

Title: National Airports Corporation v. Hon. Jose Teodoro Sr. and Philippine Airlines, Inc.

Facts: The National Airports Corporation (NAC), organized under Republic Act No. 224, was abolished on November 10, 1950 by Executive Order No. 365 which created the Civil Aeronautics Administration (CAA) to serve in its place. Prior to its dissolution, Philippine Airlines, Inc. (PAL) had paid NAC P65,245.00 for landing and parking fees at Bacolod Airport No. 2 up to July 31, 1948. The land on which the airport operated was owned by Capitol Subdivision, Inc., which claimed the fees paid to NAC were owed to them as landowners.

Capitol Subdivision, Inc. launched legal action in 1951 with the Court of First Instance of Negros Occidental against PAL to recover the above fees. PAL then initiated a third-party complaint against the now-defunct NAC, serving summons on the CAA, based on the assumption that NAC was the lessee of the land and responsible for settling such payments.

Procedurally, the case reached the Supreme Court following the Solicitor General's motion to dismiss the third-party complaint, arguing the court lacked jurisdiction as NAC had lost its juridical personality and the CAA, being an unincorporated government entity, could not sue or be sued.

Issues: The legal issues raised in the Supreme Court's decision focused on:

1. Whether the CAA could stand in for the NAC, given that the latter had been abolished.
2. Whether the CAA, as a non-corporate government entity, had the power to sue and be sued in its own right.

Court's Decision: The Supreme Court held that the CAA indeed had the power to sue and be sued. It concluded that the ability to transact private business implies the power to sue and be sued. Since the CAA acquired all assets, rights, and liabilities of the NAC, it could assume legal actions for and against the NAC. Just because a government entity was involved did not imply immunity from suits; such immunity depended on the nature of the activities the entity was engaged in. The Supreme Court differentiated between government functions and business operations, and since the CAA ran an enterprise that was business-like in nature, no sovereign immunity applied.

Doctrine: The doctrine established in this case reiterated that government entities with a private or non-governmental capacity, and corporations created by the state for public purposes but engaging in ordinary business, are not immune from lawsuits. The state, by operating through corporations, consents, by implication, to suits against such entities.

Class Notes:

- The power to sue and be sued is implied from the power to transact private business.
- Sovereign immunity does not necessarily apply to all government entities, particularly those engaged in business operations.
- Abolishment of a government corporation does not liquidate its obligations; successor entities may assume these obligations, including legal claims.

Relevant legal provisions include:

- Corporation Law
- Executive Order No. 365, especially Sections 3, 4, 7, and others pertaining to the transfer of assets and liabilities from the NAC to CAA.

Historical Background: This case occurred during a period of reorganization of government corporations in the Philippines, reflecting a shift in aviation infrastructure management from the NAC to the newly established CAA. The Supreme Court's decision addressed not just the immediate legal dispute but also set a precedent for the future handling of the liability of dissolved governmental corporations in the Philippines.