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CS Historical Paper

No. 87

Volume I of IV

# CLANDESTINE SERVICES HISTORY

(TITLE OF PAPER)

CIVIL AIR TRANSPORT (CAT)

A PROPRIETARY AIRLINE

(PERIOD)

1946 - 1955

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Date published: April 1969

Copy #2 of 2 copies

Controlled by : SO Division

Date prepared : April 1967

Written by : Alfred T. Cox

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Copy No. 1 of 2: SOD

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VOLUME I

THE HISTORY OF CIVIL AIR TRANSPORT (CAT)

1946 - 1955



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## PREFACE

The writer of this Historical Paper, Mr. Alfred T. Cox, had served with the OSS during World War II in both the European and China Theaters. While in China, he had become acquainted with Major General Claire L. Chennault, whose 14th Air Force flew the training and operational missions of the Chinese Commandos, for which Cox and his OSS command were responsible. After the war Cox maintained occasional contact with Chennault, who had remained in China, and, in partnership with Mr. Whiting Willauer, had established a non-scheduled domestic airline, as recounted in the paper.

Cox was called to duty with the Office of Policy Coordination (OPC) in early 1949, at a time when Chennault had returned to Washington and was urgently pleading with Government leaders for effective assistance to the Nationalist Government to prevent a complete Communist takeover in China. When policy approval was given for OPC to explore the possibilities for lending such assistance, it was agreed that Cox, under the very plausible cover of a special assistant to Chennault, particularly for political and military affairs, would go to the field as the OPC Chief of

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Mission. As he became more and more involved in the management of the airline, he was named its vice president. Then, when Willauer resigned in 1952, Cox was designated president of the airline, a post which he held until 1 January 1955, at which time he returned to Headquarters. (During the period in which he served as president of the airline, Cox did not hold any Agency employment status since it was felt that it would have been impossible for him to have carried out his responsibilities under the restrictions of compliance with governmental administrative regulations.)

It was agreed that Cox could not carry out the joint responsibilities of airline president and OPC Chief of Mission and that a senior Agency officer should be placed under airline cover to assume the OPC Chief of Mission responsibilities. This was not accomplished until the arrival in the field of [redacted]

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As noted in the paper, Cox has written of the events of the period as seen from the viewpoint of the man in the field. He has not made any contact with the

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overt airline office in Washington, but he has made extensive research of such Agency files that could be located. In order to present a complete record, therefore, it will be necessary at some point to have a parallel paper written, setting forth the story as seen from Washington and Headquarters. As Cox has noted, differences of opinion will be evident in the two papers, but such differences will be factual and true.

Mr. Gates Lloyd, who was the Senior DDS officer most familiar with the administrative and management aspects of the airline, wrote a short paper before his retirement, in which he traced the fiscal record of the airline after the Agency involvement.<sup>1/</sup> It is by no means a Historical Paper, but it will probably be useful to the writer who undertakes the parallel paper noted above.

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~~SECRET~~I. INTRODUCTION

The purpose of this paper is twofold: first to recount the history of Civil Air Transport (CAT), with regard to its establishment, commercial operations, provision of air support for Agency and other U.S. national objectives, and the provision of cover for Agency personnel under which they could carry on other Agency activities. This is followed by a general discussion of the factors that should be considered in the establishment of any other similar air support capability.

This particular paper is written almost entirely from the viewpoint of the man in the field. It can be truthfully said that there are two versions, at times quite divergent, of the history of CAT. There is the viewpoint of the man in the field as presented herewith, and there is the viewpoint of the man in Headquarters who is charged with the administrative details of negotiating arrangements with CAT management and eventually of the purchase of the airline. Although the two stories may appear to differ radically, neither is necessarily false. Relationships in the field between Agency personnel and CAT management were extraordinarily harmonious

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and cooperative. Relationships at Headquarters between Agency personnel and CAT management (Mr. Thomas G. Corcoran, Major General Claire L. Chennault, USA (ret.), Mr. Whiting Willauer and Mr. James J. Brennan) were often strained and bitter with a mutual interchange of mistrust and suspicion.

Certain specific operations or sets of circumstances have been selected for separate treatment as annexes to the basic paper. This is because the particular series of events described are of a type that can rather readily be separated from the main papers, that lend themselves to the telling of a story with human interest beyond the more prosaic recital of a chronology of historical events, and because the nature of the events described may be such as to require a higher security classification than that of the basic paper.

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~~S E C R E T~~II. FORMATION OF CIVIL AIR TRANSPORT (CAT) - 1946

The story of Chennault and his Flying Tigers (American Volunteer Group - AVG) and their support of the Chinese Nationalists is very well known and hardly requires repeating. It is sufficient to indicate that, at the close of World War II, Chennault held an unparalleled position of esteem with Generalissimo and Madame Chiang Kai-shek, and in the hearts and minds of the Chinese people. Willauer, although not as well known publicly, had also been of brilliant service to the Chinese Government of World War II. He received his B.S. degree from Princeton and his law degree from Harvard, and then held a position as a legal advisor to the Civil Aeronautics Board in Washington in 1939. In 1941 he became a special assistant in the U.S. Department of Justice, and then became a member of the China Defense Supplies Corporation (CDS) headed by Doctor T.V. Soong. Later, in 1944, Willauer became Director of the Far Eastern Branch of the Foreign Economic Administration. He and his family became well known in the Orient from Shanghai to Hong Kong and Tokyo.<sup>2/</sup>

Chennault and Willauer had become firm friends during World War II, and in the fall of 1945 they formed

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a partnership for the purpose of organizing a new airline in China.<sup>3/</sup> Both were convinced that there was an urgent requirement for airlift in China because of the vast distances and the inadequate communications networks. They estimated that they would require about \$250,000 of working capital to tide the airline over until it could support itself. In the United States they were associated with Mr. Corcoran, the famed "Tommy the Cork" of the New Deal era and a senior partner in the law firm of Corcoran, Youngman and Rowe (now Corcoran, Foley, Youngman and Rowe). Corcoran was, in effect, a silent but potent partner of Chennault and Willauer. He was very highly connected, on a first-name basis with the most important political leaders, and was capable of exerting a very considerable influence. These three men formed an extremely formidable trio, each one bringing to the partnership abilities and skills supplementing those of the others. They entered into negotiations with Mr. Robert Prescott, president of the Flying Tiger Line (U.S.) and a former pilot of distinction with Chennault's Flying Tigers prior to U.S. entry into World War II. It appeared that Prescott and his associates would be willing to provide the necessary working capital.<sup>4/</sup>

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Prescott sent his brother, Louis, to China in the fall of 1946 to complete the negotiations for the provision of the working capital and to act as comptroller of the funds when furnished. En route to China, Louis was killed by a stray shot meant for someone else while quietly reading a newspaper in the lobby of a Manila hotel. When he was accidentally murdered, there was no one available in the Flying Tiger organization to take his place and, therefore, the line backed out of the proposed deal.

This left Chennault and Willauer in desperate financial straits. They had obtained an airline franchise from the Chinese Nationalist Government (ChiNats) and had made arrangements for the purchase of surplus aircraft in Manila and Honolulu. They estimated that they had only enough money left between themselves to carry on as they were for about a month and a half longer. They turned to Chinese bankers and, after 35 days of intense negotiations, were able to raise the necessary funds. They were greatly assisted in this by Doctor Wang Wen-san, a Chinese banker, and Mr. L.K. Taylor, a businessman with a long background of experience in the Orient.<sup>5/</sup>

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The Chinese National Relief and Rehabilitation Administration (CNRRA), the Chinese counterpart of the United Nations Relief and Rehabilitation Administration (UNRRA), was in urgent need of an airlift which would connect such seaports as Shanghai and Canton to the small cities and villages of the interior where consumer items were so desperately needed. Although there were two other airlines operating in China, the China National Aviation Corporation (CNAC), with 20 percent Pan American Airways ownership, and the Central Air Transport Corporation (CATC), wholly owned by the Chinese Nationalist Government, CNRRA had found by experience that these lines could not be relied upon for consistent response to their requirements. On 25 October 1946, CNRRA signed a contract with Chennault and Willauer to provide the required airlift by means of an airline company to be organized by Chennault and Willauer and to be known as CNRRA Air Transport (CAT).\*

As soon as this contract had been signed, negotiations were undertaken to obtain surplus cargo C-47 and C-46 aircraft. Five C-47's were purchased in Manila and flown to Shanghai on 27 January 1947. The first official flight for CNRRA from Shanghai to Canton had been made on 21 January 1947 in an aircraft that was already

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\*Middle 1948 renamed Civil Air Transport (CAT).

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available. Eighteen C-46's were purchased in Honolulu; after they had been "unpickled" and put into flying condition they were flown to China. The first three of the eighteen C-46's arrived in Canton on 1 March 1947.<sup>6/</sup>

As rapidly as possible, CAT went into continuous operation, carrying relief supplies from the various ports to the interior. Often there was space available on the aircraft when they returned from the interior, and individual CAT pilots were the first to realize that this represented a valuable economic opportunity. On their own, they began to make purchases in inland areas of such raw materials as cotton, hog bristles, tobacco leaf, wolfram, tin, etc., which were in great demand in the major seaports. On those occasions when there was space available on inbound flights, such finished items as bicycles, which were in great demand upcountry, were used to take advantage of the available space and were resold or bartered at a substantial profit. It did not take long for the CAT management to recognize these profitable opportunities, and they formed a trading corporation known as the Willauer Trading Company, which was established as a preferred customer of CAT and had first call on available space. This company was managed by Taylor, who has been

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mentioned previously. It became a rather profitable business venture. There was probably some ill feeling amongst those pilots who had been operating independently, but they recognized the right of management to have first call on the use of their aircraft.

In the latter part of 1947, the momentum of the Chinese Communists' (ChiComs) advance began to accelerate and to have an effect on CNRRA's operations. The effect of this advance on CAT operations has been vividly described in a short history of the line.

"In the latter part of 1947, CAT began its historic flights against time--that is, the time left before the entry of the Communist forces in one town after another. First it was Weihsien in Shantung Province where CAT kept a Communist-surrounded city in food and essentials for many weeks while evacuating essential personnel to safety before the city finally fell. This pattern was to be followed in town after town as CAT planes flew in and out steadily on evacuation missions even while shells burst on the runways, sometimes damaging the planes.

"On the mainland, CAT (which became Civil Air Transport operating as a private concern in the middle of the year 1948) maintained field offices in cities from China's far north to its most southern points and from its eastern seaports to its western frontiers. In many instances, all business matters as well as operations had to be conducted on the airfields, and our personnel were called upon to transact every phase of airline operations and business no matter how sketchy their previous experience or training might have been. In most cases, our people outdid themselves to accomplish the best possible achievements for CAT; challenging, perhaps because the company was

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not only new and still not well organized, but also because the tasks set before many of us were of such proportions as to be almost impossible. Everyone gave his best efforts without stinting, and felt a personal pride in each and every incident that brought fame and renown to CAT. Then too, CAT was fighting China's war--a losing war to be sure--not with guns and bullets but with airline facilities, the only way available to bring out evacuees from surrounded cities as well as to bring supplies to those who had to remain behind.

"As China's mainland fell slowly under the iron curtain from the north to the south, CAT of necessity moved its people, its planes, and its maintenance shops first from Shanghai to Canton, then from Canton to Kunming, then from Kunming to Hainan Island, and finally in utter exhaustion and confusion from Hainan to Taiwan. To those who know even a little of the importance to successful airline operations of permanent well-equipped maintenance facilities, it is readily understandable what a difficult time CAT had during the years of 1948-1949. Our whole structure was jolted from one town to another only a few jumps ahead of our enemies, the Reds. CAT pilots were haggard, thin and exhausted from months of flying unheard-of schedules with no thought of refusing, because China's plight was obvious. CAT ground crews worked long, uncomplaining hours on aircraft, though schedules were so busy that maintenance was of necessity at a minimum and shops were moved so often that as much time had to be spent on assembling shops as on maintaining airplanes. CAT aircraft were dusty and dirty, but, like the pilots who flew them, they kept going until the pressure was off; that is, when Kunming fell in December of 1949. CAT found itself pushed back to Hainan, Hong Kong and Taiwan. In April of 1950, Hainan, mainly through defection, fell into the Red's hands and CAT fell back to China's last free bastion--Taiwan." 7/ 8/

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~~SECRET~~III. U.S. CHINA POLICY - SPRING AND SUMMER - 1949NSC 34/2

As the Chinese Nationalist situation steadily deteriorated throughout 1948 and early 1949, the U.S. posture crystallized into what the Nationalists contemptuously termed a "wait and see" policy. From the military viewpoint, Major General David Barr, USA, in command of the Joint United States Military Advisory Group (JUSMAG) was convinced that the Nationalist strategy of clinging to over-extended lines of communication, poor generalship, the absence of responsibility to the Supreme Command, the lack of an effective air force, and the ingrained dislike of destroying or abandoning supplies (which were, of course, taken over by the ChiComs and used against the ChiNats) doomed the Nationalists to defeat.<sup>9/</sup> On 18 December 1948, General Barr advised that:<sup>10/</sup>

"Marked by the stigma of defeat and the loss of face resulting from the forced evacuation of China, north of the Yangtze, it is extremely doubtful if the Nationalist Government could muster the necessary popular support to mobilize sufficient manpower in this area (South China) with which to rebuild its forces even if time permitted. Only a policy of unlimited United States aid including the immediate employment of United States armed forces to block the southern advance of the Communists, which I emphatically do not recommend, would

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enable the Nationalist Government to maintain a foothold in Southern China against a determined Communist advance . . . . The complete defeat of the Nationalist Army is inevitable."

Even though Generalissimo Chiang Kai-shek had nominally retired and gone into seclusion on Taiwan he had clung to the real reins of authority in the government and in the army. His successor as President, Li Tsung-jen, rather highly regarded as a man of integrity, was effectively neutralized in his efforts to institute real reforms, eliminate corruption, and stay the general deterioration. Ambassador Leighton Stuart strongly endorsed General Barr's views. <sup>11/</sup>

In view of the unanimity of reporting by highly competent observers who were on the spot, the National Security Council (NSC) in early February 1949 decided tentatively to avoid commitments to any factions and to suspend shipments of supplies, even those en route. On 3 March 1949, the President approved NSC 34/2 as a statement of United States policy toward China. <sup>12/</sup>

One of the recommendations made in NSC 34/2 was as follows:

"We should avoid military and political support of any non-Communist regime in China unless the respective regimes are willing actively to resist Communism with or without U.S. aid and, unless further, it is evident that such support would mean the overthrow of,

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or at least successful resistance to, the Communists."

The approval of this recommendation by the President effectively ruled out any consideration of OPC support to the Nationalist Government as such, since, as stated previously, it was the considered opinion that the Nationalists could hold South China only by a policy of unlimited aid and the immediate employment of U.S. Armed Forces. Furthermore, the proviso that any support to other indigenous elements that "would mean the overthrow of, or at least successful resistance to, the Communists" appeared to rule out any other courses of action. A further statement of policy appeared in paragraph 18 of NSC 34/2:

"Our principal reliance in combating Kremlin influence in China should, however, be on the activities of indigenous Chinese elements. Because we bear the incubus of interventionists, our official interest in any support of these elements, a vast and delicate enterprise, should not be apparent and should be implemented through appropriate clandestine channels."

Mr. Frank G. Wisner, Assistant Director for Policy Coordination (ADPC), immediately asked the Policy Planning Staff of the Department of State for instructions as to how to proceed in implementing this policy.<sup>13/</sup> The reply from State left little doubt that they considered that the implications of the NSC action lay

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almost entirely in the realm of propaganda. A short statement near the close of the reply mentioned the eventual possibility for "large scale clandestine material support" to organize Chinese anti-Communist movements, "but both the situation in China and our operations there will have to develop considerably before such possibilities materialize." <sup>14/</sup> State believed that covert propaganda in the form of newspapers, leaflets, radio, and the encouragement of rumors would be most immediately useful.

On 16 April 1949 Ambassador Stuart in Nanking advised that he had been directly approached by Ma Hung-kuei, Nationalist general and warlord of Ninghsia Province in Northwest China. <sup>15/</sup> Ma had emotionally expressed his determination to continue to fight against the Communists until the very end. Ma was a Moslem, and the hard core of his combat troops were Moslems. He stated that his primary and most urgent need was for ammunition for his weapons in order to keep up his struggle. Ma had previously been reported as having introduced various reform measures in his province and for having done a good job in training local militia units, but his ability as an Army Commander in large-scale warfare had not been tested.

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Ambassador Stuart was favorably impressed and recommended that State give consideration to giving some form of effective assistance to Ma. On 19 April, Minister Lewis Clark in Canton commented favorably on Stuart's recommendation

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At this point OPC drafted a proposed response to Stuart and Clark indicating that State recognized the advisability of exploring the Ma proposal. Ma should be given restrained encouragement, and the Department should be kept informed of Ma's whereabouts. State decided against the reply on the basis that Stuart could not act upon it and that Clark would not be sufficiently secure. 17/

As spring moved on toward summer in 1949, the political climate in Washington with regard to China began to heat up. More and more attention was being given, with comment in the daily press and in responsible periodicals, with regard to the so-called "wait and see" policy and to the impact on Southeast Asia (SEA) in the event of a complete ChiNat collapse on the mainland. Chennault returned to Washington from China in early May 1949, determined to remain in the

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States until the U.S. Government adopted a firmer anti-Communist policy toward China. With his tremendous prestige as the founder of the famed Flying Tigers and later Commanding General of the 14th Air Force, he gained ready access to the highest levels in government. He appeared before the Senate Foreign Relations Committee in early May, leaving with them a prepared statement with accompanying appendix, and discussed the situation in China in detail with members of the committee. He met with the Secretary of State and Dr. Philip Jessup, and with the Director of Central Intelligence. Other prominent Americans with broad experience in China, such as Lt. Gen. Albert C. Wedemeyer, USA; Admiral Oscar C. Badger, Commander U.S. Naval Forces, Far East; and Admiral Charles Cooke, USN (ret.), swelled the chorus of those supporting Chennault's position.

