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OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION DIVISION

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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The action of a US ship operator in defying the Nationalist "closure" of Shanghai may provide an advantage to either the Chinese Nationalists or the Chinese Communists, and has already resulted in a loss of US prestige. The Chinese Nationalists have enforced their declared closure of the port of Shanghai by intercepting two US-flag vessels departing from the port and a third US ship attempting to enter Shanghai. This incident illustrates the potential danger of uncontrolled action by US nationals engaged in international commerce, who can create circumstances in which the US Government may be forced to take premature action before final US policy has crystallized. (Item No. 1, A)

The US irregular air carrier, Transocean Air Lines, which operates the Pakistan airline, Pakair, under contract, and which recently became associated on a similar basis with Iran's Iranair, is now considering the possibility of establishing an air service in Afghanistan. (Item No. 2, C)

The US, UK and France are now considering some form of joint or concurrent resistance to certain conditions inserted by Iraq in newly extended temporary operating permits for non-Arab international air carriers transiting the country. (Item No. 3, B)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The action of a US ship operator in defying the Nationalist "closure" of Shanghai may provide an advantage to either the Chinese Nationalists or the Chinese Communists, and has already resulted in a loss of US prestige. This incident illustrates the potential danger of uncontrolled action by US nationals engaged in international commerce, who can create circumstances in which the US Government may be forced to take premature action before final US policy has crystallized.

The Chinese Nationalists have enforced their declared closure of the port of Shanghai by intercepting two US-flag vessels departing from the port and a third US ship attempting to enter Shanghai. The Flying Independent and the Flying Clipper, both Isbrandtsen Line cargo vessels, sailed from Shanghai 29 September with a reported combined cargo of 10,000 tons and passenger lists consisting principally of about 120 South Korean refugees. This action was taken in spite of a previous Nationalist notice that the vessels, then in Shanghai, would be permitted to depart only if they carried neither passengers nor cargo and that they would be subject to "appropriate action" by the Chinese Navy if they left port under any other circumstances (see D/Tr Weekly No. 81). The vessels were intercepted at the entrance to the Yangtze by Nationalist warships which threatened to fire if the US ships were not anchored immediately. While refusing requests that the Flying Independent be permitted to proceed to Korea with the refugees, and that both vessels be permitted to move to safer waters, the Nationalist naval units reportedly ordered all Chinese passengers transferred to a Chinese vessel and the cargo either dumped overboard at once or returned to Shanghai for discharge.

The two vessels have been escorted, under threat of fire, to a Nationalist port in the Chusan Archipelago, about 100 miles southeast of Shanghai. Following the report to Isbrandtsen's New York office of a further refusal by the Masters either to return to Shanghai or dump their cargo overboard, the vessels have been instructed by New York to proceed on their scheduled voyage without further delay "barring actual physical violence or actual shooting across bow." In any case, there is to be no cooperation whatever with the Chinese naval forces, who may therefore be compelled, for example, to provide the physical means to unload the cargo or to move the vessels without use of their engines. The third Isbrandtsen vessel, the Flying Trader, which had been denied

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entrance to Shanghai by the intercepting Nationalist warships, remained at anchor until the naval craft escorted the other vessels southward and then slipped unobtrusively into Shanghai without incident. It reportedly carried about 3,000 tons of cargo for Shanghai.

By demonstrating their ability to enforce the closure, the Nationalists have countered, in effect, any contention that the closure is not legal because it is not effective. The Communists, for their part, have expedited the movement of the Isbrandtsen vessels in the belief that any resolution of the blockade issue would probably redound to their advantage. Successful defiance of the Nationalists by the Isbrandtsen vessels, for example, would have opened the way for further blockade running and the virtual collapse of the Nationalist closure, thus providing Communist China with an outlet for vitally needed trade with the outside world. Interception of the vessels, on the other hand, could be hoped by the Communists to produce a serious incident involving the US which might, in turn, result in use of the US Navy to break the blockade. The Communists probably hope that the incident will in any case lessen sympathy in the US for the Nationalist cause.

