

**INSULAR LUMBER COMPANY, PETITIONER, VS. COURT OF APPEALS,
EULOGIO ARONALES, MANUEL ASTORGA, JULIO ATADERO,
MELANIO BUNA, LUCIANO CARTON, AMADO CATALAN, FRANCISCO
GANTES, FELIPE ...**

G.R. No. L-23857. August 29, 1969

Ponente: SANCHEZ, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/0aa5102f1afd/>

SANCHEZ, J.:

The dominant issue raised in this appeal is whether or not the dismissal of employees without a definite period of employment - in consequence of a retrenchment program for reasons of economy and mechanization or modernization of operations - was for "just cause" which would exempt the employer from giving separation pay under the Termination Pay Law, Republic Act 1787, which took effect on June 21, 1957, Section 1 (the pertinent portion) of which reads:

"SECTION 1. In cases of employment, without a definite period, in a commercial, industrial, or agricultural establishment or enterprise, the employer or the employee may terminate at any time the employment with just cause; or without just cause in the case of an employee by serving written notice on the employer at least one month in advance, or in the case of an employer, by serving such notice to the employee at least one month in advance or one-half month for every year of service of the employee, whichever is longer, a fraction of at least six months being considered as one whole year.

x x x

The employee, upon whom no such notice was served in case of termination of employment without just cause shall be entitled to compensation from the date of termination of his employment in an amount equivalent to his salaries or wages corresponding to the required period of notice.

The following are just causes for terminating an employment without a definite period:

1. By the employer?

- a. The closing or cessation of operation of the establishment or enterprise, unless the closing is for the purpose of defeating the intention of this law;
- b. Serious misconduct or wilful disobedience by the employee of the orders of his employer or representative in connection with his work;
- c. Gross and habitual neglect by the employee of his duties;
- d. Fraud or wilful breach by the employee of the trust reposed in him by his employer or representative;
- e. Commission of a crime or offense by the employee against the person of his employer or any immediate member of his family, or representative; and
- f. Other causes analogous to any of the foregoing.

x x x"

Private respondents herein were petitioner's employees without a definite term. A majority of them had worked for the company for more than 20 years in its lumber factory in Barrio Fabrica, Sagay, Negros Occidental. They were union men, members of the Allied Workers' Association of the Philippines, Fabrica Chapter. This labor union executed with petitioner on June 5, 1959 - or about two years after Republic Act 1787 became effective - an agreement providing -

"Article XVIII

Death and Separation Gratuities

Section 1. With the exception of Employees and Workers entitled to benefits under the Workmen's Compensation Act and the Termination Pay Law, the Company agrees to give death and separation gratuities after one (1) year's service to all its employees and workers in case of death or honorable discharge from the service due to (1) old age, (2) reduction of force, and (3) disablement due to physical reasons.

Section 2. The gratuity payments mentioned in Section 1 above, shall be exclusive of Social Security System benefits and shall be based on the following schedule:

Over 1 to 8 years' service (excluding war years) - 1 Mo.'s Pay

Over 8 to 16 years' service (excluding war years) - 2 Mos.' Pay

Over 16 to 24 years' service (excluding war years) - 3 Mos.' Pay

Over 24 years - 5 Mos.' Pay

It is understood and agreed that each month's gratuity pay provided hereinabove is to be computed by multiplying the workers daily basic rate by twenty-six (26) working days.

Section 3. It is also understood and agreed that the above gratuities shall be payable only if the deceased or disabled worker or employee is not replaced, with the Company's approval, by a relative or other person upon the request of the deceased's intestate heirs. If such a replacement takes place which must count with the Company's approval, the disabled worker or the intestate heirs of the deceased worker, as the case may be, shall only be entitled to a gratuity equal to one (1) month's Pay irrespective of the worker's years of service with the Company."

Three months following the execution of the foregoing agreement or on September 29, 1959, petitioner caused the circulation of a mimeographed letter which informed the employees about the economic problems facing the company because of new taxes. In the month that followed, October 1959, the company commenced to execute a retrenchment program, dismissing employees one after another, among them being herein private respondents. The gratuity payments given them was based upon the agreed rates heretofore mentioned - not on Republic Act 1787. The dismissals, so it is averred, affected about 600 laborers estimated to be one-fourth of petitioner's labor force.

