

**MARITIME COMPANY OF THE PHILIPPINES, PLAINTIFF-APPELLANT,  
VS. REPARATIONS COMMISSION OR REPARATIONS MISSION,  
DEFENDANT-APPELLEE.***G.R. No. L-29203. July 26, 1971*

Ponente: FERNANDO, J.

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Decisive of the crucial issue posed by this appeal from a decision of the lower court is the applicability of the well-settled principle that a statute should be considered as entering into and forming part of a contract. Plaintiff Maritime Company of the Philippines, now appellant, would deny that it is controlling in its suit to hold defendant Reparations Commission, now appellee, liable for the freight charges as the consignee of reparations goods, notwithstanding that under Section 11 of the Reparations Act,[1] ocean freight and other expenses incident to importation shall be paid by the end-user and not by such agency. That defendant is exempt from such obligation is further stressed by the concluding sentence thereof: "Nothing herein shall be construed as exempting the end-user from paying in full all the necessary costs, charges and expenses incident to the application for and the procurement, production, delivery and acquisition, of, the goods concerned." It could not have been entirely unexpected therefore for the lower court to reach the conclusion that it had no choice on the matter in view of the explicit character of such statutory language which must be read into the contract of shipment. So it held in dismissing plaintiff's complaint for the recovery of freight charges. As such decision is not vitiated by any infirmity, we affirm.

In plaintiff's complaint of July 29, 1965, after setting forth its corporate character as well as that of the defendant Reparations Commission, which is vested by law with the power to enter into contracts and to sue and be sued, it alleged that shipments of reparations goods were loaded in three of its vessels consigned to defendant, with corresponding freight charges amounting to P228,250.58.[2] Then came the allegation that said vessels arrived in Manila and discharged all such shipment of reparations goods, which were duly delivered to and received by defendant as consignee in good order and condition, but defendant failed and refused to pay, notwithstanding repeated demands, the total amount of the freight charges above-mentioned.[3] There was a claim for attorney's fees in the amount of P20,000.00, plaintiff, according to the complaint, being compelled to engage counsel.[4] The prayer was for a judgment against defendant in favor of plaintiff in the afore-said sum of P228,250.58 as freight charges plus 6% interest thereon from the date of the filing of the complaint until fully paid, and the sum of P20,000.00 by way of attorney's fees.

There was no denial in the answer of defendant filed on September 10, 1965 of the facts as alleged, but Section 11 of the Reparations Act was invoked to show that it was not liable at all for the freight charges, a matter which, according to defendant, was fully known to plaintiff as it had in several instances collected freight charges from the end-users concerned.[5] In its special affirmative defenses, defendant contended that plaintiff's claim was barred by a prior judgment under the principle of *res adjudicata* and that "as a carrier of reparations goods, [it] is not only presumed to know the law but is chargeable with knowledge of that law, and when it thus entered into a

contract of carriage or affreightment of reparations goods, it rendered itself bound by the pertinent provision of Section 11 of the Reparations Law \* \* \* on the question of who is liable for said freight charges; that as a matter of fact, plaintiff in its prior dealings with the defendant on this matter had so recognized and accepted the set-up as en-vised by Section 11 of the Reparations Law." [6] Its prayer was for the dismissal of the complaint with costs against plaintiff.

As noted, defendant's contention was sustained by the lower court in its decision of March 29, 1968 dismissing the complaint. After referring to the language of Section 11 of the Reparations Act, mentioned at the opening of this opinion, it reached the above conclusion, there being "no doubt on the interpretation as to who will pay for the freight charges." [7] It was likewise set forth therein that plaintiff in fact had been collecting freight charges from end-users and turning over a portion thereof, at least 50%, to defendant to pay its outstanding obligations, plaintiff having purchased several vessels through the Reparations Commission payable on installments. [8] There was no question then, to its mind, that plaintiff, considering such conduct, had no right to demand the payment of freight charges from defendant. [9]

From the above decision, an appeal was taken to this Court on April 26, 1968. The brief for plaintiff-appellant was filed on September 7 of the same year. Defendant-appellee Reparations Commission, in turn submitted its brief on October 7, 1968. There was no reply brief on the part of the appellant. Notwithstanding the vigorous present-ation of the alleged errors imputed to the lower court, there is no legal justification, as was already indicated, for a reversal.