On 9 May 1949 senior OPC officials met with Chennault in the General's office in the Hotel Washington. Those attending were Messrs. Frank G. Wisner, Carmel Offie, Franklin A. Lindsay and Joseph A. Frank.<sup>18/</sup> The General gave to Mr. Wisner a copy of the prepared statement submitted to the Senate Foreign Affairs Committee, and then discussed the

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statement in detail. In summary, the General felt that, with adequate assistance, Western China could be held on a line running roughly from Ninghsia southward to Hainan Island. He attached major importance to Yunnan Province. He discussed a number of leading Chinese personalities, mainly provincial governors, speaking most highly of Ma Hung-kuei. He expressed his personal loyalty to the Generalissimo, but did not press for the channeling of assistance through the Nationalist Government. Instead, he urged that an American Mission should be established with elements located along the lines of communications and combat fronts, and that all aid should be sent to the Mission to be distributed by them to the fighting armies. He stated that he had just received a communication from Chiang Kai-shek in which the latter expressed himself agreeable to such an arrangement.

The General also discussed the current status of his airline, Civil Air Transport (CAT), and his plans for its future operations. No mention was made at this meeting as to possible utilization of CAT for support of OPC operations.

A memorandum from the Department of State to OPC, on 8 July 1949, indicated that the Secretary of State,

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in conference with Mr. Paul Hoffman and Mr. Roger D. Lapham, had specifically rejected the subsidization of American airlines in China, including CAT. [redacted]

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[redacted] this was not a substitute for the positive operations envisioned in NSC 34/2. 19/

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It was considered that, under the broad policy of NSC 10/2 and of Mr. George H. Butler's (State Department) interpretation of NSC 34/2 (see pp. 12 and 13), OPC could make a survey of current conditions on the Chinese mainland, for the purpose of preparing recommendations as to possible actions to be undertaken. At the direction of the ADPC, therefore, a project was prepared [redacted] which outlined the purposes of such a survey and established the necessary budget. This project was approved by ADPC on 6 June 1949.

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A considerable amount of thought was given to the selection of a suitable individual [redacted]

[redacted] for the project. It was considered quite important that the individual so selected should have had previous experience in China. The final determination was made that Mr. Malcolm Rosholt was admirably

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suites for this assignment. A few words might be pertinent at this time with regard to Rosholt. He was a journalist/lecturer who, prior to World War II, had spent a considerable amount of time travelling throughout China and had acquired an adequate fluency in the language. During World War II he had served with the OSS, most of his time being spent as liaison officer with General Hsieh Yo in a large pocket of resistance in South China between the Pacific shores and the internal Japanese lines of communication. After the war he had continued his interest in Chinese affairs, lecturing to various audiences in the United States. He was contacted at his home in Rosholt, Wisconsin, and invited to Washington, where the purpose of the project was explained to him, and he was asked if he would undertake the responsibility [redacted] [redacted] for the project. He very willingly accepted the assignment. (b)(1)  
(b)(3)

Consideration had also been given to the project outline to insure that Rosholt would be able to travel as freely as conditions permitted throughout those areas of China which were still accessible, with particular regard to the northwest. Arrangements were made with Chennault to write a letter to his partner, Willauer,

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introducing Rosholt and requesting that CAT furnish him transportation as best possible to wherever he might wish to go. Consideration was also given to providing Rosholt with means of communication. From his wartime experiences he knew [redacted] (b)(1)

[redacted] who had heartily concurred in the selection of Rosholt [redacted] it was no problem to arrange communications from Hong Kong. For upcountry (b)(1) communications two possibilities were explored: (b)(3)

[redacted]

As matters turned out (b)(1)  
(b)(3)

when Rosholt arrived in the field he decided that for security reasons it would be best that he not use CAT or any communications facility [redacted]

[redacted] (b)(1)  
(b)(3)

Rosholt departed from Washington in late June.

[redacted] he departed for upcountry. (b)(1)  
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He had very little difficulty in arranging for transportation through CAT. He proceeded up into the northwest and made contact with Ma Pu-fang, ascertaining

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his general situation, his strength and his intentions. Ma Hung-kuei, an ill man with a bad diabetic condition, was discounted as a possibility of strength. Rosholt contacted other war leaders, including General Pai Chung-hsi in Kwangsi and his old friend General Hsieh Yo in Kwangtung. He reported back to Headquarters when and as he could. By the time he returned to Washington in late August, Headquarters had a pretty fair outline of the recommendations Rosholt would make regarding possible assistance to resistance on the mainland.

On 1 and 2 September 1949, ADPC and members of his staff briefed the Secretary of State, Dr. Philip Jessup, and Mr. George Kennan concerning the situation in Southwest and Northwest China and OPC potentialities in that area.<sup>20/</sup>

ADPC notes in his memo that Rosholt had acquitted himself extremely well in rendering an accurate and factual report of what he had seen and what he had been told during the course of his survey mission.<sup>21/</sup> In addition he was in the process of preparing a series of memoranda covering the historical record of key personalities who might be involved and certain economic possibilities in minerals, oils, etc.<sup>22/ 23/</sup>

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During the course of the two meetings Dr. Jessup raised the following questions:

a. Would it be possible to undertake a series of fairly substantial support projects in a completely secure manner?

b. Assuming that a program or programs were undertaken and the news got around and questions followed, what could the State Department do and what could they say?

c. If it became generally known that the U.S. Government was involved in this support program, would it not follow from this that the honor and prestige of the United States were involved in the success or failure of the resistance effort?

d. On behalf of the Secretary, Dr. Jessup also wanted our estimate of the cost of the program.

Dr. Jessup said that he could not understand why the Russians were able to do these things and get away with them, while at the same time it was thought it would be so difficult for us to operate without exposure.

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Mr. Wisner gave tentative answers to these questions and instructed his staff to prepare formal answers to each as rapidly as possible.

There followed a series of memoranda which attempted to give honest and realistic answers to these questions. It was recognized that the larger and more complex any support program might be, the greater was the risk of suspicion that the U.S. Government was involved.

On 27 September 1949, a formal proposal was sent by ADPC to Mr. George F. Kennan.<sup>24/</sup> It pointed out that the CIA had a responsibility for providing a continuous flow of intelligence information from foreign areas, including China, and that OPC was specifically directed to engage in psychological warfare against the Chinese Communists and to exploit possibilities of reducing the influence of Soviet Communism in China. Current CIA and OPC field facilities were inadequate and all available time would be required to establish effective staybehind networks and underground channels. The only practical way of securing additional time would be immediately to undertake such clandestine action as was possible in order to resist and impede the Communist conquest of the remaining free areas of China.

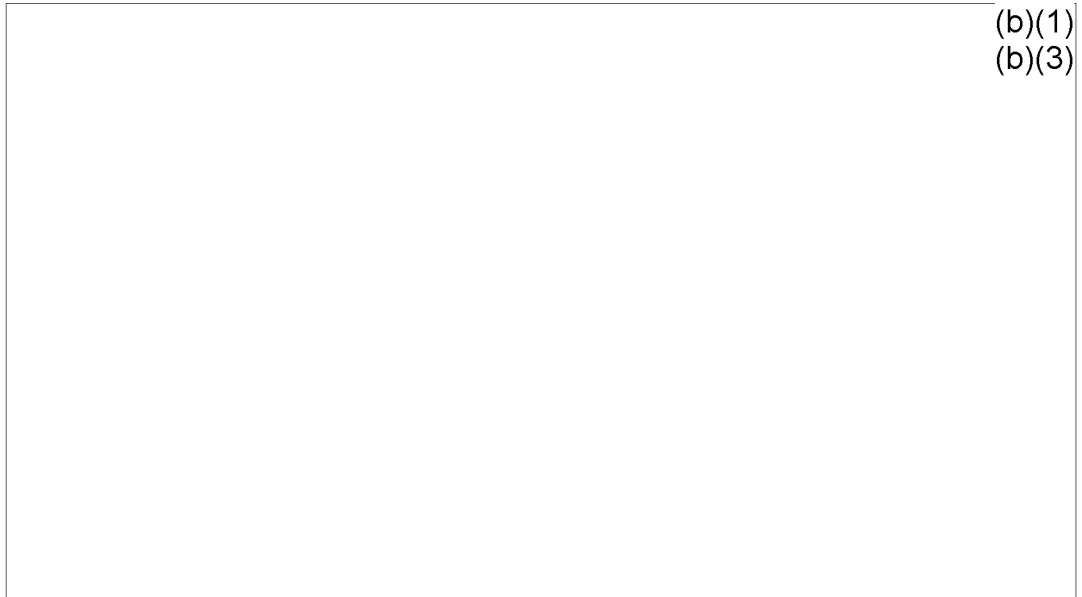
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The paper requested that immediate authorization be given for carrying out the following program:

"6. Minimum Requirements:



It had been decided that since time was such a vital factor and since assets it had hoped could be preserved were rapidly disappearing, suitable personnel should be dispatched to the field so as to be in position to implement any measures receiving policy approval. In the event that such policy approvals were not forthcoming, such personnel were to observe the situation on the mainland and report their observations to Headquarters. A number of individuals were considered for this assignment, a few were contacted, but none could be located who were willing to undertake the mission.

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At that time, Alfred T. Cox was serving as a Special Assistant to the Chief of Operations OPC, and had been intimately involved in the development of  the conversations with the State Department <sup>(b)(1)</sup><sub>(b)(3)</sub> following the return of Rosholt. Cox had earlier served with the OSS in North Africa, Italy and France in 1943 and 1944, and in China during the last year of World War II. He had been associated with and had maintained a friendly relationship with General Chennault. He did not have the language or area knowledge that Rosholt possessed, but he had had a considerable amount of military experience and was also familiar with Headquarters procedures and with the problems involved in interdepartmental relationships. He was asked if he would accept a TDY assignment to implement any of the measures that might be approved by the State Department. Cox agreed to do so, and Rosholt indicated that he would be glad to accompany Cox and to serve as his principal assistant.

It was arranged with General Chennault that CAT would provide cover for both Cox and Rosholt. Cox could act as a Special Assistant to the General with particular responsibility for political and military affairs, and Rosholt, in view of his journalistic

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background, would be assigned as a member of the airline's public relations staff. After rather hurried briefings, Cox departed for Hong Kong on 3 October 1949 with General and Mrs. Chennault, without waiting for State approval of the program proposed in ADPC's memorandum of 27 September 1949. Rosholt followed two or three days later. General and Mrs. Chennault and Cox arrived at Kaitak Airport in Hong Kong on 8 October 1949. They were met by Mr. Whiting Willauer, by Mr. James J. Brennan (the treasurer and secretary of CAT) and by other operating officials. The General retired to his residence to rest, and Cox, Willauer and Brennan met throughout the afternoon in Cox's room in the Gloucester Hotel. Cox briefed Willauer and Brennan in full on his mission and his cover; future procedures were then discussed.

It has been previously noted that the mission departed for the field without waiting for State policy approvals. On 4 October 1949, ADPC received a memorandum from Mr. Kennan, the Counselor of the State Department, which stated that it was considered that OPC was justified in proceeding at once to make a very discreet on-the-spot evaluation of the situation with regard to the objectives stated in Mr. Wisner's memo

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of 27 September.<sup>25/</sup> Mr. Kennan suggested that continued planning be carried on with a view to mounting the full program as soon as careful evaluation had determined that there was a good chance of its success. He requested that he be kept informed of progress. The memorandum assumed that funds for the second phase of the program would be available from CIA appropriations as there was no assurance that State would have funds available for the purpose.

Headquarters had quite properly decided that Cox and Rosholt would depart for the field under the authority provided [redacted] since State policy approval had not been received for further action. (b)(1)  
(b)(3)

Once the policy approval from Mr. Kennan was received, [redacted] was drafted and was approved by (b)(1)  
(b)(3)

Mr. Wisner on 12 October 1949.<sup>26/</sup> The objectives of the project were:

- a. Bolstering of selected elements in areas of China not under Communist domination which were resisting or were capable of resisting Communism.
- b. Conduct of appropriate OPC activities against the Communist domination of China.

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c. Establishment of adequate standby facilities for the conduct of appropriate activities in China subsequent to Communist domination.

In order to accomplish these objectives, it was proposed  on a subsidy project basis for a series of specifically related operations, each to be described, approved and implemented  Such operations could include, but were not limited to:

(b)(3)  
(b)(1)  
(b)(3)

1. Utilization of CAT as a means of providing cover, communications, and transportation facilities for the achievement of the objectives.

(b)(1)  
(b)(3)

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~~S E C R E T~~by Mr. Wisner. 27/

On 10 October a quick visit was made to Canton, which at that time was the central operational base for CAT. The fall of Canton was imminent, and feverish preparations were under way to evacuate personnel and as much material as possible to Hong Kong. The LST, which contained a large amount of stores as well as shop equipment, and the supply barge departed for Hong Kong on the 12th. Willauer and Cox also returned to Hong Kong on the same day. CAT completed its evacuation of Canton on the 13th, the day on which the Communists moved in and took over the city. There were some last-minute problems as the coolies at the airfield, realizing that their source of livelihood was leaving, tried to prevent the departure of the last aircraft. Willauer made a quick trip to Canton, and by means of bonus payments was able to effect the release of the planes.

Chennault and Cox proceeded to Taipei on 15 October, and were provided quarters at the Generalissimo's guest house in the sulphur springs area to the west of the city. The Generalissimo granted Chennault an interview on the afternoon of the same day. Chennault and Cox had agreed that it would be better for Chennault to go unaccompanied because of his singular personal

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relationship with the Generalissimo. At this meeting Chennault briefed the Generalissimo in accordance with the cover story to the effect that private American citizens were willing and in a position to grant assistance directly to field commanders on the mainland who were continuing their resistance against the Chinese Communists. At this first meeting the Generalissimo was noncommittal, obviously not entirely happy, and told Chennault that he would see him again the following day.

On the 16th Chennault again met with the Generalissimo who advised that he would not object to or interpose any interference with the implementation of the plan proposed by Chennault, but he foresaw certain problems, particularly as regarded the morale of the leaders and troops who did not receive such assistance. Thus, with a sort of mixed blessing, it was agreed that the project could go forward.<sup>28/</sup>

Chennault and Cox returned to Hong Kong and then went on to Chungking. A meeting was arranged shortly after arrival with President Li Tsung-jen, Premier Yen Shi-shan and members of their cabinet. Chennault again repeated the cover story to the President and Premier. They naturally were quite agreeable and grateful for the proposed program as they recognized

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that it would bypass the Generalissimo's control over those leaders who were more loyal to the President than to the Generalissimo. Early the next morning, Chennault and Cox returned to Hong Kong.

Having satisfactorily completed all of the protocol arrangements, Cox and Rosholt immediately proceeded to Kweilin, which at that time was the headquarters of General Pai Chung-hsi. Before arrival they were able to get word to Pai that they would like to meet with him. When they landed, one of Pai's principal staff officers, a General Lee, who spoke nearly adequate English, met them in a rather dilapidated sedan which, nevertheless, was the pride of Pai's motor pool. They were taken at once to Pai's headquarters.

After introductions and an exchange of pleasantries, Cox and Rosholt went into conference with Pai. Lee acted as Pai's interpreter. The two Americans told Pai that they wished to be apprised of the current situation in his area and his future intentions. Pai stated that he intended to fight the Communists until the end, even if it meant falling back into redoubt areas and carrying on guerrilla warfare. He then outlined his current position. His front lines, stretching from east to west, north of Kweilin, were under heavy pressure from

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the Communist forces. His left flank was rather securely anchored in the foothills leading up into the Yunnan Mountains. His right flank was giving him his major concern. This area extended halfway between the Kweilin - Liuchow - Nanning axis eastward to a point about halfway between that axis and Canton. Pai was aware that the Generalissimo was in the process of pulling armies out of the areas to his east and removing them to Taiwan. The Communists had been attempting a double encirclement which he had had no trouble in containing on his left flank, but he was concerned very much with regard to the right flank. At the same time the Communists were continuously maintaining heavy pressure on his front line, making it both difficult and risky for him to attempt to pull out any of his forces to bolster his right flank.

Cox and Rosholt then discussed privately their next action. They agreed that, particularly since Ma Pu-fang had been forced to flee and his resistance in the northwest had collapsed, Pai represented the only truly significant anti-Communist effort on the mainland; thus, giving assistance to him to bolster his morale and to increase the effectiveness of his effort was justified. It was decided that Rosholt, having command

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of the Chinese language, would remain with Pai at his headquarters for a few days to continue his observations and inspect as many of the troop units as possible, while Cox would return to Hong Kong in order to cable the recommendations to Headquarters. Cox departed early the next morning for Hong Kong and from there cabled to Headquarters a summary of the conversations with Pai and a recommendation that assistance [redacted] (b)(3) be furnished him as quickly as possible.<sup>29/</sup>

Headquarters approved the recommendation and reported that arrangements were being made with the Treasury [redacted]

[redacted] This money was provided rather quickly, but (b)(1) (b)(3) there still remained the problem of how and in what form these funds were to be transferred to Pai.

