



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila



Thirteenth Congress
Second Regular Session

HOUSE BILL NO. 5006

Introduced by Honorable Prospero C. Nograles

EXPLANATORY NOTE

In 1952, Republic Act (RA) No. 776 was enacted to create the Civil Aeronautics Administration, now the Air Transportation Office (ATO), and the Civil Aeronautics Board (CAB). The said Act is now inevitably deemed archaic and retrogressive for it no longer responds to the technological advancements of a highly competitive civil aviation.

Civil aviation is a dynamic and primarily service-oriented industry. Since it has a catalytic effect on the economy it should be flexible enough to adapt itself to the developing requirements of the country. But due to inadequate funds of the government to undertake mission-critical projects, the development of the airport and its air navigation facilities lagged behind with the establishment of several airlines and acquisition of high-capacity aircraft by air carriers.

The current financial situation of the country does not provide for the required financial support for airport and air navigation facilities infrastructure development. Due to numerous competing needs of other sectors of the economy, the government is not assured that it will be able to meet these needs even if the financial situation improves. Thus, it is imperative that ATO should be allowed to retain a certain proportion of its net income to meet urgent and unforeseen requirements. Retention of a portion of the net income could only be done through a corporate body with fiscal autonomy.

Moreover, under the existing Salary Standardization Law, it is hard to pay competitive salaries to employ the services of competent technical personnel such as air traffic controllers, air navigation systems specialists, airways communicators and pilots that provide the necessary air navigation, air traffic control and management services of the Philippine airspace.

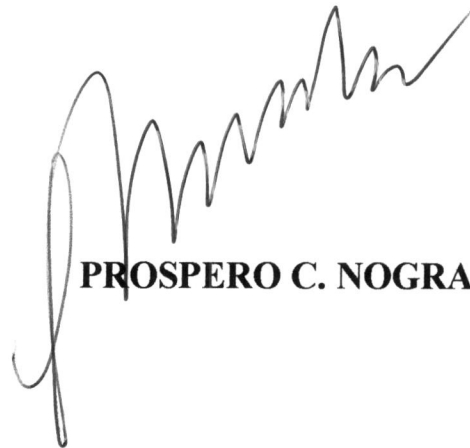
During the 32nd International Civil Aviation Organization (ICAO) General Assembly Meeting, a resolution was adopted encouraging its members to establish a single unified body or an autonomous civil aviation authority to deal with matters of civil aviation. This is to obviate the customary problem on bureaucracy and difficulty to meet ICAO standards and recommendations. Likewise, institutional and policy reforms were recommended such as the unification of government entities performing technical and economic regulations and service provision functions to ensure efficiency of services and consistency in the development and implementation of air sector projects.

The creation of the Civil Aviation Authority will permit the government to obtain the benefits offered by an autonomous corporate authority. Thus, even if financial self-sufficiency may not be achieved immediately, the increased efficiency that may result from streamlining and merging of the technical and economic functions into a single and unified organization shall significantly reduce the allocation of public funds presently required for civil aviation.

Further, local government units and the private sector may be permitted to develop, operate and maintain local airports and their facilities, wherever the government is unable to do so. However, the government should regulate such developments. It is, therefore, necessary that the Civil Aviation Authority has the power to create subsidiary corporations to perform selected service provision functions (airports, air navigation, air traffic control, etc.). A subsidiary company with majority private sector shareholding is considered a private company and does not have to comply with any civil service conditions.

Increasing private sector participation through the creation of subsidiary corporations can offer multiple benefits. It can relieve the national government of the burden of heavy capital investment and provide the Civil Aviation Authority direct access to the open market for loans or capital investments in the development of new airports and upgrading or modernization of air navigation facilities and airways system. This also frees the Authority from the uncertainty associated with investment that is dependent on national economic circumstances. This can be achieved by providing appropriate powers such as the power to enter into contracts, impose liens on aircraft and other property to secure payments of delinquent debts, invest funds and keep its own accounts, etc.

In view of the foregoing, approval of this bill is urgently recommended.



PROSPERO C. NOGRALES



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**AN ACT
CREATING THE CIVIL AVIATION AUTHORITY AND
APPROPRIATING FUNDS THEREFOR**

*Be it enacted by the Senate and the House of Representatives of the
Philippines in Congress assembled:*

ARTICLE I

GENERAL PROVISIONS

SECTION 1. ***Short Title.*** – This Act shall be known as the “*Civil
Aviation Authority Act of 2006.*”

SEC. 2. ***Declaration of Policy.*** – It is hereby declared the policy of
the State to provide safe and efficient air transport and regulatory services by
providing for the creation of a unified civil aviation authority, with sole
jurisdiction over the restructuring of aviation regulatory regime, the

promotion, development and regulation of technical, economic and aviation security functions, which shall include the unification of oversight functions of government under one agency.