Right here it is worth observing that the stipulated rates for gratuity payments under the agreement just transcribed were much lower than those specified in Section 1 of the Termination Pay Law, Republic Act 1787, aforequoted. And this, in spite of the explicit warning in Section 2 of said statute that: "Any contract or agreement contrary to the provisions of Section 1 of this Act shall be null and void: Provided, however, That

nothing herein contained shall prevent an employer and his employees or their representatives to enter into a collective bargaining agreement with terms more liberal than those provided for in this Act in favor of the employees."

Because of their dismissal, 27 employees, on July 20, 1961, commenced suit against petitioner in the Court of First Instance of Negros Occidental for "recovery of termination pay, damages, and attorney's fees."¹ Trial was had. The trial court dismissed the complaint, without costs.

These 27 persons elevated the case to the Court of Appeals.² Judgment was in the appellate court rendered ruling that the agreement between the union and petitioner was null and void upon the provisions of Section 2 of Republic Act 1787 heretofore adverted to; dismissing the case with respect to 15 of the 27 plaintiffs, namely, Isaac Aguisando, Alejandro Alameda, Elisito Boral, Pacifico Elisan, Lorenzo Jimera, Atilano Navarrite, Ariston Polines, Hilarion Pele-greno, Federico Solis, Fortunato Soriano, Inocencio Susan, Vicente Vaflor, Braulio Villanueva, Jesus Ferraris and Pacifico Olavia; and, after deducting the amounts received in accordance with the nullified agreement, directing petitioner to pay the 12 remaining plaintiffs (private respondents herein) the amounts opposite their respective names, viz: Eulogio Aronales - P1,130.55; Manuel Astorga - P1,539.00; Julio Atadero - P373.80; Melanio Buna - P1, 014.45; Luciano Carton - P1,577.00; Amado Catalan - P1,507.50; Francisco Gantes - P655.70; Felipe Gaspe - P1, 233.48; Bernardo Marquez - P1,408.25; Melanio Porlas - P1,204.00; Carlos Penaflor - P1,327.90; and Simeon Vaflor - P1,945.00, with legal interest from the filing of the complaint, plus P500 by way of attorneys' fees, and the costs in both instances.

Back of these awards were the Court of Appeals' conclusions that the retrenchment program was not made in good faith; and that the mechanization or modernization of operations, given by petitioner as one of the reasons for dismissal, is not one of the just causes enumerated in the Termination Pay Law.

It is now petitioner's turn to appeal to this Court.

1. Quite plain is the commendable policy of Republic Act 1787, a social legislation, to alleviate the difficulties which confront a dismissed employee thrown into the streets to face the harsh necessities of life. It is for this reason that the said statute compels the employer to dole out money, reasonable under the circumstances, to cushion the adverse effects of sudden separation from employment. This gives the employee a leeway, commensurate to his years of service, to tide him and his family over in the meantime that he goes job hunting. To one who has been accustomed to a certain type of job in one company, adjustment to other job opportunities becomes a problem. Advanced age, too, may reduce him to a low priority in the labor market.

By constitutional precept, the State shall afford protection to labor and shall regulate the relations between labor and capital in industry and agriculture.³ Republic Act 1787 then should be interpreted with the aim in view of advancing the beneficent purpose thereof to give justifiable protection to the laborers so dismissed and their families. Jurisprudence holds to the line that all doubts in labor legislation should be resolved in the laborers' favor.⁴ Case law on this score is not alone. Our statute books give it hefty support. Article 1702 of the Civil Code of the Philippines, for instance, directs that: "In case of doubt, all labor legislation and all labor contracts shall be construed in favor of the safety and decent living for the laborer."

2. It is in the light of the principles just expressed that we examine the reasons advanced by petitioner to bring it within the "just causes" for dismissal area set forth in Republic Act 1787 and thus excuse it from giving termination pay to its dismissed laborers. A reference to Section 1, Republic Act 1787, transcribed at the start of this opinion, will readily show that, if at all, the position taken by petitioner must have to be gauged by the terms of paragraphs (a) and (f) of said Section 1, which give as just causes for terminating an employment without a definite period: "a. The closing or cessation of operation of the establishment or enterprise, unless the closing is

for the purpose of defeating the intention of this law; x x x f. Other causes analogous to any of the foregoing."

A retrenchment program, we believe, does not fit into the statutory scheme. To be underscored here is that we are not called upon to apply the phrase "just causes" in connection with the issue of propriety of dismissal of an employee who seeks reinstatement and backpay upon the charge of unlawful dismissal. Under Republic Act 1787, the element of reinstatement with consequent backpay is beside the point. The just causes enumerated in the Termination Pay Law have relevance only to the issue of whether or not the employer is liable to the employee for separation pay. The employee does not thereunder seek reinstatement to his former position. In other words, the just causes under Republic Act 1787 merely determine the liability or non-liability on the part of the employer to give out severance pay; while just causes under the general concept of the law are decisive of the issue as to the propriety or impropriety of the dismissal and the propriety or impropriety of the employee's action for reinstatement.

