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7 November 1962

MEMORANDUM TO: Marvin L. Evans
Assistant General Counsel

3533

SUBJECT: Review of Air Support Activities: -
A. The Pacific Corporation
B. Air America, Inc.
C. Air Asia Company Limited
D. Civil Air Transport Company Limited
E. *Southern Air Transport, Inc.*

1. We respond to your request dated 15 August 1962. (Paragraph numbers utilized below are those in your request.)
2. (a) In 1950 the Agency purchased all of the assets of Civil Air Transport, a partnership that had been operating on the Chinese Mainland. This purchase was proposed and sponsored by the Far East Division, DDP, and was principally for the purpose of denying the Chinese Communists the aircraft and other assets of Civil Air Transport. The Chinese Communists were at that time completing their takeover of the Mainland. These assets were used as investment in kind in what has become the above-listed family of Companies - Tab I. At the outset operational use of aircraft and personnel was of secondary importance, but the continued political instability of the Far East has provided sufficient target for the Agency to have determined during periodic reviews that the continued operation of the project was desirable.
- (b) The original date of project approval was 21 October 1949. Tab II lists detailed Agency expenditures from inception through August 31, 1962 for capital investment in the Corporations and for charges for standby airlift capability. The latter may be described either as subsidy or as the appropriate cost of having available such Agency required standby airlift capability.
- (c) FY 1963 projected budget for the project is and FY 1964 is
- (d) Numbers of personnel are: -

The categories and locations for all personnel are given in Tab III.

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- (e) A detailed listing of the 94 aircraft utilized by the project is attached in Tab IV.
- (f) Detailed itemizing of the balance sheet value of the operating property and equipment, totaling [] net, broken down as flight equipment, ground property and equipment, leasehold improvements, land and construction in progress is attached as Tab V. The Company leases a four-story office building in Taipei and occupies some 200,000 square feet of shop space at Tainan, about one-half of which is owned. Further, sales offices, operations offices, and certain living facilities for personnel are leased at [] major cities in the Far East. Annual real estate rentals approximate []
- (g) The Company contracts its services in an overt manner and at competitive prices to the U.S. Army, Navy and Air Force and to USAID for a variety of flying and maintenance engineering activities throughout the Far East. Source of revenue for a sample 12-month period is presented in Tab VI. The USAF has stated on a number of occasions that it regards the Companies' engineering shops, skilled personnel and fleet of aircraft to be an important emergency resource positioned in the Far East. Further, (4) C-118/DC-6AB aircraft are allocated and fully equipped for CRAF (Civil Reserve Air Fleet). *Leased to South West Air Transport, Inc.*
- (h) Tab VI provides a description of 12-months' use of all aircraft in the custody of the project. The first seven items listed therein constitute services for the Agency and the remaining items are without Agency connection.
- (i) The Agency's accumulative investment in this project and a detailed breakdown thereof is provided in Tab II.
- (j) The top Company in this project is The Pacific Corporation (formerly The Airdale Corporation), which was organized under the laws of the State of Delaware on July 10, 1950. Although its articles of incorporation are broad enough to authorize it to engage in practically any business activities (about eight typewritten pages), it was formed particularly for the purpose of overtly acquiring the entire capital stock of Air America, Inc. Air America (formerly called CAT Incorporated), a Delaware corporation also organized on July 10, 1950, in turn was organized to overtly conduct and to carry on, directly and through domestic and foreign subsidiary and affiliated companies, a scheduled Chinese flag airline, contract U.S. and foreign flag airlift, and contract maintenance engineering activities in the Far East and in other parts of the world.

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*Information
Air America*

- (k) These Companies buy and sell materials and services in an overt manner trading with more than 700 U.S. domestic and foreign corporations. Among these are Southern Air Transport, Inc.,

[Redacted]

In the case of Southern Air Transport, Inc. personnel and a substantial quantity of maintenance and other services are provided and in fact the entire general management of Southern Air Transport, Inc. including its Latin American Headquarters is supervised by Air America from Washington.

- (1) Tab VI lists sources of income for the Company's year ended March 31, 1962. The first seven items which represent 12.1% of the total are ~~for~~ services performed for CIA at competitive prices. No element of subsidy is involved. The remaining 87.9% of total revenue is from the overt non-Agency sources listed in the Tab.

