

HAWAIIAN-PHILIPPINE COMPANY, APPELLANT, VS. ASOCIACION DE HACENDEROS DE SILAY-SARAVIA, INC., ARSENIO J. JISON, CONRADO MANALANSAN, IN HIS CAPACITY AS ACTING ADMINISTRATOR, SUGAR...

G.R. No. L-26344. June 30, 1987

Ponente: PARAS, J.

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PARAS, J.:

These are appeals taken by both parties from a decision of the then Court of First Instance of Manila (Branch II) in Civil Case No. 50760*, entitled, "HAWAIIAN-PHILIPPINE COMPANY v. ASOCIACION DE HACENDEROS DE SILAY--SARAVIA, INC., et al.", which upheld the constitutionality of Republic Acts Nos. 809, 1825 and 1072, as well as from its Order dated February 11, 1966, denying the separate motions for reconsideration filed by both parties.

Hawaiian-Philippine Company, Inc. (hereinafter referred to as Central) is a corporation duly organized and existing under and by virtue of the laws of the Philippines. It owns and operates a sugar mill situated at Silay-Hawaiian Central, in the Silay-Saravia Mill District, Negros Occidental.

Asociacion de Hacenderos de Silay-Saravia, Inc. (hereinafter referred to as the Association) is a corporation duly organized and existing under the laws of the Philippines and is the bargaining representative of some sugar cane planters.

A plantation is adherent by virtue of sugar cane being delivered therefrom to a mill regardless of contract relations between the mill company and the plantation owner and/or any other person cultivating sugar cane on the plantation (Act 4166, Sec. 1, par. 4 [c]).

The facts of this case are as follows:

On March 30, 1953, Central and the association, acting in behalf of the individual sugarcane planters of the Silay-Saravia District adherent to the petitioner, entered into a memorandum agreement (Joint Record on Appeal, Vol. I, pp. 35-51) wherein it was agreed that: (a) the period of the individual milling contract shall cover twelve (12) crops up to and including the 1963--1964 crop; (b) the sharing of the sugar and molasses between the Planter and the Mill for the first six sugar crops will be 63% for the Planter and 37% for the Mill and from the seventh crop (1958-1959) up to and including the twelfth crop, (1963-1964) 63½% for the Planter and 36½% for the Mill; and (c) in the event that the total production for any one crop reaches 1,200,000 piculs or more, the sharing will be 64% for the Planter and 36% for the Mill.

It was also agreed that the Central recognizes the Asociacion de Hacenderos de Silay-Saravia or its successors in interest as the sole agent of the planters of the Silay-Saravia Mill District and that the mill binds itself not to enter into milling contracts with any individual planter except through the Asociacion de Hacenderos de Silay-Saravia.

In 1961, the Association made it known to the petitioner that respondents Jison, et al., wanted to open negotiations for a new milling contract. Central was at first reluctant to enter into any negotiation because the milling contract had still three (3) years to run, but finally acceded to the wishes of the Association, et al. In the course of the negotiations, the Association acting for the sugar planters adherent to Central, demanded a new milling contract on the basis of 70% participation for the planters and 30% for the sugar mill, and eventual purchase by the Association, et al. of the Central. At first, Central made it known to the Association et al that its majority stockholders were not willing to sell. Later, however, Central made a counter offer and expressed willingness to sell for \$14,000,000.00. The planters finally agreed on the price of \$14,000,000 which is well above their original offer of P30,000,000. However, they could not agree on the terms of payment and the negotiations finally collapsed. In April, 1962, the Association et al pressed its demand for a 70-30 participation and eventual purchase of the Central and made it known to Central that unless the sale pushed through, the planters would purchase and install a new mill in the Silay-Saravia District to be operated by the sugar planters. Thereafter, the Association et al organized the Agricultural Industrial Development Company of Silay-Saravia District to be operated by the sugar planters with the primary purpose of establishing and operating a sugar mill and the utilization of its by-products, as well as the acquisition and maintenance and operation of such equipment to carry out its purposes. A 15-year milling contract starting from the 1964-1965 crop between the Agricultural Industrial Development Company of the Silay-Saravia and the planters was prepared and the latter negotiated for the purchase of a sugar mill abroad. The planters then addressed a letter dated May 14, 1962 to the Acting Administrator of the Sugar Quota Administration informing him of their intention to construct and operate their own central. The Sugar Quota Administrator endorsed the said letter to the Philippine Sugar Association for its comment and recommendation (CFI Joint Record on Appeal, pp. 831-833). However, before the Philippine Sugar Association could give its comment, Civil Case No. 50760, for Declaratory Relief, was filed by petitioner Hawaiian-Philippine Company, Inc. against the Association de Hacenderos de Silay-Saravia, Inc., Arsenio J. Jison and other individual sugar cane planter adherent to the Central members of respondent Association in the Court of First Instance of Manila on June 20, 1962, later amended on July 27, 1962, praying for judgment: (1) Declaring Section 1 and related ones of Republic Act No. 809 and Section 4 and concordant ones of Republic Act No. 1825 unconstitutional and hence, null and void; (2) In any event, defining the rights and obligations of Central and Arsenio B. Jison, et al. and other sugar cane planters similarly situated under the statutory provisions herein referred to, more particularly declaring that, under said provisions: (a) the sugar cane planter or plantation owner is not the owner of the totality of the sugar production allowance or quota; (b) the sugar production allowance, or sugar production coefficient (totality of the quota as to each plantation) is indivisible and intransferable except as a whole and with the consent of both mill and plantation owner or planter; (c) the plantation owner or sugar cane planters can not establish a new central in a district where there is a milling contract in force and the existing central can satisfactorily meet the milling needs of planters therein; (d) the plantation owner or sugar cane planter can not transfer the production allowance and coefficient or quota to a central which did not produce sugar during the pre-war years specified under Philippine and American sugar quota legislations; (e) the plantation owner or sugar cane planter can not transfer the quota to any other central, so long as the existing central in the district is willing to grant him the sharing participations established under Section 1 of Republic Act No. 809 in the absence of a written milling contract, assuming the constitutionality and effectiveness of said Act (Amended Petition, Joint Record on Appeal, Vol. 1, pp. 116-117). Still later on February 10, 1964, the petition was further amended reiterating the above prayer and praying further that Section 9 of Act 4166 as amended by Section 3 of R.A. 1072 be declared constitutional and that it has - not been modified, repealed or replaced by Section 4 or any other provision of R.A. 1825 (Ibid., pp. 457-458).

