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Air Transport and State Capacity Building in the Philippines, 1946 to 1961

State capacity building, which became very pronounced in the immediate postwar period, saw the development of air transport. The relationship between the state and Philippine Airlines (PAL) was mostly symbiotic. The state infused huge investments in the airline, absorbed its losses, and protected it from competition as well as congressional inquiries on the use of scarce public resources in a private company. In return, the airline had to fly to very remote areas, not so much to ferry paying passengers as to link these areas to the center by bringing in mail, medicines, newspapers, and even government personnel and equipment.

KEYWORDS: PHILIPPINE AIRLINES · CIVIL AVIATION · ANDRES SORIANO · STATE-INDUSTRY RELATIONSHIP

The task of making viable the newly independent Philippine state was in no time as critical and urgent as in the immediate postwar period. Devastated greatly by the war in the Pacific, the Philippine government faced the urgent task of rebuilding its physical infrastructure in order to revive the economy. But because the Philippines was an archipelago, there was the equally daunting task of binding its numerous islands into one cohesive unit. To compound the problem of reconstruction and rehabilitation, American interests were now focused on Japan and Europe, which were deemed crucial in American foreign policy calculations after the Pacific War.

One of the strategies the Philippine government used in order to meet these objectives was the use of, and support for, civilian air transportation. Air transport became a necessary tool in linking the archipelago as it offered the fastest way to ferry people, equipment, and supplies to various points in the country. Airfields at that time, mostly mere flat patches of long and grassy fields, were adequate enough for the rugged propeller-driven planes in which to operate. All planes were taken from surplus US military aircraft used extensively during the war. In contrast to air transport surface transportation was not only slow, it required paved roads or deepwater ports, which took time to develop and entailed a huge capital outlay.

Because of these considerations the Philippine government paid serious attention to the Philippine Airlines (PAL). The prewar PAL began to operate initially as an aerial taxi that serviced the needs of its owners, but ceased operations during the war. However, the availability of surplus aircraft and skilled manpower demobilized after the war enabled PAL to develop into a full-fledged airline. At the same time, parity rights and the continued preferential treatment of foreigners after the war enabled PAL's president, Andres R. Soriano, and his management team composed mostly of Americans, to operate and manage a supposedly Filipino company for the next two decades. To obtain financial stability, PAL secured the commitment of state resources into its enterprise. In addition, Soriano invited Trans World Airways (TWA) to invest in PAL, which sought to secure its technical services. When faced with competition from local and international carriers, the airline turned to the state once again to protect its routes. PAL also benefitted greatly from government service contracts, such as ferrying mail and parcel as well as the repair and maintenance of aircraft of the Philippine and US air forces. These beneficial contracts were made possible due to Soriano's close rapport with ranking Filipino and American officials, including Pres. Manuel L. Quezon and Gen. Douglas McArthur. Soriano capitalized on his connections with succeeding presidents to the point that it enabled PAL to operate unopposed and maintain a monopoly in the local aviation industry.

Yet at the same time, PAL as the flag carrier could not pursue its plans and policies alone or without the approval of the Philippine government. Much as it wanted to serve only lucrative routes, it could not do so. Political considerations in the early 1950s dictated that rural areas would have to be serviced in spite of PAL's limited capacity and the hazardous conditions in those areas. In the same manner, the government had to rein in PAL's aggressive plans to expand its overseas operations and compete with the bigger airlines as the government simply did not have the sufficient funds available for this high-stakes gamble. Thus, while the airline was infused with state resources and other equally important support structures, it had to undertake so-called missionary flights to service remote communities even if these entailed losses and were dangerous to operate. In short, it was a symbiotic relationship that obligated the state to support the airline but at the same time required PAL to perform or assume some functions of the state in the pursuit of national objectives.

This article examines the role PAL played in the process of state capacity building from 1946 to 1961. The Philippine state became directly involved as PAL's majority stockholder from1946 until 1961 when the Senate initiated investigation proceedings in the aftermath of fatal crashes that placed PAL, and civil aviation in general, under close public scrutiny. The Senate hearings resulted in the Philippine government divesting its shares in the airline. At a time of intense economic nationalism due to the administration's Filipino-First policy, Soriano was forced to resign along with the senior managers who were Americans. This period thus marked the end not only of the privileged status PAL enjoyed as the country's flag carrier but also the government's direct involvement in the airline; the government's aviation policy thus shifted to encourage competition among airlines, while it limited its role to providing better airports and navigation facilities.

States and Airlines

From the end of the Second World War until the advent of deregulation as a result of the rise of neoliberalism in the late 1980s,[1] most airlines in the world either were owned in whole or in part by the state, or enjoyed state protection in many forms. But why would states take interest in dipping their hands in airlines that are high-risk and capital-intensive undertakings (albeit less so than surface transportation)? Why would a state infuse huge funds into airlines over other pressing concerns or priorities? After all, airlines usually accounted for a very small share of the national income. In fact, after the Second World War, most states gave subsidies because even efficient carriers could not earn sufficient incomes from airline operations. Subsidies often came in the form of equity capital, loans, loan guarantees, tax exemptions, mail subsidy, provision for equipment, and the like. Even when increased demand for air travel and technological advances in the mid-1950s were such that efficient operators could operate with a significant profit margin, commitment to subsidy persisted in order to pay for losses that might be incurred from unforeseen events (Thornton 1971, 542–44).

The same concern could also be said about employment. Airlines usually account for a minute fraction of the labor force and provide employment to a very small and select group of workers who may be highly skilled but may find it difficult to land jobs outside of the aviation industry. Until the 1970s, the ideal ratio of employees to aircraft was 400:1. But with the advent of newer technologies in aviation, more efficient management, and automation systems, this number had been trimmed down to less than 100:1 (CAPA 2010). This was before the airlines started outsourcing many of their services, i.e., laying off regular workers and hiring contractual employees from service providers. Moreover, not only are aircraft very expensive, but the cost of maintaining an airline—from acquiring ground support equipment, routine repairs and overhaul of aircraft, updating technical skills, maintaining offices on many locations to coping with the ever rising cost of fuel prices—is simply staggering.

Despite the staggering costs of airline upkeep and maintenance, a number of reasons compelled states to intervene in the airline industry in the postwar era. For one, airlines played an important role in one crucial task of the state—defense. Airlines could be used to complement the airlift capabilities of the state's air force. The airlines' huge capacity in carrying passengers and cargo could be used in ferrying troops, equipment, and supplies for deployment to designated areas, locally or overseas. States could also utilize airlines for the immediate evacuation of its citizens caught in a political turmoil or an environmental disaster abroad. In times of natural calamities, airlines could also be used in moving badly needed relief goods to stricken areas. If states could utilize the merchant marine for both wartime and peacetime objectives, the same could be said of airlines (Thornton 1971, 545).

