

Title: Cathay Pacific Airways, Ltd. vs. Spouses Daniel Vazquez and Maria Luisa Madrigal Vazquez

Facts: Cathay Pacific Airways Ltd. is a common carrier conducting flights, including the Manila-Hongkong-Manila route. The Vazquezes are frequent flyers and Gold Card members of Cathay's Marco Polo Club, allowing them priority for class upgrades when the opportunity arises. On September 24, 1996, the Vazquezes and companions flew to Hong Kong. Returning on September 28, they were booked on Flight CX-905, with business class boarding for the Vazquezes and friends, and economy for their maid. At boarding, they were informed of an "involuntary upgrade" to First Class due to overbooked Business Class, which Dr. Vazquez refused but eventually accepted under the threat of being denied boarding.

The Vazquezes demanded indemnification for humiliation and embarrassment caused by Cathay's employees, receiving no conclusive response. They filed for damages in the Regional Trial Court of Makati City. Cathay contended customary practice of upgrading frequent flyers and denied any discourtesy from its employees. The trial court awarded damages in favor of the Vazquezes. On appeal, the Court of Appeals maintained the breach of contract finding but reduced the amounts awarded. Both parties moved for reconsideration, which the Appellate Court denied.

Issues: The Supreme Court had to decide: (1) whether upgrading seat accommodation from Business Class to First Class without consent constituted breach of contract; (2) if the upgrading was tainted with fraud or bad faith; and (3) the entitlement of the Vazquezes to damages.

Court's Decision: The Supreme Court found for the Vazquezes regarding the breach of contract, as consent is a fundamental requirement, and their consent was not obtained prior to the upgrade. On the issue of fraud and bad faith, the Court ruled in the negative, not finding sufficient evidence to show Cathay's bad faith or fraudulent actions. Regarding damages, the Court eliminated awards for moral damages and attorney's fees, upholding that the lack of fraud or bad faith negated the basis for these, while reducing the award for nominal damages to PHP 5,000.

Doctrine: Breach of contract occurs when one fails to fulfill the terms agreed upon. Involuntary upgrading may be a breach if done without passenger consent. However, moral damages based on breach of contract require evidence of fraud or bad faith. Overbooking

within 10% of seat capacity is allowed and not considered deliberate.

Class Notes:

- Breach of contract require absence of legal reason failing terms of the agreement.
- Fraud and bad faith are never presumed; clear and convincing proof required.
- Moral damages are recoverable under conditions of bad faith, fraud, or death.
- Bad faith involves a dishonest purpose; moral obliquity, or conscious wrongdoing.
- Exemplary damages require proof of bad faith or a wanton, fraudulent, or malevolent act.
- Nominal damages may be awarded to recognize or vindicate a violated right.

Historical Background: The context of the case reflects the airline's practice of upgrading as a marketing strategy to reward frequent fliers, against the dilemma of overbooking and passenger rights. It balances consumer protection, expectations of frequent travelers, and operational challenges within the airline industry.