

File

Procurement

16 SEPT 48

MINUTES OF THE MEETING HELD IN THE OFFICE OF THE EXECUTIVE  
VICE-PRESIDENT AT 1430 ON THURSDAY, THE 16th SEPTEMBER, 1948.

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Present: Mr. Whiting Willauer,	Executive Vice-President
Mr. Earle S. Willoughby,	Treasurer
Mr. Wyman C. Donaldson,	Assistant to the Executive Vice-President
Captain C.J. Rosbert,	Director of Operations
Mr. A. Robert Lee,	Chief of Supply.

Agenda: 1. Corrosion of engines sent to the United States for  
major overhaul.

2. Procurement of Supplies from the United States.

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- 2 -

Item I. Corrosion of engines sent to the United States for Major Overhaul.

Mr. Willauer brought up the subject of corrosion which had occurred in engines shipped back to the States for major overhaul. He said that he had seen some of the engine parts which had become corroded and that Pacific Airmotive Corporation had informed him that the fault was primarily due to failure to close apertures in the engines before they were shipped from China. This was a question of faulty packing. Mr. Richardson informed Mr. Willauer that corrosion to engine parts was running the Company into an expense of from \$1,000 to \$1,500 over and above the actual cost of the overhauls.

Captain Rosbert stated that no corrosion should have occurred in engines shipped during the last two or three months, as preventive action had been taken on receiving notice from Mr. Richardson that such corrosion had occurred in engines. He stated that engines which had become corroded were those shipped from Canton, and that Mr. Munsen, who was in charge of engines sent from Canton, was no longer employed by the Company.

Mr. Willauer said that this was a very important matter, and that it should definitely be ascertained who was responsible for the engines in question, and that the person or persons responsible should be reprimanded. He stated that the engineer-in-charge, Canton, should have made certain that all apertures in the engines shipped were filled before shipment.

Captain Rosbert said that he would like complete lists of all engines returned to the States for overhaul, including their serial numbers, the date shipped, and from which port. Mr. Donaldson said that he had such a record.

Action to be taken.

Captain Rosbert to write to Pacific Airmotive Corporation requesting full details of all engines which had become corroded in transit to the States, and to ask for the cost of all repairs specifically against each engine.

Captain Rosbert to find out who was responsible for the faulty packing of engines sent to the States for overhaul.

Mr. Donaldson to furnish Captain Rosbert with complete lists of all engines shipped to the States for overhaul, with all relevant details.

Item 2. Procurement of Supplies from the States

Mr. Willauer asked Mr. Lee to give any recommendations he could on the general procurement supply situation. Mr. Lee enumerated the following points:

A. Air Shipment.

Mr. Lee stated that air shipment of commodities from the States does not pay, and that it could not be made to pay under existing circumstances.

Mr. Willauer asked whether our agreement with Transocean Airlines (whereby Civil Air Transport gets a cargo rate of \$1 per pound) was not worth while.

Mr. Lee answered in the negative. He said that it took at least 8 days to obtain a license from the C.A.A. for the importation of parts and to process such licenses through Customs, after the necessary papers had been received from the States. In the case of air shipment, it often meant that goods were lying in Shanghai for a number of days waiting for the necessary release to be arranged, which time might have been spent in sending the goods by sea. He stated that approximately \$1,000 could have been saved by the Company the previous month (August 1948) on air shipment.

Mr. Willauer mentioned the shipping strike now pertaining on the West Coast of America, which had a possible duration of from 60 to 90 days, and its effect on sea shipments. He said that sea shipments from the States were currently being attempted from Vancouver and Houston.

Mr. Lee said that the higher cost of air shipment meant higher c.i.f. costs and therefore increased Customs duty on the importation of parts into China.

Mr. Donaldson raised the question of air shipment across the States. Mr. Willauer pointed out that air shipment across the States was often necessary in order that connection be made with ships leaving the West Coast for China, and that such cross-States shipments should be left to the discretion of Mr. Richardson.

Captain Rosbert pointed out that recently, in the case of many shipments arriving by sea, Civil Air Transport had been able to offload the cargoes and deliver them to Hungjao Airfield in one day, by paying a deposit in lieu of duty until duty had been ascertained.

Mr. Willauer agreed in principle with Mr. Lee that air shipments were not preferable.

- 4 -

A. Air Shipment. contd.

Action to be taken.

Mr. Lee to send a cable to Mr. Richardson asking for details of present shipments.

Mr. Lee to prepare a memorandum on the procedure to be adopted as regards methods of shipment, leaving a final clause in the memorandum whereby Mr. Richardson is authorized to use his discretion as regards cross-States air shipments, taking into consideration the priorities placed on shipments by Mr. Lee, connections to be made with ships leaving the States for China and other relevant circumstances.

Mr. Lee to establish a priorities system for requisitions, of which he would keep Mr. Richardson fully informed.

B. Cables.

Mr. Lee expressed the opinion that it was, in many cases, unnecessary to expend money on sending cables, concerning information on procurement, when letters would serve the purpose.

