

****Title:****

Diolosa vs. Court of Appeals and Quirino Baterna (G.R. No. L-44944)

****Facts:****

Mariano Diolosa and Alegria Villanueva-Diolosa (petitioners) entered into an agency agreement on June 20, 1968, with Quirino Baterna (respondent), a licensed real estate broker. The agreement designated Baterna as the exclusive sales agent for the sale of lots in Villa Alegre Subdivision, owned by the petitioners. The contract specified that Baterna's authority to sell would exist "until all the subject property as subdivided is fully disposed of."

Step-by-Step Facts:

1. ****Agreement Formation (June 20, 1968)**:** Baterna was appointed the exclusive sales agent to sell lots in Villa Alegre Subdivision under the terms of the agreement, Exhibit "A."
2. ****Agreement Revocation (September 27, 1968)**:** Alegria Villanueva-Diolosa terminated Baterna's services via a letter, Exhibit "B", stating that the remaining unsold lots would be reserved for their grandchildren.
3. ****Plaintiff's Complaint**:** Baterna filed a complaint for recovery of unpaid commission, claiming damages for the alleged wrongful rescission of the contract, in the Court of First Instance of Iloilo, docketed as Civil Case No. 7864.
4. ****Trial Court Hearing and Dismissal**:** The trial court heard the case and subsequently dismissed Baterna's complaint.
5. ****Appeal to Court of Appeals**:** Baterna appealed to the Court of Appeals, which reversed the trial court's decision and awarded Baterna damages and attorney's fees.
6. ****Certiorari to Supreme Court**:** The petitioners subsequently filed an appeal by certiorari to the Supreme Court, challenging the decision of the Court of Appeals.

Procedural Posture:

- ****Trial Court (CFI Iloilo)**:** Civil Case No. 7864 was heard and dismissed.
- ****Appellate Court (Court of Appeals)**:** The dismissal was reversed, and damages were awarded to Baterna.

- **Supreme Court**: Petitioners sought review by certiorari of the appellate court's decision.

Issues:

1. Whether the petitioners could terminate the agency agreement unilaterally without paying damages to the private respondent.
2. Whether the termination of the agency agreement by a letter (Exhibit "B") contravened the terms of the agreement (Exhibit "A").
3. Whether Baterna was entitled to commissions from unsold lots due to the premature termination of the contract.

Court's Decision:

Legal Issue Resolution:

1. **Termination of Agency Agreement**: The Supreme Court held that under the terms of the contract (Exhibit "A"), petitioners could not terminate the agency agreement without paying damages. The agreement allowed Baterna to act as the exclusive sales agent "until all the subject property as subdivided is fully disposed of." Therefore, the revocation via Exhibit "B" breached this provision.
2. **Validity of Termination**: The court examined Article 1920 of the Civil Code, which allows the principal to terminate an agency at will, but emphasized that doing so could still result in liability for damages if such termination contradicts the explicit contract terms. The agreement's irrevocable nature due to its term "until all lots are disposed of" necessitated damages for the premature termination.
3. **Entitlement to Commission**: The Supreme Court agreed with the appellate court that Baterna was entitled to damages due to the unjustified rescission. Petitioners' act of reserving the remaining lots for family use did not constitute a valid ground for rescinding the agency agreement.

Conclusion:

The Supreme Court dismissed the petition, affirming the Court of Appeals' decision awarding damages and attorney's fees to Baterna.

Doctrine:

The case underscores the principle that while a principal generally has the right to revoke an agency, such revocation must be consistent with the terms of the contract. When a contract specifies that the agency remains until all properties are sold, revoking the agency prematurely without lawful cause makes the principal liable for damages. This interpretation is consistent with Articles 1381 and 1920 of the Civil Code of the Philippines.

****Class Notes:****

- ****Key Elements and Concepts**:**

- ****Agency Agreement**:** A consensual relationship whereby one party (agent) agrees to act on behalf of another (principal).
- ****Irrevocability Clause**:** Specific contract terms that limit the ability to unilaterally rescind the agency agreement.
- ****Article 1920 of Civil Code**:** While generally allowing agency revocation, damages can still be due if such revocation goes against explicit contract terms.
- ****Articles 1381 and 1382**:** Grounds for valid rescission of contracts, focusing on protection against fraud, lesion, and insolvency.

- ****Relevant Legal Provisions**:**

- ****Civil Code Art. 1920**:** "The principal may revoke the agency at will, and compel the agent to return the document evidencing the agency."
- ****Civil Code Art. 1381 and 1382**:** Enumerates the grounds under which contracts can be rescinded.

****Historical Background:****

This case occurred in a period when contracts of agency involving real estate transactions were increasingly subject to scrutiny due to growing economic activities and real estate developments. It reflects the balance between contractual freedom and the protection of rightful expectations established in law, a critical principle emerging in the jurisprudence of the era. The case provides a clear precedent for interpreting agency contracts with definitive terms in the context of commercial real estate.