

Title: ****Poliand Industrial Limited vs. National Development Company and Development Bank of the Philippines****

Facts:

Between October 1979 and March 1981, Asian Hardwood Limited extended credit to Galleon Shipping Corporation totaling US\$3,317,747.32, which was used to augment GALLEON's working capital for its maritime transport business. GALLEON managed to secure loans from Japanese entities, guaranteed by the Development Bank of the Philippines (DBP) through a Deed of Undertaking. Following fiscal difficulties, President Ferdinand Marcos issued Letters of Instruction (LOI) No. 1155 and 1195 ultimately leading to the National Development Company (NDC) assuming management of GALLEON without the execution of a final share purchase agreement. The Asian Hardwood credit was assigned to World Universal Trading and then to Poliand Industrial Limited (POLIAND). POLIAND demanded payment for the outstanding balance but was rebuffed, leading to a collection suit against NDC, DBP, and GALLEON in October 1991.

Issues:

1. Whether NDC or DBP or both are liable for the loan accommodations and credit advances incurred by GALLEON.
2. Whether POLIAND has a maritime lien enforceable against NDC, DBP, or both.

Court's Decision:

- The Supreme Court found that neither the LOI No. 1155 nor the subsequent agreements effectively transferred GALLEON's liabilities to NDC, given the absence of formal completion of the share purchase agreement and final merger approval from the SEC.
- DBP, guaranteed Galleon's obligations to third-party creditors but wasn't found liable for POLIAND's claims, as these did not stem from any actionable guarantee by DBP.
- The maritime lien favoring POLIAND was recognized, tracing it back to expenses for the vessels, prioritized above the mortgage claims of DBP. However, only NDC was held accountable for this lien, considering their control and management takeover of GALLEON, their knowledge of the pre-existing claims against the vessels, and directives in LOI No. 1195.
- Discrepancies in amounts concerning the maritime lien as stated by the appellate court's decision were addressed, clarifying POLIAND's entitlement to US\$1,193,298.56, with interest.

Doctrine:

- Letters of Instruction (LOIs) are fundamentally administrative directives and do not bear the force of law unless directly connected to authorized objectives by the President's executive capacity, thereby cannot be sources of obligations unless fulfilling specified conditions.
- Preferred maritime liens, as described in the Ship Mortgage Decree of 1978 (Presidential Decree No. 1521), have precedence over other claims, including preferred mortgages, against a vessel, in satisfaction of maritime necessities, including crew wages and ship modifications.

Key Concepts for Memorization:

1. **Letters of Instruction (LOIs):** Administrative directives with no inherent legal obligation generation unless issued under certain authorizing conditions by the President's executive capacity.
2. **Preferred maritime lien (Presidential Decree No. 1521):** A lien with superiority over all claims against a vessel, including mortgages, for maritime necessities incurred prior to the recording of a mortgage.
3. **Statute of Frauds (Article 1403, Civil Code):** Inapplicable to cases where no privity of contract exists, and reliance is based on legislative or administrative directives.

Historical Background:

The case illuminates the complexities of corporate takeovers by government entities, intricacies of maritime lien law, and the impact of administrative directives like LOIs in the context of state-managed rehabilitation efforts for financially beleaguered companies in the Philippines during the Marcos administration. It underscores the judiciary's role in interpreting and applying legislative and administrative mandates to corporate and commercial disputes, especially involving state-run or managed corporations in specialized industries like maritime shipping.