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DD/A 15 [redacted]  
HR70-14

1 October 1975

MEMORANDUM FOR THE RECORD

SUBJECT: Air America Discussions

1. The undersigned and Mr. [redacted] of [redacted] attended a meeting with Mr. Charles Mann, AID, Mr. Charles Gladson, AID/OGC and Mr. Hugh Dwelley, AID Contracting Officer this date at 10:30 a.m. at Mr. Mann's office. Purpose of the meeting was initially thought to be for purposes of discussing Air America/USAID contract termination claims of which USAID would expect a pro-rata share from CIA. However, exact claims have not been presented by Air America, and Mr. Mann promptly began discussing the possibility of CIA's influence with Air America in adjusting downward the anticipated claims to be presented by Air America due to the termination of the Cambodia and Vietnam USAID air contracts. Mr. Mann's rationale on this point was, "Since Air America is in the process of liquidation, why should State/USAID go to the 'hill' for supplemental appropriations to pay the termination claims which, in essence, would simply be returned to the 'hill' (Treasury) by Air America through their liquidation procedures." This premise was made by Mr. Mann under the assumption that Air America's financial standing is quite good (a large amount of cash reserve), and thus, if Air America absorbed the termination claims, the total effect would simply be a lesser amount of monies returnable to the Treasury; i.e., per Mr. Mann, why should USAID increase this amount if it was not necessary? Mr. Mann questioned whether this assumption was valid, but no answer was extended. Mr. Mann further substantiated his premise of Air America's absorbing the termination claims by stating, "It would minimize further exposure of a CIA proprietary; Air America could easily make this accommodation due to their exceptional Dunn & Bradstreet ratings, and that he was very anxious (as he was sure others would be) to keep the Air America contract and final settlement out of any possible Congressional scrutiny as this would only open up new areas for investigations and publicity. Consequently, he felt it very prudent to solicit our (CIA)

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cooperation and assistance as it would be beneficial to all concerned. In this light, he also was speaking of the reduced cost which would have to be offset or cost-shared by USAID to all other USG users of the contract. NOTE: It was precisely in this vein that we attended the meeting in order to get some feel for the amount and type of expense which may ultimately impact upon the Agency's budget.

2. Mr. Gladson informed us at the outset of the meeting that the claim from Air America has not yet been received. To date, contract pricing has been on an interim basis using FY-74 negotiated rates. Consequently, the claim is being submitted in conjunction with the Request for Proposal (RFP) (FY-75) which Air America has promised by Friday (3 Oct.). Based on informal data, Mr. Gladson said that Air America originally was proposing a [ ] USD claim; however, Mr. Gladson advised that probably the claim will not exceed [ ] USD, which of course, is subject to audit. As such, the RFP will have to be analyzed from two aspects:

a. Increased cost of normal contract schedule of work which will include:

(1) Price adjustments due to changes in fleet and crew composition,

(2) Increased hazardous duty pay,

(3) Increases in the [ ] subcontract with Air America (known as the [ ] contract which consisted of two C-123 and one C-47 aircraft NOTE: one of the C-123 aircraft crashed circa mid-year [Jan 75] and was not replaced.)

b. Cost related to contract termination, which will include:

(1) Substantial change orders resulting in increased Contractor cost of operations,

(2) Substantial uninsured property losses,

(3) Non-accrued termination cost as a result of the fall of Cambodia and Vietnam.

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3. The meeting this morning was a general get-together, an establishing-of-credentials type meeting, because no action could be taken. The next step obviously is to await the arrival of the RFP. But perhaps more important is for CIA to take a firm stand upon Mr. Mann's suggestion of any CIA influence with Air America or the possibility of the proprietary's absorbing the termination claims to accommodate the contract after-the-fact. After the RFP is received and reviewed by USAID Contract personnel, USAID will request the Defense Contract Audit Agency (DCAA) to audit the Contractor's pricing data--records which are currently held in Air America's Hong Kong offices. This audit is expected to take 4 - 6 weeks, beginning mid-October, by personnel from the Tokyo DCAA office. USAID stands ready to assist the DCAA in this audit. Another point that seemed to emerge from this meeting is that during actual negotiations after audit (circa mid-November), an Agency official familiar with Air America contracting and the Agency's role in it be present so that the Agency's equities can be protected. The meeting was adjourned at approximately 11:30 a.m.

4. FYI: The contract in question is the Air America [ ] Contract. The users were USAID, SAAFO, [ ] and DAO. NOTE: This contract was in no way involved with ICCS. The [ ] contract was a subcontract under the [ ] primarily for administrative purposes. [ ] made a direct monthly payment to Air America based upon total charges under the [ ] contract, and took an offset against this payment for the [ ] seat-equalization or utilization of USAID's aircraft versus USAID's utilization of the [ ] aircraft. The net amount of this offset is estimated at an average monthly [ ] expense of [ ] USD. Currently it is estimated that [ ] owes Air America [ ] USD for March and April 1975 of which USAID owes [ ] USD. In return, [ ] owes USAID approximately [ ] USD for POL for February through April 1975. Thus, regarding the seat equalization program and the [ ] subcontract, [ ] owes a net estimate of [ ] USD. In addition to this for [ ]'s utilization of other [ ] aircraft, it is estimated [ ] owes [ ] USD for a total estimate of [ ] USD outstanding.

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Deputy Chief, East Asia Support

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