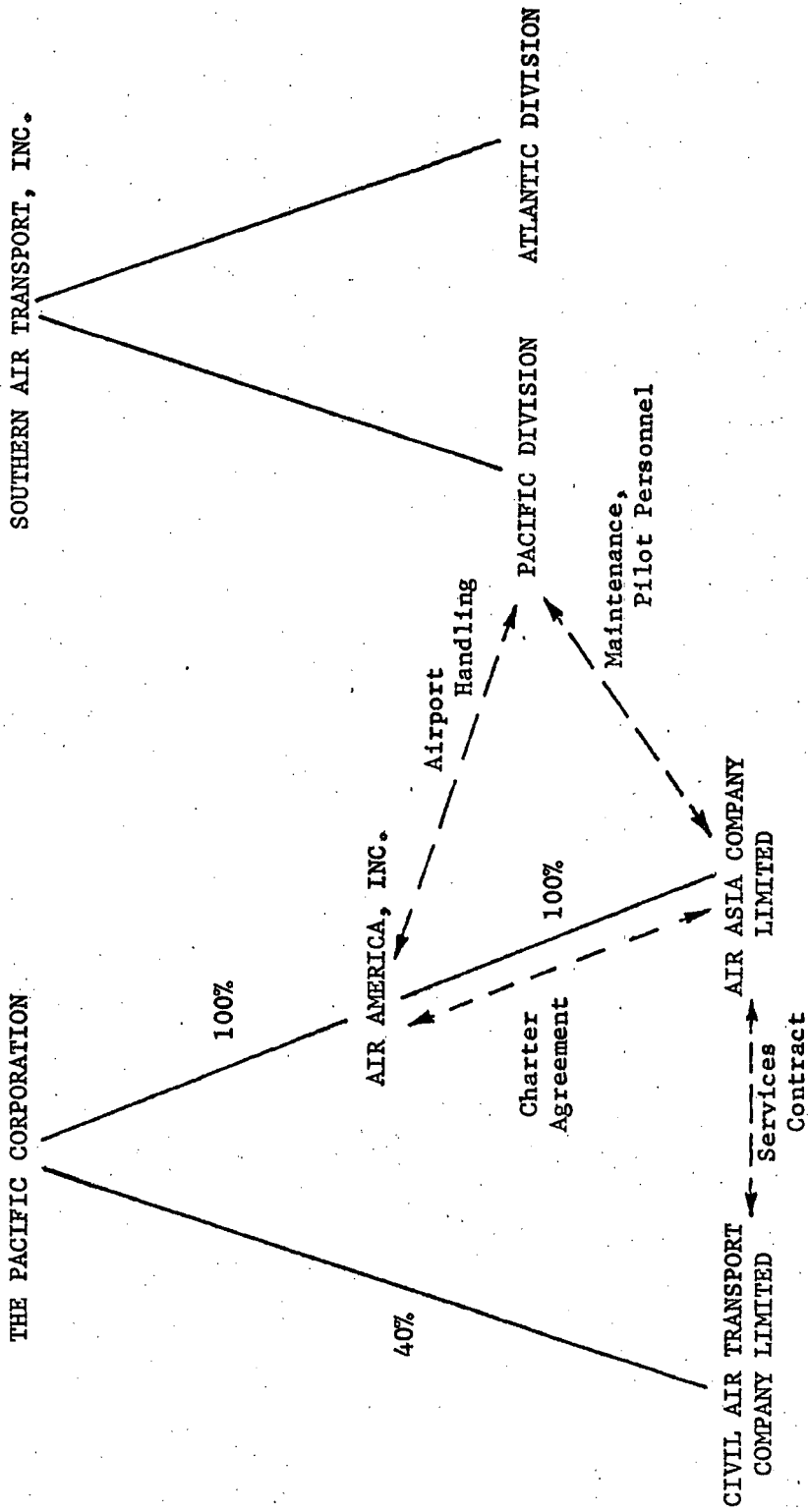
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Managing Director

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Tab I



Stock Ownership —————

Intercompany Contracts - - - - -