ARTICLE II

THE CIVIL AVIATION AUTHORITY

SEC. 3. *Civil Aviation Authority.* – There is hereby created a corporate body to be known as the Civil Aviation Authority (CAA), hereinafter referred to as the “Authority.” For purposes of policy coordination, the Authority is hereby attached to the Department of Transportation and Communications (DOTC).

SEC. 4. *Powers and Functions.* – The Authority shall have the following powers and functions:

(a) Exercise supervision, control, and regulation over civil aviation, including but not limited to the air transportation of passengers, cargo, mail, air services, aviation companies, and persons, firms, corporations engaged in providing air transportation services, and related services;

(b) Provide for civil airways, navigation facilities, offices, stations, aerodromes, airport-related facilities and equipment, throughout the

Philippines for the purpose of carrying out its oversight and services functions, consistent with the Standards and Recommended Practices (SARPs) adopted by the International Civil Aviation Organization (ICAO) and contained in eighteen (18) Annexes to the ICAO Convention of 1944;

(c) Exercise overall jurisdiction over governmental functions of civil aviation, including the supervision, control and regulations on matters relating to safety and security of aircraft, airport facilities and installations, whether government or privately owned, as well as the supervision and regulation of safety and security in the Ninoy Aquino International Airport (NAIA), Mactan-Cebu International Airport (MCIA), Diosdado Macapagal International Airport (DMIA), Subic Bay International Airport (SBIA), and all other airports which may be created in the future;

(d) Provide for tariffs, fares, rates, charges, and fees as it may deem necessary for air services, air traffic, navigational and other services, and prescribe the manner it shall be paid and collected, subject to the provisions of this Act, notwithstanding any laws to the contrary;

(e) Exercise the power of eminent domain over areas under its jurisdiction;

(f) Exercise police powers and other law enforcement powers over areas under its jurisdiction and for this purpose, to coordinate with the Philippine National Police and other law enforcement agencies;

(g) Designate and establish civil airways, and to acquire, control, operate and maintain along such airways, navigation facilities and to chart such airways and arrange for their publication including the aeronautical charts or maps required by the international aeronautical agencies by utilizing the equipment, supplies or assistance of existing agencies of the government as far as practicable;

(h) Issue certificate specifying the capacity in which the holder is authorized to serve as airman relative to a particular aircraft and shall be issued only upon the finding that the applicant is properly qualified and physically able to perform the duties of the position. The certificate shall contain such terms, conditions and limitations as the Authority may determine to be necessary to assure safety in air commerce: *Provided, however,* That the airman's license shall be issued only to qualified persons who are citizens of the Philippines or qualified citizens of countries granting similar rights and privileges to citizens of the Philippines;

(i) Issue airworthiness certificate for aircraft which shall prescribe the duration of such certificate, the type of service for which the aircraft may be used, and such other terms and conditions and limitations as are required;

(j) Issue air carrier operating certificate and to establish minimum safety standards for the operation of the air carrier to whom such certificate is issued;

(k) Issue type certificate for aircraft, aircraft engine, propellers and appliances;

(l) Inspect, classify and rate any air navigation facilities and aerodromes available for the use of aircraft as to its suitability for such use, issue a certificate for such air navigation facility and aerodrome and determine the suitability of foreign aerodromes, air navigation facilities as well as air routes to be used prior to the operation of Philippine registered aircraft in foreign air transportation and from time to time thereafter as may be required in the interest of safety in air commerce;

(m) Issue certificates of persons or civil aviation schools giving instruction in flying, repair stations, and other air agencies and provide for the examination and rating thereof;

(n) Promulgate rules and regulations as may be necessary in the interest of safety in air commerce pertaining to the issuance of the airman's

certificate including licensing of operating and mechanical personnel, type certificate of aircraft, aircraft engines, propellers and appliances, airworthiness certificate, air carrier operating certificate, air agency certificate, navigation facility and aerodrome certificate; air traffic routes; radio and aeronautical telecommunications and air navigation aids; aircraft accident inquiry; aerodromes, both public and private owned; construction of obstructions to aerodromes; registration of aircraft; search and rescue; facilitation of air transport' operations of aircraft, both for domestic and international, including scheduled and non-schedules; meteorology in relation to civil aviation; rules of the air; air traffic services; rules for prevention of collision of aircraft; identification of aircraft; rules for safe altitudes of flight; and such other rules, and regulations, standards, governing other practices, methods, procedures as the Authority may find necessary and appropriate to provide adequately for safety regularity and efficiency in air commerce and air navigation;

