

**THE SPOUSES VICENTE GARCIA AND JOSEFA AGUIRRE,
PLAINTIFFS-APPELLANTS, VS. VICTORIAS MILLING CO., INC. AND
VICENTE FERRARIS, DEFENDANTS-APPELLEES.**

G.R. No. L-21733. June 27, 1978

Ponente: BARREDO, J.

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BARREDO, J.:

Appeal from the decision of the Court of First Instance of Negros Occidental in its Civil Case No. 2923 entitled *The Spouses Vicente Garcia and Josefa Aguirre Garcia vs. Victorias Milling Co. Inc. and Vicente Ferraris*, involving questions of law regarding the proper application of Section 1 of Republic Act 809, otherwise known as the Sugar Act of 1952, to a situation wherein the sugar plantation concerned is under lease, the plaintiffs contending that as lessors, they are entitled, to the exclusion of defendant Ferraris, to the benefits which said provision grants to planters of sugar, pursuant to provisions of the compromise agreement which defendant central had entered into with the planters in another case (Civil Case No. 22577 of the Court of First Instance of Manila) wherein the constitutionality of the law was assailed and the purported share of the planters in the proceeds of sugar for the crop years 1952-53 to 1954-55 were held in reserve pending said litigation, which compromise agreement, provided for the sharing between the central and the planters of the money so deposited.

According to the appealed decision:

"x x x The litigation originated from the enactment on June 22, 1952, of Republic Act No. 809 which, in its section 1, provides: 'In the absence of written milling agreements between the majority of planters and the millers of sugar-cane in any milling district in the Philippines, the unrefined sugar produced in that district from the milling of any sugar central of the sugar-cane of any sugar-cane planter or plantation owner, as well as all by-products and derivatives thereof, shall be divided between them as follows:

"xxx xxx xxx

"Seventy per centum for the planter, and thirty per centum for the central in any milling district the maximum actual production of which exceeds one million two hundred thousand piculs.

"xxx xxx xxx

"The facts have been stipulated or otherwise admitted. The plaintiffs are the owners of lots Nos. 310 and 311, forming the Hacienda Dos Hermanos, which has an area of some 121 hectares and a sugar quota allocation of about 6, 610 piculs. This hacienda was adhered to the North Negros Sugar Co., Inc., under a milling contract that allowed a sharing basis of 60% for the planter and 40% for the central. On or about October 30, 1946, the defendant Victorias Milling Co., Inc. succeeded to the assets and operation of the North Negros Sugar Co., Inc., and adopted the latter's milling contracts with the planters which expired before the enactment of Republic Act No. 809. On October 29, 1947, the plaintiffs leased to the defendant Vicente Ferraris a portion of Hacienda Dos

Hermanos, with an area of 40. 66 hectares and a sugar quota of 2,000 piculs, beginning with the crop year 1948-1949 and ending with the crop year 1953-1954. Defendant Ferraris, who bound himself to pay under the contract of lease the annual rental of 12% of 2,000 piculs, accordingly worked the land and milled his sugarcane with the defendant Victorias Milling Co., Inc., under the same milling contract between the plaintiffs and the Central that provided a sharing basis of 60% for the planter and 40% for the central.

"After the enactment of Republic Act No. 809 which, as already noted, increased the share of the planter or plantation owner to 70% and reduced the share of the Central to 30% in any milling district if the latter's maximum actual production exceeds 1, 200, 000 piculs, -- and the defendant Victorias Milling Co., Inc. admittedly belongs to such category, -- a petition for declaratory relief in the Court of First Instance of Manila (Civil Case No. 22577) was filed by said defendant, assailing the constitutionality of the aforementioned act. However, since June 22, 1952, and during the pendency of Civil Case No. 22577, the Central, as an accounting precautionary measure, had annually set aside a reserve corresponding to the statutory 10% increase in the share of the planters or plantation owners. This reserve amounted, as of October 31, 1955, to P8, 643, 472. 24. In order to avoid a prolonged litigation, the defendant Victorias Milling Co., Inc. and the planters (through a Special Planters Committee) affiliated therewith who opposed the petition in Civil Case No. 22577, entered on March 5, 1956, into an amicable settlement (compromise agreement) whereby they agreed, in the portions material to the case at bar, as follows:

'(1) The PLANTERS shall execute the "General Collective Sugar Milling Contract" as well as supplemental new individual sugar milling contract, effective November 1, 1955, the sugar and by-products manufactured by the COMPANY from the sugar-cane delivered to it by the planters to be divided between them, SIXTY-FOUR PERCENT (64%) for the PLANTERS AND THIRTY-SIX PERCENT (36%) for the COMPANY;

'As to the sugar and molasses manufactured by the COMPANY from June 22, 1952 (the date of the passage of Republic Act 809), to October 31, 1955 (the end of the COMPANY'S fiscal year), the COMPANY suggested to divide the same on a 65-35 basis, SIXTY-FIVE PERCENT (65%) for the PLANTERS and THIRTY-FIVE PERCENT (35%) for the COMPANY, as part of a 65-35 milling contract to begin June 16, 1952, and to end with the 1973-74 crop milling year, on the same basis of participation. But as the COMPANY and the PLANTERS failed to reach an agreement thereon, the COMPANY agrees to reduce its share or participation to 30, in favor of the planters, for the said period of June 22, 1952 October 31, 1955, and the planters, in turn, agree to reduce their share or participation to 64, in favor of the COMPANY, for the period commencing November 1, 1955, to the end of the 1973-74 crop milling season, that is October 31, 1974, and the COMPANY upon all the planters affiliated with it executing their new individual milling contracts shall pay them the total value of the reserve referred to in the seventh "WHEREAS" clause now amounting to P8, 643, 472. 24, as follows:

xxx xxx xxx

'(ii) As to the sum of P3, 457, 388. 90, which is the Forty Percent (40%) of the sum of P8, 643, 472. 24, the Party of the Second Part shall distribute this amount among the PLANTERS in proportion to the sugar milled for them by the COMPANY during the aforementioned period of June 22, 1952, to October 31, 1955.'

"From June 22, 1952 to October 31, 1955, the portion of Hacienda Dos Hermanos leased to the defendant Vicente Ferraris produced a total of 5, 271. 94 piculs of sugar, and out of the 10% annually reserved by the defendant Victorias Milling Co., Inc. during the same period, the amount of P3, 019. 47 corresponds to the said production. This amount is herein claimed by the plaintiffs as owners of Hacienda Dos Hermanos, and by the defendant

Vicente Ferraris as lessee of the portion that produced the 5, 271. 94 piculs of sugar.

"On May 11, 1956, with the knowledge and consent of the defendant Vicente Ferraris and upon approval of Dr. Vicente F. Gustilo, in representation of the Special Planters Committee, the defendant Victorias Milling Co., Inc. paid to the Philippine National Bank 50% of the disputed amount of P3, 019. 47, or P1, 509. 74, to be credited to the account of defendant Ferraris who had been granted by the bank annual crop loans from the year 1948-49 to the year 1953-54 and who accordingly mortgaged his standing crops; and this is the reason why the defendant Victorias Milling Co., Inc. and the third-party defendant have herein made common cause with the defendant Vicente Ferraris." (Pp. 91-97, Record on Appeal.)

In brief, plaintiff spouses are the owners of Hacienda Dos Hermanos. They leased portion thereof to defendant Ferraris for the crop years 1948-49 to 1953-54 for a fixed rental of 12% of 2,000 piculs of refined export sugar, the quota for the portion leased. At the time of the said lease, the plaintiffs had a milling contract with the defendant central under which the sharing of the sugar milled from the hacienda was fixed at 60% for the plaintiffs, as planters, and 40% for the central.

In the meanwhile, in 1952, Republic Act 809 was approved, under which, taking into account the total production of defendant Victorias Milling Co. of more than 1,200,000 piculs, from crop year 1952-53, the sharing became by force of the law 70-30, that is, 70% for the planters and 30% for the central, because majority of the planters in the Victorias milling district did not have existing milling contracts with the defendant central. However, this law became the subject of a judicial litigation between the central and the planters of the district, the central claiming it is unconstitutional. As a precautionary measure, pending the decision of said case, it was agreed that the proceeds of the disputed 10% increase for the planters be held in reserve by the central every crop year.