The explanatory note to Senate Bill 278, Fourth Congress, which was to become Republic Act 1787, gives the legislative intent, to wit: "But, under existing conditions where employment opportunities are scarce and trade unionism is yet in the development stage, the failure of said Act [referring to Republic Act 1052, the predecessor of Republic Act 1737] to provide and define the causes under which an employer may properly dismiss an employee places the latter under a very different and unpredictable situation."

Unquestionably, Republic Act 1787 is a remedial measure aimed at the employee's protection. With this guideline, we look into the law itself. And, we find that retrenchment is not analogous to, but is below the level of, closing or cessation of operation. We note with interest the restrictive provisions of the first paragraph of Section 2 of Act 1787 that "the suspension for a period not exceeding six months of the operation of a business or enterprise not attributable to the fault of the employer x x x shall not terminate an employment," If such suspension not exceeding six months, by the law itself, is neither closure nor cessation, much less may economic measures of retrenchment fall under the category of closing or cessation of operation [Section 1(a)] to bring into play the other provision [Section 1(f)] in reference to analogous causes.

To be conceded is an employer's right to follow economic policies that would insure profit to itself and, for this purpose, to mechanize or modernize its business - resulting in the dismissal of a number of its employees in the process. We do say however that such dismissal should not be interpreted in a manner that will permit the employer to escape payment of termination pay. Some such situation is not envisioned in the law. It strikes at the concept of social justice.

It bears repetition to say that retrenchment policy for reasons of economy stops short of the "closing or cessation of operation of the establishment or enterprise." The strictness with which the Termination Pay Law is interpreted against the employer finds expression in the recent decision of this Court in *Wenceslao vs. Carmen Zaragoza, Inc.* (1968), 24 SCRA 554, 558. Mr. Justice Arsenio P. Dizon, speaking for this Court, there said:

"True, appellant's film exchange business where appellees worked was closed as of February 28, 1962, but what the law considers as just cause for terminating an employment without a definite period is the closing or cessation of operation of the establishment or enterprise of the employer, and not merely the closing or cessation of operation of any particular division or department of the employer's business. To sustain appellant's contention in this regard would amount to reading this into the law - something which we are not ready to do, considering its adverse effects upon the rights of the employees. If it must be so, let the law say it clearly."

We find no difficulty in stating that the position here of private respondents is well above that of the laborers involved in the *Wenceslao* case. The retrenchment here may not be analogized with the "closing or cessation of

operation of any particular division or department of the employer's business" in that case. Retrenchment could be temporary; closing or cessation is final.

We are therefore persuaded to state that no justification there is why mechanization or modernization should insulate the employer from its legal obligation to give termination pay to those dismissed by reason thereof. In the circumstances here presented, it was no fault of the employees that they were abruptly separated from their jobs. To them termination pay has become a necessity. To their employer mechanization or modernization is a relief. The employees are reduced to the state of unemployed. And yet, their employer may cushion the possible impact on its economy by including in its budgetary projections amounts from time to time to be paid laid-off employees. Besides, any adverse effect occasioned by termination payments may yet be evened up by the savings brought about by the proposed mechanization or modernization.

We, accordingly, rule that mechanization or modernization of operations, labor saving as they are, will not relieve an employer from its obligation to give termination pay.

3. But let us assume that retrenchment for reasons of economy or mechanization or modernization of operations may yet come as one analogous to "closing" or "cessation" under Section 1(a) of Republic Act 1787. Nonetheless, the employer may not sidetrack his obligation to give out termination pay where the closing or cessation of operation was "for the purpose of defeating the intention of this law." Looming large then is the finding of the Court of Appeals that the retrenchment program proffered by said petitioner was not made in good faith. This finding is couched in the following language of the decision of the Court of Appeals, speaking thru Mr. Justice Magno Gatmaitan, viz:

