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OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION DIVISION

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Weekly Intelligence Summary No. 88

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Recent rumors that Metalimport, a Bulgarian trading company, is placing a \$1 million order for air brakes with the Munich plant of Korr Company are being investigated by US authorities in Europe. Acquisition of this critical railway equipment would substantially increase Bulgaria's railway transport capabilities. (Item No. 1, B)

Some progress toward the integration of transportation development plans for the African continent has been made by ECA's Overseas Territories Committee, which has recently recommended to the Governments of the UK, Belgium, France and Portugal that an overall study and survey be made of the transportation projects contemplated for their respective dependencies in Africa. (Item No. 2, B)

The defection of ten transport aircraft of China National Aviation Corporation (CNAC) and two transport aircraft of Central Air Transport Corporation (CATC) to the Communists on 9 November places in Communist hands the equipment and spare parts necessary to reactivate an extensive network of air routes throughout Communist-held China, and to effect its integration with those of the USSR. The Communists, meanwhile, have appointed two defected CNAC officials as directors of that airline and have declared that the company assets at Hong Kong belong to the new People's Government. (Item No. 3, A)

A survey of postwar expansion by Latin American scheduled airlines is included as an annex to this week's issue.

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. Recent rumors that Metalimport, a Bulgarian trading company, is placing a \$1 million order for air brakes with the Munich plant of Korr Company are being investigated by US authorities in Europe. Acquisition of this critical railway equipment would substantially increase Bulgaria's railway transport capabilities.

In June 1949, Metalimport ordered a large number of air brakes from this plant, but cancelled the order when the USSR promised immediate delivery from the former Korr plant in the Soviet Zone of Germany. However, no air brakes were actually delivered to Bulgaria under this agreement.

Freight traffic in Bulgaria is slow and undependable because of the shortage, poor condition and inefficient use of the company's rolling stock. This situation, aggravated by the lack of air brakes, requires both reduced speeds of operation and restricted loads. Moreover, Bulgaria must rent Hungarian rolling stock for its international traffic, because existing freight car exchange regulations prohibit the use in such traffic of cars which are not equipped with air brakes.

Freight car parts are classified 1B on the US list of security items under export control and the quantity of such items sent to the USSR and its Satellites is carefully limited. For this reason, potential markets in non-Satellite areas are now being explored by US representatives in the hope of providing the Munich factory with other outlets for its products. (Confidential)

2. Some progress toward the integration of transportation development plans for the African continent has been made by ECA's Overseas Territories Committee. This group, which is composed of all ECA participating countries having overseas possessions, has recently recommended to the Governments of the UK, Belgium, France and Portugal that an overall study and survey be made of the transportation projects contemplated for their respective dependencies in Africa. The extensive nature of the transportation development plans under consideration by these Governments is indicated by their estimated cost of from \$1 to \$1.5 billion, toward which substantial US assistance will almost certainly be requested.

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Integration under ECA sponsorship of these plans into a coordinated program for the gradual development of the African transport network will serve the principal strategic interests of the US in this area: (a) elimination of the strategic weakness inherent in the present inadequacy for an emergency of African transport facilities; (b) assurance of continued and improved access to critical strategic materials throughout Africa; and (c) promotion of greater stability in Africa through the economic development of its relatively backward areas. (Confidential)

CIVIL AVIATION

3. The defection of ten transport aircraft of China National Aviation Corporation (CNAC) and two transport aircraft of Central Air Transport Corporation (CATC) to the Communists on 9 November places in Communist hands the equipment and spare parts necessary to reactivate an extensive network of air routes throughout Communist-held China, and to effect its integration with those of the USSR. The principal limiting factor for maintenance of Communist air operations is the future availability of aviation fuel. Ample stocks of 100 octane gasoline for immediate requirements are known to be on hand. The simultaneous defection of a number of top executives, as well as trained administrative and technical personnel, has enabled the Communists to establish a CNAC component under their control.