On March 5, 1956, the parties arrived at a compromise of that constitutionality case and among other things they agreed, as stated in the above-quoted portion of the trial court's decision, that new milling contracts would be signed effective from November 1, 1955 to October, 1974, whereby henceforth, the sharing would be 64-36, i.e., 64% for the planters and 36% for the central, and as regards the total amount held in reserve of over P8 M, 40% thereof or P3, 457,388.80 would be distributed among the planters in proportion to the sugar milled for them by the central during the period from June 22, 1952 to October 31, 1955.[1]

Understandably, the controversy between plaintiffs, on the one hand, and defendant, on the other, relates to the part of the said P3, 457, 388. 80 which would correspond to the 40 has, leased to the defendant for the period already stated. According to the trial court, during said period defendant produced 5, 271. 94 piculs of sugar and that out of the 10% annually reserved by defendant central during said period, the amount of P3, 019. 47 corresponds to said production. Of this amount, on May 11, 1956, P1, 509. 74 or 50% was paid by the Central, under arrangement with the Special Planters Committee to the Philippine National Bank for the account of Ferraris.

Plaintiffs claim that said amount should go to them, since they were the ones who compromised with the central, whereas defendant is not a party to the compromise agreement and is not even mentioned therein whether by name, class or by status. On the other hand, defendant insists that it should pertain to him, considering he was the one who actually planted the sugar cane milled by the central during the period in dispute. In other words, it was for him that sugar cane was milled by the central, not for the plaintiffs. To be more specific, the reserve was actually taken from the sugar produced from the cane of said defendant.

The trial court ruled in favor of defendant as follows:

"There can be no question that the compromise agreement of March 5, 1956, was between the defendant Victorias Milling Co., Inc. and the sugarcane planters affiliated therewith, or that, under article 1311 of the

New Civil Code, contracts take effect only between the parties. But it is undoubtedly in recognition of this legal truism that said compromise agreement, in providing for the manner by which the sum of P3, 457, 388. 90, which is 40% of P8, 643, 472. 24, is to be distributed among the planters, expressly stipulates in paragraph (ii) as follows: 'As to the sum of P3, 457, 388. 90, which is the Forty Percent (40%) of the P8, 643, 472. 24, the Party of the Second Part shall distribute this amount among the PLANTERS in proportion to the sugar milled for them by the COMPANY during the aforementioned period of June 22, 1952 to October 31, 1955. 'By this expedient, the planter-owners have been able to enforce and preserve their right to receive their shares in P3, 457, 388. 90 corresponding to the sugar produced and milled by them, at the same time allowing the planter-lessees to receive their participations in proportion to the sugar produced and milled for them. Following the very contention of the plaintiffs, the parties to the compromise agreement could not, in law and equity, have inserted any provision adversely affecting or in derogation of the rights of a planter-lessee, like the defendant Vicente Ferraris. Upon the other hand, they are authorized by article 1311 of the New Civil Code to concede a benefit upon a third person. While defendant Ferraris may be considered a third person, he should perhaps more properly be held as the extension of the personality of the plaintiffs as planter-owners in so far as the leased portion of Hacienda Dos Hermanos is concerned. This is conformably to the standard arrangement whereby defendant Ferraris, though not a planter affiliated or having a milling contract with the defendant Victorias Milling Co., Inc., had always received from the Central, in virtue of his contract of lease, the planter's share after deducting only the rentals due to the plaintiffs.

"If, under stipulation (ii), the sum of P3,457,388. 90 is to be distributed among the planters in proportion to the sugar milled for them by the Central, and the plaintiffs admittedly did not produce or mill sugar from the portion of Hacienda Dos Hermanos leased to the defendant Vicente Ferraris, the plaintiffs would logically receive nothing for the sugar produced from said portion and milled by the Central from June 22, 1952 to October 31, 1955. The general provision in the compromise agreement invoked by the plaintiffs, namely, that the COMPANY upon all the planters affiliated with it executing their new individual milling contracts shall pay them the total value of the reserve referred to in the seventh 'WHEREAS' clause now amounting to P8, 643, 472. 24, must be subject to and controlled by the more specific stipulation (ii) to the effect that the defendant Victorias Milling Co., Inc., 'shall distribute this amount among the planters in proportion to the sugar milled for them by the COMPANY.'

