

****Title: Visayan Sawmill Co., Inc. Vs. RJH Trading****

****Facts:****

On May 1, 1983, Visayan Sawmill Company, Inc. (petitioner) and RJH Trading, represented by Ramon J. Hibionada (respondent), entered into a contract entitled “Purchase and Sale of Scrap Iron”, where petitioner agreed to sell to respondent scrap iron located at Cawitan, Sta. Catalina, Negros Oriental. The contract contained a condition requiring the respondent to open a letter of credit in favor of the petitioner for P250,000.00 by May 15, 1983. Despite this, the letter of credit was not opened until May 26, 1983, and not with the agreed bank, but instead drawn on ARMACO-MARSTEEL ALLOY CORPORATION with various discrepancies from the initial agreement. During this period, there was also a dispute regarding whether there was an effective delivery of the scrap iron to the respondent.

Following disagreements on both sides regarding the fulfillment of contract conditions and the alleged cancellation of the contract by the petitioner, RJH Trading filed a complaint for specific performance and damages against Visayan Sawmill Company. The Regional Trial Court (RTC) found in favor of RJH Trading, a decision which the Court of Appeals affirmed with modifications relating to the amount of moral damages awarded.

****Issues:****

1. Whether the contract between the parties was a contract of sale or a contract to sell.
2. Whether there was a valid delivery of the scrap iron to the respondent.
3. Whether the failure to open the letter of credit as stipulated constitutes a breach substantial enough to rescind the contract.
4. Whether the respondent is entitled to damages, and conversely, whether the petitioner may rescind the contract.

****Court’s Decision:****

1. The Supreme Court found that the agreement was a contract to sell, not a contract of sale, conditioned upon the opening of an irrevocable and unconditional letter of credit, which the respondent failed to fulfill.
2. The Court disagreed with the lower courts’ view of “implied delivery” of the scrap iron. The permission granted to the respondent to start digging and gathering scrap iron was deemed not to constitute delivery in the sense of transferring control and possession as required under Article 1497 of the Civil Code.
3. The failure of the respondent to comply with the stipulated condition (opening the letter of credit in the agreed manner) was not considered a breach but an event that prevented

the petitioner's obligation to convey title from acquiring binding force. Thus, the contract to sell did not materialize into a contract of sale.

4. Given that the obligation of the petitioner to sell did not arise due to the non-fulfillment of the condition, it was held that RJH Trading was not entitled to damages. Moreover, it was decided that Visayan Sawmill Company acted within its rights to rescind the contract as the conditions were not met.

****Doctrine:****

This case reiterates the differentiation between a contract of sale and a contract to sell, specifically noting that the fulfillment of a suspensive condition in a contract to sell is crucial for the obligation of the seller to convey title to arise. Additionally, the decision emphasized that the actual delivery implicates transferring control and possession to the buyer, which is necessary for a contract of sale to be executed.

****Class Notes:****

- ****Contract of Sale vs. Contract to Sell****: The obligation to convey title in a contract to sell is conditioned upon the fulfillment of a suspensive condition.
- ****Actual Delivery****: Defined under Article 1497, requires the transfer of control and possession to the buyer.
- ****Suspensive Condition****: Failure to fulfill a suspensive condition in a contract to sell prevents the seller's obligation to sell from arising.
- ****Rescission of Contract****: Under Article 1597, a seller may rescind a contract to sell if the buyer fails to fulfill an obligation, provided no delivery has occurred.

****Historical Background:****

The context of this case underscores the importance of clearly defined conditions and obligations in commercial transactions and the distinction between different types of sales contracts under Philippine law. It highlights the legal principles that govern contracts and their fulfillment, providing insight into how disputes arising from non-compliance with contract terms are resolved within the Philippine legal framework.