



HOUSE OF REPRESENTATIVES

H. No. 10545

BY REPRESENTATIVES ORTEGA, FERRER (J.), RODRIGUEZ (R.), RODRIGUEZ (M.), GONZALES (R.),
MATUGAS AND SINGSON-MEEHAN

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”

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

1 **SECTION 1. *Nature and Scope of the Franchise.*** – Subject to the provisions of the
2 Constitution and applicable laws, rules and regulations, there is hereby granted to
3 Philippine Airlines, Inc., hereinafter referred to as the Grantee, a franchise to establish,
4 operate, and maintain transport services for the carriage of passengers, mail, and
5 property by air in and between any and all points and places throughout the Philippines,
6 and between the Philippines and other countries.

7 **SEC. 2. *Responsibility to the Public.*** – Except in case of force majeure and
8 whenever weather conditions permit, the Grantee shall maintain scheduled and/or
9 nonscheduled and/or charter air-transport services in and between any and all points and
10 places throughout the Philippines as well as between the Philippines and other countries
11 at such frequencies as traffic needs may require.

12 **SEC. 3. *Rates for Services and Regulatory Compliance.*** – The Grantee shall fix
13 just and reasonable rates for the transportation of passengers, mail, and property, subject
14 to the regulations and approval of the Civil Aeronautics Board or such other regulatory
15 agency as the Government may designate for this purpose. Any order of the Civil
16 Aeronautics Board (CAB) made under this Section shall be subject to review upon filing
17 of an appropriate case before the courts.

1 All aircraft used by the Grantee and the flight-crew members operating such
2 aircraft shall be licensed by the Government of the Philippines and together with its
3 accessories and equipment shall at all times be in airworthy condition; they shall be
4 equipped with radio communication, safety and other equipment, and shall be operated
5 and maintained in accordance with the regulations and technical requirements of the Civil
6 Aviation Authority of the Philippines or such other regulatory body as the Government
7 may prescribe for this purpose.

8 The Grantee's equipment and the operation of such equipment shall at all times
9 be subject to inspection and regulation by the Civil Aviation Authority of the Philippines
10 (CAAP) whose decisions on technical matters shall be binding until revoked or annulled
11 by superior authority under whose control this office falls or by the courts for grave abuse
12 of discretion amounting to lack or excess of jurisdiction.

13 The Grantee shall comply with the provisions of Republic Act No. 776, otherwise
14 known as "The Civil Aeronautics Act of the Philippines", and the regulations promulgated
15 thereunder from time to time.

16 **SEC. 4. Term of Franchise.** – This franchise shall be for a term of fifty (50) years
17 from the expiration of the Grantee's existing franchise under Presidential Decree No.
18 1590. This franchise shall be deemed *ipso facto* revoked in the event the Grantee fails to
19 operate continuously for two (2) years.

20 **SEC. 5. Landing Facilities.** – Subject to such terms and conditions as the
21 Philippine Government may prescribe, the Grantee may use landing and other airport
22 facilities on land or water as may be maintained or owned by the Government within the
23 Philippines on the Grantee's lines, excepting those which in the opinion of said
24 Government may not be used by the Grantee because of military or naval considerations,
25 and, reciprocally, the Philippine Government shall have the right to use the landing and
26 other airport facilities on land or water maintained or owned by the Grantee in the
27 Philippines.

28 **SEC. 6. Radio and Wireless Communication.** – The Grantee shall have the right,
29 at its terminals and landing fields as well as in its aircraft, to construct, operate and
30 maintain stations or transmitting sets for wireless telegraphy and direction finding, and
31 other radio aids to air navigation using wave lengths as shall be in accordance with the
32 rules and regulations made from time to time by the Philippine Government; but the
33 wireless communication facilities shall be used solely for receiving and transmitting
34 weather forecasts and messages releasing to the Grantee's aircraft and other matters in
35 connection with the Grantee's services.

