

**Title:** Korea Technologies Co., Ltd. vs. Hon. Alberto A. Lerma and Pacific General Steel Manufacturing Corporation (566 Phil. 1)

**Facts:**

- Contract Execution:** Petitioner Korea Technologies Co., Ltd. (KOGIES), a Korean corporation, and Respondent Pacific General Steel Manufacturing Corp. (PGSMC), a Philippine company, executed a contract on March 5, 1997, for KOGIES to supply and install an LPG Cylinder Manufacturing Plant in Cavite, Philippines.
- Amendment:** On April 7, 1997, the parties amended the contract in Korea, adjusting payment terms. PGSMC agreed to a total price of USD 1,530,000 for the machinery and plant setup.
- Lease Agreement:** PGSMC leased property from Worth Properties Inc. on October 14, 1997, to house the manufacturing plant.
- Petitioner's Compliance:** KOGIES shipped the machinery, and the installation began. A certificate dated January 22, 1998, acknowledged installation but noted PGSMC's financial difficulties affecting operations.
- Non-Payment Issues:** PGSMC issued postdated checks totaling USD 306,000, which were dishonored upon deposit. KOGIES sent a demand letter and initiated a threat of criminal action.
- Respondent's Complaint:** PGSMC cited non-conforming deliveries and withheld payment. On June 1, 1998, PGSMC unilaterally canceled the contract, alleging KOGIES altered the quantity and quality of the machineries.
- Arbitration Clause:** KOGIES invoked Article 15's arbitration clause, requiring disputes to be settled by arbitration in Korea. PGSMC proceeded with legal actions in the Philippines.
- RTC Proceedings:** KOGIES filed a Complaint for Specific Performance and sought a Temporary Restraining Order (TRO) to prevent PGSMC from dismantling the installed machinery, which was initially granted but later denied.
- Inspection and Further Motions:** The RTC allowed the inspection of the machinery despite KOGIES' protests, leading KOGIES to file for certiorari with the Court of Appeals (CA) after several RTC orders.
- Court of Appeals Decision:** The CA upheld the RTC's decision, declaring the arbitration clause void and the procedural actions correct.

**Issues:**

- Validity of Arbitration Clause:** Whether the arbitration clause in the contract, requiring disputes to be settled in Seoul, Korea, was valid.

2. **Payment of Docket Fees and Certification against Forum Shopping:** Whether PGSMC's compulsory counterclaims required payment of docket fees and submission of a certificate of non-forum shopping.
3. **Propriety of Certiorari:** Whether the CA correctly ruled that the RTC orders were not proper subjects for certiorari.

**Court's Decision:**

1. **Arbitration Clause Validity:**

- The Supreme Court reversed the CA, upholding the validity of the arbitration clause. Arbitration clauses that stipulate the venue and binding nature of arbitral awards are not contrary to public policy.
- The Court referenced the Alternative Dispute Resolution Act of 2004 (RA 9285) which aligns with the UNCITRAL Model Law, emphasizing that arbitration should be favored and that foreign arbitral awards are subject to confirmation and review by local courts.

2. **Docket Fees and Certification:**

- The Court held that compulsory counterclaims, under the rules existing at the time PGSMC filed them, did not require payment of docket fees or a certificate against forum shopping.

3. **Propriety of Certiorari:**

- The petition for certiorari before the CA was found to be appropriately filed. The erroneous interlocutory orders by the RTC constituted sufficient basis for certiorari, especially given their severe impact and lack of prior correction opportunities.

**Doctrine:**

1. **Arbitration Clauses:**

- Arbitration clauses are generally valid, enforceable, and align with public policy to encourage speedier and less hostile dispute resolution mechanisms. The clause must be respected and judicial review is available under specific provisions.
- Foreign arbitral awards require local court confirmation before enforcement.

2. **Procedural Compliance:**

- Compulsory counterclaims incorporated in responsive pleadings do not necessitate payment of docket fees or separate certifications against forum shopping, based on rules in effect at the filing time but noting the procedural amendments in 2004.

**Class Notes:**

1. **Arbitration Clause:** Critical for commercial contracts, usually compelling disputes to be resolved by arbitration as specified.
2. **Lex Loci Contractus:** Law of the place where the contract is executed governs the contract.
3. **UNCITRAL Model Law and RA 9285:** Provide a framework for resolving international commercial disputes through arbitration.
4. **Court Jurisdiction:** Local courts can confirm or set aside foreign arbitral awards, maintaining authority over the enforcement process.

**Historical Background:**

The case embodies the Philippine judiciary's evolving stance towards arbitration in trade disputes, aligning its practices with international standards via legislation like RA 9285. This transition reflects a broader trend toward embracing alternative dispute resolution methods to improve the efficiency of commercial litigation, preserving judicial resources, and fostering a more favorable business environment in line with global practices.