(o) Provide for the enforcement of the rules and regulations issued under the provisions of this Act and conduct investigation for violations thereto. In undertaking such investigation, to require by subpoena or subpoena *duces tecum*, the attendance and testimony of witness, the production of books, papers, documents, exhibits matter, evidence, or the

taking of depositions before any person authorized to administer oath. Refusal to submit to the reasonable requirements of the investigation committee shall be punishable in accordance with the provisions of this Act;

(p) Investigate accidents involving aircraft and record the facts, conditions and circumstances relating to the accidents and the probable cause thereof and take such action to prevent similar accidents in the future: *Provided*, That when any accident has resulted in serious or fatal injury, the Authority shall make public such report and recommendations: *Provided*, *further*, That no report on any accident or any statement made during any investigation or during hearing relative to such accident may be admitted as evidence or used for any purpose in any civil suit growing out of any matter revealed within any such report, statement, investigation or hearing;

(q) Collect and disseminate information relative to civil aeronautics and the development of air commerce and the aeronautical industry, exchange with foreign governments information pertaining to civil aeronautics and provide for direct communication all matters relating to the technical or operational phase of aeronautics with international aeronautical agencies;

(r) Acquire and operate such aircraft as may be necessary to execute the duties and functions of the Authority prescribed in this Act;

(s) Plan, design, acquire, establish, construct, operate, improve, maintain, and repair necessary aerodromes and other air navigation facilities;

(t) Impose and fix, reasonable charges and fees for the use of government aerodromes or air navigation facilities, for services rendered by the Authority in the rating of any aerodrome or air navigation facilities, civil aviation schools and instructions, aircraft repair stations, and aircraft radio and aeronautical telecommunications stations and collect charges and fees for the registration of aircraft and the issuance and renewal of licenses or certificates for aircraft, aircraft engines, propellers and appliances, and airmen as provided in this Act;

(u) Fix the reasonable charges to be imposed in the use of privately owned air navigation facilities and aerodromes;

(v) Impose fines and civil penalties and make compromises in respect thereto;

(w) Adopt a system for registration of aircraft as hereinafter provided;

(x) Participate actively with the largest possible degree in the development of international standardization of practices in aviation matters important to safe, expeditious, and easy navigation, and implement as far as

practicable the international standards, recommend practices, and policies adopted by appropriate international aeronautical agencies;

(y) Exercise and perform its powers and duties under this Act consistent with any obligation assumed by the Republic of the Philippines in any treaty, convention or agreement on civil aviation matters;

(z) Cooperate, assist and coordinate with any research and technical agency of the government on matters relating to research and technical studies on design, materials, workmanship, construction, performance, maintenance and operation of aircraft, aircraft engines, propellers, appliances, and air navigation facilities including aircraft fuel and oil: *Provided*, That nothing in this Act shall be construed to authorize the duplication of the laboratory research, activities or technical studies of any existing governmental agency;

(aa) Designate such prohibited and danger areas, in consonance with the requirements of the international aeronautical agencies and national security;

(bb) Issue, deny, cancel, or revoke any certificate, permit or license pertaining to aircraft, airmen, and air agencies: *Provided*, That any order denying, canceling, revoking the certificate, permit or license may be

appealed to the Authority whose decisions shall be final, within fifteen (15) days from date of notification of such denial, cancellation, or revocation.

(cc) Administer, operate, manage, control, maintain and develop all government-owned aerodromes except those controlled or operated by the Armed Forces of the Philippines, including such powers and duties as: (i) to plan, design, construct, equip, expand, improve, repair or alter aerodromes or such structures, improvements, or air navigation facilities; (ii) to enter into, make and execute contracts of any kind with any person, firm, or public or private corporation or entity; (iii) to acquire, hold, purchase, or lease any personal or real property, right of ways, and easements which may be proper or necessary: *Provided*, That no real property thus acquired and any other real property of the Authority shall be sold without the approval of the President of the Philippines; (iv) to grant to any person, such concession or concession rights on space or property within or upon the aerodrome for purposes essential or appropriate to the operation of the aerodrome upon such terms and conditions as the Administrator may deem proper: *Provided*, *however*, That the exclusive use of any land strip or runway within the aerodrome shall not be granted to any person; (v) to determine the types of aircraft that may be allowed to use any of the aerodromes under its management and control in the interest of public safety; (vi) to prescribe,

adopt, establish and enforce such rules and regulations consistent with existing laws, rules and regulations, as may be necessary for the safety, health and welfare of the public within the aerodrome;