Airlines could also be a source of foreign currency earnings and earn balance of payment receipts in the form of passenger fares and freight charges. In the immediate postwar era, airlines could also minimize potential foreign exchange losses by requiring the nation's travelling public to fly the national flag carrier. Because developed countries had a larger travelling public, the potential gains in foreign exchange were an important justification for supporting a flag carrier.

States could also support airlines in order to serve as a ready market for another vital industry of the defense establishment in developed countries—aircraft manufacturing. A new type of plane was unlikely to be commercially viable unless orders reached a number commensurate to the cost of producing the aircraft from design to manufacturing. Other considerations included promoting trade, investments, and tourism.

Flag carriers in the United States, Italy, and Great Britain earned millions of dollars in ferrying their citizens abroad especially to their former colonies (Straszheim 1969, 18). For example, KLM Royal Dutch Airlines earned the equivalent of 8 percent of the Netherlands' annual GNP earnings in foreign exchange until 1961. This source of foreign exchange revenues may have beeen attributed to the country's strategic location in the lucrative North Atlantic market and to Netherlands being a favorite tourist destination (ibid., 13; cf. Harbeson 1970, 309). Filipino travelers flying to the US were more likely to take an American carrier more so if they were bound for cities beyond the West Coast to which PAL flies. Even if flights by American airlines to Manila may not have had the same density as compared to, say flights to and from Japan, they continued to be done because they had a captured market (Straszheim 1969, 13).

Another consideration was prestige, or the enhancement of the national image. This could appear less crucial than the ones mentioned above but may have been a greater motivating factor in the postwar era. After all, a new aircraft and a swanky airport were flashy symbols of modernity that heralded the nation's strength and status. A head of state arriving in a big and modern aircraft during an official visit added to the esteem and stature of the ruler.

Airlines owned by the state or flag carriers were the chosen instruments of the state as they were touted as status symbols (ibid., 16). In the end, the financial risk of investing in the industry were huge, but so were its rewards.

There was a need for the state to intervene in the aviation industry also in order to promote the common good and meet its policy objectives. One such objective was to obligate airlines to service routes or destinations where state services and presence were weak yet considered necessary even if deemed unprofitable, i.e., those referred to as "missionary flights" (cf. Pustay 1979). Another was to prescribe the choice of equipment for the airline, which was often based on political considerations. For example, Japan's flag carrier, Japan Airlines, has continued to use US-manufactured planes exclusively from its inception in 1951to the present. Other Japanese airlines had begun to use European-made Airbus aircraft only recently. Pressure could be applied on the part of another state to sell its aircraft to a client state, or buy from another country with which the state wanted to establish or promote bilateral relations. Conversely, an airline could wish to buy aircraft but not be able to do so because the state might not be on good terms with that country, and would thus resort to use aircraft from more friendly nations even if it may be more expensive or inappropriate to its needs. Also, aircraft manufacturers might opt not to sell its products to states that face embargo or trade restrictions. Lastly, states could regulate fares in order to make air transport more affordable to the riding public (Straszheim 1969, 22).

Direct state support for airlines could be done in the following areas. First was by making direct investment or infusion of capital funds, which made the state a stockholder or owner. Second was by providing "soft" loans, that is, loans with low interest rates and longer repayment periods, in order to assist the airline in its financial development. Third was by acting as guarantor for the airline's loans. On many occasions the state absorbed these losses in cases of default payments. Fourth was by giving airlines government contracts like mail service and the maintenance of the state's air assets. Lastly it was by giving subsidies and tax exemptions especially on oil and other fuel products, imports of spare parts and nonpayment of landing fees (Thornton 1971, 544).

Indirect state support for airlines could be disguised in various ways. First and foremost were through the flight and technical training that the state provided the airline. For example, most of the pilots, and to a lesser extent the mechanics, of airlines came from the air force. This thus spared the airline from operating a flying school and minimized the cost of training pilots for

them to reach the level of proficiency required in handling more advanced commercial planes.

Andres Soriano and the Early Years of Philippine Airlines

A discussion of the early years of Philippine Airlines will not be complete without taking into account the life of Andres Soriano. After all, he was the spirit behind the creation and growth of Philippine Airlines from its founding immediately after the war until his retirement in 1961. Andres Soriano was born in Manila in 1898 to Don Eduardo Soriano, a civil engineer, and Doña Margarita Roxas de Ayala, both members of affluent and prominent Spanish families (Anon., n.d., 1). After completing his early education at the Ateneo de Manila, his parents sent him to Stonyhurst College in Lancashire, England, and then to Escuela Superior de Comercio in Madrid, where he graduated with a degree in *Profesor Mercantil* (Master of Commerce). Later he took, and passed, the examination for Certified Public Accountants (ibid., 2).

After finishing his studies in Madrid, Soriano returned to the Philippines and obtained a position in the accounting department of San Miguel Brewery. Gifted with outstanding business acumen and organizational skills, Soriano quickly rose the corporate ladder, becoming president at 33. He expanded San Miguel's products to include soft drinks (Royal and Coke) and dairy products (Magnolia) (ibid.). Soriano would also be engaged in mining (Philex and Atlas Consolidated), fertilizer (Atlas Fertilizers), lumber (Bislig Bay Lumber and Bislig Industries), paper (Paper Industries Corporation of the Philippines or PICOP), and sugar (Central Azucarera de San Pedro in Nasugbu), among others (ibid., 18–19). His businesses were inextricably connected as they had either forward or backward linkages. For example, timber products were processed in his lumberyard, from where its by-product pulp was developed into paper. Likewise sugar from his mills was used extensively in making ice cream at the Magnolia Dairy Product Plant. And because these industries were separated by great distances and located in different islands, Soriano easily saw the importance of air travel.

The early beginnings of PAL may be traced to 1935 when a group of American and Spanish businessmen created the Philippine Island Aerial Taxi Company (or PIATCO) as a way of servicing the varied business interests of its founders—beer, tobacco, and mining. Among the founders were Andres Soriano, Angel Elizalde, Vicente Madrigal, and six Americans. Their businesses included San Miguel Brewery,[2] Compañía Tabacalera de Filipinas (simply known as Tabacalera), Lepanto Consolidated Mining in Baguio, and the Philippine Gold Mines in Paracale, Camarines Norte.