It was agreed by all that the funds for Pai should not be furnished in the form of U.S. currency because of the requirement of nonattributability. It had been suggested, moreover, that the funds be furnished in the form of silver dollars, but the great weight of this amount of dollars made this impossible.<sup>30/</sup> Since the

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30. The silver dollars would have weighed well over ten tons, requiring at least two C-46 flights. It would have been impossible to take such a load out of Hong Kong and into Kweilin securely and without observation.

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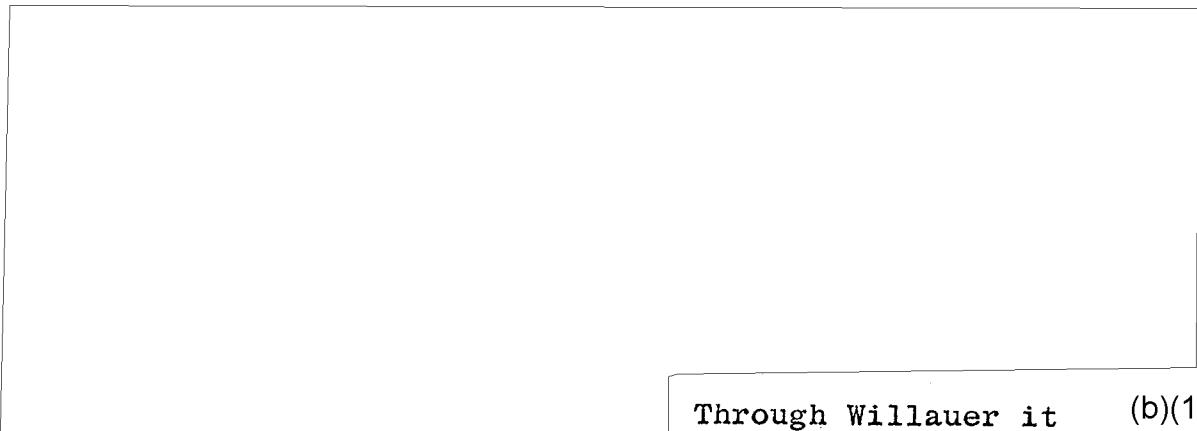
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Hong Kong dollar was as acceptable as the U.S. dollar in Southern China, it was therefore decided that the payments would be made in Hong Kong dollars.

At that time the uncertainty of events on the mainland and speculation as to the future of Hong Kong itself was causing a wide daily fluctuation in the free money exchange market in Hong Kong. The sudden dumping of  U.S. dollars on the Hong Kong exchange would be noticed, if only as a matter of curiosity, and undoubtedly would have an effect on the rate of exchange.

(b)(3)



Through Willauer it (b)(1)  
(b)(3)

was arranged for the exchange of U.S. currency in increments so as not to affect the market unduly; Willauer used the cover story that heavy losses sustained by CAT in the evacuations on the mainland forced the company to find financial support in the U.S. so as to meet its more pressing obligations. This was a reasonable story in view of CAT's successive evacuations, losses of

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material, and losses in exchange, particularly in Chinese currency. Cox and Rosholt were able to exchange [redacted] without too much delay. (b)(3)

They acquired [redacted] [redacted] almost all of it in large denominations; two large wicker baskets were required to transport this currency. With the assistance of CAT operational personnel, the two baskets were placed aboard a CAT C-46 without attracting the attention of the Hong Kong customs authorities or any other British agencies. (b)(3)

Cox and Rosholt departed for Kweilin, at the same time arranging to have Pai apprised of their impending arrival. They were again met at the airfield by Lee and his staff, accompanied by a dilapidated but still operable truck. The two Americans were startled to see their luggage, including the wicker baskets, thrown on the truck, which then drove off with a load of coolies. You can imagine the mental state of Cox and Rosholt at that moment. Dispensing with formalities as rapidly as possible, they entered the sedan with Lee and two other officers and took off. On arrival at Pai's headquarters, they were overjoyed to see their luggage, complete with wicker baskets, sitting outside the door. It was explained to Pai that the two Americans had been very

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much impressed with his determination, his ability, and the status of his forces. They had communicated these impressions to various wealthy persons in the U.S. who felt great friendship for Free China. These persons had volunteered assistance which, at the moment, could only be in the form of money. The two Americans had, therefore, come to bring him a considerable amount of cash which they were sure would be used wisely and well, both on behalf of his troops and for whatever local purchases might be feasible.

They requested that Pai designate officers to count the funds with them, since they in turn had an obligation to furnish proper receipting of funds that they had transferred to the principals who had provided the funds. Pai designated Lee as his representative. The funds were thereupon counted and Pai receipted for them. Pai assured the Americans that the money would have a very beneficial effect on the morale of his troops.<sup>31/</sup>

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31. It has been noted that various Headquarters reports of this payment to General Pai have shown discrepancies both as to the kind of currency paid and the amount. Several memos state payment was made in silver dollars, while others confused HK dollars with U.S. dollars.

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Again it was agreed that Rosholt would remain with Pai for several days while Cox returned to Hong Kong to report the transfer of funds, to begin planning for similar operations in other areas, and to initiate action on other activities [redacted]

(b)(1)  
(b)(3)

Headquarters was informed that delivery had been made, and Pai's receipt for the funds was sent in by pouch.

Rosholt and Cox continued to alternate their visits to Pai's headquarters, spending a day or two each time. These visits were helpful to his morale as the situation was steadily deteriorating. On 26 October 1949, Cox reports Pai's situation as he saw it. <sup>32/</sup>

"I feel that cables have fairly well covered our course with General Pai and our plans for immediate aid. I would like to caution against paying too much attention to newspaper reports as to conditions at his front, and to discount the importance of his possible withdrawal from Kweilin. I am much more worried that Pai will try to hold Kweilin too long, in order to justify the aid he is expecting, and that he will have some of his forces pretty badly cut up. His position at Kweilin is tenable only so long as his right flank holds against the Commie forces coming westward along the West River from Canton. Prior to the time of my visit, responsibility for the flank protection had been delegated to the troops now evacuating from Canton. The Generalissimo had suddenly pulled two of his armies from the mainland to

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Formosa. Pai had to rush two of his main front armies to the South to protect his flank and unless they arrive in time and can stop the Reds, Pai must pull back to Liuchow. The Red threat South from the West pincer of a possible double envelopment has been turned back by Pai's troops. There is little doubt Pai is faced with an all-out effort to destroy him. His planning against this includes guerrilla warfare, staybehind groups, scorched earth policy and CA attacks on supply routes. If the Commies get too overextended he may be able to do a lot of damage to them."

(b)(1)  
(b)(3)

Since time was of the essence, arrangements were made for some supplies such as coffee, butter, cigarettes and reading materials to be rushed up to them since this would probably be the last opportunity they would have to obtain such luxuries. Part of the contribution was made by the Agency in the names of Brennan and Cox, and a number of other CAT personnel also contributed. It was felt that at some future date

particularly in assisting downed personnel (b)(1)  
(b)(3)

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trying to work their way back to Hong Kong.

On Wednesday, 23 November 1949, the day before Thanksgiving, Cox made another visit to Pai. While en route he was called forward to the cockpit by the pilot, who pointed below to a massive crossing of the West River. There were two almost solid lines of small craft. Those moving from north to south were full of troops. The empty boats were moving from south to north to pick up new loads. It was almost certain that the troops involved were Communists, not part of Pai's armies. The place was roughly in the area of Wuchow, which was about half way between Canton and the Kweilin-Liuchow axis.

By that time, Pai had anticipated that he would have to pull back from Kweilin, and his headquarters would then be established at Liuchow. Immediately on landing, Cox told Pai about what had been seen, and the exact location was pinpointed on the map. Cox returned to Hong Kong on a Lutheran Mission plane on 24 November.

During the night of 24-25 November Liuchow fell to the Communists, and Pai once again had to pull back. He established his headquarters at Nanning. During the week after Thanksgiving, a delegation of U.S. Senators and Congressmen, including Senator William Knowland of

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California, visited Hong Kong on a tour of the Far East. Senator Knowland wished to go upcountry. While other members of the party remained in Hong Kong, CAT flew Knowland first to Chungking to visit the President and Premier, and on the way back stopped off at Nanning for discussions with Pai. After leaving Nanning, Knowland insisted on being flown over Liuchow so that he could see what the Communist-occupied ground looked like. He made a most favorable impression on Chinese and Americans alike.

Relentless Communist pressure finally forced Pai to break up his army. Most of his troops fled south to French Indochina where they were peacefully integrated; many established agrarian communities of their own where they grew their own food and existed without causing trouble for the French authorities.<sup>33/</sup> General Pai, himself, and a few of his troops were able to make their way to Hainan Island where, of course, he had no army and, therefore, no influence. He returned to Taiwan and, as was customary, the Generalissimo appointed him to a high-sounding strategic planning board, granting him an allowance that permitted him to maintain a home and a small retinue of staff officers. Cox visited him on a number of occasions, always to be

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warmly received, and long discussions were held with him as to the future. It seemed apparent that he had not had time to really build up any kind of staybehind net, although he did maintain some form of contact with friends in Kwangsi.

After liaison had been established with Pai, attention was paid to other areas where assistance might be given the anti-Communist cause. Southeastern China had to be written off, because it was under the control of the Generalissimo; he was rapidly removing its armies to Formosa. There seemed to be no way to bolster effective resistance. Two possibilities remained, however: Hainan Island and the Province of Yunnan. On Hainan Island two actions remained to be taken. The first was to encourage the governor of the island, General Chen Chi-tang, to continue to resist a Communist takeover of the island. He had been joined by General Hsieh Yo, who had pulled back to Hainan from the Canton area and still had some of his troops with him. The bulk of his forces had been transferred to Taiwan. Secondly, it had been the original intention  to establish a main CAT base in the southern end of Hainan Island where there was an airfield and a harbor at Sanya and Yulin. This airfield could be used for air support of the mainland. The

(b)(1)  
(b)(3)~~SECRET~~

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port offered a ready facility for transshipping supplies brought in for forces on the mainland. It was decided, therefore, that at the first opportunity Rosholt, who knew Hsieh Yo very well, would visit Hainan Island for discussions with Chen Chi-tang and Hsieh Yo to determine their intentions with regard to holding the island.

In Yunnan, a mountainous province which normally would be considered quite defensible and which had proved to be so in World War II, rumors had been rife that Governor Lu Han (who had assumed this post shortly after World War II when the Generalissimo had forced the removal of Governor Lung Yun) would turn over the province to the Communists. The main CAT engineering base was located at Kunming, as chance would have it, at a major installation that had been named Chennault Airfield. Any sudden defection to the Communists would mean a very considerable loss of material and aircraft, and the possible capture of a considerable number of personnel, many of whom were Americans with families. It was decided that, initially at least, Rosholt could handle the situation at Hainan Island, and Cox would go to Kunming for conversations with Lu Han.

Cox visited Lu Han in Kunming in mid-November, accompanied by P.Y. Shu, for many years Chennault's

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trusted interpreter. He carried with him  which Headquarters had authorized him to use at his discretion, since time was so obviously short, and communications had not been established at that time except from Hong Kong.

(b)(3)

He found that Kunming had not changed greatly from when he had last seen it in 1945 except, of course, it was a little shabbier, a little dirtier, a little more depressing. Lung Yun had amassed a tremendous fortune during World War II, largely by pilfering tires and jeeps, and constantly tapping the oil line running across the hump from Burma into China. At one time during World War II he had such a large stock of jeep tires that he issued an edict that all ox carts must have jeep tires on their wooden wheels; in 1949 one could still see ox carts with bits and pieces of tires clinging to the wheels.

Cox's reception by Governor Lu Han was gracious. After the usual exchange of pleasant conversation, Lu was queried as to what he thought of the future of Yunnan in view of the rapid ChiCom advances. Could it be defended, and would he defend it? Just how did he view the situation? The Governor replied at length and with considerable honesty. He admitted that the

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natural geography of the province made defense quite possible. However, he pointed out that he had no sources of supply or of funds, and that he could not long withstand a siege without assistance. There were indications also that he, in effect, was saying that since he could not hold out forever, the best thing to do was to reach an accommodation with the Communists which would permit him to survive with at least some prestige. He was told that a number of wealthy and influential Americans were vitally interested in the continued resistance of the Chinese people against the ChiComs, and that the writer had come prepared to offer at least a token of support that might be of encouragement. He replied that he would very much appreciate any support that he might be given, but that he recognized the practical impossibility of such support being of the type and amount that might permit him to continue for very long. At that point Cox turned over to him the  asking only for a receipt which could be handed to the people who had given the support, and hoping he would resist as long as possible. No comment was made on the fate of the CAT facilities and personnel beyond the passing mention that a tangible evidence of the good faith of the Governor was the mere

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fact that this facility and the personnel had remained. The Governor said that he very much appreciated that faith; Cox was sure that Lu knew he was being asked that, if the time came when he felt he had to reach an accommodation, he would insure that American personnel of CAT would not be unduly endangered.

On 16 December 1949, Lu Han made his decision and the airfield, the CAT facility, and personnel were seized by what had formerly been Nationalist Government troops. Lu Han then, hastily living up to his implied pledge, rushed to the airfield with his personal body-guard, secured the release of the aircraft and CAT personnel. These people were able to evacuate together with other Americans in Kunming, including the vice consul, and with as much equipment as they could carry in the space available on the aircraft.

The price of  may seem high to a casual reader. However, in terms of aircraft, equipment, and much more important, personnel, it was a low price to pay for getting out of Kunming as well as was accomplished. The Americans alone could have been held for ransom of many times the amount paid to Lu Han.

(b)(3)

In the meantime, Rosholt had gone to Hoi-Hou, the capital of Hainan Island, in order to talk with Chen

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Chi-tang and Hsieh Yo. Chen, a rather elderly man, had not had too much in the way of combat military experience. He reiterated his determination to hold the island and was interested in what Rosholt had to tell him about plans to establish a CAT base in the southern part of the island and also the possibility of developing some of the island's natural resources, which were considered to be plentiful.

Rosholt also talked with Hsieh Yo and found that although his desire and determination were still high he had not been able to maintain control of sufficient troops to be able to exert much voice in planning for the defense of the island.

Upon Rosholt's return to Hong Kong, he and Cox discussed what might be the most reasonable course of action and agreed that a sum in the amount of  should be paid to Chen Chi-tang in order to stiffen his will to resist, and that at least a token payment should be made to Hsieh Yo in the hopeful event that at some date he might be able to exercise a greater voice in establishing the defenses of the island. Recommendations to this effect were approved by Headquarters.

(b)(3)

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At about this time, Cox and Rosholt were joined in Hong Kong [redacted] and Cox (b)(3) were very old friends, having served throughout the war together, and [redacted] arrival was indeed very welcome. (b)(3) It was decided that [redacted] would go to Hainan Island (b)(3) to meet both Chen Chi-tang and Hsieh Yo, and to make the approved payment to them. This was done - [redacted] (b)(3) to Chen and [redacted] to Hsieh. <sup>34/</sup> (b)(3)

On this same visit, [redacted] proceeded to the south (b)(3) of the island to inspect the airbase at Sanya and Yulin. In the meantime, CAT engineering personnel had been preparing engineering studies on the nature and cost of facilities that might be required if an operational base were to be established there. However, the rapid turn of events and the swift advances of the ChiComs, the dissolution of Pai's armies, and the defection of Lu Han to the ChiComs focused attention, both in Headquarters and in the field, on a re-evaluation of the desirability of establishing the proposed Hainan base. It was recognized that if a decision was made to move to an established base in Taiwan, it would inevitably put the Generalissimo in a better position to oversee Agency operations. As a practical matter, the decision had to be made to abandon the idea of a Hainan

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base and, instead, to seek base facilities on Taiwan under the best possible terms that could be arranged with the ChiNat Government.

Negotiations for establishing a base on Formosa proved to be less difficult than had been expected. Permission was granted to bring the LST and the supply barge, "The Buddha", to Kaiochung, a good port in southern Taiwan some twenty or thirty miles from the Tainan Airfield, a major Chinese Air Force base in good condition. Warehousing space was also allocated to CAT at Tainan. As rapidly as possible, the move was made. The shops already installed on the LST remained there, and other facilities were established at Tainan. Although a considerable amount of trucking back and forth between the port and the airfield was required, it did not take too long to establish the operational base.

The last days on the mainland were marked by a series of unfortunate incidents. The area around Mengtze, in the southeastern part of Yunnan Province, contained valuable tin deposits, and every effort was made to remove as much of the tin as could be mined at the last minute to ports of Indochina, either Hanoi or Haiphong. Contracts were made with CAT for the airlift

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of the tin ingots. On 8 November 1949, a CAT C-46 lost an engine on takeoff and crashed. The two Chinese crew members, a co-pilot and radio operator, parachuted safely. One made his way back to CAT, the other was never heard from again. The pilot, Captain Norman Jones, went down with the aircraft and was killed.

On 6 December 1949, a CAT C-46 piloted by Captain James B. "Earthquake McGoan" McGovern, while en route from Hong Kong to Kunming, encountered unfavorable weather conditions, lost communication with Kunming and wandered around lost until almost out of fuel. The pilot successfully made a belly landing on a sand strip in the middle of a small river, with no injuries to passengers or crew. However, they were all quickly rounded up by the Chinese Communists.