(dd) Determine, fix, impose, collect, and receive landing fees, parking space fees, royalties on sales or deliveries, direct or indirect, to any aircraft for its use of aviation gasoline, oil and lubricants, spare parts, accessories, and supplies, tools and other royalties, fees or rentals for the use of any of the property under its management and control;

As used in this sub-section:

(1) “Landing fees” refer to all charges for the use of any landing strip or runway by any aircraft landing or taking off at an aerodrome;

(2) “Terminal fees” refer to charges for parking at or near the ramp, terminal area, or building, for purposes of loading or unloading passengers and cargo;

(3) “Royalties” refer to all charges based on gross business or sales, or gross or net profit;

(4) “Supplies” include any and all items of whatever nature or description which may be necessary for, or incidental to, the operation of an aircraft;

(ee) Grant permit to civil aircraft or persons to carry instruments or photographic device to be used for aerial photography or taking of pictures by photograph or sketching of any part of the Philippines; and

(ff) Adopt and promulgate such other rules and regulations that may be necessary to effectively implement the provisions of this Act.

SEC. 5. ***Corporate Powers.*** – The Authority shall have the following corporate powers to carry out the purposes of this Act:

a) Sue and be sued, succeed in its corporate name and adopt, use or alter its corporate seal;

b) Adopt, amend or repeal its by-laws;

c) Enter into, make, perform, and carry-out contracts of every class, kind and description, which are necessary or incidental to the realization of its purposes, with any persons, domestic or foreign private firm, or corporation, local or national government office, agency, and with international institutions, or foreign government;

d) Raise money, contract loans, indebtedness, credit and issue commercial papers and bonds, in any local or convertible foreign currency

from any international financial institutions under terms and conditions prescribed by law, rules and regulations;

e) Execute any deed of guarantee, mortgage, pledge, trust or assignment of any property for the purpose of financing the programs and projects deemed vital for the attainment of its goals and objectives;

f) Construct, acquire, own, hold, operate, maintain, administer, and lease personal and real properties, including buildings, machinery, equipment, other infrastructure, agricultural lands, and its improvements, property rights, and interest therein, and encumber, mortgage, dispose, sell, or alienate or otherwise dispose the same at the fair market value it may deem appropriate or lease its plant, machinery, equipment or goods not immediately required by it;

g) Receive gifts, donations, grants, bequests, services, properties, whether personal or real, and assistance of all kinds, from private and public sources, firms, institutions, domestic and foreign governments, and international institutions, and utilize the same;

h) Invest its funds and other assets in such areas, ventures, and projects as it may deem wise;

i) Settle under such terms and conditions most advantageous to it, any claim by or against it;

j) Determine and keep its own system of accounts following generally-accepted principles of accounting, as well as the forms and contents of its contracts and other business documents;

k) Enter into contracts for the sale or lease of pieces of equipment, facilities, installations, and aerodromes owned by the former ATO;

l) Perform such other acts, and do all things, as may be necessary, proper or convenient in connection with the performance of its functions, and carry-out the purposes of this Act; and

m) Exercise such other powers provided for by the Corporation Code of the Philippines not otherwise provided herein.

SEC. 6. ***Subsidiaries.*** – The Authority shall have the power to form, establish, organize, incorporate and maintain subsidiary corporation in accordance with the Corporation Code of the Philippines and the existing rules and regulations promulgated by the Securities and Exchange Commission, unless otherwise provided for in this Act.

ARTICLE III

BOARD OF DIRECTORS

SEC. 7. *Board of Directors.* – The powers and functions of the Authority shall be vested in a Board of Directors, hereinafter referred to as the “Board,” which shall exercise the following mandate:

- a) Provide comprehensive policy guidance for the promotion and development of the aviation industry as provided for in this Act;
- b) Decide the objectives, strategies, and policies to be followed by the Authority;
- c) Ensure that the Authority performs its functions in a proper, efficient, and effective manner;
- d) Determine the organizational structure of the Authority, establish a human resources management system based on merit and fitness, and adopt a rationale compensation and benefits scheme;
- e) Approve the annual and supplementary budgets for submission to the Congress of the Philippines;
- f) Approve the annual and supplementary budget plan for utilization of the retained revenue; and
- g) Submit an annual report to the President of the Philippines.

