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CIVIL AVIATION

1. The Italian Foreign Office press release, referring to the Argentine-Italian Air Agreement, signed 18 February 1948, indicated the agreement was similar in general to previous agreements concluded by the Italian Government, and that it contained full Fifth Freedom rights. ALITALIA (40% British-owned) may be the Italian air line designated to operate the agreed routes to Argentina.

2. The Finnish Government is preparing application for membership in the International Civil Aviation Organization (ICAO). An appropriation to cover Finland's subscription to ICAO was included in the 1948 budget.

3. Pan American Airways has reduced its stock ownership in Panair do Brasil by 40,000 shares. Holdings by Brazilian nationals are thereby increased to 52% of the Company's stock, thus complying with legal restrictions on foreign control of Brazilian Corporations.

Proposed US-Hungarian Air Agreement

The standing air policy of the US vis-a-vis the satellite states has been one of containment, i.e., restriction of the entry of satellite air carriers into Western Europe. This policy has been dictated by US conviction that any reciprocal exchange of aviation rights with a satellite state would not constitute true reciprocity. The reasoning behind this conviction is as follows: satellite airlines are substantially controlled and operated by the USSR, and therefore, any exchange of aviation rights with a Soviet-dominated satellite state would not be genuinely reciprocal unless such exchange granted the non-satellite negotiator the right to extend its air-line operations into Russia proper. However, the USSR has consistently blocked such access.

The proposed US-Hungarian interim air agreement (discussions for which were initiated by the Hungarian Government) represents a basic change in the above US policy and a reconsideration of the factors upon which that policy was based.

The terms of the proposed interim air agreement (to be effective for an indefinite period) contain a statement which expresses the mutual desire of US and Hungary to promote "peaceful aviation relations among friendly nations on reciprocal and non-discriminatory basis . . .".

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In addition, the terms would commit the US "to grant individual clearances to Hungarian civil aircraft for commercial flights with right to transit US occupation zones Austria and Germany with or without stop and to pick up and discharge at a point within such occupation zones . . . international traffic enroute to, from and beyond US occupation zones Austria and Germany."

Hungary would agree to grant individual clearances for similar US flights "with right to transit Hungarian territory with or without stop and to pick up and discharge at Budapest international traffic enroute to, from and beyond Hungary."

The agreement would include the right to station nationals of one party in the territory of the other party for the purpose of servicing airline operations. Furthermore, it would be agreed that Hungary shall provide or permit the US to install, in Hungary, such additional navigational aids and communications facilities as may be required for US carriers to meet their prescribed standards of safe operation.

The reversal of US air policy which would permit the conclusion of the above agreement is explained by the over-riding desire of the US to support the European Recovery Plan by opening the trade channels between Eastern and Western Europe.

The new US air policy would result in various advantages to the US. US carriers would acquire traffic rights in and transit rights through Hungary while the Hungarian carrier (Maszovlot) would obtain similar rights only in US occupation zones Austria and Germany, but not in the US proper. Increased opportunities to observe conditions behind the "Iron Curtain" would also be gained.

On the other hand, the following disadvantages would result from the proposed US-Hungarian air agreement. Once Hungary is authorized to overfly US zones Austria and Germany, US control over the expansion of Hungarian airline operations into Western Europe will have been lost. Reversal of US policy resulting in an interim air agreement with Hungary will create a precedent which might be exploited by other satellites desiring transit rights through the US occupation zones.

The USSR is in a position to nullify any US-Hungarian air agreement, by refusing permission to US aircraft for overflights of the Soviet Zone, Austria. No clear Soviet commitment in this respect has yet been obtained, and the US will insist that any restrictions imposed by the USSR will entitle the US to apply similar limitations on Hungarian flights.

Expansion of the Rumanian Airline

The Rumanian national airline (TARS) has announced its intention to inaugurate flights to Budapest and Belgrade on 1 March. Also announced was its intended continuance of bi-monthly flights to Paris, approximately six flights a month to Milan, and regular Prague flights.

The French Legation in Bucharest states that France has no intention of permitting such scheduled flights or of entering into an air agreement with Rumania at this time. France does not consider the privilege of flying to Bucharest as genuine reciprocity. Since TARS is Soviet-controlled, France would insist that nothing short of rights into the USSR would establish reciprocity. The French Foreign Office in Paris concurs with the above policy statement of its Bucharest Legation, and disclaims knowledge of any existing French-Rumanian air agreement which would permit TARS to operate its announced flights to Paris.

US Control of Asuncion Airfield Threatened

Control of the airfield at Asuncion probably will revert to Paraguay now that Pan American Airways has been prohibited from operating its shuttle service Buenos Aires-Asuncion. In connection with the construction of this field, carried out under the US Airport Development Program in 1942, Pan American Airways (PAA) received a 20-year concession, under which it has, in effect, controlled the airfield. The agreement provided, however, that unless PAA maintained regular air connections to Asuncion, control of the field would revert to Paraguay.

Originally, Pan American had flown to Buenos-Aires via Rio de Janeiro and Asuncion. Brazilian refusal to allow Pan American to fly the segment between Rio and Asuncion, however, subsequently limited Pan American to the direct route from Rio to Buenos Aires, with a shuttle service back to Asuncion. The recent Argentine prohibition against this shuttle service is not a serious blow to Pan American because traffic terminating or originating at Asuncion is insufficient for profitable operations.

The US-Paraguayan bilateral air agreement is of little value in retaining US rights at Asuncion unless the designated US carrier has permission to overfly Argentina, Brazil or Bolivia. (The US has no air agreement with Bolivia and both Brazil and Argentina are attempting to reserve regional air traffic to their local airlines.) No US air carrier other than PAA is in a position to fly the Asuncion route without delay. Braniff Airways, though certificated by the US to fly to Paraguay, and awarded a route via the west coast of South America, has made no progress in instituting this service and is therefore unable to make use of the US rights which PAA is relinquishing. It seems unlikely that all these difficulties can be resolved. Reversion of Asuncion field to Paraguay, and the elimination of US-operated air connections to Asuncion appear, accordingly, inevitable.

Reversion of Asuncion field to Paraguayan control will weaken Paraguay's position. The airport facilities at Asuncion will undoubtedly deteriorate rapidly, since Paraguay has neither the money nor the personnel to maintain the field. This will aggravate Paraguay's lack of communications with the outer world: all river and rail communications are controlled by Brazilian and Argentine interests.

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SURFACE TRANSPORTATION

1. Serious political difficulties in the execution of the European Recovery Program with respect to allocation of railway rolling stock may be foreshadowed in continued failure of Western European nations to reach agreement with Bizonia on a freight-car exchange plan which would relieve the critical transport situation in Germany. This may necessitate diversion of new American-made rolling stock to the Allied zones at the expense of other recipient countries. Such action would prove extremely unpopular with the people of Western Europe, and might cause some governments internal difficulties. The present stalemate may throw the problem before the Tripartite meetings now in progress in London.

2. Indications that extensive prefabrication and electric welding have become a part of new Soviet vessel construction techniques is contained in press comment on the construction of small vessels in the USSR.

3. German control shipping has moved toward a return to local control under a recent agreement of British and US military governments allowing such shipping to be managed by a German semi-governmental agency, Hauptverwaltung Fuer Seeverkehr. HVSEE will also have authority to establish operating contacts outside of Germany, under close US-UK control.

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