

SULO NG BAYAN, INC., PLAINTIFF-APPELLANT, VS. GREGORIO ARANETA, INC., PARADISE FARMS, INC., NATIONAL WATERWORKS & SEWERAGE AUTHORITY, HACIENDA CARETAS, INC. AND REGISTER OF DEED...

G.R. No. L-31061. August 17, 1976

Ponente: ANTONIO, J.

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ANTONIO, J.:

The issue posed in this appeal is whether or not plain-tiff corporation (non-stock) may institute an action in behalf of its individual members for the recovery of certain parcels of land allegedly owned by said members; for the nullification of the transfer certificates of title issued in favor of defendants-appellees covering the aforesaid parcels of land; for a declaration of "plaintiff's members as absolute owners of the property" and the issuance of the corresponding certificate of title; and for damages.

On April 26, 1966, plaintiff-appellant Sulo ng Bayan, Inc. filed an action de reivindicacion with the Court of First Instance of Bulacan, Fifth Judicial District, Valenzuela, Bulacan, against defendants-appellees to recover the ownership and possession of a large tract of land in San Jose del Monte, Bulacan, containing an area of 27,982,250 square meters, more or less, registered under the Torrens System in the name of defendants-appellees' predecessors--in-interest.[1] The complaint, as amended on June 13, 1966, specifically alleged that plaintiff is a corporation organized and existing under the laws of the Philippines, with its principal office and place of business at San Jose del Monte, Bulacan; that its membership is composed of natural persons residing at San Jose del Monte, Bulacan; that the members of the plaintiff corporation, through themselves and their predecessors-in-interest, had pioneered in the clearing of the afore-mentioned tract of land, cultivated the same since the Spanish regime and continuously possessed the said property openly and publicly under concept of ownership adverse against the whole world; that defendant-appellee Gregorio Araneta, Inc., sometime in the year 1958, through force and intimidation, ejected the members of the plaintiff corporation from their possession of the aforementioned vast tract of land; that upon investigation conducted by the members and officers of plaintiff corporation, they found out for the first time in the year 1961 that the land in question "had been either fraudulently or erroneously included, by direct or constructive fraud, in Original Certificate of Title No. 466 of the Land Records of the province of Bulacan", issued on May 11, 1916, which title is fictitious, non-existent and devoid of legal efficacy due to the fact that "no original survey nor plan whatsoever" appears to have been submitted as a basis thereof and that the Court of First Instance of Bulacan which issued the decree of registration did not acquire jurisdiction over the land registration case because no notice of such proceedings was given to the members of the plaintiff corporation who were then in actual possession of said properties; that as a consequence of the nullity of the original title, all subsequent titles derived therefrom, such as Transfer Certificate of Title No. 4903 issued in favor of Gregorio Araneta and Carmen Zaragoza, which was subsequently cancelled by Transfer Certificate of Title No. 7573 in the name of Gregorio Araneta, Inc., Transfer Certificate of Title No. 4988 issued in the name of the National Waterworks Sewerage Authority (NWSA), Transfer Certificate of Title

No. 4986 issued in the name of Hacienda Caretas, Inc., and another transfer certificate of title in the name of Paradise Farms, Inc., are therefore void. Plaintiff-appellant consequently prayed (1) that Original Certificate of Title No. 466, as well as all transfer certificates of title issued and derived therefrom, be nullified; (2) that "plaintiff's members" be declared as absolute owners in common of said property and that the corresponding certificate of title be issued to plaintiff; and (3) that defendant-appellee Gregorio Araneta, Inc. be ordered to pay to plaintiff the damages therein specified.

On September 2, 1966, defendant-appellee Gregorio Araneta, Inc. filed a motion to dismiss the amended complaint on the grounds that (1) the complaint states no cause of action; and (2) the cause of action, if any, is barred by prescription and laches. Paradise Farms, Inc. and Hacienda Caretas, Inc. filed motions to dismiss based on the same grounds. Appellee National Waterworks & Sewerage Authority did not file any motion to dismiss. However, it pleaded in its answer as special and affirmative defenses lack of cause of action by the plaintiff-appellant and the barring of such action by prescription and laches.

During the pendency of the motion to dismiss, plaintiff-appellant filed a motion, dated October 7, 1966, praying that the case be transferred to another branch of the Court of First Instance sitting at Malolos, Bulacan. According to defendants-appellees, they were not furnished a copy of said motion, hence, on October 14, 1966, the lower court issued an Order requiring plaintiff-appellant to furnish the appellees copy of said motion. On November 11, 1966, defendant-appellee Gregorio Araneta, Inc. filed a motion informing the lower court that it did not receive a copy of the plaintiff-appellant's motion dated October 7, 1966 and, consequently, prayed that the said motion be denied for lack of notice and for failure of the plaintiff-appellant to comply with the Order of October 14, 1966. Similarly, defendant-appellee Paradise Farms, Inc. filed, on December 2, 1966, a manifestation informing the court that it also did not receive a copy of the afore-mentioned motion of appellant. On January 24, 1967, the trial court issued an Order dismissing the amended complaint on the ground of lack of cause of action and prescription. On the same date, the lower court denied appellant's motion to transfer the case to Malolos for being moot and academic, the court having dismissed the amended complaint.

