

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

Twentieth Congress
First Regular Session

HOUSE BILL NO. 9369



Introduced by **Representative RAYMOND ADRIAN E. SALCEDA**

AN ACT
RENEWING FOR ANOTHER FIFTY (50) YEARS THE FRANCHISE
GRANTED TO PHILIPPINE AIRLINES, INC. UNDER PRESIDENTIAL
DECREE NO. 1590, ENTITLED "AN ACT GRANTING A NEW FRANCHISE
TO PHILIPPINE AIRLINES, INC. TO ESTABLISH, OPERATE, AND MAINTAIN
AIR-TRANSPORT SERVICES IN THE PHILIPPINES AND OTHER COUNTRIES,"
AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Philippine Airlines, Inc. (PAL) served 15.6 million passengers in 2024 and operated more than 100,000 flights in 2023, with a route network covering over 30 international destinations across Asia, North America, and Australia, and more than 30 key domestic destinations. The aviation sector contributed USD 20.3 billion to the Philippine GDP in 2023, supporting 1.9 million jobs, with international tourism alone generating USD 11.3 billion in spending on Philippine goods and services. The Department of Tourism recorded 5.64 million international arrivals in 2024.

As the national flag carrier, PAL carried out mission-essential operations during the COVID-19 pandemic, including hundreds of repatriation flights for stranded Overseas Filipino Workers, the transport of medical supplies, and the distribution of vaccines. PAL was the only Philippine carrier to maintain global route service throughout the pandemic. These operations are not commercial obligations; they are functions a flag carrier performs because no other entity will. PAL's franchise under Presidential Decree No. 1590 was issued on June 11, 1978.

The decree predates the 1987 Constitution, the Civil Aviation Authority Act of 2008 (Republic Act No. 9497), and the present statutory framework for Philippine air transport regulation. It references the Civil Aeronautics Administration rather than the Civil Aviation Authority of the Philippines, anchors compliance to Republic Act No. 776 (Civil Aeronautics Act of 1952) without acknowledging RA 9497 and directs employer reporting on foreign nationals to the Commission on Immigration and Deportation, an office renamed to the Bureau of Immigration under Executive Order No. 292 of 1987.

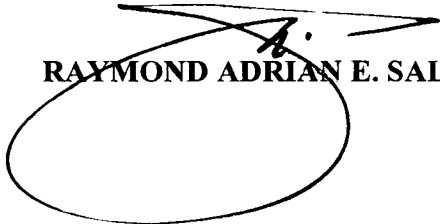
Subsequent airline franchises enacted by Congress under the 1987 constitutional framework reflect a different drafting standard. Republic Act No. 7151 (Cebu Air, Inc., 1991), Republic Act No. 9183 (Asian Spirit, Inc., now Philippines AirAsia, 2003), and Republic Act No. 11682 (Air Philippines Corporation operating as PAL Express, lapsed into law April 11, 2022) carry section-by-section headings, modernized regulator references, reportorial obligations to Congress with monetary penalties for non-compliance, a 25 percent domestic frequency floor, and dispersal-of-ownership requirements. PAL is the only Philippine air carrier still operating under a Marcos-era presidential decree.

This bill renews PAL's franchise for another fifty (50) years, consistent with the original term under PD 1590. The substantive provisions are restructured to match the drafting standard now established in RA 11682 and the airline franchise renewals pending before the Committee on Legislative Franchises. The bill anchors regulatory compliance to both RA 776 and RA 9497, transfers oversight references from the Civil Aeronautics Administration to the Civil Aviation Authority of the Philippines, requires that at least 25 percent of all frequencies be allocated to the domestic market, and subjects the Grantee to an annual reportorial requirement to Congress with a fine of five hundred pesos (P500.00) per working day of non-compliance. The bill also imposes the dispersal-of-ownership requirement found in recent airline franchises, with one accommodation: the existing listing of PAL Holdings, Inc. on the Philippine Stock Exchange is deemed to be in compliance with the thirty percent (30%) Filipino public ownership threshold, for so long as the listing is maintained and meets the float requirement. This recognizes existing public participation without requiring a duplicate offering at the operating-company level.

