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18 April 1969

MEMORANDUM FOR: SUBJECT: Brief for  on Air America and CASI  
Developing Local Status in Vietnam

1. The following brief has been prepared for your discussions with Mr. Six along with Mr. Bannerman during the week of 21 April 1969. It has been coordinated with

BRIEF

2. Continental Air Services operates in three countries-- Vietnam, Laos and Thailand. Generally, CASI's status and activities are:

Vietnam - CASI operates under local air carrier (AVN) rights by virtue of agreement with AVN; CASI engages in contract/charter work for contractors to the U.S. government.

Laos - CASI operates solely under authority of U.S. government agreement with Laos government; CASI engages only in contract/charter work directly for U.S. government.

Thailand- CASI operates both under local air carrier (Bira Air Transport) rights by virtue of joint venture arrangement and under authority of U.S. government agreement with Thai government; CASI engages in contract/charter work both for non-U.S. government customers and for U.S. government entities

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3. Immediately after purchase of Bird & Sons in September 1965, CASI moved to expand its operations from Laos into Vietnam and Thailand. To protect Air America and in return for arranging local introductions, Saigon Station exacted an understanding that CASI would confine its attention to contractors of the U.S. government and would not challenge Air America's monopoly of direct U.S. government flying contracts. By 19 November 65 CASI and AVN had made an agreement, under which CASI began to provide services to contractors to the U.S. government. In June 1967 the Vietnamese government made it clear that it regarded CASI's operations to be based solely on the rights to fly bestowed upon AVN and that only through AVN could CASI operate.

4. The AVN/CASI agreement contemplated AVN's contribution as being various ground handling services and facilitations (rights, clearances, etc.). In exchange for such, AVN was to receive 15% of the gross on the flying contracts CASI negotiated with the various customers (RMK and other contractors of the U.S. government).

5. In March and April of 1967 certain Vietnamese government officials reportedly exerted considerable pressure on CASI to increase its payments, specifically by making contributions to personal accounts of particular individuals. CASI strenuously resisted, even to the point of protesting to the Vietnamese Ambassador to the U.S. and to Premier Ky, himself. These actions avoided an increase in payments but resulted in harassment of CASI from some quarters of Vietnamese officialdom.

6. It is important to note that AVN is a Vietnamese government corporation and, thus, that the 15% paid to AVN accrued to the Vietnamese government. In fact, in 1968 it was established that these payments had not been retained in AVN but rather that all had passed through AVN into Vietnamese government accounts.

7. As early as January 1968 CASI pursued with AVN the possibilities of an AVN/CASI "joint venture" of a more fundamental and extensive nature. Nothing firm had gelled when in late spring GAO filed a report criticizing various payments made by the U.S. government to the Vietnamese government, including the 15% "override" paid through the U.S. contractors - CASI - AVN chain and various fees levied on MAC contract carriers. In response to the GAO report

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CASI increased its efforts with AVN to work out a "joint venture" and the U.S. Embassy put pressure on the GVN. The thrust of these efforts was to assure that AVN's sharing of proceeds was clearly related and equated to AVN's contribution of services.

8. In August 1968 CASI and AVN signed an agreement, effective 1 July 68, calling for a CASI/AVN joint venture to be set up and for CASI and AVN to share in the profits of such. In reporting this and subsequent developments, the Embassy, in a message dated 23 Oct 68, hailed the philosophy and approach being pursued as promising for the long-term and possibly even a model for private sector purchase into state-owned enterprises, the encouragement of which was U.S. policy.

9. In the August 68 agreement AVN was assured that AVN's share of the joint venture proceeds would not be less than AVN had received under the 15% rig. However, as CASI reviewed activities and particularly after reviewing the 1 July - 31 Dec 68 period, it became clear that the current level of business would not produce the assured level of proceeds for AVN. As a result, CASI apparently introduced some changes into the joint venture thinking to make it clear that AVN and CASI would share profits proportionately and that CASI subscribed only to careful, steady growth of the joint venture. CASI included as part of this growth a movement into direct contract with the U.S. government, an area of services which had been supplied exclusively by Air America. In fact, CASI stepped into this area recently by negotiation of a contract with AID/V for a C-47 for the last quarter of FY69 (mid March through 30 June), which indicates CASI no longer feels it is precluded from this business by any previous understanding.

