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DD/S HR70-14

3 December 1964

MEMORANDUM FOR: Members of the Executive Committee

SUBJECT : Company Structure - Air Asia Co., Ltd., Air
America, Inc., and Civil Air Transport Co., Ltd.

1. On 27 November 1964, there was a discussion on the possibility of realigning the structures of the above-named three companies in order to rectify some of the current problems and to put these companies into the proper context for future operations. In summary, it was felt desirable to effect a separation of companies so they could be more readily distinguished as separate entities, rather than the present situation where both headquarters and the field tend to regard all three as CAT. This broad viewpoint poses difficulties in carrying out the organizational command and technical responsibilities of the individual companies. From an organizational operating standpoint, it is desirable to streamline the company operations, to increase the senior officer capability, and to separate the company identities. In so doing, a number of problems can be alleviated and increased efficiency and stature should result. Further, there are some legal problems which should be easier to handle and the separation of joint records should render organizational benefits and precautions against future legal problems. Consideration was given to the following proposals, subject to determination of certain tax and legal positions which would be pertinent to the feasibility of these proposals.

a. Air America

(1) Establish a branch office for Air America on Taiwan if Chinese tax liabilities would make this feasible. In the event this is not financially feasible, the branch office of Air America might be established in Hong Kong, Okinawa or elsewhere.

(2) On the basis of establishing a branch office of Air America on Taiwan, Air America and Air Asia should be physically separated from the offices of CATCL. A separate building could be obtained or erected at the Taipei Airport which could be used to house Air America and Air

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Asia with each company being clearly and separately identified in their occupancy of this single building. CATCL could be housed in the present office building. This move would effect a physical separation of the companies.

(3) In view of the integration of both personnel and records of Air America and Air Asia, an arrangement should necessarily be worked out whereby the two could operate jointly. To this end, the contractual relationship between the two companies could be revised and set forth as a joint-venture contract so the duality of personnel and records would be overtly and legally established. Effecting an actual separation of personnel and records would be extremely expensive, causing a definite increase in personnel and a duplication in the form of separate records, and serving no purpose or benefit to our program.

(4) As an additional measure, the Air America and Air Asia joint venture should have a classified communications facility. This would permit a much greater degree of communications between Air America and Air Asia with headquarters.

b. CATCL

CATCL would emerge under this arrangement with its own office building, officers, and staff completely separate from the other two companies. CATCL would continue its present small scale method and degree of operations. The appointment of a Chinese President and Vice President and a Chinese Sales Manager would greatly increase the Chinese image and stature of CATCL. The managing officers of CATCL must necessarily, however, be responsive to Mr. Grundy since we cannot afford a situation where the officers of CATCL are working at cross purposes with Air America and Air Asia. In line with the emergence of CATCL as a separate company, the Services Agreement between CATCL and Air Asia should be revised to show a greater ratio of profits to CATCL than the present ten per cent. Other provisions of the contract might be revised for public image purposes without lessening our operational control of CATCL.

2. Mr. Grundy has been identified generally as President of CATCL and his position as President of both Air America and Air Asia has been subordinated and generally blanketed over by the CATCL picture. It is desirable that we

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establish clearly that Mr. Grundy is President of Air America and Air Asia. At the same time, his interest in and control of CATCL will remain but CATCL will develop a strong Chinese image. An effort will be made to appoint an experienced officer as deputy to Mr. Grundy so that he can delegate to this officer a number of responsibilities and authorities. This should improve the management picture and give the operation greater depth and flexibility in making decisions and handling problems. To maintain management control, however, over these separate operations, it appears necessary that Mr. Grundy be based on Taiwan.

3. The above sets forth the premise on which a separation of the companies could be made. This proposal will be the subject of discussions at a special meeting of the Executive Committee.

K. L. Bannerman
Acting Deputy Director
for Support

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