Pero cuanto a la pretendida buena fe, recuerdese que la Ley No. 1787 entro en vigor el 21 de Junio, 1957; antes de esa fecha, los obreros empleados sin plazo especificado al ser despedidos no tenian mas que su derecho a la mesada; con la aprobacion de la Ley, se les habia concedido el pago de sus salarios a base del tiempo y los años en que hubiesen servido a sus patronos; escasa-mente un año y medio despues, la Insular adopto la politica de cercenamiento, en la junta de sus accionistas en Philadelphia; luego, se celebro el convenio con la Union de sus obreros, Exh. 32, el Junio, 1959, en donde se fijo otra escala que la establecida en la ley, -- escala que de seguirse, se les daria a los empleados despedidos, remuneraciones con motivo del despido, mucho menos que las establecidas en la ley; luego, la gerencia circulo la carta, Exh. 31, advirtiendoles a los empleados de la supuesta situacion precaria de la compañía, el 29 de Septiembre, 1959, y algunos meses despues, se llevaron a cabo las destituciones; y a los obreros destituidos se les hicieron firmar documentos de renuncia, -- estos hechos no pueden menos de justificar ciertas dudas de que si en verdad, el programa de cercenamiento se hubiese inaugurado de buena fe, sin embargo el Exh. 32 que fijo remuneraciones mucho menos de las proveidas en la ley para los que than de ser despedidos, con motivo de aquella politica, -- posiblemente o probablemente, ese Exh. 32 hubiese sido por otro lado y en verdad preparado y concebido en anticipacion, para esquivar los efectos de la Ley 1787;

CONSIDERANDO: Cuanto al programa de cercenamiento testificado por el Sr. Ettisberger, estudiado el mismo en relacion con el Exh. 31, se vera que ni en todo su testimonio, ni en todo el Exh. 31, se haya hecho demostracion clara de que la Insular ya estaba perdiendo en sus negocios, no lo que se ve es que segun el Exh. 31, la compañía solamente anunciaba, que:

'If we added to the paragraph on the preceding page the costs of the new taxes which are now being imposed and if all other costs and returns continued on the same level as in 1958, then an operating loss would be experienced and prolonged survival of the Company would be jeopardized;' p. 2, Exh. 31;

y despues se reprodujo un cuadro sinoptico en donde se hizo patente que los accionistas hubieron de sufrir 1% de perdida, -- pero esto no era mas que una especulacion, una conjetura, -- ello es que segun el mismo Exh. 31, en el año 1955, los accionistas habian percibido la ganancia de 2%; en otras palabras, con vistas de las

pruebas de la demandada, tampoco se haya demostrado que si realmente, estaba perdiendo, estaba en el borde de la bancarota, antes al contrario, antes de la inauguración de la política de cercenamiento, la compañía y sus accionistas ganaban, un poco, si, pero ganaban, y no perdían; poco violento era por tanto el que aceptara por buena aquella parte del testimonio del testigo Sr. Ettisberger de que:

'In the light of such developments, Insular was placed between two alternatives, -- either to close down operations altogether as no company can sustain losses over a long period of time; or on the other hand, there was the possibility to modernize;'. "

The record does not suggest any challenge by petitioner of the foregoing finding. It is rooted in logic. The fact is that petitioner was making profits even before the retrenchment program was launched. With the reduction in the labor force by 25% and the introduction of mechanization or modernization in its operations, it is difficult to see how petitioner could be headed for financial disaster.

Again, we say that petitioner may not in any manner seek shelter in Section 1(a) in relation to Section 1(f) of Republic Act 1787 to excuse itself from liability for termination pay as directed by the Court of Appeals.

4. Petitioner further contends that in applying the law, only those services of private respondents after June 21, 1957 should be reckoned in the computation of their termination pay. Because, so petitioner avers, a contrary interpretation would have the effect of giving the law retroactive application.

This theory is short of being compelling. The right of employees to separation pay in the case before us attached after, not before, June 21, 1957. How separation pay is to be computed lies within the permissible prerogatives of Congress. Congress considered the number of years of service of an employee as the basis in determining the amount to be paid as separation pay. It could have fixed a different criterion. That it utilized years of service does not mean retroactive application of the law if the time previous to June 21, 1957 were included. The determination of the amount is to be made after said date when right to separation pay was granted dismissed employees. There should thus be no room for the notion that the law has been applied retroactively in this case.

More to this. An idea difficult to pigeonhole is that Republic Act 1787 was enacted in the exercise of the police power of the State.⁵ And, legislative acts or measures enacted pursuant to the police power of the State may have retroactive effect.⁶ What needs stressing is the fact that in this case, at the time of the passage of Republic Act 1787, an employer-employee relationship existed between petitioner and private respondents. Dismissal was effected after said law came into being. By the law, termination pay must be given said employees.

