On 1 February 1958 a new seasonal tariff reduced the fares to about 60 percent above those existing before November 1957, but the number of flights was not increased. The results of this tariff have not been publicized, but a Polish author, in discussing the manipulation of tariffs and the effect on the domestic operations of LOT, concluded that no schedule of tariffs could assure the profitability of domestic air transport in Poland. 30/ The average length of air route, 260 km (162 statute miles), was too short for economic exploitation, and the high fixed costs of airline operation were spread over too few traffic units. 31/

Recent and current trends in the international services of LOT reflect the problems arising from the dual position of Poland as a member of the Sino-Soviet Bloc, operating on a socialist pattern, and as a competitor with airlines of the Western world. In its position in the coordinated network of the Bloc LOT follows operational procedures common to the Satellites and is circumscribed by joint action taken at the spring and fall meetings of the Satellite airlines. On the other hand, as a member of the international organizations ICAO and IATA, LOT shares routes with Western European airlines and is faced with the necessity of meeting the economic competition outside the Bloc. In 1956 the Parliamentary Committee for Transportation took steps to modernize air transport, 32/ the purpose of which was to strengthen Polish civil aviation by expanding services outside the Bloc. Such a program conformed with the policy of the Bloc, and the Committee hoped that such expansion would earn readily convertible foreign exchange.

The Director of LOT, A. Skala, predicted a decrease of 60,000 domestic passengers and an increase of 16,000 passengers on international routes in 1958. The official figures for 1958, however, show a far greater decline in domestic passengers and a much smaller increase in passengers on international routes than had been predicted. 33/ Evidently the implementation of the policy of the Parliamentary Committee was delayed by radical developments in high-capacity, long-range aircraft.

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Data reflecting the performance of LOT in 1947 and 1949-58 are shown in Table 1.* Except in the year 1953, there was a steady increase in passengers. The decrease of 9,000 passengers and a corresponding decrease in passenger-kilometers in 1953 paralleled the low point in Czechoslovak civil air operations in the same year. Air freight continued to register small increases throughout the period. The average annual rate of growth in the number of passengers carried during 1955-57 was 17.9 percent, compared with 14 percent in the rest of the world. The average annual rate of growth in passenger-kilometers during 1955-57 was 23.6 percent, compared with 15.6 percent in the rest of the world. Because of the decrease of 41.3 percent in passengers carried in 1958, however, the average gain for the 5-year period 1954-58 was only 2.8 percent. No parallel figure on the number of passenger-kilometers in 1958 is available, but, because of the relative weight and continued increase of international travel, it is believed that the average annual increase in passenger-kilometers during the 5-year period was about 14 percent.

F. Finances.1. General.

Poland has established no reliable accounting system by which the state-owned enterprises can assess with reasonable accuracy the real economic gains or losses of a particular operation. The operating figures of LOT are not published. Estimates of the cost structure of the domestic airlines have been made for the years 1953-57 on the basis of relevant published percentages, however, and are shown in Table 2.** Revenue from domestic services in 1957 can be estimated at 54.19 million zlotys and operating expenses, at 110.6 million zlotys.*** It should be noted, however, that revenue from aviation services may substantially understate the actual value of these services to the economy. 35/

The international services of LOT are stressed in Polish planning for the future, but it seems evident that modern, high-performance aircraft will be needed to meet the type of competition which is rapidly developing. A press report of October 1958 claimed

* Table 1 follows on p. 13.

** Table 2 follows on p. 15.

*** The average operating cost per passenger-kilometer decreased from 1.25 zlotys in 1955 to 1.23 zlotys in 1956. The Li-2, which is comparable to Polish aircraft, is said to be operated by Aeroflot at 3.41 rubles per ton-kilometer and 0.33 ruble per passenger-kilometer. 34/

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Table 1
Performance of Polish Airlines (LOT) a/
1947 and 1949-58

