

Title: Pacific Mills, Inc. and George U. Lim vs. The Honorable Court of Appeals and Philippine Cotton Corporation

Facts:

Pacific Mills, Inc. ("Pacific") purchased cotton lint on credit from Philippine Cotton Corporation ("Philcotton") between April 1980 and October 1982 but failed to pay within the agreed 60-day period. As a result, jointly and severally promissory notes were executed by Pacific and George U. Lim, totaling P16,598,725.84, with 21% interest per annum and various penalties for late payments. When the debt wasn't settled, Philcotton filed two suits for the collection of sums in 1983 and 1984. Both suits were consolidated, and writs of preliminary attachment were issued. Pacific's attempt to discharge these writs through certiorari to the Intermediate Appellate Court was unsuccessful. Later, joint motions were submitted, reducing the principal obligation to P13,998,725.84 upon acceptance of postdated checks totaling P2,600,000.00 from petitioners.

Issues:

1. Whether Philcotton, a government-owned or -controlled corporation, is entitled to an award of attorney's fees.
2. Whether the Court of Appeals erred in not further reducing the penalty charges.

Court's Decision:

The Supreme Court found that awarding attorney's fees to Philcotton was warranted given the specific statutory provisions allowing such awards to government-owned or -controlled corporations. As for the penalty charges, the Court did not favor further reductions, noting the absence of equitable considerations that would justify so. It corrected the Court of Appeals' error regarding the computation start date for regular interest and penalty charges; they should be calculated from the due dates stipulated in the promissory notes, not from the date of the joint manifestation.

Doctrine:

The case reiterates that government entities entitled under specific statutory provisions to proceed with litigation against private entities or persons can be awarded attorney's fees. Furthermore, it highlights that novation must be clearly proven, and presumptive rules stipulate that old obligations' conditions also attach to new obligations unless proven otherwise.

Class Notes:

- Award of attorney's fees to government entities clarified under specific statutes.
- Principles of novation and the importance of explicit evidence to demonstrate its occurrence.
- Calculation of interest and penalty charges commencing from stipulated due dates in obligation documents unless otherwise agreed upon.
- Interest cannot be charged on unliquidated claims unless the claims are established with reasonable certainty.

Historical Background:

This case exemplifies the judicial handling of defaulted payments and the enforcement of financial obligations between corporations and individuals within the Philippine legal framework. It illustrates the complex relationship between government-owned corporations and their capacity to engage in commercial activities, pursue litigation, and enforce contractual agreements under Philippine law.