

Title: United Pulp and Paper Co., Inc. vs. Acropolis Central Guaranty Corporation

Facts:

United Pulp and Paper Co., Inc. (UPPC) initiated a civil case for the collection of P42,844,353.14 against Unibox Packaging Corporation (Unibox) and Vicente Ortega (Ortega), also seeking a Writ of Preliminary Attachment due to their alleged insolvent status. The Regional Trial Court of Makati (RTC) granted the writ after UPPC posted a corresponding bond. Unibox and Ortega subsequently sought to discharge the writ by providing a counter-bond issued by Acropolis, which the RTC approved despite UPPC's opposition, arguing Acropolis's potential insolvency.

Discontented, UPPC contested the counter-bond's validity but was rebuffed by the RTC. A compromise was later reached between UPPC, Unibox, and Ortega, ratified by the RTC. However, failure to fulfill the payment schedule led UPPC to successfully motion for execution, though recovery efforts proved futile due to Unibox's ceased operations and depleted assets.

UPPC then sought to enforce the counter-bond from Acropolis, which the RTC supported, ordering payment of the remaining balance. Acropolis contested, citing lack of demand for payment and a supposed novation due to the compromise agreement, but was dismissed by the RTC. Acropolis's subsequent certiorari petition to the Court of Appeals (CA) reversed the RTC's order, releasing it from its bond obligation, primarily due to procedural missteps by UPPC and claimed non-inclusion in the compromise.

Issues:

1. Whether UPPC failed to properly notify and demand payment from Acropolis.
2. Whether the compromise agreement constituted a novation, releasing Acropolis from its counter-bond obligation.

Court's Decision:

The Supreme Court granted UPPC's petition, reinstating the RTC order for Acropolis to fulfill the counter-bond obligations. The Court determined UPPC had indeed complied with demand and notification requirements by filing and serving the motion on Acropolis. Furthermore, the existence of a compromise agreement did not constitute novation nor release Acropolis from its bond obligations, given that the terms of the bond explicitly covered any judgment obtained by UPPC, including those resultant from compromise agreements.

Doctrine:

This case reiterated the principles governing the obligations of a surety under a counter-bond, particularly under Section 17, Rule 57 of the Rules of Court. It clarified that a compromise agreement, especially one that does not unequivocally release a surety from its obligations, does not constitute a novation of the surety's liability. Furthermore, substantial compliance with notice and demand requirements is deemed sufficient under certain circumstances to bind a surety to its counter-bond obligations.

Class Notes:

- The requirements for a surety's liability under a counter-bond include proper demand and notice, followed by a summary hearing.
- A compromise agreement does not automatically novate or extinguish pre-existing obligations unless explicitly stated or if the new and old obligations are completely incompatible.
- Novation by presumption is not favored and must be clearly established.
- Substantial compliance with procedural rules, when it serves the purpose of those rules, may suffice in place of strict adherence.

Historical Background:

This case underscores the intricate balance between procedural rigor and equitable considerations within Philippine judicial proceedings, particularly in commercial disputes involving security bonds. The Philippine legal system, through cases like this, delineates the nuances of obligations derived from suretyship and the conditions under which they can be contested or enforced, reflecting a broader context of ensuring fairness while upholding contractual commitments.