36 **SEC. 7. Government Contracts.** – The Grantee is authorized to enter into
37 transportation contracts with the Philippine Government, including the carrying of mail,
38 upon terms and conditions to be mutually agreed upon. The Grantee shall give
39 preferential considerations to contracts with the Philippine Government, and, reciprocally,

1 the latter shall give preferential considerations to contracts with the Grantee in the
2 carrying of passengers, mail, and freight.

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

11 **SEC. 9. *Warranty in Favor of National and Local Governments.*** – The Grantee
12 shall hold the national, provincial, and municipal governments of the Philippines harmless
13 from all claims, accounts, demands, or actions arising out of accidents or injuries, whether
14 to property or to persons, caused by the operation of the services under the franchise
15 hereby granted.

16 **SEC. 10. *Right of Eminent Domain.*** – With the approval of the President of the
17 Philippines, and subject to the limitations and procedure prescribed by law, the Grantee
18 shall be authorized to exercise the right of eminent domain as may be reasonably
19 necessary for its stations and other structures in connection with the Grantee's activities
20 and operations.

21 **SEC. 11. *Tax Provisions.*** – The Grantee, its successors or assignees, shall be
22 liable to pay the corporate income tax, value-added tax, and real property tax, exclusive
23 of this franchise, as may be provided by applicable law.

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

- 29 (a) All taxes, duties, charges, royalties, or fees due on local purchases by the
30 Grantee of aviation gas, fuel, and oil, whether refined or in crude form, and
31 whether such taxes, duties, charges, royalties, or fees are directly due from or
32 imposable upon the purchaser or the seller, producer, manufacturer, or importer
33 of said petroleum products but are billed or passed on the Grantee either as part
34 of the price or cost thereof or by mutual agreement or other arrangement:
35 *Provided, That all such purchases by, sales or deliveries of aviation gas, fuel,*
36 *and oil to the Grantee shall be for exclusive use in its transport and non-transport*
37 *operations and other activities incidental thereto;*
- 38 (b) All taxes, including compensating taxes, duties, charges, royalties, or fees due
39 on all importations by the Grantee of aircraft, engines, equipment, machinery,
40 spare parts, accessories, tools, commissary and catering supplies, aviation gas,

1 fuel, and oil, whether refined or in crude form and other articles, supplies, or
2 materials: *Provided*, That such articles or supplies or materials are imported for
3 the use of the Grantee in its transport and non-transport operations and other
4 activities incidental thereto and are not locally available in reasonable quantity,
5 quality, or price;

6 (c) All taxes on lease rentals, interest, fees, acquisition price and other charges
7 payable to lessors or vendors, whether foreign or domestic, of aircraft, engines,
8 equipment, machinery, spare parts, and other property acquired, rented, leased,
9 chartered, or mortgaged by the Grantee where the payment of such taxes is
10 assumed by the Grantee;

11 (d) All taxes on interest, fees, and other charges on foreign loans obtained and other
12 obligations incurred by the Grantee where the payment of such taxes is
13 assumed by the Grantee; and

14 (e) All taxes, fees, and other charges on the registration, licensing, acquisition, and
15 transfer of aircraft, equipment, motor vehicles, and all other personal and real
16 property of the Grantee.

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

19 (1) To depreciate its assets to the extent of not more than twice as fast the normal
20 rate of depreciation; and

21 (2) To carry over as a deduction from taxable income any net loss incurred in any
22 year up to five years following the year of such loss.

23 **SEC. 14. Income Tax Filing and Gross Revenues.** – The Grantee shall pay the
24 basic corporate income tax on a quarterly basis in accordance with the National Internal
25 Revenue Code, as amended. A final or an adjustment return covering the operation of
26 the Grantee for the preceding calendar or fiscal year shall be filed on or before the
27 fifteenth day of the fourth month following the close of the calendar or fiscal year. The
28 amount of the income tax to be paid by the Grantee shall be the balance of the total
29 income tax shown in the final or adjustment return after deducting therefrom the total
30 quarterly franchise or income taxes already paid during the preceding first three quarters
31 of the same taxable year.

