Title: National Sugar Trading Corp. and Sugar Regulatory Administration vs. Philippine National Bank

Facts:

1. **Initial Background:**
– In February 1974, then-President Ferdinand E. Marcos issued Presidential Decree No. 388 creating the Philippine Sugar Commission (PHILSUCOM) as the exclusive agent for sugar trading in the Philippines.
– By November 1974, Presidential Decree No. 579 appointed the Philippine Exchange Company, Inc. (PHILEXCHANGE), a subsidiary of the Philippine National Bank (PNB), as PHILSUCOM's marketing agent. Under this decree, PHILEXCHANGE's sugar trades were financed by PNB with sales proceeds applied to its PNB debts.

2. **Problematic Transition:**
– PHILEXCHANGE faltered due to dropping sugar prices, leading to a debt of P206,070,172.57 due to PNB.
– In July 1977, NASUTRA replaced PHILEXCHANGE as PHILSUCOM's marketing agent.

3. **Further Developments:**
– In 1981, NASUTRA negotiated a P408 Million credit line with PNB, pledging sugar proceeds for payment.
– By 1985, due to continuous losses, NASUTRA accrued interest debts totaling P65,412,245.84.
– After NASUTRA's dissolution in 1986, its accounts defaulted with outstanding debts of P389,246,324.60.

4. **Government Internal Developments:**
– Following the regime change (EDSA Revolution, 1986), President Corazon Aquino's Executive Order No. 18 created the Sugar Regulatory Administration (SRA), assuming NASUTRA and PHILSUCOM's assets and responsibilities.

5. **Debt Settlements:**
– From mid-1980s to early 1990s, PNB applied foreign remittances (totaling P696,281,405.09, from NASUTRA's exports) to several accounts:
– NASUTRA's account (P389,246,324.60)
– Various planters' claims (P15,863,898.79)
– Interest on unpaid sugar proceeds (P65,412,245.84)

– PHILSUCOM and PHILEXCHANGE accounts (P225,758,935.86)

6. **Legal Proceedings:**
– Dissatisfied with PNB’s accounting, NASUTRA and SRA sought arbitration via the Department of Justice, which partially favored PNB, ordering repayment to NASUTRA/SRA for some accounts.
– Appeals reached the Office of the President and subsequently, despite changes in specifics, the outcome still significantly favored PNB.
– NASUTRA and SRA escalated the matter to the Court of Appeals, which sided with previous decisions.
– This led to a petition for final review by the Supreme Court.

Issues:

1. Was there a legal basis for PNB to offset or compensate the remittances against NASUTRA’s and PHILSUCOM’s debts?
2. Could PHILEXCHANGE, a separate entity, have its account settled from these remittances given its separate corporate personality?
3. Did the CAB Planters’ account represent an unliquidated account requiring recomputation?
4. Could the terms under which NASUTRA availed its credit line with PNB justify the bank’s actions?
5. Did alleged debts properly align with statutory provisions regulating interest and recompense in context to sugar producers?

Court’s Decision:

1. **Application of Remittances:**
– The Supreme Court affirmed that the agreement between PNB and NASUTRA granted PNB the authority to apply remittances on NASUTRA’s debts. NASUTRA, through stipulations and promissory notes, effectively designated PNB as an attorney-in-fact to apply funds towards its loan obligations.

2. **PHILSUCOM and PHILEXCHANGE Debts:**
– Despite PHILEXCHANGE’s distinct corporate identity, the Court acknowledged intertwined operations between it and PNB making PNB’s set-off justified.

3. **CAB Planters’ Account:**

– Arguments regarding the necessity for recomputation were not sufficient to counteract existing application, and the debt had been resolved within legal bounds prior to statutory changes—that is, the Sugar Reconstitution Law.

4. **Overall Justification:**
– The Court emphasized that legal authorizations via existing agreements and promissory notes, considered reliable by practice, justified PNB's actions under stipulated conditions allowing application of available funds.

Doctrine:

– Stipulated terms within credit and loan agreements, including powers of attorney and set-off clauses, have the binding force of law between contracting parties when not contravening public policy, statutes, or moral standards.

Class Notes:

1. **Contractual Autonomy:**
– Article 1306 allows parties to set terms freely unless contrary to law or public policy.

2. **Agency with Interest:**
– An agency constituted with a vested interest in the outcome cannot be withdrawn arbitrarily.

3. **Legal Compensations:**
– Legal compensation under Articles 1278-1279 requires existing debts and reciprocities.

4. **Specific Performance in Banking:**
– Promissory notes and credit agreements can include stipulations on how funds controlled by the lending bank can be applied.

Historical Background:

– The sugar industry in the Philippines during the Marcos era was destabilized by plummeting global sugar prices, leading to complex economic interventions by the state. These interventions included financing, marketing controls, and regulatory reorganizations amid political changes post-Marcos administration transitioning into Aquino's presidency.