The US, meanwhile, which does not recognize the Nationalist blockade, has not protested the incident, but has requested the Chinese Foreign Office to state the basis for its action and its intention with respect to an early release of the vessels. Repeated requests from the Isbrandtsen Line for US naval intervention have been denied.

The UK has been involved in similar incidents, and is following this situation closely. In recent weeks two British-flag vessels have been detained by the Nationalists and the cargo of at least one of them confiscated. This action, which the UK presumably regards as a violation of international law, led to a relatively mild official protest to the Nationalists, demanding compensation for the confiscated property. A patrolling British frigate, which escorted one of the intercepted British vessels out of Chinese Nationalist waters, is now reported to have been in contact with the Isbrandtsen vessels under British instructions to take no measures to obtain release of the US vessels if detained by "non-violent" measures. The frigate, however, was authorized to intervene if necessary on "humanitarian grounds" and to act in accord with standing instructions if "violent measures" were attempted "clearly outside territorial waters."

The tactics thus far employed by the Isbrandtsen Line in the entire incident suggest a carefully premeditated attempt to force the issue of the Shanghai blockade under the most favorable possible circumstances.

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with a view to opening up a highly lucrative trading area. The decision to enter Shanghai and thence to defy threatened action upon departure was taken by the vessels' owner without the sanction of the US Government. Entry into Shanghai, moreover, was allegedly obtained by misleading information given the Nationalists. It has been revealed that the vessels are carrying, in addition to the Korean refugees, nationals of both the US and UK, as well as almost 3,000 tons of US Army "through cargo" consigned to Korea. The company's radio messages, telegrams and press releases, moreover, have obviously been designed to exert pressure for US Government intervention. The entire sequence of events has clearly demonstrated that private US citizens operating US-flag vessels in foreign waters can play into the hands of foreign interests desiring to precipitate favorable action in matters concerning US foreign policy. Such conduct can lead to consequences unfavorable to the US, which may seriously affect US prestige abroad and commit the US Government to an undesirable course of action, unnecessary under other circumstances. (Secret)

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CIVIL AVIATION

2. The US irregular air carrier, Transocean Air Lines, which operates the Pakistan airline, Pakair, under contract, and which recently became associated on a similar basis with Iran's Iranair, is now considering the possibility of establishing an air service in Afghanistan. Although the Afghans have a small air force equipped with six passenger British Avro Anson XIX aircraft, no civil air connections with the West have existed since the German Lufthansa ceased operating from Tehran in 1959. (A Soviet DC-3 courier flight, however, is made to Kabul twice monthly.)

A US-operated air cargo line would be of great advantage to Afghanistan as a means for expediting the export and reducing the transportation costs of karakul skins (Afghanistan's principal source of foreign exchange). This new Transocean venture, moreover, should be facilitated by reason of the technical staff and maintenance resources available at Karachi. While serious reaction by the USSR to an extension of US aviation interests into Afghanistan is not likely, the undertaking, if it materializes, will be fully exploited for the purpose of anti-US propaganda. (Secret)

3. The US, UK and France are now considering some form of joint or concurrent resistance to certain conditions inserted by Iraq in newly extended temporary operating permits for non-Arab international air carriers transiting the country. Strong opposition will certainly be registered to Iraq's revival of the long discarded Arab League reservation of air traffic between Arab States to Arab airlines.

Acquiescence by non-Arab countries in Iraq's limitations of "fifth freedom" rights would: (1) give impetus to the trend toward restriction of rights for foreign carriers, successfully initiated recently by India in regard to air traffic between India and Pakistan (See D/Tr Weekly No. 81), and (2) result in establishment of restrictions on revenue traffic in contiguous areas extending from Cairo to Calcutta, thus seriously affecting the ability of foreign carriers to pay their way en route between Europe and the Far East. (Secret)