

15 August 1966

A STUDY BY DIRECTOR OF PERSONNEL

REC'D WAS AUG 29 1966

Table I - is the proposed AAM Pay Standard "CD" which is a revision of the present Pay Standard "D". The changes are (1) odd figures have been rounded to the next highest five dollars, (2) four Grades have been added, and (3) two Steps have been added to Grades 3 to 11 and one Step in Grade 2.

It is intended that this Pay Standard will replace the present Pay Standards "C" and "D" for all persons presently carried on these Pay Standards who are outside of Taiwan. Implementation will require only that those persons presently carried on Pay Standard "C" have their salaries redesignated with the appropriate Grade/Step on Pay Standard "CD" and that notification be given to the AAM Paymaster that the Grade/Step on Pay Standard "CD" will be the same as on Pay Standard "D" for those persons presently carried on Pay Standard "D". Some people will realize anywhere from \$1.00 to \$4.00 per month increase in salary as a result of the rounding; there will be no other changes.

Table II - is the proposed AACL Pay Standard "CDT" which is intended to replace the present Pay Standards "C" and "D" for all persons presently carried on these Pay Standards who are working on Taiwan. It will be the only Pay Standard used for non-indigenous ground employees on Taiwan. The gap between the Grade/Step amounts for this group of employees and the amounts for the same positions on Pay Standard "A", the Pay Standard for indigenous employees on Taiwan, has been narrowed.

The Grade/Step amount will be paid from Taipei by AACL; this amount is 60% (rounded) of the amount in Pay Standard "CD". When an employee's pay does not fall on a step, the amount over the closest Step will be shown as a "plus" amount and will be paid by AACL.

Table III - is the proposed AAM ground personnel "Retainer Schedule". The Grade/Step designation is the same as Pay Standards "CD" and "CDT", and the amount is 40% (rounded) of the amount in Pay Standard "CD". Payment is to be according to designated Grade/Step by the AAM Paymaster outside of Taiwan to those non-indigenous persons based on Taiwan. The AAM Paymaster will make changes in an individual's pay upon being notified to do so by receiving a copy of the approved AACL RPA (no possibly compromising correspondence required -- only mailing of an RPA copy).

One problem is notifying employees on Pay Standard "CDT" who receive salary increases of the amount of their salary increases. Naturally we could not give them a notice showing the actual total dollar amount, and the dollar amount on Pay Standard "CDT" only would be meaningless. Presently we notify them of the percentage increase. Under the proposed system, this would be confusing. One way would be to notify them of the Grade and Step before and after the increase along with the effective date and to assure that the Supervisor concerned (Division Director/Officer) is prepared to verbally inform them of the amount of the increase. The better alternative perhaps would be to have two separate notices to the individual, one from AACL and one from Air America, both showing the percent of the increase over the appropriate base. The latter would be sent from abroad directly to the individual concerned, and no copies or correspondence of any sort would be sent through the Payroll or Personnel Departments on Taiwan or retained in AACL's files on Taiwan.

APPROVED FOR RELEASE
DATE: 24-Sep-2009

While we would like to have been able to have used the Indigenous Pay Standard in lieu of the proposed Pay Standard "CDT" so that all like jobs on Taiwan would be priced exactly the same, we were unable to do so for a number of reasons: (1) there is not a standard relationship between jobs on the two Pay Standards (for example, the pay range for a secretary on Pay Standard "A" is from about \$145 to \$270, while the range for Crew Chief on this Pay Standard is from about \$180 to \$335, while on Pay Standard "D" the range for secretary is from \$355 to \$565 and for Crew Chief is from \$570 to \$855), so all of the jobs now listed on Pay Standard "D" would not fit into the established Grades for the same jobs on Pay Standard "A" and still allow us to administer the AAM payments, in particular salary changes and transfers to and from Taiwan. (2) There is such a great difference in the two labor markets for certain jobs that we should not tie the pay for one group of employees too tightly to another group; we must have flexibility in adjusting Pay Standards, where necessary, to attract certain categories of personnel in one group without necessarily affecting the other group.

However, as mentioned above, the two groups are much closer together and we plan to make some changes of certain jobs on Pay Standard "A" that will bring these positions still closer to the ones on the proposed Pay Standard "CDT".

