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is this  
 It was ~~known~~ evident in ~~the~~ narrative that the airline SAT had become a vital and integral part of OPC plans and operations. This relationship was

~~so~~ so intimate in these early days that it is impossible to understand our operations without explaining its role. We have seen how it was destined as transportation and cover support for operations in [redacted]

This phase was known as subproject [redacted] but before more is said

brief ourselves sketchily on the history on this aspect, ~~namely~~ it is best to ~~go back to the beginning~~

February  
 history of Civil Air Transport.<sup>1</sup> Early in 1947 General Claire L. Chennault

and Whiting Willauer began operating an airline under franchise from the

Chinese Government which was known first as CNRRA Air Transport and later

as Civil Air Transport or CAT. The first name was adopted because the ~~name~~

initial business ~~name~~ was a contract with the Chinese National Relief and

Rehabilitation Agency for transporting relief supplies. The original planes,

which were U.S. Military Transport surplus, had, in fact, ~~been~~ purchased from the Chinese government through CNRRA. By the

end of 1948, CAT, under the management of General Chennault and Willauer, had

was the largest single Chinese cargo ~~airline~~ airline with also a substantial

passenger business. It employed about 1500, a great many of whom were Americans,

1. The most detailed study of CAT in 1949 and 1950 is the Report of Arthur L. Jacobs to Mr. Wisher, 16 January 1951. SECRET. A copy is in [redacted]. The report is heavily slanted from a business point of view and the author at the time was not given access to files on OPC operations, therefore it must be used

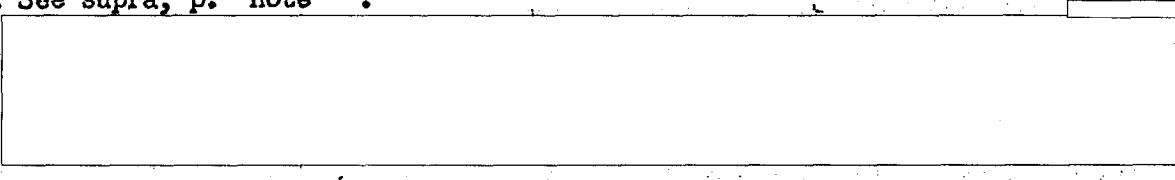
APPROVED FOR caution. See also in [redacted]

RELEASE□ DATE: development of subproject XNKITTY, [redacted] Memorandum: Summary  
 22-Apr-2010 The major files on CAT which are extensive are in [redacted] (19 December 1949)

was credited with a high degree of efficiency and safety, good maintenance facilities, and was realizing substantial profits. There were two other airlines operating in China, the China National Aviation Corporation (CNAC) and the Central Air Transport Corporation (CATC). They were owned by the Chinese Government with the exception of a 20% interest in CNAC held by Pan American Airways. These companies do not come into our ~~minimum~~ story until a discussion of the Formosa problem and are only mentioned now for the record.

We have already explained General Chennault's part in stimulating OPC activity to explore the possibility of saving free China of the Northwest, West and South, which began with the interview of 10 May 1949.<sup>2</sup> At the time he said that CAT was operating twenty-four C-46 and C-47 type aircraft ~~mm~~ on regular flights between nine cities and would soon put six single-engine ~~had flown~~ Cessna aircraft into operation between ten cities. Most of his pilots ~~were~~ <sup>the Chinese employe</sup> as Army pilots for him during the war and ~~the Chinese~~ he believed to be entirely loyal. Each aircraft carried a pilot, co-pilot and traffic officer who ~~was~~ coped with the language difficulties. The most significant attribute <sup>according to one observer<sup>3</sup></sup> of CAT was its flexibility in maintaining efficient operation under the ab-

2. See supra, p. note .

3. 

intuitively preserve in

normal conditions. It had ~~had~~ an uncanny means of moving its bases at a moments notice and often ~~would~~ loading passengers and cargo for evacuation on one side of a city while the ~~film~~ Communists were entering on the other side. Its pilots were notorious for black market operations, since they had a remarkable opportunities, and as we have seen Chennault was closely tied by friendship to the Generalissimo.

threatening curtailment of  
In May 1949 the Communist push south was ~~surrounding~~ CAT activities.

[redacted] a friend of General Chennault, was authorized to enter into preliminary and unofficial discussion with Corcoran, general counsel of CAT, "looking toward the possible direct or indirect subsidization of the line to preserve its ~~fm~~ operations, facilities and personnel for ultimate OPC use in

China."<sup>5</sup> Mr. [redacted] goes somewhat into the financial problems of CAT, due as was said to cutting off of dollar revenue, but the ~~fundamental~~ fundamental

reasoning underlaying this and all subsequent negotiations with CAT owners

4. Ibid., Memorandum of Conversation with General Chennault, 6 June 1949

*See also exhibit, p.*

5. [redacted]

was his opinion that "if at all possible action must be taken to hold CAT intact. The face of the CAT operation, "coupled with its communications and operations, cannot be established by a new operation without the expenditure of time which we do not have, and without the expenditure of many millions of dollars." He believed that approximately [redacted] per annum would be the minimum necessary to hold the operation together for OPC purposes.

Auxilliary efforts designed to increase the minimum revenue [redacted] were undertaken but came to naught, and in [redacted] opinion, these would not have solved the min problem anyway. at first LAT attempted to get a The State Department turned thumbs down on subsidy from unexpended ECA funds and [redacted] that agency through OPC to State, aided by which had been approached through congressional pressure.

