Philippine Airlines: Asia's First, Striving to Shine

by Ken Donohue

If someone asked you to name Asia's oldest airline, you'd probably not know the answer. Certainly, with a 70-year history this airline is proud; but it's not brash. Neither the largest carrier, nor the one with the most destinations, its strength lies not in its size, but in its people.

Indeed, Philippine Airlines (PAL—*Airways*, April 2002), which made its first flight in March 1941, is Asia's oldest airline company operating continuously under its original name. But PAL's roots go even deeper, to the Philippine Aerial Taxi Company (PATCO) formed on December 30, 1930 by a group of investors mainly comprising US citizens and headed by San Miguel brewery president Andres Soriano. After carrying 25,000 passengers, PATCO ceased operations in September 1939.

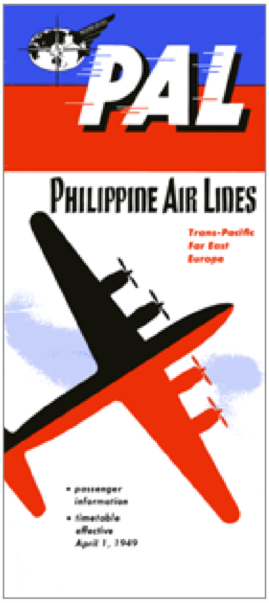
In 1940, encouraged by the efforts of another local enterprise called INAEC (Iloilo-Negros Air Express Company), Soriano's personal pilot, Paul Gunn, urged his boss to again consider entering the air transport arena. Thus was Philippine Airways born on February 26, 1941, with a modest fleet of two Beechcraft: a twin-engine Model 18 and a single-engine Model 17 Staggerwing. Almost immediately the name was changed to Philippine

Air Lines, and PAL's first flight was operated on March 15, from its home base at Manila to Baguio, a resort in northern Luzon, with Gunn at the controls of the Beech 18. Two days later the Staggerwing began service to Legaspi, and the network was extended even farther, to Daet, Naga, Masbate, Tacloban, and Cebu, with the introduction of a second Beech 18 in April.

Ironically, INAEC—the inspiration behind PAL's creation—ceased to exist when its entire fleet was destroyed by a Japanese aerial attack on Iloilo on December 18, 1941. But the carrier re-emerged after the war as Far Eastern Air Transport Inc (FEATI), which, with another privately owned company, Commercial Air Lines Inc (CALI), was absorbed by PAL, in 1947 and 1948, respectively.

At the time of PAL's inauguration, the company used Nielson Airport, named after New Zealander Laurie Reuben Nielson, who, in the Thirties led the establishment of the airport and an aviation school in Manila's Makati area, now home to the city's thriving business district. In fact, the former airport's runways, 07/25 and 12/30, are now two major streets: Paseo de Roxas and Ayala Avenue, respectively.

With the outbreak of war in the Pacific in December 1941, Gunn used his so-called 'Bamboo Fleet' to support General Douglas MacArthur's operations until the aircraft were destroyed and Nielson Field badly damaged. (Nielson himself was captured by



BILL LARKINS/JW COLLECTION

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Thanks to support from KLM Royal Dutch Airlines, PAL introduced DC-8 service in 1962.

PAL DC-6 'Sleeper Plane' (PI-C293) at San Francisco.

JACQUES GUILLEM COLLECTION

PAL briefly operated the eight-passenger Scottish Aviation Twin Pioneer (with Pratt & Whitney R-1340 engines instead of the original Alvis Leonides) on its Rural Air Service.

the Japanese and interned in Hong Kong, where he disappeared without trace; both Soriano and Gunn reached Australia.)

After the end of hostilities, with the help of Transcontinental & Western Air (TWA), PAL resumed service in 1946, serving 15 domestic destinations with Douglas DC-3s. The same year, PAL became the first Asian airline to cross the Pacific when it chartered a DC-4 from Transocean Air Lines to transport US military personnel from Manila to Oakland, California. This paved the way for PAL to inaugurate regular service to San Francisco by year-end.

In 1947, the fledgling airline expanded its wings

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to Europe, and a year later operations were moved from Nielson to Nichols Field in Pasay City, when the government turned this former US Army Air Forces (USAAF) base into a new airport for Manila. It is still home to the country's main gateway, Ninoy Aquino International Airport (MNL), located only 4mi/6.5km from downtown.