On July 30, 1965, the lower court rendered its Decision declaring the constitutionality of the assailed laws. The dispositive portion of said decision reads:

"WHEREFORE, judgment is hereby rendered declaring that Sections 1 and 2, Republic Act 809, Section 4, Republic Act 1825, and Section 3, Republic Act 1072, are valid and constitutional; that the respondent planters cannot transfer their export sugar, or "A" and "AA" sugar to a central which did not produce sugar in 1940; and that the respondent planters cannot transfer their export quota, or "A" and "AA" sugar to any other central as long as the petitioner is willing to grant them the participations provided for in Section 1, Republic Act 809 in the absence of a milling contract, without pronouncement as to costs.

"SO ORDERED."

(Joint Records on Appeal, Vol. II, p. 873)

Both parties moved for the reconsideration of the above decision. With the denial of the Motion, both parties appealed.

In brief, Central as appellant raised the following issues: (1) Constitutionality of: Sections 1, 4 and 9 of Republic Act 809, Sections 4 and 5 of Republic Act 1825 and Section 3 of Republic Act 1072 amending Section 9 of Act 4166, for being violative of the constitutional guarantees against impairment of the freedom of contracts, denial of equal protection of the laws, taking of private property for public use without due process and without just compensation and impairment of vested rights and (2) validity of: aforesaid laws for being violative of treaty commitments previously entered into by the Government of the Republic of the Philippines.

On the other hand, the Association et al as appellants raised as their main issue: whether or not planters whose 1953 memorandum agreement or milling contract with petitioner has already expired with the 1963-64 Crop and have no new milling contract with Central, may validly adhere their plantations to their own central and thereby transfer the quotas attached to such plantations to the new central without the consent of petitioner Hawaiian Philippines.

As incidents thereto, the Association et al raised the following issues: (a) whether or not they as planters may transfer their export and domestic quotas despite Central's willingness to give them the participation under Republic Act 809; (b) whether or not the planters in the absence of, or upon termination of written milling contracts, establish and operate their own central, adhere their plantation thereto and transfer their quotas to the same without the consent of the old Central; (c) whether or not the export production allowance which may be transferred from one mill district to another under Section 4 of Republic Act 1825 includes not only the planter marketing allotment but also the mill marketing allotment and (d) whether or not Central, in entering into a memorandum agreement where it is required to tear down its railway tracks within two years after the expiration of the agreement, waived its absolute right to mill the planters' sugarcane.

The main issue raised by Central in this case is the constitutionality of the sugar laws above enumerated.

The question of constitutionality of Republic Act 809 was laid to rest in the case of *Asociacion de Agricultores de Talisay-Silay, Inc. vs. Talisay-Silay Milling Co., Inc.* (88 SCRA [1979]) where the Supreme Court squarely ruled that:

"Republic Act 809 is a social justice and police power measure for the promotion of labor conditions in sugar plantations, hence whatever rational degree of constraint it exerts on freedom of contract and existing contractual obligations is constitutionally permissible."