"If the compromise agreement of March 5, 1956, did not concede to the defendant Vicente Ferraris the right to receive his proportional share in the reserve of P3, 457, 388. 90, said right has been expressly granted by Republic Act No. 809 which, as hereinbefore noted, speaks not only of 'plantation owner' but also of 'planter'. But the plaintiffs urge that this statute cannot be given application, because the plantation owners and the Central have already executed the compromise agreement and individual milling contracts. This contention overlooks the patent circumstance that from June 22, 1952, when Republic Act No. 809 was approved, to October 31, 1955, said milling agreements were yet inexistent. At any rate, the written agreements contemplated in the Act should affect only the sharing basis after the execution or effectivity thereof, and may not take away the rights of a planter (which includes a lessee) or plantation owner (like the plaintiffs) to receive the share that had previously accrued under said act.

"Viewed from another angle, the effect of the theory of the plaintiffs would be to allow them, without the consent of their lessee, to collect a higher rental than that fixed in their agreement. This cannot of course be done by the plaintiffs directly, and they should not be permitted to accomplish the same indirectly. What is more, while as a general rule the owner owns the natural, industrial and civil fruits, in the case of a contract of lease the lessee gets the fruits from the property directly, although the owner receives civil fruits in the form of rents paid by the lessee (Francisco, Civil Code of the Philippines, Book Two, p. 144, citing 3 Manresa, pp. 179-180). There is here no dispute that the rentals due under the contract of lease had all been paid by the defendant Vicente Ferraris to the plaintiffs.

"While the plaintiffs have thus failed to establish their right to the amount in controversy and held in deposit by

the defendant Victorias Milling Co., Inc., the Court finds that their claim for P365.21, part of the taxes which the defendant Vicente Ferraris failed to pay under his contract of lease, is supported by plaintiffs' testimony which has not been traversed by said defendant who in fact did not present any evidence.

"WHEREFORE, judgment is hereby rendered (1) ordering the defendant Vicente Ferraris to pay to the plaintiffs the sum of P365. 21, with legal interest from May 30, 1957, the date of the filing of the amended complaint; (2) ordering the defendant Victorias Milling Co., Inc. to pay to the defendant Vicente Ferraris the sum of P1, 509. 73, still remaining in its possession as part of the P3, 019, 47 involved herein; and (3) dismissing the plaintiffs' amended complaint in all respects inconsistent herewith, the counterclaim of the defendant Vicente Ferraris, and the third-party complaint of the defendant Victorias Milling Co., Inc. No pronouncement is made as to costs." (Pp. 98-103, Rec. on Appeal.)

It is Our considered opinion that under the contract of lease between the parties, the possession of the leased portion was transferred to Ferraris and he was the one who worked on it, to the exclusion of plaintiffs. All the produce thereof belonged to him. He was authorized to mill the same in the central. In other words, by virtue of the lease, Ferraris became entitled to the 60% share corresponding to the planter under plaintiffs' milling contract with the central. In fact, he must have received the whole thereof during all the crop years covered by the contract, and it is not pretended that plaintiffs ever complained about it. Thus, there can be no dispute that the sugar milled from his sugar cane was to be shared between the central and Ferraris alone, the plaintiffs having no part thereof, except the 12% of 2,000 piculs which was the stipulated rental. In other words, anything of the 60% in excess of the agreed rental pertained exclusively to said defendant.

Of course, it is also indisputable that the share of 60% that Ferraris got from the central was by virtue of the milling contract between plaintiffs and the central. Ferraris had no milling contract of his own -- his relationship with the central was based entirely on the latter's contract with plaintiffs. But this fact cannot alter the right of defendant to the 60%. Indeed, it was to be able to receive said 60% of the sugar milled from the sugar cane produced by him that he agreed to pay 12% of 2,000 piculs. Those 60%, constituted the consideration for him; the 12% was the consideration for plaintiffs.

