

****Title:**** Terminal Facilities and Services Corporation (TEFASCO) vs. Philippine Ports Authority (PPA): A Case of Imposed Fees and Contractual Obligations

****Facts:****

TEFASCO, engaged in the operation of its own private port in Davao City, entered into an agreement with PPA in 1976 after PPA's approval of TEFASCO's proposal to construct specialized port facilities and provide port services. This was intended to alleviate congestion in government ports in Davao City. TEFASCO then undertook significant investments based on this approval. However, PPA later imposed additional conditions, including an application for a construction permit with new stipulations without TEFASCO's consent, and eventually issued special permits imposing onerous conditions, such as a ten percent government share from arrastre and stevedoring gross income and 100% wharfage and berthing charges. TEFASCO complied under protest and requested reconsiderations for these impositions, leading to further disputed assessments and threats of business closure.

The battle led to TEFASCO filing a lawsuit against PPA, seeking restitution for the collected fees and damages. The trial court ruled in favor of TEFASCO, a decision partially upheld by the Court of Appeals, which ordered PPA to compensate TEFASCO for lost revenue due to the 100% charges imposition and attorney's fees. Unsettled, both parties filed petitions for review to the Supreme Court, challenging the appellate court's decision.

****Issues:****

1. Whether the arrangement between TEFASCO and PPA, sanctioned by PPA Resolution No. 7, constituted a contract that bound PPA to its terms, disallowing subsequent impositions without TEFASCO's consent.
2. Validity and legality of PPA imposing 100% wharfage and berthing fees.
3. Legitimacy of PPA collecting a government share from TEFASCO's arrastre and stevedoring gross income.
4. Appropriateness of compensatory damages awarded to TEFASCO for the period from 1977 to 1991 as a result of the additional impositions.
5. Suitability of awarding attorney's fees to TEFASCO.

****Court's Decision:****

The Supreme Court ruled in favor of TEFASCO, establishing that the arrangement constituted a binding contract that PPA could not unilaterally amend by imposing additional charges or conditions. The 100% wharfage and berthing fees lacked legal basis and failed to comply with the required presidential approval, rendering them void. The imposed

government share on TEFASCO's gross income was also invalidated for lack of contractual basis and authority on PPA's part. The Court affirmed the compensatory damages awarded to TEFASCO for lost potential revenue owing to the illegal imposition of fees and upheld the awarding of attorney's fees. However, the Court set aside the award for dredging and blasting expenses and modified the legal interest rate applied to the damages awarded.

****Doctrine:****

This case reestablished that obligations arising from contracts have the force of law between the parties and must be complied with in good faith. It also underscored the principle that regulatory permits, once granted and upon which investments have been made in reliance, assume the character of a contract protecting the permittee from arbitrary revocation or modification of terms.

****Class Notes:****

1. ****Contractual Obligations:**** Obligations arising from contracts bind the parties to their stipulated terms, which cannot be unilaterally modified or revoked by one party (Civil Code, Art. 1159 and 1315).
2. ****Doctrine of Estoppel:**** A party is precluded from denying their previous acts if reliance on those acts has induced another party to change their position to their disadvantage.
3. ****Regulatory Permits as Contracts:**** Regulatory permits can attain contractual character, obliging the issuing authority to adhere to the terms, especially when the permittee has incurred substantial investment based on those terms.
4. ****Invalidity of Unilateral Impositions:**** Authorities cannot impose additional charges or conditions not initially agreed upon in the contract, especially without legal basis or proper procedure.
5. ****Damages for Failure to Receive Benefit (Compensatory Damages):**** Entitlement to adequate compensation for failure to receive a benefit that one should have obtained (Civil Code, Art. 2199 and 2200).

****Historical Background:****

The case highlights a critical aspect of public-private partnerships in port development and operations in the Philippines. While meant to facilitate trade and alleviate congestion in public ports, this scenario underscores the imperative for clear, consistent, and fair regulatory frameworks to govern such partnerships, ensuring mutual benefit and upholding contractual obligations.