McGovern, a fabulous character of whom more will be said later, weighed somewhere in the vicinity of 300 pounds and was a boisterous character, known throughout the entire Far East. The ChiComs began to march the crew and passengers (McGovern was the only American) to internment in a prison. With his tremendous weight and possibly a lack of good physical condition, McGovern refused to walk; and, probably because of his size and

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his determination, the ChiComs finally had him carried in a portable sedan by coolies. As the story goes, McGovern was such a holy terror to his Chinese captors, demanding extra food, better food, women on occasion, etc., that after six months the ChiComs gave up and released him. He crossed the Hong Kong-China border on foot, heavily bearded and down to what was for him a slim and trim 185 pounds. Other individuals captured by the ChiComs were not so fortunate.

The tin airlift from Mengtze continued as long as it was possible to fly in and out, but orders had been given that no American or any other CAT personnel would remain overnight at Mengtze, always taking the last plane out back to Haiphong. On the evening of 15 January 1950, Captain Robert Buol, who was in charge of the tin lift, having been assured by the ChiNat Generals that the ChiComs were still far away, decided to remain overnight against his standing orders. The ChiComs moved in that night and Buol was taken prisoner. As the first CAT C-46 came in on the morning of the 16th of January, it encountered machine-gun fire as it attempted to land. After making another try, with the same reception, the plane returned to Haiphong. Later in the day, another C-46 flew in and

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attempted to land and get Buol out. It too was met by machinegun fire, and the co-pilot, "King George" Davis, received a bullet in his leg. As luck would have it, this particular pilot was a British citizen. He was highly indignant over the fact that although the British had just recently recognized the Chinese Communist Government, and he was wearing a bright red tie, he was the one hit by the bullet.

Buol was taken to Kunming where, although he was treated quite well, he was held in prison until the summer of 1955. On his release he was given a thorough physical examination and returned to the States. He and his wife, Sue Buol, the long-time secretary of Chennault, were invited to Washington for what they believed to be extended debriefings. Cox met with them there at the time and found that they had been almost completely ignored, and that no real attempt had been made to debrief the pilot. Buol was again given a thorough physical examination, and seemed to be in good shape. He spent a number of months with his wife on the West Coast, appearing to be completely normal. He and his wife wanted to return to CAT and decided to travel back by way of Europe so that Buol could contact two or three of the Frenchmen who had been imprisoned with

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him in Kunming. He preceded his wife, Sue, by a few days. Mrs. Buol was at dinner with the Coxes at their home in Washington when word was received that Buol had died very suddenly while taking a hot bath in a small town in the south of France. An inquest was ordered held in view of the peculiar circumstances of his sudden death, and it was determined that the capillaries in his lungs had suddenly collapsed and that he had died from excessive flooding of blood into the lungs. It was Cox's unprofessional opinion that Buol should have been more carefully instructed to effect a gradual change of diet after living on a rice diet for more than five years, and that the sudden change to rich American types of food probably had proved more than his system could assimilate.

In the meantime, back at Headquarters the China operations were, at least as of 25 November, still considered to be worthwhile and worth continuing. In a memorandum of 25 November 1949, Mr. Wisner reported to his principal staff officers on his presentation of the status report on China given in Mr. Webb's office at State. Present were Mr. Butterworth, Mr. Joyce, and Mr. Sheppard from State; General John Magruder and Mr. Halaby from Defense; the DCI and Mr. Wisner. <sup>35/</sup>

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Mr. Wisner reported that the majority of the people present seemed very pleased with the way things were going although Mr. Butterworth, though not entirely opposed, did not seem to be too happy.

The possible use of Haiphong as a base was discussed at length. It was pointed out that the French might be willing to permit this as long as the Communists did not hold the contiguous areas such as Yunnan, but that they might swing the other way just at the time when the base was most needed. There was a discussion also of the recognition of Communist China. It was thought that the Indians would recognize the ChiCom Government very quickly and would be followed by the British.

A cable to this effect was

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approved on 30 December 1949.<sup>37/</sup>

During the early weeks of December, Mr. Wisner attended a high-level meeting with State officials to discuss the future insofar as China was concerned. As a result of these meetings, he wrote a memorandum to his principal staff officers on 19 December 1949, advising them that they should be prepared for a change in policy guidance on OPC operations in China which would probably limit any further support of resistance or guerrillas but which would probably permit the continuation of propaganda operations.<sup>38/</sup>

On 31 December 1949, Mr. Wisner received a memorandum signed by a Mr. Robert G. Hooker on behalf of Mr. Kennan.<sup>39/</sup> The memorandum made reference to the situation arising from the collapse of organized Nationalist military resistance on the mainland. It stated that commitments on the mainland should be withdrawn as rapidly as possible since there was no confidence that any guerrilla operations would produce results commensurate with the risk and political hazards in preparing and following such a course. It was deemed unwise for additional Americans to proceed to the Far East in connection with this operation, and directed that those Americans now there should be

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withdrawn from the mainland

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Mr. Wisner also stated that, in view of the extremely precarious situation in French Indochina, the latter territory should not be used as a base for covert operations directed against China.

The Wisner memorandum did leave open the possibility of maintaining effective contact with guerrilla or resistance leaders for the purpose of intelligence or for providing estimates in the future for such situations as might develop.

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He further noted that the highest degree of expert political thought and ideological advice would be necessary.

A digest of this State Department policy guidance was cabled to Hong Kong for Cox.

The ChiComs were not apparently in any great rush to seize Hainan Island. Chen Chi-tang and his forces remained there until April. At that time, the ChiComs crossed the narrow channel and took the island,

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practically without opposition. As many Nationalist troops as possible were evacuated from the south of the island to Taiwan. So ended the last vestige of Nationalist control over the mainland with their only remaining territory the island of Taiwan and a few offshore islands.

[redacted] It might be appropriate (b)(1)  
(b)(3)  
at this time to note the failures and some of the accomplishments of this particular phase.

It was true that not enough time was gained by supporting the mainland forces to establish adequate intelligence and [redacted] which had been one of (b)(1)  
(b)(3) (b)(3)  
the primary purposes of this phase of the project. By force of circumstances, furthermore, [redacted] CAT [redacted] (b)(1)  
[redacted] had to be moved to Taiwan wh (b)(3)  
they were subject to more control by the Nationalist Government than was desirable. In point of fact, the [redacted] which was (b)(1)  
(b)(3)  
perfectly logical since the main CAT headquarters, particularly insofar as finances were concerned, stayed in Hong Kong. There were a number of factors on the plus side, however. [redacted]

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[redacted]  
relationships had been established

Secondly, excellent (b)(1)  
(b)(3)

[redacted]

(b)(1)  
(b)(3)

but for reasons of security and convenience it was much  
more desirable [redacted] (b)(1)  
(b)(3)

[redacted]

At the time when [redacted] was first being (b)(1)  
(b)(3)  
developed in Headquarters, discussions were held between  
OPC and OSO [redacted]

[redacted]

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(b)(3)

In point of fact, in the field OSO and OPC found no difficulty or incompatibility in pursuing their respective interests. On many occasions they assisted each other in carrying out operations. The new State policy toward operations in China as given to OPC at the end of December 1949 permitted continuing contact with resistance and guerrilla groups on the mainland for intelligence purposes, and to take advantage of situations that might develop.

  
(b)(1)  
(b)(3)

There were occasions when OSO had opportunities, without the funds, at which time OPC could be of assistance. There were other occasions when OPC had the opportunity but not the policy, and then OSO could assist on the grounds that it was an intelligence operation. There was more than enough room and work for all, and a spirit of harmonious co-operation rapidly developed between elements in the field.

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This completes the story of the attempt to support the mainland resistance. Succeeding sections of this paper will cover earlier days in order to recount some of the other activities which occupied the attention of the OPC Mission.

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~~SECRET~~IV. CAT SUPPORT OF CIA ACTIVITIES

This section of the paper will describe the support provided to CIA activities through the cover afforded by the CAT Airlines. In general, air support will not be included, except in a few instances where it was required to move material or personnel for Agency purposes.

It should be recognized that an unusual situation prevailed in the Far East from early 1949 to approximately 1955. [redacted] (b)(1)  
[redacted] (b)(3)

[redacted] who has administrative and clerical support [redacted] and who is able to maintain complete records and to furnish required monthly reports, and the like. He can conduct operations with a tight control (particularly insofar as records are concerned), something that cannot be done [redacted] (b)(1)  
[redacted] (b)(3)

[redacted] Many of the activities that will be listed in this section of the paper would in most instances be controlled and directed [redacted] (b)(1)  
[redacted] (b)(3)

When Cox proceeded to the field in October of 1949

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(b)(3)

there were no OPC Stations as such in the Far East area.

All records had to be maintained [redacted]

[redacted] since the writer, informally designated as

[redacted] Chief of

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(b)(3)

Mission, CAT, had to operate without the possibility of maintaining records of any sort. A great number of problems and difficulties arose, especially with regard to reporting and administrative records.

Such a situation is rare and probably no longer exists. As a matter of history and in the event that such a requirement should arise in the future, however, the material presented in this section may be of value.

#### Propaganda

Cox did not receive his Letter of Instructions until 3 October 1949, the date of his departure. It was stipulated therein that the instructions be committed to memory, since the paper could not be carried to the field. It was also stipulated that, prior to departure, the writer should consult with representatives of all of the program branches of CPP/OPC to determine:

- a. What special interests, problems, or questions they might have with respect to the area;

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b. What specific instructions they wished to convey in implementation of [redacted] in their particular field of responsibility. (b)(1)  
(b)(3)

In view of the time element, consultation with the various branches necessarily had to be limited to perhaps a half-hour for each branch.

Cox met with [redacted] CPP, and spent half an hour with them. The discussion had to be general in nature. It was indicated that [redacted] would probably be coming to the field at a later date to carry out propaganda responsibilities. The Letter of Instructions contained no specific provisions with regard to propaganda.<sup>41/</sup> (b)(3)  
(b)(3)

After the fall of the mainland, and after Cox had returned to the field, he was given a supplementary Letter of Instructions<sup>42/</sup> which contained specific instructions concerning the implementation of Project [redacted] and any auxiliary psychological warfare projects. [redacted] which concerned itself with instructions and budgeting for propaganda and psychological activities. It stated that [redacted] who had already arrived in the field earlier in the year, [redacted] for that program. The statement was made that Cox was (b)(1)  
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(b)(1)  
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to bear in mind the Department of State directive that dependence upon and cooperation with the Nationalist Government in the implementation of the propaganda program was to be held to a minimum. Also, Cox was to be guided by State and NSC policy directives, but all U.S. action was to be such as to encourage initiative by the non-Communist forces, and to encourage action which would appear to the inhabitants of the area as compatible with their national interests and worthy of support. Activity should be directed at the negation and eradication of Soviet influence in China, and the diffusion and diversion of Chinese Communism to the point where it would be replaced by Chinese Nationalism and some form of indigenous democracy.

At this point a few words might be in order with regard to . He was of slight build, but with a tremendous amount of drive and energy. He was very strongly motivated against Communism, almost to the point of fanaticism. He was careless of dress and careless (perhaps sloppy would be the proper word) in his accountings and his reportings to Cox. He worked at a tremendous tempo and, although he was often at the Correspondents Club, it was obvious that he was much more concerned with his job than the other correspondents

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in the area who were procuring most of their information through British Hong Kong offices, the American Consulate General, etc., and were not particularly energetic in active contact with indigenous Chinese elements. [redacted] (b)(3) worked with great energy at trying to contact large numbers of refugees as soon as possible after they crossed the Hong Kong border.

As a result of these interviews, [redacted] wrote a (b)(3) book entitled [redacted] This book (b)(3) received considerable acceptance,

[redacted] (b)(1)  
[redacted] (b)(3)

It was unfortunate that before [redacted] came to the (b)(3) field arrangements had not been made between Headquarters and [redacted] regarding any future publications. (b)(3) At a later date friction apparently developed between [redacted] and Headquarters elements, since Headquarters (b)(3) felt that he was a full-time employee during the period in which he gathered this material and wrote the book, and that at least a portion of the royalties received from the sale of the book should go to Headquarters, rather than all being kept by [redacted]. It appears that (b)(3)

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this may have been a cause for [redacted]

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[redacted]  
43/

[redacted] biggest contribution to the propaganda effort came through the good services of [redacted] who introduced him to Hsieh Ch'eng-ping.

(b)(3)

(b)(3)

Hsieh, at the time approximately 45 years old, was well educated, having received his Bachelor of Arts Degree in the History Department of the National Central University in 1928; later, after attending Michigan University in 1928-1929, he received his Master of Arts in Political Science and History at Columbia University. He was strongly anti-Communist and not pro-KMT. He was active in various so-called Third Force movements and, at that particular time, was General Manager of the "Freedom Press", a publication issued in Hong Kong. Previously he had been a member of the Young China Party of the Democratic League and of the National Salvation Association in Shanghai. Hunter and Hsieh cooperated very well and produced a number of effective publications.

On 3 October 1952, having been recalled to the States, [redacted] reviewed his relationship with Hsieh in

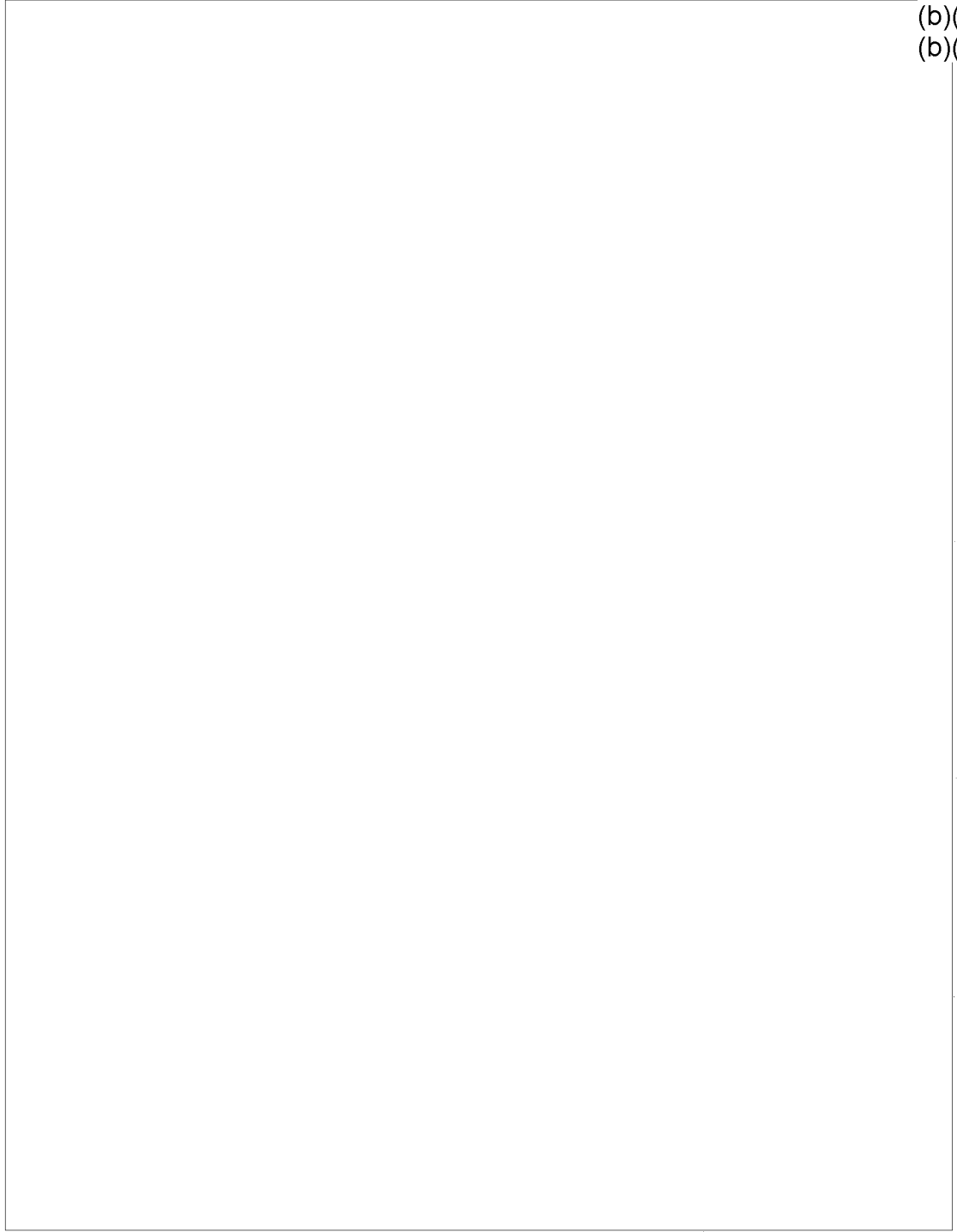
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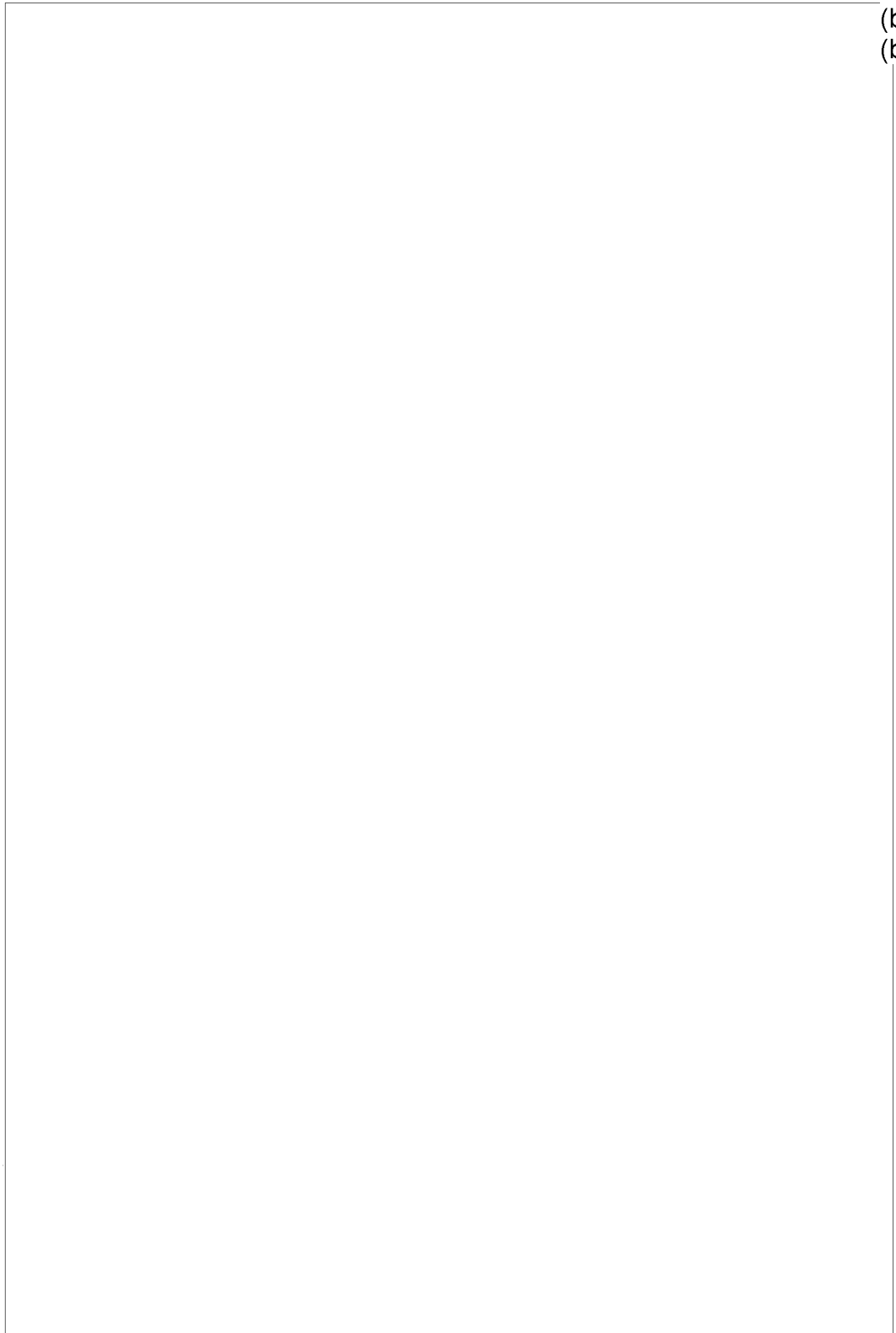
a memorandum dated 3 October 1952. He considered the major accomplishments to have been:



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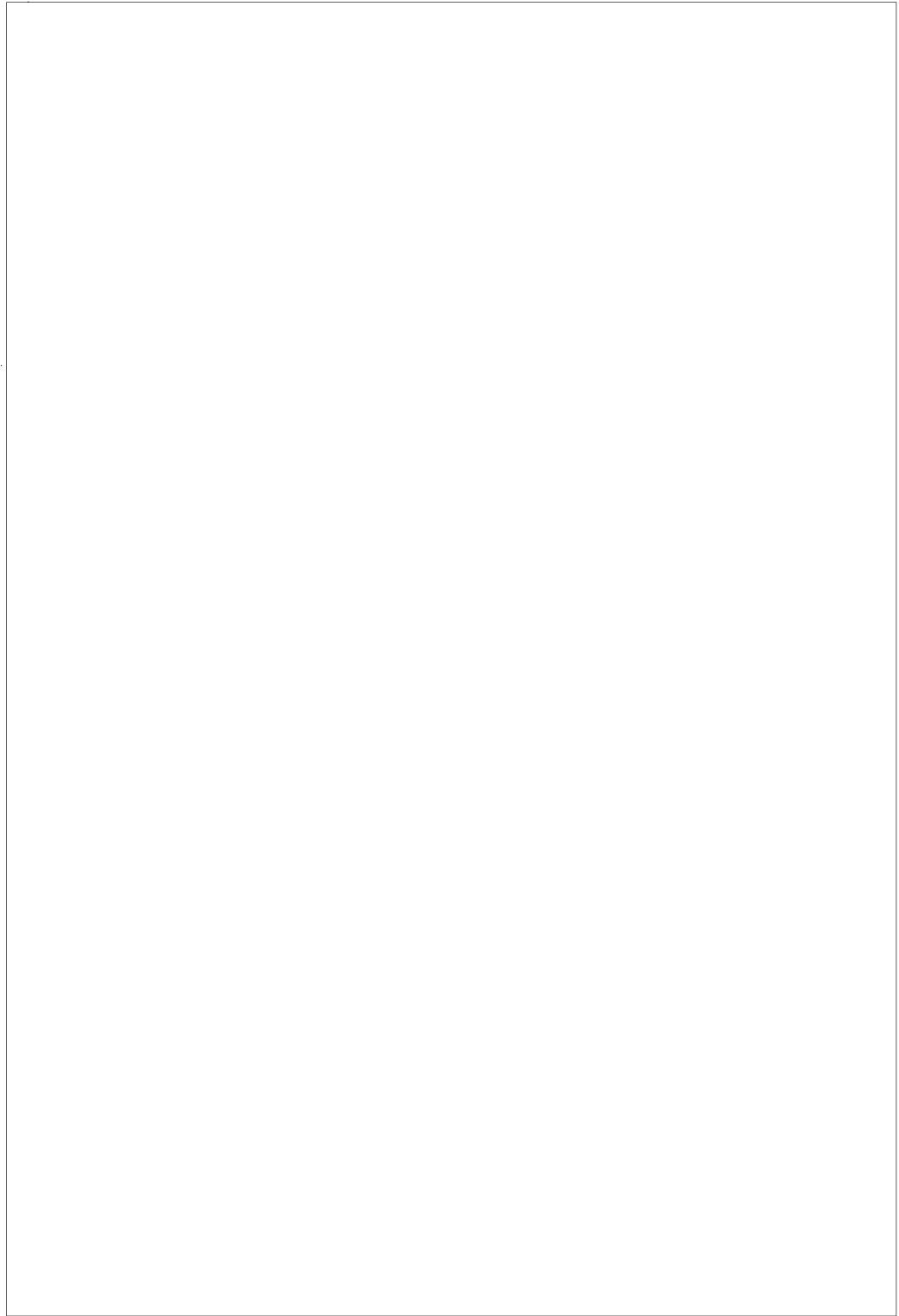
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The Chinese Communists were extremely active in Hong Kong. They controlled a number of newspapers, including the one with the largest circulation. They also published a number of magazines, booklets, pamphlets, comic books, etc. Hsieh's activities in the anti-Communist propaganda field were attended by constant danger of retaliation from the Communist elements in Hong Kong. On one occasion he and his wife and children, en route to a movie, were set upon

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by a political gang. Hsieh was badly beaten up and his wife suffered a dislocated jaw. On another occasion (b)(1)  
(b)(3)  
the British political police raided Hsieh's home [redacted]

[redacted] They (b)(3)

found the money on his premises. He told them, as he had told them before, that his rich in-laws in San Francisco were the source.

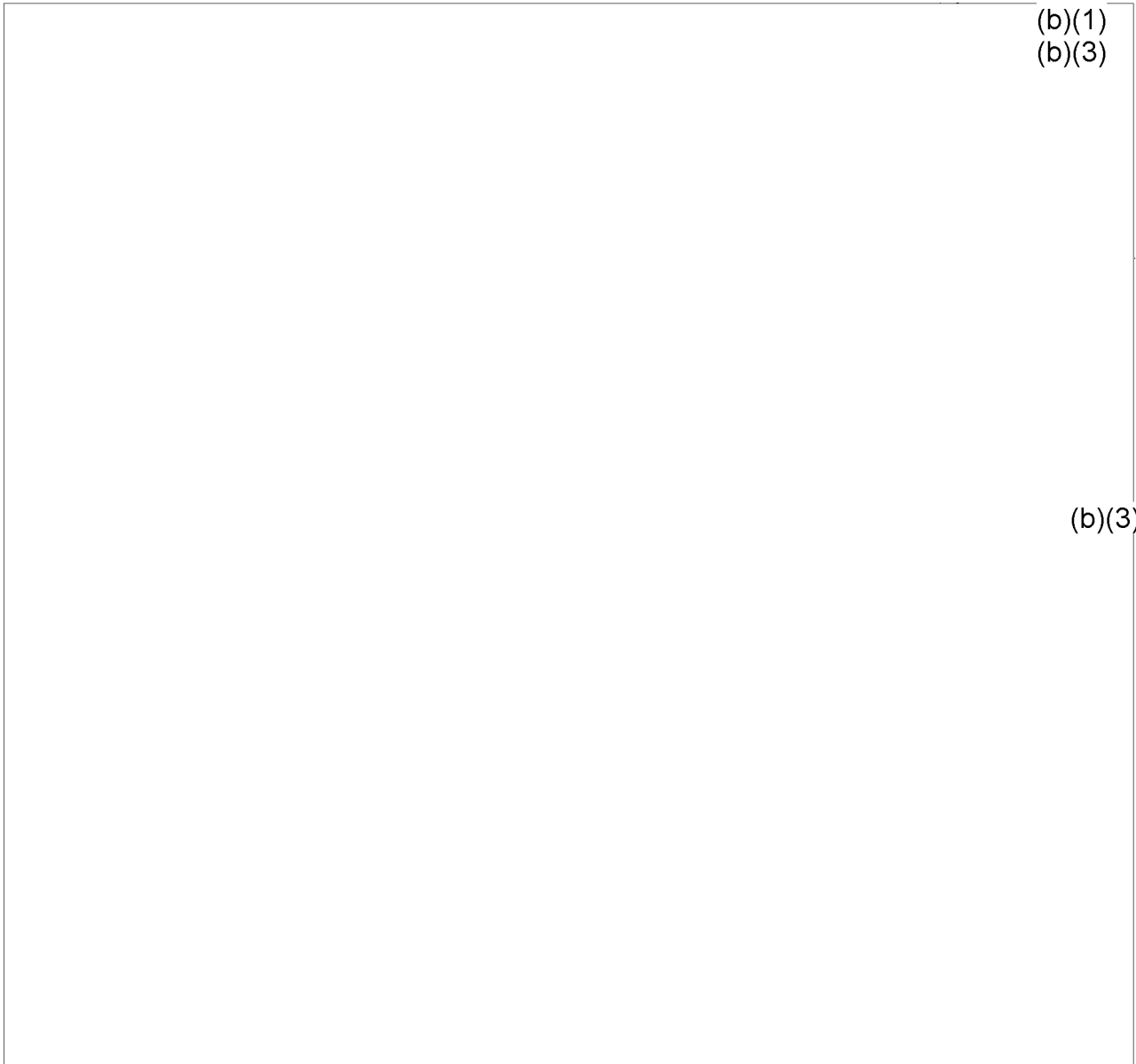
[redacted] great pressure was put on (b)(3)  
Hsieh by the British authorities. Word was received that the British were considering deporting Hsieh, possibly to Red China. This would have been disastrous for him and would have wrecked the considerable PW effort which he was conducting. Up to that time he had kept his own name out of his publications and had not contacted foreign correspondents personally, mainly for reasons of safety. At [redacted] suggestion, he then put (b)(3)  
his true name on the masthead of [redacted] (b)(3)  
and made it a point to give a lunch to foreign correspondents and to develop contacts with them. This would have assured widespread publicity abroad if he had been deported. [redacted] notes that the British police were (b)(3)  
very annoyed when Hsieh took this action.

[redacted] (b)(1)  
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A CAT pilot, [redacted] had been stationed (b)(1)  
for a considerable period of time in northwest China. (b)(3)  
Although not considered a top-flight pilot, he was conducting small plane operations throughout the area. He was intelligent and politically rather astute, [redacted]

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by representatives of the State Department and the military attaches. [redacted] became acquainted with [redacted] and evidenced an interest in leaving CAT and entering the publications field in Hong Kong.

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(b)(3)

At that time a publication that was failing, but which owned printing facilities, was available for purchase. [redacted]

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(b)(3)

in the purchase of this facility, in order to put out a monthly magazine [redacted] was

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told that a Headquarters decision would be asked. A cable requesting a decision was promptly dispatched.

[Large redacted block]

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The magazine [redacted]

[redacted] was rather well done and received a certain amount of distribution. It is questionable, however, whether at that time Headquarters would have approved investment in a propaganda activity that was so obviously American-supported.

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(b)(3)

Mention has been made previously of the supplementary Letter of Instructions furnished Cox on 10 March 1950. During the process of coordinating the draft Letter, [redacted] Acting Chief for [redacted]

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[redacted] for OPC, registered his nonconcurrence on the grounds that the letter was so vague as to be entirely meaningless.

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[redacted] stated that if Cox were to be given guidance with respect to the PW "line," the amount of detail would have to be much greater than that contained in the Letter of Instructions. [redacted] was quite correct. Although Cox was briefed in detail at Headquarters as to the policy line on propaganda as of that moment, very little addi-

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tional guidance was ever furnished to the field. When the Korean War began in June 1950, certain changes in the propaganda line were in order; certainly they would have been even more in order when the Chinese Communists entered the conflict. In those years the kind of propaganda guidance currently furnished the field did not exist. In some respects this was not entirely bad since there were people in Hong Kong, both Chinese and American, who were constantly contacted in order to discuss in general terms as to what might be the most effective propaganda line to take.

[redacted] and Hsieh were particularly close, and both (b)(3)

[redacted] were able to influence Hsieh consid-(b)(3)

erably in the content of the publications. There is little question, from the Headquarters control point of view, however, that [redacted] followed his own line. The chances are, (b)(3) having the personality he does, that he would have followed his own line of reasoning in any case. However, since such guidance did not exist at the time, this can be only a surmise.

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Several months after [redacted] arrival in the field, (b)(3)

[redacted] came to Hong Kong, indicating that the basic pur- (b)(3)

pose of his visit was to discuss [redacted] (b)(1)

[redacted] the most suitable location [redacted] (b)(3)

[redacted] Cox arranged for [redacted] (b)(1)(3)  
(b)(3)

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to visit other locations in the area, and eventually it was decided that [redacted] was the most suitable location for his central headquarters. He later established other

branches, [redacted] and [redacted] [redacted] came to

the field to head up that branch. Cox visited with him on several occasions to discuss both propaganda content and problems of distribution.

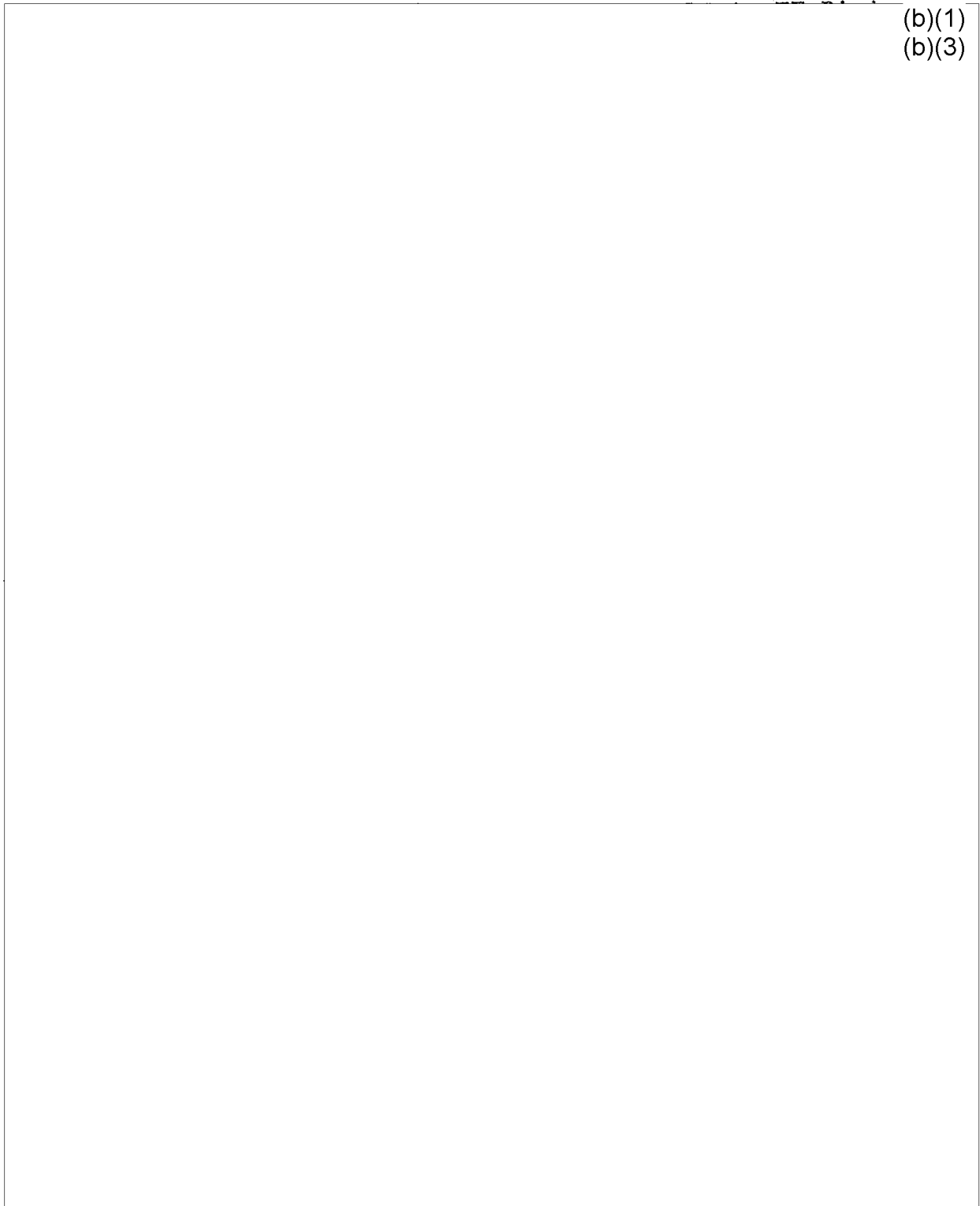
One incident in the propaganda effort, which now really seems ludicrous, was extremely irritating at the time.

