

EN BANC

G.R. No. 216098 (*Bishop Broderick S. Pabillo, DD, Pablo R. Manalastas, Jr. PhD, Maria Corazon Akol, Concepcion B. Regalado, Hector A. Barrios, Leo Y. Querubin, Augusto C. Lagman, Felix P. Muga, II, PhD, Atty. Gregorio T. Fabros, Evita L. Jimenez, and Jaime DL Caro, PhD vs. Commission on Elections, En Banc, represented by Acting Chairperson Christian Robert S. Lim, and Smartmatic-TIM Corporation, represented by Smartmatic Asia-Pacific President Cesar Flores*)

G.R. No. 216562 (*Integrated Bar of the Philippines vs. Commission on Elections, represented by its Acting Chairperson Robert S. Lim, and Smartmatic-TIM Corporation*)

Promulgated:

April 21, 2015

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CONCURRING AND DISSENTING OPINION

VELASCO, JR., J.:

I concur with the majority that failure to comply with the set pre-conditions for direct contracting, specifically the conduct of an initial industry survey and pre-procurement conference, is a ground to nullify the Extended Warranty Contract subject of these consolidated cases, and that the disposition of these cases ought not prohibit the Commission on Elections (COMELEC) from resorting to direct contracting anew or resorting to other alternative modes of procurement with any service provider.¹

At the core of the controversy is the existence of any of the three conditions under Sec. 50 of Republic Act No. 9184, otherwise known as the General Procurement Reform Act (GPRA), to justify resorting to direct contracting. The provision provides:

SEC. 50. Direct Contracting. - Direct Contracting may be resorted to only in any of the following conditions:

a) Procurement of Goods of proprietary nature, which can be obtained only from the proprietary source, i.e. when patents, trade secrets and copyrights prohibit others from manufacturing the same item;

b) When the Procurement of critical components from a specific manufacturer, supplier or distributor is a condition precedent to hold a contractor to guarantee its project performance, in accordance with the provisions of his contract; or

¹ Decision, p. 54.

c) Those sold by an exclusive dealer or manufacturer, which does not have sub-dealers selling at lower prices and for which no suitable substitute can be obtained at more advantageous terms to the Government (emphasis added)

In the main, COMELEC postulates that conditions (a) and (c) of Sec. 50 are present in view of Smartmatic-TIM's alleged proprietary rights over the PCOS machines.

Notably, Smartmatic-TIM's previous dispute with Dominion Voting Systems International Corp. over the intellectual property rights covering the Precinct Count Optical Scan (PCOS) machines and the software embedded thereon has already been settled.² Its exclusive, full, and unencumbered access to the technology used in the AES, as certified by Smartmatic-TIM, is now backed up by the following: US Patent No. US 8,195,505 B2 for "System, Method and Computer Program for Vote tabulation with an Electronic Audit Trail;" Certificate of Registration No. TX 7-921-024 "Democracy Suite Election Management System Software Version 4.14"; and the Certification from the Intellectual Property Rights Ownership and Distribution from Smartmatic International for PCOS machines acquired by COMELEC.³ Smartmatic-TIM's rights, therefore, aside from not having been seriously disputed by the petitioners, have since been confirmed.

To put things into perspective, however, the parties herein agree that that the subject "goods"⁴ of the Extended Warranty Contract neither pertain to the PCOS machines nor the software program, but to the services, particularly diagnostics, preventive maintenance, repair, and replacement of the PCOS machines previously bought from Smartmatic-TIM.⁵

Here, it has been duly proved that Smartmatic-TIM has proprietary rights over the PCOS machines' hardware and software, but whether these proprietary rights extend to the services contracted remains to be seen. It is likewise premature at this point to draw a conclusion on whether or not Smartmatic-TIM is the sole distributor of the services to be rendered. This is in view of the fact that the COMELEC, as correctly pointed out by the

² G.R. No. 216562, Rollo, p. 485.

³ COMELEC en banc Resolution No. 9922, p. 7

⁴ **RA 9184, Section 5. Definition of Terms.**- For purposes of this Act, the following terms or words and phrases shall mean or be understood as follows:

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(h) Goods - refer to all items, supplies, materials and general support services, except consulting services and infrastructure projects, which may be needed in the transaction of the public businesses or in the pursuit of any government undertaking, project or activity, whether in the nature of equipment, furniture, stationery, materials for construction, or personal property of any kind, including non - personal or contractual services such as the repair and maintenance of equipment and furniture, as well as trucking, hauling, janitorial, security, and related or analogous services, as well as procurement of materials and supplies provided by the procuring entity or such services.