The tax provisions under Section 13 of PD 1590, including the option between the basic corporate income tax and the two percent (2%) franchise tax on gross revenues, are preserved. PAL has operated under this regime since 1978, and the operating economics of long-haul international air service, particularly under sustained jet fuel volatility and peso depreciation, depend on the predictability of that framework. The bill makes no change to the in-lieu-of clause. The transfer-of-franchise clause is modernized to require disclosure to Congress within sixty (60) days of any sale, lease, transfer, grant of usufruct, assignment, or change in controlling interest, with ipso facto revocation as the sanction for non-disclosure. The clause carves out routine stock exchange transactions, qualifying shares for directors, intra-group transfers to entities under common control, and transfers to entities holding their own legislative air transport franchise.

Renewal of PAL's franchise on modern statutory terms protects the route network, the workforce, and the country's connection to the global travel and trade system. Early renewal under a unified statutory framework provides Congress with the oversight tools it currently lacks under PD 1590, and gives PAL the planning horizon it needs to invest.

In view of the foregoing, the immediate passage of this bill is earnestly sought.



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

SECTION 1. *Nature and Scope of Franchise.* – Subject to the provisions of the Constitution and applicable laws, rules and regulations, the franchise granted to PHILIPPINE AIRLINES, INC., hereunder referred to as the Grantee, its successors or assignees, under Presidential Decree No. 1590, to establish, operate, and maintain transport services for the carriage of passengers, mail, and property by air in and between any and all points and places throughout the Philippines, and between the Philippines and other countries, is hereby renewed for another fifty (50) years.

Air transport services shall include the maintenance and operation of hangars and aircraft service stations and facilities, and other services of similar nature which may be necessary, convenient, or useful as an auxiliary to aircraft transportation.

The Grantee shall have the right, at its terminals and landing fields as well as in its aircraft, to construct, operate, and maintain stations or transmitting sets for wireless telegraphy and direction finding, and other radio aids to air navigation, using wavelengths in accordance with the rules and regulations made from time to time by the proper agencies of the government. The wireless communication facilities shall be used solely for receiving and transmitting weather forecasts and messages relating to the Grantee's aircraft and other matters in connection with the Grantee's services.

SEC. 2. *Authority of the Civil Aeronautics Board and the Civil Aviation Authority of the Philippines.* – The Grantee shall secure from the Civil Aeronautics Board (CAB) and from the Civil Aviation Authority of the Philippines (CAAP) the appropriate certificates, permits, and licenses for its operations.

All aircraft used by the Grantee, including their accessories and equipment, shall at all times be airworthy, and the flight-crew members operating such aircraft shall be licensed by the Government of the Philippines. They shall be equipped with radio communications, safety, and other equipment, and shall be operated and maintained in accordance with the regulations and technical requirements of the CAAP or such other regulatory bodies as the Government may prescribe for this purpose.

The Grantee's equipment and the operation of such equipment shall at all times be subject to inspection and regulation by the CAAP. The Grantee shall comply with the provisions of Republic Act No. 776, otherwise known as "The Civil Aeronautics Act of the Philippines," as amended, Republic Act No. 9497, otherwise known as the "Civil Aviation Authority Act of 2008," and the regulations promulgated thereunder from time to time.

SEC. 3. *Responsibility to the Public.* – Excepting cases of *force majeure* and whenever weather conditions permit, the Grantee shall maintain scheduled or nonscheduled or chartered air transport services to any and all points and places throughout the Philippines and between the Philippines and other countries at such frequencies as traffic needs may require: *Provided*, That at least twenty-five percent (25%) of all its frequencies shall be for the domestic market.

SEC. 4. *Rates for Services.* – The Grantee shall fix just and reasonable rates for the transportation of passengers, mail, goods, and freight, subject to the regulations and approval of the CAB and other proper regulatory agencies of the government. Any order of the CAB made under this Section shall be subject to review by the courts.

SEC. 5. *Term of Franchise.* – This franchise shall be in effect for a period of fifty (50) years from the effectivity of this Act, unless sooner revoked or cancelled. This franchise shall be deemed *ipso facto* revoked in the event the Grantee fails to operate continuously for two (2) years.

SEC. 6. *Landing Facilities.* – The Grantee may use the landing and other airport facilities on land and water as may be maintained or owned by the government within the Philippines on the Grantee's lines, subject to national policy considerations and such terms and conditions or restrictions as the Government of the Philippines may impose: *Provided*, That the Government of the Philippines shall have the right to use the landing and other airport facilities as may be maintained or owned by the Grantee in the Philippines.

