

REPUBLIC OF THE PHILIPPINES, PETITIONER, VS. THE HON. COURT OF APPEALS AND LUIS D. CUAYCONG (SUBSTITUTED BY LUIS E. CUAYCONG, JR.), RESPONDENTS.*G.R. No. L-25012. July 22, 1975*

Ponente: CASTRO, J.

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The Republic of the Philippines brought suit against Luis D. Cuaycong (now deceased and substituted by his son, Luis E. Cuaycong, Jr) in the Court of First Instance of Manila, for recovery of the value of twenty promissory notes executed by the deceased Cuaycong in favor of the Bank of Taiwan during the Japanese occupation of the Philippines. After hearing duly had, the trial court adjudged in favor of the Government and ordered Cuaycong to pay the sum of P14,654.17, plus interest at 6% per annum, compounded quarterly, from October 1, 1961 until payment shall have been fully made. Cuaycong was likewise ordered to pay the Government attorney's fees in the sum equivalent to 10% of the total obligation and to bear the costs. On appeal by Cuaycong, the respondent Court of Appeals dismissed the Government's complaint. Hence, this appeal by certiorari by the Republic of the Philippines.

Shortly after the liberation of the Philippines in 1945, all the assets belonging to the enemy government, its agencies and institutions, were confiscated by the Government of the United States. The assets located in the Philippines were subsequently turned over to the Government of the Republic of the Philippines by agreement between the two Governments. Among these assets are certain promissory notes secured by a chattel mortgage executed by Cuaycongin favor of the Bank of Taiwan. Based on the Ballyntine schedule, the money value of these promisory notes adds up to P4,986, and, including the stipulated interest accumulated up to September 30, 1961, the total indebtedness amounts to P14,654.17.

The Philippine Government commenced action against Cuaycong only on December 4, 1961. Considering the many years that had elapsed since the execution of the promissory notes subject of the suit, the evidence on both sides leaves much to be desired. Based on the findings of the trial court which were adopted by the Court of Appeals, it would appear that during the Japanese occupation of Negros Occidental, the military administration commandeered all available stocks of sugar in that province, including those belonging to Cuaycong; that no record of the precise amount of sugar taken from Cuaycong has survived the war but Cuaycong claimed that the same was valued at P10,242.60; and that Cuaycong's stocks of sugar were mortgaged at the time with the Philippine National Bank (the PNB, at the beginning of the Japanese occupation, was taken over by the Bank of Taiwan) to guarantee payment of a likewise undetermined amount of crop loan(s) granted prior to the outbreak of the war.

At all events, the taking of the sugar by the Japanese armed forces appears to have been governed by a program of acquisition highlighted by the following points:

"It had been decided that the stock of sugar in Negros shall be purchased according to the 'Purchase Plan of

Surplus Sugar in the Philippines.'

"In connection with this purchase, all quedans which have been issued by the Sugar Centrals in Negros and mortgaged to Banks or other financing firms by the owner of the sugar shall be considered 'null and void,' as soon as the sugar in existence are purchased by the purchasing agents according to records of each central.

"The purchasing agent should pay the cost of sugar to the vendors in the checks of the Bank of Taiwan including those not covered by quedans, and let them deposit the proceeds of their sale of sugar in the same bank.

"The Bank of Taiwan who shall act for the above-mentioned financing banks and firms, shall receive the proceeds and set off the old crop loans of planters to which the sugar was mortgaged, and keep the same proceeds as 'Farmers Rehabilitation Fund.'

"The Bank of Taiwan shall allow new crop loans to planters within the limit of the proceeds of sugar sale of each planter out of his 'Farmers Rehabilitation Fund.'"[1]

Thus, the stocks of sugar belonging to Cuaycong were sold by the Victorias Planters' Association, acting as agent for the Bank of Taiwan, to the Mitsui Bussan Kaisha of Japan. The proceeds of this sale were, in effect, retained by the Bank of Taiwan to constitute a deposit of Cuaycong and made part of the so-called "Farmers Rehabilitation Fund" mentioned in the military directive. The Fund allowed the planters to borrow money therefrom, against their respective deposits, in order to finance new plantings of sugar cane and cotton in their haciendas. The twenty promissory notes subject of the present action by the Government were executed by Cuaycong between April 16, 1943 and March 25, 1944 under the above-mentioned financing scheme.

Upon the foregoing facts, the Court of Appeals held, among others, that (a) the right of action of the Government against Cuaycong has already prescribed, and (b) Cuaycong's indebtedness to the Bank of Taiwan may be considered set off against the proceeds of the sale of his sugar retained by the same bank. The Government disputes these rulings.

1. On the matter of the prescription, our ruling in *Republic vs. Grijaldo*,^[2] wherein the Government brought action in 1961 to recover the value of certain promissory notes executed in favor of the Bank of Taiwan in 1943, has laid the question to rest. We there held that the statute of limitation does not operate against the Government as to bar it from collecting the sums owing to the Bank of Taiwan during the last war for, in recovering these loans, the Government is merely acting "in the exercise of its sovereign functions to protect the interests of the State over a public property."

2. Nonetheless, the Court of Appeals is correct in allowing a set-off of Cuaycong's indebtedness to the Bank of Taiwan against his money-deposit with the same bank. No record of Cuaycong's deposit is available but the inference drawn by the Court of Appeals as to the existence and extent of such deposit cannot be flawed. The fact is clear that all the proceeds derived from the sale or confiscation of the sugar stocks belonging to the planters in Negros Occidental were retained as deposits by the Bank of Taiwan and made part of the "Farmers Rehabilitation Fund." Planters like Cuaycong were allowed to borrow money from the Fund but only to the extent of their deposits with the Bank of Taiwan or, as the military directive adverted to states, "within the limit of the proceeds of sugar sale of each planter." The conclusion is logical and inevitable that the sums covered by the promissory notes drawn by Cuaycong were well within the size of his then existing deposit.

And since the relation between a depositor in a bank and the bank is that of creditor and debtor,^[3] Cuaycong has every right to apply his credit with the Bank of Taiwan against the loans he had obtained from his deposit. All the elements necessary for a set-off are present, and under the law then obtaining,^[4] compensation takes place ipso jure from the day all the necessary requisites concur, without need of any conscious intent on the part of the

parties.

Moreover, the Court is satisfied with the explanation proffered by Cuaycong that, under the abnormal conditions then prevailing, the only way by which he could utilize the proceeds from the sale of the stocks of sugar seized from him was for him to make use of the loans made available by the very agency that arbitrarily retained the said proceeds. In ultimate effect, it was as though Cuaycong had merely withdrawn his deposits with the Bank of Taiwan.

Accordingly, the judgment of the Court of Appeals is affirmed. No pronouncement as to costs.

Makasiar, Esguerra, Muñoz Palma, and Martin, JJ., concur.

Teehankee, J., on leave.

[1] Letter of Governor Antonio A. Lizares of the Province of Negros Occidental addressed to all managers of Sugar Centrals, Commercial and Financial Firms in that province, dated March 2, 1943.

[2] L-20240, December 31, 1965, 15 SCRA 683.

[3] Gullas vs. P.N.B., 62 Phil. 619.

[4] Article 1202 of the Civil Code of 1889, now Article 1290 of the new Civil Code of the Philippines.

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