Anent the indictment that Republic Act 809 violates the equal protection clause of the Constitution, the Supreme Court in ruling in favor of the constitutionality of the law, upheld the standard used by the legislature which is the amount of production in each district.

Republic Act 1825 and Republic Act 1072 amending Act 4166 covering as they do the same subject, i.e. sugar

production, partake of the same nature as Republic Act 809 and for the same reasons as above stated, cannot be considered constitutionally objectionable.

In fact, the Supreme Court ruled in *Lutz v. Araneta* (52 Off. Gaz., p. 1997 NOs. 4-6 [1956]) as follows:

"This Court can take judicial notice of the fact that sugar production is one of the great industries of our nation, sugar occupying a leading position among its export products, that it gives employment to thousands of laborers in field and factories; that it is a great source of the state's wealth, is one of the important sources of foreign exchange needed by our government, and is thus pivotal in the plans of a regime committed to a policy of currency stability. Its promotion, protection and advancement therefore, redounds greatly to the general welfare. Hence it was competent for the legislature to find that the general welfare demanded that the sugar industry should be stabilized in turn, and in the wide field of its police power, the lawmaking body could provide that the distribution of benefits therefrom be readjusted among its components x x x.

"Once it is conceded as it must, that the protection and promotion of the sugar industry is a matter of public concern it follows that the legislature may determine within reasonable bounds what is necessary for its protection and expedient for its promotion. Here the legislative discretion must be allowed full play, subject only to the test of reasonableness."

Republic Act 1825, Section 4 refers to the transfer of export production allowances (quota) from one mill district to another which may be done under two conditions, namely: (a) when there is no milling contract between the planter and miller or when said contract shall have expired; and (b) when the mill of the district in which the land of the planter lies is not willing to give him the participation laid down in Section one of Republic Act Numbered Eight hundred nine regarding the division of shares between the sugar mill and plantation owner.

On the other hand, Section 9 of Act 4166 as amended by Republic Act 1072 refers to the transfer of domestic quotas which may be done under the sole condition of absence or expiration of a milling contract.

It is Central's view that aforesaid legislations are a deprivation of its vested rights without due process of law and without just compensation as well as a denial of equal protection of the laws. It claims that it has property rights in the sugar production allowance or quota appertaining to the Silay-Saravia Milling District which had become vested long before Republic Act 1825 went into effect.

This is not correct. There is no vested right in sugar quotas, because they depend on future contingencies.

And even granting that quotas can be considered as vested rights, it is beyond dispute that they, like any property rights, are subject to the regulation and control of the State under its police power. In recognition of this power of the State, the Supreme Court in *Suarez v. Mt. Arayat Sugar Co.*, (96 Phil. 722) held that in case the central and the planter cannot agree on the disposition of the quota, it is within the competence of the Sugar Quota Administrator, now the Sugar Quota Board, to reallocate the quota without compensation.

In case the mill and the planters cannot agree, as in the case at bar, no plausible reason can be found why the State cannot legislate and provide the sharing system that will prevent an impasse which is disastrous to the sugar industry.

Likewise, there can be no argument, that in the absence of a milling contract or the expiration of one, planters may transfer their quotas for domestic sugar to the AID SISA Mill established by them even without the consent of Central.

On the other hand, the Association et al's contention that as planters they can adhere their plantations with their corresponding quotas to the new central they established in the same district, despite Central's willingness to give them the participation provided in Republic Act 809, is untenable. To allow this would be less than fair,

eminently less than just.

Finally, the memorandum agreement between the mill and the plantation owners where the former is required to tear down its railway tracks after the expiration of the agreement cannot be taken as a waiver of its absolute right to mill the planters' sugarcane. Nowhere has it been shown that Central had abandoned its right and obligation to mill the sugarcane of the planters. On the contrary, it has manifested that it would abide by the terms of the agreed sharing basis, if the Court finds the same valid and enforceable.

PREMISES CONSIDERED, the Court RESOLVED to DISMISS both appeals, and to AFFIRM the assailed decision.

Yap, Narvasa, Melencio-Herrera, Gutierrez, Jr., Cruz, Feliciano, Gancayco, Padilla, Bidin, Sarmiento, and Cortes, JJ., concur.

Teehankee, C.J., no part. I was counsel for Asociacion de Hacenderos de Silay-Saravia, Inc.

Fernan, J., no part, as my wife is related to the wife of counsel for petitioner.

* Penned by Judge Jose N. Leuterio

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