Like the Philippines itself, the national airline has experienced its share of tribulations, including terrorism and corruption, which left PAL financially vulnerable and unstable, and in 1973 President Ferdinand Marcos instituted a one-airline policy, closing down competitors Air Manila and Filipinas Orient Airways. After 15 years the monopolistic rule of Philippine skies came to an end in 1988 when President Corazon Aquino revoked the nation's restrictive air carrier policy, and four years later the government sold the flag carrier.

That Philippine Airlines is still flying after more than seven decades is a testament to the character of its people. Like Manny Pacquiao, the Philippine boxing sensation, PAL is a scrapper; each time the airline is 'knocked down', it gets back up stronger than before.

PAL's most recent bout came in 1998, when after only six years after privatization a pilot and

In-flight with Philippine Airlines

Flights: PR107 & PR106

Route: Vancouver, British Columbia (IATA: YVR)–Manila (MNL)–YVR

Aircraft: Airbus A340-600

For much of the year Philippine Airlines operates five times a week to Vancouver from Manila. During annual peak periods daily flights are offered. Four days a week, the airline operates a service between Vancouver and Las Vegas, with fifth freedom rights over the route.

Check-in was quick and efficient, and while ultimately unsuccessful, the agent made a valiant attempt to find me a window seat.

YVR, which in 2011 marked its 80th year of operations, has received a number of international accolades in recent years, and in 2010 was rated by Skytrax as the best airport in North America. Apart from departures to New York, Taipei, London, and Sydney, the international gates were relatively quiet during this late evening period. Boarding began at 2255, our scheduled departure time, with no explanation for the delay, but the process was efficient, and the near-full aircraft was pushed out at 2310, only 15 minutes behind schedule. PAL operates the A340 in a two-class layout, with 44 seats in the Mabuhay (business) cabin, and 220 in Fiesta (economy) class.

The cabin crew, attired in stylish tan-colored uniforms, warmly welcomed passengers and offered Philippine newspapers and a modest overnight amenity kit. A humorous yet professional safety video was shown, which clearly had the desired impact as I noticed that people actually paid attention. One disappointment was that the airline's A340s lack seatback personal televisions in economy. Movies were played on a small monitor in the center of the cabin, and a screen at the front, which didn't always work properly.

International gates at YVR are on the opposite side of the airport from Runway 08R, used mostly for departures, so it took 20 minutes to taxi to the threshold. At 2330, the A340 lumbered into the sky for the 6,500mi (10,450km)-long journey.

Forty-five minutes after takeoff, dinner service began. I chose the beef dish, which was presented in a plastic

PHOTOS: KEN DONOHUE

Mediocre meals, courteous crewmembers.

box. While I may have been unlucky, it was one of the poorest meals I have experienced on a flight. The food was overcooked, leaving the rice and vegetables dry and hard, although the fresh banana was a pleasant surprise.

Our route took us north along the west coast of Canada, over Alaska's Aleutian Islands, then south over Russia's Kamchatka Peninsula. We flew abeam Tokyo and the Japanese Islands, before crossing the Philippine Sea.

Halfway into the flight a snack was offered, and two hours before landing a hot towel service preceded breakfast. PAL serves Philippine cuisine, so breakfast was similar to the dinner menu of rice with chicken or beef. This time I chose the former, which was much better than the first meal. The only other complaint was that as the flight wore on, the toilets became a little untidy, to put it mildly.

At 0425 local time, and 14 hours after leaving Vancouver, we touched down on Runway 06 at MNL. A short taxi brought us to Terminal 2. Customs and immigration formalities were very efficient, and within 20 minutes of landing I had exited the terminal. Because I didn't have any checked baggage, I don't know how long passengers would have been waiting for their luggage, but the baggage claim area is small, crowded, and inadequate, especially when large aircraft disgorge hundreds of passengers.

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Philippine Airlines does not offer web check-in or self-service kiosks; however, check-in for my return flight was quick, handled by contracted ground staff. Surprisingly, there was no airline branding at the counters, only the name of the destination and flight number. A PHP750 ($17) departure fee is payable before proceeding through security. Airside, there are few shops and services to distract the traveller. At the boarding gate, passengers had to endure another security screening because this flight continued to the United States (Las Vegas).

Our aircraft pushed back at 1700, five minutes after scheduled departure time, and with a late afternoon rainstorm lashing the Airbus, we taxied to the end of Runway 24. Once airborne, we headed west over Manila Bay, then made a right turn tracking north over Luzon, the largest island in the Philippines.