Table IV - is the proposed AACL Taiwan Station Allowance which is generally the difference between the tax now being paid by non-indigenous employees on Taiwan and the tax that they will pay assuming their pay designated on Pay Standard "CDT" plus this allowance is taxable. The intent of this allowance should be explained as to make up for the additional cost to the employee of living on Taiwan rather than expressed as a tax subsidy. Future revisions, if any, would be based on total costs to the employee and to the company to obtain and retain employees rather than any change in the tax situation per se. In other words, we would not change the allowance due to future changes in tax rates.

This allowance could be paid in New Taiwan dollars, and would be paid from Taiwan.

Table V - is the proposed Taiwan Station Allowance if the AAM retainer is taxable in addition to the AACL pay and Station Allowance.

Employees would be transferred to or from Taiwan by merely changing the Pay Standard from "CD" to "CDT" as appropriate; the Grade/Step would remain the same. The major advantage of the "Station Allowance" system over a program of increasing Base Pay to make up for the additional costs would be that the Allowance is not carried over when an employee is transferred from Taiwan. Because of this it is the more economical of the two systems for the company.

Table VI - is the proposed AACL Flight Personnel Pay Standard "DT".

Table VII - is the proposed AAM Flight Personnel Retainer Schedule. These would work basically the same as the system outlined above for ground personnel.

TABLE I - CD PAY STANDARD

REC'D WAS AUG 29 1966

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10		Grade 11
1	265	355	475	570	730	880	1065	1225	1420	1635	1	1950
2	290	385	510	610	775	935	1120	1300	1500	1725	2	2050
3	315	415	545	655	820	990	1175	1375	1580	1815	3	2150
4	345	450	585	700	870	1050	1235	1450	1660	1900	4	2250
5	375	485	625	750	925	1115	1300	1530	1750	2000	5	2400
6	410	525	670	800	980	1180	1365	1610	1840	2100	6	2550
7	445	565	715	855	1035	1250	1430	1700	1930	2200	7	2700
8		605	760	910	1100	1320	1500	1780	2025	2300	8	2900
9			810	970	1165	1400	1575	1850	2120	2400	9	3100

TABLE II - CDT PAY STANDARD

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10		GRADE 11
1	160	215	285	340	440	530	640	735	850	980	1	1170
2	175	230	305	365	465	560	670	780	900	1035	2	1230
3	190	250	325	395	490	595	705	825	950	1090	3	1290
4	205	270	350	420	520	630	740	870	995	1140	4	1350
5	225	290	375	450	555	670	780	920	1050	1200	5	1440
6	245	315	400	480	590	710	820	965	1105	1260	6	1530
7	265	340	430	515	620	750	860	1020	1160	1320	7	1620
8		365	455	545	660	790	900	1070	1215	1380	8	1740
9			485	580	700	840	945	1110	1270	1440	9	1860

TABLE III - GROUND PERSONNEL RETAINER SCHEDULE

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10		Grade 11
1	105	140	190	230	290	350	425	490	570	655	1	780
2	115	155	205	245	310	375	450	520	600	690	2	820
3	125	165	220	260	330	395	470	550	630	725	3	860
4	140	180	235	280	350	420	495	580	665	760	4	900
5	150	195	250	300	370	445	520	610	700	800	5	960
6	165	210	270	320	390	470	545	645	735	840	6	1020
7	180	225	285	340	415	500	570	680	770	880	7	1080
8		240	305	365	440	530	600	710	810	920	8	1160
9			325	390	465	560	630	740	850	960	9	1240

TABLE IV
TAIWAN STATION ALLOWANCE

REC'D WAS AUG 29 1966

Monthly Salary Amount on Pay Standard "CDT" (60% of Total)*	Amount of Monthly Station Allowance	Number of People in This Bracket	Dollar Cost
up to \$ 479.99	\$ 10	38	\$ 380
\$ 480 - 689.99	20	84	1,680
690 - 839.99	35	18	630
840 - 959.99	70	10	700
960 - 1,109.99	120	4	480
1,110 - 1,289.99	200	4	800
1,290 - 1,379.99	250	6	1,500
1,380 - 1,529.99	290	4	1,160
1,530 - 1,619.99	350	0	0
1,620	400	0	0
		168	\$7,330 per mo.
			x 12
			\$87,960 per year

* These figures are being reviewed to correlate them with the Pay Standard amounts and some adjustments will be made, but the Allowances will remain basically as shown herein.

