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VINSON WILL ASK FOR THOROUGH INVESTIGATION OF B-36 PURCHASES: VAN ZANDT QUESTIONS ALLEGED 'DEALS' AND CHANGES IN AF PLANS

Rep. Carl Vinson (D., Ga.), chairman of the House Armed Services Committee, said today that his committee will conduct a "thorough and searching investigation" into Air Force procurement of Convair B-36 bombers. Vinson's statement followed a resolution by Rep. James E. Van Zandt (R., Pa.), a committee member, calling for an investigation of the whole military procurement program, particularly the B-36 question.

Vinson said he will ask his committee next Tuesday to make a "complete inquiry into all phases of the B-36 bomber".

"Specifically," he said, "I shall ask the committee to look into such facts as when this bomber was purchased, how it was purchased, why it has been purchased, and any and all other collateral matters that such inquiries may develop."

Cites B-36 Cutback Plans

He added that "it is high time that those who have been the object of this steadily increasing tide of criticism and innuendo be given an opportunity to put their case squarely before the committee, the Congress and the public."

Van Zandt released a statement today covering his views on the B-36 question in considerable detail.

"In 1947," it read, "the Consolidated Vultee Aircraft Corp. held contracts for 100 B-36 bombers. At that time there was considerable doubt as to whether the contracts would ever be fully validated. A reading of the hearings on the 1949 Air Force appropriations discloses that in early 1948 it was actually planned to cut back these contracts. The Air Force was asking instead for B-50's and B-45's. In 1947, Victor Emanuel, who then controlled Convair through his Aviation Corp. (AVCO), considered selling Consolidated to the Lockheed Aircraft Corp. The Securities Exchange Commission would not approve the sale.

Johnson-Odlum Connections

"Late in 1947, Mr. (Floyd D.) Odlum, through Atlas, acquired control of Consolidated and became chairman. A few months later, in January, the Air Force prepared a directive cancelling production of the B-36. Air Force studies in early 1948 indicated that the B-36 was not suitable, and (Lt.) Gen. Lauris Norstad (Deputy Chief of Staff for Operations) so advised his superiors, explaining that the contract for 100 would be cut back to 50 or 60 so as not to bring financial ruin to Convair. In May, the Air Force announced that it would build its 70-group Air Force around the (Boeing) B-50, the (North American) B-45, the (North American) P-86 and others. This announcement on May 7, 1948, did not list the Convair B-36."

"Although in the spring and summer of 1948 the Air Force planned to reduce materially the B-36 contracts, we find that in January of 1949, it was cancelling contracts with other companies for other planes in order to procure more B-36's, which not many months before had been found unsatisfactory as bombers and were to be used as refueling tankers. The renegotiation of the canceled contracts was handled by an outside law firm, reportedly upon the recommendation of Mr. (Louis)

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B-36 INVESTIGATION (Cont.)

Johnson. This firm had been retained for some time by Mr. Odlum's Atlas Corp.

"Throughout the aircraft industry there are reports of very serious circumstances surrounding this transaction. They involve reported plans to set up, through Atlas, a huge aircraft combine under the control of Mr. Odlum. I have heard from sources I cannot disregard that there is a plan underway for Mr. Symington to resign as Secretary of Air as soon as the 1950 budget containing more funds for more B-36's is approved, and head this huge aircraft combine. I do not say that all of these reports are true; but I do emphatically assert that they are so prevalent and so persistent as to require a Congressional investigation without further delay."

Van Zandt reviewed the 1949 procurement program, pointing out that first the decision to cut the B-36 contract back to 61 planes was reversed, later a \$35,000,000 order for T-29 trainers (Convair-Liners) was awarded, then the Northrop B-49 production was transferred to Convair, and finally a number of contracts had been canceled to provide money for new B-36 procurement.

What Resolution Provides

He continued: "There are well founded reports that Mr. Odlum was very active in assisting Mr. Louis Johnson to raise campaign funds for the Democratic party in September and October, 1948; that this coincides with the improvement in the status of the Consolidated Vultee Aircraft Corp. and with the reputation of the product on which its financial future was staked -- the B-36. If the aircraft industry and Mr. Odlum assisted in raising \$1,500,000, or as some reports have it, a staggering \$6,500,000 for the Democratic campaign, the Congress and the American people should know about it."