10. The [redacted] interest in CASI's AVN activities has been largely passive. Air America met and continues to meet current station requirements. CASI's success in establishing itself in Vietnam with AVN has been and is significant to the [redacted] *only in two these* respects: (a) as a resource in being to backstop Air America should, for some unforeseen reason, Air America not be able to meet station requirements, and (b) as an indication of

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CASI's future intent and resolve to remain in business in SEA (and perhaps the Far East), and as a long term contingency capability to provide Air Support leading up to and into a [ ] situation.

11. Obviously, it is quite difficult to forecast situation requirements over the coming months and years, particularly to predict needs following some sort of political settlement. However, the FY70 requirements for Air America indicate a maximum for the foreseeable future. In gross terms FY70 requirements to be supplied by AA are 15 aircraft flying a total of 13,336 hours for the year at an estimated total cost of \$2,885,156. (Additionally, postured as a subcontract under AAM, China Air Lines will continue to provide 1 C-46 and operate 2 U.S. Government C-123's at an FY70 level of 2,532 hours and \$682,752). It should be noted that the 15 aircraft are misleading as to the level of activity since the average daily utilization would be only 2.5 hours a day (75 hours per month), a very low level of utilization.

12. Under the current operational climate the nature of [ ] requirements is and promises to be, straight transportation of the sort any capable carrier could provide. As domestic scheduled air service develops and as surface travel becomes more useable, the need for contract airlift will fall even further. The significant element is the current need for a continuing source or reliable airlift. It is our assessment, however, that a carrier, to continue to operate in Vietnam, must in some way have rights-to-fly other than through U.S. Government contracts.

13. The [ ] role in a post-hostilities situation and the need for [ ] air support capability depends on factors not now clear, i.e., terms of political settlement and the [ ] tasking. It is likely that there will be a period of transition between cease fire and the longer term political solution. The transition period may require air support for a variety of operational purposes. It is unlikely that any carrier closely associated with current or transitional [ ] operations will be capable of long-term stayability in Vietnam. Thus, for security and operational reasons, we may well have to sacrifice Air America as a long-term air support mechanism in Vietnam.

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14. In view of the operational stringencies which might be imposed in a political settlement in South Vietnam; CASI's effort to date in establishing an indigenous relationship; CASI's relative non-involvement heretofore in [ ] activities in Vietnam; and the risk that Air America's efforts to establish a long-term indigenous relationship could negate successful culmination of CASI's negotiations; [ ] could easily end up with no long-term air capability in Vietnam. Within this context, it is recommended that discussions with Mr. Six be on the basis that Air America arrangements, if pursued in Vietnam, would be on an interim, non-competitive basis, and that under no circumstances do we want to violate CASI's long-term stayability.



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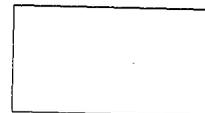
25 March 1969

MEMORANDUM FOR THE RECORD

SUBJECT: CASI Complaint re AAM Proposals to AVN

1. In response to their telephonic request in the morning, Mr. Ed Cotter, Senior VP of CAL, and Mr. Bill Hahn, Vice President and chief executive of CASI, were received by Mr. [ ] at 1500 on 24 March. Messrs. [ ] and [ ] also attended.
2. Messrs. Cotter and Hahn requested the meeting to protest Air America's offers of assistance and joint venture to Air Vietnam, which offers CASI claims have caused a breakdown of the CASI/AVN joint venture negotiations.
3. Mr. Cotter reviewed CASI's original agreement of 15% override to AVN and subsequent efforts to develop alternative, more wholesome arrangements which culminated in an agreement in August 1968. This agreement called for a CASI/AVN joint venture to be set up and provided for a sharing of profits with AVN being assured of the same level of proceeds as it received under the previous 15% rig. The first six months (1 July - 31 Dec 68), however, had not resulted in the expected profit level, and upon review CASI proposed a revised joint venture plan. While CASI does not forecast a level of business in the immediate future sufficient to produce profits meeting AVN's desires, CASI does see such prospects and goals reached over a period of careful and steady growth. Part of their growth includes providing some of the services to the U.S. Government now supplied exclusively by AAM.
4. CASI management insists that a joint venture must prove itself capable of making a profit before any extensive expansion of equipment and business would be entertained. AVN (the Vietnamese government) wants an assurance of \$700,000 per year and only thereafter is interested and concerned in the development of a viable joint venture.

