

Title: Asbestos Integrated Manufacturing, Inc. vs. Hon. Elviro L. Peralta, et al.

****Facts:****

Asbestos Integrated Manufacturing, Inc. (AIMI) is a purely Filipino-owned corporation engaged in marketing asbestos cement pressure pipes produced by another local company, Asbestos Cement Products Philippines, Inc. (ACPPI). In contrast, Eternit Corporation is a domestic company largely foreign-owned, and Sanvar Development Corporation is a wholly Filipino-owned entity engaged in general contracting and trading, including as a distributor for Eternit's products. The Metropolitan Waterworks and Sewerage System (MWSS), a government corporation, conducted two public biddings for its asbestos cement pipe requirements, where Sanvar and AIMI submitted bids with Sanvar presenting the lower bid prices in both instances.

Following Sanvar's selection, AIMI filed a petition against MWSS, Eternit, and Sanvar in the Manila Court of First Instance (Civil Case no. 105410), alleging that Sanvar, essentially acting as Eternit's arm, violated several laws favoring Filipino business establishments. The trial court initially issued a restraining order against the execution of the contracts from the biddings but later dismissed AIMI's complaint, lifting the restraining order, and denying the motion for the issuance of a writ of preliminary injunction.

AIMI appealed to the Supreme Court via a petition for certiorari, challenging the dismissal and orders of the Manila Court of First Instance. The Supreme Court issued a temporary restraining order pending resolution of the case.

****Issues:****

1. Whether Sanvar Development Corporation, being a distributor for Eternit Corporation, operates as an alter ego, thereby disqualifying its awarded contracts under laws promoting Filipino businesses.
2. Whether laws protecting Filipino industries such as the Retail Trade Nationalization Act, the Anti-Dummy Act, and the Flag Law prohibit Sanvar's contract with MWSS.
3. The applicability of the Flag Law considering the involved entities and products are Filipino-owned and locally produced.
4. Whether AIMI exhausted all administrative remedies before resorting to judicial action.

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

The Supreme Court dismissed the petition, finding insufficient evidence to prove that Sanvar acted as an alter ego of Eternit. It ruled that being a distributor does not

automatically make Sanvar an agent of Eternit in legal terms that would bar it from contracting with the government. The Court also dismissed the application of the laws AIMI cited, as those laws did not apply to the nature of Sanvar's and AIMI's businesses given their Filipino ownership and operational scope. Furthermore, regarding the Flag Law, the Court clarified that preferences it lays out only apply when one bidder is not a domestic entity or offers products not made substantially of local materials, neither of which was the case here. On the issue of exhaustion of administrative remedies, the Court deemed further discussion unnecessary following its findings.

****Doctrine:****

1. The essence of a contract determines the applicable law for relationships between parties and not what the parties label the relationship.
2. The Flag Law's preferences apply based on the location of manufacture and the nature of products offered, favoring domestically produced goods from local materials and entities but do not give an automatic advantage to Filipino over foreign manufacturers if all competing products are locally made from Philippine materials.

****Class Notes:****

- The distinction between an agent and a distributor is pivotal in the application of laws meant to protect local industries.
- The Flag Law (Commonwealth Act No. 138) offers preferences to local products and entities but operates within the confines of specific eligibility criteria.
- Legal actions challenging contract awards to government and its instrumentalities should explore all administrative avenues before seeking court intervention.
- The principle of "entire contract" interpretation underscores looking at agreements in their entirety to determine the parties' relationship and the applicable legal framework.

****Historical Background:****

This case reflects the Philippine legal system's efforts to balance national economic interests with the realities of business operations involving entities with varying degrees of foreign participation. It underscores the judiciary's role in interpreting laws designed to protect Filipino enterprises against the backdrop of globalization and the increasing involvement of foreign entities in domestic markets. The decision illustrates how the courts navigate through complex legal and economic considerations to ensure fair application of protectionist laws without unnecessarily hampering legitimate business activities.