Measure of Performance	1947	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Passengers (number)											
Domestic	55,800	59,900	N.A.	N.A.	N.A.	N.A.	N.A.	141,800	168,200	183,600	89,900
International	4,000	4,600	N.A.	N.A.	N.A.	N.A.	N.A.	17,400	31,400	40,700	41,800
Total	59,800	64,500	89,000	113,200	123,500	114,700	136,700	159,200	199,600	224,300	131,700
Air freight (metric tons)											
Domestic	400	500	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
International	230	400	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total	630	900	980	1,060	1,270	1,960	2,580	2,750	3,330	3,800	N.A.
Length of network (kilometers)											
Domestic	2,035	2,430	N.A.	N.A.	N.A.	N.A.	N.A.	2,436	2,436	2,423	1,770
International	4,955	6,220	N.A.	N.A.	N.A.	N.A.	N.A.	7,848	7,731	8,070	10,407 b/
Total	6,990	8,650	N.A.	N.A.	N.A.	N.A.	N.A.	10,284	10,167	10,493	12,177
Passenger-kilometers (million)											
Domestic	15.3	16.9	N.A.	N.A.	N.A.	N.A.	N.A.	48.7	57.6	N.A.	N.A.
International	3.1	4.9	N.A.	N.A.	N.A.	N.A.	N.A.	17.2	31.0	N.A.	N.A.
Total	18.4	21.8	30.5	38.7	42.7	40.7	53.3	65.9	88.6	101.0	N.A.
Ton-kilometers (million)											
Domestic	N.A.	0.14	N.A.	N.A.	N.A.	N.A.	N.A.	0.6	0.67	0.6	0.3
International	N.A.	0.47	N.A.	N.A.	N.A.	N.A.	N.A.	1.0	1.30	1.8	1.9
Total	N.A.	0.61	0.62	0.67	0.76	1.01	1.27	1.6	1.97	2.5	2.2

a. 36/
b. Unduplicated route-kilometers in 1958 are not given in the latest official figures; the total and domestic and international kilometers of unduplicated routes have been calculated on the basis of changes since 1957.

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a small profit (17.5 million zlotys) for the international routes of LOT in 1957. ^{37/} In 1958 the passengers on international flights numbered 41,800, compared with 40,700 in 1957, but in the first half of 1958 only 16,000 passengers were carried, a decline of more than 5,000 from the 21,250 carried in the first half of 1957. ^{38/} The average passenger load factor in 1958 was 44.2 percent compared with 65.3 percent in 1957. ^{39/} Thus in the second half of 1958 there was considerable improvement, the exact nature of which is not yet certain, but which may have resulted from an increase in chartering services. In chartering operations the type of equipment and time schedules are secondary to pricing, and high passenger load factors generally can be obtained. As a member of IATA, LOT must abide by the fares set by the international body, so there is no possibility of adjusting fares on regular flights to compensate for antiquated aircraft.

2. Investment.

No data are available on the amount of funds invested in LOT or on the funds needed in the immediate future for modernization and expansion. Some notion of the amount involved can be obtained, however, by estimating the original cost of aircraft now held by LOT, the cost of new aircraft, and the cost of improvement of airfields. The original cost of aircraft now held by LOT, totaling \$10,110,000, is estimated to have been as follows:

Aircraft		Cost (US \$)	
Type	Number	Per Plane	Total
Li-2	30*	150,000	4,500,000 ^{40/}
Il-12	4	180,000	720,000
Il-14	13	330,000	4,290,000 ^{41/}
Convair 240	2**	300,000	600,000 ^{42/}
Total			<u>10,110,000</u>

In 1958, COCOM approved the sale to Poland by the UK of 6 to 8 Viscount aircraft valued at about \$8 million, an amount close to the original cost of the aircraft now held by Poland. This sale has not been made as yet, inasmuch as LOT apparently has not made a final decision on what type of modern aircraft to buy for its international routes. ^{43/}

* This number is high because it includes the old C-47/DC-3 aircraft which are probably in process of being scrapped.

** Second-hand.

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Table 2

Estimated Operating Expenses of the Domestic Polish Airlines a/
1953-57

Expense	Million Current Zlotys				
	1953	1954	1955	1956	1957
Materials					
Fuel	13.2	14.0	14.4	16.8	26.3
Other	12.4	13.1	13.5	15.7	24.4
Subtotal	<u>25.6</u>	<u>27.1</u>	<u>27.9</u>	<u>32.5</u>	<u>50.7</u>
Wages	20.0 b/	21.2 b/	21.8 c/	25.4 c/	39.6 d/
Amortization	6.5	6.9	7.1	8.2	12.8
Other expenses	3.8	4.0	4.1	4.8	7.5
Total	<u>55.9</u>	<u>59.2</u>	<u>60.9</u>	<u>70.9</u>	<u>110.6</u>
Index (1953 = 100)	100	106	109	127	198

a. The percentage distribution of operating expenses was derived from source 44/. For methodology, see Appendix C.

b. 45/
 c. 46/
 d. 47/

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To bring Okecie Airfield up to international standards for jet aircraft would require lengthening of the runway, increasing its weight-bearing capacity (which is now said to be marginal), and installing communications equipment such as ILS,* air-to-ground, VHF,** and surveillance radar.