Now, the increase of 10% pursuant to Republic Act 809, did not come thru any special effort of Ferraris. On the other hand, even if in a general way it can be said that it was because of the clamor of the planters, including evidently the plaintiffs, that the law was passed, it can be reasonably presumed that in fixing the rental of 12%, plaintiffs acted under the belief that such would be the fair ratio of the sharing between them and defendant of the produce of their leased land, which was estimated to be 2,000 piculs, such being the quota attached to it. Undoubtedly, such stipulated rental premised on the 60-40 sharing between the planter and the central. Accordingly, if thru no special effort of their lessee, the share corresponding to the land leased was increased by force of law by 10% beyond the share thus originally contemplated by the parties, it is but just and equitable that 12% of said 10% should go to the plaintiffs.

It is in this sense that We hold the trial court's decision is short of what it should have been. His Honor gave all the 10% to the lessee. We are not persuaded that such a ruling conforms with elementary justice, even if its technical justification can perhaps be logically rationalized in the way His Honor did. As We see the situation in dispute, to follow the decision below would result in plaintiffs getting less than the 12% of the expected produce of the land for which plaintiffs were willing and did agree to let defendant work thereon and get their planter's share in their milling contract with the central.

We believe and so hold that the development that ensued upon the implementation of Republic Act 809 was something the parties could not have reasonably provided for in their agreement. In justice and equity, therefore, it is but proper that they should both be benefited by it in proportion to the considerations they specified therein. In

more ways than one, the plaintiffs worked for the approval of the law; they should reap some benefit therefrom -- the increase of the rental for their land. On the other hand, defendant Ferraris worked on the land; it was the material product of his labors that was the subject of the increased share for the planters under the Act; it is fitting that the increment granted by the law should also partly accrue to him after giving the owners of the land what is due them in proportion to the rental stipulated.

Before closing, We must remind plaintiffs and defendant that the 10% here in dispute is a direct result of the application of Section 1 of Republic Act 809. Such being the case, it is in the public interest that informs the Act that they must realize that under Section 9 thereof, said 10% does not belong to the planter alone, be he the plantation owner or a mere lessee. Said Section 9 provides:

"Sec. 9. In addition to the benefits granted by the Minimum Wage Law, the proceeds of any increase in the participation granted the planters under this Act and above their present share shall be divided between the planter and his laborer in the plantation in the following proportion:

"Sixty per centum of the increased participation for the laborers and forty per centum for the planters. The distribution of the share corresponding to the laborers shall be made under the supervision of the Department of Labor.

"The benefits granted to laborers in sugar plantations under this Act and in the Minimum Wage Law shall not in any way be diminished by such labor contracts known as 'by the piece,' 'by the volume,' 'by the area,' or by any other system of 'pakyaw,' the Secretary of Labor being hereby authorized to issue the necessary orders for the enforcement of this provision."

It is thus the inescapable obligation of the Garcias and Ferraris to see to it that 60% of what they are to receive by virtue of this decision are paid, under the supervision of the Secretary of Labor, to their laborers who worked during the material period in dispute. The Court holds that in no sense should the Act be implemented with the result that only the planters would benefit therefrom, to the exclusion of their plantation laborers. It is Our uncompromising view that Republic Act 809 is a social legislation primarily, and only secondarily a means to alleviate the unequal situation the planters find themselves in with the centrals vis-a-vis the sharing of the sugar milled from the sugar cane produced by them. To reiterate, the law is a social justice measure -- the benefits of its implementation must reach labor under all circumstances.

Having arrived at the above conclusions, We deem it unnecessary to elaborate on the aspect of the case which should be deemed correspondingly resolved consistently with the foregoing opinion.

PREMISES CONSIDERED, the decision of the trial court, as modified in the sense indicated in the above opinion, for the benefit not only of the plaintiffs but, most of all, of the plantation laborers who helped by their work to produce the sugar in dispute, is affirmed. No costs.

Antonio and Santos, JJ., concur.

Fernando, J., (Chairman), in the result.

Aquino, J., did not take part.

Concepcion, Jr., J., on official leave.

[1] The legal effects of this compromise agreement are subject matter of other cases, G. R. Nos. L-41161, L-43153 and L-41222 to be decided by the Court presently.

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