

Title: Maersk Line vs. Court of Appeals and Efren V. Castillo

Facts:

- Petitioner: Maersk Line, a maritime transportation company in the Philippines.
- Respondent: Efren V. Castillo, doing business as Ethehal Laboratories, a pharmaceutical manufacturer.
- On November 12, 1976, Castillo ordered 600,000 empty gelatin capsules valued at \$1,668.71 from Eli Lilly, Inc. of Puerto Rico, via Elanco Products.
- The capsules, divided into six drums, were shipped on the MV “Anders Maerskline” from Oakland, California, with an expected arrival date in the Philippines of April 3, 1977, according to the shipper’s memorandum.
- The shipment was mistakenly diverted to Richmond, Virginia, causing a delayed arrival in the Philippines on June 10, 1977.
- Castillo refused delivery due to the delay and filed for rescission of contract with damages against Maersk Line and Eli Lilly, Inc.
- In its defense, Maersk Line argued it was not liable as per the bill of lading terms, which limit liability to loss, destruction, or deterioration of goods.
- Eli Lilly, Inc. disclaimed responsibility for the delay and filed a cross-claim against Maersk Line. Following Castillo’s motion, the trial court dismissed the complaint against Eli Lilly, Inc.
- Trial court judgment on January 8, 1982, found Maersk Line negligent, and awarded Castillo damages.

Procedural Posture:

1. Concurrent actions and motions at the trial court.
2. Dismissal of Castillo’s complaint against Eli Lilly, Inc. and withdrawal of cross-claim.
3. January 8, 1982: Trial court ruled in favor of Castillo.
4. Maersk Line appealed to the Court of Appeals, which modified the lower court’s decision and further reduced damages awarded to Castillo.
5. Maersk Line petitioned the Supreme Court against the appellate court’s decision.

Issues:

1. Does a defendant’s cross-claim against a co-defendant survive after the dismissal of the co-defendant?
2. Is Castillo entitled to damages for the delayed delivery absent a stipulation in the bill of lading on the period of delivery?
3. Were the awards of actual, moral, and exemplary damages and attorney’s fees

substantiated by factual and legal findings?

4. Was the decision's award of 30% damages ambiguous and unsupported?

Court's Decision:

1. **Survivability of the Cross-Claim**:

- **Ruling**: The cross-claim filed by Eli Lilly against Maersk Line does not subsist after the dismissal of the complaint against Eli Lilly.

- **Reasoning**: Maersk Line's liability stems directly from its delay and not from Eli Lilly's cross-claim.

2. **Entitlement to Damages for Delay**:

- **Ruling**: Castillo is entitled to damages.

- **Reasoning**: Article 1170 of the New Civil Code holds parties liable for damages in cases of negligence or delay. Despite no specific delivery date contract, reasonable time expectation applies.

3. **Award of Damages**:

- **Ruling**: The awards were appropriate except for an unconscionable clause.

- **Reasoning**: Sufficient evidence for actual and compensatory damages was provided, aligning with Article 2220. Petitioner's gross negligence justified the moral and exemplary damages.

4. **Miscellaneous Awards**:

- **Ruling**: The 30% provision in the appellate court's decision is unconscionable and thus deleted.

- **Amendment**: Item 4 of the decision concerning the percentage damages award is struck down.

Doctrine:

- **Contract Performance Timeliness**: Contracts implying delivery within a reasonable time apply when no specific timeframe is set (Article 1170, New Civil Code).

- **Liability for Delay**: Common carriers can be liable for delivery delays without a specific contract if delays exceed reasonable expectations (Saludo, Jr. v. CA).

- **Contracts of Adhesion**: Valid unless contrary to law or policy; parties are bound by the terms unless proven otherwise (Magellan Manufacturing Marketing Corp. v. CA).

- **Damages**: Gross negligence in performance can entitle the aggrieved to compensatory, moral, and exemplary damages provided substantial proof and due to gross negligence

amounting to bad faith (Article 2208, New Civil Code).

Class Notes:

- **Delay in Non-Specific Timeframe Contracts**: Estimation timing within the bill of lading can establish product delivery expectations.
- **Article 1170, New Civil Code**: Obligors liable for fraud, negligence, or delay.
- **Article 2220, Civil Code**: Moral damages in bad faith or fraudulent breaches.
- **Gross Negligence**: Justification for compensatory, moral, and exemplary damages in contractual breaches.

Historical Background:

- Contextual understanding of maritime shipping obligations during the 1970s.
- Examination of shipping contract enforceability and liability.
- Focus on evolved interpretation of adhesion contracts under Philippine jurisprudence.