

Charter Airlines Blame

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LOS ANGELES—In 1960 Southern Air Transport was on the verge of bankruptcy, down to its last two aging planes, Southern, like most of the other two dozen or so nonscheduled airlines then alive, faced a bleak future.

Of those so-called nonskeds, or char-

ter airlines, Southern was one of the weakest. Yet only a few months after it was sold in August 1960 for a paltry \$300,000, the airline was thriving.

The reason? The actual buyer of Southern, a fact kept secret from most people for more than 13 years, was the Central Intelligence Agency. With the CIA's help, Southern quickly obtained new planes from another CIA company, Air America, and captured a key military contract to provide a "cover" for its operations.

In 1975, after two years of rumors and published news leaks, the CIA finally acknowledged that it had owned Southern from 1960 to 1973.

The story might have ended there. But now government documents and other information have surfaced indicating that the CIA's venture into the nonsked business had a profound impact, one that damaged the finances of a host of unsuspecting private businessmen and helped determine the shape of an entire industry for years to come.

By siphoning away a significant share of the military charter revenue that was the sustenance of these struggling airlines, the CIA played a big role in consigning some of these companies to oblivion. The few that survived became the nucleus of the modern U.S. charter airline industry.

Moreover, there is evidence that five other nonskeds that survived this period did so in part because they or their representatives learned of the CIA connection to Southern and were able to win favorable treatment from the Civil Aeronautics Board and other government agencies, which were eager to maintain the CIA's secret.

Today, many of the former nonsked operators who lost their flying rights when they ran out of money are trying to win those rights back from the CAB. The board, whose membership has changed completely in the intervening years, has set up a special proceeding to consider their requests.

Their efforts recently forced the release, under the Freedom of Information Act, of numerous previously secret government documents. Those, combined with interviews and previously ignored testimony, permit a close look at how the CIA wreaked its apparently unintended havoc on the nonsked industry.

That look reveals a complex pattern of intrigue, with secret briefings by the CIA of CAB and military officials which won Southern crucial operating rights and contracts, along with des-

perate efforts by the competing nonskeds to gain a share of the government business that was not allotted to the CIA's airline.

Only six nonskeds were awarded, in the early 1960s, the lucrative overseas military contracts that became the difference between life and death. The losing airlines at the time were unaware that Southern was owned by the CIA. The other five—World Airways, AALXCO (later Saturn Airline), Overseas National Airlines, Capitol Airways and Trans International Airlines (which has recently acquired Saturn)—All were aware of the hidden CIA-Southern connection.

With the new evidence, a group of the former nonskeds charge that the favored airlines, which have since become the leaders of the U.S. charter airline industry, agreed to keep their knowledge of Southern's CIA ownership secret in return for the military contracts.

In recent testimony before a CAB hearing judge, Richard D. Neumann, president of a former nonsked, California Air Charter, alleged that at least one of the military charter airlines "used undue and improper influence in its economic rise to the top, or in less charitable words, blackmail and extortion. It is clear that several applicants (in a new-route case) have engaged in activities of a very questionable nature."

The surviving carriers deny the charge.

In a letter to a Senate committee chairman, Edward J. Daly, chairman of World Airways wrote: "World has never resorted to coercion or relied upon favoritism to obtain military contract business."

Coates Lear, a lawyer connected to four of the surviving carriers, is now dead, but his close friend Clayton Burwell, president of the Independent Airlines Association in 1960 and 1961 and soon thereafter counsel for Trans International Airlines, disputes the contention of the former nonskeds that there was, in his words, "an insiders club" that was the beneficiary of favoritism in military airlift contracts.

Although he confirms that he and a few other carriers' lawyers and executives knew about the CIA ownership as early as 1961, Burwell says it is "ridiculous" to believe that they took advantage of that information to influence military contracting.

Whatever the factors that determined which nonskeds survived this period of travail for their industry in the 1960s, it is beyond dispute that the CIA's purchase of Southern contrib-

Losses on Unknown Rival—CIA

uted to the demise of those that succumbed.

The CIA's entry into the business, of course, wasn't the only factor. The CAB, which regulates all air carriers, had been giving the nonskeds short shrift for years in order to help protect the large scheduled airlines.

The CIA didn't intend, apparently, to harm other airlines. Immediately after the purchase, however, Southern captured an important military contract in the Pacific, even though it was based in Miami and had previously restricted its operations to that area. The carrier grew quickly, fed by military contracts and CIA operations.

The CIA did not want Southern to become too visible, and it never became exceedingly large. Southern bought planes from the CIA's largest proprietary company, Air America, which operated mostly in Southeast Asia. The money came from Air America loans and loans from Manufacturers Hanover Bank in New York, which handled the banking for many of the CIA's companies.

But by the time Southern, which has no connection to Southern Airways, was sold in 1973 to Stanley Williams, the man who had operated it for the CIA, the line was doing millions of dollars of business annually.

Without that sale, for \$5.1 million, it might never have been possible to tell the history of the CIA's effect on the nonsked industry. For, before the deal could go through, a number of airlines protested the retention of key CAB operating rights by the new owners. The CAB held secret hearings on this issue, and it is through testimony recorded at those hearings and only recently released that much of the CIA's role can be documented.

The principal witness was Lawrence Houston, then the general counsel of the CIA, and the principal questioners were the lawyers for the five military supplemental airlines and a lawyer for Pan American World Airways, also representing eight major carriers.

According to Houston's testimony,

the CIA decided to purchase Southern because Air America wouldn't be able to receive a CAB certificate without risking disclosure of its real owners and because the agency wanted an airline that would be able to operate in Latin America.

Houston claimed that the agency didn't ask for any special favors for Southern. "Southern bid on the MATS (Military Air Transport Service), later MACS (Military Airlift Command) contracts, which it performed in ordinary commercial fashion with no intercession by us, although we informed the top command of MATS, that we did have the beneficial ownership but we asked no special consideration."

However, Houston acknowledged that he had disclosed the CIA's ownership of Southern to key officials at the CAB, even as the board was in the process of determining which airlines would be eligible to bid on MATS contracts.

From then on, Southern received many special considerations.