Philippine Airlines collapses

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29 September 1998

Philippine Airlines (PAL), Asia's oldest airline, closed down at midnight on September 23 after almost six decades of operation. The stricken airline, the first in the region to be grounded by the effects of the economic crisis, shut down after the collapse of negotiations between the government, trade unions and management. The company had lost $US338 million over the last four years and has suspended payments on its $2.1 billion in debts.

Some 300 workers staged a noisy protest outside Manila airport's domestic passenger terminal to call on the government to keep PAL running. At PAL offices around the country, airline workers attended prayer rallies and protests.

The airline closure is the biggest corporate failure in the Philippines since the onset of the Asian financial meltdown in July last year. It will result in the destruction of 9,000 jobs directly, on top of 5,000 already wiped out, and thousands more indirectly.

The closure will have a devastating impact on transport services in a country with 76 million people and 7,000 islands. PAL had a virtual monopoly of domestic air services with 75 percent of cargo and 80 percent of passenger services.

The two smaller domestic airlines--Cebu Pacific Air and Air Philippines--have promised to boost their services but neither has a good maintenance and safety record. Several Air Philippines planes are currently grounded because of concerns over safety. In February a Cebu Pacific DC-9 crashed killing all 104 people aboard.

A number of more remote outlying islands are likely to be without air services altogether unless the government steps in to offer subsidies to airlines. For many people, travel will now means using slow, overcrowded and dangerous ferry services. One sank recently with 454 people aboard.

The PAL collapse will also hit thousands of Filipino contract workers, many of whom are young women working as domestic servants. In the past PAL set fares at half the rate of Singapore Airlines. Now Singapore Airlines has a monopoly it has doubled the cost of their fares, creating a nightmare for many who will have to find the additional money to fly home.

The final shutdown came after weeks of negotiations between Lucio Tan, chairman and majority owner of PAL, government officials led by President Estrada and trade union leaders. The deal proposed by Tan, who is a close crony of Estada, was for each employee to receive 60,000 shares of PAL stock and for three union officials to be elected to the airline's 15-member board. The shares were to be redeemable only on retirement.

In return employees were to lose their rights under the Collective Bargaining Agreements for the next 10 years, effectively giving management a free hand to axe jobs, pay and conditions. At the same time workers were to lose their right to strike.

Alex Barrientos, head of the PALEA union covering ground crews, initially agreed to the terms laid down by Lucio Tan's creditors but was forced to reject the deal when opposition grew among his members. Defending the union's decision, Barrientos said: 'Employees would take the risk of letting PAL survive by supporting programs of the company.'

Other union leaders, however, opposed the deal. Their opposition was not to the attacks on the jobs and conditions of workers, but because an end to Collective Bargaining Agreements would leave them without a role. The unions were quite willing to call off the strike of PAL workers in June and reach a deal with Tan to sack 5,000 workers.

Popoy Lagman, head of Bukluran ng Manggagawang Philipino, a federation of workers to which PALEA is affiliated said: 'PALEA is not asking for shares of stocks or board seats. These are offers coming from Lucio Tan for which the unions are grateful. But in exchange, he wants the unions to surrender their rights, which is unacceptable.'

Estrada denounced the unions' decision to oppose the agreement and after a meeting on September 21 persuaded the union leaders to hold a secret ballot of members. Even with the threat of the airline's closure hanging over their heads, union members voted 1,371 to 1,055 to reject the offer.

Estrada has repeatedly ruled out calls by the unions and some senators for the government to use its constitutional powers to take over the airline. The unions claimed that the financial collapse was the fault of bad management and offered to work with the government to substantially restructure the airline and to enforce pay cuts.

The pilots union ALPAP claimed that Tan had been milking the most profitable sections of PAL by contracting out services like catering and training facilities to his own companies. Documents from the Securities and Exchange Commission (SEC) showed that Tan and his companies had earned 25 billion pesos since he took over the carrier five years ago. Over the same period the airline accumulated losses of 14.8 billion pesos.

However, the more fundamental causes of the collapse lie in the deepening economic crisis throughout the region and internationally, which has led to declining passenger numbers and sharp falls in the value of the peso and other currencies. While airlines set their fares in local currencies, their loan payments are calculated in US dollars.

Other Asian airlines are faced with similar financial problems. Last month Cathay Pacific recorded its first loss in 22 years--$HK175 million for the first six months of the year--and analysts predict the losses will continue into 1999. In Korea, Korean Airlines and Aseana have both cut services and are expect to axe jobs. The Indonesian-airline Garuda has already cut jobs.

PAL began in 1941 with a flight carrying five passengers from Manila to the northern city of Baguio. Now the airline is likely to be sold off or wound up completely. According to Estrada, three other airlines--Northwest Airlines, Cathay Pacific and Taiwan-based Eva Airways--have already expressed interest in buying PAL.

Any sale or liquidation of PAL is likely to be complicated by Tan's financial involvement not only as PAL owner but also as owner of the airline's second largest creditor, the Allied Bank. Tan is one of the richest men in the Philippines with substantial interests in tobacco, brewing and real estate.