

Title: Cebu Shipyard and Engineering Works, Inc. vs. William Lines, Inc. and Prudential Guarantee and Assurance Company, Inc.

Facts:

1. **Parties Involved**:

- Cebu Shipyard and Engineering Works, Inc. (CSEW): Domestic corporation engaged in ship dry-docking and repairs.
- William Lines, Inc.: Owner of the luxury passenger-cargo vessel M/V Manila City.
- Prudential Guarantee and Assurance, Inc. (Prudential): Non-life insurance company insuring M/V Manila City for hull and machinery.

2. **Insurance Policies**:

- William Lines insured M/V Manila City for PHP 45,000,000 with Prudential covering hull and machinery, including negligence by ship repairers.
- CSEW was insured by Prudential for third-party liability under a Shiprepairer's Legal Liability Insurance Policy limited to PHP 10,000,000.

3. **Context of Incident**:

- **February 5, 1991**: M/V Manila City was brought to CSEW for dry-docking and repairs.
- **February 6, 1991**: Conference held to discuss repairs and work orders signed. Notable contract stipulations included limited liability clauses:
 - Clause 10: CSEW would replace defective work/material or pay the cost of replacement if proven defective within one month.
 - Clause 11: CSEW's total liability limited to PHP 1,000,000.
 - Clause 20: Required insurance by the customer during repair period.

4. **Events Leading to Fire**:

- **February 13, 1991**: Dry-docking completed; vessel moved to docking quay.
- **February 16, 1991**:
 - **Morning**: JNB General Services, sub-contracted by CSEW, performed welding works on Tank Top No. 12.
 - **Afternoon**: Smoke detected in crew cabins leading to fire which eventually engulfed and sank the vessel.
- Fire-fighting efforts ensued involving multiple fire departments but failed to save the vessel.

5. **Post-Incident**:

- **February 21, 1991**: William Lines filed a complaint for damages alleging negligence by CSEW.
- Prudential paid William Lines PHP 45,000,000 and was subrogated to William Lines' rights against CSEW.
- **June 10, 1994**: Trial court ruled in favor of William Lines and Prudential, awarding damages.
- **July 31, 1996**: Partial dismissal of the case between CSEW and William Lines due to settlement.
- **September 3, 1997**: Court of Appeals affirmed the trial court's decision.

Issues:

1. Whether CSEW had "management and supervisory control" of M/V Manila City at the time of the fire.
2. Appropriateness of applying the doctrine of *res ipsa loquitur* against CSEW.
3. Supportedness of the lower court's finding of CSEW's negligence by evidence.
4. Admissibility and probative value of CSEW's expert evidence.
5. Prudential's right of subrogation against its insured.
6. Validity of the contractual provisions limiting CSEW's liability to PHP 1,000,000.

Court's Decision:

1. **Management and Control**:
 - The court held that CSEW had control of M/V Manila City at the time of the fire.
2. **Doctrine of Res Ipsa Loquitur**:
 - The court found the doctrine applicable, reasoning that the fire would not have occurred without negligence and that CSEW had exclusive control over the vessel at the time.
3. **Negligence**:
 - The evidence sufficiently showed CSEW's negligence. The Court upheld the lower court's findings that directly linked the fire to the conduct and failures of CSEW's employees.
4. **Expert Evidence**:
 - The trial court was within its discretion to weigh the testimonies of expert witnesses against those who were present during the fire. The court preferred direct evidence over expert opinion in this case.
5. **Subrogation Right**:
 - The court reaffirmed Prudential's right of subrogation. Prudential paid the insurance claim

and was subrogated to William Lines' rights against CSEW, pursuant to Article 2207 of the Civil Code.

6. **Limitation of Liability**:

- The Court determined it would be inequitable to limit CSEW's liability to PHP 1,000,000 given the significant loss (PHP 45,000,000) suffered by William Lines.

Doctrine:

- **Res Ipsa Loquitur**: This doctrine applies when (1) the accident is of a type that does not ordinarily occur without someone's negligence, and (2) the instrumentality causing the injury was under exclusive control of the defendant.

- **Right to Subrogation**: Under Article 2207 of the Civil Code, an insurer who indemnifies a loss is subrogated to the rights of the insured against the wrongdoer.

Class Notes:

- **Key Elements/Concepts**:

- **Doctrine of Res Ipsa Loquitur**: Useful in negligence cases where direct evidence of the defendant's negligence is not available, relying on the fact that certain accidents imply negligence.

- **Subrogation**: When an insurance company pays a claim, it steps into the shoes of the insured to recover from third parties liable for the damage.

Historical Background:

This case highlights the complexities involved in determining liability in commercial maritime incidents, especially when multiple insurance policies and third-party contractors are involved. The reaffirmation of the *res ipsa loquitur* doctrine and the subrogation rights of insurers under Philippine law underscores the judiciary's approach to resolving compensatory disputes in the maritime industry. The Supreme Court's decision in this case provides important precedents for the interpretation of contractual liability limits and tortious negligence in the maritime context.