Unlike the inbound flight, no newspapers were offered, though I leafed through the airline's in-flight magazine *Mabuhay*. Not long after takeoff, drinks and dinner service was initiated. The beef and vegetables were delicious, despite being presented in a plain white cardboard box. Cabin attendants came by several times offering water. Before arrival, I chose the chicken adobo, a popular Philippine dish; it proved excellent, with a pleasing mixture of spices.

At 1230 local time, we landed on Runway 08L, and by 1237 were at the gate, almost 30 minutes early.

Overall impression

Philippine Airlines provided good service throughout. Cabin crewmembers were friendly and attentive, and announcements from the flightdeck before departure and en route were welcome. Unfortunately, the first meal en route to Manila was unacceptably poor. To be fair, the others were better prepared, but their presentation in plastic and cardboard boxes tends to cheapen the dining experience.

In-flight entertainment on the 15-year-old A340 showed its age, and while recent Hollywood movies were presented, viewing was not ideal. The airline does offer seatback personal monitors and AVOD (audio-video on demand) on the 777 and all but one 747-400.

Jaime Bautista, the airline's president, states that his goal is for Philippine Airlines to become a Skytrax 4-star airline (the current rating is 3). Achieving this won't be easy, but the foundation is there. ✈

MANUEL NEGRERIE

Boeing 777-300ERs will eventually replace PAL's 747-400s.

ground crew strike, coupled with the Asian economic crisis, landed a crippling blow. This was at a time when Philippine Airlines was undergoing considerable expansion. As part of an ambitious renewal program under the stewardship of Lucio Tan, the airline was expecting to take delivery of 31 new airplanes, comprising seven Boeing 747-400s, four Airbus A340-300s, eight A330s, and 12 A320s.

"For us to become an efficient airline, we needed modern aircraft with commonality," says Jaime Bautista, the airline's president and chief operating officer. "The 'planes we inherited when the airline was run by the government were old and had different configurations… like our 747-200s that had different engine types."

In June 1998, the airline entered receivership (similar to US Chapter 11 bankruptcy protection), and three months later shut down for two weeks. When PAL eventually rose from the mat and resume operations, it looked very different. Orders for the 747-400s and eight A320s were canceled. All routes to Europe were discontinued, which included London, Frankfurt, Paris, Rome, and Amsterdam, as were New York (Newark) and destinations in the Middle East and Australia. The fleet was reduced from 60 to 22 aircraft, the pilot complement went from 500 to 300, and the number of flight attendants dropped by more than 500.

"This wasn't about downsizing, but right-sizing the airline," Bautista tells *Airways*. "We knew before the strike and the economic crisis that we needed to rationalize our operations and focus on our strengths, instead of serving destinations all over the place. Between 1992, when we were privatized, and 1998 the airline never made any money."

Following the shutdown, the airline filed a petition for rehabilitation with the Philippine Securities and Exchange Commission, which resulted in the engineering operation being sold to Lufthansa Technik.

"Receivership allowed the airline to restructure, so that we could better manage operations," explains Bautista, who as the airline's chief financial officer at the time wrote the rehabilitation plan. "We were able to rationalize our fleet and get rid of unwanted 'planes, and rid ourselves of unfavorable lease agreements that had been made when the airline was under government control." PAL expected to lose money for the first year under the rehabilitation plan, but instead made a modest profit. In fact, there were four consecutive years of profitability, interrupted only when the SARS virus hit eastern Asia and decimated tourism throughout the region. Finally, in October 2007, the flag carrier was released from receivership.

Philippine Airlines is now more efficient, and recently embarked on a modest renewal of its long-haul fleet, which has seen it take delivery of two Boeing 777-300ERs. The first joined the fleet in December 2010, while another came online in January 2011. Two more of the type are scheduled for delivery this year and another two in 2013.

"We really like this aircraft, because it is very fuelefficient, and allows us to fly across the Pacific, with less maintenance than with the 747s we currently fly to Los Angeles and San Francisco," acknowledges Bautista. "While the Triple-Seven has less passenger capacity, it has huge cargo capacity."

In time, the 777s will replace the 747s. PAL would like to operate the 777 to the USA, but is prevented by the US Federal Aviation Administration's downgrading of the safety oversight rating for the Philippines Civil Aviation Authority from Category 1 to 2 in 2008. This means no Philippine airline is able to add routes, or operate new aircraft on existing services to the United States. As a result, PAL continues to operate the Airbus A340 on its four times-weekly flights to Las Vegas (via Vancouver), while the 777 is used on days when the flight terminates in Canada.