PIATCO was granted a franchise (Act 4271) by the newly created Commonwealth Government on 14 November 1935 (PAL 1959, 1–3). However, the fledgling aerial taxi company folded up after only four years in operation. It is not clear whether the company's closure happened by design or due to financial losses. What is clear is that Andres Soriano persisted in birthing the former aerial taxi company into the Philippine Airlines. On 25 February 1941 Soriano, along with four other incorporators—Filipinos Ramon J. Fernandez, Ernesto von Kauffman, and Juan M. Elizalde and the American John Schultz—put up PAL by pooling their resources, purchased the franchise of PIATCO, and incorporated the new company under Philippine laws. On 11 June 1941 the Philippine legislature approved the transfer of the PIATCO franchise to PAL in accordance with Commonwealth Act 643 (Morantte 1962, 4–5).

Soriano wanted to expand the company's operations to include services to Naga, Masbate, Tacloban, and Cebu. He also wanted to buy more aircraft aside from the two PIATCO assets (Beechcraft 18 planes) but that would need more capitalization. The Board of Directors authorized Soriano to ask for a loan from the Philippine government through the National Development Company (NDC), a government corporation that oversaw state investment in strategic industries. However, what Soriano proposed was different. He asked the NDC to invest in the airline with an offer of 1,500 shares of stocks which, at P100 per share, amounted to P150,000. The investment amounted to 37 percent of the company's holdings. This arrangement worked both ways. If on the one hand the government was able to earn more than interest payments, Soriano on the other hand secured a stable financial lifeline by committing the government to his private enterprise (ibid., 17 and ff). Soriano also brought in the expertise of American pilots, including his personal pilot, Paul I. Gunn, who would train Filipino pilots, graduates of the Philippine Army Air Corps, for the airline.

However, this partnership was cut short by the war in the Pacific. The Commonwealth government quickly sequestered the company's two aircraft for wartime operations. PAL's rival, Iloilo-Negros Air Express Company (INAEC), which was founded in 1935 to introduce aviation service between

Manila and the Western Visayas, evacuated its fleet from Manila to Iloilo under the cover of darkness to avoid detection. However, just three days into the war Japanese fighter planes spotted and destroyed the entire fleet (Santos 1969, 16). The INAEC ceased operations during the war years but resumed in November 1945 as the Far East Air Transport Inc. or FEATI (ibid., 18–19).

In the meantime, PAL's American and Filipino pilots began flying the Beech 18 planes on supply missions to the frontlines in northern Luzon. But when MacArthur ordered the retreat to Bataan on 24 December 1941, the Beech 18 planes began transporting downed American pilots to Australia in order for them to regroup. On the return flights, they brought medical supplies for the troops of the United States Army Forces in the Far East (USAFFE). PAL's pilots continued these missions until late February 1942 when Japanese planes finally caught up with them. For the remainder of the war, PAL's pilots formed the core of what would become the Air Transport Command in support of the Allied offensive in the Pacific (ibid., 15 and ff). Moreover, General MacArthur put Soriano in charge of planning and carrying out the transfer of Quezon and officials of the Commonwealth government from Corregidor to Australia en route to Washington, DC, to hold office while in exile. It was a feat that made both MacArthur and Quezon indebted to Soriano.[3] PAL served to complement the USAFFE's air component in the defense of the Philippines early in the war. In hindsight, it rationalized the Commonwealth government's capital exposure or financial investment in the fledgling airline. But more importantly, these wartime exploits and the camaraderie that developed therein endeared Soriano to US and Philippine officials and in the process proved invaluable in enabling PAL to secure crucial support when the airline was revived after the war.

However, it must be mentioned also that Soriano cultivated friendship and rapport with American officials in part because of the dilemma faced by Spanish citizens in the Philippines. While members of the Spanish community in the Philippines were initially supportive of the conservative nationalist Falange movement, which supported Franco against the Republicans in the early 1930s, the war in Europe and the shift of the Franco regime toward the Axis divided the the Spanish community even further. Although the more populist elements of the Falange supported the Franco regime's inclination toward the Axis powers, the wealthy and aristocratic families like the Ayala

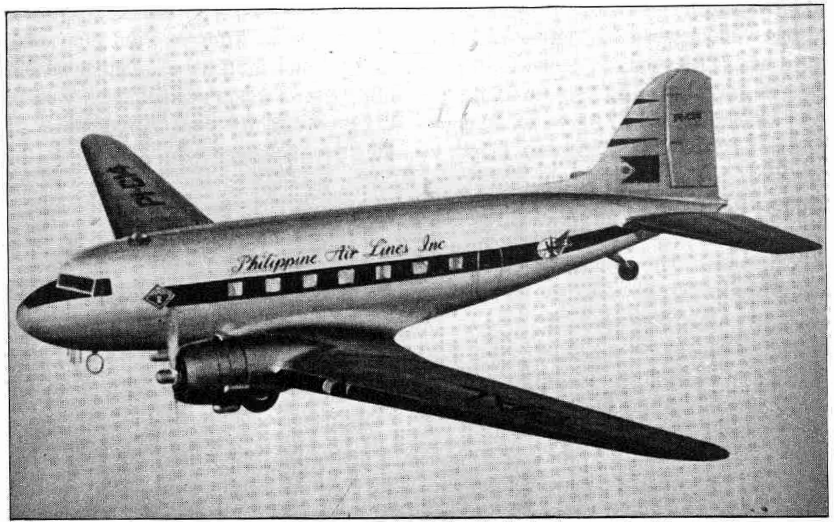

Fig. 1. The Douglas DC3, converted for civilian use from its military version C47, was used when PAL resumed its operations beginning February 1946. Source: PAL [1991], 4.

and Soriano families abhorred this shift, fearing that Spain's entry into the war would eventually threaten or destroy their properties. Eventually, many in the so-called anti-Axis Francoists renounced their Spanish citizenship and applied for nationality from other countries (Rodao 1995, 3–26).

Because of his business acumen, Soriano was appointed by then President Quezon in September 1943 to be the Secretary of Finance in the Commonwealth government while in exile in the US. But at the same time he was already planning to reestablish his business interests after the Pacific War. Playing upon Quezon's project to industrialize the Philippines after the war, Soriano submitted to Quezon a master plan entitled "Industrial Expansion of the Philippines" in May 1943. The plan contained provisions for the development of shipyards and manufacturing plants by US firms, whose owners Soriano met after he arrived in the US. While acknowledging Soriano's efforts, Quezon (1943 cited in Soriano n.d., 54), rebuked his ideas, to wit:

> Precisely because we are speaking of industrialization by private capital, it is not necessary for the government to have anything to say or do in the matter. Otherwise the plan you have in mind, would, in effect, appear to be under the auspices of the government. I have no right to obligate the government directly or indirectly in the promotion of any private enterprise.