TABLE V

Monthly Salary Amount (Total)	Amount of Monthly Station Allowance	Number of People In this Bracket	Dollar Cost
up to \$ 799.99	\$ 65	38	\$2,470
\$ 800 - 1,149.99	160	84	13,440
1,150 - 1,399.99	260	18	4,680
1,400 - 1,599.99	400	10	4,000
1,600 - 1,849.99	540	4	2,160
1,850 - 2,149.99	750	4	3,000
2,150 - 2,299.99	825	6	4,950
2,300 - 2,549.99	1,040	4	4,160
2,550 - 2,699.99	1,200	0	0
2,700	1,400	0	0
		168	\$ 38,860 per mo.
			x 12
			\$466,320 per year

TABLE VI

FLIGHT PERSONNEL PAY STANDARD - DT
(FP/PS-DT)

IN US\$

REC'D WAS AUG 29 1966

	Code	Base Salary (Month)	Base Hours (1)	Over Base Hour Rates (Hour) (2)	Deadhead Rates (3) (Hour)	Night Rates(4) (Hour)	Position Allowance (Month)
Captain - Jet Transport(CV880)	C	\$800	70	17.15	8.55 (5)	3.75	200 when designated to serve on CV880 (6)
Captain	D	\$800	70	17.15	8.55	3.75	-
First Officer	F	\$475	70	10.70	5.35	2.00	-
First Officer/Flight Navigator	H	\$450	70	10.70	5.35	2.00	90 if FAA licensed and remains current etc.
Flight Navigator	I	\$540	70	12.85	6.50	2.00	-
Flight Engineer	K	\$540	70	12.85	6.50	2.00	-
First Officer/Flight Engineer	L1	\$450	70	10.70	5.35	2.00	90 if FAA licensed and remains current etc.
Air Freight Specialist	X	\$390	70	5.00	-	-	-

NOTES: Same as Flight Personnel Pay Standard "D" - Rev. 21.

SUPPLEMENT NO. I - FLIGHT PERSONNEL PAY STANDARD

FLIGHT PERSONNEL TIME-IN-GRADE BASE SALARY INCREASES - DT

Narrative - Same as Supplement No. I - Flight Personnel Pay Standard, Time-in-Grade Base Salary Increases - TIG. - D (Revision 7)

Captain - Jet Transport (CV880)	US\$35.00 per month
Captain	35.00 " "
First Officer	10.40 " "
First Officer/Flight Navigator	10.40 " "
Flight Navigator	10.40 " "
Flight Engineer	10.40 " "
First Officer/Flight Engineer	10.40 " "
Air Freight Specialist	10.40 " "

TABLE VII
FLIGHT PERSONNEL RETAINER SCHEDULE

Code	Base Amount	Position Allowance Amount
C	\$400	\$550
D	400	-
F	275	-
H	300	60
I	360	-
K	360	-
L1	300	60
X	262	-

TIG

Code	Amount	
C	\$25.00 (per month)	<p>At the completion of each year of continuous employment in a classification on the pertinent FP/PS, flight personnel will receive the TIG increase applicable to the classification occupied as listed below. A maximum of five such increases may be received for a classification occupied. Upon promotion, flight personnel receive the base salary of the new position until the completion of continuous service in the new classification which entitles them to the new TIG increases, again subject to the same five increases maximum; in the event of demotion, continuous service in the higher classification will be considered as time in the lower for the purpose of computing the number of TIG increases at the lower rate to which the employee is entitled. All Reserve Captains are either temporary employees or permanently employed First Officers and receive Captain's Base Pay and OBH Pay only while assigned as Pilots-in-Command for a definite or indefinite temporary period, therefore, TIG salary increases are not applicable to Reserve Captains. Those Reserve Captains who are permanent First Officers will accrue TIG salary increases at the rate established for First Officers, but will not receive payment for TIG increases while classified as Reserve Captains.</p>
D	25.00 " "	
F	27.10 " "	
H	27.10 " "	
I	34.60 " "	
K	34.60 " "	
L1	27.10 " "	
X	24.60 " "	