Making matters worse, the European Union followed the FAA's lead and announced similar sanctions in 2010. "We are being penalized for the inefficiencies of the government. We want to serve new destinations, especially in the US," declares an exasperated Bautista. "With three million Filipinos living in the United States, we'd like to initiate service to New York, Chicago, and Seattle. The government is fully aware of the consequences to the airline." Bautista reveals that Philippine Airlines would like to restart service to Europe, but with much more modest ambitions than in the past. PAL is interested in serving Frankfurt or Munich, and then entering into code-share agreements to transfer passengers throughout the continent. All of this is, of course, dependent on the country regaining its Category 1 status.

The Philippine diaspora is estimated at more than ten million, with the USA, Saudi Arabia, Malaysia, Canada, and the United Arab Emirates representing the top five countries where Filipinos reside overseas. "Ninety percent of our passengers are Filipinos," Bautista concedes. "They like to fly PAL because they feel as if they are in the Philippines the minute they step on our aircraft. Our cabin crews speak their language [Tagalog], and we offer Filipino cuisine on all our flights." While this provides a natural market for the airline, PAL would also like to attract more visitors to the country to support the tourism industry.

Bautista thinks it unlikely that the airline will resume flights to the Middle East, despite close to 1.5 million Filipinos working in the region. "It's very difficult, Middle Eastern carriers operate almost 70 flights a week into Manila, and we just can't compete with that kind of capacity." While Bautista sounds defeated, it's a positive sign that the airline is making sound business decisions about the markets it serves, rather than simply operating a route because it thinks it should.

On both domestic and regional routes, Philippine Airlines faces stiff competition from low-cost carriers. In fact, in 2010 Cebu Pacific (*Airways*, June 2002) surpassed the flag carrier as the the country's largest airline as rated by domestic traffic. PAL's strategy to compete is to have partner Airphil Express operate nine routes on its behalf. Previously known as Air Philippines, that financially troubled airline was taken over by the same investor group that owns PAL, but has a separate management group.

PAL

Economy class of a PAL Boeing 777.

Most of the economy class cabin on the A340-300 is in a 2-4-2 layout.

Despite competition, there is huge potential as an improving and increasingly stable national economy provides more opportunity for people to fly instead of having to take a bus or ferry. "Growth in the Philippine economy will give people the capacity to travel, and increase overall passenger traffic," notes Bautista. "Less than 15 percent of the Philippine population has experienced air travel, so we are confident there is lots of opportunity for a number of airlines to benefit."

Bautista stresses that on domestic routes PAL offers better service and more comfortable airplanes. "We have 156 seats on our A320s, while our competition has 180. And we offer meals, drinks, and newspapers at no extra charge."

In Bautista's opinion PAL's economy class compares favorably with that of most international carriers, but he admits that the airline's business class is not on par with Cathay Pacific Airways or Singapore Airlines. "Because our market is a little more cost-conscious, we don't offer the same product that they do, but our business class fares are much lower than theirs," he points out. To underscore this, on a random date chosen, PAL's roundtrip business fare between Vancouver and Manila was $1,400 cheaper than Cathay Pacific's comparable flight between Vancouver and Hong Kong. And, at the time of writing, between Manila and Hong Kong business class with PAL is half that charged by Cathay.

PAL's main hub is named after Benigno Simeon (Ninoy) Aquino Jr, who was assassinated there in 1983 immediately upon returning to the country from a period of exile in the USA. Aquino was a leading opposition figure during the Marcos regime. The airport has four unconnected terminal buildings. Philippine Airlines has exclusive use of Terminal 2, which was completed in 1998. The north wing of that terminal serves international flights from seven gates, while another seven in the south wing are used for domestic operations.

With only one active runway, 06/24, the main impact from an operational perspective is congestion. Flight delays are common, especially as passenger numbers at MNL increased by almost 60% over the past five years. And given that the airport is located close to the city center, and surrounded by residential neighborhoods, expansion is impossible. The government did, however, recently announce a $25 million renovation of Terminal 1, which is used for most international flights. Although this expenditure may have been planned for some time, the timing of the announcement came after an online news site declared MNL the worst airport in the world. The government's transport secretary does admit that fixing the problem means building a new airport at the former US Air Force's massive Clark Air Base.