Faced with rejection, Soriano resigned his position and transferred to General MacArthur's office, where he was promoted to full colonel in the US Army ostensibly to help prepare plans to retake the Philippines.

On 14 February 1946 PAL resumed its operations with a small fleet of five DC–3s (converted for civilian use from the military version C–47, see fig. 1). They were purchased from the Foreign Liquidation Office, which oversaw the disposition of surplus military equipment and sold them at giveaway prices. Spare parts were also not a problem as there were more than 11,000 DC–3s produced worldwide that could be cannibalized. The early days of PAL in the postwar years were marked by humble beginnings. PAL's terminal at Nielsen airport[4] was a nipa shack where mechanics worked in the open. Commissary services were done in a trailer and flight attendants were trained in a small house whose basement was used as storage space for spare parts. As if it was wartime, pilots flew in their khaki uniforms but without the insignias, and the DC–3s still had their cabins in military configuration although its exteriors had been repainted in PAL's color scheme and insignia. It had bucket seats made of canvass, and the sound inside the cabin was deafening during flight—wall-paneled and pressurized cabins were still not available then (fig. 2). Galleys were likewise absent; coffee was dispensed

Fig. 2. Interior of a DC3, with bucket seats made of canvass. Source: PAL [1991], 5.

from flask or thermos bottles and sandwiches from carton boxes. Thus, flight attendants needed to be sturdy enough to withstand the rigors of these primeval workstations while maintaining poise and charm (Santos 1969, 18–19).

Aside from capital infusion, PAL survived the war also because its local competitors either folded up or were forced to quit, a decision that was oftentimes due to government intervention. In 1946 PAL scored an upset over its bigger competitor, FEATI Airways, owned by wealthy families such as the Lopezes, the Aranetas, and the Ledesmas. FEATI metamorphosed from the INAEC, which was PAL's rival before the war. If PAL operated from Nielsen airfield in Makati, FEATI utilized a former US airfield in Grace Park, Caloocan. FEATI was bigger than PAL in terms of number of aircraft and routes served. Aside from thirty domestic destinations, FEATI also flew to Hong Kong, Bangkok, Shanghai, Calcutta (Kolkata), and as far as San Francisco. FEATI's sudden growth in 1945 was partly due to its close connections to then Pres. Sergio Osmeña Sr. Defense Secretary Alfredo Montelibano, linked to the powerful sugar barons of Luzon and the Visayas, granted FEATI a disproportionate share of domestic routes and a monopoly in international routes out of Manila.

However, PAL's fortunes changed drastically the following year when Soriano's friend and ally, Pres. Manuel Roxas, defeated Osmeña in the presidential elections. President Roxas immediately initiated the "open skies" policy, which effectively ended FEATI's virtual monopoly. FEATI's fortunes continued to tumble as the airline suffered five major mishaps in a period of only ten months, from March 1946 to May 1947. The Lopezes, the majority owner, were forced to abandon the business and sell 78 percent of their shares in the airline to its competitor in May 1947,[5] a move that enabled PAL to acquire all of FEATI's franchise, its fleet and equipment, rights, and air service facilities.[6] The agreement also stipulated that FEATI would not venture into the airline business for the next ten years. The remaining assets of FEATI were redeployed into its engineering and technical school (*Manila Times* 1947, 1 and 4).

Likewise PAL's survival may be attributed to Soriano's hiring of American pilots and maintenance personnel demobilized shortly after the war. For other technical and managerial skills, Soriano enlisted the help of executives from US airlines like TWA,[7] United Airlines (UAL), and the Transocean Airlines. As early as 1946, a TWA team came to Manila to set up traffic and

accounting offices and train flight attendants. PAL's operations and status were advanced vis-à-vis other airlines in the Asian region so much so that PAL would even assist in the training of Japan Airlines (JAL) personnel when the latter was founded in 1951 (Santos 1969, 29).

From serving three routes during the prewar era, PAL (1947, 4) expanded its reach and introduced nine daily scheduled and chartered services from Manila to Baguio, Aparri, Laoag, and Tuguegarao in northern Luzon; Daet, Naga, Legaspi, and Masbate in the Bicol region; Cebu, Iloilo, Bacolod, Dumaguete, and Tagbilaran in the Visayas; and Koronadal (South Cotabato), Cagayan de Oro, Davao, Zamboanga, Dipolog, and Misamis in Mindanao. On its first year of operations, PAL earned a net profit of P64,251.45 out of its operations from a gross of P8,854,000. Passenger revenues accounted for 77.9 percent, while freight charges and express mail service were at 18.2 percent and 3.5 percent, respectively. On the other side of the financial table, it incurred a total of P8,476,000 in operating expenses (95.7 percent of total expenditures including investments such as P1,319,000 for flight equipment; P1,063,700 for property and other equipment; and P154,000 for construction) and dividends to stockholders at P378,000 (4.3 percent of total expenditures). PAL was able to offset these expenses by collecting P302,000 as payment for its claims from the War Damage Commission (ibid., 5). Another claim totaling P114,897.26 would be collected by PAL in 1950 (PAL 1951, 6).

Soriano approached the NDC again in 1946 for an additional investment of P530,000. This brought the government's total investment in the airline to P680,000. PAL's capital exposure, however, decreased to 34 percent due to the increased capitalization of the airline, which reached P2 million. In April 1947 when PAL increased its capitalization to more than P4 million, the government again purchased 10,200 shares, raising its investment to P1.02 million or 41 percent. In July of that same year, NDC made further investments of P350,000, increasing its holdings to 44 percent. The following year, the NDC loaned PAL P2 million for the purchase of aircraft, but was not paid in return. Instead the loan was converted to shares of stocks, making the government the majority stockholder with 54.14 percent of the airlines' outstanding capital stock, and thus requiring a representative of the state to be the chair of the board (Morantte 1962, 17–18).

If the government's earlier involvement in PAL might have been due to the influence and persistence of Soriano, by 1952 it became legal and binding. The passage of the Civil Aviation Act of the Philippines (Republic Act 776) obligated PAL, in the state's pursuit of national objectives, to wit:

> the development and utilization of the air potential of the Philippines; the encouragement and development of an air transportation system properly adapted to the present and future of foreign and domestic commerce of the Philippines and the Postal Service; the promotion of flight safety in air commerce; and, the encouragement and development of civil aeronautics. (Philippine Congress 1952)

With the passage of Republic Act 776, the government's support for PAL was ensured.

