

Title: Philippine National Bank, et al. vs. Hydro Resources Contractors Corporation

Facts:

The case originated when petitioners Development Bank of the Philippines (DBP) and Philippine National Bank (PNB) foreclosed on mortgages involving the properties of Marinduque Mining and Industrial Corporation (MMIC) in 1984. Subsequently, DBP and PNB acquired nearly all of MMIC's assets and organized Nonoc Mining and Industrial Corporation (NMIC) to resume operations, with DBP and PNB owning 57% and 43% of NMIC shares, respectively.

NMIC contracted Hercon, Inc. for a Mine Stripping and Road Construction Program in 1985, with a contract price of P35,770,120. Upon computation, it was established that NMIC owed Hercon, Inc. an unpaid balance of P8,370,934.74. Despite several demands, NMIC did not pay, leading Hercon, Inc. to file a complaint for sum of money at the RTC of Makati to hold NMIC, DBP, and PNB solidarily liable for the debt. During the proceedings, Hercon, Inc. was acquired by Hydro Resources Contractors Corporation (HRCC) and substituted in the case.

The National Government then transferred NMIC's assets and liabilities to the Asset Privatization Trust (APT) pursuant to Proclamation No. 50. As a result, the complaint was amended to include the APT. The RTC ruled in favor of HRCC, piercing the corporate veil and holding NMIC, DBP, and PNB jointly and severally liable. The APT as trustee was directed to ensure compliance with the decision.

On appeal, the Court of Appeals affirmed the lower court's decision with modifications. The APT's successor, the Privatization and Management Office (PMO), was included as one of the entities liable for the debt.

Issues:

1. Whether NMIC's separate corporate personality should be disregarded and DBP, PNB and APT held solidarily liable for its obligation to HRCC.
2. Whether the doctrine of piercing the corporate veil applies to NMIC based on the theory that NMIC was a mere alter ego or business conduit of DBP and PNB.
3. Whether NMIC's debts to Hercon, Inc./HRCC were transferred to and assumed by the National Government through APT, now PMO.

Court's Decision:

The Supreme Court held that NMIC's separate corporate personality should not be

disregarded as HRCC failed to establish the required elements for making DBP, PNB, and APT solidarily liable. The Court found no substantial evidence of control or fraud and no harm caused by the alleged control by DBP and PNB over NMIC. It determined that the assumption of NMIC's debts by the APT, and ultimately by the National Government, did not make it liable for HRCC's claims.

Doctrine - The Supreme Court reiterated the doctrine that the separate corporate personality of a corporation may only be disregarded in cases where the entity is proven to be a mere instrumentality or alter ego of another corporation or individual, and when its corporate form is used to perpetuate a fraud or injustice. Three elements must concur: control of the corporation, fraud or fundamental unfairness, and harm caused by the fraudulent or unfair act.

Class Notes:

- Corporate Veil: A legal concept that separates the personality of a corporation from the personalities of its shareholders and protects them from being personally liable for the company's debts and other obligations.
- Alter Ego Theory: Requires control, not mere stock ownership, used to commit fraud or wrong, and the control and breach of duty must proximately cause the injury or unjust loss complained of.
- Instrumentality Test: Examines domination, not only of finances but also of policies and practices of one corporation by another.
- Fraud Test: Requires the parent corporation's use of the subsidiary to be unjust, fraudulent, or wrongful.
- Harm Test: Establishes causality between the conduct and the injury or unjust loss suffered.

Historical Background:

In the 1980s, in an attempt to curb the country's economic crisis, the Philippine government undertook privatization efforts that involved restructuring and disposing of assets of financially troubled government-owned and controlled corporations (GOCCs). Proclamation No. 50, creating the Asset Privatization Trust (APT), marked one of these initiatives aiming for the expeditious disposition and privatization of selected GOCCs. This historical context gave rise to the rearrangement of NMIC's corporate structure and ownership, leading to the complex legal questions presented in the case.