In order to bring the longest runway at Okecie up to standards for the international operations of the Boeing 707 or the DC-8, it is estimated the length should be 9,650 feet, 3,090 feet longer than the present 6,560 feet. ^{48/} The cost of constructing the longer runway with a depth of concrete of 16 inches would be 73.7 million 1957 zlotys.

Instead of attempting to strengthen the present runway at Okecie, officials of LOT might decide to build a new runway suitable for jet aircraft. It is estimated that the cost of a new runway of the minimum length of 8,200 feet by 200 feet, with parallel taxiway and four connections 75 feet wide, made of 12-inch thick concrete over 12-inch sand or gravel over compacted subsoil, would be 46.6 million 1957 zlotys.

Communications equipment for use at Okecie recently has been approved for installation. The sale to Poland of 2 complete sets of ILS equipment with a total value of \$224,680 and up to 8 sets of airborne equipment valued at \$18,000 were approved recently by COCOM. ^{49/}

It is extremely difficult to assign a dollar value to costs for construction within Poland. If, for example, a conversion ratio of 30 zlotys to US \$1 were applied to the estimates made in zlotys for the airfield runways, \$1.6 million to \$2.5 million would be required for upgrading a single airfield to receive jet aircraft.

G. Evaluation of Efficiency.

1. Operations.

Poland shares with Czechoslovakia the advantages gained from membership in international organizations but is far less able to make use of the technical and operational knowledge available. The lack of standardization of equipment creates problems in operating

* Instrument landing system.

** Very high frequency.

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procedures, maintenance, and flight training and also requires that special supplies of fuel be set up at points outside Poland.* 50/

Another problem is the small capacity for passengers of the present inventory of two-engine aircraft in Poland, which is too limited to offer a payload which would be profitable. In the US, rising costs have made unprofitable the operation of a DC-3, even with 21 to 28 passengers, in competition with aircraft of greater capacity. It is even more difficult for LOT, using the comparable Il-12 and Il-14, which have a maximum capacity of only 18 to 21 passengers, to operate at a profit.

LOT does not offer satisfactory standards of comfort, reliability, or punctuality. Travellers report dirty seat-covers, windows, curtains, and floor rugs. 51/ In one case, at least, passengers were left stranded in a foreign country after having paid for a round-trip ticket in Polish currency in Warsaw. 52/ A sudden cancellation of unprofitable flights between Poland and Israel caused unforeseen difficulties for tourists, who had to borrow foreign currency to buy new tickets on other airlines to return to their homes in Poland.** Punctuality frequently has been disregarded in the scheduled flights of LOT. 53/ In September 1957 a passenger with a reservation to fly from Warsaw to Berlin waited 2 hours at the airfield and then learned the plane was not leaving that day. The next morning the scheduled departure was delayed again, allegedly because of bad weather. When the passenger finally arrived in Berlin, he learned the flying weather had been good all the while.

50X1
50X1

Buildings at airports are inadequate to handle the increased number of domestic and international passengers. In Warsaw, for example, a drab hut serves as a custom house, and passengers are inconvenienced by long delays and waiting in line. 54/

2. Personnel.

The efficiency of flight personnel in Poland is hampered by the customary procedure in a Communist state of putting political reliability ahead of technical qualifications. As a result of the crash of a LOT aircraft in Moscow in June 1957, however, the Polish

* The Convair 240 requires 108/135 grade gasoline not available in the Sino-Soviet Bloc. The problem does not exist within Poland, however, because COCOM has granted permission for sales of gasoline to LOT.

** These were charter flights taking Polish Jews to visit relatives in Israel in 1958.

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administration indicated a disposition to change the emphasis in favor of technical preparation. 55/ Polish pilots trained in the UK* are now reaching the age limit for commercial flying, and the younger pilots are restricted to Soviet types of aircraft.