Philippine Airlines in the Service of State Policies

The early postwar years looked bright for PAL. It had a wide coverage of a total of forty-one domestic service points by 1949.[8] At the same time, PAL had a sizeable international destination. By 1950 the airline was servicing fifteen points divided into five sectors (PAL 1951).[9] In preparation for this expansion project, PAL ordered the next generation of airplanes, the DC–6Bs. Developed from the DC–4, the DC–6 also had four engines but had a pressurized cabin and could carry more passengers or heavier cargo. However, PAL's refleeting program took away most of its resources. Payments for the purchases of these new aircraft began depleting revenues. In 1949 PAL's losses totaled P2.2 million (Santos 1969, 26). To remedy the situation, Soriano once again looked up to the government to avert further losses. In February and March 1950 Soriano presented his plans to President Quirino for joint action between PAL and the state. Among others the proposal called for more state investments in PAL, the waiver of landing fees and reduction of other charges, and an increase in the government's airmail compensation. The Council of State approved the proposals but also recommended that Soriano increase his capitalization in PAL by a million pesos. As a result of the government's capital infusion, its investments reached 54.14 percent of the airline's total shares (Morantte 1962, 21).

An important task previously assigned PAL was to ferry the Philippine president on his state visits to other countries. As a presidential aircraft, it was imperative that PAL carried the president with utmost safety and style. It was therefore incumbent upon PAL to provide its most modern aircraft and the best crew during presidential flights. PAL's first mission came in August 1949 when a PAL DC–6 became President Quirino's personal plane on his first official visit to Washington, DC. He became the first Philippine president to fly across the Pacific aboard the national flag carrier. PAL also ferried Quirino on his official trip to Jakarta, Indonesia, in 1952. And even if PAL would not fly international routes later on, it was commissioned by the government to fly President Magsaysay to Washington, DC, in 1955 on a state visit.

In the November 1953 elections, Magsaysay won over Quirino as president. As soon as President Magsaysay was sworn into office in January of the following year, Soriano put forth his new proposals for the airline. Since Magsaysay was the previous Defense Secretary and PAL Board chair, Soriano might have construed the new president to be amenable to more government exposure to PAL. Among the proposals laid out were:

- the infusion of P10 million for the purchase of new aircraft (the DC–7s, which were improved DC–6Bs) to modernize international services to keep PAL abreast with competition from foreign airlines; the reconfiguration of the existing fleet of DC–6s to carry both first-class and economy passengers;
- the government's lobbying for PAL to be granted "fifth freedom rights"[10] in Tokyo on its pan-Pacific flights;
- the increase of the government's international air mail pay; and
- the request to the government to infuse another P30 million in anticipation of the entry of pure-jet service by 1958. (Santos 1969, 34)

The proposals were flatly rejected. PAL's management was informed that the government, being hard pressed in developing the rural areas, could not afford the investments required (ibid.). Developing the rural areas was one strategy the Philippine government was using to suppress the Huk rebellion, which had become full blown by this time. As a majority owned corporation, it was now imperative for PAL to dovetail its operations with the state's priorities and objectives. Immediately PAL announced the cessation of its glitzy but costly international operations by selling its aircraft used for these flights and laid off about a thousand employees. PAL would now concentrate solely on domestic and limited regional operations.

PAL soon set up plans to implement this policy. One of these was to expand its domestic networks and provide service to the many communities so remote that some were not even accessible to surface transportation. From forty-one points prior to the Magsaysay administration, this number was increased to sixty-four[11] (PAL 1983, 11). In order to fulfill this mission of servicing many of these remote communities, PAL resorted to flying in stages or multiple legs. This involved flying four to five or six nearby points in a day but using only one aircraft. For example, a PAL aircraft based in Davao would leave the city at 5:30 A.M. and make hops of twenty to twenty-five-minute flying time to Dadiangas (now General Santos), Tacurong, Cotabato, Malabang, and Iligan before landing in its final destination at Cagayan de Oro by around 9:30 A.M. After an hour's rest, the crew would resume the flight back to Davao using the same route and arrive at around 2:30 P.M. This meant a very short turnaround time at each airport to pick up passengers and cargo. But this was also due to the limitations of the aircraft, the airstrip, and the limited number of revenue passengers and cargo. This sort of bush flying was hazardous. Not only did weather conditions change drastically, the airports being served also had different types of surfaces so that the pilot had to be skilled in landing on grass, dirt, or any type of runway (PAL 1958a, 11). This made PAL's pilots renowned for their flying skills; but, on the down side, it was a challenge to the physical condition of airline crew as well as the rapid wear and tear of DC–3s used for these flights, a contributing factor in many of the accidents and crashes that would plague PAL later on.

In addition to multistage flying, PAL also used smaller aircraft for remote communities (or what were known as feeder routes) that were beyond the reach of primary and secondary routes. For this purpose PAL bought in 1955 the rugged single-engine DHC–3 Otter from the De Havilland Corporation of Canada, which had short take-off and landing (STOL) capabilities and had proven its worth in the rugged terrain of the Canadian Rockies, Alaska, and the Pacific Northwest (Santos 1969, 37). The plane had only one pilot but could carry ten passengers or about 2,000 lbs. of cargo (ibid.). With this new capability PAL introduced its Rural Air Service, which had hubs created to reach out to more communities and bring its produce to the urban centers (fig. 3). The Otters worked in tandem with the DC–3s in so-called trunk-line stations. For example, seafood products from Puerto Princesa or Del Pilar in Palawan were brought by Otters first to San Jose, Mindoro, for them to be picked up by DC–3s and then flown to Manila. Likewise, agricultural produce from Guiuan, Eastern Samar, were brought to Tacloban, the regional center, before being flown by DC–3s to Manila. Moreover, PAL (1983, 9) dedicated three of its DC–3s to cargo services.

Furthermore PAL put more effort into reaching out to the more remote parts of the country, particularly those communities that had no landing strip, by utilizing rotary wing aircraft for the first time in 1953 (ibid., 8). Two Hiller H–12 helicopters from the United States were acquired. They could carry a pilot and two passengers plus a small cargo load. However, the limited capacity and high operating costs of the helicopters made scheduled services uneconomical. Even when used for chartered flight, it was still unprofitable for there was very little business that would require this service. One helicopter crashed in the Mountain Province on 5 June 1954 and the other in Isabela on 27 September the following year, prompting PAL (ibid., 8) to shelve the project permanently. On the whole, the plan to introduce the Otters and Hiller helicopters under the Rural Air Service

Fig. 3. PAL's ticket office at Liloy station in Zamboanga del Norte, one of the hubs for PAL's rural service. Source: PAL 1960, 8.

proved to be a losing proposition. Undertaking "missionary flights" was but a political decision dictated upon PAL by its biggest stockholder.

