investment in equipment and facilities in the order of P1.1 billion — equivalent to the company's total assets as of June 30. Thus, explained Toda, in a period of less than two years, the company would have to double its assets "to maintain its competitiveness in the international market as well as to cope with the operational requirements of its growing domestic operations." Toda said that the huge investment for expansion rendered inadequate the company's present capitalisation. (P.A.L. has stockholders' equity of P129m.)

That said, Toda gave P.A.L. employees an idea of who would be controlling the purse strings in future. "It is essential that a major infusion of fresh capital be brought into the company to enable it to undertake its essential development plan," he said. "We have reached the point when the realities of the industry and the paramount interests of the company require that we carry on the vast job that lies ahead in close collaboration with the government."

Toda seemed to have no alternative but to sell out to the government. He had an option until the end of October to buy three 747 jumbo jets offered by Lufthansa. To exercise this option, Toda needed P100m. ($13.5m.) which could be raised abroad provided the government-owned Development Bank of the Philippines issued a guarantee. The bank refused to provide guarantees for this loan as well as for others to raise the rest of the P1.1 billion required for overall development.

The takeover, as it turns out, will be done in much the same manner as Toda acquired control in 1965. Then President Macapagal (Toda comes from Macapagal's hometown of Lubao, Pampanga, and Toda's father, an ambassador, is said to have helped the former president during his studies as a young boy) decided that G.S.I.S. should waive its pre-emptive rights to an increase in capital, enabling Toda's Rubicon to buy 52% and reducing government holdings to 24.6%. In February, 1968, Toda purchased Pan American's 20% share in P.A.L. and T.W.A.'s 2%, giving Rubicon 74.1% control.

Now it is Toda's turn to waive his pre-emptive right to a P225m. increase in capital. G.S.I.S. general manager Roman Cruz told ASIAWEEK that the government insurance company will subscribe the entire 90% increase, immediately paying 25% or P56.25m. at a par value of P10 a share. The U.S.-educated former banker disclosed that Rubicon offered to sell its present 1.78m. shares to the government. At par value, these shares are worth P17.8m. and at a book value of P54 a share, they are worth a hefty P96m. But based on the current value of P.A.L.'s operating property and equipment, each share was worth P150 in 1976, which rockets the appraisal value of Toda's holdings to a staggering P267m.

Purchase of Rubicon shares is not necessary for G.S.I.S., says Cruz, unless the government wants nearly 100% ownership of P.A.L. Based on a new authorised capital of 25m. shares (P250m. at par value of P10 a share), Rubicon's 1.78m. holdings would be equivalent to only 7.1%, "not enough for even one board seat or for Toda to get himself re-elected director." G.S.I.S., on the other hand, will own 23m. shares or 92% of P.A.L.'s authorised

Cruz: 'Massive assistance needed'

capital of P250m. If the government does decide to buy Toda's shares, he will benefit to the tune of nearly P100m. ($13.5m.) though in any event his subsidiary companies are almost certain to lose their contracts with P.A.L.

With P.A.L. ownership transferred to G.S.I.S., Cruz says it will be easier for the government to integrate its airline, tourism and transport policies. Streamlining operations may not be as difficult as it appears. For one, the government is not lacking in competent airline managers. Industry insiders say that Captain Roberto Lim, a career pilot who heads the Philippine Aerospace Development Corporation (which manufactures light aircraft) is considered a good bet for the presidency of the new-look P.A.L. For Lim, such an appointment might evoke some nostalgia; he is a former executive vice president of P.A.L.

The takeover will mean a change of faces on the board. With its present 24% holdings, the government has three voting directors on P.A.L.'s 13-man board — Cruz, Presidential Assistant Juan Tuvera and Solicitor General Estelito Mendoza — and two non-voting ex-officio directors — airport manager Luis Tabuena and Ricardo Cu-Unjieng, a friend of President Marcos. Toda has eight board seats for himself and friends and associates who include Andres Soriano Jr., president of San Miguel where Toda is also a director. It was Soriano, observers recall, who guaranteed Toda back in March 1972 to secure a Hongkong bank loan to repay a US$7m. loan which had been declared in default by a group of New York banks.

There will be plenty of room for improvement of services and profitability when the new administration takes over. Cruz, who is also chairman and president of the Philippines' grandest hotel, the P225m. Manila Hotel, says that P.A.L. "needs immediate massive financial assistance — that's why we are coming in." He points out that the airline's profitability when it was controlled by the government in the 1950s and the early 1960s was much greater than it is today. In 1956, P.A.L. made a net income of P23 for every P100 revenue; last year that figure had slumped to one peso per 100. Its biggest-ever losses were incurred in 1970 (P28.9m.) and in 1972 (P13m.). Cruz says that with the government at the helm, priority will be given to the upgrading of aircraft and services in the domestic sector.

Launched in 1946 by San Miguel founder Col. Andres Soriano, P.A.L. was built from a pre-war taxi firm. From respectable revenues of P8.8m. earned that year with five DC-3s, the airline has grown into a billion-peso enterprise. But as a privately-owned company, it has not performed up to the expectations of the tourist-hungry Philippine government. Now, with the help of the taxpayers' money, it may quickly be able to hold its own in the "open skies" of the Philippines.

