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16 J une 1952

His Excellency Capt. Joaquim Marques Esparteiro
Governor of Macao
MACAO

Your Excellency:

We refer to recent discussion between Capt. Abilio de Oliveira Ferro, Chief of Cabinet of the Government of Macao, Dr. Antonio de Nagalhais Continho, Postmaster General of Macao, Dr. Fernando Batalha da Silva, and other citizens and officials of the Government of Macao, on the one hand, and Mr. Earle S. Willoughby of Civil Air Transport on the other hand, on the subject of the development of civil aviation in, to and from the Province of Macao with the assistance, advise and participation of Civil Air Transport.

Civil Air Transport, referred to hereafter as CAT, is an American operated airline, founded in 1946, by General Claire L. Chennault and Mr. Whiting Willauer. It is the owner and operator of all the facilities more fully described below and has successfully operated air transportation facilities in, to, from and connecting China, Indo-China, Hongkong, Manila, Formosa, Okinawa, Korea and Japan. In addition, CAT has successfully operated by special charter arrangement to Europe, Africa, Australia and New Zealand. In addition to maintaining its passenger and cargo service all through the Far East and other areas referred to above, CAT has schooled and trained over 7000 Portuguese, Chinese, Filipino, Japanese, Siamese, Korean and other nationals as aviation technicians and crew members, all of whom are now serving with our own and other aviation companies.

In addition to its regular commercial activities, CAT has since the outbreak of the Korean War, made available to the United Nations Command substantial portions of its flying facilities for the transportation of personnel and equipment to strategic areas. Further, CAT, during the past year and one half, has aided and been instrumental in the setting up, development and management of Korean National Airlines which is the flag carrier of the Republic of Korea.

CAT's fleet of aircraft includes 1 C-54, 23 C-46's, 7 C-74's and one PBY. In addition CAT has a developed pipeline of supply for and a large stock of spare parts, components and equipment, radio and telephone communications equipment, ground equipment, etc., selected, tested and proved as being necessary and most suitable to its operation. It also has, located at Tainan, Formosa, the most up-to-date and comprehensive overhaul and maintenance shops and facilities in the Far East. The

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reputation and high standards of engineering work performed at Tainan is testified to by the fact that CAT performs maintenance and overhaul work on a contract basis for many other airlines operating in the Far East and furthermore the United States has contracted for maintenance by CAT of many of the aircraft of the U.S. Far East Air Force. Engineering personnel consist of American, Portuguese, Filipinos, Japanese, Siamese and nationals of some fourteen other countries who have for a period of over five years worked together and developed into a well integrated team.

After studying the situation, it is our recommendation that the development of civil aviation in Macao be divided into three stages:

1. The basic organization of an airline to offer air transportation service between Macao and Hongkong as soon as possible with a possible extension to Manila.
2. Begin studies and surveys with a view to the development of air routes between Macao, Goa, Diu and Lisbon.
3. Begin studies and surveys with a view to the development of air routes to other countries where such development is commercially and politically feasible.

Actually stages two and three would be carried out simultaneously.

For the implementation of stage one of the operation; it is our opinion that initially one PBY type aircraft will be required. We estimate that the cost of such an aircraft and an adequate initial supply of parts and equipment will cost US\$66,000. In addition, a working capital of at least US\$44,000 will be required. We propose that a Portuguese Corporation with the necessary initial capitalization be organized in accordance with Portuguese law, as the operating airline.

This Corporation will be staffed initially by qualified American, Portuguese, and Chinese personnel. It will be the major objective and firm policy of the Corporation to employ and train the maximum number of Portuguese Nationals, so that at the end of the initial five year period of operations, as many as 50 to 75% of the Corporation's acting personnel will be Portuguese Nationals.

In order to initiate and successfully carry out this program, the following undertakings from the Portuguese Government will be required:

1. The immediate granting of a commercial air franchise to the newly formed Corporation and an undertaking not to similarly enfranchise any other company for a period of at least five years without the prior consent of the Corporation.
2. Blanket recognition of all certifications by the Civil Aeronautics Administration of the Republic of China including, without limitation, aircraft registration, airworthiness certificates, radio station licenses, air and ground crew licenses. Such recognition is actually provided for by the agreements drawn up at the Chicago Convention of 1944, to which both Portugal and China are signatories.
3. Provision for sufficient foreign exchange allocations to cover procurement of all necessary supplies and equipment not procurable in Macao, the payment of all expenses requiring foreign exchange including, without limitation, salary allotments for foreign personnel, and also to provide for a reasonable return on investment.
4. Arrangements for the free import and export of supplies and equipment and the facilitation of the obtaining of entry and exit visas for the Corporation's personnel.
5. The granting of adequate airport facilities and permission to lease or construct such buildings and other structures as may be operationally required.
6. The full backing of the Portuguese Government in connection with the negotiation of landing and other rights with the Government of those countries to and through which such rights will be necessary in order to effectuate proposed routes.
7. Exemption from Corporate income and business taxes and personal income taxes for foreign personnel and custom duties during at least the first three years of operation.
8. The granting to the Corporation of all airmail and parcel post on routes flown by the Corporation at rates to be agreed upon by the Government and the Corporation. In addition, we shall expect that all Government employees travelling by air will utilize the facilities of the Corporation.
9. The full cooperation of the Government in other respects whenever necessary in connection with all phases of operation.

The date when actual operations in the first stage can be expected to commence, will be directly dependent on the approval of an overall plan by the Portuguese Government. With the successful inauguration of stage one of the proposed plan of operation, the Corporation will direct itself immediately to stages two and three with a view to actual implementation as soon as possible.

We are immediately available for discussion and clarification of all points set forth above, and we wish to thank you for the courtesy that has been shown us.

Respectfully submitted,

A. T. Cox
Acting President

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VPAGM
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DT&S
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