

Title: *Magat (Heirs of Victorino Magat) vs. Court of Appeals and Santiago A. Guerrero*

Facts:

1. ****1972 Contract Initiation****: Santiago A. Guerrero, President and Chairman of Guerrero Transport Services, secured a contract to provide radio-controlled taxi services at the Subic Naval Base. Guerrero contracted with Victorino D. Magat, General Manager of Spectrum Electronic Laboratories, to purchase transceivers for USD 77,620.59.
2. ****Martial Law Declaration****: President Ferdinand E. Marcos declared martial law on September 22, 1972, issuing Letter of Instruction No. 1 which led to Admin. Circular No. 4 suspending applications for radio transceivers permits.
3. ****Contractual Difficulties****: Despite martial law directives, Guerrero and Magat moved forward, including a confirmation on September 29, 1972, of Guerrero's bid success. Complications arose due to the Gov't regulations, and no radio frequency was initially assigned.
4. ****Transaction Development****: Guerrero communicated the assigned frequency on October 6, 1972. Efforts to establish a letter of credit were hindered by the lack of import permits due to martial law restrictions. Guerrero eventually used borrowed equipment from Subic Naval Base.
5. ****Breach of Contract Allegation****: Victorino canceled the transceiver order, citing the risk of forfeitures and additional costs. He filed a case for breach of contract in the Regional Trial Court (RTC) on May 22, 1973.
6. ****Procedural Posture****: Initially, on June 16, 1973, RTC dismissed the complaint for failure to state a cause of action. Upon appeal, the Supreme Court remanded the case for further proceedings in 1983. The case was temporarily archived in 1984, reinstated by Victorino's heirs in 1985 and ruled in their favor in 1991, before being reversed by the Court of Appeals (CA) in 1995.

Issues:

1. Whether the contract between Guerrero and Victorino for the purchase of radio transceivers was void due to the martial law regulations.
2. Whether the transceivers were contraband under the martial law administrative orders.
3. If not void, whether Guerrero breached the contract.

Court's Decision:

1. **Validity of the Contract**:

- The Supreme Court found the contract valid. The findings highlighted that neither the LOI nor the Admin. Circular explicitly banned the importation of transceivers, they only regulated it. Transceivers were legitimate items of commerce provided proper permits were obtained.

2. **Contraband Status**:

- The Court ruled that the transceivers were not contraband. The LOI and Admin. Circular did not categorize these items as inherently illegal. Instead, they established a regulatory framework not a prohibition.

3. **Breach of Contract**:

- Despite the contract's validity, Guerrero's non-fulfillment was due to the inability to obtain necessary import permits, a situation beyond his control. The court applied the principle *damnum absque injuria* (damage without injury). There was no bad faith established; Guerrero acted on information from government bodies and borrowed equipment prudently to meet contractual obligations under dire circumstances.

4. **Damages**:

- The Court upheld the CA's decision reversing RTC's award of damages. Moral, exemplary, or actual damages could not be justified without evidence of bad faith or a reasonable degree of certainty in the actual monetary loss.

Doctrine:

1. **Regulation vs. Prohibition**: Regulatory directives under martial law did not inherently make goods contraband. Contracts involving regulated but not prohibited items remain valid if compliance with the regulatory framework is pursued.

Class Notes:

- **Regulatory Compliance**: Legal transactions involving regulated items require adherence to existing governmental permits and licensing.
- **Damnum Absque Injuria**: This principle emphasizes that damages incurred due to events beyond control or without bad faith cannot warrant claims for compensations.
- **Bad Faith**: Entails intentional dishonesty or a deliberative breach of known duties; difficult to prove without substantial evidence.

Historical Background:

- The case arose during the martial law period in the Philippines under President Ferdinand E. Marcos. Martial law entailed extensive control over private and public life, including stringent regulatory measures. These controls grounded many commercial activities, mandating strict adherence to governmental directives. This historical backdrop provides a lens to understand why the issuance of permits and compliance with martial law directives were significant in contractual agreements.