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An evaluation of the effectiveness of the various

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propaganda campaigns described above would be difficult to make. [redacted]

[redacted] was probably more productive than any of (b)(1) (b)(3) the other efforts. Initially, the various projects undertaken with Hsieh Ch'eng Ping did appear to be worthwhile and to be having some effect on the local Chinese community. [redacted] (b)(1) (b)(3) however, the effectiveness of Hsieh's efforts appeared to be gradually decreasing.

The average Chinese in Hong Kong was neither pro-Communist nor pro-KMT. He simply preferred to live in the Free World, did not wish to live under Communist or KMT control, and was unwilling to take part in activities against either for fear of retaliation, not only from the two extremes but also from the Hong Kong Government which was trying to walk a very tight rope to avoid Communist action against the colony.

The Chinese Communists controlled most of the Chinese economy in Hong Kong and, of course, the trade back and forth across the border was considerable. They controlled the Bank of China, which was housed in an imposing edifice, carefully constructed to be slightly taller than the largest British-controlled office building on Victoria Island. Their control over propaganda media was very considerable; they were prepared to take action against opposition in

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Hong Kong.

The Chinese Nationalists had numerous agents in Hong Kong, but had little popular support for organized public activities directed against the Communists.

Another probable cause for the decreasing effectiveness of the [redacted]

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[redacted] He was not replaced by any officer of similar experience and energy. Despite his shortcomings, the good in [redacted] far overshadowed the bad during the time he was in Hong Kong.\* (b)(3)

#### The Korean War

With the fall of mainland China, to all intents and purposes at the beginning of the year 1950, CAT operations became severely restricted and the flight time fell off to

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\*At a much later date Cox accidentally encountered [redacted] in Washington and, although aware that Headquarters discouraged any further contact with him, could not very well refuse an invitation to lunch at his apartment. Cox noted that the apartment was completely flooded with pamphlets and tracts of an extremely rightwing nature. [redacted] (b)(3)

[redacted] had testified before the House Un-American Activities Committee in 1954.) Although consideration was given to interviewing [redacted] on his Hong Kong activities, it was decided that this might only serve to re-open-old wounds and possibly result in damaging action by [redacted] with regard to his Agency activities. Therefore no interview was arranged. (b)(3)

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approximately 400 flying hours per month. For reasons of economy, it was necessary to release a substantial number of personnel, particularly affecting the number of flight crews available. All American personnel, however, were told to regard themselves as on leave without pay and were requested to keep CAT advised of their whereabouts so that they could be quickly contacted in the event that CAT operations expanded.

During the period prior to the beginning of the Korean conflict, the OPC representatives  were k<sup>(b)(1)</sup><sub>(b)(3)</sub> busy establishing propaganda activities, developing contacts as possible sources for intelligence and later guerrilla action on the mainland, and following out other actions as requested and approved by Headquarters. All during this period the CNAC/CATC litigation was being pursued in the Hong Kong courts.

Early on the morning of 25 June 1950 (Far East time), word was received in Hong Kong that the North Koreans had begun to invade South Korea. The writer met with Chennault at Kai-tak Airport in Hong Kong at 7 a.m., and a cable signed by Chennault was sent to General Douglas MacArthur offering immediately the full use of all CAT facilities against the North Koreans. General MacArthur replied several days later that the offer was appreciated, but adequate airlift was on hand to cope with the situation.

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During this period the [redacted] was hurriedly (b)(1)  
 beefed up. It originally had consisted of a Chief of Sta- (b)(3)  
 tion, [redacted] now deceased, one administrative (b)(3)  
 assistant/secretary and a cleared consultant. Immediately  
 after the start of the conflict [redacted] was replaced, (b)(3)  
 first by [redacted] who was followed shortly by (b)(3)  
 [redacted] who took over as [redacted] (b)(3)  
 [redacted] (b)(1)  
 [redacted] (b)(3)

in touch with them to insure that they understood the air support capability that CAT had to offer. They had to start from scratch. Initially, therefore, they had little need for air support.

In the first week of September 1950, Willauer and Cox were asked to come to Tokyo as rapidly as possible. En route to Tokyo from Hong Kong, they picked up Mr. C. Joseph Rosbert, the Director of Operations, and Capt. Robert E. Rousselot, the chief pilot, in Taipei. Senior officers of the Far East Air Force (FEAF) told Willauer that they urgently required every bit of airlift CAT could provide. The urgency was so great that they told him to prepare an estimate on which a contract could be based as soon as possible and, if necessary, it would be readjusted at a later date.

FEAF advised that they would provide fuel, that the

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CAT airlift would be based at Tachikawa (a FEAF air base), that facilities for CAT crews, including PX and Commissary facilities, would be provided by the Air Force, but that they could not furnish billeting at Tachikawa. In coming up with an estimate of cost per flying hour, the fact that fuel would be furnished by the Air Force should be taken into account. They also indicated that spare parts, as required and if available, would be provided from Air Force stocks and that every assistance possible would be given in the maintenance of the aircraft.

After some hurried calculations, to a certain extent taking figures out of the air but based on CAT experience, a contract was drawn up providing for reimbursement at  per flying hour. The contract also contained provisions for indemnification for loss. The Air Force indicated that the contract was acceptable to them, and that they could use every bit of airlift that was made available.

In the meantime, cables had gone out to all the air crews and some of the American maintenance personnel who had been placed on leave without pay to ascertain whether they were still available and willing to return to the Far East. They were requested to reply either to the CAT Washington office or directly to CAT in Taipei. A surprising number of personnel

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quickly responded. Within less than two months CAT had rebuilt its capabilities from the 400 flying hours per month noted previously to close to 4,000 hours per month.

It was somewhat disturbing to CAT personnel involved when the Air Force quietly advised that things would go more smoothly all around if Chennault did not come to Tokyo, at least at that time. It was apparent that General MacArthur did not want to welcome any other stars into his firmament.

This Air Force contract, which was known as BOOKLIFT, in addition to being a godsend for rebuilding the operational capability of CAT,

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(b)(3)

From time to time, the contract was re-negotiated with the Air Force auditors. This presented certain difficulties in that the auditors were not cleared, were not aware of the true ownership of the airline, and were not briefed on the flights in support of OPC operations. However, on such OPC support flights, OPC itself was billed rather than the Air Force so that activity did not unnecessarily complicate the picture.

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(b)(3)

begun. A number of these  perhaps the (b)(1)  
(b)(3)

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bulk, were flown by the USAF, but on a number of occasions, particularly after the cease-fire, CAT was called upon to operate also.

It was evident very early in the BOOKLIFT operation that there would be increasing difficulties with the Japanese Government over CAT flying aircraft with Chinese Nationalist markings and with personnel carried as employees of a Chinese company. Very quickly a Delaware corporation was established, planes were registered as American-certificated aircraft, and the personnel assigned to Tachikawa, including the flight crews, were ostensibly picked up by this new American corporation. Every effort was made to keep both companies as separate as possible, both on the books and in their activities, so as to run a minimum risk of interference by both the Japanese Government and possibly by the Chinese Nationalist Government. The latter could conceivably complain that the transfer of the aircraft had been made without approval of the Chinese Civil Aviation authorities and the Minister of Communications. It was a device which probably would not have stood up if either country had chosen to make it an issue. The Japanese Government, still under the control of Supreme Commander Allied Pacific (SCAP),

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was not in a position really to make any trouble, and the Chinese Nationalist Government did not elect to raise any unnecessary objections.

The FEAF engineering and maintenance facilities were very badly overloaded. For this reason CAT invited the Air Force to send an inspection team to Tainan to inspect the CAT engineering and maintenance facilities. The team was quite impressed and made a favorable report. An initial contract for engineering overhaul was worked out with the Air Force and, as the CAT output measured up in all respects to Air Force requirements and standards, the volume of business generated through the engineering and maintenance facilities at Tainan greatly expanded and became an important factor in the financial status of the airline.

In mid-September the UN forces began to move northward and Pyong-Yang, the North Korean capital, was taken on 20 October. The advance northward continued and on 20 November the U.S. 7th Division reached the Manchurian border.

On 26 November, 200,000 Chinese Communist "volunteers" crossed the Yalu River to launch a counter-attack. The Chinese caught the UN forces overextended and they were forced to fall back, suffering heavy

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losses on both sides of the Peninsula.

Shortly after the entry of the Chinese Communists into the war, Col. Richard G. Stilwell, DC/FE, arrived in the Far East on a tour of the various OPC installations. Cox accompanied Stilwell to Seoul and, after spending the night  the (b)(1)  
(b)(3) two departed in a jeep along the highway running north from that city. Colonel Stilwell was anxious, if possible, to call on Major General Garrison H. Davidson who commanded the 7th Division. The command post was located without too much trouble, as it was just a short distance off the main highway. As an illustration of how exhausted the troops were because of their rapid withdrawal south from the Yalu (they were under constant flank assault and heavy pressure by the ChiComs who were infiltrating far down into South Korea), entry was made into the command post without challenge. The General's command van was located, and much to the General's surprise, Stilwell and Cox walked in and woke him up.

After a briefing, Stilwell and Cox returned to Seoul where they were advised by Captain Roussetot that a CAT aircraft had had engine trouble at Hungnam, the major port of embarkation for the troops and

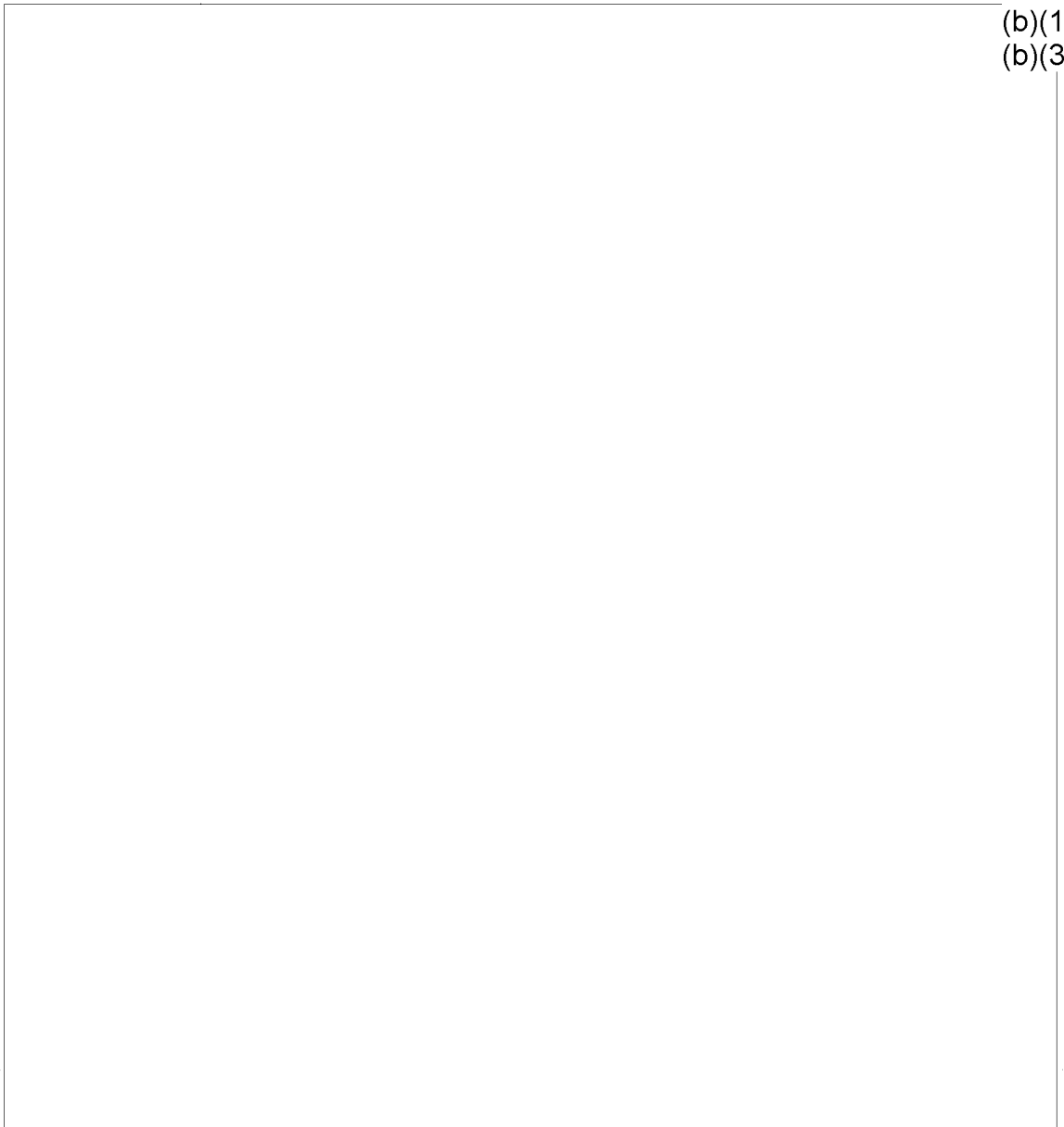
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civilians who were being evacuated from the east coast of Korea. It was determined that the plane could not be repaired in time, so it was stripped and burned.

In January 1951 Cox was called back to Headquarters and informed by Mr. Wisner that OPC wanted to move forward as rapidly as possible on three projects. These were:



(b)(1)  
(b)(3)

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The reason for pushing as rapidly as possible on these projects was, of course, to force the Chinese Communists to drain forces from the Korean conflict in the north in order to meet threats elsewhere.

A start had been made on all three projects but there had been no implementation of actual operations on [ ] an approach had been made to the Generalissimo advising that wealthy American interests were prepared to assist by providing training instructors for the development of a ChiNat unconventional warfare capability (Tab C, Volume III). (b)(1)  
(b)(3)

[ ] the OPC representatives in CAT had been working with Third Force leaders, at that time largely for the procurement of intelligence since no operations had yet been approved (Tab D, Volume III). (b)(1)  
(b)(3)

Cox was informed that he would be given briefings on the spot [ ] and that he and Chennault should begin to work [ ] with the ChiNat Government, making at least preliminary arrangements for billeting Americans, for training areas, warehouses, etc., pending the arrival of U.S. (b)(1)  
(b)(3)

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personnel who would be assigned full time to the task.

Chinese volunteers [redacted] would have to be (b)(1)  
(b)(3)  
found, recruited, cleared, and moved out of Hong Kong  
to whatever training base might be established. A  
Third Force political movement that had some credibility  
and capability would have to be devised and developed.

Cox immediately returned by way of Europe and  
South Asia, [redacted]  
[redacted] For many (b)(1)  
(b)(3)  
months thereafter almost continuous travel was required,  
first to get the projects going and then, after addi-  
tional American personnel came to the field, turning  
command of the project over to them but continuing in  
a support role.

These projects ranged from fairly large, [redacted]  
[redacted] to really large scale, [redacted] (b)(1)  
(b)(3)  
[redacted] They will each be the subject (b)(1)  
(b)(3)  
of separate historical papers. In order to avoid  
unnecessary duplication, therefore, the tabs noted  
above will concern themselves solely with the support  
provided by CAT to the three projects.

Other

Many of the activities conducted under CAT cover

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were highly specialized and can best be presented as separate histories. In order to keep the first volume of the history at a reasonable length, many of these activities have been written up separately and will be included in Volume III as annexes. The reader can then choose his reading according to his interests. These annexes include:

TAB A

TAB B

TAB C

(b)(1)  
(b)(3)

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TAB D

(b)(1)  
(b)(3)

TAB E

TAB F

TAB G

TAB H

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TAB I



(b)(1)  
(b)(3)

TAB J The Pickup Operation

An unsuccessful attempt to snatch an Agency Chinese agent by a CAT aircraft in Southern Manchuria.

TAB K Indochina - Limited Victory in 1953 -  
Dien Bien Phu and Disaster in 1954

The provision by CAT, on a crash basis, of pilots to operate C-119 aircraft provided by the U.S. Air Force to the French Air Force in Indochina.

