

SIMEON DEL ROSARIO, PLAINTIFF-APPELLANT, VS. THE SHELL COMPANY OF THE PHILIPPINES LIMITED, DEFENDANT-APPELLEE.

G.R. No. L-28776. August 19, 1988

Ponente: PARAS, J.

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PARAS, J.:

The antecedent relative facts of this case are as follows:

1. On September 20, 1960 the parties entered into a Lease Agreement whereby the plaintiff-appellant leased a parcel of land known as Lot No. 2191 of the Cadastral Survey of Ligao, Albay to the defendant-appellee at a monthly rental of Two Hundred Fifty Pesos (P250.00).

2. Paragraph 14 of said contract of lease provides:

"14. In the event of an official devaluation or appreciation of the Philippine currency the rental specified herein shall be adjusted in accordance with the provisions of any law or decree declaring such devaluation or appreciation as may specifically apply to rentals."

3. On November 6, 1965, President Diosdado Macapagal promulgated Executive Order No. 195[1] titled "Changing the Par Value of the Peso from US\$0.50 to US\$0.2564103 (U.S. Dollar of the Weight and Fineness in Effect on July 1, 1944). This took effect at noon of November 8, 1965.

4. By reason of this Executive Order No. 195, plaintiff-appellant demanded from the defendant-appellee an increase in the monthly rentals from P250.00 a month to P487.50 a month.

5. Defendant-appellee refused to pay the increased monthly rentals.

6. On January 16, 1967, plaintiff-appellant filed a complaint (Civil Case No. 68154) with the CFI of Manila, Branch XVII praying that defendant-appellee be ordered to pay the monthly rentals as increased by reason of Executive Order 195 and further prayed that plaintiff-appellant be paid the following amounts: The difference

between P487.50 and P250.00 from noon of November 8, 1965 until such time as the defendant-appellee begins to pay the adjusted amount of P487.50 a month; the sum of P20,000.00 as moral damages; the sum of P10,000.00 as exemplary damages; and the sum of P10,000.00 as attorney's fees and the costs.

7. On January 8, 1968 the trial court in dismissing the complaint stated:

"x x x in the opinion of the Court, said Executive Order No. 195, contrary to the contention of the plaintiff, has not officially devalued the Philippine peso but merely modified the par value of the peso from US\$.50 to US\$0.2564103 (U.S. Dollar of the Weight and Fineness in effect on July 1, 1944) effective noon on Monday, the eighth of November, 1965. Said Executive Order certainly does not pretend to change the gold value of the Philippine peso as set forth in Sec. 48 of the Central Bank Act (R.A. 265), which is 7-13/21 grains of gold, 0.900 fine. Indeed, it does not make any reference at all to the gold value of the Philippine peso." (pp. 25-26, Record on Appeal; p. 13, Rollo)

In view of the trial court's refusal to increase the rental, petitioner brought the instant petition on the theory that because Executive Order No. 195 in effect decreased the worth or value of our currency, there has taken place a "devaluation" or "depreciation" which would justify the proportionate increase of rent.

Hence this appeal, with the following two-pronged assignment of errors:

I. The trial court erred in holding that Executive Order No. 195 has not officially devalued the Philippine peso.

II. The trial court erred in dismissing the complaint.

After a study of the case, We have come to the conclusion that the resultant decrease in the par value of the currency (affected by Executive Order No. 195) is precisely the situation or event contemplated by the parties in their contract; accordingly an upward revision of the rent is called for.

Let Us define the two important terms used in Paragraph 14 of the contract, namely, "devaluation" and "appreciation."

(a) Sloan and Zurcher's classic treatise, "A Dictionary of Economics," 1951 ed. pp. 80-81, defines devaluation (as applied to a monetary unit) as.

"a reduction in its metallic content as determined by law[2] resulting in "the lowering of the value of one nation's currency in terms of the currencies of other nations" (Italics supplied)

Samuelson and Nordhaus, writing in their book, "Economics" (Singapore, Mc-Graw Hill Book Co., 1985, p. 875) say:

"when a country's official exchange rate^[3] relative to gold or another currency is lowered, as from \$35 an ounce of gold to \$38, we say the currency has been devalued."^[4]

(b) Upon the other hand, "depreciation" (opposite of "appreciation" the term used in the contract), according to Gerardo P. Sicat in his "Economics" (Manila: National Book Store, 1983, p. 636)

"occurs when a currency's value falls in relation to foreign currencies."

(c) It will be noted that devaluation is an official act of the government (as when a law is enacted thereon) and refers to a reduction in metallic content; depreciation can take place with or without an official act, and does not depend on metallic content (although depreciation may be caused by devaluation).

In the case at bar, while no express reference has been made to metallic content, there nonetheless is a reduction in par value or is the purchasing power of Philippine currency. Even assuming there has been no official devaluation as the term is technically understood, the fact is that there has been a diminution or lessening in the purchasing power of the peso, thus, there has been a "depreciation" (opposite of "appreciation"). Moreover, when laymen unskilled in the semantics of economics use the terms "devaluation" or "depreciation" they certainly mean them in their ordinary signification -decrease in value. Hence as contemplated by the parties herein in their lease agreement, the term "devaluation" may be regarded as synonymous with "depreciation", for certainly both refer to a decrease in the value of the currency. The rentals should therefore by their agreement be proportionately increased.