On February 14, 1967, appellant filed a motion to reconsider the Order of dismissal on the grounds that the court had no jurisdiction to issue the Order of dismissal, because its request for the transfer of the case from the Valenzuela Branch of the Court of First Instance to the Malolos Branch of the said court has been approved by the Department of Justice; that the complaint states a sufficient cause of action because the subject matter of the controversy is one of common interest to the members of the corporation who are so numerous that the present complaint should be treated as a class suit; and that the action is not barred by the statute of limitations because (a) an action for the reconveyance of property registered through fraud does not prescribe, and (b) an action to impugn a void judgment may be brought any time. This motion was denied by the trial court in its Order dated February 22, 1967. From the afore-mentioned Order of dismissal and the Order denying its motion for reconsideration, plaintiff-appellant appealed to the Court of Appeals.

On September 3, 1969, the Court of Appeals, upon finding that no question of fact was involved in the appeal but only questions of law and jurisdiction, certified this case to this Court for resolution of the legal issues involved in the controversy.

I

Appellant contends, as a first assignment of error, that the trial court acted without authority and jurisdiction in dismissing the amended complaint when the Secretary of Justice had already approved the transfer of the case to any one of the two branches of the Court of First Instance of Malolos, Bulacan.

Appellant confuses the jurisdiction of a court and the venue of cases with the assignment of cases in the different

branches of the same Court of First Instance. Jurisdiction implies the power of the court to decide a case, while venue the place of action. There is no question that respondent court has jurisdiction over the case. The venue of actions in the Court of First Instance is prescribed in Section 2, Rule 4 of the Revised Rules of Court. The lay-ing of venue is not left to the caprice of plaintiff, but must be in accordance with the aforesaid provision of the rules.[2] The mere fact that a request for the transfer of a case to another branch of the same court has been approved by the Secretary of Justice does not divest the court originally taking cognizance thereof of its jurisdiction, much less does it change the venue of the action. As correctly observed by the trial court, the indorsement of the Undersecretary of Justice did not order the transfer of the case to the Malolos Branch of the Bulacan Court of First Instance, but only "authorized" it for the reason given by plaintiff's counsel that the transfer would be convenient for the parties. The trial court is not without power to either grant or deny the motion, especially in the light of a strong opposition thereto filed by the defendant. We hold that the court a quo acted within its authority in denying the motion for the transfer of the case to Malolos notwithstanding the "authorization" of the same by the Secretary of Justice.

II

Let us now consider the substantive aspect of the Order of dismissal.

In dismissing the amended complaint, the court a quo said:

"The issue of lack of cause of action raised in the motions to dismiss refer to the lack of personality of plaintiff to file the instant action. Essentially, the term 'cause of action' is composed of two elements: (1) the right of the plaintiff and (2) the violation of such right by the defendant. (Moran, Vol. I, p. 111). For these rea-sons, the rules require that every action must be prosecuted and defended in the name of the real party in interest and that all persons having an interest in the subject of the action and in obtaining the relief demanded shall be joined as plaintiffs (Sec. 2, Rule 3). In the amended complaint, the people whose rights were alleged to have been violated by being deprived and dispossessed of their land are the members of the corporation and not the corporation itself. The corporation has a separate and distinct personality from its members, and this is not a mere technicality but a matter of substantive law. There is no allegation that the members have assigned their rights to the corporation or any showing that the corporation has in any way or manner succeeded to such rights. The corporation evidently did not have any rights violated by the defendants for which it could seek redress. Even if the Court should find against the defendants, therefore, the plaintiff corporation would not be entitled to the reliefs prayed for, which are recovery of ownership and possession of the land, issuance of the corresponding title in its name, and payment of damages. Neither can such reliefs be awarded to the members allegedly deprived of their land, since they are not parties to the suit. It appearing clearly that the action has not been filed in the names of the real parties in interest, the complaint must be dismissed on the ground of lack of cause of action." [3]

Viewed in the light of existing law and jurisprudence, We find that the trial court correctly dismissed the amended complaint.