Mr. Willauer agreed, and said that letters from the States were now taking on an average of from 3 to 5 days.

Action to be taken:

Mr. Lee to write to Mr. Richardson advising that he was to write letters whenever possible instead of sending cables, in order to save funds.

C. Use of the Navion.

Mr. Lee raised the point that time would be saved in the States if Mr. Richardson used commercial airlines instead of flying in the Navion. He said that, to his knowledge, it was quicker to use commercial airlines and do the cross-States journey in one day whereas three days could easily be wasted using the small Navion aircraft.

Mr. Willauer said that it was preferable to use the Navion when many stops were going to be made across the States, as time was lost on the commercial airlines fixed routes. He said that he himself, in a cross-States journey, had beaten the commercial airlines time when it was necessary to make several stops en route.

- 5 -

C. Use of the Navy's credit.

Mr. Lee maintained that, in all, it was speedier to use the regular long-distance planes, but agreed that it depended on what route had to be taken.

No recommendation or action to be taken.

D. Funds.

Mr. Willauer stated that Mrs. Lonborg did not tell Mr. Richardson how much money she had available to the credit of Civil Air Transport in America, but that she only told him what amounts were available for the procurement of parts. She earmarks money for certain procurement and informs Mr. Richardson that this has been done.

Mr. Willauer said that he had been to Grand Central Airport and that, at one point, Civil Air Transport owed them \$17,000 and that they had stopped conversion of Civil Air Transport engines until the money was forthcoming. He had immediately called this matter to the attention of General Chennault and Mr. L.K. Taylor, and together they had instructed Mrs. Lonborg to pay Grand Central Airport, which had been done.

Mr. Lee said that it was necessary for him to have some knowledge of how much money was available in the States for procurement of supplies.

Mr. Willauer agreed that Mr. Lee should be informed of any instructions sent to Mrs. Lonborg regarding funds which might affect those earmarked for the procurement of supplies. He assured Mr. Lee that this would be done. He suggested that an exchange of memoranda should take place between the Chief of Supply and the Treasurer regarding the exchange position and the funds available in the States, so that the Chief of Supply would be kept fully informed of any changes which might occur in the status of monies which had been allocated to him for Stateside procurement.

Mr. Donaldson suggested that a minimum amount always be kept aside for the engine overhaul programme, which had so far amounted to approximately 15 engines sent back to the States per month.

Mr. Willauer said that, as soon as our credit was established with Grand Central Airport, he was sure they would 'go along with us'.

He was sure that as soon as the form he and Mr. Richardson suggested (see Item E) should come into effect, it would greatly assist the Shanghai office in keeping track of Stateside procurement and funds and would be valuable for planning purposes. He emphasized the point that the Chief of Supply needed details of funds available so as to set up his system of priorities.

Mr. Lee said that he was eventually aiming at keeping a stock level of six months supply.

D. Funds, contd.

Recommendations.

That future estimates of Stateside procurement should always carry items covering requisitions for engine overhaul.

Action to be taken.

The Treasurer to keep the Chief of Supply fully informed as to the status of funds for foreign procurement and that the Chief of Supply and the Treasurer should exchange memoranda on the supplies needed from the States and the funds available therefor.

E. Reports.

Mr. Lee raised the question of reports.

Mr. Willauer said that, in his opinion, he considered it essential for the Washington office to have a full picture of action being taken in the Shanghai office, and vice versa, with complete records and reports held by each.

Mr. Willauer then distributed to those at the meeting a prototype form which he and Mr. Richardson had drawn up whereby a complete report of the status of procurement could be kept by both the Washington and Shanghai offices. The forms could, he stated, be printed in the States by I.B.M. and the paper and printing would cost between \$300 and \$400 per month, which was less than the cost of employing clerks to keep such records. It was proposed that copies of the forms should be sent from the Washington office to the Shanghai office every two weeks, giving full details on the actual status of procurement. Mr. Lee, it was decided, would keep the Shanghai copies of the forms, and that they should be available to all concerned in his office when they were required.

A discussion was then held as to what information the form should contain, and the following headings were commented on:

(i) Reference (authority to purchase)

It was agreed that space should be left on the form adequate for the five digits which constituted the reference number of letters from the Shanghai office, as letters are in many cases authorisation to purchase.

(ii) Vendor

It was agreed that the vendor's name on the form was essential for Mr. Richardson's information, and of interest to the Shanghai office.

E. Reports. contd.

(iii) Availability.

This information would be the actual date on which the vendor could supply the parts.

(iv) Inspection.

Mr. Willauer stated that very often inspection of parts was made prior to purchase and that he considered this space should remain on the form so that the date of the inspection could be inserted.

(v) Purchase Order.

This date would be the actual date on which Washington office would place the purchase order.

(vi) Cost (see Item E, Funds)

Mr. Willauer thought that it was better to insert an approximate cost than none at all for the consideration of long range planning.