The method of computation of termination pay as set forth in the law is clear and plain. Republic Act 1787 provides, in Section 1 thereof heretofore quoted, that an employee whose services are to be terminated without just cause must be served with notice "at least one month in advance or one-half month for every year of service of the employee, whichever is longer, a fraction of at least six months being considered as one whole year"; otherwise, such employee "shall be entitled to compensation from the date of termination of his employment in an amount equivalent to his salaries or wages corresponding to the required period of notice." That this manner of computation is just cannot be seriously disputed. The longer the service, the greater the benefit given the employee; correspondingly, the bigger the termination pay.

This Court is thus duty bound to respect the law as it is written. We cannot read it otherwise; we are not permitted to do so. We cannot sidestep its inescapable impact. Petitioner here is liable to private respondents for termination pay as Congress wrote it.

5. Deserving of serious consideration is petitioner's claim that, in the computation of the termination pay, the time covered by the stoppage of its operation during the war years up to the time each employee was readmitted to its

reopened factory should be excluded. The reason given is that during that period of time respondents did not work for petitioner at all. We fall back on the law. The basis of termination pay, expressed in the legal stricture, is for "every year of service of the employee x x x a fraction of at least six months being considered as one whole year."⁷

It would seem to us that since termination pay is gauged by the term "upon the length of his service", as stated in the explanatory note to Senate Bill 278, accent should be on actual service. Because, that explanatory note itself envisions "an equitable and clear-cut policy." We do not believe it equitable for the employer to be saddled with termination pay based on years when the employee did not render service. It would be unjust. For, indeed, it cannot be said with reason that the employer profited in any way from the employee's work during the time that no service was rendered by the latter.

It thus results that a readjustment of the amounts, declared by the Court of Appeals payable, should be made in reference to those and only to those who were in the service of the company prior to the outbreak of the war and thereafter were by it reemployed. Fairness dictates that such deductions should be for the period starting from the time during the war years when the particular employee stopped work for petitioner and until the time he shall have been reemployed by said petitioner.

Accordingly, as thus modified, the judgment of the Court of Appeals is hereby affirmed in all other respects. The record is returned to the Court of First Instance of Negros Occidental with instructions to hold hearings: First, to ascertain who of the 12 employees - now private respondents - are not subject to the deductions herein set forth, and who may procure execution of the judgment of the Court of Appeals upon our decision becoming final; and Second, to determine the amount deductible from the others, in line with the opinion of this Court, and thereafter to deduct such amounts from the amounts awarded in the judgment of the Court of Appeals.

No costs allowed in this Court.

SO ORDERED.

Concepcion, C.J., Dizon, Makalintal, Castro, Fernando, Capistrano, Teehankee, Barredo, JJ., concur.
Reyes, Zaldivar, JJ., on leave.

1 Civil Case 6241, entitled "Isaac Aguisando, Alejandro Alameda, Eulogio Aronales, Manuel Astorga, Julio Atadero, Elisito Boral, Melanio Buna, Luciano Carton, Amado Catalan, Pacifico Elisan, Jesus Ferraris, Francisco Gantes, Felipe Gaspe, Lorenzo Jimera, Bernardo Marquez, Atilano Navarrite, Pacifico Olavia, Ariston Polines, Melanio Porlas, Carlos Peñaflor, Hilarion Pelegreno, Federico Solis, Fortunato Soriano, Inocencio Susan, Simeon Vafloor, Vicente Vafloor, and Braulio Villanueva, Complainants, versus Insular Lumber Company, Defendant."

2 CA-G.R. 32337-R, entitled "Isaac Aguisando, et al., Demandantes?Apelantes, contra Insular Lumber Company, Demandada-Apelada."

3 Section 6, Article XIV, Constitution.

4 Batangas Transportation Co. vs. Rivera, 99 Phil. 1025; Madrigal Shipping Co., Inc. vs. del Rosario, 106 Phil. 1165-1166. See: 13 Velayo's Digest, 1942-1960, pp. 550-551.

5 Republic Act 1052, the previous legislation on termination pay, was held to be enacted in the exercise of the police power of the State. Abe vs. Foster Wheeler Corporation, G.R. Nos. L-14785 & L-14923, November 29, 1960, which upheld validity of application of Termination Pay Law to dismissals after the passage of the law.

6 See: Pangasinan Transportation Co. vs. Public Service Commission, 70 Phil. 221, 232; Santos vs. de Alvarez, 78 Phil. 503 505; Ongsiako vs. Gamboa, 86 Phil. 50, 54-55; Philippine American Life Insurance Co. vs. Auditor General (1968), 22 SCRA 135, 145-147.

7 Paragraph 1, Section 1, Republic Act 1787.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.