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

36 The term "gross revenues" is herein defined as the total gross income earned by
37 the Grantee from: (a) transport, non-transport, and other services; (b) earnings realized
38 from investments in money-market placements, bank deposits, investments in shares of
39 stock and other securities, and other investments; (c) total gains net of total losses

1 realized from the disposition of assets and foreign-exchange transactions; and (d) gross
2 income from other sources.

3 **SEC. 15. *Employment of Foreign Nationals.*** – The provisions of existing laws to
4 the contrary notwithstanding, the Grantee is hereby authorized, without need of approval
5 by or clearance from any government agency, to hire or employ foreign nationals with
6 special qualification, competence, or experience who are needed by the Grantee for the
7 efficiency and improvement of its operations and other business activities: *Provided*, That
8 notice of such employment shall be given by the Grantee to all the government agencies
9 concerned and such foreign national shall register with the Bureau of Immigration within
10 thirty (30) days from the date of such employment.

11 **SEC. 16. *Authority to Contract Foreign Loans.*** – The Grantee is hereby
12 authorized to contract loans and credits in any convertible foreign currency and incur
13 indebtedness from time to time from foreign governments, foreign banks, or any foreign
14 or international financial, institution or fund sources, or to issue bonds, notes, debentures,
15 and other evidences of indebtedness under such terms and conditions as it shall deem
16 appropriate for the accomplishment of its purpose.

17 The loans, credits, indebtedness contracted under this Section by the Grantee,
18 and the payment of the principal, interest, fees, and other charges thereon shall be
19 exempt from any and all taxes, including withholding tax: *Provided*, That the liability for
20 the payment of such taxes is assumed by the Grantee.

21 **SEC. 17. *Tax Exemption on Lease and Purchase Payments.*** – All payments,
22 rentals, interest, fees, and other charges paid by the Grantee to foreign or domestic
23 entities for the sale, purchase, or lease of aircraft, engines, spare parts, other flight or
24 ground equipment, and other personal property shall be exempt from all taxes, including
25 withholding tax: *Provided*, That the liability for the payment of said taxes is assumed by
26 the Grantee.

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

32 **SEC. 18. *Sale, Lease, Transfer, Usufruct, or Assignment of Franchise.*** – The
33 Grantee shall not sell, lease, transfer, grant the usufruct of, nor assign this franchise or
34 the rights and privileges acquired thereunder to any person, firm, company, corporation
35 or entity, nor merge with any other corporation or entity, nor shall the controlling interest
36 of the Grantee be transferred, whether as a whole or in part, and whether simultaneously
37 or contemporaneously, to any such person, firm, company, corporation or entity without
38 the prior approval of the Congress of the Philippines, except when the transfer is done:
39 (a) through a stock exchange transaction; (b) for purposes of qualifying persons for
40 election to the board; (c) to a corporation that is controlled by the same stockholders as
41 that of the Grantee; (d) to person, firm, company, corporation or entity with a valid and

1 existing legislative franchise for air transport services; or (e) where the Grantee is the
2 surviving corporation: *Provided*, That the foregoing limitations shall not apply to: (1) any
3 sale or transfer of shares of stock to a foreign investor or investors; (2) any issuance of
4 shares to a foreign or local investor pursuant to or in connection with any increase in the
5 Grantee's authorized capital stock which results in the dilution of the stockholdings of the
6 Grantee's then existing stockholders; or (3) any combination thereof where such sale,
7 transfer, or issuance is effected in order to enable the Grantee to raise the necessary
8 capital or financing for the provision of the services for which the Grantee has been
9 incorporated or organized: *Provided, further*, That any such sale, transfer, or issuance is
10 in accordance with any applicable Constitutional provision. Any person or entity to which
11 this franchise is validly sold, transferred or assigned shall be subject to all the same
12 conditions, terms, restrictions and limitations of this Act.