Commodities

The Good Oil, Sometimes

The yellowish, fatty oil that comes from the fruit of the ubiquitous palm tree in Malaysia provides a 10% — and fast-growing share — of the country's export earnings. In all, Malaysia produces about 46% of the world's output of palm oil and has tremendous potential to supply more as the demand increases among the traditional buyers — the manufacturers of cosmetics, soap, chocolate and candles — who include such giants as Unilever. Undoubtedly a profitable commodity, palm oil is also subject to highly fickle price fluctuations. Two Penang dealers in vegetable oils, Palm and Vegetable Oils (Malaysia) Sdn. Berhad and Malayan Produce Company can testify to that. When the world price for palm oil was running at the high level of US$690 a ton earlier this year, the two companies contracted to buy 76,000 tons of oil and soyabeans for resale to India, Bangladesh and Pakistan. Then the price crashed and some of the intending buyers defaulted, leaving the dealers with about $12m. in debts.

The losses were incurred when the

purchases of palm oil, kernel, coconut oil and soyabeans were sold at current market prices (for palm oil about $450 a ton) after the dealers encountered severe cash flow problems largely due to defaults and delayed payments, aggravated by speculative buying in overseas markets by other parties. Quantities involved in the deal that never came off were 17,000 tons of crude palm oil, 24,000 tons of refined palm oil, 2,000 tons of palm kernel oil, 11,000 tons of coconut oil and 22,000 tons of soyabeans. The suppliers were Malaysian, Japanese, American and Filipino interests. "We got caught on a market downturn and some of those who had contracted with us in India and Bangladesh defaulted," said a source close to Datuk K.K. Sharma, the managing director of M.P.C. Holdings, the holding company of the Penang dealers.

It was Datuk Sharma who came to the rescue when Malaysian creditors realised in mid-August that the dealers would not be able to fulfil their commitments because of a sharp drop in market prices which followed good oil seed harvests world-wide. A creditors' association was formed under the leadership of the vice chairman of United Plantations of Malaysia, Datuk B. Bek-Niesen to negotiate a settlement. Also involved were at least two Malaysian banks, United Asian Bank and Malayan Banking, and several financial institutions, including Malaysia Borneo Finance, as well as Unitata, the joint venture between Tatas of India and United Plantations. Industry sources said that Datuk Sharma had personally pledged his own assets as well as those of M.P.C. Holdings in respect of the outstanding commitments. The pledge had been accepted and the firms had been given a year to

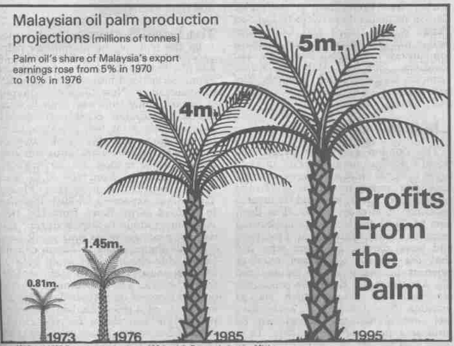
Musa Hitam: 'Excessive speculation'

settle the claim.

These sources told Asiaweek that representatives of the creditors had agreed not to take any unilateral action. They said it was now hoped that other overseas creditors would participate on an equitable basis and indications received so far indicated they would do so.

While there was initial nervousness at the scale of the losses, Datuk Sharma's pledge clearly did much to smooth the way to a settlement. And his solid reputation as a man who covers all of his losses helped. "He has always paid back 100 cents for every dollar he owes," said a businessman who has had dealings with him over the last several years.

All to Datuk Sharma's credit. However, in the view of the government's primary industries officials, and many in the industry, the time has come when regulations should be introduced to protect producers and traders from such disasters. Less than a year ago, P.O.R.L.A. – the Palm Oil Registration and Licensing Authority – was set up to improve the marketing system of palm oil as well as the quality of the commodity. Last week Primary Industries Minister Musa Hitam told the fledgling body that it should arm itself with regulations to "prevent trading malpractices, including excessive speculation and defaults on contracts." Industry sources say they expect the authority to start its regulatory activities early next year.



1985 and 1995 figures are projections of Malaysia's Primary Industries Ministry

A Plan for Copper

Copper is one commodity whose price is so low that even the buyers are worried. World surplus stocks are estimated at 2m. tons. Prices have slumped, in some cases, to the cost of production, forcing closures and cutbacks among big producers in the United States. Among developing countries, Papua New Guinea has seen its export earnings from the metal drop from 54% to 39% of total exports in a single year. Major consumers are concerned because they fear that continued low prices will eventually lead to drastic production cutbacks that will in turn result in severe price rises sometime in the future.

One solution which appears to have the support of both producers and consumers is now under consideration by the London-based International Wrought Copper Council. It involves the reimbursement of copper producers in return for voluntary cutbacks in production. Although details of the plan are confidential, industry sources told Asiaweek that a base copper price would act as a trigger for setting in motion the agreed cutbacks. In return, the shortfall in income to producers incurred as a result of the cutbacks would be bridged by loans made from a special government-subscribed fund. When the world copper price moves back through the price base these loans would then be repaid to the fund.

The plan was submitted by the Riotinto Zinc Group — Australia's biggest mining concern and the parent of Papua New Guinea's Bougainville Copper operation – to the international council at a meeting attended by producers as well as copper-consuming companies (the council, chaired by F. Halm, managing director of Metallwerker A.G. of Switzerland is essentially a forum for consumers). The desire for some form of action to raise copper prices is widely discernible throughout the entire industry, says Asiaweek's Alan Spence in London. The producing companies want to increase their income without depressing prices further and there is a mounting fear amongst consumers that continued low prices will eventually prove such a hardship for producers that their operations and production will be cut back, leading in time to big price rises.

That concern was evident at a recent American Metals Market Forum in London at which Bill Millership, the