

10/9/86

Ms. Mary McGrory  
Washington Post  
1150 15 St., NW  
Washington, D.C. 20071

Dear Ms. McGrory,

When the Post was put together for today's issue someone unintentionally underscored what I was saying. I hope that what I said did not offend you. It certainly wasn't personal.

Today's story on the newest mess we've made in Nicaragua and the tragic and inevitable loss of lives manages to omit what the Post has in its morgue on Southern Air Transport. I enclose it. I also have a story that was sent to me that reports the sweetheart ~~deal~~<sup>deal</sup> the CIA made in sealing Southern Air to what is called its "front" for a ridiculously low price.

The Post was dutiful in its uncritical reporting of all the denials when consultation with its own morgue would have at the very least raised substantial questions about the official denials. Aside from the obvious fact that what we knew happened came close to requiring a CIA involvement, the involvement of its Southern Air front, not included in any official comment I've seen or heard, left little real doubt. If it had not been for Hasenfus' confession, which I've just heard on the radio, we'd have been left with the official denials and the officially unofficial suggestion that out in the Nicaraguan jungles ~~the~~<sup>the</sup> forged Southern Air identification for the dead pilot.

Nobody in the press seems to have remembered that when we were preparing for the inevitable fiasco of the Pay of Pigs those pilots were not employed by the CIA. Their employer was a CIA front known as Doubl-Chek Corp. And those poor, misguided and misled airmen also died in another futility in pursuance of a futile national policy- at least the CIA's is not the nation's. So it was not remembered in the current reporting all the seemingly failed journalistic memories just happen to coincide with and support government disinformation.

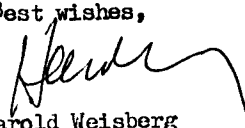
This is what happened to us. I'm sorry, very sorry about it. Especially when I remember what some of our wise men said, Santayana about being doomed to relive history if we forget it and Cardoza, about the government, for good or ill, being the teacher of us all.

One of the reasons some government agencies dislike me and have practised KGB/Gestapo abuses against me is that when once before I persisted, then also in the face of journalistic disinterest and silence, Congress amended FOIA over me and that is what opened some of the FBI, CIA and other files for the kinds of disclosures earlier reported by the Post.

I today am not optimistic about my chances but I've not forgotten Polonius or among the other quotables I never hear quoted any more, Frost on promises to keep, albeit I now have so many fewer miles.

I know of your interest in the Nicaraguan tragedy and I did not want you to think I was just spouting off without some knowledge and recollection, so maybe the enclosures will inform you as well as support what I was saying. And please do not feel that this calls for any response. Spend that time on the fine things you do, like telling us about truth in today's fine column.

Best wishes,

  
Harold Weisberg

# Charter Airlines Blame Los

By TOM REDBURN  
Los Angeles Times

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, AAIACO (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-

# ...ses 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.

As things now stand it appeared Kissinger would be the key. Kissinger, however, is making it clear from both sides in the Congress for the handling of the issue. Kissinger is the side of U.S. officials with Latin America.

Treaty opponents led by Republican Sen. Strom Thurmond and in

# Cabbie's \$230,000 'Tip' Was a Gem of a Steal

**NEW YORK — (UPI)** — A deal between a California jewelry salesman and a prospective buyer with \$230,000 in cash in his pocket was interrupted Sunday by a cab driver who drove them to a deserted street in Queens and stole the money, police reported.

Police said the buyer disappeared with the gems, the cabbie disappeared with the money and the salesman, Kenneth Jasper of San Bruno, Calif., wound up in a Long Island city stationhouse trying to explain to detectives the weird series of events that preceded the robbery.

The incident also left investigators with a suspicion the theft was a set-up job.

According to a police lieutenant, Jasper had a meeting with the buyer on Delancey Street on Manhattan's Lower East Side, where he planned to exchange the jewels for \$230,000.

But, according to police, Jasper said the buyer did not bring the cash with him, so the pair took a cab to an address on 30th Street and there the buyer picked up the money. Two men drove in the car to Queens.

The car was parked in a secluded area, the transaction was completed and the

comparisons to Panama.

At the same time, an outlier of a new group, James Kissinger, had been doing a year in Capitol Hill to counter the growing opposition.

**THE SECRETARY** of State ought to have learned by now the virtue of testing senatorial waters before attaching to resolute

banking added that the State Department has been off for a year that the president's approval of the Senate would be a sign on this question.

Under these circumstances, it is not only an exercise in futility to conduct negotiations that have as their purpose a relinquishment of sovereignty, but worse, in so doing we are giving rise to expectations that cannot be satisfied, and we are encouraging hotbeds in Panama to resort to violence.

