

~~SECRET EYES ONLY~~

MEMORANDUM FOR: The 40 Committee

SUBJECT : Disposition of Air America

1. SUMMARY

This proposal recommends that CIA disengage from the ownership of Air America, Inc. by (a) selling the Air America maintenance facility on Taiwan, (b) selling all aircraft surplus to its needs, (c) discontinuing all Air America contracts in Laos as soon as possible and discontinuing all contracts in Thailand as of 30 June 1974, (d) turning over Air America maintenance operations in Udorn to a Thai instrumentality on a going concern basis, (e) continuing to carry out Air America flying contracts in South Vietnam and Cambodia through 31 December 1974 and by making appropriate arrangements to insure air services will continue to be available to all U. S. customers in the area after this proposal cut-off date, and (f) phasing out CIA ownership of Air America as soon after 31 December 1974 as possible. The above is predicated on authorization

APPROVED FOR RELEASE  
DATE: 20-Mar-2009

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from the U. S. Government to turn over U. S. Government property occupied by Air America in Udorn, Thailand (other than aircraft) to a selected Thai instrumentality so that the current Air America maintenance operations in that location can continue on a going concern basis. This disengagement has been discussed with officials in the Department of State, Agency for International Development, ISA of the Department of Defense and the Joint Chiefs of Staff. There are no costs involved in this proposal.

2. PROPOSAL

CIA has attempted, since the summer of 1973, to disengage from the ownership of Air America. An Invitation to Bid was issued on 20 August 1973 which offered for sale all of the outstanding stock of Air America, Inc. (a Delaware corporation), including its wholly owned subsidiary Air Asia Company Limited, Taiwan, and Air America Limited, Thailand, and all the shares of Civil Air Transport Company Limited, Taiwan. The conditions of the sale were:

- a. Sale of the company was to be for cash.
- b. The sale was to be final.
- c. Liabilities to individuals employed by the companies purchased were to be guaranteed by the buyer.

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d. The purchaser would not acquire the name  
Air America, Inc.

e. Contracts with U. S. Government customers  
which were in existence on the date of sale would  
be performed to their conclusion, and the buyers  
would keep a similar capability in existence and in  
position to furnish similar services to U. S. Government  
organizations on a contractual basis through 30 June 1974.

The ability to continue flying services in Southeast Asia  
in response to U. S. Government requirements, the price offered,  
and the financial responsibility of the offers were to be the key criteria  
for the evaluation of any bids made. The closing date for the submission  
of bids was 15 October 1973.

CIA received three bids in response to the aforementioned  
invitation. They were from E-Systems Inc.; Management Investor  
Group; and Lockheed/Continental Airlines. None of the bids was considered  
responsive. E-Systems was interested only in the Air Asia maintenance  
facility at Tainan, Taiwan but would not agree to continue the flying  
services. The Management Investor Group made no cash offer and also  
was unwilling to guarantee the liabilities of the company employees.

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Lockheed/Continental Airlines did offer a limited cash payment but would only agree to assume the liabilities of the company employees if Air America set up a trust fund for that purpose. Acceptance of this proposal was not feasible.

In short, none of the bids for Air America has been responsive to the conditions spelled out in the 20 August 1973 Invitation. As a result CIA still owns Air America. CIA still wishes to divest itself of ownership of Air America but proposes to do so in a manner which hopefully would be acceptable from both a practical and political standpoint. With this in mind CIA proposes the following:

a. CIA plans to sell the Air Asia maintenance facility on Taiwan in a separate transaction which should be viewed as the first in a series of steps designed to liquidate CIA's interest in Air America.

b. CIA plans to sell those Air America aircraft that are surplus to the contractual requirements of Air America. (CIA will attempt to realize the maximum return from the sale of these aircraft, but it must be realized that they may not bring a great deal of cash due to existing market factors which are beyond CIA's control.)

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c. Air America would divest itself of property and equipment and release all personnel in Laos as soon as possible but no later than 30 June 1974.

d. Air America would decline to bid on any contracts in Thailand after 30 June 1974. With the approval of the U. S. Government Air America would offer to turn over its assets and capabilities at Udorn to a chosen instrumentality of the Thai Government on a going concern basis. This would be done in sufficient time to allow the acquiring instrumentality to bid on the maintenance portion of the 0002 contract. Air America would remain in Thailand only for such length of time as necessary to effect a smooth turnover of the facility.

e. Air America would continue to carry out its flying contracts in South Vietnam and Cambodia through 31 December 1974 and would not bid on any extensions of the contract. In order to support U. S. requirements in the area after the proposed cut-off date, CIA will endeavor to make appropriate arrangements to insure that air services will continue to be available.