Mr. Lee said that at the moment he was using Army catalogue prices for his guidance, as a fair average of prices in the States, and considered that this was his best estimate for Stateside prices.

(vii) Bid.

This item constituted the most acceptable bid from prospective vendors and the bid it was planned to accept.

(viii) U.S. Export License.

Mr. Richardson was to insert the number, date and expiry date of the U.S. Export License.

Mr. Donaldson said that he did not consider such information necessary to the Shanghai office.

Mr. Willauer said that he considered it of interest, as it might explain a delay in shipment of goods, in cases where the license was held up.

(ix) Chinese Import License.

Mr. Lee said that information concerning this license was only needed by the Shanghai office.

Mr. Willauer said that he thought it was against the law to ship any goods to China before a License had been obtained.

Mr. Donaldson said that this did not apply to Civil Air Transport, as Civil Air Transport had exchange grants from the Chinese Government for foreign purchases.

(ix) Chinese Import License. contd.

Mr. Lee said that at the moment nearly everything was being shipped from the States before we had obtained a Chinese Import License. He stated that to obtain a Chinese Import License, he needed a copy of the invoice and that for processing the License through Customs he needed the Bill of Lading and Chinese Consular Invoice, all of which Mr. Richardson would send him from the States.

(x) Chinese Consular Invoice.

Mr. Lee said that he needed the Chinese Consular Invoice and Bill of Lading on each shipment five days before the shipment was due to arrive in China. He suggested that Mr. Richardson obtain such forms in Washington and mail them to Shanghai at the first opportunity.

(xi) E.T.D. from the States and E.T.A. China.

It was stated that this information was essential to the Shanghai office.

Captain Rosbert said that he thought the actual quantity of parts ordered should be shown on the form, and not the amount originally required by Shanghai, if there was any difference. It was agreed that the quantity requisitioned as well as the quantity ordered should be inserted on the form.

Mr. Willauer said that, from the point of view of estimating a six months stock level, the total cost of the requisition should be noted.

Recommendations

That for cost estimation, there should be space on the form for both the estimated figure and the bid figure so that there will be sufficient information as to the cost of the quantity requisitioned and the quantity actually ordered. Mr. Willauer said that this information must be supplied by Mr. Richardson.

That the c.i.f. cost should also be quoted on the forms.

That the quantity of parts ordered should be shown on the form as well as the quantity requisitioned, together with the total estimated cost.

That it is not necessary for Chinese Import Licenses to be obtained prior to the actual shipment of goods from the States.

E. Reports. Recommendations. contd.

That space should be left on the form for the following headings:

Proforma invoices obtained by Washington office

Proforma invoices mailed to Shanghai office

Bill of Lading obtained by Washington office

Bill of Lading mailed to Shanghai office

Consular Invoice obtained by Washington office

Consular Invoice mailed to Shanghai office.

Action to be taken.

Mr. Donaldson and Mr. Lee to submit to Mr. Willauer by Saturday, the 18th September 1948, a report on whether they considered the form in question necessary, what alterations or additions they would like to make to the form, and any suggestions they would like to put forward concerning it. Mr. Lee to prepare a letter to Mr. Richardson to this effect.

Mr. Lee to write to Mr. Richardson requesting that Consular Invoices and Bills of Lading be sent to him, whenever possible, so as to arrive at the Shanghai office at least five days before the date of shipments due China.

Resume.

Mr. Willauer then gave a resume of the procurement staff of the Washington office. He said that Mr. Richardson, Mrs. Richardson and Mr. Whipple were dealing with this problem. Mr. Whipple had newly been engaged by the Company, and had a good knowledge of the procurement picture in the States, and that he had spent a lot of time during the war with various aircraft suppliers.

Mr. Willauer said that Civil Air Transport and Slick Airways were considering forming a combine. Slick Airways is, at present, manufacturing about 50% of the parts it needs, and is prepared to go further, with co-operation from Civil Air Transport.

Mr. Willauer stated that the market for supplies was becoming increasingly difficult, and that one company was bidding against the other for parts which were in short supply, thus causing raising of prices. If Civil Air Transport and Slick Airways were working together, the case of one company working against the other would be more slender. He had discussed the matter with Mr. Earle Slick and Mr. Tom Grace, the Vice

Resume. contd.

President for Operations, and they had decided that with such a combine, pressure could be brought to bear on the manufacturers of parts. Furthermore, Slick Airways might well be able to manufacture enough parts for sale to other companies, so reducing the overall cost of manufacture.

Mr. Willauer stated that if the combine worked, C.N.A.C. or some South American airlines might want to cooperate.

Mr. Willauer said that, further, the manufacturing company in conjunction with Slick Airways, could become a good source of supply for the Jardine Aircraft Maintenance Company.

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Distribution:

General Chennault.  
Mr. Willauer.  
Mr. Willoughby.  
Mr. Donaldson.  
Captain Rosbert.  
Mr. Lee.  
Mr. Richardson.  
Mrs. Lonborg.  
Mr. Whipple.