Last year 35 senators signed a resolution opposing any concessions on the question of U.S. sovereignty and jurisdiction over the canal and the five-mile zone on each side.

**WHEN THE SAME** resolution was introduced this year, 37 senators signed it — three more than necessary to block any treaty.

The resolution, sponsored by Sen. Thurmond and John McClellan, declares that the United States should maintain sovereignty and

# CIA Sold Airline Cheap -- to FRONT

**Sword of Two Parts**  
By WILLIAM R. ANLONG  
Miami staff writer

The CIA sold a Miami-based air cargo firm, with a stockholder equity of \$1.2 million for \$2.1 million to an aviation executive who had fronted for the agency's ownership of the company and who promised to pay back \$3 million the CIA had loaned it.

Aside from that \$3-million deal, the company, Southern Air Transport, had only \$66,400.09

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in facilities — compared to more than \$4.1 million in assets.

"It was a long, hard, arm-length transaction," says Stanley G. Williams, since 1962 the president and chief operating officer of the CIA-owned business and since Dec. 31, 1973, its true owner. (Williams originally offered to buy the firm, free of any debt to the agency, for \$4.5 million.)

This ended 13 years of complete government ownership of the firm, an ostensibly private

company to end the CIA's long and profitable presence in the airline and military markets.

Many observers and officials in Phoenix said that the sale, purchased, six-year field market days were numbered but the key questions were when he would go and how.

Lon Nol speaks most of his time in the presidential palace insulated by an army of advisers and friends and has little idea of the gravity of his situation, the sources said. He leaves the palace rarely for flying trips around the Phnom Penh enclave in a convoy bristling with arms.

**Weather Menu — A Piece of Cake**  
The forecast calls for typical March weather with highs today in the upper 70s.

The lows tonight will be in the 60s.

Winds during the day will be from the east-southeast at 10 to 15 miles per hour, becoming southeasterly at 15 miles per hour at the afternoon.

airline that during that time had earned nearly \$3 million in profits while serving as part of the CIA's secret paramilitary air force.

**NONE OF THOSE** profits were passed along to the government in the form of dividends — even though two of Williams' fellow directors said they thought the money had gone to the Treasury. Rather, the profits were used to finance Southern Air Transport's growth.

That growth — the firm had been rather small in 1960 when the CIA bought it outright for \$300,000 from its founder, F.C. (Doc) Moor, and Williams, Moor's second-in-command — was also aided through millions of dollars in credit made available through other CIA-owned companies.

Williams, however, argues that other truly private suppliers at airlines — non-subsidized

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passenger and freight operations — had experienced more growth during the 1960s and early 1970s than Southern Air transport.

He also defends the purchase price ("I tried and pressed to get the very best purchase I could do. Wouldn't you admit that the best way to do business?") and says that everything was done legally.

**WHILE THERE** is some speculation that the agency may have decided it could get more money selling Southern Air Transport on the open market or simply dissolving the company and selling off its assets, The Herald has been unable to find any appraisals reflecting this.

The agency would not have been bound to sell Southern Air Transport to a higher bidder anyway, since legislation creating the CIA gave the director of Central Intelligence a freer hand in handling finances than any other bureaucrat in Washington. (The House Government Operations Committee did inquire about the sale in a letter to the Civil Aeronautics Board, asking whether it was counter to government procedure for disposing of surplus property. The CIA responded with a letter marked "classified.")

Williams did not get quite as good a deal as he had wanted, or as the CIA had planned to give him, even after the price was settled on the original plan was for him to buy the company outright and continue to operate it as a globe-spanning common carrier.

**WHEN THE AIRLINE'S** competitors complained — saying Southern Air Transport had grown through illegal government subsidies — the company surrendered its status as a certificated airline. That took it out from under the CAB jurisdiction and allowed the CIA to sell it however it pleased, without further hearings.

The change of status reduced the value of the firm somewhat, but not devastatingly so. It can still fly doing so on a contract basis. When asked whether he would resell Southern Air Transport today for \$4.5 million, Williams replied, "No."

The maneuver allowed the CIA to preserve what was left of the rather tattered veil of secrecy surrounding its network of airlines by disposing of the firm quietly. However, by late 1973, a number of the air preferences had been publicly identified. Essentially all that was left unknown were the details of the financial arrangements and of the missions assigned to the airlines.

**AGENCY OFFICIALS** decline to discuss these details. Public records and interviews with persons connected with Southern Air Transport, however, do reveal how the agency acted in the financial affairs of that airline.

