

30 October 1950

MEMORANDUM FOR: COL. STILLWELL

SUBJECT: [redacted] - Comments on the Report of the President of CAT Incorporated to the Board of Directors.

1. The subject Report raises one principal issue i.e., what Operating Rights can CAT Incorporated expect to have in the future. An important subsidiary point concerns the duration of such Rights as may be granted. The fact is clear that without Operating Rights and the necessary licenses, the company cannot continue to function as an air transport service.

2. It should be noted that the principal issue raised by the President's Report is brought about by the fact that the Nationalist Government's grant of a franchise to operate is renewable on a yearly basis. This fact, so far as I am aware, was never known to the OPC personnel considering the project, was never referred to by Willauer at any stage of the negotiations, and the files contain no mention of it. Such an eventuality was not expected inasmuch as normal franchises of this nature usually run for a longer period in order to induce the operator to undertake the risk of investment and further for the fact that the question of rights was raised frequently during the negotiation stages with Willauer so that there was no reason to believe that so limiting a factor could have been overlooked.

3. The present authority and source of CAT's operating franchise is the Nationalist Government of China. Willauer first raises the question of possible changes in the sovereignty of that authority by suggesting the possibility of either a US recognition of the Communist Government or of a United Nations Trusteeship authority to supersede the Nationalist Government. However, in either case, it is my belief that the present Nationalist Government group will remain in force on Formosa until driven out by force. It is further probable that only the United States has the power to enforce the removal of the Nationalist Group and it is most probable that the US will not undertake such a campaign. On the assumption that the Nationalist Government will remain a sovereign body the questions to be considered are; 1) Is a renewal of the yearly franchise with the Nationalists possible on a reasonable basis and 2) Is a franchise possible from some other and more advantageous source.

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4. In considering the difficulties of obtaining a renewal of the franchise on a reasonable basis Willauer gives the following background on the problem. Four principal reasons are stated as to why the franchise was granted to Willauer and Chennault originally in spite of the Government's desire to promote all Chinese air activities through a chosen instrument: 1) the debt of gratitude owed General Chennault for his war services, 2) the fact that the grant was personal rather than corporate and was thus to be of a temporary nature, 3) the fact that existing Chinese services were inadequate and 4) the fact that a US agency UNRRA, assisted in the request. Willauer further notes that strong nationalistic feelings were placated to some extent by permitting various Chinese stockholders. The present situation as presented by Willauer indicates a resurgence of the nationalistic feeling and gives as an example the formation of a new Chinese airline Fu Shing, as an expression of this feeling. He notes that Fu Shing is not yet operating but that it has some sort of official backing. To overcome the nationalism expressed by this new company and in other ways Willauer suggests that

5. So far as I am able to determine the factors which led to the granting of the original franchise are more compelling at present than they were originally. The debt of gratitude to Chennault is reinforced by his loyalty during the period of the hands off period of the US policy. The franchise continues to be of a temporary nature and not only is the national air service inadequate, it is totally lacking. Furthermore, a US government agency, the Air Force, is presently using the line in military service. In addition the company employs many Chinese, has acquired far more operating experience, and in the face of a possible invasion such an air service is vital. I cannot imagine a failure to renew the franchise in the face of so pressing a need and in the absence of a going national service of comparable scope. The directorship and stockholding problem is based on the assumption that CAT is regarded as the national flag line of Nationalist China in spite of the fact that the franchise has always been regarded as temporary. I do not believe that the granting of directorships or stockholding rights will obscure the fact that the line is dominantly US owned and controlled or will stifle a natural desire to operate a truly national service. The granting of directorships or stockholdings will increase the security problem with the added risk of selecting persons who may be entirely out of favor with the dominating group before the year is out thus creating a real obstacle to a future renewal. Without an affiliation with any specific group an amount of free play is possible. There is no definite way of preventing the Nationalists from starting an airline of their own and if they do they offer a hostage to renewal inasmuch as they will doubtless seek rights in Japan and elsewhere within US control which will have to be negotiated. The real concern over the renewal will

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come if very restrictive clauses are added. However, OPC could seek State intervention if a US corporation is unduly affected. The stockholding and directorship problem could be met by reminding the Nationalists that the period of inactivity without Nationalist financial support necessitated a deal with the bankers who have quite naturally tied the hands of the President on such matters until the major debts are liquidated. This will leave Willauer free to make a deal in the future if absolutely necessary.

6. As to the question of securing a franchise from some other authority I had understood from the beginning that the company was attempting this by parcelling up the line into self contained units to be incorporated in various SEA countries. In respect to Japan, SCAP has already authorized a Japanese airline internally and I am certain that both FAA and NWA would violently object to the granting of special rights to CAT in Japan to operate internationally from Japan. In addition the Air Force adheres to CAA regulations and would probably insist on such regulations in re CAT operating equipment and personnel licenses. However, the question is worth exploring with SCAP as a future move may be necessary. I do not know what the situation would be in Korea but it is probable that the ROK Government will have the say in the not distant future. This question should be looked into as well. However, for the immediate future, a renewal of the Nationalist franchise would seem to be the priority task.

7. Willauer requests that the questions raised by his memorandum be settled prior to the negotiations for renewal of the contract. I therefore recommend, subject to the advice of Mr. [redacted] that Willauer be informed that he should commence negotiations immediately on the basis of the status quo. I further recommend that no alterations take place in the composition of the Board of Directors or in the number and distribution of share holdings. It is felt that none of the changes suggested by Willauer will materially affect the chances of a reasonable renegotiation of the contract. The fact that no other air service of comparable scope is available at a time of need suggests that a renegotiation is probable for at least the next year.

[redacted]
cc
Mr. [redacted]
Mr. [redacted]
Mr. [redacted]
Mr. [redacted]
OPC Registry

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