

****Title:**** Grandspan Development Corporation vs. Franklin Baker, Inc. and Advance Engineering Corporation, G.R. No. [Case Number]

****Facts:****

In 2015, Franklin Baker Inc. (FBI) and Advance Engineering Corporation (AEC) entered into a Construction Contract for P465 million to build an Integrated Coconut Products Processing Plant in Davao del Sur. Article VIII allowed subcontracting with FBI's consent, and Article XVI mandated arbitration for disputes.

AEC subcontracted Grandspan Development Corporation (Grandspan) for structural work worth approximately P59.875 million. The Subcontractor's Agreement included an arbitration clause under the Construction Industry Arbitration Commission (CIAC).

By late 2016, Grandspan claimed the subcontract value had increased to over P97 million, of which only about P45 million had been paid, leaving a balance exceeding P53 million. Grandspan's complaint against FBI and AEC was grounded in Article 1729 of the Civil Code of the Philippines, allowing laborers and material providers an action against owners for amounts unpaid by contractors.

FBI filed a motion to dismiss, citing the arbitration provision in their contract. AEC's answer echoed the requirement for CIAC arbitration and lodged a cross-claim against FBI for owed amounts.

****Procedural Posture:****

1. Regional Trial Court (RTC) of Makati City:

- Dismissed both Grandspan's complaint and AEC's cross-claim, deferring to the primary jurisdiction of the arbitral bodies (Orders dated Dec. 13, 2017, and Mar. 7, 2018).

2. Court of Appeals (CA):

- Affirmed the RTC but directed referring the dispute to CIAC arbitration (Decision dated Mar. 15, 2019; Resolution dated Jan. 15, 2020).

3. Grandspan filed a Petition for Review on Certiorari to the Supreme Court challenging the dismissal and the arbitration directive.

****Issues:****

1. Whether Grandspan's complaint against AEC is subject to CIAC jurisdiction.

2. Whether Grandspan can validly implead FBI under Article 1729 of the Civil Code in a regular court.

Court's Decision:

1. **CIAC Jurisdiction Over Grandspan and AEC:**

The Supreme Court confirmed that the Subcontractor's Agreement between Grandspan and AEC contained a valid arbitration clause. CIAC has original and exclusive jurisdiction over disputes arising from construction contracts, as established by Executive Order No. 1008. Thus, the RTC was correct to dismiss Grandspan's complaint, considering the binding arbitration agreement.

2. **Impleading FBI under Article 1729:**

Although Article 1729 creates a constructive vinculum (legal link) allowing claims from laborers or suppliers against project owners for unpaid amounts owed by contractors, the Court ruled that such claims involving arbitration agreements are still subject to CIAC jurisdiction. Article 1729 does not negate the CIAC's jurisdiction over arbitration agreements between project owners, contractors, and subcontractors.

Moreover, FBI could argue payment as a defense, and it was their burden to prove full settlement to AEC, not Grandspan's burden to show an outstanding balance due from FBI to AEC initially.

Given this, operationalizing Grandspan's rights under Article 1729 necessitates subrogation of the arbitration clause in the Construction Contract to ensure consistent and harmonious statutory interpretation.

Doctrine:

1. CIAC jurisdiction, as per Executive Order No. 1008, supersedes other forums for construction-related disputes when arbitration clauses exist.
2. Article 1729 of the Civil Code remains operable but must be enforced within the arbitration framework if the subcontract involves an arbitration clause.

Class Notes:

- **CIAC Jurisdiction:** Governs construction disputes per E.O. 1008; arbitration agreement clauses mandate CIAC jurisdiction.
- **Solidary Liability Under Article 1729, Civil Code:** Provides for solidary liability of project owners to laborers/material suppliers for unpaid work or supplies under contracts; applicable in construction litigation.
- **Burden of Proof in Payment Claims:** The burden lies on the party asserting payment (e.g., project owner or contractor) to establish proof of payment.

****Historical Background:****

Executive Order No. 1008 (1985) established CIAC for specialized arbitration governance in construction-related disputes, reflecting the critical need for efficient resolution mechanisms in the growing construction sector. The Civil Code provisions (such as Article 1729) predate CIAC's jurisdiction and provide protective legal measures for laborers and suppliers. This case contextualizes modern statutory interpretation to harmonize older protective laws with current specialized dispute resolution frameworks.

****References:****

- ****Executive Order No. 1008 (1985).****
- ****Article 1729, Republic Act No. 386 (Civil Code of the Philippines).****
- ****Special Rules of Court on Alternative Dispute Resolution (2009).****
- ****CIAC Revised Rules of Procedure for Arbitration.****
- ****Key Jurisprudence: Hutama-Rsea Joint Operations, Inc. v. Citra Metro Manila Tollways Corp.; Tourism Infrastructure & Enterprise Zone Authority v. Global-V Builders Co.****