PAL also addressed the demand side of the equation. In order to make flying more accessible or affordable to the public, PAL introduced discounted fares in its primary and secondary routes starting in 1950. One of these was the "First Class" service aboard DC–3s,[12] which charged a lower P0.17 per seat mile as compared to the regular fare of P0.20 per seat mile (it had not changed since the immediate postwar era). Later PAL introduced the "El Economico" fares, based on just P0.13 per seat mile, one of the lowest in the world. To do this, some of the DC–3s were reconfigured to accommodate forty passengers each from the usual thirty- to thirty-two–seat arrangement. The El Economico flights were flown at dawn so that the planes could return to Manila to make the regular flights. The first of these flights took off from Manila on 5 January 1954. By the middle of the year, the El Economico service was extended to thirteen points to include cities in the Visayas and Mindanao. This would boost El Economico's passenger load by 32 percent or about a third of its previous record (Santos 1969, 39–40).

In 1959 PAL introduced another fare service, the "Starduster," which had the lowest rates at P0.10 per seat mile and included discounts for round-trip and family fares (ibid., 41). Starduster flights were night flights, which meant that airplanes were utilized for extra service after the regular flights. By offering four different kinds of fare schemes, PAL was able to increase its capacity by 200,000 passengers more than what it had before the introduction of this new fare reduction scheme, stimulating air traffic more than ever. Since 1946 or after fourteen years of operation, PAL had been able to transport more than 4.5 million passengers (ibid., 43). Although expenses for the airline had also gone up, air traffic spiked to the point that it was enough to keep the airline viable to operate.

However, its close association with the government opened up another opportunity to recoup its losses, particularly from its rural air services, and bounce back to profitability. In a way the Korean War, which erupted in 1950, was a blessing in disguise for PAL. The US Air Force contracted PAL for repair and maintenance services for its C–47s that were used extensively to ferry troops, equipment, and supplies to the war zone. This contract served as one of PAL's top earners, a type of revenue that was not subject to the vicissitudes of commercial air travel. In 1957 PAL was awarded by the US Civil Aviation Authority with a Foreign Repair Station Certificate,

an accreditation that authorized the airline to perform major and minor repairs on aircraft of US registry. This recognition was a big addition to PAL's revenues for it could now repair commercial and general aviation airplanes from the United States. By 1958 32.6 percent of PAL's nontransportation revenues came from its maintenance contract with the US Air Force for the immediate repair and overhaul of its fleet of propeller-driven transport and utility aircraft. Aside from the US government, PAL (1958a, 11 and 18) also did maintenance work for the Philippine Air Force and foreign airlines which accounted for 9.2 percent and 9.9 percent, respectively, of its nontransportation revenues (ibid.).[13]

From Rural to International

Magsaysay passed away unexpectedly in 1957 and was succeeded by Pres. Carlos P. Garcia. Two of the Garcia administration's policies would have immediate effects on PAL. The government's Filipino First policy, reflective of the fervent nationalism in many developing countries of that period, forced Americans in the top positions to resign or retire to make way for Filipino executives (see Garcia 1960; 1971). Another was the Look East policy, which was designed to expand the country's foreign relations toward its neighbors in Asia aside from its traditional partners (Macapagal 1970). For PAL, these policies were a boon because the government now became interested in the resumption of PAL's international services. Sensing a change of policy in the new government, Soriano presented the president with a revised plan to resume international services (Anon., n.d., 9–10). Indeed, PAL would take President Garcia to Japan on a state visit on 1 December 1958 (fig. 4), to Saigon on 22 April 1959, and to Taipei on 2 May 1960 using the biggest and the most luxurious aircraft in the fleet, the British-made turbo-prop Vickers Viscount. It was also an occasion to show off the national colors as well as PAL's exemplary cabin service.

On 5 June 1959 President Garcia signed into law RA 2232 directing PAL to resume its international operations as a matter of national policy. The law stipulated that PAL be given protection in routes and be given international airmail compensation. As the law stated:

> As a sovereign nation, the Republic of the Philippines should have her own air routes and traffic rights if she is to exploit the international air traffic potential. The attainment of this objective on a sound and

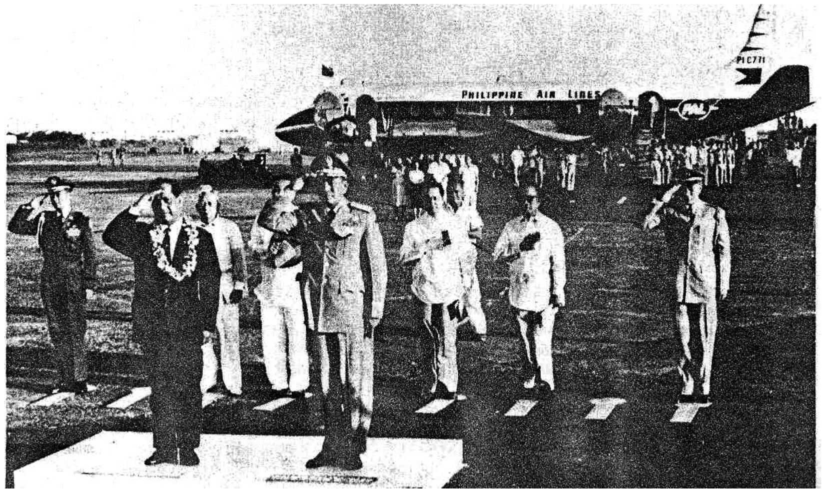

Fig. 4. Arrival rites upon President Garcia's return from his state visit to Japan.
Source: PAL 1958b, 4.

> economic basis requires a national air carrier, whose company should be given all the rights and privileges necessary to insure that it shall have fair and equal opportunities to compete profitably with other airlines in the international trade. (Philippine Congress 1959)

In order to finance the return of PAL's international flights, the Philippine government allotted money for the airline in the form of airmail payments for the next five years. The money was released by the National Treasury through the Bureau of Posts and was scheduled to be paid in twelve monthly tranches per year. These appropriations were earmarked in advance and were still honored even after the next president, Macapagal, withdrew government investments in PAL. However, there was a caveat. In exchange for this financial support, the Garcia administration moved to nationalize the operations of the airline through further restrictions, prohibiting the employment of aliens among its flight crew, maintenance, and service personnel (ibid.).

