

Title:

Philippine Overseas Telecommunications Corporation (POTC) and Philippine Communications Satellite Corporation (PHILCOMSAT) vs. Sandiganbayan and Republic of the Philippines

Facts:

In March 1986, following the People Power Revolution, the Presidential Commission on Good Government (PCGG) was created to recover ill-gotten wealth amassed by former President Ferdinand Marcos and his associates. POTC, a private corporation, and PHILCOMSAT, a government-owned and controlled corporation, were sequestered as part of this mandate.

On July 22, 1987, the Republic, through the Office of the Solicitor General, filed a complaint (Civil Case No. 0009) against key figures associated with Marcos, alleging various illegal schemes used to monopolize the telecommunications industry. However, POTC and PHILCOMSAT were not named as defendants in the case; their stockholders were.

POTC and PHILCOMSAT filed for injunctions to lift the sequestration orders, but these were overturned by the Supreme Court in 1995, ruling that the PCGG's complaint was timely filed within six months as required.

A compromise agreement was struck in 1996 between the government and Potenciano Ilusorio, one of the defendants in Civil Case No. 0009. As a result, the government acquired 4,727 shares (34.9%) of POTC.

When that agreement was contested, the Supreme Court upheld it in 2005, leading POTC and PHILCOMSAT to file an Omnibus Motion seeking to lift the sequestration, which the Sandiganbayan denied in 2005 and 2006.

Issues:

1. Whether the failure to implead POTC and PHILCOMSAT as defendants in Civil Case No. 0009 constitutes a jurisdictional error.
2. Whether the PCGG's power to sequester is only provisional.
3. Whether the sequestration order should be lifted as the properties in question have been disposed of.

Court's Decision:

The Supreme Court granted the petition, reversing the Sandiganbayan's resolutions and

declaring that the writ of sequestration was lifted automatically six months after the ratification of the 1987 Constitution due to the failure to properly implead POTC and PHILCOMSAT in Civil Case No. 0009. The Court held that:

1. The suit against the shareholders of POTC and PHILCOMSAT in Civil Case No. 0009 did not automatically translate to a suit against the corporations themselves due to their distinct legal personalities. Therefore, without directly including them as defendants, there was no valid judicial action commenced within the constitutional six-month period.
2. Sequestration is a provisional and transitional measure meant to preserve assets while their ownership is being adjudicated. Once the ownership has been determined, sequestration must be lifted.
3. The ownership of the shares in question has been decided, with the government now holding 34.9% of POTC. The sequestration must be lifted as the purpose has been accomplished and the shares have reverted to the government.

Doctrine:

Sequestration under the PCGG is provisional, and once ownership of the sequestered property has been finally adjudicated by the proper authorities, the sequestration order becomes *functus officio* and is thereby lifted.

Class Notes:

- Distinct legal entity principle: A corporation has its own legal identity, separate from its shareholders.
- Provisional nature of sequestration: PCGG's power to sequester is provisional and meant to be a temporary state to prevent dissipation of assets.
- Automatic lifting of sequestration: Per Section 26, Article XVIII of the 1987 Philippine Constitution, failure to file the corresponding judicial action within six months after its ratification will result in automatic lifting of sequestration orders.
- Final adjudication: Once the ownership of sequestered assets is decided, the sequestration order is lifted.

Historical Background:

This case is part of the aftermath of the 1986 EDSA People Power Revolution, which led to the fall of President Ferdinand E. Marcos and the rise of President Corazon C. Aquino. The PCGG was established under President Aquino to recover assets deemed to be ill-gotten. The determination of the scope of PCGG powers and the proper procedures for

sequestration orders are integral to the broader historical context of transitional justice in the aftermath of authoritarian rule in the Philippines.