SEC. 8. **Meetings.** – The Board shall meet regularly once a month and may hold special meetings to consider urgent matters upon call of the Chairman or any of its three (3) members. Internal rules of procedure in the conduct of Board meetings shall be as prescribed by the Board.

SEC. 9. **Composition.** – The Board shall be composed of seven (7) members as follows:

a) The Secretary of Transportation and Communications who shall be the *ex-officio* Chairman;

b) A Vice Chairman, who shall be elected among members of the Board; and

c) Five (5) other members who shall come from either the private sector or relevant government agencies which shall include the Director General of the Civil Aviation (DGCA) who shall be automatically a member of the Board but in no case shall be elected as Vice-Chairman.

The members of the Board shall be appointed by the President of the Philippines and have a term of five (5) years. Of the initial members of the Board, the Vice-Chairman and the DGCA shall be appointed for a term of five (5) years; two (2) shall be appointed for a term of four (4) years; and two (2) for a term of three (3) years. In case of vacancy, the appointee shall

serve the unexpired term of the predecessor. Members of the Board are eligible for reappointment.

SEC. 10. ***Qualifications.*** – All members of the Board shall be natural born citizens of the Philippines, of good moral character, unquestionable integrity and recognized competence in the field of aviation, aeronautical engineering, economics, law and international relations, and management in related fields.

SEC. 11. ***Per diems.*** –The members of the Board shall be reimbursed by the Authority for actual expenses, including traveling and subsistence, incurred by them in the performance of their duties. The *per diems* of the members of the Board shall be determined pursuant to a resolution to be adopted by the same, which shall be adjusted annually, based on the consumer price index as determined by the national government.

SEC. 12. ***Conflict of Interest.*** – No member of the Board shall have financial, or pecuniary interest, directly or indirectly, in any business contract or transaction entered into by the Authority or in any special privileges granted by the Authority during his term of office. Neither shall a member have any interest, financial or otherwise, in any undertaking or business with an inherent conflict of interest with the Authority. All contracts entered into in violation of this provision shall automatically be

null and void. Any member of the Board found violating the provision of this section shall, by two-thirds (2/3) vote of the Board, automatically be disqualified from serving his unexpired term, and he shall furthermore be perpetually disqualified for membership in the said Board.

ARTICLE IV

DIRECTOR GENERAL OF CIVIL AVIATION AND OTHER OFFICIALS OR PERSONNEL

SEC. 13. ***Director General.*** – The head of the Authority shall be the Director General of Civil Aviation (DGCA), hereinafter referred to as the Director General. The Director General shall be the Chief Executive and Operating Officer of the Authority. He must have at least ten (10) years experience in the field of aviation, five (5) years of which shall be in senior management position.

SEC. 14. ***Duties and Responsibilities.*** – The Director General shall exercise the following powers, duties and responsibilities:

a) Execute, administer and implement the objectives, policies and programs approved by the Board and enforce decisions, orders, rules and regulations approved or prescribed by the Board;

b) Direct or supervise the management, operations and administration of the Authority;

c) Represent the Authority in all dealings with offices, agencies and instrumentality of the Government, and with all persons, firms and institutions, public and private, domestic and foreign, including the International Civil Aviation Organization, other international agencies, and institutions and act as the primary government representative in all matters relating to international aviation, bilateral, multilateral consultations, talks, conferences, negotiations, and the like;

d) Provide for rules and regulations, as maybe required, covering (i) air traffic services, (ii) air navigation services including the establishment, administration, registrations, inspections, classification, ratings, issuance, denial, revocation, cancellation, modification, investigations, of civil airways navigation radio and telecommunication facilities, aerodromes, repair stations, training schools, and other air agencies and installations, (iii) licenses, permits, certificates, type certificates of all kinds classes and nature, (iv) aircraft accidents; and (v) such other rules, regulations, standards, practices, methods, procedures as the Director General may determine, enforce the same, impose fines, penalties and similar sanctions for any violations thereof; to ensure the safety, effectiveness and efficiency

of air transportation, consistent with national objectives, and existing treaties, conventions and agreements.

e) Exercise police powers in all areas within the jurisdiction of the Authority, enforce all laws, regulations and rules relating thereto in the exercise of these powers, he shall coordinate closely with the Philippine National Police and other law enforcement agencies of government;

f) Perform such powers, and duties provided for in this Act, or as may be delegated by the Board; and

g) Continue to exercise the powers provided for in the Republic Act No. 776, not otherwise inconsistent with this Act.

SEC. 15. ***Merit System.*** – The Authority shall establish human resources management system which shall be based on merit and fitness and will promote professionalism at all levels of the Authority in accordance with sound principles of management.

