

Title: Ferro Chemicals, Inc. v. Antonio M. Garcia, Rolando Navarro, Jaime Y. Gonzales and Chemical Industries of the Philippines, Inc.

Facts:

1. **Contract of Sale and Repurchase:** On July 15, 1988, Antonio Garcia (Chairman of Chemical Industries) sold 1,717,678 shares of Chemical Industries to Ferro Chemicals for P79,207,331.28. Other included shares were his stocks in Vision Insurance, Alabang Country Club, and Manila Polo Club.
2. **Consignment to Security Bank:** Ferro Chemicals tendered a partial payment of P35,462,869.92 to Security Bank to settle Garcia's debt, which was eventually settled by the Court of Appeals in Garcia's favor.
3. **Compromise Agreement:** On January 17, 1989, Garcia entered into a Compromise Agreement with various Consortium Banks regarding surety contracts, clouding ownership of the Chemical shares.
4. **Agreement for Repurchase:** On March 3, 1989, Ferro Chemicals and Garcia executed a Deed of Right to Repurchase, allowing Garcia to buy back shares within 180 days.
5. **Efforts to Repurchase:** Garcia informed Ferro Chemicals of his intention to repurchase on July 12, 1989, and again on July 31, 1989, but Ferro Chemicals rejected on grounds of unpaid taxes and interest.
6. **Judicial Proceedings:** The onset of various litigations:
 - a. **First Repurchase Case:** Filed by Garcia against Ferro Chemicals was dismissed due to SEC jurisdiction.
 - b. **Second Repurchase Case:** Filed with the SEC, still unmatched as of proceedings.
 - c. **Consortium Case:** The shares were eventually transferred to Consortium Banks after RTC public auction favored them.
 - d. **Assignment of Shares:** Consortium Banks sold their rights in shares to Jaime Gonzales.
 - e. **Ferro Chemicals Suit for Damages:** Filed versus Garcia and other defendants, with claims of fraudulent inducement and resultant financial losses due to prior liens on shares.
7. **Lower Court Rulings:**
 - a. The RTC ruled in favor of Ferro Chemicals, holding Garcia and other defendants guilty of fraud and ordered joint liability.
 - b. The CA exonerated Navarro and Chemical Industries, modified awards of costs and attorneys' fees but upheld Garcia's liability.

Issues:

1. Whether Rolando Navarro had liability in the fraudulent conveyance of shares.

2. Whether Chemical Industries could be held liable for the alleged fraud committed by its officers.
3. Whether Ferro Chemicals was entitled to reimbursement of litigation costs.
4. Whether Antonio M. Garcia and Jaime Gonzales were liable for fraudulent representation and tortious interference, respectively.

Court's Decision:

1. **Navarro's Exoneration:** Affirmed by the Supreme Court. Navarro's actions were within the legal and administrative scope as Corporate Secretary, and his lack of malice in contractual duties was established.
2. **Chemical Industries' Exoneration:** Affirmed by the Supreme Court. Owing to its separate corporate personality and the absence of corporation's wrongful acts regarding the personal action of its officers, Chemical Industries wasn't liable.
3. **Litigation Costs Reimbursement Denied:** The Supreme Court upheld CA's findings due to insufficient proof of costs and lack of factual basis by Ferro Chemicals.
4. **Liability of Garcia and Gonzales:** Reversed. Through careful analysis, the Supreme Court found that Garcia did not appear to act fraudulently per the chronology of legal and factual context, including the right to repurchase clause. Similarly, Gonzales' eventual acquisition from Consortium Banks alone was insufficient to establish tortious interference.

Doctrine:

- **Fraud in Contracts:** Fraud must be proved through clear and convincing evidence. Serious fraud (*dolo causante*) can void a contract, while incidental fraud (*dolo incidente*) only entitles one to damages.
- **Liability of Corporate Officers:** Corporate officers' actions within the scope of their duties, devoid of malice and bad faith, cannot establish personal or corporate liability for breach of contract or tortious interference.
- **Separate Corporate Personality:** Corporations and their officers assume distinct legal personalities; liability is not transferrable absent evidence of fraud or misuse to warrant piercing the corporate veil.

Class Notes:

- **Fraud (Art. 1338-1344; New Civil Code):** Distinctions between *dolo causante* (serious fraud rendering contract voidable) and *dolo incidente* (incidental fraud leading only to damages).
- **Corporate Law Essentials:** Corporations retain separate legal identities; piercing the corporate veil requires clear misuse.

- **Tortious Interference:** Third parties inducing breach must act without legal justification (So Ping Bun case).

Historical Background:

The context reflects the often complex nature of corporate transactions in the Philippines during the latter part of the 20th century into early 21st century. Corporate litigation during this period frequently entailed personal and corporate entanglements denoting incomplete detachment from private ownership. Issues raising from sales, securities, and corporate liabilities highlight judicial diligence in scrutinizing obligations and enforcement of contracts amidst ongoing reforms in corporate governance.