SEC. 7. *Contracts.* – The Grantee is authorized to enter into transportation contracts with the Philippine Government, including the carrying of mail, upon such terms and conditions as may be mutually agreed upon. The Grantee shall give preferential consideration to contracts with the Government of the Philippines, and, reciprocally, the latter shall give preferential consideration to contracts with the Grantee in the carrying of passengers, mail, and freight. The Grantee may

likewise enter into transportation maintenance or servicing contracts, and such other contracts relating to air transport with other foreign-owned airlines, particularly with those which have international routes.

SEC. 8. *Rights of the Government.* – A special right is hereby reserved to the President of the Philippines, in times of war, rebellion, public peril, calamity, emergency, disaster, or disturbance of peace and order, to temporarily take over and operate the facilities or equipment of the Grantee; to temporarily suspend the operation of any facility or equipment in the interest of public safety, security, and public welfare; or to authorize the temporary use and operation thereof by any agency of the government, upon due compensation to the Grantee, for the use of said facilities or equipment during the period when these shall be so operated.

SEC. 9. *Right of Eminent Domain.* – With the approval of the President of the Philippines, and subject to the limitations and procedure prescribed by law, the Grantee shall be authorized to exercise the right of eminent domain as may be reasonably necessary for its stations and other structures in connection with the Grantee's activities and operations. No private property shall be taken for any purpose by the Grantee without proper expropriation proceedings and just compensation paid or tendered therefor.

SEC. 10. *Prohibition Against Involuntary Servitude.* – It shall be unlawful for the Grantee to use, employ, or contract for the labor of persons held in involuntary servitude.

SEC. 11. *Warranty in Favor of the National and Local Governments.* – The Grantee shall hold the national, provincial, city, and municipal governments of the Philippines free from all claims, accounts, liabilities, demands, or actions arising out of accidents or injuries, whether to property or to persons, caused by the operation of the services under the franchise hereby renewed.

SEC. 12. *Tax Provisions.* – In consideration of the franchise and rights hereby renewed, the Grantee shall pay to the Philippine Government during the life of this franchise whichever of subsections (a) and (b) hereunder will result in a lower tax:

(a) The basic corporate income tax based on the Grantee's annual net taxable income computed in accordance with the provisions of the National Internal Revenue Code, as amended; or

(b) A franchise tax of two percent (2%) of the gross revenues derived by the Grantee from all sources, without distinction as to transport or nontransport operations; provided, that with respect to international air transport service, only the gross passenger, mail, and freight revenues from its outgoing flights shall be subject to this tax.

The tax paid by the Grantee under either of the above alternatives shall be in lieu of all other taxes, duties, royalties, registration, license, and other fees and charges of any kind, nature, or description, imposed, levied, established, assessed, or collected by any municipal, city, provincial, or national authority or government agency, now or in the future, including but not limited to the following:

- 1) All taxes, duties, charges, royalties, or fees due on local purchases by the Grantee of aviation gas, fuel, and oil, whether refined or in crude form, and whether such taxes, duties, charges, royalties, or fees are directly due from or imposable upon the purchaser or the seller, producer, manufacturer, or importer of said petroleum products but are billed or passed on the Grantee either as part of the price or cost thereof or by mutual agreement or other arrangement; provided, that all such purchases by, sales or deliveries of aviation gas, fuel, and oil to the Grantee shall be for exclusive use in its transport and nontransport operations and other activities incidental thereto;
- 2) All taxes, including compensating taxes, duties, charges, royalties, or fees due on all importations by the Grantee of aircraft, engines, equipment, machinery, spare parts, accessories, tools, commissary and catering supplies, aviation gas, fuel, and oil, whether refined or in crude form, and other articles, supplies, or materials; provided, that such articles, supplies, or materials are imported for the use of the Grantee in its transport and nontransport operations and other activities incidental thereto and are not locally available in reasonable quantity, quality, or price;
- 3) All taxes on lease rentals, interest, fees, acquisition price, and other charges payable to lessors or vendors, whether foreign or domestic, of aircraft, engines, equipment, machinery, spare parts, and other property acquired, rented, leased, chartered, or mortgaged by the Grantee where the payment of such taxes is assumed by the Grantee;
- 4) All taxes on interest, fees, and other charges on foreign loans obtained and other obligations incurred by the Grantee where the payment of such taxes is assumed by the Grantee; and
- 5) All taxes, fees, and other charges on the registration, licensing, acquisition, and transfer of aircraft, equipment, motor vehicles, and all other personal and real property of the Grantee. The Grantee shall, however, pay the tax on its real property in conformity with existing law.

