

**REPUBLIC OF THE PHILIPPINES, PLAINTIFF AND APPELLANT, VS.  
EMILIO G. GUANZON, DEFENDANT AND APPELLEE.***G.R. No. L-22374. December 18, 1974*

Ponente: FERNANDO, J.

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A lower court decision, which on its face ignores the controlling statute as well as the applicable doctrines of this Court, is appealed by the Republic of the Philippines. It filed an action for the foreclosure of certain real estate and chattel mortgages executed by defendant Emilio G. Guanzon, now appellee, in favor of the former Bank of Taiwan, Ltd., as security for the payment of the loans obtained by him from said bank. The amount involved is P3,722.13, representing the principal and interest as of September 30, 1961, with an additional sum equivalent to ten percent of the total indebtedness as attorney's fees. The loan transaction took place in 1943 during the period of Japanese occupation. Upon the liberation of the Philippines in 1945, the United States, through its Alien Property Custodian, acquired such credit. Thereafter, by virtue of the Philippine Property Act of 1946, it was transferred to our government. With the statute and the controlling judicial decisions,[1] clearly pointing to one direction the lower court, in a hasty and improvident exercise of judicial power, apparently oblivious of the law, took the other way. It held that the Republic of the Philippines lacked legal interest over such mortgage loan and dismissed the case. We have no choice but to reverse.

The facts are undisputed. As set forth in the brief for appellant Republic of the Philippines: "On May and June, 1943, the defendant obtained two (2) loans front the former Bank of Taiwan, Ltd., at its offices in Bacolod City, in the total sum of P1,600.00, with interest at the rate of six per centum (6%) per annum, compounded quarterly, evidenced by two (2) promissory notes executed, signed and delivered by him to said bank. To secure prompt and full payment of the loans, the defendant executed a real estate mortgage \*\*\* on the two parcels of land covered by Transfer Certificate of Title Nos. 1848 and 1855 of the Register of Deeds of Negros Occidental and a Chattel Mortgage on standing crops . . . growing on the same properties . . . By virtue of Vesting Order No. P-4, dated January 21, 1946, and under the authority of the Trading with the Enemy Act, as amended, the United States of America vested in the Government of the United States the assets in the Philippines of the Bank of Taiwan, Ltd. Pursuant to the Philippine Property Act of 1946, these assets were subsequently transferred to the Republic of the Philippines by the Attorney General of the United States under Transfer Agreements dated July 20, 1954 and June 15, 1957, and are now administered by the Board of Liquidators, a government agency created under Executive Order No. 372, dated November 24, 1950, and in accordance with Republic Acts Nos. 477 and 8, and other pertinent laws." [2] According to the brief for appellee Guanzon: "The statement of facts stated in appellant's brief is substantially correct so that this representation finds no necessity in offering counter-statement of facts." [3]

It is not easy to explain, and certainly there is no justification, in the light of the above facts and considering the state of the law, why the lower court, in its decision, dismissed the case on the ground that the Republic of the Philippines lacks legal interest. As noted, we have to reverse.

1. In the very able brief for appellant Republic of the Philippines, prepared by the then Solicitor General Arturo A.

Alafriz and the former Solicitor, later Assistant Solicitor General, Camilo D. Quiason, it was made clear that while the Bank of Taiwan, Ltd. was the original creditor of the loans thus secured, with defendant, now appellee, executing the mortgages in question, the United States, pursuant to the Trading with the Enemy Act[4] acquired such account, being among the assets of a bank which was a declared national of an enemy country. This it did through a vesting order,[5] the legal effect of which was to effectuate immediately the transfer of title by operation of law without any necessity for any court action. Thus, title over such credit passed to the United States "as completely as if by conveyance, transfer, or assignment, \*\*\*"[6] The brief for the Republic continues: "In accordance with the Philippine Property Act of 1946, the United States Government transferred, conveyed and assigned to the Government of the Republic of the Philippines under Transfer Agreements, dated July 20, 1954 and June 15, 1957, all its rights, title and interest to the loans in question. As such transferee, the Republic of the Philippines acquired the title and interest thereto. \*\*\* It follows, therefore, that plaintiff has a legal interest in the promissory notes and in the real and chattel mortgages and has a cause of action against the debtor-mortgagor, the defendant herein."[7]

All that was set forth in the three-page brief of counsel for appellee Guanzon reads as follows: "There is no showing as to how plaintiff-appellant was able to acquire the Real and Chattel Mortgage executed by the defendant-appellee in favor of the Bank of Taiwan, Ltd. a private bank of Japan, and therefore has no legal interest in the subject matter. The transfer of obligation in question cannot be taken Judicial Notice by our courts because the vesting order P-4 of the Government of the United States, pursuant to the Trading with the Enemy Act, as amended, of any and all property of any nature whatsoever subject to the Jurisdiction of the United States affecting alien property in the Philippines cannot be taken Judicial Notice in the light of Sec. 1 of Rule 129 of the New Rules of Court, inasmuch as the Trading with the Enemy Act is a foreign law enacted by the U.S. Government which is not enumerated in the aforecited New Rules of Court. Consequently, proof should have been introduced to show how the United States Government was able to acquire the subject matter in litigation which was later transferred to the plaintiff-appellant."[8]