Winds of Change

On the evening of 23 November 1960, a Starduster DC–3 flight from Iloilo to Manila disappeared over Mindoro with a total of thirty-three persons on board, which included four crew and twenty-nine passengers. A search-and-rescue mission was undertaken and after one week the wreckage was found at Mount Baco in Mindoro 6,000 feet above sea level with no survivors. But recovery operations could not be completed until the third week of December due to thick foliage and foul weather. Then just three days before Christmas, another Starduster DC–3 flight from Cebu to Davao struck a hill over Talamban, Cebu, at around 3:30 A.M. killing twenty-eight passengers and crew (Santos 1969, 46). Immediately PAL suspended the Starduster flights. Media coverage of the two crashes and the scathing editorials over PAL's safety record came to the attention of the senators.

The task of investigating PAL fell under the jurisdiction of the Senate Committee on Transportation chaired by Sen. Lorenzo Tañada, which counted among its members Ambrosio Padilla, Alejandro Almendras, and Rogelio de la Rosa. The committee commenced its investigations of PAL on 6 January and continued until the middle of April 1961. Among the issues the senators wanted to probe were the airline's safety record, the return on investment for the government, government protection of PAL, and the employment of Americans in PAL, among others (*Manila Times* 1961, 1, 18).

There was reason indeed for the committee to be concerned about PAL's safety record. Of the fifty-five air accidents that were recorded between 1946 and 1961, forty-six (or 86.3 percent) were attributed to PAL. The rest came from its competitors—Philippine Interisland Express (five), Commercial Air Lines, Inc. or CALI (two), and one each from Philippine Air Express and Fleming Air Services Transport (FAST) (Senate 1961a, 3–7; cf. PAL 1961, 1, 2 and 7). This rather high incidence of accidents involving PAL relative to those involving its competitors did not have to do solely with PAL being the dominant carrier. To understand the problem better, the committee looked into the maintenance records of the company and even conducted an ocular inspection of its repair facilities. In the end, the committee concluded that PAL's safety record was satisfactory and its planes airworthy, although the nature and the reasons for the crashes were not established. The truth, however, is that PAL was in a bind. In order to make the company profitable and heed the government's call for cheaper fares, PAL introduced night flights that offered cheap fares, which overstretched the capacity of its planes and crew.

PAL, however, was not solely at fault. The investigations also exposed the inadequacy of navigation facilities as well as the conditions of airports to handle such flights. Many airports had short runways that prevented planes from loading to its full capacity during both take offs and landings, while some airports were unusable during rainy seasons. It was estimated that the government would have to spend an estimated P10 million to upgrade twenty airports to make them suitable to the new PAL planes destined for domestic operations, the Dutch-built Fokker F27 Friendship (Senate 1961b, 2 and ff.).

The committee's investigation then focused on the special favors that PAL was getting from the government. Some senators decried the fact that PAL had become a virtual monopoly, with the overt support it received from many administrations. For instance, such support came in the form of flight schedules. While it was quite easy to secure nonscheduled and chartered services, scheduled flights to major domestic destinations was another matter altogether as PAL put up unyielding resistance. The CALI of the Sycip family, the Insular Airways, the Philippine Express, the Trans Asiatic Airways, and twelve other companies that filed applications to operate regular and/or charter services for local operations from 1946 to 1961 ended up either ceasing their operations or being forced to sell out to PAL (Morantte 1962, 14–15). Despite the government policy of deregulation through Republic Act 776,[14] regulatory bodies were created to oversee civil aviation and provide equal opportunities to all airlines to protect the riding public. In effect, the law intended to prevent a monopoly in the industry. Nevertheless, PAL was able to circumvent this regulation by "requiring" the Civil Aeronautics Board to notify PAL if there were applications filed for domestic operations and to uphold PAL's position as flag carrier and thereby protect it from competition. And because the chair of the PAL Board was appointed by the Philippine president, PAL's position was difficult to contradict. As Soriano bragged, "What Government would work against its own interest?" (ibid., 17).

Asked directly by the senators why PAL had fought hard to maintain its monopoly, Soriano and PAL's legal counsel, Atty. Mario Syguion-Reyna, asserted that if two airlines offered services together, both would go broke. There was little market for paying passengers. Primary routes (e.g. Cebu, Davao, Iloilo, and Bacolod) would make money but the rest would not. If these primary routes would be serviced by two airlines, they might gain financially; but if both would have to fly secondary routes, then both would lose. In short, PAL officials asserted that profit derived from primary routes made it viable to conduct operations in secondary routes. And PAL's development was due to the absence of competition. Theoretically, competition could be beneficial if there were assigned routes, otherwise both competing companies would not profit. Moreover, if the government had to choose, Soriano pointed out, it had to be PAL for it was the national flag carrier and had the better reputation for service (Senate 1961c, 7 and ff.).

However, the most damaging part of the inquiry dwelt on Soriano's management of the airline. Like all of Soriano's companies, PAL was managed by the Andres Soriano y Compañía.[15] To manage his vast and diversified business empire, Soriano relied on a pool of managers, lawyers, and accountants. Although it was Soriano as PAL president who made the major decisions, it was the management company that formulated policies and implemented them because PAL's senior officials were also employed by the Andres Soriano y Compañía. The testimony of Col. Bernard Anderson, PAL's vice-president from 1948 to 1954, confirmed what the senators had sensed was an anomalous relationship between the airline and the management company. PAL's insurance and procurement of supplies and equipment were handled by the Andres Soriano y Compañía, from which they received commissions. In addition, the company, and presumably Soriano, earned huge benefits from the procurement of planes, spare parts, related equipment, lease of office spaces and buildings, and so forth, which could have been beneficial for PAL as earnings or savings (Senate 1961d).

In the end, the congressional inquiry into PAL shook public confidence in the airline, but only for a time. However, the exposé on Soriano and his management style was too much for the PAL president to bear; he resigned in April 1961.[16] In spite of the appeal made by PAL employees for him to stay, he chose to retire. He immediately left the country and asked his two sons to take over the business empire, while PAL's management was transferred to a Filipino team headed by Eduardo Z. Romualdez. Soriano died on 30 December 1964 in his California home after undergoing a medical operation.