When the three Convair 240 aircraft were acquired in November 1957, the training of personnel was a great problem for the Poles, and putting the aircraft into service was a slow process. On 12 April 1958, 1 of the 3 aircraft crashed at Okecie Airport while the pilot was undergoing checkout procedures on take-off, approach, and landing. 56/ The lack of qualified maintenance personnel kept the Convairs grounded in Warsaw in January 1958. Fuel tank leaks and brake troubles were beyond the capabilities of the personnel of LOT to repair. 57/

III. Civil Air Policies.

As a result of its membership in ICAO and IATA, Poland has attempted generally to base its policy in civil aviation on the international principles adopted by ICAO. On the other hand, since 1945 the Poles have received Soviet aircraft and technical assistance for their civil airline. In 1947, when the Communists gained control in Warsaw, Poland began to cooperate more closely with the USSR and has become a favored participant in the closely coordinated air network of the Sino-Soviet Bloc, ranking after Communist China and Czechoslovakia.

A. Agreements Registered with ICAO.

As of June 1958, Poland had two bilateral agreements of the Chicago** type registered with ICAO, as follows 58/:

<u>Country</u>	<u>Date Signed</u>	<u>Date in Force</u>
Czechoslovakia	24 January 1946	13 November 1947
Sweden	8 June 1956	8 June 1956

These agreements may have been registered with ICAO by the other parties to the agreement. Poland's anomalous position in ICAO was not clarified until May 1958, when the Communist government of Poland

* Polish pilots flew with the RAF in World War II.

** In general, a reciprocal agreement in harmony with the type suggested by ICAO, usually granting a route from capital to capital.

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made arrangements for the payment of debts to the organization. 59/
In the future, Poland undoubtedly will register bilateral agreements concluded with other members.

B. Agreements Within the Sino-Soviet Bloc.1. USSR.

In March 1946 an agreement was concluded between Aeroflot and LOT which permitted the establishment of a Moscow-Warsaw-Moscow route by Aeroflot 60/ on a unilateral basis. A reciprocal bilateral air transport agreement between Poland and the USSR was signed on 18 February 1955 and implemented by Polish aircraft on 7 April 1955. 61/

2. European Satellites.

On 20 June 1955, Poland signed a civil air transport agreement with East Germany. A series of bilateral agreements between the USSR and the European Satellites and between individual Satellites were signed at about the same time. These agreements, all worded on a standard form, gave the Satellites access to Moscow and reciprocal air rights to one another's territory. The principal bilateral agreements are as follows:

<u>Country</u>	<u>Date Signed</u>	<u>Date Implemented</u>
Czechoslovakia	24 January 1946 <u>62/</u>	24 January 1946*
East Germany	20 June 1955 <u>63/</u>	4 February 1956 <u>64/</u>
Rumania	29 November 1955 <u>65/**</u>	
Albania	29 January 1958 <u>66/**</u>	

The Warsaw-Tirana route is flown only by LOT. 67/

On 8 June 1957, Poland joined Bulgaria, Czechoslovakia, East Germany, and Rumania in signing an agreement for collaboration in the operation of scheduled air services. Previous agreements had been of a bilateral nature, but now services between the capitals of of the signatory countries are operated under a joint plan drawn up by these governments. Details of the plan and method of pooling services and dividing revenues are unknown.

* In November 1952, provision was made for automatic extension unless the agreement were denounced.

** Presumably implemented soon after signing.

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3. Communist China.

It was rumored in May 1956 that a member of the Polish Ministry of Transport would go to Communist China to negotiate for a Polish air route from Warsaw to China, but no further developments have been noted.

C. Agreements Outside the Sino-Soviet Bloc.1. Europe.

Since late 1954, Poland, like other European Satellites, has embarked on an aggressive policy of expanding civil air routes and seeking bilateral transport agreements with other European governments. The resulting agreements may be listed as follows:

<u>Country</u>	<u>Date Signed</u>	<u>Date Implemented</u>
Yugoslavia	11 December 1955	14 January 1956 <u>68/</u>
Austria	8 February 1956 <u>69/</u>	
Netherlands*		24 April 1956 <u>70/</u>
Sweden	8 June 1956	8 June 1956 <u>71/</u>
Belgium	31 July 1956** <u>72/</u>	
UK	November 1957 <u>73/</u>	April 1958 <u>74/</u>
France***		

No formal bilateral agreement has been signed between Poland and Greece. In January 1957, however, the Greek government granted Poland Third, Fourth, and Fifth Freedom rights**** 76/

* Implemented by KLM alone.