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⁵ G.R. No. 216562, Rollo, p.482

ponencia,⁶ failed to comply with two key requirements prior to directly contracting with Smartmatic-TIM, namely: the conduct of (a) an initial industry survey,⁷ and (b) a pre-procurement conference.⁸ On this point alone, the Extended Warranty Contract ought to be nullified.

As provided in Vol. 2 of the General Procurement Policy Board Manual (GPPB Manual), an initial industry survey is conducted to determine the supply source. This survey confirms the exclusivity of the source of goods or services to be procured, and that there is no suitable substitute in the market that can be obtained at more advantageous terms. This survey must therefore be conducted prior to the commencement of the procurement process where direct contracting is contemplated.⁹ **Absent this initial industry survey, there can be no determination that the subject services of the Extended Warranty Contract are covered by Smartmatic-TIM's intellectual property rights, warranting the nullification of the agreement. Concurrently, though, it is also premature, at this point, to rule out the possibility that Smartmatic-TIM indeed has proprietary rights over the same.**

Regretfully, I take exception to the discussion of the *ponencia* regarding Articles 9 and 10 of the 2009 Automated Election Systems Contract (2009 AES Contract).¹⁰ According to the *ponencia*:¹¹

At any rate, even if it is assumed that Smartmatic-TIM is the proprietary source of the services **or that the intended repair or refurbishment would necessarily entail a modification of the PCOS hardware and software** of which its existing intellectual property rights cover, the **COMELEC is still not bound to engage Smartmatic-TIM on an exclusive basis.** Based on the 2009 AES Contract, Smartmatic-TIM would grant the COMELEC a perpetual, but non-exclusive license to use, modify, and customize the PCOS systems and software, including the right to alter and modify the source code itself, for all future elections, when the latter exercises its option to purchase x x x (emphasis added)

My reservation in joining the majority on this point stems from a reading of the adverted provisions of the 2009 AES Contract, which state:

ARTICLE 9
SOFTWARE AND LICENSE SUPPORT

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9.2 Should the COMELEC exercise its option to purchase, it shall have perpetual, but non-exclusive license to use said systems and software and

⁶ Decision, p. 26.

⁷ See GPPB Manual, Vol. 2, p. 85 found at <http://www.gppb.gov.ph/downloadables/forms/GPM%20-%20Vol.2.pdf> (last accessed April 20, 2015)

⁸Section 20, Rule VII, Implementing Rules and Regulations of RA 9184

⁹ See GPPB Manual, Vol. 2, p. 85 found at <http://www.gppb.gov.ph/downloadables/forms/GPM%20-%20Vol.2.pdf> (last accessed April 20, 2015)

¹⁰ Decision, pp.21-23

¹¹ Decision, p. 21

may have them modified at COMELEC's expense or customized by the licensor for all future elections as hereby warranted by the PROVIDER, as per the license agreement. Accordingly, the PROVIDER shall furnish COMELEC the software in such format as will allow COMELEC to pursue the same.

9.3. COMELEC agrees that it shall not:

- (a) **Transfer the software and relate materials to any third party**
- (b) **Reverse engineer, disassemble, decompile, modify, or transmit the software in any form or by any mean for any purpose other than for this Project, unless the COMELEC has purchased it for Philippine elections; or**
- (c) **Use any software acquired hereunder for any purpose other than the operation of voting, counting, and canvassing/consolidation of votes.**

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9.5. xxx

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After purchase, **COMELEC** shall be authorized to use the software system and make such alterations and modifications on the source code that are necessary or desirable for the proper use of the software system as provided in Article 9.2 above. **COMELEC shall not sell, lease, transfer, or otherwise convey the software to any other individual, company or entity.**¹² xxx

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ARTICLE 10
INTELLECTUAL PROPERTY

10.1 The PROVIDER warrants that all intellectual property rights in or related to the Goods and/or Services, including but not limited to patents and other know-how and copyright, both registered and unregistered, owned and/or otherwise used by the PROVIDER, and all goodwill related thereto are, and shall remain at all times, the exclusive property of SMARMATIC; and **COMELEC acknowledges the same** and shall not exploit, reproduce or use the same except as expressly provided in this contract.¹³ (emphasis added)