After purchasing the company in 1960, it simply installed a group of titular stockholders and directors

who portrayed themselves publicly as the true owners of the company rather than nominees.

Ownership-reporting requirements of the CAB apparently were treated with what competitors complained was "little more than discretion" in which Southern Air Transport reacquired — apparently without reporting the transaction — 20 per cent of the company which it swapped in 1966 for the \$1.1 million in assets of another firm. For

eight Air Transport Development, those assets included two airplane companies.

Beginning in 1960, the CIA began financing the expansion of the airline by having its principal airline proprietary, Air America, sell Southern Air Transport two times on credit. Subsequently, Air America would lend the airline and its holding company, Actus Technology Inc., more than \$16.7 million. Additionally, the Pacific Corp., a CIA-owned holding company, would guarantee two loans totaling \$6.6 million from the Manufacturers Hanover Trust Co. (James Hutton, Southern Air Transport's attorney, claims that some of the loans were merely renewals of earlier ones. They are listed individually, however, in a summary filed with the (CAB) Southern Air Transport also lent Air America nearly \$2 million, according to CAB records.

What profits it earned, Southern Air Transport kept, even though two of the directors say they thought the money was passed to the government. "We made several million dollars for Uncle Sam," said one, proudly. Williams, however, says, "There wasn't any dividend paid that I know of, as you and I would think of it if we were stockholders." By the time Williams agreed to purchase the airline, its books showed \$2,821,588.24 in "retained earnings."

The fiction that Southern Air Transport was privately owned was continued even throughout the initial stages of the CAB hearings into Williams' proposal to acquire control of it, the stages which occurred before Southern Air Transport's attorney, Bastion, convinced the CAB to order the hearings closed to the public and to swear all participants to secrecy.

**EXHIBITS SUBMITTED** in the case include financial statements which showed Williams as owning a third of Southern Air Transport and the holding company, Williams' holdings were valued at \$1,442,000. Moreover, 1972, had been listed in CAB documents as owning, in his own behalf, a quarter of the airline and the holding company. Yet his estate, according to probate court records, amounted to roughly \$200,000 — with no mention of any stock in the airline.

Recently, Williams and the other two director-stockholders — Portval Flack Brundage and J. Perkins McGuire, respectively the director of the Bureau of the Budget and an assistant secretary of defense during the Eisenhower Administration — have all acknowledged in interviews that they were only nominees

and did not actually own the airline.

**BASTION**, who was formerly an attorney and a director of Air America and is still the attorney for Southern Air Transport, objected during the CAB hearings, however, even to competitors' prehearing briefs alleging that Southern Air Transport was CIA owned.

Bastion, interviewed at the Miami International Air Transport, said the sought closed hearings in the case because of "certain sensitive items that were going to be discussed. He did not elaborate."

What is not known about Southern Air Transport is precisely what it did during the 13 years the CIA owned it, other than that it did transport both men and materiel in Southeast Asia and that it did receive a total of \$6.8 million in payments from the "Logistical Support Group."

Among Southern Air Transport's commercial clients was the Chilean government of President Salvador Allende. Before Allende was toppled in a CIA-connected coup, his Department of Agriculture hired Southern Air Transport to fly in far as I knew, all we ever flew was meat," says Williams.

(Others, however, have attributed a more direct paramilitary role to Southern Air Transport. Anderson quoted Victor Marshall, a former CIA officer and co-author of "The CIA and The Cult of Intelligence," as saying in 1971 that "the sole purpose for the existence of SAT is that the CIA be ready for the contingency that some day it will have to ferry men and materiel to some Latin American country to wage a clandestine war." And The New York Times, in 1973, quoted unidentified sources as saying the airline appeared to have performed extensive paramilitary functions in both the Congo and the Caribbean, as well as in Southeast Asia.

Williams declined to discuss the paramilitary operations of the airline, but did dispute the story about Congo and Caribbean activities. Those days, it appears now, are past in any case. Southern no longer has its routes, no longer spans the globe. One of its giant Hercules cargo planes is leased to a company in Alaska; the other is leased to Hercules cargo planes is leased to a company in Alaska; the other is leased to Hercules cargo planes is leased to a company in Alaska; the other is leased to Hercules cargo planes is leased to a company in Alaska.

Williams said it was he who suggested he take it over and run it again as a private firm — concluded with the selling down of U.S. involvement in Southeast Asia. From 1968 through 1972, the trans-Pacific operations had accounted for 56 per cent of the airline's air miles and 60 per cent of its revenues.

"(The purchase) was consummated and were (lying) very hard to keep it going and to keep work for people," says Williams. "And I try to operate it in as prudent a fashion as possible."

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