REC'D WAS AUG 29 1966

A further proposal which is not a direct result of the tax problem is to increase the amount of the TWN Station Allowance by \$100 per month in each category. We are aware that our hiring-in salaries are too low to get the kind of people we need, particularly in Technical Services. However, offering higher base pay could result in paying new people more money than the older employees. Starting pay is not such a problem for persons hired for locations where there is an allowance over and above base salary, but most Technical Services personnel are initially hired for TNN, where they undergo a period of training and familiarization prior to assignment at some other base (in most cases where there is a station allowance.) A station allowance for TWN should therefore have an obvious economic advantage for the company; it should reduce, in proportion to the amount of the allowance, the starting pay we have to offer for personnel, and when personnel are transferred outside of TWN they would of course lose the TWN allowance and pick up the allowance at the new location. Presently we are having to pay higher salaries which are not reduced upon transfer. This increases the cost to the company for these individuals and also tends to cause salaries of older employees on TWN to be increased to keep up with the higher starting salaries of the new employees. The obvious disadvantage is that the allowance would apply to everyone whereas salary increases would be more selective. However, an allowance should reduce salary increases, and is justified solely on increased cost of living in TWN over the past few years. The U. S. Government pays a quarters allowance to its employees at the GS-9 level and above of \$2,000 per year for single persons and \$2,700 per year for married persons. The total cost of this proposal would be \$16,800 per month based on the employees now on TWN.

INTER-OFFICE ROUTING

REF. No. OR IDENTIFICATION
OF THE ATTACHED:

AVP-66-166

TO

MADR

ACTION

- For your information
- Initial and pass on
- For your comments
- Please handle
- Take up with me
- For your approval
- For your decision
- Investigate and report
- Bring up to date
- Draft reply
- For your file
- Note and destroy
- Please return to:

REMARKS:

Passed without
through review with SLE
& TC

(Turn over for additional space)

DATE

1 Aug 66

FROM

CS-3

MEMORANDUM

Confidential

TO : MGDR (via President) *JS*

DATE: 29 July 1966

FROM : SLC

REF. No. AVP-66-166

SUBJECT: Company Structure

REC'D WAS AUG 6 1966

REFERENCES: (a) SLC-66-33
(b) Mr. Bastian's Memo of April 25, 1966

Recent discussions concerning the posturing of American personnel, growing out of referenced memos, highlight the fact that an appropriate solution is related to the basic problem of inter-company relationships. To illustrate, the conversion of American personnel to Air America employees raises the question under the Charter Agreement in its present form of why Air Asia should in effect participate equally in the profits evolving from the work product of these employees. (To some extent a similar problem, but lesser in scope, is already with us with respect to N-registered aircraft, which do not fall within the letter of the Charter Agreement). We can foresee that Air America's involvement as the employer of the large number of SEA personnel will lead to audit questions with regard to both companies that, under present arrangements, have no precise answers.

inferred
We do not feel that we can delay the resolution of the employee-posturing problem until the subject matter is fully resolved, but the latter demands early attention. The best solution this office has been able to rationalize is put forth in skeletal fashion in the amended draft. We have already departed from the original concept of the Charter Agreement in the direction of a joint venture type of arrangement, but the use of the latter form involves several major disadvantages, including:

- (a) From a liability standpoint, both companies would be responsible for the acts of each;
- (b) The Chinese regulatory scheme has become increasingly difficult to accommodate, as witness (1) our recent problems with the recapitalization program and (2) such monstrosities as Article 14 of the new Company Law, attached (A situation wherein Air Asia is, in effect, an equal partner, would probably maximize necessary contacts with the GRC).
- (c) A fairly paradoxical picture is presented of a parent in a joint venture (i.e., partnership) with its controlled subsidiary, which might arouse curiosities of such people as the tax authorities and lead to maximum inspection and auditing.
- (d) The process of securing necessary approvals of the GRC may be difficult in the light of the prohibition of Article 20 of the Company Law. ("A company shall not be a partner of a partnership business").