WHEREFORE, the judgment appealed from is REVERSED and SET ASIDE, and the rental prayed for by the plaintiff-appellant is hereby GRANTED, effective on the date the complaint was filed. No award of damages and no costs.

SO ORDERED.

Melencio-Herrera (Chairperson), Padilla and Sarmiento, JJ., concur.

[1] Executive Order No. 195, dated November 6, 1965, provides:

"MALACANANG

RESIDENCE OF THE PRESIDENT
OF THE PHILIPPINES

MANILA

BY THE PRESIDENT OF THE PHILIPPINES

EXECUTIVE ORDER NO. 195

CHANGING THE PAR VALUE OF THE PESO FROM US\$0.50 to US\$0.2564103 (U.S. DOLLAR OF THE WEIGHT AND FINENESS IN EFFECT ON JULY 1, 1944).

Pursuant to the power vested in me by Republic Act Numbered Two Hundred and Sixty-five, and in conformity with the provisions of all executive and international agreements subscribed to and ratified by the Republic of the Philippines, and upon proposal of the Monetary Board with the unanimous concurrence of the members of said Monetary Board, I, Diosdado Macapagal, President of the Philippines, do hereby modify the par value of the peso from US\$0.50 to US\$0.2564103 (U.S. dollar of the weight and fineness in effect on July 1, 1944), effective noon on Monday, the eighth day of November, 1945.

Done in the City of Manila, this 6th day of November, in the year of Our Lord, nineteen hundred and sixty-five.

DIOSDADO MACAPAGAL

President of the Philippines

By the President:

SALVADOR L. MARINO

Acting Executive Secretary

[2] Be it noted that the gold equivalent of par value of the Philippine peso is fixed by law and the manner in which changes in the par value can be effected is likewise specifically provided for by the state. Secs. 48 and 49 of the Central Bank (R.A. No. 265, as amended) read:

ARTICLE II. - The
International Value
of the Peso

SEC. 48. Par Value - The gold value of the peso is seven and thirteen-twenty first (7-13/21) grains of gold, nine-tenths (0.900) fine, which is equivalent to the United States dollar parity of the peso as provided in section 6 of Commonwealth Act No. 699.

SEC. 49. Changes in par value; deviations therefrom - The par value of the peso shall not be altered except when such action is made necessary by the following circumstances;

(a) When the existing par value would make impossible the achievement and maintenance of a balanced and sustainable growth of the economy without:

(1) The depletion of the international reserve of the Central Bank; or

(2) The chronic use of restrictions on the convertibility of the peso into foreign currencies or on the transferability abroad of funds from the Philippines; or

(3) Undue government intervention in, or restriction of, the international flow of goods and services; or

(b) When uniform proportionate changes in par values are made by the countries which are members of the International Monetary Fund; or

(c) When the operation of any executive or international agreement to which the Republic of the Philippines is a party requires an alteration in the gold value of the peso.

Any modification in the gold or dollar value of the peso must be in conformity with the provisions of all executive

and international agreements as subscribed to and ratified by the Republic of the Philippines, and such modification shall be made only by the President of the Republic upon the proposal of the Monetary Board. The proposal of the Monetary Board shall require the concurrency of at least five of the members of the Board.

In order to permit the exchange rate system to be more responsive to domestic and external developments, whenever indicated and not necessarily under emergency conditions alone, the Monetary Board, with the concurrence of at least five of its members, and with the approval of the President of the Philippines, is authorized to set or change the exchange rate or rates for the peso, which may differ from its par value.

[3] In *Gonzalo L. Manuel & Co., Inc. v. Central Bank*, L-21789, April 30, 1971, 38 SCRA 533, We ruled:

"Par value" and "rate of exchange" are not necessarily synonymous. The first, variously termed "legal exchange rate" or "par of exchange," is "the official rate of exchange, established by a government, in contrast to the free market rate." It signifies "the amount it takes of one currency (for example, based on gold) to buy a unit in another currency (also based on gold) that is, how many pieces of the one unit (or their gold content) are necessary to equal the gold content of the other unit x x x." "The par value of a currency is the value as officially defined in terms of gold or, under the silver standard, where there was such a standard, in terms of silver. The 'par of exchange' therefore applies only between countries having a fixed metallic content for their currency unit. It would be possible to define a currency's par value in terms of another currency such as the dollar or pound sterling, but usage confines the meaning of par to the official value in terms of gold."

"The 'rate of exchange' or 'exchange rate,' on the other hand, is 'the price, or the indication of the price, at which one can sell or buy with one's own domestic currency a foreign currency unit. Normally, the rate is determined by the law of supply and demand for a particular currency.' The price of one currency in terms of another is known as the rate of exchange. Thus, the rate of exchange in New York or London has at various times been \$4.86, \$4.03, \$2.89, etc. The rate is the amount of American money required to pay £1. There is a difference between par value and rate of exchange: the first is defined by law, and (as in the case of the peso) is based upon its gold content. The second is conditioned by prevailing economic factors which bear upon the demand for a particular currency and its availability in the market.

[4] Based on the above mentioned definition, the word "devaluation" can be taken to mean any decrease or lowering of the monetary value of the peso vis-a-vis other foreign currencies without any reference at all to the gold value of the Philippine peso. It can also be construed as a reduction in the value of our currency from an officially agreed fix level imposed by monetary authorities.

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