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f. Other Air America personnel would be released and assets disposed of during this period of time and the company would be liquidated as soon after 31 December 1974 as feasible.

g. Funds derived from these sales together with any cash excess to operating needs will be returned to the Government as requested by OMB.

### 3. ALTERNATIVES

The alternatives are for CIA to retain Air America and its proprietaries as at present or once again to attempt to sell the company in toto. The first alternative is unsatisfactory since CIA's ownership has been completely exposed in the press and will undoubtedly generate Congressional opposition. The second alternative has been tried with negative results. Thus there is no practical alternative to the proposal outlined in section 2.

### 4. RISKS AND CONTINGENCY PLANNING

There are no risks involved in this proposal that are not inherent in any plan for CIA to disengage from ownership of Air America. In order to protect itself on this matter all Invitations to Bid have been and will be conducted in accordance with standard business

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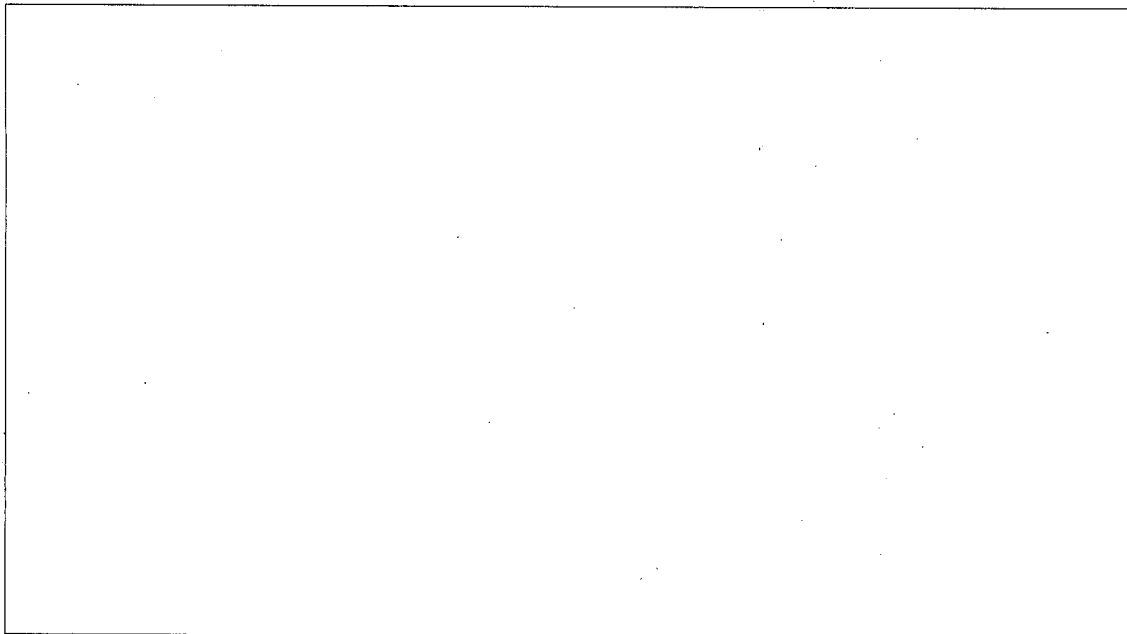
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practice. All due care is being taken to insure that the highest standard of business ethics is maintained at all times.

5. COORDINATION

The sale of Air America has been discussed with



6. COST

There is no direct cost involved in this proposal.

7. RECOMMENDATIONS

It is recommended that the 40 Committee approve the proposal that the CIA:

- a. Sell the Air Asia maintenance facility on Taiwan.
- b. Dispose of aircraft of Air America that are surplus to its needs.

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c. Discontinue Air America operations in Laos and Thailand by 30 June 1974, hopefully turning over the Air America maintenance operation to a Thai instrumentality on a going concern basis.

d. Discontinue Air America operations in Vietnam as soon after 31 December 1974 as possible and endeavor to make appropriate arrangements to insure that air services will continue to be available to all U. S. customers in the area after the cut-off date.

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