There appears to be little doubt that most of the 69 other aircraft belonging to CNAC and CATC, which are now being held at Hong Kong under guard by the Chinese Air Force, would also have defected had not the carefully prepared plans of the Communists and certain top executives of the airlines become known to Nationalist authorities. Since the defection, the Nationalists have appointed new directors and general managers for both airlines and the Governor at Hong Kong has offered the protection of British law for "the Chinese Government's assets" in the two companies. The Communists, meanwhile, have appointed two defected CNAC officials as directors of that airline and have declared that the company assets at Hong Kong belong to the new People's Government.

In connection with their known desire to re-establish international air services in defiance of the Nationalist "blockade", the Communists have an additional motive for attempting to retain CNAC's identity under their own control. In accordance with air agreements previously negotiated by the Nationalists, CNAC remains China's designated international air carrier, with commercial traffic rights in the US, Philippines, Hong

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Kong, Thailand, Burma, India and Pakistan. Presumably, recognition of the Chinese Communist regime by the governments of any of these territories would confer these rights upon the Communist CNAC organization. British recognition, furthermore, might also sanction the Communists' claim to the aircraft described by the Governor of Hong Kong as the "Chinese Government's assets."

The situation is further complicated by the fact that a 20 percent interest in CNAC is held by the US airline, Pan American Airways (PAA), which has already held prolonged negotiations with Shanghai Communist interests with a view to restoring PAA services to China. Acquiescence by PAA in a Communist reorganization of CNAC would presumably establish the US airline in a favored commercial position in Communist China.  
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## ANNEX

POSTWAR EXPANSION OF LATIN AMERICAN  
SCHEDULED AIRLINE OPERATIONS

Although Latin American civil aviation has experienced a pronounced expansion in the postwar period, it has been prevented from making even greater strides by the general lack of public funds throughout the area, and by the severe dollar shortages which have affected most Latin American countries. Government plans for badly-needed development and improvement of airports, radio aids to navigation, and meteorological and communications facilities have had to be adjusted to the generally very limited amount of public funds which have been available for such purposes. The Governments of Brazil, Chile, Peru, Mexico and most of the smaller countries have been able to carry out only the most urgent improvements to existing facilities. Many airlines, therefore, have been forced to develop air installations at their own expense. In the past few years, moreover, a shortage of dollar exchange has limited the purchase of desired new equipment by Latin American airlines.

Despite the financial difficulties encountered, considerable airline expansion has taken place. South American scheduled airlines were operating in 1947 about five times more mileage per week than in 1940. In 1949 this mileage had increased to over one million miles per week or almost seven times that scheduled in 1940. The principal increases in scheduled weekly mileages from 1940 to 1949 were made by airlines of Argentina (an increase of about 140,000 miles or 1,400 percent), Brazil (about 460,000 miles or over 700 percent) and Venezuela (about 170,000 miles or over 1,500 percent), which have established extensive intercontinental operations.

The mileage scheduled per week by Middle American airlines has also shown a marked increase, amounting in 1949 to over three times that of 1940. For example, since 1940 the airlines of Mexico and Cuba have increased their scheduled operations per week by over 220,000 miles (300 percent) and over 70,000 miles (500 percent) respectively. On the other hand, there has been a slight decrease in total Middle American scheduled mileage per week since 1947, in spite of continued expansion by many Middle American airlines. This fact may be attributed to a drastic reduction since 1947 in the operations of the TACA System throughout Central America.

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Latin American scheduled weekly mileage in 1949 amounted to slightly less than 20 percent of the weekly mileage flown by all US scheduled domestic and international carriers and about 11 percent of the world total of scheduled operations, exclusive of the USSR.

Comparative Weekly Scheduled Mileage of Airlines

	<u>1940</u>	<u>1947</u>	<u>1949</u>
Latin American Airlines, Total	323,602	1,381,279	1,650,827
South American Airlines	178,416	867,962	1,140,454
Middle American Airlines	145,186	513,317	510,373
US Airlines in Latin America	--	827,796	843,097
US Airlines, Total	--	7,607,000	8,489,000
World Airlines, Total (excluding USSR)	--	12,424,000	15,066,000

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