The early part of July State's Policy Planning office turned down a proposal for OPC assistance to CAT, confirmed by Secretary Acheson when OPC asked that it be taken to a higher level.<sup>6</sup> Thereupon another approach was made through Butterworth, who was furnished with a detailed memorandum at his request.<sup>7</sup> This request was tied into the plan soon formulated into project [redacted] discussed above, known as master

[redacted] The emphasis, as in that project proposal, was laid on the airline's use for [redacted]

6. Ibid.
7. Ibid.

[Redacted]

Since ECA assistance had been ruled out by the Secretary of State, OPC now

requested a policy determination that CAT continue operating in Free China

and aircraft engines and that OPC attempt to aid it by assistance in getting gasoline for [Redacted] and p

[Redacted] lower prices, assistance in securing ECA contracts for movement of materials, and assistance in securing unrestricted landing rights at Haiphong. No direct

aid was requested. Mr. Butterworth approved the entire memorandum with the

exception of the provision referring to landing rights at Haiphong.<sup>8</sup> The in-

direct assistance, as [Redacted] had foreseen, did not solve CAT's problems, though

much effort was spent in trying to obtain it.

The first concrete step in the development of [Redacted] was a conference with

General Chennault on 24 August.<sup>9</sup> There he laid down the principle of the base

at Hainan Island on Samah Bay [Redacted] where

the installations were now being inspected for practicability. Fifty thousand

by Chiang Kai-shek  
good troops had been sent there for its defense, largely at his request.

He had moved his base facilities out of Canton onto barges and an LST which

[Redacted]  
8.

[Redacted]  
9.

were now in the vicinity of Hong Kong. If Hainan would not do, Chennault proposed to go to Formosa. He detailed the stages for movement of supplies to the Northwest and said that he could make 14 C-46's available which would move 35 tons a day at 60¢ per ton mile. This compares favorably with logistical operations in 1952 --

was  
Of great interest to OPC was the General's readiness to air-drop, although saying he had the know-how but not the materials for packaging.

Arrangements for implementing [ ] drifted on through the rest of the summer waiting on State's approval of the master project. When this seemed

an important imminent meeting with General Chennault and Corcoran was held on 26

September when CAT's financial proposals were received. OPC countered with

their ideas on 15 October after [ ] had been approved, and an agreement

OPC  
was signed along the lines proposed on 1 November.<sup>12</sup> There was no change in the

operational plans during all this time, ~~except~~ when the fall of Canton

was imminent, CAT based itself on Hong Kong where it later passed an uneasy

existence. Hainan Island had been definitely selected as the base for

[ ] indeed General Chennault was accepted as the key figure for our resistance  
operations. He had observed that he and Willauer would take care of the

NOTE: 10, 11, and 12  
in bottom of p. 7,

political problems in establishing the base either there or on Formosa.

As we have seen, he had induced the Gimo to send 50,000 good men to Hainan, and he mmm believed he could get them to declare the area around Samah Bay a military area to increase security. He declared, it absolutely necessary to inform the Gimo, President Li (that was in September before he left Chungking) and Premier Yen of the general terms of the program. Lacking possibility of State's aid on these political matters, OPC had

As finally agreed, the Government would ~~pm~~ have first priority on flights  
and for cargo or personnel in the area of operations.

The fiscal arrangements proposed by OPC scaled down considerably the Chennault-Corcoran suggestions of 26 September. Corcoran admitted that their statistics on cost of construction on Hainan and flight rates were too high, the latter based on abnormal time series. (see memo from Mr. H. D. Corcoran)

(This coincided with cables just ~~arrived~~ dispatched to Hong Kong.) which would have cut  
Also we rejected a block purchase of guaranteed flying time. First of all,  
in the November Agreement, in  
we proposed to pay the cost of constructing facilities at Hainan Island, to  
be repaid us by CAT if it became a commercially profitable operating base.

be repaid us by CAT if it became a commercially profitable operating base.

10. Ibid., DCOP (Stilwell), Memorandum, 29 September, 1949, Subj.: Conversation with General Chennault and Mr. Thomas Corcoran. SECRET. Proposals 26 Sept. a
11. Ibid., DCOP (Stilwell), Memorandum for the Record, 15 October, 1949. SECRET.
12. Ibid., [redacted] in file, undated draft. The Memorandum of Agreement of 1 November 1949 between the United States Government and Civil Air Transport, [redacted], is in the office of Chief of Confidential Funds. Copy 2 is in file [redacted]. A preliminary draft (and probably other copies of the original) is in [redacted]

Since CAT expected deficits within the period 1 November through 31 January 1950, OPC agreed to take up these deficits to the extent of [redacted]

less the cost of the Hainan construction. Operating costs were spelled out  
and income would include all subsidiaries. Capital losses were not included,  
but normal depreciation was allowed. OPC paid for services rendered to it  
at the usual commercial rates of the area, to be agreed on at the time.

Funds from the [redacted] would be advanced under such controls as the  
OPC would establish and the books would be open to inspection. The arrangement,  
which was made to send an accountant to Hong Kong, and the Chief  
of [redacted] would have to approve each disbursement. This is the gist of the  
agreement.

What did OPC accomplish by this action? It is impossible to consider it  
as a commercial transaction. We have here conditions similar to a war emergency.  
That is indicated by the Government construction of base facilities,  
reminiscent of World War II contracts. In subsidizing the company's operations  
in addition, OPC used the best method available, protecting themselves legally  
through the control clauses. Certainly this was better than an outright  
gift, and a loan would be impracticable: the groundwork was laid for eventual

acquisition. So the plans were completed for a most far reaching framework for our Far East operations. We were on the way to acquiring a made-to-order support and cover and denying a useful and much needed weapon to our enemy. It would have been impossible to have built up a system ourselves. The appearance of a new company on the scene under the hazards facing free enterprise could not possibly have <sup>maintained</sup> retained a reasonable security cover story, and would have jeopardized our entire operations.