1. It is to be recognized that a large degree of autonomy is accorded contracting parties. Not that it is unfettered. They may, according to the Civil Code, [10] "establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy." The law thus sets limits. It is a fundamental requirement that the contract entered into must be in accordance with, and not repugnant to, an applicable statute. Its terms are embodied therein. The contracting parties need not repeat them. They do not even have to be referred to. Every contract thus contains not only what has been explicitly stipulated, but the statutory provisions that have any bearing on the matter. So it has been invariably held from *United States v. Constantino*, [11] a 1919 decision, to *Lakas Ng Manggagawang Makabayan (LMM) v. Abiera*, [12] promulgated only a year ago. [13] According to Justice Malcolm, speaking for the Court in the former: "It is an elementary rule of contracts that the laws, in force at the time the contract was made, enter into and govern it." [14] This is how the matter is put in the latest decision: "The principle is thus well-settled that an existing law enters into and forms part of a valid contract without the need for the parties expressly making reference to it. Only thus could its validity insofar as some of its provisions are concerned be assured." [15]

A fairly recent restatement of the principle, in the language of Justice J. B. L. Reyes, speaking for the Court, appears in *Liberation Steamship Co., Inc. v. Court of Industrial Relations*. [16] Thus: "The rule is that the law forms part of, and is read into, every contract, unless clearly excluded therefrom in those cases where such exclusion is allowed \* \* \*." [17] What is the law that forms part of, and is to be read into, the contract between plaintiff-appellant and defendant-appellee? It is, to repeat, Section 11 of Republic Act No. 1789 as amended. [18] More specifically: "The insurance, ocean freight and other expenses incident to importation shall be paid by the end-user in accordance with usual business practices." The last sentence is equally plain: "Nothing herein shall be construed as exempting the end-user from paying in full all the necessary costs, charges and expenses incident to the application for and the procurement, production, delivery and acquisition, of, the goods concerned." The above provisions, then, form part of and must be read into the shipping contracts between plaintiff-appellant and defendant-appellee, unless they could be "clearly excluded therefrom", assuming "such exclusion is allowed".

There is thus no persuasive force to the first error imputed to the lower court for their being applied to the

contractual relationship between the parties. There is no showing that the shipping contracts between them are clearly excluded from the law, much less that such exclusion could be allowed. The lower court had no choice then. It yielded obedience to the law. What it did certainly cannot be stigmatized as error.

It is in that sense that reliance by plaintiff-appellant on the force and effect to be given the usual contracts between shipper and carriers, while finding support in the applicable provisions both of the Civil Code and the Code of Commerce, is far from persuasive. As was pointed out in the equally forceful brief of defendant-appellee, to so view the matter is to ignore what has been explicitly set forth in Section 11 of the Reparations Act which is controlling.

Nor did the attempt by plaintiff-appellant to invoke equitable considerations strengthen an inherently weak case. It asserted that defendant-appellee was in a better position to collect the freight charges. This is the answer of the latter: "Contrary to appellant's contention, it is itself and not the appellee which is in a better position to collect the corresponding ocean freight. This is because under the Reparations Law and established reparations set-up, the incidental charges to reparations importations, including freight charges are to be paid by the end-user to the party concerned upon the arrival but before delivery of the goods to the end-user, and 'in accordance with usual business practices.' (Sect. 11 R.A. 1789, as amended) Under this concept, before the carrier issues the 'Permit to deliver' the shipments, it could rightfully demand payment as a settlement of the freight charges. This is the stage more appropriate and commands a better facility in so far as the collection of the freight charges is concerned, and not after the goods shall have been released to the end-user by the carrier and the corresponding contract of Conditional Purchase and Sale executed by and between the Commission and the End-user concerned." [19] It cannot be said then that plaintiff-appellant's effort to thus collect would be futile. Moreover, there is always the remedy of a court action. Both in the answer of defendant-appellee [20] as well as in its brief, [21] reference was made to such a suit actually being filed by plaintiff-appellant against a reparations end-user, C.G. Nazario and Sons, Inc. as well as the Reparations Commission as far back as 1961. [22] It was therein decided that defendant-appellee was not liable for the freight charges, such obligation being incumbent on its co-defendant C.G. Nazario and Sons, Inc., the end-user.

At bottom then, this is one of those cases where a statutory provision free from any ambiguity, quite specific and definite, calls for application. Under such circumstances, there is not even any need for construction. The task of the judiciary is clear. [23] It must consider the law as controlling. This is what the lower court did. Certainly, no error could justly be imputed to it.