SEC. 16. ***Exemption from Salary Standardization Law.*** – The Authority shall have the power to determine and fix the compensation and fringe benefits of employees holding technical positions that is not common to the other agencies of the government. For this purpose, it shall be exempted from coverage of the Salary Standardization Law.

SEC, 17. ***Maintenance and Management.*** – The development and construction of national airports shall be under the Department of Transportation and Communications (DOTC) subject to the transfer of its maintenance and management of the Authority upon operation of said airports.

ARTICLE V

CAPITAL AND FISCAL ADMINISTRATION

SEC. 18. ***Capitalization and Financing.*** – The Authority shall have an authorized capital stock of Seventy-Five Billion Pesos (P75,000,000,000.00) and shall be fully subscribed by the Republic of the Philippines. The subscription of the National Government shall be paid as follows:

a) The unexpended balances of appropriations in the current General Appropriations Act, Executive Order No. 132 and other Acts in force upon approval hereof, pertaining to, held or used by, the Air Transportation Office of the Department of Transportation and Communications;

b) The values of all existing assets of the Civil Aeronautics Administration, the Bureau of Air Transportation, and its present successor, the Air Transportation Office (ATO), and the various aeronautical facilities

throughout the country owned by the aforementioned offices or agencies, which shall be determined by an independent and qualified appraiser or appraisers within a year of the effectivity of this Act;

c) Any surplus income that may be derived from or accrued to the Authority upon its organization into a corporate body and its assumption of the assets and liabilities of the ATO; and

d) Such amount as may be appropriated from time to time from the funds of the National Treasury not otherwise appropriated, including any outlay from the infrastructure program of the National Government. The initial operating capital for the Authority in the amount of One Billion Nine Hundred Million Pesos (P1,900,000,000.00) is hereby authorized to be appropriated out of any funds of the National Treasury not otherwise appropriated which shall be covered by preferred shares of the Authority and which shall be retireable within five (5) years.

SEC. 19. ***Sources of Funds.*** – The following shall constitute the sources of funds against which the operating expenses of the Authority may be drawn:

a) All revenues from the aeronautical and allied services operated or rendered by the Authority, including remittances from foreign counterpart aeronautics administrations or authorities;

b) Proceeds from sales of bonds, grants, donations, disposals of assets and sales of disposable assets, loans and other forms of indebtedness entered into by the Authority;

c) Interests which may be earned on investments or on idle cash of the Authority; and

d) Drawings upon the capital or surplus of the Authority.

SEC. 20. ***Retention of Moneys.*** – Moneys collected by the Authority under the provisions of this Act shall be retained by the Authority, which shall be disbursed, as the Authority may deem necessary and appropriate, to carry out the objectives and policies of this Act.

SEC. 21. ***Management of Funds.*** – The Authority may invest any of its funds not immediately required for operating expenses, or other immediate obligations in any business venture that it may deem appropriate, or in such secured notes, government securities and other negotiable instruments that satisfy the guidelines prescribed by the Board.

Funds of the Authority shall be deposited in such commercial and universal banks as the Authority may determine, subject to the requirements of existing laws. The Board shall designate the officials authorized to deposit or withdraw funds in such depository banks through cheques.

SEC. 22. ***Obligations.*** – Upon approval of the President of the Philippines, with the prior concurrence of the Monetary Board, the Authority shall be authorized to secure or contract domestic or foreign loans, credits and other indebtedness, and to issue bonds, notes, debentures, securities and other instruments of indebtedness, as it may deem necessary to carry out the purposes of this Act, subject to the following requirements:

a) The outstanding liabilities and obligations, foreign and domestic, shall not exceed, at any time, fifty percent (50%) of its net worth;

b) The annual amortization on principal and interest shall not be more than twenty percent (20%) of the prior year's gross revenues;

c) Where appropriate, obligations incurred from private sources of capital may be secured by suitable assets or backed by priority claims against property of the Authority;

d) The obligation shall be considered the sole liability of the Authority, unless otherwise guaranteed by the Republic of the Philippines upon the approval of the President with the prior concurrence of the Monetary Board.

e) Issuance of bonds or long term notes shall be with prior approval of or in accordance with the rules issued by the National Treasurer.

SEC. 23. *Annual Budget.* – The Authority shall adopt an annual budget. Unless the Authority shall require subsidy or a guarantee of its liability from the National Treasury, its budget for the year need not be submitted to Congress for approval and inclusion in the General Appropriations Act. Supplementary estimates may be prepared and adopted at any of the Board meeting called for the purpose.