For purposes of computing the basic corporate income tax as provided herein, the Grantee is authorized:

- (a) To depreciate its assets to the extent of not more than twice as fast the normal rate of depreciation; and
- (b) To carry over as a deduction from taxable income any net loss incurred in any year up to five (5) years following the year of such loss.

SEC. 13. *Payment of Franchise or Income Tax.* – The Grantee shall pay either the franchise tax or the basic corporate income tax on a quarterly basis to the Commissioner of Internal Revenue in accordance with the National Internal Revenue Code, as amended. A final or adjustment return covering the operation of the Grantee for the preceding calendar or fiscal year shall be filed on or before the fifteenth day of the fourth month following the close of the calendar or fiscal year. The amount of the franchise or income tax to be paid by the Grantee shall be the balance of the total

franchise or income tax shown in the final or adjustment return after deducting therefrom the total quarterly franchise or income taxes already paid during the preceding first three (3) quarters of the same taxable year.

Any excess of the total quarterly payments over the actual annual franchise or income tax due as shown in the final or adjustment franchise or income tax return shall either be refunded to the Grantee or credited against the Grantee's quarterly franchise or income tax liability for the succeeding taxable year or years at the option of the Grantee.

The term "gross revenues" is herein defined as the total gross income earned by the Grantee from:

- (a) transport, nontransport, and other services;
- (b) earnings realized from investments in money-market placements, bank deposits, investments in shares of stock and other securities, and other investments;
- (c) total gains net of total losses realized from the disposition of assets and foreign-exchange transactions; and
- (d) gross income from other sources.

SEC. 14. *Foreign Loans and Indebtedness.* – The Grantee is hereby authorized to contract loans and credits in any convertible foreign currency and incur indebtedness from time to time from foreign governments, foreign banks, or any foreign or international financial institution or fund source, or to issue bonds, notes, debentures, and other evidences of indebtedness, under such terms and conditions as it shall deem appropriate for the accomplishment of its purpose. The loans, credits, and indebtedness contracted under this Section by the Grantee, and the payment of the principal, interest, fees, and other charges thereon, shall be exempt from any and all taxes, including withholding tax; provided, that the liability for the payment of such taxes is assumed by the Grantee.

SEC. 15. *Tax Exemption on Aircraft and Equipment Payments.* – All payments, rentals, interest, fees, and other charges paid by the Grantee to foreign or domestic entities for the sale, purchase, or lease of aircraft, engines, spare parts, other flight or ground equipment, and other personal property shall be exempt from all taxes, including withholding tax; provided, that the liability for the payment of said taxes is assumed by the Grantee.

The term "foreign lessor" shall be construed to apply to a foreign entity or alien individual, whether resident or nonresident, which enters into a lease contract with the Grantee for the lease of aircraft, engines, spare parts, other flight or ground equipment, and other personal property wherein the rentals, interest, fees, or charges are denominated or payable in foreign currency.

SEC. 16. *Employment of Foreign Nationals.* – The provisions of existing laws to the contrary notwithstanding, the Grantee is hereby authorized, without need of approval by or clearance from any government agency, to hire or employ foreign nationals with special

qualification, competence, or experience who are needed by the Grantee for the efficiency and improvement of its operations and other business activities; provided, that notice of such employment shall be given by the Grantee to all the government agencies concerned, and such foreign national shall register with the Bureau of Immigration within thirty (30) days from the date of such employment.

SEC. 17. *Commitment to Provide and Promote the Creation of Employment Opportunities.*

– The Grantee shall create employment opportunities and accept on-the-job trainees in its franchise operations: *Provided*, That priority shall be accorded to qualified Filipino workers: *Provided, further*, That the Grantee shall comply with the applicable labor standards and allowance entitlements under existing labor laws, rules and regulations, and similar issuances. The employment opportunities or jobs created shall be reflected in the General Information Sheet (GIS) to be submitted to the Securities and Exchange Commission (SEC) annually.