Diosdado Macapagal International Airport (CRK, also known as Clark International Airport) has become a principal base of operations for LCCs, so turning the site into Manila's main international gateway, with a mooted capacity of 80 million passengers, poses a number of challenges. While there are many proponents, others are against the idea, citing poor transport infrastructure. Clark is located more than 43mi (70km), or almost two hours, north of Manila. While a motorway and high-speed rail link have been proposed, a decision to move all air services to Clark isn't likely anytime soon, especially because on top of limited access, a new terminal would need to be built.

Despite the immediate challenges—the blockade of the US market and recent labor issues that arose when the airline dismissed 2,400 employees in favor of contracting catering, ground handling services, and call center reservations to third party providers—Bautista is optimistic about PAL's future, but would like the government to be more supportive. "We're not asking them to support PAL in particular, but to enact policies that are beneficial to the entire industry," he explains. "We're not against open skies with other markets, but we just want to ensure that the benefits are reciprocal. Don't go giving foreign airlines access to the Philippines while limiting our options by agreeing to slots in the middle of the night or at inconvenient times."

On another issue, he adds that for the past 15 years the airline has been asking the government to continue negotiations with Canada over more access. Currently, PAL has entitlements for daily service, but would like to add more flights, including to Toronto.

Philippine Airlines is essentially a good airline with a rich history. But tradition counts for little when to survive in this business airlines need to be innovators. Excellent customer service, delivered consistently, is paramount for success. PAL's competitors include some of the best airlines in the world. And while the company faces some restrictions that are not of its doing—as well as a price-sensitive market—with a commitment to improving the consistency of its in-flight service Philippine Airlines will have a bright future. ✈

(The LCCs of the Philippines will be reviewed in the May 2012 issue of Airways.*)*

Fast Facts—Philippine Airlines

IATA: PR **ICAO**: PAL IATA/ARC: 079 **Radio**: *Philippine*

PNB Financial Center
Pres Diosdado Macapagal Avenue
CCP Complex, Pasay City 1307
Manila
Philippines

Website: www.philippineairlines.com

Network
Domestic (20): Bacolod, Butuan, Cagayan de Oro, Cebu (hub), Cotabato City, Davao City, Dipolog, Dumaguete, General Santos, Iloilo, Kalibo, Laoag, Legazpi, Manila (hub), Ozamiz, Puerto Princesa, Roxas City, Tacloban, Tagbilaran, Zamboanga

International (25)
Asia: Bangkok, Beijing, Busan, Delhi, Fukuoka, Ho Chi Minh City [Thành phố Hô Chí Minh], Hong Kong, Jakarta, Macau, Nagoya, Osaka, Seoul, Shanghai, Singapore, Taipei, Tokyo, Xiamen
Oceania: Guam, Melbourne, Sydney
North America: Honolulu, Las Vegas, Los Angeles, San Francisco, Vancouver

Code-shares: Airphil Express (PAL affiliate), Cathay Pacific Airways, Emirates, Etihad Airways, Gulf Air, Malaysia Airlines, Qatar Airways

FFP: Mabuhay Miles

Traffic (FY2010, April 2010-March 2011)
Passengers: 9 million
RPK: 17.8 billion (61st in world)

Financial: $1.67bn (FY2010, +23% over FY2009)
$312 million cumulative loss, FY2008 & 2009; $72.5 million profit FY2010; $10.6 million loss 1QFY2011 (April-June 2011)

Founded: February 26, 1941 (as Philippine Airways)
Start date: March 15, 1941 (as PAL)
Chairman & CEO: Lucio C Tan
President & COO: Jaime J Bautista
Ownership: PAL Holdings (Lucio C Tan Group of Companies)

Fleet (average age 9.8 years)

Type	**Nº**	**Seats**	**Engines**
Airbus A319-112	4	C8Y126	CFMI CFM56-5B6/P
Airbus A320-214	13	C12Y138 or C12Y144	CFMI CFM56-5B
Airbus A330-301	8	C42Y260	GE CF6-80E1A2
Airbus A340-313	4	C44Y220	CFMI CFM56-5C4
Boeing 777-300ER	2	C42Y328	GE90-115BL
Boeing 747-40	5	C56Y335 or C42Y383 or C44Y383	GE CF6-80C2B1F

On order

Airbus A320-214	3	due 2012
Boeing 777-300ER	4	due 2012 (2), 2013 (2)