

Title:

Subic Bay Distribution, Inc. vs. Western Guaranty Corp.: A Legal Dispute on Suretyship and Contractual Obligations

Facts:

Subic Bay Distribution, Inc. (SBDI), entered into a Distributor Agreement with Prime Asia Sales and Services, Inc. (PASSI), allowing the latter to purchase petroleum products on credit with terms stipulated in the agreement. To secure its obligations, PASSI was required and did obtain a performance bond from Western Guaranty Corporation (WGC). SBDI later demanded payment from WGC under the surety agreement following PASSI's failure to pay its outstanding obligations amounting to P100,256,601.17. SBDI's multiple demand letters to WGC went unheeded, prompting SBDI to initiate a suit for sum of money against WGC at the RTC-Makati City, which decided in favor of SBDI. Upon appeal, however, the Court of Appeals (CA) reversed this decision, finding no conclusive proof of delivery of petroleum products and deeming there were material alterations in the principal contract that discharged WGC from its surety obligations.

Issues:

1. Was WGC's liability under the surety agreement extinguished due to alleged non-delivery of petroleum products to PASSI?
2. Did material alterations to the terms of the Distributor Agreement effectively release WGC from its obligations as surety?

Court's Decision:

The Supreme Court ruled in favor of SBDI, reinstating the RTC decision. The Court found the CA's basis for reversing the RTC decision unfounded, determining that:

1. The evidence, including the sales invoices and PASSI's lack of protest against SBDI's demand for payment, sufficiently established the fact of delivery.
2. The alterations claimed by WGC and upheld by the CA (alteration of credit terms and frequency of deliveries) were not material to discharge WGC's liability since they did not make the surety's obligation more onerous.

Doctrine:

This case reiterated the principles of suretyship and its obligations under Philippine law, particularly Article 2047 of the Civil Code, emphasizing that a surety's liability is direct, primary, and absolute. It highlighted that for a surety's obligation to be extinguished due to alterations in the principal contract, such changes must be material — significantly altering

the obligation which would render it more onerous to the surety.

Class Notes:

- Suretyship: A contract where a party (surety) guarantees the performance of another (principal) in favor of a third party (obligee).
- Material Alteration Principle: Any change in the principal contract that significantly increases the risk or obligation of the surety releases the latter from their obligation unless consented to.
- Principles of Proof of Delivery: Sales invoices, corroborated by other acts demonstrating receipt of goods and lack of objection to demands for payment, can establish delivery and acceptance.

****Article 2047 of the Civil Code**** defines a surety and clarifies the obligations arising from surety agreements. This statute forms the legal foundation for understanding the obligations and potential liabilities of sureties.

Historical Background:

The legal discourse on suretyship and contractual obligations, particularly involving alterations in the principal agreement, plays a crucial role in commercial transactions and litigations. This case contributes to the jurisprudence on ensuring the faithfulness of parties to their contractual obligations and the extent of protection provided to sureties under Philippine law.