** Presumably implemented soon after signing.

*** The LOT stop at Paris presumably is effected under a World War II unilateral Polish-French arrangement which has not been abrogated by France. Air France has not initiated air services to Warsaw in the postwar period and apparently does not contemplate inaugurating service before 1959. 75/

**** Third Freedom -- the privilege to put down passengers, mail, and cargo taken on in the territory of the state whose nationality the aircraft possesses.

Fourth Freedom -- the privilege to take on passengers, mail, and cargo destined for the territory of the state whose nationality the aircraft possesses.

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between Athens and Warsaw. These rights were granted in the form of a temporary and revocable permit at the request of the Polish government. 77/ Since April 1957, when the agreement was put into effect, Poland has been operating a Warsaw-Budapest-Belgrade-Athens air route. 78/

In a report published in January 1958, the manager of LOT, A. Skala, suggested the possibility of extending the present Warsaw-Athens route to the Middle East. 79/ No negotiations are known to be under way for new air agreements, but representatives of LOT have spoken of extending international services to Africa and the Far East. In November 1958 it was reported in the press that a new air link between Warsaw and Zurich* would be opened in the near future and that service to Rome would be established. 80/

2. Middle East.

On 15 February 1956, Poland signed an air transport agreement with Egypt. 81/ Following the formation of the United Arab Republic on 1 February 1958, the new government accepted this agreement in an arrangement with ICAO. As of January 1959, however, the agreement had not been implemented.

D. Relations with International Organizations.

1. ICAO.**

The membership of Poland in ICAO has presented a complicated problem ever since the ratification of the Chicago Convention was deposited on 6 April 1945 by the Polish government-in-exile in London. The succeeding Communist government did nothing to abrogate the ratification, however, and Polish dues to ICAO remained unpaid from 1945 on. In June 1958 the Polish press announced that Poland had established official membership in ICAO at the ICAO Assembly meeting in May 1958. At that meeting, Poland arranged to pay back dues as well as dues for 1958 and was restored to the status of voting member in ICAO. 82/

Fifth Freedom -- the privilege to take on passengers, mail, and cargo destined for the territory of any other contracting state and the privilege to put down passengers, mail, and cargo coming from any such territory.

* The service to Zurich was scheduled as of January 1959.

** For further details, see Appendix B.

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2. IATA.

LOT is an active member of IATA, a group of 85 air carriers of which 77 are active and 8 are associate members.

LOT does not belong, however, to the IATA Clearing House, which has headquarters in London. Poland and other members of the Bloc probably make use of the membership of CSA to collect their international receivables. 83/

IV. Competitive Capabilities.

Like Czechoslovakia, Poland occupies a pivotal position in civil aviation, dealing with nations both inside and outside the Sino-Soviet Bloc. Poland, however, lacks the advantage of geographic position which enables Czechoslovakia to serve as a central exchange point for traffic between East and West and has not the potential of CSA for competition with the West.

Poland also shares with Czechoslovakia a favored position within the Sino-Soviet Bloc in the allocation of new types of aircraft from the USSR. With the receipt of the Tu-104 jet transport, Czechoslovakia apparently gained an advantage over Poland in equipment.*

Since 1945, LOT has suffered from a conflict in operational procedures and from inefficiency resulting from the heterogeneous character of its inventory of aircraft, some of which were acquired from the USSR and some from the West.

Under the Five Year Plan (1946-50) the ton-kilometer volume of all Polish air traffic was scheduled to increase by 50 percent, of which passenger-kilometers were to account for 42 percent and ton-kilometers the remaining 8 percent. 84/ Such an expansion, although comparatively small, depends largely on the development of international routes and will require new competitive aircraft. Because Communist China and Czechoslovakia have higher priorities, Poland may not soon be allotted the Soviet Il-18. Unless foreign exchange is made available for the purchase of modern transport aircraft from the West, it is difficult to see how LOT will be able to fly the

* The explanation probably lies in the Soviet policy of using the same type of aircraft for airlines sharing the same route. CSA has been flying the Prague-Moscow segment of the Prague-Moscow-Peking route shared with Aeroflot, and when Aeroflot began using the Tu-104 to the Far East, it was natural to allot the same type of aircraft to Czechoslovakia to speed up service from Peking to Western Europe.

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international routes now scheduled as an effective competitor. The goal of strengthening Polish civil aviation by extending services outside the Bloc will be even more difficult to achieve. ICT has little potential for competition in world civil aviation, and its initiative is hampered further by the close coordination of the air operations of the Bloc.

