

****Title: Union Insurance Society of Canton, Ltd. vs. Court of Appeals and Far East Chemco Leasing and Finance Corporation****

****Facts:****

The Union Insurance Society of Canton, Ltd., a foreign corporation authorized to conduct business in the Philippines, filed a complaint against the Far East Chemco Leasing Corporation (hereafter Far East Chemco), a domestic corporation. The Union Insurance sought the return of certain vessels or their value, in addition to damages and attorney's fees. The sequence of events began when the defendant, Far East Chemco, failed to file an answer within the extended period allowed by the Court, leading to its declaration in default and the ex parte presentation of evidence by the plaintiff.

The origin of the action traced back to a complaint for damages filed by Union Insurance as the insurer subrogee of Litton Mills, Inc., against Philippine Tugs, Inc., for failing to deliver a complete and undamaged cargo of compressed cotton, resulting in a judgment against Philippine Tugs, Inc. Subsequently, Philippine Tugs, Inc., through its controlling stockholders, transferred several vessels to Valenzuela Watercraft Corporation which later were sold to Far East Chemco. Despite annotations of the judgment and Union Insurance's adverse claim, these sales proceeded. Union Insurance's action against Far East Chemco aimed to recover the value of these vessels due to fraudulent transfers designed to evade the satisfaction of the judgment debt.

****Issues:****

1. Whether or not the sale transactions involving the vessels that occurred subsequent to the judgment against Philippine Tugs, Inc. were fraudulent.
2. Whether Far East Chemco can be held liable for the value of the vessels despite purchasing them without being a direct party to the original case against Philippine Tugs, Inc.
3. Whether the award of attorney's fees was justified in this case.

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

The Supreme Court affirmed the decision of the Court of Appeals, holding that there was insufficient evidence to rescind the sale transactions of the vessels based on fraud. The Court also pointed out that Union Insurance failed to demonstrate that it had exhausted all legal avenues against Philippine Tugs, Inc., which could have potentially satisfied the judgment debt, or that the vessels were the company's only assets. Furthermore, the Supreme Court agreed with the appellate court that the acquisition of the vessels by Far

East Chemco stood valid until legally rescinded and that ordering Far East Chemco to pay for their value was erroneous and lacked legal basis.

****Doctrine:****

This case reiterates the principle that rescission of a transaction demands the proponent to prove that there were no other legal means to obtain reparation, emphasizing the subsidiary nature of the action for rescission under Article 1383 of the Civil Code of the Philippines.

****Class Notes:****

- ****Fraudulent Conveyance****: The transfer of assets with the intent to obstruct, delay, or defraud creditors can be challenged by affected parties. However, proving the fraudulent nature of the transaction is essential.
- ****Subrogation Rights****: As an insurer, Union Insurance stepped into the shoes of Litton Mills, Inc. to pursue recovery from the party responsible for the loss, illustrating the principle of subrogation in insurance law.
- ****Doctrine of Corporate Entity Disregard****: While corporate entities are separate from their stockholders, this veil can be pierced in cases of fraud or when justice demands, although strict criteria must be met.
- ****Adverse Claims and Liens****: Filing an adverse claim gives notice to third parties about contentious entitlements over properties, but does not automatically nullify subsequent transactions.

****Historical Background:****

This case happened against the broader backdrop of maritime and insurance law in the Philippines, highlighting challenges in asset recovery against entities attempting to evade legal judgments through corporate restructuring and asset transfers. It also emphasizes the critical balance courts must maintain between upholding legal doctrines, such as corporate separateness, and preventing the abuse of legal mechanisms to unjustly avoid financial liabilities.