TAB L The Cathay-Pacific (CPA) Incident

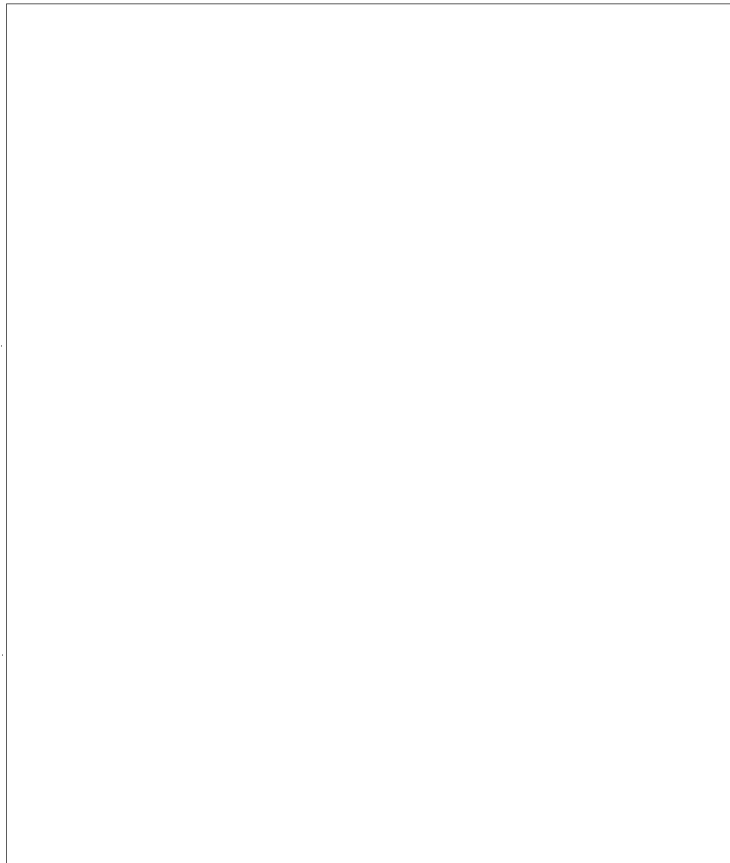
The shooting down of a Cathay-Pacific aircraft by Chinese MIG's just south of Hainan Island.

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TAB M

(b)(1)  
(b)(3)



TAB N

TAB O

CAT International and Domestic  
Operations - Scheduled and Non-  
scheduled

A description of the various routes  
travelled by CAT together with a  
report on some of their unscheduled  
charter activities.

TAB P

Engineering and Maintenance

A description of how CAT handled their  
complicated maintenance problems in the  
face of numerous forced evacuations on

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the mainland, with emphasis on the utilization of an LST and a supply barge.

TAB Q CAT - Personnel and Training

A brief account of the airline's hiring practices, training programs, related pay scales, and incipient labor problems.

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~~S E C R E T~~V. CNAC-CATC LITIGATION 1949-1952

As the Chinese Communists steadily advanced during the summer and fall of 1949, they made every effort to secure defections from the three Chinese airlines, CAT, the Chinese National Aviation Corporation (CNAC) and the Central Air Transport Corporation (CATC). CNAC was 80 percent owned by the Nationalist Chinese Government, with Pan American Airways holding the remaining 20 percent. CATC was 100 percent owned by the Nationalist Chinese Government. Any sizable defection from CAT would, of course, have been a tremendous propaganda victory for the Chinese Communists because of its American ownership.

These attempts toward defection were well known and every effort was made by the security department of CAT to insure against them. In order to keep the assets of the other two airlines from falling into the hands of the Communists, the Nationalist Chinese Government had ordered removed to Hong Kong all equipment, assets, records, etc.

On 9 November 1949, 11 CNAC and CATC aircraft took off from Kai-tak Airport in Hong Kong and defected to Communist-held airports. At the same time CAT received word that several aircraft located

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upcountry on the mainland had also defected to the Communists. Fortunately at that time, there was a considerable number of CAT personnel in Hong Kong. They were rushed out to the airport and by physical intervention, including driving trucks on the runways, further defections of aircraft were obstructed. The Hong Kong police quickly restored order and froze all of the CNAC and CATC assets in the Colony, pending a legal decision as to who were the proper owners of the assets.

Headquarters was asked to approve whatever OPC actions might be required to deny the assets of the two airlines to the Chinese Communists. Headquarters replied that while every assistance should be given to Chennault and Willauer in order to make effective such a denial, it was not felt that as of that time such actions were proper undertakings for OPC.

Chennault and Willauer were almost immediately contacted by Generalissimo Chiang Kai-shek, who requested that they give every assistance in denying the Hong Kong assets to the Communists. On 16 November Ango Tai, an employee of CATC who had remained loyal, was appointed by the ChiNat Government as acting president of CATC. On 16 November, Ango Tai dismissed

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the defecting employees and appointed Mr. William Parker, chief of security of CAT, to be concurrently chief of security of CATC. On the next day Parker appeared at the airport with 75 special guards and with police approval to post them around the aircraft. A few days later, however, the Commissioner of Police informed Parker that the guards must be withdrawn.

Proceedings were then begun in the Supreme Court, and on 25 November Chief Justice Sir Lesley Gibson granted an interim injunction prohibiting the defecting employees from entering or remaining on CATC premises or from removing or tampering with CATC property. Similar actions were undertaken with regard to CNAC assets.

After hurried consultations with the Chinese Nationalist Ministry of Communications and other offices of the Nationalist Government, it was agreed that Chennault and Willauer would prepare an offer to purchase all of the government-held interest in CNAC/CATC. This letter was prepared, but it became obvious that the Minister of Communications, Tuan Mo Chieh, was dragging his feet on the matter, and apprehension was felt that British recognition of Communist China might be made before the letter of acceptance had been

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signed by the Nationalist Government. Once the ChiComs were recognized by the British Government, any claim that the Nationalist Government might try to put forward would, of course, be hopeless.

On 5 December Chennault and Willauer sent an urgent cable to the Generalissimo, who at the time was at Cheng-tu, advising of the extreme urgency, and flatly stating that they questioned the good intentions of the Minister of Communications. It noted that the Nationalist Government had two alternatives:

- a. To order the Minister of Communications to sign the letter of acceptance from the Nationalist Government, or
- b. For the Executive Yuan to take action directly on the matter.

The apprehensions of Chennault and Willauer were confirmed when the Minister of Communications went from Taipei to Hong Kong without having signed the letter of acceptance.

On 11 December the Executive Yuan of the Nationalist Government designated Premier Yen Shi-shan as temporary Minister of Communications. Premier Yen then immediately designated one Liu Shao-ting as chairman of the Board of Governors of CATC and one

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Nih Chung-sung as chairman of the Board of Directors of CNAC. The letter of acceptance, together with the promissory notes and the bills of sale, was signed by Nih Chung-sung on 13 December 1949 and by Liu Shao-ting on 12 December 1949.

Under the terms of the letter and offer of acceptance, Chennault and Willauer purchased all of the assets of CATC for \$1,500,000, issuing three joint promissory notes in the sum of \$500,000 each, payable without interest. They purchased 80 percent of all of the assets of CNAC for \$2,000,000 payable in joint promissory notes, one in the sum of \$600,000 and two for \$700,000 each.

In order to insure that the purchase of CNAC was legally binding, it was necessary to buy out the 20 percent interest from Pan American Airways. Pan Am refused to cooperate in the matter and indicated that they would retain their interest unless paid off in the amount of \$1,250,000. Through the intervention of T.V. Soong, the Nationalist Government advanced the \$1,250,000, and on 4 January 1956 notified the British Government and the Hong Kong Government that the 20 percent interest formerly owned by Pan American Airways had been purchased and transferred to Chennault and Willauer.

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For legal purposes, Chennault and Willauer decided that it was preferable to have the assets held by a corporation rather than by a partnership. Therefore, a Delaware corporation, Civil Air Transport, Inc. (CATI), was formed, and all of the interests held by Chennault and Willauer were transferred to this corporation in consideration of notes for \$3,900,000. This transaction occurred on 19 December 1949. The 20 percent Pan American interest was also transferred into CATI.

The Nationalist Government was deeply concerned over the pending litigation. Foreign Minister George Yeh told Chennault and Willauer that the government wished to employ top American legal talent to represent its interests in preserving these assets. Mr. Corcoran's office in Washington then approached the firm of Donovan, Leisure, Newton and Lombard to ascertain whether they would undertake the case. OPC was queried at the time as to whether there would be any objections to the selection of General Donovan's firm.<sup>48/</sup> The OPC response was that this was perfectly satisfactory, but that General Donovan's firm should be employed and paid by the Chinese Nationalist Government. The memorandum to the Director referenced above made it clear that OPC was maintaining a position which it had taken at the time of

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the defection; namely, that it would assist where possible, but that it would not become involved unless the situation changed to one that would fall within the scope of OPC activity; unless specifically requested by the Department of State and/or Department of Defense, no action would be taken by OPC.

The Donovan firm immediately dispatched Mr. Richard Heppner and Mr. Mahlon Perkins to Hong Kong to commence preparations for the upcoming court actions. A short time thereafter Donovan came out to Hong Kong and spent a few days in order to insure that matters were progressing properly and to familiarize himself with the situation on the ground.

One of the most pressing and important tasks that had to be accomplished was to secure American registration for all of the aircraft that were involved. Since the records which would be required in order to secure such registration were not readily available, it was necessary to bribe a number of the defected employees in order to get access to the aircraft and to obtain the necessary information. As rapidly as possible this information was secured and passed on to Washington. Pressure had to be brought to bear upon the CAA in order to obtain the necessary registration since

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it was not possible for the CAA physically to inspect the aircraft in question. However, the aircraft were all under American registration at the time of British recognition of the Chinese Communist Government, which was at midnight of 5-6 January 1950.

On 21 December 1949, the Hong Kong courts had granted an injunction against any tampering with or removal of the CNAC/CATC assets in the Colony by either party, but the Chinese Communists were permitted to remain in physical possession of the assets, including those assets located on the airfield and other assets in warehouses and offices elsewhere in the Colony. By an Order in Council, dated 10 May 1950, the Governor of Hong Kong was directed to maintain complete control of all assets until he was satisfied that ownership or right to possession of the assets had been finally determined. Technically this meant that all of the assets should have been placed under British jurisdiction. However, the Hong Kong Government again permitted the Chinese Communists to remain in physical possession. This was noted by the Privy Council at a later date. 49/

Although OPC had decided against active participation in this litigation, it had instructed the OPC

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representatives in CAT to assist and encourage Chennault and Willauer in their efforts. The Chinese Communists, having physical possession of the assets, were in a position to smuggle valuable parts out of the Colony and to damage the assets should there be an adverse legal decision. It was, therefore, necessary for Chennault and Willauer to take extraordinary precautions against such measures. The OPC representatives assisted in organizing a guard force to insure against such activities on the part of the Chinese Communists. This force, of course, had no legal status insofar as the British police were concerned, but fortunately, through Parker's excellent relationship with the police, the force was generally effective in preventing large-scale smuggling activities. Parker's British citizenship and the probability that he was at least an informant for the Hong Kong police represented cause for concern with regard to OPC operations; however, with regard to this particular affair, the CNAC/CATC litigation, there is no doubt that he was effective and helpful.

At the time CAT was desperately short of funds and, from time to time, it was necessary for Cox and Headquarters to make cash advances in order to pay guards, and for legal and other expenses attendant upon the

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preparation of the legal case and for the protection of the assets. Most, if not all, of these advances were either authorized by Headquarters if the request could be made in time, or later approved by Headquarters after the reason for the advance had been explained.

In order to appear before the Hong Kong courts, it was necessary to secure the services of a Hong Kong law firm. The firm of Wilkinson and Grist was retained for this purpose. Later Sir Walter Monckton, a prominent barrister and a member of the Conservative Party in England, was also retained. As an illustration of the high order of legal assistance that was obtained for this litigation, when the Labor Government was overthrown and the Conservatives came into power, Sir Walter Monckton replaced Sir Hartley Shawcross as Solicitor General. Sir Hartley's services were then retained to replace those of Sir Walter, particularly for the presentation of the appeal before the Privy Council.

To summarize briefly the successive court actions, on 19 May 1950 CATI issued a writ in the Supreme Court in Hong Kong against CATC, claiming that the CATC assets within the jurisdiction of the Hong Kong courts were the property of CAT. The action was tried before the Chief Justice of Kong Kong on 27 and 28 March 1951,

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and on 21 May 1951 the judge delivered a reserved judgment denying the claim and directing that any appeal be brought within two months. An appeal was promptly filed and the appeal was heard by the full Hong Kong Supreme Court on 21 and 22 August 1951. On 28 December 1951, the full court dismissed the appeal. Permission was immediately requested to appeal the decision to the Privy Council and this was granted. On 28 July 1952 the Privy Council reached the verdict that the appeal be allowed and so advised Her Majesty, and on the following day an Order in Council allowing the appeal was made.

It should be noted that, although initially CATI lawyers attempted to combine the CNAC/CATC litigation in one package, the Hong Kong court had decided that the two cases should be tried separately and directed that the CATC case should be heard first. The CNAC litigation was, therefore, held in abeyance throughout this period, pending the final decision with regard to CATC. When the final CATI appeal on the CATC case was upheld at the highest level that could be resorted to in the British judicial system, the Privy Council being roughly equivalent to our Supreme Court, the CNAC litigation went practically by default and no further

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extensive litigation was required.

Among the CNAC/CATC assets which were sold to Chennault and Willauer and then CATI were cash deposits in California banks and a large supply of spare parts. The Chinese Communists laid claim to these assets through their agents and attorneys in the United States. OPC advanced funds for the legal action to block the Communist claims and recover these assets, with the understanding that in the event of recovery these advances, together with advances made to support the Hong Kong legal activity, would be fully reimbursed to the Agency. A favorable judgment for CATI was received on 1 December 1950, covering \$1,310,000 in bank deposits and aircraft spare parts valued at \$250,000. Financial reimbursement to the Agency for funds advanced was assured.

On the evening of 28 July 1952, the Hong Kong authorities advised CAT and CATI of the forthcoming proclamation of a favorable decision of the Privy Council, and further advised that Hong Kong authorities intended to remove the Chinese Communists who were in possession of the physical assets and who were camped on the airfield and in the other various properties, such as the Bailey's Shipyard and the airline offices.

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Brennan, Rosbert and Cox quickly met at Brennan's apartment. It was decided that Brennan would remain there near the telephone, while Rosbert and Cox went out to the airfield to observe the actual police takeover. The two drove out to Kai-tak Airport and crouched in a ditch just outside the fence surrounding the airfield. At about 3 a.m. police moved in very swiftly. They were prepared for resistance, carrying their bamboo shields and wearing helmets. The Chinese Communists encamped at the airfield, as well as at the other installations, were literally caught with their pants down. The whole action took less than ten minutes, and the ChiComs were quickly escorted out of the various locations. Rosbert and Cox remained at the airfield until dawn in order to observe whether or not the ChiComs would organize any kind of a counteraction, but none was forthcoming. The Commissioner of Police, Mr. McIntosh, stressed the fact that CATI must act as rapidly as possible in order to remove the assets from the Colony, because as long as they remained there it would be an open temptation to the ChiComs to take some kind of sabotage or other action against the assets.

Up to this point, this section of the paper has concerned itself with the CNAC/CATC litigation as observed

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by and participated in by CAT in the field. With the favorable decision of the Privy Council on the appeal, CAT participation became, as requested, largely that of providing technical assistance to CATI in their efforts to evacuate the assets from Hong Kong. The emphasis on further activity was largely concerned with negotiations between CIA Headquarters and CATI management in Washington. The files on these negotiations are voluminous, and since CAT was not directly concerned no attempt will be made to cover them in detail, but rather to quickly point out the high spots of what was going on in Washington.

It has been previously noted that at the time of the defection the field had urged OPC to take whatever actions might be required to deny the assets of the two airlines to the ChiComs. Headquarters replied, that while every assistance should be given to Chennault and Willauer, it was not felt at the time that it was a proper undertaking for OPC. On 9 December 1949, ADPC, in a memorandum to the DCI, provided him with a situation report regarding the CNAC/CATC assets in Hong Kong and the extent of OPC participation in the efforts to deny the assets to the Communists. OPC had consulted on the situation with the Department of State and the

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Department of Defense, suggesting that action be taken with a view to preserving the equipment. The Department of State expressed concern over the matter to the British Embassy in Washington, but no answer had, as of the date of the memo, been received from the British.

The DCI was advised of the hiring by CATI for counsel of the firm of Donovan, Leisure, Newton and Lombard, who had accepted the case. At that time the OPC representatives in the field queried Headquarters as to whether or not this had been arranged by Headquarters. They were advised by cable on 7 December 1949 that this had not been arranged by OPC Washington, but that the office was aware of the arrangement. It was then suggested that the OPC communications link be utilized for the transfer of the necessary funds for payment of the fee. OPC Headquarters again replied that since the transfer action was one entirely between the Chinese Government and CATI attorneys, OPC should in no way be involved, and the payment should be made through regular commercial and banking channels.

