Title:
WERR CORPORATION INTERNATIONAL vs. HIGHLANDS PRIME, INC.: An Insight into Liquidated Damages and Retention Money in Construction Contracts

Facts:
Highlands Prime, Inc. (HPI) engaged Werr Corporation International (Werr) for the construction of residential units in Talisay, Batangas. Upon agreeing on a lump sum contract price and payment scheme, construction commenced with an initial completion date set for February 19, 2006, later extended to October 15, 2006. Werr, failing to complete the project by the final extension, led to HPI terminating the contract. Subsequent arbitration between the parties at the CIAC revolved around Werr's claim for the balance of retention money and HPI's deductions from this for direct payments to suppliers and additional costs post-contract termination. The CIAC awarded the balance of the retention money to Werr but granted HPI's claim for liquidated damages due to project delays. Dissatisfied, both parties appealed to the Court of Appeals (CA), which upheld the CIAC's decision on the retention money but modified the computation of liquidated damages based on the contractual period of delay extending to the project's termination.

Issues:
1. Are payments made to suppliers and contractors after the termination of the contract chargeable against the retention money?
2. Does the industry practice of calculating liquidated damages only up to substantial completion of the project apply in computing liquidated damages?
3. Should the cost of arbitration be equally divided between the parties?
4. Is HPI entitled to attorney's fees and litigation expenses?

Court's Decision:
The Supreme Court denied the consolidated petitions and upheld the CA's decision. It addressed each legal issue as follows:

1. **Charges against the Retention Money**: The Court affirmed the CA and CIAC's findings that certain post-termination payments to suppliers and contractors were not chargeable against the retention money due to lack of proper substantiation and relevance.

2. **Computation of Liquidated Damages**: The Court held that the CA correctly computed the liquidated damages from the start of delay up to the contract's termination, distinguishing between substantial project completion and actual completion. It clarified

that substantial completion could not benefit Werr as it failed to prove a 95% completion rate before contract termination.

3. **Arbitration Costs**: The decision to equally split arbitration costs between the parties was deemed equitable by the Court, acknowledging that both parties had partial success in their claims.

4. **Attorney's Fees and Litigation Costs**: The Court agreed with the lower tribunals that there was no basis for awarding attorney's fees and litigation expenses, emphasizing that such awards require substantive justification.

Doctrine:
This case reinforces the principle that the finality of arbitral awards in construction disputes is subject to review by the Supreme Court only on questions of law. It also highlights the significance of contract terms in determining parties' rights and obligations, including the computation of liquidated damages and the chargeability of post-termination payments against retention money.

Class Notes:
– **Liquidated Damages**: Calculated based on the actual period of delay until contract termination, not just until substantial completion, unless proven otherwise.
– **Retention Money**: Only charges explicitly agreed upon in the contract or adequately justified can be deducted from the retained sum.
– **Arbitration Costs**: Maybe shared between parties depending on the outcome and fairness as adjudged by the tribunal/court.
– **Attorney's Fees and Litigation Expenses**: Require clear legal basis for award; meritorious claim or defense does not automatically entitle a party to such costs.

Historical Background:
The complexities in resolving disputes in the construction industry necessitate a deep understanding of contractual obligations, industry practices, and legal principles governing liquidated damages and project completion. This case exemplifies the challenges faced when contractual terms are contested and the role of arbitration and judicial review in such scenarios.