It is undisputed that the COMELEC has the right to reverse engineer, disassemble, decompile, alter, modify, or transmit the technology it purchased in any form or by any means, but, as can be gleaned, these rights to alter and/or modify the PCOS machine hardware, and the software embedded thereon, pertain **exclusively** to COMELEC. In the same vein, the exception under Article 10 indeed allows for the exploitation and

¹² Rollo (G.R. No. 216098), Vol. II, pp. 922-923

¹³ Rollo (G.R. No. 216098), Vol. II, p. 923

reproduction of the technology transferred but only if it is performed by COMELEC itself. To be sure, **the provisions, as couched, do not evince that the said rights mentioned thereon are actually transferrable.** On the contrary, the language of the 2009 AES Contract prohibits the same.

Banking on this prohibition, the COMELEC, through Resolution No. 9922, alleges that:¹⁴

xxx PCOS software does not work like a standard computer where drivers can be installed and downloaded independently from the applications used. **Any change in hardware that does not come from the appropriate origin will trigger a change in the different layers of software (drivers, voting application, transmission applications, security applications) resulting in a change of the source code.** (emphasis added)

The Commission seems to draw parallelisms to my treatise in *Capalla, viz*:¹⁵

In the present case, not only was the object of the contract a determinate thing, the parties likewise agreed that the subject Deed of Sale is for the purchase of the entire first component. While the hardware and software are, by their nature, separable, the parties, however, intended to treat them as indivisible. Such being the case, the software cannot then be procured without the accompanying hardware on which they are embedded. In other words, what was purchased by the COMELEC was the whole system, that is, the entire first component of the original AES Contract, which includes the software needed for the PCOS machines consisting of the Election Management System (EMS) and the PCOS firmware applications, protected by our copyright laws, together with the hardware. Being inseparable by contractual stipulation, the COMELEC is thus required to procure the hardware and the proprietary software and firmware provided by Smartmatic-TIM.

To further show the importance of treating the software and hardware as indivisible, without Smartmatic-TIM's EMS which dictates the functioning of the entire system, by directing the processes by which the PCOS and the CCS hardware and software interpret the data scanned from the cast ballots and later accumulate, tally and consolidate all the votes cast, the PCOS hardware are lifeless. The EMS is the fundamental software on which all other applications and machines in the entire Smartmatic-TIM AES depend. It serves as the brain that commands all other components in the entire AES.

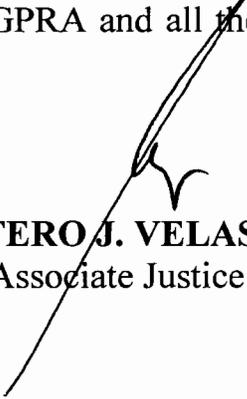
While I maintain my position that the hardware and software of the PCOS machines are closely intertwined – the software being embedded on the hardware, I echo the concern that **it is still premature at this point to rule that performing the auxiliary services will necessarily affect the source code.** The initial industry survey, after all, may reveal that these

¹⁴ COMELEC En Banc Resolution No. 9922, p. 8.

¹⁵ *Capalla vs. COMELEC*, G.R. Nos. 201112, 201121, 201127, and 201413, October 23, 2012, 684 SCRA 367, 394-396.

services may actually be rendered without altering the software's algorithms, proving the COMELEC's fears to be unfounded. Thus, should the COMELEC opt to conduct an initial industry survey, I implore the Commission to include a technical study to ascertain the veracity of its claim. **If it were to be discovered that the said auxiliary services cannot be performed by entities other than by COMELEC and Smartmatic-TIM without necessarily altering the source code, the Commission cannot then contract out the said services except to Smartmatic-TIM.** This is so because the rights granted to COMELEC to alter and/or modify the Source Code under Article 9 of the 2009 AES Contract, to reiterate, is non-transferrable and cannot be performed by any other entity in its stead, lest the Commission contravene Articles 9 and 10 of the 2009 AES Contract, and violate Smartmatic-TIM's intellectual property rights.

In view of the foregoing, I vote to **grant** the petitions on the sole ground that COMELEC had failed to comply with the procedural requirements in directly contracting with Smartmatic-TIM, particularly the conduct of an initial industry survey and pre-procurement conference. Notwithstanding this disposition, the COMELEC is not precluded from entering into direct negotiations anew with any service provider, subject to compliance with the conditions provided in the GPRA and all the pertinent rules and procedures.



PRESBITERO J. VELASCO, JR.
Associate Justice