

Title: Philippine National Bank, Asset Privatization Trust, and Development Bank of the Philippines vs. Hydro Resources Contractors Corporation

Facts:

In 1984, DBP and PNB foreclosed mortgages on properties owned by Marinduque Mining and Industrial Corporation (MMIC). As a result, the banks acquired MMIC's assets and established Nonoc Mining and Industrial Corporation (NMIC), owning 57% and 43% respectively. The NMIC board consisted of representatives from DBP and PNB.

NMIC contracted Hercon, Inc. for a Mine Stripping and Road Construction Program in 1985 valued at P35,770,120. After payments and credits, NMIC owed Hercon P8,370,934.74. Despite demands, NMIC did not pay, prompting Hercon to file a suit in RTC of Makati, Branch 136, seeking to hold NMIC, DBP, and PNB solidarily liable for the debt. Later, Hercon merged with Hydro Resources Contractors Corporation (HRCC), which then continued the legal battle.

Subsequently, under Proclamation No. 50, APT was created for the privatization of government assets, thereby transferring DBP and PNB's interests in NMIC to the National Government. In turn, these were assigned to APT as trustee. The complaint was amended to include APT as a defendant.

NMIC contested HRCC's legal standing and the validity and fairness of the contract. DBP and PNB also denied liability, pointing out NMIC's separate juridical personality. APT echoed similar defenses.

In a 1995 decision, RTC held NMIC, DBP, and PNB solidarily liable, given the complete bank control over NMIC, rendering it a mere business conduit or alter ego.

The decision was appealed, and the CA affirmed the RTC's decision, adding APT to the parties solidarily liable. Attorney's fees were deleted from the award, and all other claims and counter-claims dismissed.

Issues:

1. Whether NMIC's corporate personality should be disregarded and its shareholders (DBP and PNB) held solidarily liable for HRCC's claim.
2. Whether APT/PMO, as a trustee and successor of DBP and PNB's assets and liabilities in NMIC, is solidarily liable.
3. Whether the doctrine of piercing the corporate veil applies to the case.

Court's Decision:

The Supreme Court granted the petitions, disagreeing with the lower courts' decision to pierce the corporate veil. It established that mere ownership of a majority of shares and interlocking directorships are not sufficient to justify piercing. The Supreme Court specified that there was no evidence indicating DBP and PNB committed fraud, illegality, or injustice against HRCC using NMIC. Therefore, DBP, PNB, and APT are not solidarily liable with NMIC for the latter's debt to HRCC. However, it directed APT, as NMIC's trustee, to ensure NMIC's compliance with the financial obligation to HRCC.

Doctrine:

The Supreme Court reiterated the doctrine of corporate personality, emphasizing the separate legal entity of a corporation that generally shields its shareholders from liability. It also restated the standards for piercing the corporate veil, requiring control, fraud or wrongdoing, and harm resulting from the improper use of the corporate form.

Class Notes:

1. Corporate Entity Principle - corporations have a separate legal personality from their shareholders.
2. Limited Liability - shareholders' liability is limited to the amount of their investment.
3. Piercing the Corporate Veil:
 - Requires control of the corporation by the stockholders or parent corporation.
 - Fraud or wrongful acts against the plaintiff must be clearly established.
 - Harm to the plaintiff caused by the stockholders or parent's control.

Historical Background:

This case took place during a period of privatization and reformation of government-owned or controlled corporations in the Philippines, following the economic changes after the 1986 People Power Revolution. The creation of the APT was instrumental in the process of divesting government interests in businesses towards the goal of fiscal and administrative reform.