

Managing Director:

Vice President, General Affairs (Henry Yuan) reported this conversation to me, I asked him to write this report so I could send it along to you as early as possible. The attitude spells trouble. He periodically has raised trouble on the point of CATCL being a completely separate entity which was not part of the original plan approved of course. MOC understands better.

Hugh Grundy

APPROVED FOR
RELEASE DATE:
09-Oct-2009

INTER-OFFICE ROUTING SLIP

REF. No. OR IDENTIFICATION
OF THE ATTACHED:

REC'D WAS OCT 3 1964

TO

MCBR

ACTION

- For your information
- Initial and pass on
- For your comments
- Please handle
- Take up with me
- For your approval
- For your decision
- Investigate and report
- Bring up to date
- Draft reply
- For your file
- Note and destroy
- Please return to:

REMARKS:

VPGA reported this conversation to me, I asked him to write this report so I could send it along to you as early as possible. The attitude creates trouble. He periodically has raised trouble on the part of CASTAL being a completely separate entity which was not part of the original plan approved of course. MOC understands better.

(Turn over for additional space)

DATE 29 Sept 64 FROM



MEMORANDUM

C O N F I D E N T I A L

REC'D WAS OCT 3 1964

TO : President

DATE: 29 September 1964

FROM : VP-GA - VP, General Affairs
(Henry Yuan)

REF. No. VPQA-64-055

SUBJECT:

Col. Lai called up on the 26th instant to tell me that, in preparing for a defensive stand vis-a-vis the Proposal of Corrective Measures passed by the Control Yuan, he was taking the position that CATCL was not a foreign-invested company. His reason was that the company is so organized that it fully meets the requirements of the Civil Aviation Code without having to resort to the advantages provided by the Foreign Investment Statute. It will be recalled that the Statute, under Article 19, Section 4, makes inapplicable Section 3 of Article 21 of the Civil Aviation Code which specifies how an aircraft may qualify for Chinese registry, one of the alternatives being that it is owned by a company limited by shares of which the Chairman of the Board, or the President, and two-thirds or more of the directors on the Board are Chinese nationals; and a part of Article 62 of the same Code which specifies, inter alia, that in case a civil air transport enterprise is organized as a company of any kind, it must conform to one of the same conditions listed under Section 3 of Article 21 referred to above, and additionally, in the case of a company limited by shares, 51 or more per cent of the shares must be held by Chinese nationals. Looking at CATCL from this isolated facet, one finds that, except for a delinquency of one-fifteenth in the Chinese majority on the Board which could conceivably be rectified without greatly affecting the investors' interests, what Col. Lai pointed out is literally true as far as the letter of the law is concerned. On this premise, he went further to conclude that CATCL should now (a) disclaim any association with the Foreign Investment Statute, and (b) set about to perfect its image as an ordinary Chinese corporation, in appearance if not in fact, its minority stock held by foreign nationals being an incidental element quite permissible by law. In the latter regard, his only suggestion was that there must be a Chinese President appointed ostensibly at least as its top managerial officer. Failing those measures, he added, that is to say, if CATCL continues to assert its status as an enterprise organized under the Foreign Investment Statute and to leave the President's position vacant, he was of the opinion that the Government could no longer treat it as a bona fide Chinese entity, and this in turn might lead to the following repercussions:

1. Its domestic route licenses being revoked on grounds of CABOTAGE,*
2. Its international route licenses being reconsidered in strict interpretation of ICAO terms. What he had in mind was not the Convention itself, but a supplemental air transport agreement in which there exists the provision that a contracting state may deny traffic rights to a carrier designated by another state if the carrier is not substantially owned and controlled by nationals of that state.

* Restriction of air transport within the boundaries of a country to domestic carriers.

MEMORANDUM

TO :
FROM :
SUBJECT:

DATE:
REF. No.

- 2 -

He asked me to transmit the above to the responsible people in the Company, and I gathered that he had already submitted his recommendations (a) and (b) stated above to MOC for consideration.

I of course pointed out to him that CATCL was organized, not as an independent entity, but only as half of a general reorganization of the late CAT-CAA-MOC, which as a whole was effected under the aegis of the Foreign Investment Statute. To my surprise he denied being fully familiar with the reorganization plan, or being possessed of a copy of it in CAA. (Col. Lai was one of the vociferous participants in the 1954 negotiation and my records show that CAA was the recipient of 2 copies of the Investment Application complete with attachments.) These events took place 10 years ago, and it is not entirely inconceivable that his recollection of them is not as sharp as that of some of us, while the current political pressure has not helped to refresh his memory any. For obviously these new thoughts on the airline's status are occasioned by the several points raised in the critical analysis made in the Control Yuan's Proposal of Corrective Measures, which was touched off by but went much farther beyond the B908 affair. How far Col. Lai's philosophy will travel remains to be seen of course, but the truth of the matter is that the Government in any case is free to grant or deny route licenses without giving any valid reasons.

ORIGINAL PREPARED BY
H. K. YUAN
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