

Republic of the Philippines v. Provincial Government of Palawan

G.R. Nos. 170867 and 185941, March 30, 2010

Facts:

1. ****Service Contract No. 38 and Camago-Malampaya Project****:

- On December 11, 1990, the Republic entered into Service Contract No. 38 with Shell Philippines Exploration B.V. (SPEX/OXY) for exclusive petroleum operations in “Camago-Malampaya” offshore northwest of Palawan.

- The production sharing scheme stipulated that the National Government would receive 60% and SPEX/OXY would receive 40% of net proceeds from the sale of petroleum.

2. ****Administrative Orders and Negotiations****:

- February 17, 1998: President Fidel V. Ramos issued A.O. No. 381 indicating Palawan’s entitlement to a portion of proceeds.

- June 10, 1998: Deferred payment requests and negotiation failures led Palawan to assert its claim over 40% of the proceeds.

3. ****Civil Case No. 3779****:

- May 7, 2003: Palawan filed for declaratory relief before the RTC of Palawan demanding its claimed share.

- February 9, 2005: An Interim Agreement was made to share proceeds pending a final court decision.

- December 16, 2005: RTC ruled in favor of Palawan, ordering 40% share of national wealth from Camago-Malampaya since October 16, 2001.

4. ****Procedural History in RTC****:

- January 16, 2006: RTC issued an Amended Order for a freeze of the 40% share.

- February 6, 2006: Department Secretaries appealed the Amended Order.

- June 16, 2006: RTC lifted the Amended Order upon the Republic’s appeal.

5. ****Court of Appeals and Supreme Court Petitions****:

- February 16, 2006: Republic challenged the RTC’s decisions in G.R. No. 170867.

- February 7, 2008: Arigo et al. questioned E.O. No. 683 in the CA; CA resolutions in favor of the National Government led to a Supreme Court petition in G.R. No. 185941.

- Cases consolidated and heard with oral arguments presented in 2009.

Issues:

1. Whether Palawan is entitled to 40% of the government’s share in the proceeds from the

Camago-Malampaya project under Service Contract No. 38.

2. Whether the Camago-Malampaya area is part of Palawan's territorial jurisdiction.

Court's Decision:

1. **Territorial Jurisdiction and Share in National Wealth**:

- The Court ruled that the term "territorial jurisdiction" under the Local Government Code refers to the LGU's territorial boundaries as defined in its charter.
- The resource's location within LGU boundaries is necessary for the LGU to share in the proceeds.

2. **Palawan's Territorial Boundary**:

- The Court held that Palawan's territorial jurisdiction does not extend to the Camago-Malampaya area, which lies beyond its municipal waters and outside its certified land area.

3. **Invalidity of Assertions Made by Palawan**:

- Assertions based on administrative jurisdiction or enforcement of environmental laws do not alter the statutory boundaries.
- Previous allocations from similar water-based projects (e.g., West Linapacan) without clear legal basis do not establish entitlement.

Doctrine:

- **Territorial Boundaries of LGUs**: The "territorial jurisdiction" refers strictly to the physical boundaries established by law. The LGU's share in national wealth applies to natural resources within these legally prescribed boundaries (Local Government Code Sections 290-292).

- **Equitable Sharing Principle**: The national wealth referred to in Section 7, Article X of the 1987 Constitution must be within the delineated boundaries of the LGU claiming the share, not merely where the LGU may exercise some authority.

Class Notes:

1. **Territorial Jurisdiction**:

- Defined by metes, bounds, and certified land area (Section 461, Local Government Code).
- Statutory boundaries determine LGU's share in national wealth.

2. **Equitable Share Provisions**:

- Section 7, Article X, 1987 Constitution.
- Sections 290-292, Local Government Code: LGUs receive 40% of the national government's share from resources within their boundaries.

3. **Notable Cases**:

- **Tan v. COMELEC**: Differentiation of land area and waters in defining territorial jurisdiction.
- **Sen. Alvarez v. Guingona** and **Municipalities of Pateros v. CA**: Emphasis on legally established territorial boundaries.

Historical Background:

The case traces back to efforts in the 1980s and 1990s, where local autonomy and equitable sharing of national wealth became central themes following significant decentralization policies. The 1991 Local Government Code and subsequent policies aimed to strengthen LGU fiscal autonomy, but the consistent challenge remained in clearly delineating territorial jurisdictions for the purpose of wealth-sharing from natural resources. This case highlights the conflict and the need for legislative clarity on territorial demarcations and resource entitlements.