SEC. 24. *Exemption from Taxes, Customs and Tariff Duties.* – The importation of equipment, machineries, spare parts, accessories, and other materials, including supplies and services used in the operations of the Authority, not obtainable locally, shall be exempt from all direct and indirect taxes, wharfage fees and other charges and restrictions, the existence of pertinent laws to the contrary notwithstanding.

All obligations entered into by the Authority and any income derived therefrom, including those contracted with private international banking and financial institutions, shall be exempt from all taxes on both principal and interest.

The Authority is also exempt from the payment of capital gains tax, local government imposts and fees upon the effectivity of this Act.

ARTICLE VI

MISCELLANEOUS PROVISIONS

SEC. 25. *Authority to Administer Oath.* – The Director General and such other duly designated officers of the Authority shall have the authority to administer oaths in the transaction and performance of official business.

SEC. 26. *Statutory Lien.* – The Authority shall have the power to impose lien on any aircraft, equipment, machinery if the charges and other fees are not paid in full on the due date for payment, or any part of the charge, or the late payment penalty thereto remains unpaid. It may also impose its lien for serious and gross violation of the rules and regulations promulgated by the Authority in connection with its oversight functions, involving safety of navigation, within the various territories of the Authority, such as, aerodrome zones, the airspace above said zones, including the landing approaches and departures therefrom, and relevant navigation requirement.

Aircraft levied upon pursuant to this Section shall be in custody of the Authority, and its clearance shall be withheld until the fines imposed shall be fully paid. For this purpose, aircraft may be sold after notice to the owners

and the proceeds of the sale shall be applied to the payments of fines and penalties and other obligations that are due and payable.

SEC. 27. ***Lien on Real or Personal Properties.*** – The Authority shall have the power to impose lien on the personal and real properties, entities and other assets of persons, corporations, partnerships, and such other entities that shall be in default, or shall fail to perform their obligations, pursuant to regulations promulgated by the Authority, or shall fail to pay the fines and other penalties imposed for violations of the law, rules and regulations of the Authority.

SEC. 28. ***Penalty.*** – Any violation of the provisions of this Act, or any order, rules or regulations issued thereunder, or any term, condition or limitation of any certificate or permit issued under this Act for which no penalty is expressly provided shall be punished by a fine.

SEC. 29. ***Power to Regulate Buildings and Installations.*** – The Authority shall have the power to regulate the height of the buildings, towers, antennae, and other edifices, situated within the vicinity of or in close proximity to airports which shall endanger flights of aircraft. It shall also have the power to prohibit or regulate the establishment and operations of electrical, electronics, sound, magnetic, laser, or other gadgets or

installations which shall interfere with or impair air navigation and may cause mishaps in the operations of aircrafts.

SEC. 30. ***Prior Approval of Building Permits.*** – Building permit or other license, or authority of any kind or nature granted by local authorities with respect to buildings and installations covered by the preceding section, or any other activity that may endanger the safety of navigation or flight, shall not be issued without the prior approval of the Authority. Should any conflict arise between the Authority and the local government units concerned on matters affecting the safety of navigation as aforecited above, or other matters within the jurisdiction of the Authority, the decision of the Authority shall prevail.

For this purpose, the Authority may call upon any law enforcement agency, other instrumentality of the government, or local government, to enforce its rules and regulations, which may include removal of the obstructions to the safety of flight, including the seizure of movable or personal properties that directly or indirectly may cause danger to the safety of navigation or flight.

SEC. 31. ***Other Agencies and Instrumentalities of the Government.***
– All heads of departments, bureaus, offices, agencies, and instrumentalities of the government are hereby directed to give full support to the

institutionalization and restructuring program of civil aviation, and to cooperate and coordinate with the Authority to facilitate and expedite the transition.

SEC. 32. ***Coordination with Local Government Units.*** – Provisions of existing laws, rules and regulations to the contrary notwithstanding, the Authority shall exercise administrative, regulatory powers, and enforcement power over any land, including the construction of buildings, roads, towers, and other installations and appurtenances thereto, within the territorial areas in coordination with the local government units concerned.

SEC. 33. ***Police Authority.*** – The Authority shall have the power to exercise such police authority, as it may deem necessary, within its premises or area of operations, to carry out its functions and attain its purposes and objectives: *Provided*, That the Authority may request the assistance of any law enforcement agency, including request for deputation as may be required. Such police authority shall be exercised in providing public safety, maintaining peace and order, ensuring the security of passengers, crew, cargo and aircraft, buildings, installations, equipment and machinery, regulating and controlling entry into, and exit from, and movement within controlled areas, supervising private security guards, and enforcing rules and regulations of the Authority.