Van Zandt's resolution, entered yesterday, read:

"It shall be the duty of the committee to make a full and complete investigation --

"(1) of action taken, since May 8, 1945, with respect to the awarding, cancellation, or modification of national defense contracts, and

"(2) of prior or present connections of any military officials with any company or companies which have received national defense aircraft contracts, and

"(3) of all other circumstances or facts in relation to the above, including political contributions, gratuities, and other relevant matters.

"The committee shall report from time to time to the House (or the clerk of the House if the House is not in session) the results of its investigation, together with such recommendations as it deems advisable, and shall make a final report prior to the expiration of the present Congress."

Tydings' Investigation Off

Meanwhile, a previously announced plan for a parallel investigation in the Senate was killed, when Sen. Millard Tydings' (D., Md.) Armed Services Committee refused to back his proposal for a procurement probe. Tydings said he would not revive the proposal. He added that he did not believe the committee was expert enough to decide on whether the right planes were being bought and it needed "the finest type of expert witness".

Tydings said that Defense Secretary Louis Johnson has not been called before the committee to report on aircraft procurement or anything else connected with the aircraft industry. He pointed out that Johnson said at the time he was confirmed by the Senate that he had severed all connections "in any way, shape or form" with any aircraft corporation.

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GUIDE FOR SELLING TO AIR FORCE PUBLISHED

The Air Force's Air Materiel Command, Wright-Patterson AFB, Dayton, O., has published a 12-page booklet entitled "A Guide for Selling to the United States Air Force", printed by the Government Printing Office. The booklet lists in detail instructions to manufacturers as to who to contact, what is being procured, where, when and how it is to be delivered, etc.

TRIPPE SAYS MERGER WOULD SAVE \$9,000,000 PER YEAR IN MAIL PAY

-The AOA-PAA Merger Case-

J. T. Trippe, president of Pan American Airways, testified that merger of American Overseas Airlines into PAA would (1) produce a combined carrier which would be in a much better position to meet foreign flag competition on the North Atlantic; and (2) permit substantial savings in mail pay up to \$9,000,000 per year. The PAA president began one of his rare appearances as a witness in a CAB hearing last yesterday afternoon. By noon today TWA attorney Gerald Brophy and Eastern Air Lines counsel Glen Harlan had completed their cross-examination and Trippe was under questioning by James M. Landis, counsel for the Sparks Group of AOA employees.

Improved ability to compete and lowered mail pay requirements were cited in Trippe's direct testimony as two major reasons for approving the merger proposal. He spoke at length of the difficulties U. S. flag lines face in competing with strong, government-supported foreign carriers whose nationals prefer them to U. S. carriers much more often than U. S. citizens prefer U. S. airlines. United Air Lines and Northwest Airlines, Trippe said, have given traffic preferences to K.L.M. Royal Dutch Airlines and Scandinavian Airlines System rather than to AOA. He advocated devoting some of the savings claimed for the merger to getting a larger share of Scandinavian and Netherlands traffic for U. S. carriers.

Says AOA and PAA in 'Fool's Paradise'

Trippe predicted business to Germany will fall off eventually, and that as the occupation ends, foreign flag competition will be intensified. In Great Britain, AOA and PAA "have been living in a sort of fool's paradise", carrying three times as much business as BOAC because the latter lacks modern transport equipment. But he predicted that BOAC, which he said has been carrying higher loads per flight than any other trans-Atlantic line recently, will obtain a much larger share of the total business when it places Boeing Stratocruisers on the North Atlantic. The AOA-PAA area of Europe was said to have more foreign competition than the TWA area. These traffic factors, Trippe indicated, call for approval of the merger and creation of a stronger U. S. flag competitor.

The merged company, Trippe stated, would fly some 25,600,000 miles per year, about 2,100,000 miles more than the 23,500,000 AOA and PAA now fly between themselves. He pointed out that 75% of AOA's total traffic goes to Shannon, London and Frankfurt, points competitive with PAA. AOA requires \$10,300,000 in mail pay support annually; PAA some \$10,700,000 or a total of \$21,000,000. He predicted the merged carrier would need only \$12,000,000, allowing the taxpayers to save \$9,000,000.