On the other hand, the arrangement outlined in the annexed draft represents a simple, clear-cut and logical parent-subsidary arrangement, which amounts to a modest profit guarantee to the latter ("cost-plus"). (It should be noted at this point that in order to avoid problems with U. S. Government procurement authorities, the profit payment to Air Asia would have to be a below-the-line item to avoid "profit-on-profit" prohibitions). The grounds upon which such an amendment to the Charter Agreement scheme could be put to the GRC are (a) that the Services

Contract as written is outmoded by virtue of Air America's increased activity on its own account, and (b) that the agreement guarantees Air Asia's profitability (and hence its ability to pay corporate income taxes to China).

By copy of this memo I am asking T/C to outline for later forwarding the financial impact such an arrangement would have had in past years, but of course there is no magic about the 10% figure. In preliminary discussions, T/C and I have agreed that the arrangement would cure certain soft spots in our present system of tax-reporting to the GRC and greatly simplify tax accounting. It would also, as noted initially, make logical Air America's status as the employer of American personnel. It would also be adaptable to a change in modus operandi which seems to be increasingly desirable, i.e., a switch of the procurement function to Air America, with inventories consigned to Air Asia as "customer furnished." (This is suggested by recent government interest in Air Asia's unique foreign exchange position, by the prohibition against debt financing and repeated capital adjustment in the new Article 14 and by the fact that Air Asia is becoming inventory-rich, which inventory could conceivably be frozen on this island as national-defense assets of a Chinese company.)

It may also be noted that the draft agreement insulates Air America from CATCL, possibly better than is now the case. It would contemplate separate books, with the Air Asia books reflecting only Taiwan activity and whatever U. S. functions would be desirable. All collections under U. S. Government contracts would, of course, be for Air America's account. While the agreement lacks any provision for control by Air America of capital expenditures, it is believed that the relation of the companies is such that such control is built in and hence superfluous to this agreement. If desired, however, an appropriate paragraph could be inserted.

If the basic substance of the agreement is found acceptable, appropriate recitals and "boiler-plate" can be added as desired.



Henry E. Bevans

cc: T-C (with attachments)
file (2)

HPB:rp

D R A F T

AGREEMENT made this _____ day of _____ 1966 between Air America, Inc. (hereinafter Air America) [a corporation, etc.] and Air Asia Company Limited, [a company limited, etc.] as follows:

1. Upon the request of Air America, Air Asia agrees to provide within its capability aircraft and aircraft maintenance, overhaul and supply services, including personnel services involved therein or ancillary thereto, in support of Air America's operations within the Far East, or, by agreement, elsewhere.
2. In consideration of such undertaking, Air America agrees to pay, and Air Asia agrees to accept in full satisfaction, the actual operating expenses of Air Asia, less any income of Air Asia from other sources, plus an amount equal to ten per cent of such netoperating expenses. The last mentioned amount shall be paid annually, but all other payments shall be made monthly within 45 days of the period to which they relate subject to any necessary adjustments after the close of the fiscal year.
3. Air America and Air Asia recognize that Air Asia is a party to an agreement with Civil Air Transport Company Limited, a company limited by shares organized and existing under the laws of the Republic of China, whereby, for services rendered, Air Asia is entitled to share in the operating profits and is required to indemnify said company against operating losses. No such profits or losses shall be deemed to fall within the purview of this agreement.
4. This agreement shall be indefinite in duration, but may be terminated by either party upon ninety (90) days' written notice.

In Witness Whereof, etc.

COMPANY LAW

(As Amended by Presidential Decree on 19 July 1966
for Effectiveness the Same Date)

Article 14: Fund needed by a company for production equipment expansion,
(new) fixed asset increase or investment in another enterprise may not
be raised through debt incurment but shall be met by capital
increase or new share issuance. Where fixed asset increase is
effected with Government-approved long-term loan or by virtue
of installment price payment contract, capital increase or new
share issuance is also required at each stage of the loan repay-
ment or installment price payment.

Expansion under the preceding paragraph for less than one-fourth
of a company's production equipment may first be paid for from
special earnings reserve, subject to capital increase or new share
issuance upon expansion of production equipment by one-fourth.

The responsible persons of a company violating the provisions of
this article shall be severally liable to a fine not exceeding
four thousand dollars (NT\$12,000) and shall compensate the company
for any loss thereby sustained.