

### Title: First Lepanto-Taisho Insurance Corporation vs. Chevron Philippines, Inc.

### Facts:

First Lepanto-Taisho Insurance Corporation (now FLT Prime Insurance Corporation), hereafter referred to as the petitioner, and Chevron Philippines, Inc. (formerly known as Caltex, Inc.), hereafter referred to as the respondent, became embroiled in a legal dispute over unpaid petroleum product purchases made by Fumitechniks Corporation, the latter being a distributor of Chevron Philippines. Fumitechniks had secured a Surety Bond from the petitioner, guaranteeing payment for these purchases up to the amount of P15,700,000.00, valid until October 15, 2002. Following the dishonor of a check issued by Fumitechniks to Chevron for the amount of P11,461,773.10, Chevron demanded payment from First Lepanto-Taisho, which responded by seeking documentation to substantiate the claim. Upon denial of the existence of a written contract between Fumitechniks and Chevron by Fumitechniks, First Lepanto-Taisho informed Chevron of its inability to satisfy the claim without such a contract, arguing that the surety bond, being an accessory contract, necessitated a principal agreement for its validity.

Subsequently, Chevron filed a complaint in the Regional Trial Court (RTC) of Makati City for the recovery of P15,084,030.30. The RTC ultimately dismissed the complaint and the counterclaim of the petitioner, a decision which Chevron appealed to the Court of Appeals (CA). The CA reversed the RTC's decision and ordered First Lepanto-Taisho to pay the claimed amount. This decision was challenged by the petitioner in the Supreme Court under Rule 45.

### Issues:

1. Whether a surety is liable to the creditor in the absence of a written contract with the principal.
2. Interpretation of the provisions of the Surety Bond regarding the necessity of a written agreement for the bond's efficacy.
3. Application and effect of the parol evidence rule and the Statute of Frauds in the context of the surety agreement and the claimed obligation.
4. Validity of the respondent's motion for reconsideration to the trial court for being pro forma.

### Court's Decision:

The Supreme Court reinstated and upheld the RTC's decision, dismissing both Chevron's complaint and petitioner's counterclaim. The Court held that the liability of a surety is

determined by the terms of the suretyship contract itself and cannot be extended beyond those terms. In this case, the bond explicitly referred to securing a written agreement, and its absence rendered the surety bond ineffective regarding Chevron's claim. The Court concluded that a surety contract, being ancillary, presupposes the existence of a principal contract, and without clear communication of the terms of such an agreement to the surety, the surety cannot be held liable.

### ### Doctrine:

The liability of the surety is strictly determined by the terms of the suretyship contract in relation to the principal contract. A surety contract, being ancillary, requires the existence of a principal contract, and stipulations in the surety contract must at least be communicated to the surety for it to be liable.

### ### Class Notes:

- **Suretyship** is an ancillary contract whereby a surety guarantees the performance by the principal of an obligation to the obligee.
- **Principal Agreement Requirement:** A surety agreement necessitates the existence of a principal contract and the surety's liability is strictly defined by the terms of the agreement.
- **Statute of Frauds and Parol Evidence Rule:** Oral agreements that have been partially executed are generally not covered by these doctrines, but in the context of a suretyship that explicitly references a written contract, a written principal agreement is essential for the surety's liability.
- **Non-Compliance by Creditor:** Failure of the creditor to comply with contract stipulations (such as communicating the terms of an oral agreement) can affect the creditor's right to demand performance from the surety.

### ### Historical Background:

This case illustrates the complexities of suretyship in commercial transactions, particularly when the terms of the principal agreement between the creditor and the principal are not unequivocally communicated or documented. It underscores the critical need for clarity and explicitness in contractual relationships, especially in arrangements involving surety bonds, which are common in business transactions to ensure the performance of obligations.