Where Savings Would Be Made

Economies would flow from better utilization; lowered requirements for standby aircraft; consolidation of operating staffs abroad, now composed largely of foreign nationals; and consolidation of overhaul and maintenance for Boeings and Constellations. Trippe said PAA's ground costs now comprise 50% of total operating costs; predicted that they would be lowered to 47% when PAA puts its Boeing's into service; and to 43% if the merger is accomplished. Employee displacements will occur in some categories, particularly abroad, but they will be offset by added mileage to be flown and the advent of the Boeings will require enough new personnel to make displacements very small.

TWA, said Trippe, won't be hurt to any realistic degree by the merger. The same equipment will be flying the North Atlantic with or without the merger, and giving PAA an opportunity to achieve greater economies should not harm TWA to any significant extent. He held that the merger would mean nothing more to TWA than a change in house flags of the aircraft on the North Atlantic. PAA stockholders will have purchased a going business and TWA won't have anything taken from it. PAA was said to have the lowest route utilization of the three trans-Atlantic lines -- one round trip per day compared to 2.5 for TWA and three for AOA. Merger would help Pan Am to achieve a utilization of approximately two round trips per day.

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TRIPPE'S TESTIMONY (Cont.)

Trippe took healthy swings at the route readjustments which TWA and Public Counsel have suggested as possible means of redressing the competitive balance if the merger goes through. TWA's plan, according to Trippe, is quite irrelevant to the transaction and there is no reason why TWA should be given something for nothing. Public Counsel's proposal struck him as "even more amazing" because "if this contract is approved, we would have both legs and one arm chopped off of us and given to TWA". He held it "perfectly inconceivable" because the proposal would wipe out PAA's round-the-world route.

Trippe stated flatly that it was the opinion of PAA's directors that the company (1) could not accept any such conditions as the price for merger approval; (2) that no traffic points could be given up as a condition of approval; (3) that reduction of the permanent authorizations to temporary routes could not be considered as a condition since the directors view the permanent authorizations as important assets earned as a recognition by the Government of nine years of PAA pioneering. TWA entry to London is also outside consideration, Trippe said, adding (1) that "balanced competition" is a meaningless term because PAA has no important transcontinental system to feed it; (2) that TWA is already a very large carrier with total flight mileage higher than the entire PAA system; and (3) that it would be no disadvantage to keep TWA in its present area of service.

Brophy's cross-examination included questions on the voting trust to be set up for the block of PAA stock American Airlines will acquire if the merger goes through. (See DAILY, May 23) Trippe said the voting trust was provided because it would not have suited PAA to have American Airlines voting a large block of PAA stock. He held that there was no special advantage to Pan Am to have the National City Bank president nominate the third voting trustee.

Voting Trust Arrangement

PAA is not bound by the agreement to turn over to AA a fixed amount of stock regardless of what conditions CAB may impose on the merger. To one question, Trippe replied that if TWA doesn't aggressively develop its business and foreign carriers drive it out of the trade, there will be one less carrier on the North Atlantic, adding that the fewer the carriers on the North Atlantic the better business PAA would have. "It isn't my job to be responsible for TWA, Mr. Brophy," Trippe remarked. He held that the chosen instrument issue is unrelated to the merger case.

Through other questions, Brophy sought to show that Pan Am may hope to dominate the AA block of stock through the voting trust arrangement, and that routing of American Airlines' traffic over PAA would be another advantage of the merger. Trippe disclaimed any direct or indirect traffic agreements with American but thought it would be in AA's interest to do everything possible to enhance its investment in Pan American. But AA will route traffic to its own best interests, Trippe insisted. To questions on PAA's influence over Panair do Brasil, in which it holds a 48% interest, Trippe held that PAA has no control over where Panair runs or what its underlying policies are.

