

HUGH M. HAM, PLAINTIFF AND APPELLANT, VS. THE BACHRACH MOTOR CO., INC., DEFENDANT AND APPELLANT. THE SECRETARY OF AGRICULTURE AND NATURAL RESOURCES AND THE DIRECTOR OF LANDS THI...

G.R. No. L-13677. October 31, 1960

Ponente: PADILLA, J.

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PADILLA, J.:

These are appeals by both the plaintiff and the defendant to the Court of Appeals from a judgment rendered by the Court of First Instance of Manila dismissing the complaint, the counterclaim and the defendant's third-party complaint against the third-party defendants (civil No. 11159). As only questions of law are involved, the Court of Appeals certified the case to this Court.

The facts are not disputed, the parties having entered into a stipulation of facts. The facts as stated by the trial court are, as follows:

A complaint was filed by Hugh M. Ham against the Bachrach Motor Co., Inc., on May 24, 1950, which complaint was later amended on June 2, 1955 (pp. 186-190, record) which was admitted by the Court on June 11, 1955 (p. 195 record). In the amended complaint, the plaintiff prays that the defendant be sentenced to pay the former the amount of P30,500.00 together with the legal rate of interest thereon from the date of the filing of the complaint, attorney's fees of not less than P5,000.00 and the costs of suit.

On June 8, 1950, the defendant filed its answer, which was amended on June 24, 1955, filed June 25, 1955 (pp. 196-201, record). The said amended answer contains affirmative defenses and a counterclaim for the payment by the plaintiff to the defendant of rent-1 at the rate of P500.00 a month from November, 1949, to June, 1955, in the total cum of P34,000.00 plus the rental for subsequent months.

On June 28 1955, the said plaintiff filed his reply to defendant's affirmative defense and counterclaim (pp. 202-208, record).

On September 13, 1950, the defendant Bachrach Motor Co., Inc., filed a third-party complaint against the Honorable Secretary of Agriculture and Natural Resources, and the Director of Lands (pp. 32-36, record). Said third-party complaint (which was allowed on 18 September 1950) prays for the following:

"(a) That the order dated September 15, 1947, issued by the third-party defendants, Director of Lands, with the approval of the other third-party defendant Secretary of Agriculture and Natural Resources, copy of which was received by the defendant, the Bachrach Motor Co., Inc., on March 16, 1948, cancelling the lease contract of said defendant with the Government covering Block No. 146, Reclamation No. 1, Port Area, Manila, Philippines and forfeiting in favor of the Government defendant's building and other improvements erected thereon, be declared illegal, null and void;

"(b) That the third party defendants be compelled to respect defendant's leasehold rights on said parcel of land in accordance with the terms and conditions of the lease contracts, Appendices 'B' and 'C';

"(e) That the defendant, the Bachrach Motor Co., Inc., be recognized as owner up to now of the building erected on said parcel of public land;

"(d) That the third party defendants be ordered to recognize as valid the contract of lease, Appendix 'D', entered into between the defendant and the plaintiff during the period set forth in said contract;

"(e) That the new contract of lease entered into between the plaintiff, Hugh M. Ham, and the third party defendants over the same portion of defendant's building leased by the defendant to the plaintiff, be declared illegal, null and void; and

"(f) For the costs of this action and for such other and further relief as this Honorable Court may deem just and equitable in the premises" (pp. 35-36, record).

On October 28 (27), 1954, all the parties herein, plaintiff, defendant and third-party defendants, filed "partial stipulation of facts" dated October 27, 1954 (pp. 109-113, record) quoted as follows:

PARTIAL STIPULATION OF FACTS

"Come now the parties in the above-entitled case through their undersigned attorneys, and to this Honorable Court respectfully submit the following partial stipulation of facts, to wit:

I

"That plaintiff is of legal age and a resident of Manila, Philippines; that the Bachrach Motor Co., Inc., is a corporation duly organized and existing in accordance with the laws of the Philippines; with its principal office in Manila, Philippines; that the third party defendants, Secretary of Agriculture and Natural Resources and the Director of Lands, are the duly appointed and acting officers in said positions and are sued, not personally, but in their official capacities.

II

"That on February 26, 1919, a contract of lease, copy of which is attached hereto as Exhibit 'A' and made a part hereof, was entered into by and between the Government of the Philippine Islands, now the Republic of the Philippines, on the one hand, and one Helene Caswell, on the other hand, in virtue of which the former leased to the latter for a period of ninety-nine (99) years from said date, a parcel of public land known as Block No. 146, Reclamation No. 1, Manila Harbor, Manila, containing an area of 4,410 square meters, to be used for commercial and business purposes only for and in consideration of a rental fixed at 3% per annum of the appraised value of said parcel of public land to be paid semi-annually and in virtue of which, the lessee therein was permitted to build, as in fact she built thereon, a building of strong materials which subsequently became known as the 'Teal Building';