13 **SEC. 19. Fuel Supply Security and Consumer Protection.** – In the interest of
14 protecting passengers, cargo shippers, and the general public from extreme fuel price
15 volatility arising from crisis, war, geopolitical disruption, supply chain interruption, national
16 emergency, and other similar extraordinary exigencies, the Grantee shall adopt and
17 maintain a fuel supply security framework that the Grantee may determine to be
18 financially prudent and operationally feasible, for the duration of this franchise: *Provided*,
19 That this framework shall be consistent with applicable aviation safety standards:
20 *Provided, further*, That any adjustment to the Grantee's passenger or freight rates during
21 a declared fuel crisis or state of national emergency shall be made only in accordance
22 with applicable rate regulations and subject to the prior approval or authorization of
23 the CAB.

24 The Grantee shall submit to the CAB a Fuel Risk Management and Contingency
25 Plan: *Provided*, That the Grantee shall not be required to disclose commercially sensitive
26 or proprietary contractual terms in complying with this requirement.

27 **SEC. 20. Labor Rights and Employment Security.** – The Grantee shall create
28 employment opportunities and accept on-the-job trainees in its franchise operations:
29 *Provided*, That priority shall be accorded to Filipino workers, and in particular to residents
30 of the place where the principal office of the Grantee is located: *Provided, further*, That
31 the Grantee shall comply with all applicable labor standards, wage orders, allowance
32 entitlements, and other employee benefits under existing labor laws, rules and regulations
33 and similar issuances: *Provided, finally*, That the renewal, extension, or implementation
34 of the franchise granted under this Act shall not be used as a ground, pretext, or occasion
35 for the unjust or arbitrary termination of regular employees, and any separation of regular
36 employees must be grounded on valid and authorized causes under the Labor Code of
37 the Philippines and its implementing rules, with due notice and observance of
38 due process.

39 The employment opportunities or jobs created shall be reflected in the General
40 Information Sheet (GIS) of the Grantee to be submitted to the Securities and Exchange
41 Commission (SEC) annually.

1 **SEC. 21. Reportorial Requirement.** – The Grantee shall submit an annual report
2 to the Congress of the Philippines, through the Committee on Legislative Franchises of
3 the House of Representatives and the Committee on Public Services of the Senate, on
4 its compliance with the terms and conditions of this franchise and on its operations on or
5 before April 30 of every year during the term of its franchise.

6 The annual report shall include an update on the commencement of activities,
7 development, operation and expansion of business; audited financial statements; latest
8 GIS officially submitted to the SEC, if applicable; certification of the CAB and CAAP on
9 the status of its permits and operations; and an update on the dispersal of ownership
10 undertaking, if applicable.

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

13 **SEC. 22. Fine.** – The failure of the Grantee to submit the requisite annual report to
14 Congress shall be penalized with a fine in the amount of One thousand pesos (P1000.00)
15 per working day of non-compliance which shall be collected by the CAB. The fine shall
16 be collected separately from the reportorial penalties imposed by the CAB and shall be
17 remitted to the Bureau of the Treasury.

18 **SEC. 23. Non-Exclusivity and Equality Clause.** – This franchise shall not be
19 interpreted to mean an exclusive grant of the privileges herein provided for. However, in
20 the event that any competing individual, partnership, or corporation shall receive a similar
21 permit or franchise with terms and/or provisions more favorable than those herein granted
22 or which tend to place the Grantee herein at any disadvantage, then such term and/or
23 provision shall, *ipso facto*, become part hereof and shall operate equally in favor of the
24 Grantee herein.

25 **SEC. 24. Repealability Clause.** – This franchise is granted with the
26 understanding that it shall be subject to amendment, alteration, or repeal by Congress
27 when the public interest so requires.

28 **SEC. 25. Separability Clause.** – If any section or provision of this franchise is
29 held or declared unconstitutional or invalid by a competent court in a final judgment, the
30 other sections or provisions hereof shall continue to be in force as if the section or
31 provision so annulled or voided had never been incorporated in this franchise.

32 **SEC. 26. Repealing Clause.** – All laws, decrees, orders, instructions, and rules
33 and regulations or parts thereof which are inconsistent herewith are hereby repealed or
34 modified accordingly.

35 **SEC. 27. Effectivity.** – This Act shall take effect fifteen (15) days after its
36 publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,