ARTICLE VII

TRANSITORY PROVISIONS

SEC. 34. *Abolition of the Air Transportation Office and Civil Aeronautics Board.* – The Air Transportation Office (ATO), and the Civil Aeronautics Board (CAB), under the Department of Transportation and Communications, are hereby abolished.

All powers and duties, rights and choice of actions, vested by the law and exercised by the said Air Transportation Office (ATO) and the Civil Aeronautics Board (CAB) are hereby transferred to the Authority.

All assets, real and personal properties which upon the effectivity of this Act are vested in, and owned by, the different services and offices of the ATO and of the aforementioned agencies, are transferred to the Authority by way of conveyance, transfer or assignment. Likewise, funds, revenues and properties owned by the ATO and CAB are hereby transferred to the Authority.

All contacts, records and documents relating to the operations of the abolished agencies and their offices and branches are hereby transferred to the Authority.

SEC. 35. *Transfer of Personnel.* – To ensure smooth transition into a corporate structure, the incumbent Assistant Secretary of the Air Transportation Office shall continue to hold office and assume the powers of the Director-General until his successor shall have been appointed and inducted into office. Officials and employees of the ATO and CAB shall be absorbed into the Authority on the basis of merit and fitness: *Provided,* That officials and employees who shall be separated during the first two years of the effectivity of this Act and as a result of the organization of the Authority, shall be entitled to gratuity at the rate equivalent to two (2) months salary for every year of continuous and satisfactory service rendered of the equivalent nearest fraction thereof favorable to them on the basis of the highest salary received, in addition to the retirement benefits or pensions under existing retirement law. Retirement gratuities of officials and employees who shall not be retained by the Authority shall be for the account of and reimbursed by the National Government.

Any of such officers and employees who may later be reinstated in the Authority, or who shall be rehired in any government office or instrumentality, shall refund the unearned portion of gratuity received from the Authority before he shall be reinstated or rehired.

SEC. 36. ***Organization of the Authority.*** – Within sixty (60) days upon the effectivity of this Act, the Board of Directors or if none are as yet appointed, the Director-General, as the case may be, shall organize the Authority.

SEC. 37. ***Appropriations.*** – To provide for any extraordinary expenses of the Authority upon its organization, unavailed portion of the excess of actual operating income over the estimated expenses of the ATO and CAB, if any, at the time of the passage of the Act, is hereby appropriated for purposes that the Board may approve. This shall be considered as part of the paid-up capital of the Authority.

For the purpose of funding the gratuity aforementioned, the amount of Seven Billion Five Hundred Million Pesos (P7,500,000,000.00) inclusive of the amount referred to above, is hereby appropriated out of any funds available and not otherwise appropriated in the National Treasury.

SEC. 38. ***Saving Clause.*** – Unless otherwise provided in this Act, rights or privileges vested or acquired under the provisions of Republic Act No. 776, as amended, its rules and regulations prior to the effectivity of this Act shall remain in full force and effect.

ARTICLE VIII

FINAL PROVISIONS

SEC. 39. ***Limited Liability.*** – Unless otherwise declared and mutually agreed upon at the time of posting, the liability of the Authority with respect to its contractual obligations shall be limited to existing rules and regulations on these matters.

SEC. 40. ***Injunction and Restraining Order.*** – The implementation of the projects for the institutionalization and restructuring of the aviation industry are urgent and necessary and shall not be restrained or enjoined except by an order issued by the Supreme Court of the Philippines.

SEC. 41. ***Legal Counsel.*** – Without prejudice to the appointment of a Corporate Counsel by the Board, the Government Corporate Counsel shall be the *ex-officio* counsel of the Authority.

SEC. 42. ***Auditor.*** – The Commission on Audit shall appoint a representative who shall be the full-time auditor of the Authority, and such personnel as may be necessary to assist said representative in the performance of his duties.

SEC. 43. ***Separability Clause.*** – If any part or provision of this Act is declared unconstitutional, other parts or provisions hereof which are not affected thereby shall continue to be in full force and effect.

SEC. 44. ***Repealing Clause.*** – All laws, decrees, executive orders, rules and regulations and other issuances, or parts thereof, inconsistent with the provisions of this Act, are hereby repealed or modified accordingly.

SEC. 45. ***Effectivity.*** – This Act shall take effect fifteen (15) days after its complete publication in at least two (2) national newspapers of general circulation.

Approved,