2. Nor is the second assignment of error deserving of a better fate. Plaintiff-appellant would find fault with the holding of the lower court that its having collected the freight charges on certain occasions from the end-users of reparations goods and applying portions thereof to the payment of its obligation to defendant-appellee for the purchase of several vessels indicated it had no right to demand payment thereof from the latter. On this point, the appealed decision reads: "The practice followed by the plaintiff in its dealings with the defendant establishes the fact that the plaintiff has been collecting the freight charges from the end-users and turning over a portion thereof (at least 50%) to the [defendant] in payment of the outstanding obligation of the plaintiff to the defendant, the plaintiff having purchased several vessels thru the Reparations Commission and paying the latter by installments \* \* \*. There is, therefore, no question that as far as the plaintiff in its relation with the defendant is concerned, said plaintiff has been collecting from the end-users the freight charges of reparations goods from the end-users and, therefore, it has no right to demand the same from the defendant." [24] On the face thereof, the imputation of error would be hard to justify. The conclusion reached proceeds from an accurate appraisal of plaintiff-appellant's conduct. Nor is it without support in the evidence.

So it was made manifest in defendant-appellee's brief in these words: "To exemplify and bolster the foregoing

view, attention is respectfully invited to the herein quoted contents of Exhs. 6, 7 and 8 of defendant-appellee: From Exh. '6' which is a letter of the plaintiff-appellant to the defendant-appellee, dated August 7, 1963 containing the manifestation of plaintiff to turn over to the defendant 50% of freightage collected, we quote in part: 'Allowing some time for the collection of freights from the various end-users, we expect to remit to the Reparations Commission an approximate total of P60,000.00 within 60 days.' (italics supplied) From Exh. '7' which is a letter dated October 3, 1963, of plaintiff-appellant to defendant-appellee we quote the following: 'As of August 28, 1963, the only remaining past due account on this vessel was a delinquency interest of P4,600.46. On that date, however, we paid the Reparations Commission the sum of P37,629.80 representing 50% of the freights on reparations cargo \* \* \*.' (Italics supplied) And per Exh. '8' which is also a letter of plaintiff-appellant to defendant-appellee, dated Feb. 6, 1964, and which requests authority to load reparations cargoes on non-reparations vessels, there is manifested therein: 'We undertake to apply 10% of whatever freights collected on reparations cargo loaded on the above vessels to the Reparations Commission for our reparations account with you.' (Italics supplied)"[25]

All that plaintiff-appellant could say on the matter is the following: "It is respectfully submitted, that even assuming arguendo only that on certain occasions plaintiff-appellant would collect the freight charges from the end-users concerned; nevertheless, that practice does not at all affect the question of who is liable for the freight charges under the contracts of carriage, \* \* \*. Just because herein plaintiff-appellant would, on certain occasions, collect the freight charges from the end-users by virtue of an understanding with the consignee or owner of said reparations goods, it does not necessarily follow that under the said contracts of affreightment, the end-users are already liable for said freight charges which are collectible and demandable thereunder only from the consignee thereof. "[26] This attempt by plaintiff-appellant to erode its conduct of its legal significance is unavailing, considering that it is based on an assumption as to defendant-appellee being liable for the payment of the freight charges, which, as had been made clear, is at war with the specific language of the controlling statutory provision.

Clearly, then, this assignment of error is lacking in merit. Plaintiff-appellant, it must be stressed, cannot possibly be unaware of the controlling legal provisions, considering that it has been itself the beneficiary of the Reparations Act, not to mention the fact that it has previously collected from end-users. Such was a finding of the lower court, which we are not at liberty to disturb, the appeal being purely on questions of law. As the last two errors allegedly committed by the lower court were based on plaintiff-appellant's basic premise as to the non-applicability of Section 11 of the Reparations Act, no useful purpose would be served by any further discussion. It suffices to state that the appealed decision can thus stand the vigorous attack launched against it.

3. One last word. This opinion deals with a shipping contract governed by specific provisions of the Reparations Act. Nothing in the opinion is to be considered applicable to contracts of a similar nature where ordinarily what has been explicitly agreed upon in the bill of lading is the measure of the respective rights and obligations of the parties.

WHEREFORE, the lower court decision of March 29, 1968 is affirmed. With costs against plaintiff-appellant.

Concepcion, C.J., Reyes, J.B.L., Makalintal, Zaldivar, Teehankee, Barredo, Villamor, and Makasiar, JJ., concur. Ruiz Castro, J., did not take part.

Dizon, J., on leave.

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[1] Republic Act No. 1789 (1957), as amended by Republic Act No. 3079 (1961).

[2] Record on Appeal, Complaint, pars. 1 and 2.

[3] Ibid, par. 3.

[4] Ibid, par. 4.

[5] Ibid, Answer, pars. 1 to 3.

[6] Ibid, par. 5.

[7] Ibid, pp. 16 and 17.

[8] Ibid, p. 17.

[9] Ibid.

[10] Art. 1306. This used to be Art. 1255 of the old Civil code.

[11] 39 Phil. 552.

**[12] L-29474, 36 SCRA 437.**

[13] December 19, 1970.

[14] United States v. Constantino, 39 Phil. 552, 556 (1919).