It is a doctrine well-established and obtains both at law and in equity that a corporation is a distinct legal entity to be considered as separate and apart from the individual stockholders or members who compose it, and is not affected by the personal rights, obligations and transactions of its stockholders or members.[4] The property of the corporation is its property and not that of the stockholders, as owners, although they have equities in it. Properties registered in the name of the corporation are owned by it as an entity separate and distinct from its members.[5] Conversely, a corporation ordinarily has no interest in the individual property of its stockholders unless transferred to the corporation, "even in the case of a one-man corporation". [6] The mere fact that one is president of a corporation does not render the property which he owns or possesses the property of the corporation, since

the president, as individual, and the corporation are separate entities.[7] Similarly, stockholders in a corporation engaged in buying and dealing in real estate whose certificates of stock entitled the holder thereof to an allotment in the distribution of the land of the corporation upon surrender of their stock certificates were considered not to have such legal or equitable title or interest in the land, as would support a suit for title, especially against parties other than the corporation.[8]

It must be noted, however, that the juridical personality of the corporation, as separate and distinct from the persons composing it, is but a legal fiction introduced for the purpose of convenience and to subserve the ends of justice.[9] This separate personality of the corporation may be disregarded, or the veil of corporate fiction pierced, in cases where it is used as a cloak or cover for fraud or illegality, or to work an injustice, or where necessary to achieve equity.[10]

Thus, when "the notion of legal entity is used to defeat public convenience, justify wrong, protect fraud, or defend crime, * * * the law will regard the corporation as an association of persons, or in the case of two corporations, merge them into one, the one being merely regarded as part or instrumentality of the other".[11] The same is true where a corporation is a dummy and serves no business purpose and is intended only as a blind, or an alter ego or business conduit for the sole benefit of the stockholders.[12] This doctrine of disregarding the distinct personality of the corporation has been applied by the courts in those cases when the corporate entity is used for the evasion of taxes,[13] or when the veil of corporate fiction is used to confuse legitimate issue of employer-employee relationship,[14] or when necessary for the protection of creditors, in which case the veil of corporate fiction may be pierced and the funds of the corporation may be garnished to satisfy the debts of a principal stockholder.[15] The aforesaid principle is resorted to by the courts as a measure protection for third parties to prevent fraud, illegality or injustice.[16]

It has not been claimed that the members have assigned or transferred whatever rights they may have on the land in question to the plaintiff corporation. Absent any showing of interest, therefore, a corporation, like plaintiff-appellant herein, has no personality to bring an action for and in behalf of its stockholders or members for the purpose of recovering property which belongs to said stockholders or members in their personal capacities.

It is fundamental that there cannot be a cause of action without an antecedent primary legal right conferred by law upon a person.[17] Evidently, there can be no wrong without a corresponding right, and no breach of duty by one person without a corresponding right belonging to some other person.[18] Thus, the essential elements of a cause of action are legal right of the plaintiff, correlative obligation of the defendant, an act or omission of the defendant in violation of the aforesaid legal right.[19] Clearly, no right of action exists in favor of plaintiff corporation, for as shown heretofore it does not have any interest in the subject matter of the case which is material and direct so as to entitle it to file the suit as a real party in interest.

III

Appellant maintains, however, that the amended complaint may be treated as a class suit, pursuant to Section 12 of Rule 3 of the Revised Rules of Court.

In order that a class suit may prosper, the following requisites must be present: (1) that the subject matter of the controversy is one of common or general interest to many persons; and (2) that the parties are so numerous that it is impracticable to bring them all before the court.[20]

Under the first requisite, the person who sues must have an interest in the controversy, common with those for whom he sues, and there must be that unity of interest between him and all such other persons which would entitle them to maintain the action if suit was brought by them jointly.[21]

As to what constitutes common interest in the subject matter of the controversy, it has been explained in *Scott v. Donald*,^[22] thus:

"The interest that will allow parties to join in a bill of complaint, or that will enable the court to dispense with the presence of all the parties, when numerous, except a determinate number, is not only an interest in the question, but one in common in the subject matter of the suit; * * * a community of interest growing out of the nature and condition of the right in dispute; for, although there may not be any privity between the numerous parties, there is a common title out of which the question arises, and which lies at the foundation of the proceedings * * * [here] the only matter in common among the plaintiffs, or between them and the defendants, is an interest in the question involved, which alone cannot lay a foundation for the joinder of parties. There is scarcely a suit at law, or in equity, which settles a principle or applies a principle to a given state of facts, or in which a general statute is interpreted, that does not involved a question in which other parties are interested. * * *" (Italics supplied)

Here, there is only one party plaintiff, and the plaintiff corporation does not even have an interest in the subject matter of the controversy, and cannot, therefore, represent its members or stockholders who claim to own in their individual capacities ownership of the said property. Moreover, as correctly stated by the appellees, a class suit does not lie in actions for the recovery of property where several persons claim ownership of their respective portions of the property, as each one could allege and prove his respective right in a different way for each portion of the land, so that they cannot all be held to have identical title through acquisitive prescription.^[23]

Having shown that no cause of action in favor of the plaintiff exists and that the action in the lower court cannot be considered as a class suit, it would be unnecessary and an idle exercise for this Court to resolve the re-maining issue of whether or not the plaintiff's action for reconveyance of real property based upon constructive or implied trust had already prescribed.