SEC. 18. *Sale, Lease, Transfer, Grant of Usufruct, or Assignment of Franchise.* – The Grantee shall not sell, lease, transfer, grant the usufruct of, nor assign this franchise or the rights and privileges acquired thereunder to any person, firm, company, corporation, or other commercial or legal entity, nor merge with any corporation or entity, nor shall the controlling interest of the Grantee be transferred, whether simultaneously or contemporaneously, to any person, firm, company, corporation, or entity without the prior approval of the Congress of the Philippines. The Grantee shall inform the Congress, through the Office of the Speaker of the House of Representatives and the Office of the Senate President, of any sale, lease, transfer, grant of usufruct, or assignment of franchise or the rights and privileges acquired thereunder, or of the merger or transfer of the controlling interest of the Grantee, within sixty (60) days after the completion of the said transaction. Failure to report to Congress such change of ownership shall render the franchise *ipso facto* revoked. Any person or entity to which this franchise is sold, transferred, or assigned shall be subject to the same conditions, terms, restrictions, and limitations of this Act.

The foregoing limitations shall not apply to:

(a) any transfer or sale of shares of stock to a foreign investor or investors;

(b) any issuance of shares to a foreign or local investor pursuant to or in connection with any increase in the Grantee's authorized capital stock which results in the dilution of the stockholdings of the Grantee's then existing stockholders; or

(c) any combination thereof, where such transfer, sale, or issuance is effected in order to enable the Grantee to raise the necessary capital or financing for the provision of the services for which the Grantee has been incorporated or organized: *Provided*, That any such transfer, sale, or issuance is in accordance with any applicable constitutional provision.

SEC. 19. *Dispersal of Ownership.* – In accordance with the constitutional provision to encourage public participation in public utilities, the Grantee shall offer to Filipino citizens at least thirty percent (30%) of its outstanding capital stocks, or a higher percentage that may hereafter be provided by law, in any securities exchange in the Philippines within five (5) years from the

effectivity of this Act: *Provided*, That the existing listing of PAL Holdings, Inc., the parent company of the Grantee, on the Philippine Stock Exchange shall be deemed compliance with this requirement for so long as the said listing is maintained and the public float thereunder meets the threshold prescribed herein: *Provided, further*, That noncompliance with this Section, or the delisting of PAL Holdings, Inc. without a replacement offering satisfying the threshold within one (1) year from delisting, shall render the franchise *ipso facto* revoked.

SEC. 20. *Reportorial Requirement.* – The Grantee shall submit an annual report on its compliance with the terms and conditions of the franchise and on its operations to the Congress of the Philippines, through the Committee on Legislative Franchises of the House of Representatives and the Committee on Public Services of the Senate, on or before April 30 of every year during the term of its franchise.

The annual report shall include an update on the commencement of activities, development, operation, and expansion of business; audited financial statements; the latest GIS officially submitted to the SEC; certification of the CAB and CAAP on the status of its permits and operations; and an update on the dispersal of ownership undertaking under Section 19 hereof.

The reportorial compliance certificate issued by Congress shall be required before any application for permit or certificate is accepted by the CAB and the CAAP.

SEC. 21. *Fine.* – Failure of the Grantee to submit the requisite annual report to Congress shall be penalized by a fine of Five hundred pesos (P500.00) per working day of noncompliance. The fine shall be collected separately from any reportorial penalties imposed by the CAB and the same shall be remitted to the Bureau of the Treasury.

SEC. 22. *Equality Clause.* – In the event that any competing individual, partnership, or corporation receives, enjoys, or shall receive a similar permit or franchise with terms, provisions, or privileges more favorable than those herein granted, or which tend to place the herein Grantee at any disadvantage, then such terms or provisions shall be deemed part hereof and shall operate equally in favor of the Grantee.

SEC. 23. *Repealability and Non-exclusivity Clause.* – This franchise shall be subject to amendment, alteration, or repeal by the Congress when the public interest so requires, and shall not be interpreted as an exclusive grant of the privileges herein provided for.

SEC. 24. *Separability Clause.* – If any section or provision of this Act is held invalid or unconstitutional, the other sections or provisions not affected thereby shall remain in full force and effect.

SEC. 25. *Repealing Clause.* – Presidential Decree No. 1590 is hereby repealed. All other laws, decrees, orders, resolutions, instructions, rules and regulations, and other issuances or parts thereof which are inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SEC. 26. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,