

THE WHITE HOUSE
WASHINGTON

August 14, 1946

STRICTLY CONFIDENTIAL

Dear Bill:

During your absence, I had a long talk with Jim Landis about the CNAC proposition, and at my request he has put down his views in writing. A copy of his letter is enclosed.

On the basis of Pan American's expanded program for CNAC, which they went over verbally with Mr. Guass last week and then later with me and which I believe they plan to submit to you in finished form within a few days, one of Pan American's primary objectives appears to be to use CNAC as a medium for obtaining a route across the north Pacific. (It is interesting to note that in its recent Pacific decision, the CAB turned down such an application by Pan American, although it granted Pan American a certificate to operate via the central Pacific to Tokyo and Shanghai.) On the other hand, it would in my opinion be in the best interests of this country and China for us to finance expansion of CNAC's domestic Chinese operations and, within certain limitations as tentatively proposed by Mr. Landis, some international operations.

I hope to leave town this weekend for a short holiday of one or two weeks, and in case this matter should come to a head during my absence, I wanted you to have the points of view covered herein. At the proper time, I imagine you will also want to consult State, War, and Navy.

With best regards.

Sincerely,



Edwin A. Locke, Jr.
Special Assistant
to the President

Mr. William McC. Martin
Chairman of the Board
Export-Import Bank of Washington
811 Vermont Avenue, N.W.
Washington, D. C.

Enclosure



CIVIL AERONAUTICS BOARD
WASHINGTON

August 13, 1946

Mr. Edwin A. Locke, Jr.
The White House
Washington, D.C.

Dear Eddie:

You have asked me to comment upon the desirability of the United States financing the CNAC or some similar airline operation in China. I assume that one condition of any loan to a Chinese corporation would be that it would be under an operating contract with an American airline for an appropriate period of time and that the American position would not be limited to mere operations but would, because of the American investment involved, also bring about adequate American representation in the directorate of the line. I assume also that such a loan should represent Governmental policy as a whole, because it seems to me essential that it should be known that the State Department will concern itself with the continuing well-being of the Chinese company. Under circumstances such as these and certain other conditions that I am mentioning later, I think this kind of an investment by the United States would be wise. Financially it should pay for itself within a reasonable period of time. The need for local air transportation in China is very great, particularly at the present time when other means of transportation have broken down. Transportation, as you know, has always been poor in China. There are practically no roads and only a few railroads. River transportation is exceedingly slow. Air transportation is the immediate answer to Chinese transportation problems. The development of China is greatly in the interests of the United States both practically and economically. Our trade with China is bound to expand, and if it wishes to reach beyond the port towns, a system of internal transportation is essential. The well-being of China hinges in large part upon transportation. In the well-being of China our traditional friendship in the Far East is of great importance in the light of the counter pressure that exists in that area.

We are now planning to put international routes into and through China. It will add much to the success of these routes for transportation within China to be available. Places like Chungking, Kunning, Amoy, Foochow are centers for domestic air transportation in China but are not points to be reached on international air routes.

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There are several cautions that I would like to advance in connection with a suggestion of this kind. The first is that we should not finance American interests parading in the guise of a Chinese corporation to provide competition to our own American airlines in international service. We are disturbed today by the device being employed in certain South American countries of employing South ^{American} corporations as a cover for American interests in competition with other American interests in international air service. We are now suggesting in pending bilateral agreements that each contracting nation shall have the authority to deny or terminate a certificate to a carrier of the other nation if that carrier is not owned and substantially controlled by nationals of that nation. The same principle should be applicable in the Chinese situation. But I would go further than this. I see no excuse for the United States to finance a true Chinese corporation to compete with American air carriers over similar routes and between similar termini. This seems to me true whether or not the routes are transPacific or shorter in distance. For example, I see no reason to finance a Chinese air carrier to fly between Shanghai and Manila. It would be in competition with ~~AWA~~ ^{AWA} which has been certificated to operate this route. There are certain international and overseas routes between China and other nations which would not compete with American carriers. Such a route is, for example, the route between Kunming to Hanoi to Saigon to Singapore and to Batavia, or routes from China to points in Russia, assuming that the Russian air will eventually be open.

I believe it possible to safeguard these American interests by the simple expedient of either confining the operations of CNAC to China or providing that no international extension of a route shall be made without the approval of the appropriate agency in the United States.

I understand that Pan American has a twenty per cent interest in CNAC and that Pan American would very likely have whatever operating contract might be negotiated with CNAC. I see no particular objection to this, but this fact emphasizes more than ever the need for effective control over any international routes sought to be flown by CNAC. It would be unfortunate if Pan American, subsidized by the American Government by an arrangement of this nature, should then be put in a position substantially to thwart United States policy so far as the certification of United States air carriers goes.

Sincerely yours,

Sgd.
J. M. Handis
Chairman