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5. Continental's interests include both CASI's role in SEA and CAL's future in the Pacific. The Vietnamese are interested in domestic and international development, as well. Some Vietnamese officials, such as Mr. Lan (Vietnamese Director of Civil Aviation), are particularly interested in AVN's international expansion and see the CASI/AVN deal as a prelude to cooperation with CAL.

6. CASI charges that the CASI/AVN pursuit of a joint venture has been sidetracked by Air America's offer of a better deal than CASI can afford to make. Mr. Viet, president of AVN, was scheduled to proceed to Los Angeles "today" (24 March) to complete negotiations with CASI but decided otherwise in view of AAM's Saigon visit and offer made earlier this month. While other carriers have looked at AVN and specifically Flying Tigers had talked with Mr. Viet, CASI has been able to demonstrate to Mr. Viet's satisfaction that CASI, which is already established in SEA, is in a better position to help. CASI says it cannot, however, compete with Air America in offers to AVN.

7. CASI strenuously objects to competition from Air America, "an arm of the U.S. Government".

8. Mr. [ ] advised that Taipei had recently (early March) concluded a 727 maintenance agreement with AVN, but that he doubted the maintenance agreement could have been interpreted by anyone into the situation which Mr. Cotter described.

9. Mr. [ ] explained that [ ] has for some months been studying various possibilities for the use of Air America in support of presumed continuing U.S. Government responsibilities in the area, but that since the assumptions are not yet clear, we have not embarked on a firm line of action. In this connection, however, it is an agreed [ ] policy to do nothing at this time that would have any adverse effect on CASI's program and interests. This policy has been communicated to the field. It is further our policy if and when any action is contemplated which might affect CASI's interests, such would be discussed with Mr. Six first. We have no knowledge of the alleged discussion or

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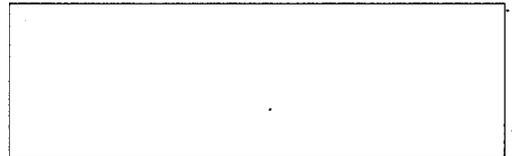
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propositions by Air America and have no indications of such, and note that no specifics of such have been identified by CASI.

10. As to what might have happened, Mr. [ ] speculated on a number of possibilities, such as, misunderstanding, maneuvering on the part of the Vietnamese for the sake of negotiation, misinformation, etc. In regard to the allegations concerning Air America, Mr. [ ] emphasized that [ ] respects Continental's interest; however, on the other hand, [ ] cannot be the champion of Continental's cause, and would not want at a later date to hear from others that we, by our attitude, had, in fact, favored Continental in the commercial field. Mr. [ ] concluded that it appeared that the next step would be for all concerned to try to develop the true facts, and in this connection we would in due course be in touch with Mr. Cotter.

11. Turning to Mr. [ ] statement of concern for a possible misunderstanding of our attitude towards Continental, Mr. Cotter recognized the validity of this concern and also undertook, at Mr. [ ] request, not to reveal to AVN or others anything in regard to this exchange. Mr. Cotter advised that CASI intends to continue pursuit of the joint venture. In doing so, CASI will insist that no one can or will produce a better deal than CASI, and will encourage AVN to recheck Air America's alledged offer.

12. Finally, Mr. Hahn observed that he was pleased to have our policy reaffirmed and that he has no worry about the policy but that there may be questions as to the carrying out of the policy.



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