Postscript

In their investigation the senators realized that PAL's monopoly stunted the growth of aviation while, at the same time, they feared that deregulation might encourage other airlines to offer lower fares and better service; nevertheless, the weak demand from revenue passengers would not be enough to break PAL's monopoly. This conclusion convinced the senators that the best way to help PAL and the aviation industry in general was for the government to channel its money away from direct support for PAL and instead develop the necessary infrastructure and facilities to maximize the potential of aircraft and ultimately ensure the commercial viability of airlines. Hence, by the mid- and late 1960s, more and more cities with improved airports were being served by PAL's pure jet BAC1–11, which were faster and could carry more passengers and cargo than PAL's propeller-driven aircraft. Another was the entry of two domestic carriers that were readily given congressional franchises—the Air Manila, Inc. (AMI) and the Filipinas Orient Airways (FOA). This shift in the government's aviation policy coincided with the Macapagal administration's objective of ushering in the era of decontrol. In his first State of the Nation Address in 1961 Macapagal (1968, 53) declared that "the task of economic development belongs principally to private enterprises and not the government."

In hindsight, Soriano was a wily businessman who used his influence, power, and charisma to secure government funds to run his enterprise. He capitalized to the hilt the credo of "protecting the national interest" to seek government funds for the flag carrier, shield it from competition, and save it from financial collapse. Yet it may be argued that this was the era of government intervention in airlines when capital infusion and protection by the state was the norm. But what angered lawmakers was what they found to be Soriano's vicious management style where he would turn to the state for funds but pocketed profits through his firm instead of remitting them back to PAL.

PAL would remain a privatized company from 1961 to 1977. By the late 1970s, however, PAL was again restored as a government corporation. Partly it was because of Ferdinand and Imelda Marcos's luxurious globetrotting for both official and personal travels, which necessitated at their disposal the most modern aircraft. But also there was now a new and emerging type of customer that the state could cash in—the migrant worker who were beginning to leave the country for overseas employment in droves.

Notes

This article is dedicated to my uncle, Gaudencio M. de la Paz, PAL mechanic from the early 1960s to 1974.

1 The period from the end of the Second World War to the emergence of neoliberalism also marks the shift from the state's ownership of corporations and controlled industries toward selling of these assets through privatization and prevention of monopolies and government intervention through deregulation.

2 For a discussion of Soriano's enterprise in the beer industry and San Miguel Beer Corp., see Goodman 1970, 54–59.

3 For an account of the Commonwealth government's escape to Australia, see Nat Floyd 1942, 27–29 as cited in Anon., n. d., 49–50.

4 The Nielsen Airport was located in Makati; its runways are what at present form the Ayala and Makati Avenues.

5 After FEATI folded up in 1946 PAL became a virtual monopoly. Although there were airlines that struggled to maintain scheduled flights, they were not able to develop.

6 For a discussion of the Lopez-owned postwar Far East Air Transport Inc. (FEATI), see McCoy 1994, 493–94.

7 TWA was Pan American Airways' (Pan Am) arch rival to be the world's number one airline in size, reach, and services.

8 These domestic service points were divided into seven districts: North Luzon—Basco, Laoag, San Fernando, Tuguegarao, and Vigan; Manila—Baguio, Baler, Bitulac, Calapan, Puerto Princesa, San Jose, and Bagabac; Southern Luzon and Eastern Visayas—Bulan, Daet, Guiuan, Legaspi, Masbate, Naga, Tacloban, and Virac; Central Visayas—Cebu, Dumaguete, Medellin, and Tagbilaran; Western Visayas—Bacolod, Capiz, and Iloilo; Central and Eastern Mindanao—Butuan, Cagayan de Oro, Cotabato, Dansalan, Davao, Del Monte (Bukidnon), Koronadal, and Allah Valley (Surallah); and Western Mindanao—Dipolog, Jolo, Misamis, and Zamboanga.

9 The sectors comprising Pal's international destination points were: Europe—Rome, Amsterdam, London, Madrid, Paris, and Tel Aviv; Southern Asia—Calcutta and Karachi; Eastern Asia—Hong Kong and Taipei; Philippines—Manila, Tokyo, and Agana, Guam; and US—Honolulu and San Francisco.

10 Fifth Freedom refers to the rights or privileges of an aircraft to unload and pick up passengers from a third country other than its country of departure and arrival (see Santos 1969, 18). For example, an American carrier en route to the US from Manila can pick up and unload passengers in Tokyo, Japan. In similar fashion, a Philippine Airlines flight from Manila may pick up and unload passengers in Bangkok, Thailand, before proceeding to its final destination, which is New Delhi, India.

11 These remote domestic destination points were: Luzon—Appari, Basco, Laoag, Tuguegarao, Cagayan, San Fernando (La Union), Baguio, Baler, Cubi, Manila, Lanap (Camarines Norte), Daet, Naga, Virac, Legaspi, Masbate, Marinduque, Calapan, Mamburao, San Jose, Del Pilar (Palawan), Puerto Princesa, Marinduque, and Tablas; Visayas—Catarman, Calbayog, Tacloban, Kalibo, Roxas, Antique, Iloilo, Bacolod, San Carlos, Toledo, Cebu City, Tagbilaran, and Dumaguete; and Mindanao—Surigao, Cabadbaran (North Cotabato), Buenavista, Gingoog, Lianga, Bislig, Cagayan de Oro, Malaybalay, Iligan, Malabang (North Cotabato), Dipolog, Ozamis, Mati, Dadiangas (General Santos), Pagadian, Liloy, Labason (Zamboanga province), Cotabato, Ipil, Zamboanga, Jolo, Tawi-tawi, Lebak, Kalaong, Tacurong, Allah Valley (Surallah), and Kiamba.

12 The windows of these DC–3 planes were enlarged to enable passengers to enjoy the view outside and make flying more attractive. The "first class' service found in DC–3 planes were

cheaper than the regular service given to passengers in Convair planes since older aircraft were used in the former , newer and modern aircraft in the latter.

13 Other earnings from nontransportation sources included ground handling services for foreign airlines (17.2 percent), catering and surface transportation services (8.9 percent), lease of its Viscount aircraft (14.8 percent).

14 Republic Act 776, also known as the Civil Aeronautics Act of the Philippines, was signed into law on 20 June 1952. The law was drafted by civil aviation officials who were sympathetic to small airline operators. Chapter II, Sec 4(e), for example, states that "public interest . . . [dictates the need for] competition between air carriers to the extent necessary to assure the sound development of an air transportation system properly adapted to the need of the foreign and domestic commerce of the Philippines, of the Postal Service and of National Defense."

15 Andres Soriano y Compañía or Andres Soriano and Company was a holding company that also handled PAL's insurance policies. It had a sister company, Ansor Corporation, organized under the laws of Delaware, with New York as its head office and with branches in San Francisco, London, Madrid, and Paris. The Andres Soriano y Compañía and the Ansor Corporation were merged later on to form the Andres Soriano Corp. (ANSCOR).

16 For a critical view of Soriano's management of PAL, see Morantte 1962.

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