

REPUBLIC OF THE PHILIPPINES, PLAINTIFF-APPELLANT, VS. LAUREANO BROS., INC., ET AL., DEFENDANTS-APPELLEES.

G.R. No. L-25055. April 25, 1968

Ponente: BENGZON, J.P., J.

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BENGZON, J.P., J.:

On February 17, 1959, April 21, 1959 and May 11, 1959 Laureano Brothers, Inc. entered into three contracts with the Republic of the Philippines, the former to supply the latter with plumbing materials worth \$172,382.00, \$289,107.00 and \$174,412.00, respectively. To assure performance of the contract of April 21, 1959, Laureano Bros., Inc. posted bonds of Mutual Surety Insurance Co. for P45,642.80, Citadel Insurance & Surety Co., Inc. for P40,000.00 and People's Surety & Insurance Co., Inc. for P30,000.00. It also posted a performance bond of the Mutual Security Insurance Corporation in the sum of P69,764.80 to cover the contract of May 11, 1959.

The plumbing materials called for in the three contracts were intended for the use of the National Water-works & Sewerage Administration and their purchase as to be financed by the United States Government through the International Cooperation Administration.

Letters of credit were opened in favor of foreign suppliers and the same were paid in full in dollars by the United States Government as follows:

Foreign Supplier

Amount (Dollars)

Contract of February 17, 1959

Hoesch Export G.M.B.H. of Dortmund, West Germany

\$172,382.00

Contract of

April 29, 1959

T. Saville Whittle (Export) Ltd. Of Manchester, England

\$289,107.00

Contract of

May 11, 1959

T. Saville Whittle (Export) Ltd. Of Manchester, England

\$174,412.00

The plumbing materials in question arrived in the Philippines and were delivered to the Philippine Government but all of them did not meet the specifications contained and required in the aforementioned contracts. The shipments covered by the contracts of February 17, 1959 and May 11, 1959 were accepted without prejudice to claim refund of overpayment resulting from the inferior quality of the plumbing materials delivered. The shipment covered by the contract of April 21, 1959 was rejected.

In view of the condition contained in the agreement between the International Cooperation Administration of the U.S. Government and the National Economic Council of the Philippine Government with respect to the particular U.S. aid program that the dollars made available by the U.S. Government shall automatically be refundable upon failure of the Philippine Government to implement the project for which said dollars were released, the U.S. Government demanded upon the Republic of the Philippines to refund the sum of \$357,843.58.

On its part, the Philippine Government demanded upon Laureano Brothers, Inc. to refund the sum of \$357,758.86 as overpayment for the plumbing materials. Laureano Brothers Inc. made no payment despite repeated demands, consequently the Republic of the Philippines filed a suit for recovery in the Court of First Instance of Manila against Laureano Brothers, Inc. and its sureties aforementioned.

On March 12, 1965, after defendants filed their answer, the parties entered into a compromise agreement where-by defendant Laureano Brothers, Inc. agreed to pay to the Republic of the Philippines the following:

1. \$37,389.92 as refund under the contract of February 17, 1959.
2. \$289,107.00 as refund under the contract of April 21, 1959.
3. \$32,383.10 as refund under the contract of May 11, 1959.
4. P5,000.00 as reimbursement for the expenses of Solicitor Ignacio in connection with his trip to England and Germany to secure the depositions of the suppliers of the plumbing materials in question.
5. P45,410.00 representing sheriff's guards fees.

Under said compromise agreement Laureano Brothers, Inc. proposed, with the approval of the plaintiff Republic of the Philippines, to pay the above obligations as follows:

P300,000.00 on or before March 31, 1966

P300,000.00 on or before March 31, 1967

The balance - on or before March 31, 1968 or upon finality of the court's judgment.

The parties further agreed to submit to the court's resolution the question on the rate of exchange to be used in converting dollars to pesos in regard to the refund claimed by plaintiff under the three aforesaid contracts in the total sum of \$358,885.02.

On June 17, 1965 the lower court rendered the following judgment based upon our holding in *Arrieta v. NARIC*, L-15645, January 31, 1964, fixing the rate of conversion from dollars to pesos as at the time the principal obligation was contracted:

"WHEREFORE, and following the said decision cited by both parties, judgment is hereby rendered fixing the rate of exchange of pesos to dollars at P2.00 to \$1.00, the same being the judicial determination called for by the aforesaid paragraph 8 of said parties' COMPRO-MISE AGREEMENT."

Its motion for reconsideration having been denied, the Republic of the Philippines appealed to this Court.

The question raised is what rate of exchange shall be applied in converting to pesos the obligation in question

which is expressed in dollars.

Appellees contend that the conversion rate should be that prevailing in 1959 when Laureano Bros., Inc. entered into contracts with the Republic of the Philippines to supply the latter with plumbing materials in consonance with the ruling in *Arrieta v. NARIC*, supra, or two pesos to one dollar.

On the other hand, appellant maintains that the rate of exchange applicable is that prevailing when the parties entered into a compromise agreement on March 12, 1965, that is, at P3.91 to \$1.00.

This suit was filed to recover damages and the plaintiff is entitled to recover a sum of money which will constitute an indemnity for damage occasioned by defendant's breach of contract. The breach of contract and the damage expressed in dollars are admitted. And We are called upon to determine the damage's equivalent in Philippine currency.

In the case of *Engel v. Mariano Velasco & Co.*, 47 Phil. 115, decided in 1924, where a similar question of the applicability of exchange rates was presented, the Supreme Court applied the exchange rate prevailing at the time judgment for damages was rendered. The intention was "to give judgment for such an amount as will, at the time of judgment, purchase the amount due on the note in the funds or currency in which it is payable." The Supreme Court rejected the proposition to apply the exchange rate prevailing at the time of breach of contract.

Forty years later, the Supreme Court held in the cited case, *Arrieta v. NARIC*, supra, that the exchange rate applicable is that prevailing when the obligation was incurred - that is, in said case, the original principal obligation.

Considering the facts and circumstances obtaining in the instant case, there is merit in both parties' insistence to apply to this case the rationale of the ruling in the *Arrieta* case. After all, the facts of the two cases are nearly similar, aside from the fact that the *Arrieta* case is more recent than the *Engel* case.

In the light of the *Arrieta* case, the rate of exchange applicable should be that prevailing when the parties entered into the compromise agreement in 1965 or P3.91 to one dollar. For it is from that moment when Laureano Bros., Inc. has bound itself to pay to the Republic of the Philippines the sum of \$358,885.02 as damages under the three aforementioned contracts. What is being collected in this suit is said sum of \$358,885.02, subject of the compromise, which supplanted or took the place of the sum of \$357,758.86 originally prayed for in the complaint. Stated differently, inasmuch as the obligation to pay the amount of \$358,885.02 came to exist on March 12, 1965, the conversion rate from dollar to pesos should be that current as of the same date or P3.91 to \$1.00.

WHEREFORE, the judgment appealed from is reversed. The rate of exchange applicable for the conversion of the damages payable by Laureano Bros., Inc. to the Republic of the Philippines expressed in dollars is hereby fixed at P3.91 to \$1.00. No costs.

SO ORDERED.

Reyes, J.B.L., Acting C.J., Dizon, Makalintal, Zaldivar, Sanchez, Ruiz Castro, Angeles, and Fernando, JJ., concur.

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