III

"That on May 16, 1935, the defendant, the Bachrach Motor Co., Inc., acquired through public auction the building known as 'Teal Building' existing on the aforementioned parcel of public land as well as whatever and all rights and interests which the original lessee might have in the aforementioned contract of lease with the Government and said acquisition was duly approved by the Director of Lands and the Secretary of Agriculture and Natural Resources on April 14, 1939, as per copy of their order dated April 24, 1939, issued in R.L.L.A. No. 62 (L-36), attached hereto as Exhibit 'B' and made a part of this stipulation;

IV

"That during the battle for the liberation of Manila between the American Armed Forces of Liberation, on the one hand, and the Imperial Japanese Forces, on the other hand, the building referred to in the next preceding paragraph hereof, was damaged;

"That in order to rehabilitate the portion of defendant's building leased to him, the plaintiff reconstructed and introduced necessary improvements thereon valued at approximately F28,000.00;

V

"That on February 4, 1946, the defendant, the Bachrach Motor Co., Inc., entered into contract of lease with the plaintiff, copy of which contract is attached hereto as Exhibit 'C' and made a part hereof, over a portion of defendant's aforementioned building, containing an area of approximately 600 square meters, more or less; that in pursuance with said contract of lease, plaintiff has occupied the leased portion of said building and has paid to said defendant, the Bachrach Motor Co., Inc., the stipulated rental of P500.00 a month for the period from February, 1946 up to and including the end of October, 1949; that the rental corresponding to the months from April, 1948; to October, 1949, was paid by the plaintiff to the defendant in pursuance with the letter dated April 5, 1948 sent to the plaintiff by Attys. Roxas, Picaso and Mejia, on behalf of the defendant; that during the period from February 5, 1948 to October 14, 1949, the plaintiff was also required to pay, as in fact the plaintiff paid, to the Bureau of Lands the sum of P2,268.53 for the occupation of the premises for the same period; that from November 1, 1949, the plaintiff did not pay rental to the defendant because he was required to pay, as in fact he paid, to the Bureau of Lands the necessary occupation fees from February, 1948;

VI

"That on September 15, 1947, the third party defendants issued an order, a copy of which is attached hereto as Exhibit 'D' and made a part of this stipulation, cancelling the lease contract, exhibits 'A' and 'B' and forfeiting the improvements of the defendant thereon in favor of the Government, that copy of said order of cancellation and forfeiture was served upon and received by the defendant, the Bachrach Motor Co., Inc. on March 16, 1948;

"That the parties cannot stipulate as to the validity of said order of cancellation and forfeiture, Exhibit 'D', or as to the grounds set forth therein, or as to whether or not the defendant was given due notice or due hearing before the said order of cancellation and forfeiture was issued and the parties leave these matters to be established by their respective evidence;

VII

"That in due time, defendant filed a petition for review and reconsideration of the aforementioned order of cancellation and forfeiture, as per copy of said petition attached hereto as Exhibit 'E' and made a part hereof; and on June 17, 1948, the third party defendant, Secretary of Agriculture and Natural Resources, issued another order, certified copy of which is attached hereto as Exhibit 'F' and made also a part hereof, denying the said motion for a reconsideration.

VIII

"That in due time, defendant filed another motion for re-investigation of the case, copy of which it attached hereto as Exhibit 'C', and made a part hereof, but said motion for re-investigation was denied in an order of the third party defendant, Secretary of Agriculture and Natural Resources, copy of which is attached hereto, as Exhibit 'H' and made a part hereof, which order was based on the 3rd Indorsement of the third party defendant Director of Lands, dated November 22, 1948, copy of which is attached hereto as Exhibit 'H-I' and also made a part hereof;

IX

"That on January 14, 1949, the defendant through its Vice-President and General Manager, interposed an appeal to His Excellency, the President of the Philippines, copy of which is attached hereto as Exhibit 'I' and made a part hereof; that in forwarding the said appeal to His Excellency, the President of the Philippines, the third party defendants wrote the .second indorsement dated May 12, 1949, and the third indorsement dated

May 21, 1949, copies of which are attached hereto as Exhibits J' and 'J-l', respectively, and made also parts hereof.

"Wherefore, it is respectfully prayed that the foregoing partial stipulation of facts be approved, and that another date be set for the hearing of this case in which parties hereto shall present their evidence as to those points in which they could not stipulate."

The documents and papers marked Exhibits A, B, C, D, E, F, G, H, H-l, I, J and J-l, mentioned in the partial stipulation of facts as parts thereof, are attached to the said stipulation (pp. 114-169, record).

After the parties had entered into the aforequoted partial stipulation of facts, the plaintiff presented evidence in relation to his claim for damages, and the defendant waived its right to present additional evidence, (pp. 233-245, record on appeal.)

The trial court held that since the decision of the Director of Lands dated 15 September 1947 (Exhibit B), approved by the Secretary of Agriculture and Commerce now (Agriculture and Natural Resources), had been appealed to the President of the Philippines, and the latter has not yet acted on the matter, the aggrieved party has not exhausted all administrative remedies. Hence the present action was premature.