Panagra Terminal Case Brought Up

Glen Harlan of Eastern read into the record numerous excerpts from testimony by Trippe in the so-called Panagra Terminal Case (Docket 779;-- 4 C.A.B. 670) dealing with PAA transactions in South America in the late 1920's and 30's. Included were alleged territory-dividing agreements with W.R. Grace & Co. and Panagra and SCADTA, a Colombian-German airline. The EAL attorney was seeking to develop a pattern of PAA conduct directed toward eliminating or forestalling competition. Landis began his cross-examination by eliciting from Trippe the admission that Trippe does not regard himself as a traffic expert. Landis promptly moved to strike his traffic testimony from the record, but asked Examiner Thomas L. Wrenn not to rule on the motion immediately. Brophy objected and Wrenn indicated without ruling that the testimony was in the record and would probably remain there. He obtained from Trippe a statement that it was his "general belief" that BOAC would use its 10 Boeings on the North Atlantic but that BOAC had made no formal announcement of its plans.

RICKENBACKER OFFER MIGHT BE ACCEPTED UNDER CHANGE IN LAW - JOHNSON

Sen. Edwin C. Johnson (D., Colo.) chairman of the Senate Interstate and Foreign Commerce Committee today wrote Capt. E. V. Rickenbacker, president of Eastern Airlines, that his offer to operate five of Eastern's competitors without subsidies was "most challenging" and that he was turning the letter over to the Civil Aeronautics Board for its consideration. (DAILY, May 25)

Johnson told Rickenbacker that his proposals could not be effectuated by the Senate Interstate and Foreign Commerce Committee but that the committee would consider changing the fundamental tenets of the Civil Aeronautics Act so that the government could take advantage of his offer.

Then Johnson told Rickenbacker that his letter did not say how he proposed to take over these lines -- by merger, purchase, suspension of certificate or other means. The senator added that Rickenbacker's offer did not appear to include the entire systems of all of the airlines concerned. He was asked whether he would render service over all of the present routes or whether some of them would be eliminated.

Rickenbacker also was asked whether he would take over all of the personnel and property of the competing airlines and would he assume the debt on this outstanding stock and other obligations.

Johnson called attention to failure of Rickenbacker to include Northeast Airlines, which Sen. Owen Brewster (R., Me.) had suggested as offering a logical route addition for Eastern. He was asked whether he would include Northeast in such a proposal.

Johnson closed the letter with a statement that the committee had not yet determined that there was no subsidy element in Eastern's air mail pay but that efforts were being made to obtain this information from CAB.

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CAB AMENDS MAIL RATES FOR AA, TWA, UAL - ALLOWS GROUNDING COSTS

CAB today amended temporary domestic mail rates in effect for American Airlines, Transcontinental & Western Air and United Air Lines to provide: (1) for American a monthly sum of \$33,333 payable on and after June 1, 1948, as grounding cost compensation; (2) for TWA a lump sum of \$2,748,000 in additional mail pay for the period March 14, 1947, through Dec. 31, 1948, meeting the carrier's break even need but providing no return on investment plus the \$33,333 monthly grounding cost allowance payable from Jan. 1, 1949; and (3) for United a lump sum payment of \$2,902,000 additional mail pay for the year 1948, meeting UAL's break-even need but providing no return on investment plus a \$33,333 grounding cost monthly allowance payable from Jan. 1, 1949. All rates are temporary. (Docket 2849).

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VA ADMINISTRATOR RECOMMENDS CHANGE TO 'AFFIDAVIT' IN GI TRAINING LAW

Gen. Carl Gray, Administrator of Veterans Affairs, today recommended to a Senate Appropriations subcommittee that if changes are made in the law relating to eligibility requirements for GI flight training, the applicant be at least required to support his declaration of intent with an affidavit.

The word "affidavit" would replace "certificate" in an amendment to existing language in H.R. 4177 proposed by Sen. Elmer Thomas (D., Okla.). If the committee decides to liberalize the eligibility requirements along these suggested lines, the law would read:

"For the purpose of this proviso, education or training for the purpose of teaching a veteran to fly or related aviation courses in connection with his present or contemplated business or occupation shall not be considered avocational or recreational, when an affidavit has been furnished by a veteran stating that such education or training is desired by him for use in connection with his present or contemplated business or education. This affidavit shall be conclusive as to the intent of the veteran."