

**PHILIPPINE AIR LOSS SAID TO THREATEN PRIVATISATION.**By **Chaitanya Kalbag**

700 words

27 May 1988

Reuters News

English

(c) 1988 Reuters Limited

MANILA, May 27, Reuter - Philippine Airlines Inc's loss in the 1987/88 fiscal year may delay government plans to privatise the state-owned carrier, industry analysts say.

PAL posted a net loss of 67.98 million pesos in the year ended March 31, a sharp decline from its 318 million peso net profit in 1986/87, the airline said on Thursday. The 1986 profit had ended a six-year string of losses.

"The latest results are likely to push back privatisation plans because the government wanted to see the airline as a profit and not a cost centre," a Western analyst said.

PAL, which flies to 30 cities in 23 countries, said it accumulated net losses totalling 5.6 billion pesos between 1979 and 1988. Tourism Secretary Antonio Gonzalez said in 1987 the airline was burdened by 500 million dollars in short-term debt.

President Corazon Aquino said last October that the government would try to sell the flag carrier in 1988. But PAL officials said last year that the sale would be put off for at least three years to allow a return to profitability.

"PAL's books are in a mess, its accounting standards poor. Its new losses will encourage airline officials to urge the sale's postponement," said a Civil Aeronautics Board official.

The official said the airline's Manila maintenance division has been running consistent losses. "They don't know how much they are supposed to charge PAL's operations department," he said.

The airline attributed its 1987/88 loss to a substantial reduction of capacity in international services when mandatory heavy maintenance checks were made on two of its four Boeing 747s from September to November.

"Capacity was reduced by 25 pct for one whole quarter. This caused operational losses during the period," a PAL statement said.

The airline is 66 pct owned by the Government Service Insurance System (GSIS) and 30 pct by the National Development Co (NDC).

PAL president Dante Santos told a House of Representatives subcommittee this week that the airline, with current paid-up capital of two billion pesos, is severely under-capitalised.

He said PAL needs 3.5 billion to four billion pesos of new money to aid its recovery.

GSIS President Feliciano Belmonte told reporters on Thursday that GSIS considers the airline a "bad investment".

Belmonte said GSIS had invested 1.6 billion pesos in PAL and NDC had invested 500 million. "We want to get back more than we lent," he said, adding that PAL's flying and landing rights are worth more than its tangible assets.

"We should not be stampeded into selling PAL because there is a study being made on how to go about it," Belmonte said.

The study, funded by a 350,000 dollar grant from the Asian Development Bank (ADB), is due for completion in September.

Melecio Javier, president of the Air Lines Pilots Association of the Philippines, told the House subcommittee the pilots' group is interested in buying out the airline.

"We have the money although I cannot reveal at this point how much. Some private investors are behind us,"





Javier said.

The sales of PAL and Petron Inc, a subsidiary of state-owned Philippine National Oil Co, have been seen as key tests of Aquino's privatisation plans because of their size.

Only four of 113 firms approved for sale in the privatisation program have been sold. The government has put off Petron's sale under pressure from its management, which says the firm is of strategic importance to the country.

Filipino industrialist Enrique Zobel told Aquino in March that his consortium of local and foreign investors is interested in buying PAL. Zobel urged Aquino to commission a full and independent audit of the airline.

The airline told Zobel it would decide on its privatisation plans when the ADB study was completed.

A unit of London-based James Capel Holdings Ltd and Allegis Corp AEG unit United Air Lines Inc had earlier expressed interest in the airline. A PAL spokesman declined to say whether they are still interested.

Foreign ownership will be limited by law to 40 pct of PAL.

Document Iba0000020011203dk5r01v7h

