

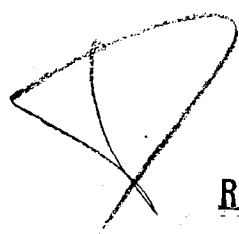
MEMORANDUM

TO : MGDR
FROM : President
SUBJECT: China Air Lines

DATE: 10 July 1964

REF. No. P-64-279

REC'D WAS JUL 13 1964



I should have written to you earlier about this but had been hoping to talk to you directly and at some length about it, in connection with our "Chinese image" situation, during your proposed visit to the Far East which has been delayed repeatedly over the past couple of months or so.

You were aware of it at the time, but a few months ago General I Fu-en, the sparkplug of China Air Lines, was summarily removed from his official position in the Chinese Air Force and transferred to a reportedly relatively inactive position in the Ministry of National Defense. We have understood the reasons to be several, one of them being that there were financial irregularities in connection with a China Air Lines large housing project, others being morale and command problems within the Chinese Air Force, stemming from General I's ambitions and military intelligence activities which resulted in the Commanding General putting it to his superiors that one or the other of them had to run the Air Force and a choice had to be made. As a sequel to this move the command of China Air Lines who were General I's protégés also were relieved. Placed in charge was Lt. General Y. C. "Benny" Chow, who was retired from the Air Force for the purpose. General Chow is well known to many of us at CAT and has been friendly and helpful in many ways over the past several years. He was, as a Colonel, Commander at Tainan when I was first there. Apparently he is a particularly good friend of Dr. Wang Wen-san. I understand they had several conversations which lead to Dr. Wang's bringing General Chow to my office to present a proposal that CAT withdraw from the domestic services on Taiwan in exchange for China Air Lines' assurance that CAL had no ambitions towards CAT's international routes. I said that the proposition was interesting but that I was not prepared to give an answer before consulting with others of our organization and our investors. I also commented that in the event we should find the proposition of interest, assurances from China Air Lines would not be sufficient, that we would have to have formal assurances from acceptable Government sources. Dr. Wang had proposed that the agreement be "sealed" through CAT and CAL having a dinner party at which General Chow and myself would drink a toast to the agreement mentioned. I demurred at this naive approach, of course, saying that while a personal agreement with General Chow might be entirely valid while he remained in command of China Air Lines, it being a Government organization, commanders could readily change. I also noted that regardless of CAL's position it could also be said that Government were ordering them to undertake international operations and therefore we would have to have acceptable Government assurances, too. I was aware at the time of other thinking in the Chinese Air Force that a trade off of domestic routes for international routes probably would not be acceptable to Government: No means were developed at that discussion as to how the assurances^{which} would be required by us could be provided but it was agreed that we each would continue to study the matter and I was to give a response which I have not done pending an opportunity to discuss the matter with you and have your thinking.

4 - 7/13/64

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General Chow said that he had just finished making an examination of all of China Air Lines' records and determined that they had been actively pursuing a plan of entering international operation, however he felt the plans were unrealistic. It wasn't clear where the necessary funds and equipment were coming from. He also noted that the domestic operation was not profitable and that CAL revenues were at that time falling some NT\$370,000 per month short of meeting expenses. He commented that CAL had too many employees, the jobs having been given for patronage purposes and that in fact he was faced with demands for increased employment, noting that the concept was that CAL would be a haven for retirees from the Chinese Air Force, but he didn't think that was realistic because CAL just simply would not be able to accept all the candidates that would be coming from such a large organization. His idea was that if CAT would withdraw from domestic services, revenues which then would come to CAL would be sufficient to permit a profitable operation and that CAT and CAL could cooperate instead of competing against one another.

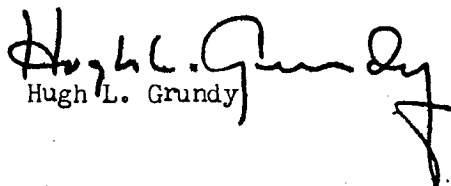
Dr. Wang Wen-san seemed very much in favor of this approach and I got the impression that he might be promoting it, actually.

Later Dr. Wang mentioned earlier conversations and contacts with CAL and that it had been suggested that he become a director of China Air Lines. He wondered what we would think of that seeing that it might provide an opportunity for us to know what was going on in CAL. I said I would take it up with you which I am doing quite belatedly. Unfortunately, the opportunity to make a deal as described above probably has passed if indeed it was an opportunity. I really doubt that it was because I think that Government's long range plans are for a state airline and that any such agreement would be basically in conflict, at least for the longer term. It could be possible however that an agreement on a shorter term basis would have been possible and a remote opportunity may still exist. However, the B908 accident has colored our whole existence here. I am extremely worried about how things are going. What should have been an airplane accident investigation has turned into an investigation and persecution of the whole CAT/AACL investment. China Air Lines has been active in attacking our position in the Legislature and has made comments to the press which would in most other societies be considered highly unethical in a situation like this. And, many others who have axes to grind are grinding them with the various Government functions involved. High Government officials and friends that we are usually able to count on to assist in solving our problems have run for cover. With the cries of indignation over the crime CAT has committed against Government, that of having an aircraft accident with important guests of the Government aboard, echoing from all quarters and demands being made on the floor of the Legislature for the impeachment of Ministers, Department Directors and other Government officials and CAT as a whole, there will be few if any who will have the fortitude to take our side or speak up in our defense. Our whole existence is, as I said above, in grave peril and it will take the strongest action to preserve our position if indeed it can be preserved at all. CAT-AACL action will probably have to take the form of voicing our own strongest appeals to the highest levels of the Government, including probably the President. We shall also have to enlist the aid of the United States Government in defending our investors, (the Pacific Corp. and Air America) as well as American investors collectively who have been invited to participate in and have committed themselves to the foreign investment program in Taiwan which has been promoted so actively by the U. S. Government in collaboration with the Government of the Republic of China.

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Late information reaching us says that China Air Lines is preparing to apply for route licenses on the TPE-HKG, TPE-MNL and TPE-OKA routes and that the CAA and MOC have indicated that they would be given every consideration. China Air Lines reportedly would start with the one DC-6B which the Chinese Air Force bought from PANAGRA ostensibly as a VIP airplane for the President. Further than this, reportedly they intend to seek an arrangement with a foreign carrier who would provide the necessary equipment and operational assistance. Their idea is that they would be in a better bargaining position than they were at their last try, if they already were operating and could point to routes actually available. They would also be able to point to their relatively stronger position vis-a-vis CAT's current position of disfavor with Government.

In closing I can only say that I am disappointed, but not surprised, at the emotional approach being taken in this situation and at the absence of a climate in which business truly can survive. It is doubly unfortunate that we are being condemned without having been given a fair trial. It is not at all clear that this accident was the result of any fault of ours but may well have resulted from foul play. I might add that there is a good deal of public sympathy for our position and a widespread faith in the quality of CAT's maintenance and operations which in conjunction with the suspicious factors involved in the accident lead many people to the belief that the accident resulted from some insidious cause which has not come to light and which may be covered up.


Hugh L. Grundy

cc: File (2)