[15] Lakas Ng Manggagawang Makabayan (LMM) v. Abiera, L-29474, Dec. 19, 1970, 36 SCRA 437, 442.

[16] L-25389-90, June 27, 1968, 23 SCRA 1105.

[17] Ibid, p. 1115. Manresa was likewise cited to this effect: "Pero en los mas de sus preceptos, la ley, como se ha dicho muchas veces, da un solo modelo del contrato, que pueden o no aceptar los contratantes. Sentado esto y siendo costumbre la modificacion de este modelo legal, puede surgir la duda de si el contrato que nada diga, se suple por los preceptos legales o por la practica que los modifica. La superioridad incontrovertible de la ley, hace suponer que el problema se decidiria generalmente por esta salvo dos excepciones: una indudable, cuando ella misma hace sus preceptos supletorios, no solo del pacto, sino de los usos locales; otra legitima, cuando la costumbre es constante, y ademas hay en el contrato datos para suponer su aceptacion." VIII Manresa, 5th ed., Part II, p. 535 (1950).

[18] Sec. 10 of Republic Act No. 3079 (1961) amending Sec. 11 of the original act reads as follows: "[Sec.] 11. Terms of procurement. - As a general rule, reparations goods shall be procured on an f. o. b. (free-on-board) Japanese port basis: Provided, That the Mission may, if circumstances so warrant, procure such goods on c. and f. (cost and freight) Philippine port, ex-factory or c.i.f. (cost, insurance and freight) Philippine port basis, in which case the suppliers shall be required to quote separately expenses for freight. When reparations goods shall be paid on installments, only the f.o.b. cost thereof, exclusive of the insurance, ocean freight and other expenses incident to importation shall be considered in computing the amount of the installments. The insurance shall be obtained from domestic insurance companies wholly owned by Filipino citizens: Provided, That upon delivery of reparations goods, whether partial or complete, pursuant to contract, to the end-user, whether a government agency or a private person or entity, the end-user shall insure at his expense said goods or parts thereof or attachment thereto, against loss or damage due to any and/or all causes, including but not limited to war, theft, robbery, unauthorized dismantling, with the Government Service Insurance System pursuant to the provisions of Republic Act Numbered Six hundred fifty-six, or with any private insurance company, eighty per cent of the capital of which is owned by Filipino citizens and the management of which is vested in such citizens, the policy to be endorsed in favor of the Commission to the extent of its insurable interest, for as long as the government has any insurable interest on such goods. The insurance, ocean freight and other expenses incident to importation shall

be paid by the end-user in accordance with usual business practices. As much as possible in the transportation of reparations goods from Japan to the Philippines, carriers of Philippine registry shall be preferred. The inspection and testing of reparations goods, whether intended for the government or for the private sector, shall be undertaken only by agencies specifically designated by the Philippine Government through the Mission: Provided, That preference shall be given to Philippine registered and internationally recognized inspection and testing firms. Nothing herein shall be construed as exempting the end-user from paying in full all the necessary costs, charges and expenses incident to the application for and the procurement, production, delivery and acquisition, of, the goods concerned."

[19] Brief for Defendant-Appellee, p. 14.

[20] Record on Appeal, p. 12.

[21] Brief for Defendant-Appellee, p. 13.

[22] Civil Case No. 49030 of the Court of First Instance of Manila.

[23] Cf. *People v. Mapa*, L-22301, Aug. 30, 1967, 20 SCRA 1164; *Pacific Oxygen & Acetylene Co. v. Central Bank*, L-21881, March 1, 1968, 22 SCRA 917; *Dequito v. Lopez*, L-27757, March 28, 1968, 22 SCRA 1352; *Padilla v. City of Pasay*, L-24039, June 29, 1968, 23 SCRA 1349; *Garcia v. Vasquez*, L-26808, March 28, 1969, 27 SCRA 505; *La Perla Cigar & Cigarette Factory v. Capapas*, L-27948 & 28001-11, July 31, 1969, 28 SCRA 1085; *Mobil Oil Phil., Inc. v. Diocares*, L-26371, Sept. 30, 1969, 29 SCRA 656; *Luzon Surety Co., Inc. v. De Garcia*, L-25659, Oct. 31, 1969, 30 SCRA 111; *Vda. de Macabenta v. Davao Stevedore Terminal Company*, L-27489, April 30, 1970, 32 SCRA 553; *Republic Flour Mills, Inc. v. Commissioner of Customs*, L-28463, May 31, 1971.

[24] Record on Appeal, Decision, p. 17.

[25] Brief for Defendant-Appellee, pp. 12 and 13.

[26] Brief for the Plaintiff-Appellant, pp. 16-17.

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