The plaintiff seeks, among others, to recover from the defendant the amount of P10,500 he had paid to the latter by way of rental from April 1948 to October 1949, allegedly not due because of the cancellation and forfeiture of the lease and the improvement by the Director of Lands, with the approval of the Secretary of Agriculture and Natural Resources. The decision of the Director of Lands dated 15 September 1947 (Exhibit D) was served upon the defendant on 16 March 1948. The validity of the plaintiff's claim is, therefore, based upon the legality and validity of the decision of the Director of Lands.

The doctrine of exhaustion of administrative remedies[1] applicable to judicial review of decisions of the Director of Lands and the Secretary of Agriculture and Natural Resources is too well known and need not be restated.

The parcel of land in question, a reclaimed land, is of the public domain. Its lease and incidents arising therefrom are governed by the provisions of Act No. 1654 and Commonwealth Act No. 141, as amended, otherwise known as the Public Land Act. Under the contract of lease entered into by the defendant's predecessor-in-interest and the Director of Lands in behalf of the Government, "for a breach of any of the covenants herein by the said party of the second part, save those covenants for breach of which special provision is made, the said party of the first part may elect to declare this lease forfeited and void, and, after having given thirty (30) days' notice, in writing, to the said party of the second part, may enter and take possession of the said premises, and said party of the second part hereby covenants and agrees to give up the possession thereof" (Exhibit A). The decision of the Director of Lands cancelling the contract of lease in question is appealable to the Secretary of Agriculture and Natural Resources.[2] Section 2(d), Act No. 1654, partly provides:

The lease of the said lands shall be executed by the Director of Lands and approved by the Secretary of the Interior (now Agriculture and Natural Resources) and shall specifically provide, among other things, * * * that in case of failure * * * to comply with any or all of the terms and conditions of said lease the same shall thereupon be forfeited (referring to the buildings and improvements), and that all improvements made on the leased property shall vest in and become the property of the Government of the Philippine Islands; Provided, however, That the Governor-General (now President of the Philippines) may, in his discretion, and upon such terms as he may prescribe, waive the forfeiture herein provided for, or extend the time within which said improvements shall be commenced and completed.

Under the aforequoted provision of Act No. 1654, the forfeiture of the improvements declared by the Director of Lands with the approval of the Secretary of Agriculture and Natural Resources, is subject to review by the

President of the Philippines. Moreover, by virtue of the President's power of control over all executive departments, bureaus or offices[3] which "means the power of an officer to alter, modify or nullify or set aside what a subordinate officer had done in the performance of his duties and to substitute the judgment of the former for that of the latter,"[4] the President may reverse, affirm or modify the decision of the Director of Lands and the Secretary of Agriculture and Natural Resources. By its own act of appealing from the decision of the Director of Lands and the Secretary of Agriculture and Natural Resources to the President of the Philippines, and without waiting for the latter's decision, the defendant cannot complain if the courts do not take action before the President has decided its appeal.

The judgment appealed from is affirmed, with costs against both appellants.

Paras, C.J., Bengzon, Bautista Angelo, Labrador, Concepcion, Reyes, J.B.L., Barrera, Gutierrez David, Paredes, and Dizon, JJ. concur.

Judgment affirmed.

[1] *Lamb vs. Phipps*, 22 Phil., 456; *Arnedo vs. Aldanese*, 63 Phil., 768; *Ang Tuan Kay & Co. vs. Import Control Commission*, 91 Phil., 143; *Miguel vs. Reyes*, 93 Phil., 542; *Azajar vs. Ardales*, 97 Phil., 851; 51 Off. Gaz., 5640; *de la Paz vs. Alcaraz*, 99 Phil., 130; 52 Off. Gaz., 3037; *Lopez vs. Court of Tax Appeals*, 53 Off. Gaz., 3065; *Cortez vs. Avila*, 101 Phil., 205; 54 Off. Gaz., 2177; *Peralta vs. Salcedo*, 101 Phil., 451; *Montes vs. Civil Service Board of Appeals*, 54 Off. Gaz., 2174; *Lubugan vs. Castrillo*, G. R. No. L-10521, 29 May 1957; *Cabanes vs. Rodriguez*, G. R. No. L-9799, 31 May 1957; *Cabo Kho vs. Rodriguez*, G. R. No. L-9032, 28 September 1957; *Heirs of Lachica vs. Ducusin*, 102 Phil., 551; *Geukeko vs. Araneta*, 102 Phil., 706; 54 Off. Gaz., 4494; *Sampaguita Shoe & Slipper Factory vs. Commissioner of Customs*, 102 Phil., 850; 56 Off. Gaz., 4032; *Villanueva vs. Ortiz*, 103 Phil., 875; 56 Off. Gaz., 276; *Nebrada vs. Heirs of Alivio*, 104 Phil., 126; 55 Off. Gaz., 4238.

[2] Sec. 4, Commonwealth Act No. 141.

[3] Section 10(1), Article VII, Constitution of the Philippines.

[4] *Mondano vs. Silvosa*, 97 Phil., 143; 51 Off. Gaz., 2888; *Enriquez vs. Gimenez*, 107 Phil., 932; 58 Off. Gaz. (29) 5089.

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