

**IFC-SERVICE LEASING & ACCEPTANCE CORPORATION,
PLAINTIFF-APPELLEE, VS. SARMIENTO DISTRIBUTORS
CORPORATION AND SARMIENTO SECURITIES CORPORATION,
DEFENDANTS-APPELLANTS.**

G.R. No. L-39805. May 29, 1987

Ponente: PARAS, J.

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PARAS, J.:

This is a petition for review on certiorari of the decision* of the then Court of First Instance of Rizal, Branch X, in Civil Case No. 17126 for breach of contract, entitled "IFC SERVICE LEASING & ACCEPT-ANCE CORPORATION v. SARMIENTO DISTRIBUTORS CORPORATION and SARMIENTO SECURITIES CORPORATION", ordering the defendants to jointly and severally pay the plaintiff the sum of P19,583.16 corresponding to the arrears in rentals up to November, 1972, plus 1% interest per month until fully paid, and to pay the remaining rentals covering the whole period of the contract as actual damages, plus the sum of P5,000.00 as attorney's fees and to pay the costs.

The plaintiff and the defendants are corporations duly organized and existing under and by virtue of the laws of the Philippines.

The facts of this case are as follows:

On September 10, 1971, the plaintiff as LESSOR, and defendants as LESSEES, entered into a written contract entitled "Equipment Lease Agreement" (Record on Appeal, pp. 9-32) involving eight (8) units single sideband (HP) radio-telephone type communicator-300 2 channels, the term of which lease is for an irrevocable period of 36 months commencing in September, 1971 at a monthly rental of P1,900.80 with 1% per month interest on delinquent rentals (Ibid., pp. 35-36).

On December 27, 1972, plaintiff filed a complaint in the trial court alleging that:

"the defendants violated the terms of the contract by defaulting in the payment of the agreed rentals and as of November 15, 1972, the arrearage in rents amount to P19,583.16 and despite demands failed to settle the same; that on August 15, 1972, plaintiff received from defendant, Sarmiento Distributors Corporation a formal letter dated August 14, 1972 advising the plaintiff, among other things, about said defendant's position to effect a surrender of the units as its top management has decided to change its posture on its business strategy and offered to surrender the equipment and to cease in payment of the rentals upon its surrender; that in another letter dated September 13, 1973, Sarmiento Distributors Corporation reiterated its desire to return the leased equipment, in view of which the plaintiff sent its representative to inspect the leased equipment, to see if damages can be minimized by both parties but plaintiff found out that the physical condition of the leased equipment is such that it has deteriorated to such an extent beyond ordinary wear and tear of a good user that extensive repairs are necessary to put the equipment to serviceable unit; and that there is no one interested to lease the said equipment. It is further alleged that the equipment leased to Sarmiento Distributors Corporation

were purchased by plaintiff specifically to meet the needs and existing requirements of said defendant and had it not been for such client, the plaintiff had no reason to acquire the said equipment and that the defendant Sarmiento Securities Corporation acted as surety to secure faithful compliance of all the terms and conditions of the Equipment Lease Agreement and is jointly severally liable with the other defendant to the plaintiff." (CA Resolution, Rollo, p. 25.)

In their answer, the defendants countered that the lease agreement concerning eight (8) units of single sideband (HP) radio-telephone type communicator, had been extinguished by a subsequent law prohibiting the use of privately owned radio facilities and all other kinds of media of communication thereby rendering the performance of defendants' obligation (payment of rental) impossible. Because of this change of conditions that supervened during the term of the lease contract, defendants as lessees of the eight units of radio-telephone communicators were deprived of their use and are by law excused from payment of said rentals. They claim that such change of conditions in effect extinguished the object of the lease so that they cannot be held liable for payment of subsequent rentals after September 22, 1972 when the prohibiting law took effect and the alleged irrevocable term of the lease agreement for three years was rendered nugatory because the very object of the contract was subsequently prohibited by law and there can be no valid contract without a lawful object (Record on Appeal, pp. 43-44).

At the pre-trial, the parties agreed to file their respective memoranda on the issue of whether or not the Lease Contract object of the case was deemed terminated with the issuance by the then President of the Philippines of Letter of Instructions No. 1 whereby the Secretary of National Defense was ordered to take over the control or cause the taking over and control of newspapers, magazines, radio and radio facilities and other media of communication (Ibid., pp. 49-50).

On October 11, 1973, the trial court found for the plaintiff and rendered judgment the dispositive portion of which reads as follows:

"WHEREFORE, decision is hereby rendered in favor of the plaintiff and against the defendants ordering the latter to jointly and severally pay to the former the sum of P19,583.16 corresponding to the arrears up to November, 1972, plus 1% interest per month until fully paid; to pay the remaining rentals covering the whole period of the contract as actual damages, plus the sum of P5,000.00 as attorney's fees and the costs of this suit.

