

Title:

****Uy Tam and Uy Yet vs. Thomas Leonard et al.: A Case on the Non-transmissibility of Contractual Obligations to Third Parties Under the Philippine Civil Code****

Facts:

The dispute involves plaintiffs Uy Tam and Uy Yet, who supplied materials to a contractor, Hosty and Brown, for a project involving the supply of crushed rock to the city of Manila. A bond was executed by Hosty and Brown (as principals) and others, including George C. Sellner and Thomas Leonard (as sureties), with the city of Manila named as obligee, to secure the performance of the contract. The plaintiffs furnished the materials under the notification to the defendants that they accepted the conditions of the bond relating to laborers and materialmen. However, when the city of Manila refused to join the plaintiffs in enforcing the bond to recover costs, plaintiffs initiated legal action against the defendants and the city as a pro forma party.

This case reached the Supreme Court through an appeal from a judgment of the Court of First Instance of Manila, which sustained the defendants' demurrer, asserting the complaint did not state facts sufficient for a cause of action, leading to its dismissal with costs.

Issues:

1. Whether a third party not part of a bond agreement can enforce the bond based on stipulations within that bond favoring such a third party.
2. Interpretation of Article 1257 of the Civil Code in the context of third-party stipulations in contracts.

Court's Decision:

The Supreme Court ruled against the appellants, affirming the lower court's decision on the grounds that the bond did not stipulate a clear intention to benefit third parties (in this case, the materialmen). The Court detailed that for a third party to claim a benefit under a contract, the intent of the contracting parties to extend such a benefit must be expressly indicated. Moreover, the bond, in its clauses, did not demonstrate an intention to directly confer benefit or enforceable right upon materialmen but was crafted to secure the city of Manila against possible damages arising from the contract's performance, not to establish direct obligations to third parties.

The Court differentiated stipulations pour autrui (in favor of a third party) from incidental benefits or interests, emphasizing that a mere incidental advantage does not confer rights

upon a third person to enforce the contract terms. The Court underscored the principle that contracts are only binding between the parties who execute them, except in cases explicitly provided for third-party benefits, which was not evident in this case.

Doctrine:

The case reiterates the doctrine of relativity of contracts, as outlined in Article 1257 of the Civil Code, emphasizing that contracts cannot bind or benefit third parties except when the contract contains clear stipulations favoring such a third party, and the third party has accepted these stipulations before their revocation.

Class Notes:

- ****Contracts Relativity Principle****: Contracts only affect the parties who execute them unless stipulations explicitly favor a third party.
- ****Stipulations in Favor of Third Parties****: Must be clearly expressed in the contract, and the third party must accept these benefits before any revocation.
- ****Enforcement by Third Parties****: Third parties may demand fulfillment of contract stipulations intended for their benefit, but only if such intention is clearly stipulated and accepted.

Historical Background:

This case showcases the applicability of Spanish-derived Civil Code provisions in the Philippine legal system, particularly the principles governing contracts and their effects on parties and third parties. It reflects the nuanced interpretation required in cases where third-party interests in contractual agreements are implicated, illustrating the balance between contractual freedom and protection of unintended beneficiaries.