

Title: Saura Import & Export Co., Inc. v. Development Bank of the Philippines

Facts:

In July 1953, Saura Import and Export Co., Inc. (Saura, Inc.) applied for an industrial loan of P500,000.00 from the Rehabilitation Finance Corporation (RFC), which later became the Development Bank of the Philippines (DBP). The loan was to be used for building a factory for jute sack manufacturing in Davao, paying off machinery and equipment, and providing additional working capital.

The RFC approved the loan application contingent on various terms, including securing the loan with a first mortgage and specified co-signers for the promissory note. Saura, Inc. requested modifications to these terms, leading RFC to reconsider the loan under Resolution No. 736.

Despite Saura, Inc.'s acceptance and signing of the loan documents, the RFC board decided to reduce the loan to P300,000.00 and required further conditions such as the availability of local raw materials, as specified in Resolution No. 3989.

China Engineers, Ltd., one of the co-signers, eventually withdrew from the loan agreement, leading Saura, Inc. to challenge the loan's cancellation and assuring RFC that China Engineers, Ltd. would reinstate their signature if the original loan amount was released.

On December 17, 1954, RFC restored the loan amount to P500,000.00 under Resolution No. 9083 with the further requirement of a certification by the Department of Agriculture and Natural Resources regarding the availability of local raw materials. Saura, Inc. responded, revealing its reliance on imported raw materials instead.

Negotiations stalled, and on June 17, 1955, Saura, Inc. requested the cancellation of the registered mortgage. The RFC complied, and the cancellation was executed to facilitate a separate mortgage with the Prudential Bank and Trust Co.

Nine years after the cancellation of the mortgage, Saura, Inc. filed a lawsuit against the DBP, claiming damages for the non-release of the loan proceeds.

Issues:

1. Whether the plaintiff's cause of action had been waived, abandoned, or prescribed.
2. Whether there was a perfected contract between Saura, Inc. and DBP/RFC.
3. Assuming a perfected contract existed, whether Saura Inc. complied with the terms of the

contract.

Court's Decision:

The Supreme Court held that although a perfected consensual contract existed, characterized by the accepted promise to deliver the loan amount upon the execution of the mortgage, there was mutual desistance by both parties impacting the contract's existence. The conditions set forth by RFC for the release of the loan, reflecting the intent and basis of the approval to use local raw materials, were never met by Saura, Inc. Instead, Saura, Inc. sought to divert part of the loan for purposes not originally agreed upon. The impasse in negotiations and the eventual mutual cancellation of the mortgage underscored a mutual withdrawal from the contract. Subsequent conduct by Saura, Inc., including not protesting against any breach and requesting a separate loan years later, indicated the agreement's extinguishment. As a result, the Supreme Court reversed the trial court's decision, dismissed the complaint, and ruled that no damages were due to Saura, Inc..

Doctrine:

Mutual desistance ("mutuo disenso") is a legal principle that serves as a mode of extinguishing obligations. It is based on the concept that mutual agreement can create a contract, and mutual disagreement by the parties can also dissolve it.

Class Notes:

Essential Concepts:

- Mutual desistance is a method by which contracts are extinguished.
- A consensual contract is perfected by the meeting of the minds - offer and acceptance.
- The non-fulfillment of conditions required by one party may lead to the collapse of negotiations.
- Subsequent and consistent conduct by a party can indicate acquiescence to the cancellation of a contract.

Relevant Provisions:

- Civil Code of the Philippines, Article 1934: Reflects on the principle that an accepted promise to deliver something is binding, but the contract is not perfected until the delivery of the object.

Historical Background:

This case corresponds to the post-World War II rehabilitation era in the Philippines, where there was an impetus for developing local industries and promoting the use of domestically

produced raw materials. Saura, Inc.'s establishment of a jute sack manufacturing factory was reflective of this period's development goals. RFC, and later DBP, played pivotal roles in financing industrial development, subject to the prioritization of local resources. The controversy reveals the complex interplay between commercial aspirations and government policy directives during this phase of Philippine economic history.