SO ORDERED." (Ibid., p. 61)

The dispositive portion of the foregoing Decision was later amended on October 29, 1973, viz:

"WHEREFORE, decision is hereby rendered in favor of the plaintiff and against the defendants ordering the latter to jointly and severally pay to the former the sum of P19,583.16 corresponding to the arrears up to November, 1972, plus 1% interest per month until fully paid; to pay the remaining rentals covering the whole period of the contract as actual damages, plus the sum of P5,000.00 as attorney's fees and the costs of this suit. The defendants are hereby further ordered to deliver and return to the plaintiff the eight (8) Units Single Sideband Radio-Telephone subject matter of the contract."

SO ORDERED." (Ibid., p. 62).

In its Notice of Appeal defendants stated that they would raise questions of facts and law (Record on Appeal, p. 63) but after notice to file appellants' brief had been issued by the Court of Appeals, plaintiff-appellee, filed on September 10, 1974 a Manifestation alleging:

"that the question submitted for resolution as raised by defendants-appellants' appeal was one of law;

"that the parties in the case stipulated during the pre-trial that only questions of law remain to be resolved for

the adjudication of the issues raised by the parties;

"that the decision of the court below merely resolved the legal issue presented by the parties." (CA Resolution, Rollo, p. 27.)

Finding plaintiff-appellee's manifestation to be meritorious and that defendants-appellants' reply thereto interposed no objection, the Court of Appeals resolved** to certify the appeal in this case to the Supreme Court (Ibid., p. 29).

Both parties were required by this Court to file Briefs (Rollo, p. 34). In compliance thereof, defendants-appellants filed their brief on November 5, 1975 (Rollo, p. 58) while plaintiff-appellee filed its brief on June 9, 1975 (Rollo, p. 68).

For failure of defendants-appellants to file reply brief, the case was considered submitted for decision without reply brief (Rollo, p. 70).

In their brief appellants raised the following assignment of errors:

I

The lower court erred in considering that Letter of Instructions No. 1 of the President did not absolutely prohibit the maintenance of the communication system leased to the defendants appellants.

II

The lower court erred in ordering defendants to pay plaintiff the sum of P19,583.16 representing arrears up to November 1972 plus 1% interest per month until fully paid.

III

The lower court erred in awarding actual damages representing the remaining rentals for the whole period of the contract of lease.

The appeal is impressed with merit.

As mutually agreed upon by the parties, the only issue here is whether or not Letter of Instructions No. 1 issued by the President of the Philippines, upon the advent of martial law, effectively abrogated or rendered illegal the lease contract entered into between the parties thereto. We answer in the affirmative.

Letter of Instructions no. 1 quoted verbatim, reads:

"In view of the present national emergency which has been brought about by the activities of those who are actively engaged in a criminal conspiracy to seize political and state power in the Philippines and to take over the Government by force and violence the extent of which has now assumed the proportion of an actual war against our people and their legitimate Government, and pursuant to Proclamation No. 1081, dated September 21, 1972, and in my capacity as Commander in Chief of all the Armed Forces of the Philippines and in order to prevent the use of privately owned newspapers, magazines, radio and television facilities and all other media of communications, for propaganda purposes against the Government and its duly constituted authorities or for any purpose that tends to undermine the faith and confidence of the people in our Government and aggravate the present national emergency, you are hereby ordered forthwith to take over and control or cause the taking over the control of all such newspapers, magazines, radio and television facilities and all other media of communications, wherever they are, for the duration of the present national emergency, or until otherwise ordered by me or by my duly designated representative.

In carrying out the foregoing order you are hereby directed to see to it that reasonable means are employed by you and your men and that injury to persons and property must be carefully avoided."

The martial law government had to enforce the prohibition against privately-owned communication facilities as its measure of self-defense.

The contract of lease entered into by the parties must be deemed terminated upon the date of effectivity of Letter of Instructions no. 1. We cannot therefore say that from said date, the lessees were delinquent in the payment of their rentals. As implied in the case of *Caltex (Phil.) v. Reyes*, 84 Phil 654 the act of the ruling power (the martial law administration the instant case) was not an act of mere trespass but a trespass in law (not a "perturbacion de mero hecho" but a "perturbacion de derecho"), justified as it is by an act of the government in legitimate self defense. Accordingly, the lessees ceased to have any duty to pay rentals from the date the contract terminated by operation of law.

The fact that in a letter to the lessor dated August 15, 1972, the lessees, in evident anticipation of martial law, already were asking for the end of the lease contract is of no moment. Almost everybody knew by that time that martial law would be eventually imposed. Only the precise date of imposition remained a question mark. And even if this were not so, still the lease object became illegal on September 22, 1972, the date of effectivity of Letter of Instructions no. 1.

Again, the fact that some communications establishments were allowed to continue operating upon the fulfillment of certain requisites is immaterial. What is significant is that no authorization was given to the lessees.

WHEREFORE the assailed decision is hereby MODIFIED in the sense that the lessees are hereby ordered to pay the lessor the rents from September 10, 1971 up to September 22, 1972. All other awards made by the trial court are hereby DELETED.

SO ORDERED.

Fernan, (Chairman), Gutierrez, Jr., Padilla, Bidin, and Cortes, JJ., concur.

* Penned by Judge Eficio B. Acosta.

** Penned by Justice Ramon G. Gaviola, Jr. and concurred in by Justices Luis B. Reyes and Pacifico P. de Castro.

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