ACCORDINGLY, the instant appeal is hereby DISMISSED with costs against the plaintiff-appellant.

Fernando, Acting C.J., Barredo, (Acting Chairman), Aquino, and Concepcion, Jr., JJ., concur.

[1] Civil Case No. 233-V, entitled "Sulo ng Bayan, Inc., Plaintiff, versus Gregorio Araneta, Inc., Paradise Farms, Inc., National Waterworks & Sewerage Authority (NWSA), Hacienda Caretas, Inc., and Register of Deeds of Bulacan, Defendants."

[2] *Evangelista v. Santos*, 86 Phil. 387.

[3] Record on Appeal, pp. 101-103.

[4] *I Fletcher Cyclopedia Corporations*, 1974 Ed., sec. 25, pp. 99-100; *Borja v. Vasquez*, 74 Phil. 560, 566-567; *Villa-Rey Transit, Inc. v. Ferrer*, 25 SCRA 845, 857.

[5] *Stockholders of F. Guanzon and Sons, Inc. v. Register of Deeds of Manila*, 6 SCRA 373.

"A share of stock only typifies an aliquot part of the corporation's property, or the right to share in its proceeds to that extent when distributed according to law and equity (*Hall & Faley v. Alabama Terminal*, 173 Ala., 398, 56 So., 235), but its holder is not the owner of any definite portion of its property or as-sets (*Gottfried v. Miller*, 104 U.S., 521; *Jones v. Davis*, 35 Ohio St., 474). The stockholder is not a co-owner or tenant in common of the corporate property (*Harton v. Hohnston*, 166 Ala., 317, 51 So., 992)." (*Ibid.*, pp. 375-376.)

[7] *Recchio v. Manufacturers & Traders Trust Co.*, 55 Mis. 2d. 788, 286, NYS 2d. 390.

- [8] Bylerley v. Camey, 161 SW 2d. 1105.
- [9] Laguna Trans. Co., Inc. v. Social Security System, 107 Phil. 833, 837.
- [10] I Fletcher, supra, sec. 41, p. 166; 18 Am. Jur. 2d. 561.
- [11] Yutivo & Sons Hardware Co. v. Court of Tax Appeals, 1 SCRA 160, citing Koppel (Phil.) Inc. v. Yatco, 77 Phil. 496; I Fletcher, supra, pp. 135-136.
- [12] McConnel v. court of Appeals, 1 SCRA 722; NAMARCO v. Associated Finance Co., Inc., 19 SCRA 962.
- "The doctrine of alter ego is based upon the misuse of a corporation by an individual for wrongful or inequitable purposes, and in such case the court merely disregards the corporate entity and holds the individual responsible for acts knowingly and in-tentionally done in the name of the corporation." (Ivy v. Plyler, 246 Cal. App. 2d. 678, 54 Cal. Reprtr. 894.)
- The doctrine of alter ego imposes upon the individual who uses a corporation merely as an instrumentality to conduct his own business liability as a consequence of fraud or injustice perpetuated not on the corporation, but on third persons dealing with the corporation.
- [13] Commissioner of Internal Revenue v. Norton & Harrison Co., 11 SCRA 714.
- [14] R. F. Sugay & Co., Inc. v. Reyes, 12 SCRA 700, 705.
- [15] Ramirez Telephone Corporation v. Bank of America, 29 SCRA 191.
- [16] Gregorio Araneta, Inc. v. De Paterno and Vidal, 91 Phil. 786; 18 Am. Jur. 2d. 561, 562.
- [17] Rowe v. Richards, 151 N.W. 1001.
- [18] McKee v. Dodd, 152 Cal. 637, 93 P. 854; Hartigan v. Casualty Co., 167 NYS 645; Hyde v. Minnesota, 136 N.W. 92; 1 Am. Jur. 2d. 590.
- [19] Ma-ao Sugar Central Co. v. Barrios, 79 Phil. 666; Caseñas v. Rosales, 19 SCRA 462; Remitere v. Vda. de Yulo, 16 SCRA 251, 256.
- [20] Sec. 12, Rule 3, Revised Rules of Court.
- [21] I Martin, Rules of Court, 1972 Ed., p. 220, citing Certia v. Notre Dame Du Lac Univ., 82 Ind. A.A. 542; 141 N.E. 318.
- [22] 165 U.S. 107, 41 Law. Ed. 648, 17 S. Ct. 262. See also Matthews v. Rodgers, 284 U.S. 521, 76 Law. Ed. 447, 52 S. Ct. 217.
- [23] Berses v. Villanueva, 25 Phil. 473; Rallonza v. Evangelista, 15 Phil. 531; State v. Lake Circuit Court, 145 N.E. 2d. 15.

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