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APPENDIX A

CHRONOLOGY OF PRINCIPAL EVENTS
AFFECTING THE DEVELOPMENT OF CIVIL AVIATION IN POLAND

<u>Date</u>	<u>Event</u>
1939	Polish Airlines (LOT) discontinued service under the occupation by Nazi Germany.
6 April 1945	Poland deposited with the International Civil Aviation Organization (ICAO) its ratification of the Chicago Convention.
June 1945	The Lublin government was set up in Poland.
January 1947	Elections gave the Communists control of the Polish government.
October 1947	Opposition leaders fled from Poland, leaving the Communists in absolute control.
1949	LOT received Il-12 aircraft from the USSR as replacements for DC-3 aircraft.
1950	The Council for Mutual Economic Assistance (CEMA) was established, and coordination of the air services of the Sino-Soviet Bloc was begun.
1954	The USSR reversed foreign policies regarding civil aviation.
1954-55	Reciprocal air agreements were signed by the USSR and the European Satellites.
7 April 1955	LOT made its first flight to Moscow.
14 January 1956	LOT initiated flights to Belgrade, implementing the bilateral agreement with Yugoslavia.
April 1957	LOT began operating a Warsaw-Budapest-Belgrade-Athens air route.
November 1957	LOT initiated flights to London.

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APPENDIX B

RELATIONS OF POLAND
WITH THE INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO)

On 6 April 1945 the Polish government-in-exile in London deposited with the International Civil Aviation Organization (ICAO) its ratification of the Chicago Convention. The succeeding Communist government did nothing to abrogate this ratification. 85/

In June 1948 the Polish observer at the second meeting of the ICAO Assembly presented an aide memoire to the Secretary General of ICAO stating that Poland intended to adhere to the Chicago Convention with the exception of Article 5, on the ground that the ratification of the Convention by the "London Government" of Poland in 1945 did not make the present government a party to the Convention. 86/

On 8 June 1948 and again on 10 August 1948 the Polish Embassy in Washington addressed notes to the same effect to the US as depository of the Convention. The latter note contained the statement that "the Polish government cannot recognize the legal validity either of the signature or of the instrument of ratification of the International Civil Aviation Convention, because they were executed and deposited after 22 July 1944." 87/

In its replies the US affirmed on 6 August 1948 and reaffirmed on 2 September 1948 the US position that it could not accept a Polish instrument of adherence to the Convention, because the original ratification on behalf of Poland was considered to have been in force since 4 April 1947. 88/

For more than 8 years following this exchange of correspondence, the situation was unchanged. Poland did not participate in ICAO and remained in arrears in its dues since 1945, with the result that its vote in the ICAO Assembly was suspended. 89/

On 18 February 1957 the Legal Advisor of the Polish Foreign Office expressed the desire of Poland to participate in ICAO and on 9 May 1957 notified the Secretary of State that Poland "has become a member of the International Civil Aviation Organization." 90/ The ICAO Secretariat then wrote the Polish government calling attention to the back dues owed by Poland but had received no reply by September 1957. In June 1958, however, the Polish press announced that Poland had established official membership in ICAO at the meeting of the ICAO Assembly held in Montreal in May 1958. 91/

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Assembly Resolution A 11-1, which was adopted at that meeting, contained an agreement that Poland would pay its back dues to ICAO as follows: for the period up to 31 December 1956, \$106,000 (after a negotiated reduction); for 1957, \$51,261. The total of \$157,261 was to be paid in 15 annual installments commencing in 1961. Poland agreed to pay forthwith the current dues for 1958 of \$49,021. 92/ Poland is therefore a full voting member of ICAO.

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APPENDIX C

METHODOLOGY

A discussion of the methodology employed in Table 2* follows. An article in the Polish magazine Transport, Warsaw, May 1958, gave percentage distribution of items making up the operating expenses of LOT for the year 1957. The percentages covered materials, wages, amortization, and other expenses. The only heading for which a figure in zlotys was available was the classification wages. The Polish Statistical Year Book gives the total for wages for employees of LOT for the years 1953-57. By applying the known percentage of expenses devoted to wages to the actual amount so spent, the figure for the total operating expenses of LOT in 1957 was derived. The given percentages for fuel, materials, amortization, and other expenses then were applied to the figure for total expenses in order to derive the amounts spent for these purposes in 1957. In deriving the figures for 1953-56, it was assumed that wages had accounted for the same proportion of total expenses as they did in 1957.

* P. 15, above.

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