

Title: Heirs of Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et al.

Facts:

In this case, the petitioners, represented by Wilson P. Gamboa, questioned the sale of shares of stock in Philippine Telecommunications Investment Corporation (PTIC) by the government to First Pacific Company Limited, a Hong Kong-based investment management and holding company. PTIC is a holding company that owns shares in Philippine Long Distance Telephone (PLDT) Company, a public utility. The main concern was whether the sale of these shares to foreign interests violated the 60-40 ownership requirement in favor of Filipino citizens, as mandated by Section 11, Article XII of the 1987 Philippine Constitution.

The petition in question argued that with First Pacific's purchase, the percentage of foreign-owned common shares in PLDT exceeded the 40% limit, effectively giving foreign interests control over a Filipino public utility. The case was brought to the Supreme Court to seek clarification on whether the term "capital" in the mentioned constitutional provision referred to total common shares only, or to both common and non-voting preferred shares.

Procedural posture:

Gamboa initially filed a petition before the Supreme Court, bypassing lower courts due to the transcendental importance and the impact of the issue on national economy and policy. The petition was treated as one for declaratory relief, converted to a petition for mandamus, compelling the concerned government agencies to enforce the constitutional limitation on foreign ownership in public utilities.

Issues:

1. Whether the term "capital" in Section 11, Article XII of the 1987 Philippine Constitution refers only to shares of stock entitled to vote in the election of directors, i.e., common shares, and not the total outstanding capital stock (common and preferred shares).
2. Whether the sale of PTIC shares to First Pacific violated the constitutional limitation on foreign ownership of public utilities.

Court's Decision:

The Supreme Court, after a detailed analysis, resolved the first issue by defining "capital" to refer only to shares with voting rights, specifically common shares. In doing so, the Court determined that the 60-40 ownership requirement in favor of Filipino citizens applies only to common shares. Consequently, the Court granted the petition in part and directed the SEC

to investigate PLDT's compliance with the constitutional provision based on this definition of "capital," and if there was a violation, to impose the appropriate sanctions.

Doctrine:

The prevailing doctrine established in this case was that the term "capital" in Section 11, Article XII of the Constitution pertains only to shares with voting rights, hence, the common shares. This interpretation is meant to maintain Filipino control over corporations engaged in the exploitation of natural resources and operation of public utilities, as mandated by the Constitution.

Class Notes:

1. Section 11, Article XII of the 1987 Philippine Constitution that emphasizes the 60-40 ownership ratio in favor of Filipino citizens in public utilities.
2. Definition of "Philippine National" under Republic Act No. 7042 or the Foreign Investments Act of 1991.
3. The distinction between common and preferred shares with respect to voting rights.
4. The constitutional requirement that Filipino citizens must own at least 60% of the "capital" to exercise control over public utilities.
5. The application of both the Voting Control Test and the Beneficial Ownership Test to determine "Philippine National" status.

Historical Background:

This case arose within a historical context where the Philippine constitution safeguards the national economy, ensuring that strategic sectors, such as public utilities, remain under Filipino control. The issue of foreign ownership in such sectors is rooted in protecting national sovereignty and economic independence, following past experiences with colonial exploitation and economic domination by foreign interests. The Supreme Court's decision aimed to reinforce this constitutional safeguard against unintended foreign control of critical industries, reflecting the nation's desire for economic self-reliance and autonomy.

Note: This brief is based on the assumption that the given case material aligns with the provided information and respects the knowledge cut-off date.