The DCI was further advised that the position, insofar as OPC was concerned, was that unless the situation took a turn which brought the case within the scope of OPC activity, and unless specifically requested

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by the Department of State and/or Defense to become involved, no action would be undertaken apart from keeping State and Defense advised as to further developments. 50/

In a briefing memorandum prepared for Mr. Wisner on 29 July 1952, it was noted that at a meeting on 13 March 1950, attended by the deputies of the Chiefs of Staff and by members of the NSC senior staff, it was stated to be in the national interest for CIA to contribute to the support of the litigation of the CNAC and CATC cases on a carefully negotiated and reasonable basis. As a result of this statement it was felt that the Agency had been authorized to advance funds to CATI for litigation expenses in the field and in the States against the assets in California. With this authorization, such funds were advanced. With the successful acquisition of the bank accounts and inventory in California, the Agency was reimbursed for the funds thus far advanced.

With the outbreak of the Korean War in June 1950 and the subsequent entrance of the Chinese Communists into the conflict, the denial of the assets in Hong Kong to the Chinese Communists became of significant importance to the U.S. Government as a whole and, in

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particular, to CIA. The files indicate increasing interest by CIA in the litigation, and a gradual feeling on the part of at least certain officers in the Agency that because of the assistance rendered in the litigation and the political pressures which were being brought to bear on the British for a favorable decision, there were vested in CIA certain rights with regard to the ultimate disposition of the assets in the event a favorable decision was made. From time to time there was recognition in the flow of memoranda that in the event of such a decision CATI was the true owner, and although CATI would be susceptible to CIA influence, there were no vested rights in CIA as long as any funds that were advanced to CATI were reimbursed.

At the time of the purchase of the CNAC/CATC Airlines by CATI in late 1949, the two airlines had assets on Taiwan consisting of five C-46 aircraft, over 50 vehicles of all types, communications equipment of substantial value, certain real estate leaseholds, and freeholds; they also had operating franchises and rights in Japan and elsewhere. CATI was not in a position to take possession of or safeguard the property or to operate under any of the franchises.

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On 19 April 1950, CAT and CATI entered into an agreement under which the five C-46 aircraft were sold to CAT in consideration of the advancements, disbursements, and services made to date by CAT on CATI's behalf.

CATI agreed to charter and lease to CAT, until further notice and without rent, charter, hire or compensation, all of the miscellaneous operating equipment, including the vehicles, communications equipment and the hostels, and CAT would be permitted to operate under the franchises, landing permits, and other operating rights acquired by CATI. CAT agreed to use its best efforts to maintain, safeguard, and protect from loss or deterioration all of the property so leased, and would pay all costs and expenses incurred on account of the use, operation, maintenance, and safeguarding of assets, including all costs and expenses required to preserve and keep alive the franchises and operating rights. It was estimated that these assets properly depreciated and including the franchises and operating rights were worth not less than \$250,000.<sup>51/</sup>

The assets inventory acquired by CATI through the successful court decision in California had an estimated value of approximately \$225,000. A large part

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of the inventory consisted of DC-4 parts and aircraft overhaul equipment. Willauer, as president of CAT, and envisioning that CAT would be expanding into four-engine equipment, arranged for CAT to purchase from CATI the entire inventory.

During the early spring of 1951, the Agency decided to cut back on the CAT operation to a more economical and manageable size. At a meeting with Willauer and Brennan on 14 May 1951, the nature of this cutback was explained, and it became apparent that any plans for obtaining four-engine equipment were not envisioned at that time. At this meeting Willauer said that he understood there was concern over the fact that he had arranged a purchase by CAT of the CATI assets, and he also said that he had actually abused his fiduciary position as a protector of the interests of the holders of the CATI notes in selling these parts at their original list price. The increased true value of these parts was substantial, and therefore CATI was losing a just return. He felt he could no longer take such a position, and that, if possible, he would cancel the purchase arrangements and undo the old agreement. He felt that this eventually would mean a considerable

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loss to CAT, which at a later date would be forced to procure the necessary parts on the open market at inflated costs.<sup>52/</sup>

Apparently no progress was made with regard to the reduction of the contract, so that CAT would purchase only those parts which were required for the maintenance of the reduced fleet. It was estimated that the total value of such parts would be approximately \$70,000. On 28 November 1951, a number of senior CAT officials met with Mr. Brackley Shaw, the counsel for CAT, to discuss the problem. Mr.  (b)(3) Special Assistant for Inspection for OPC, stated that the purpose of the meeting was to discuss whether there was any liability or contract for the purchase of these parts by CAT from CATI, and what further action should be taken with reference to the property which was purchased, if there was such a valid contract. The memorandum for the record on the meeting indicates that there was also submitted at that time a separate document (Tab A) containing a chronological recitation of the facts concerning the negotiations on the subject and another written statement (Tab B) of questions prepared by Mr.  (b)(3) which would be discussed at the meeting. Unfortunately neither Tab A

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nor Tab B is available, but the rather lengthy memorandum for the record does give a pretty good estimate as to the content of each Tab. All of the questions prepared by Mr.  were discussed, and the consensus of the meeting appeared to be that there was a valid contract for the purchase of all of the CATI aircraft parts, engines, and other equipment, based on the chronological record of the facts concerning the negotiations. The memorandum for the record does not indicate that any agreement was reached on any definitive recommendation for action. 53/ (b)(3)

However, on 30 November 1951, a draft agreement was prepared which provided that CAT would agree to purchase certain aircraft parts and equipment with a total inventory value of approximately \$67,000. In addition, CAT could undertake to sell all the remaining CATI inventories, acting as an agent of CATI. There is no indication that this draft agreement was ever placed in final form or that it was ever acceptable to CATI. 54/

On 6 February several Agency officials met with Corcoran at his office to discuss various matters in connection with the accounting as between CAT and CATI. The last sentence of the last paragraph of the memorandum

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for the record states rather cursorily the following:

"He [Corcoran] did mention the fact that he paid out \$500,000 to the bank of Taiwan at the request of Willauer (in pseudo) presumably to protect our interest during the franchise negotiations state."<sup>55/</sup>

Apparently the Agency did not realize the incongruity of this at the time. In point of fact, this payment to the bank of Taiwan was to create several problems of great magnitude for CAT. The Nationalist Government was enraged that funds which had been recovered by CATI from the CNAC/CATC bank accounts in California had not been applied against the notes held by the Nationalist Government covering the purchase by CATI of CNAC and CATC, notes which aggregated several million dollars and also included the \$1,250,000 advanced by the Nationalist Government to purchase the Pan American interest in CNAC. Also, the franchise operating rights under which CAT operated were vested in them by the Nationalist Government and not by the Government of Taiwan. These problems will be discussed more fully in Volume II, Part I, CAT - Management, Legal, Fiscal and Accounting Aspects of this history.

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On 28 January 1952, the General Counsel wrote to the DD/P with regard to a meeting he had held with Mr. U. Alexis Johnson, Deputy Assistant Secretary of State for Far Eastern Affairs, and Mr. Krentz of the State Policy Planning Staff. Certain points had been raised with regard to the appeal to the Privy Council which CATI was preparing as a result of the unfavorable decision on the CATC case in the Hong Kong courts. The General Counsel desired to discuss with the DD/P and OPC/FE the major points raised by Mr. Johnson. These points together with a brief summary of the General Counsel's views on each point were as follows:

"a. Do we wish to expedite or delay the appeal?"

CATI will undoubtedly be anxious to have the appeal heard at the earliest possible moment as the CNAC case must wait upon it. However, CIA's primary interest is denial of the planes to the Communist Chinese and not a positive desire to obtain a favorable decision for CATI. Judgment for CATI would create a wholly new series of problems due to the dual role filled by Chennault and Willauer and possibly create another denial problem. The longer

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the planes lie in limbo, the fewer the problems we are faced with, unless prepared to take over the planes in the event of a favorable judgment. On the whole, the General Counsel favored delaying action and believed it could be accomplished with the cooperation of the State Department. He suggested that the Privy Council might decide it would not hear the appeal on the CATC planes until the CNAC case had proceeded through the Hong Kong courts.

"b. A related problem is what result do we desire in the Privy Council?"

We do not wish judgment for the Communist Chinese. The General Counsel is not aware of a precise Agency position on whether CIA actively desired judgment for the plaintiff. If CATI gets good title to the aircraft they might try to repair and operate them. This would complicate the CAT franchise picture and establish a competitor for CAT. CATI might determine to sell the planes to the highest bidder, which would almost certainly be the Communist Chinese. A deal might be made with the Chinese Nationalists and the planes once

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more run as a Chinese company, thus liquidating CATI's obligation on the aircraft. Once again it might be desirable for the planes to lie idle in Hong Kong until no longer repairable.

"c. In the event final judgment is given to the plaintiffs, have we a concrete plan to cope with the ensuing problems?"

A knowledge of CATI's intentions with regard to the disposition or utilization of the aircraft is required. The Chinese Nationalists will be looking to CATI for settlement of the notes they hold against the CATC assets. As a last resort, CIA might be forced to purchase the assets in order to deny them to other purchasers. At least we would be in a position to have information on the assets, their condition, repairability, and the flyability of the planes that was so sadly lacking when the Agency bought CAT.

"d. In the event of judgment on behalf of the Communist Chinese, Mr. Johnson asked if we had a current and concrete plan for sabotage of the planes or for denying them to the Communists by other means."

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Mr. Johnson appeared to be fully in favor of sabotage as a last resort but was concerned with the international repercussions that might result if this was accomplished. The ChiComs could move the planes to Shanghai by water. This would present opportunities for sabotage. State suggested that the case might be referred to the United Nations for submission to the International Court on the same basis as that requested by the British in the Anglo-Iranian oil situation. This point should be thoroughly studied as such a move would probably tie up the planes indefinitely.<sup>56/</sup>

In a memorandum, dated 3 July 1952, the Inspector General discussed the problem of what to do if a favorable decision was received from the Privy Council on the CATI appeal in the CATC case. The possibilities were listed as follows:

1. Sabotage the planes, but not to be done if the appeal is won, and only as a last resort if lost.

2. To advise or assist in moving the planes to Taiwan, where CAT has the best and

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cheapest repair center in Asia. However, if this were done the Chinese would almost surely grab them and use them to compete with CAT.

3. Repair at Hong Kong by JAMCO (a British-owned air maintenance facility). The second cheapest way for rehabilitation, but probably too dangerous because of the possibilities of sabotage by the ChiComs.

4. Advise or assist in moving the planes to Japan or to the Philippines. This would be cheaper than movement to the mainland, but the capabilities or existence of facilities was not known.

5. Advise or assist in the movement of the planes to the west coast, which would be expensive in terms of movement and rehabilitation but provide a better place to market the planes. The Agency had four basic interests to serve. These were:

a. to deprive the ChiComs of the aircraft;

b. to insure that they were not used to set up competition with CAT;

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c. to obtain planes for the American economy;

d. to obtain the kudos in the Far East which would result from the aircraft being evacuated under the American flag.

6. It was recommended that the Agency make a contract with CATI in which the Agency would be given the right to dispose of the aircraft in return for financing the removal and repair. The first proceeds of the sale would go to reimburse the Agency for their expenses. Next, payment would be made of the notes of the Chinese Nationalists, and the balance divided between the Agency and CATI on a 50-50 basis.<sup>57/</sup>

In a summary written immediately after the above memorandum, the IG summarized the assets involved as follows: CATC assets include 5 Convairs, 18 C-46's and 17 C-47's, 6 or 7 of which may have been sabotaged. In the CNAC suit, which will be heard later, involved are 5 DC-4's, 1 PBV, 25 C-47's and C-46's. Spare parts of a value ranging somewhere between \$100,000 to \$300,000. It was estimated that after rehabilitation of all the aircraft and with

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spare parts involved, the total market value would be approximately \$5,000,000. Outstanding against the title held by CATI are \$4,750,000 non-interest bearing bearer notes owned by the Minister of Communications of the ChiNat Government which could probably be settled for an estimated \$3,000,000.<sup>58/</sup>

On 28 July 1952, the same date as the favorable decision by the Privy Council, the DCI was advised that the objectives of the Agency were to insure that the aircraft did not enter into any position competitive with CAT, and to insure that either through the sale or resale they would not eventually reach Communist hands; also, to insure that CAT was not subject to reprisals by the ChiNat Government if CATI in any way failed to live up to its contractual obligations.

(N.B. The ChiNat Government consistently refused to accept the fact that there were any real differences between CAT and CATI; this, of course, was based on the fact that Chennault and Willauer were the principal persons in the Far East involved in both the corporations.)

Denial of these assets to the ChiComs should be exploited as fully as possible from a psych-war viewpoint.

It was concluded that in view of the Agency's NSC 10/2 responsibilities and of any possible impact on CAT a close continuing Agency interest was required

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as to the disposition of the assets and could only be insured if the U.S. Government exercised full control over such disposition. This could best be achieved by underwriting the evacuation and rehabilitation costs, and only CIA was in a position to enter into the necessary contractual arrangements with CATI to accomplish the above. It was recommended that CIA assume complete responsibility on behalf of the U.S. Government in this matter, and that a project be prepared which would authorize expenditure up to \$3,000,000 for accomplishment of the U.S. objectives. The project should be written to provide the maximum exemption and/or flexibility from all Agency regulations and procedures. Full authority for the implementation of the project should be placed on a single individual acting for and in the name of the Director.<sup>59/</sup>

On 30 July 1952 the IG wrote a memorandum for the record which stated:<sup>60/</sup>

"Mr. Corcoran made a deal with Sir Oliver Littleton, Colonial Secretary, under which Mr. Corcoran agreed not to take the planes directly to Formosa and Sir Oliver agreed:

- a. to guarantee protection to the planes;

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b. to guarantee to make possible the repairing of the planes in place;

c. to see that the Order in Council is broad enough to cover everything, including the parts off the premises;

d. to supplement the order so that by Executive Order CATI has the other assets; and

e. agree to play ball if they elect not to make the repairs in place."

Although the above appeared to be quite a favorable agreement reached with the Colonial Secretary, Mr. Corcoran was of the firm opinion that the single provision that the planes could not proceed directly to Formosa greatly increased the cost of the evacuation and rehabilitation of the aircraft. He was convinced that this single provision was the result of strong pressures by British interests in Hong Kong, particularly by the Keswick Brothers of the Jardine and Mattheson Company, and by Butterfield and Swire. He stated that they wanted to force CATI into a position where they would have to use JAMCO in Hong Kong to rehabilitate the planes or else to sell the aircraft to the British interests, who would then

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rehabilitate them at JAMCO and place them on the market. This would undoubtedly result in their eventually falling into the hands of the Chinese Communists. 61/

Unofficially, the reasoning given by the British for the restriction against any direct movement of the aircraft to Taiwan was that such a move would greatly damage, if not destroy, the juridical base on which the Privy Council had upheld the CATI appeal. This was that there had been a valid and legitimate sale by the Chinese Nationalist Government, recognized by Great Britain at the time of sale, to American business interests. Any direct movement of the assets to Taiwan would lead to charges that the entire transaction had merely been a device by which the ChiNat Government sought to retain their ownership. (It is not inconceivable that if the aircraft had been moved to Taiwan, the ChiNat Government might have taken some action based on the notes given to them by CATI, which might have confirmed the suspicions as to the legitimacy of the sale.)

Immediately following the favorable decision of the Privy Council there was a series of meetings between representatives of the Department of State, Department of Defense (principally the Navy), and the Agency with regard to how the evacuation and

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disposition of the aircraft and spare parts should be handled. A Presidential Directive had been received authorizing a transport aircraft carrier (TCVE) to proceed to Hong Kong to pick up the more valuable of the aircraft.

There was a considerable amount of indecision as to what action to take, since in addition to picking up the CATC Convairs, it was considered desirable to pick up the CNAC DC-4's. However, since as yet no decision had been made by the courts with regard to the CNAC assets, it was considered that rather than delay (particularly because of the British authorities' urgent desire for the evacuation to be accomplished as soon as possible), that the Presidential decision be altered so as to permit the TCVE to pick up the Convairs and then as many of the other CATC assets as it could accommodate.

There are many memoranda involved during this period, with no one clear-cut memo giving the actual final decision. However, a TCVE did come to Hong Kong and picked up the Convairs and as much of the other CATC assets as it could accommodate. The Hong Kong court rather quickly upheld the CATI appeal in the CNAC case, and a second carrier came to Hong Kong

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to pick up the DC-4's and other planes and material. At the prodding of the Hong Kong Government, the remaining planes and other movable assets were loaded into seagoing barges, which were towed to the U.S. Naval Base at Sangley Point in the Philippines and then reshipped to the States by commercial sea transport for rehabilitation, quite costly to CATI.

Fortunately, from the viewpoint of CAT management in the field, the evacuation of all the assets of CNAC and CATC was accomplished in a relatively short time and to the satisfaction of the Hong Kong authorities.

There is no doubt that the successful litigation pursued by CATI resulted in a considerable victory in terms of the U.S. national interest. Mr. Corcoran and his associates took great pride in the accomplishment although they recognized that it could not have been done without the assistance, financially and politically, of the Agency and other offices of the U.S. Government. Unfortunately, it was a victory that left a bitter taste in the mouth of CIA, CATI, and to a certain extent CAT because of many conflicts of interest and areas of differences that arose

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during the course of the long drawn-out litigation.\*

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\*Hindsight is, of course, always better than foresight, but Cox felt strongly in November 1949 and since that NSC 10 provided OPC with sufficient authority to undertake the proposed denial operation. As events turned out, OPC, and later the DD/P, was required to advance funds, exert pressures, and in many ways to undertake things all in the national interest but for the financial benefit of CATI and without any real control of CATI's actions. As indicated some of these actions created very serious problems for CAT. The deterioration of relationships between the old and new owners of CAT was unfortunate and regrettable.

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