It thus appears obvious that counsel for appellee lacks awareness of the controlling doctrine announced in the leading case of *Brownell, Jr. vs. Sun Life Assurance Company*,[9] where Justice Labrador explicitly set forth. "This purpose of conveying enemy properties to the Philippines after all claims against them shall have been settled is expressly embodied in the Philippine Property Act of 1946."[10] A brief history of the Philippine Property Act of 1946 is likewise found in his opinion: "On July 3, 1946, the Congress of the United States passed Public Law 485-79th Congress, known as the Philippine Property Act of 1946. Section 3 thereof provides that 'The Trading with the Enemy Act of October 6, 1917 (40 Stat. 411), as amended, shall continue in force in the Philippines after July 4, 1946, \*\*\*' To implement the provisions of the act, the President of the United States on July 3, 1946, promulgated Executive Order No. 9747, 'continuing the functions of the Alien Property Custodian and the Department of the Treasury in the Philippines.' Prior to and preparatory to the approval of said Philippine Property Act of 1946, an agreement was entered into between President Manuel Roxas of the Commonwealth and U.S. Commissioner Paul V. McNutt whereby title to enemy agricultural lands and other properties was to be conveyed by the United States to the Philippines in order to help the rehabilitation of the latter, but that in order to avoid complex legal problems in relation to said enemy properties, the Alien Property Custodian of the United States was to continue operations in the Philippines even after the latter's independence, that he may settle all claims that may exist or arise against the above-mentioned enemy properties, in accordance with the Trading with the Enemy Act of the United States."[11]

Nothing can be clearer, therefore, than that the lower court grievously erred in failing to perceive that precisely the Republic of the Philippines, contrary to its holding, possesses a legal interest over the subject matter of this controversy.

2. Apparently, the lower court, perhaps taken in by the contention of appellee, could not see its way clear to applying the Philippine Property Act of 1946 enacted by the United States Congress as it was a foreign statute not susceptible to judicial notice. Again, if it were cognizant of the leaning of the above Brownell decision, it would have realized how erroneous such a view is. For, as was made clear in the above decision, there was "conformity to the enactment of the Philippine Property Act of 1946 of the United States [as] announced by President Manuel Roxas in a joint statement signed by him and by Commissioner McNutt. Ambassador Romulo also formally expressed the conformity of the Philippine Government to the approval of said act to the American Senate prior to its approval." [12] It was further stressed by Justice Labrador that after the grant of independence, the Congress of the Philippines approved Republic Act No. 8, which authorized the President of the Philippines to enter into such contract or undertakings as may be necessary to effectuate the transfer to the Republic of the Philippines under the Philippine Property Act of 1946 of any property or property rights or the proceeds thereof authorized to be transferred thereunder. Then his opinion continues: "The Congress of the Philippines also approved Republic Act No. 7, which established a Foreign Funds Control Office. After the approval of the Philippine Property Act of 1946 of the United States, the Philippine Government also formally expressed, through the Secretary of Foreign Affairs, conformity thereto. \*\*\* The Congress of the Philippines has also approved Republic Act No. 477, which provides for the administration and disposition of properties which have been or may hereafter be transferred to the Republic of the Philippines in accordance with the Philippine Property Act of 1946 of the United States." [13]

From which, the above conclusion follows: "It is evident, therefore, that the consent of the Philippine Government to the application of the Philippine Property Act of 1946 to the Philippines after independence was given, not only by the Executive Department of the Philippine Government, but also by the Congress, which enacted the laws that would implement or carry out the benefits accruing from the operation of the United States law." [14] Under the circumstances, there is no question, as was pointed out by the same jurist, "that a foreign law may have extraterritorial effect in a country other than the country of origin, provided the latter, in which it is sought to be made operative, gives its consent thereto." [15] That is a sound legal proposition. It is a juridical norm that has found acceptance in the Philippines at the close of the nineteenth century after its acquisition by the United States. Its origins in American law can be traced back to Chief Justice Marshall's opinion in *The Schooner Exchange vs. M'Faddon*, [16] an 1812 decision. It was cited with approval in the recent case of *Reagan vs. Commissioner of Internal Revenue*. [17] The doctrine is not unknown to European law. So it was noted in *Reagan*, with a citation from Jellinek: "It is to be admitted that any state may, by its consent, express or implied, submit to a restriction of its sovereign rights. There may thus be a curtailment of what otherwise is a power plenary in character. That is the concept of sovereignty as auto-limitation, which, in the succinct language of Jellinek, 'is the property of a stateforce due to which it has the exclusive capacity of legal self-determination and self-restriction.' A state then, if it chooses to, may refrain from the exercise of what otherwise is illimitable competence." [18]

It is thus undoubted that the lower court misapplied the rule on judicial notice. [19] The lower court could not simply have closed its eyes to the plain command of the Philippine Property Act of 1946, which is a part of Philippine law, as was held so categorically by the above Brownell decision. To repeat there is no justification for the appealed decision.

3. The tone of certitude with which the lower court summarily dismissed the claim of the Republic on the ground of lack of legal interest is thus uncalled for. It could have been avoided by an acquaintance, even of the slightest, with the doctrines enunciated by this Tribunal. An excerpt from *Barrera vs. Barrera* [20] is of some relevance: "The delicate task of ascertaining the significance that attaches to a constitutional or statutory provision, an executive order, a procedural norm or a municipal ordinance is committed to the judiciary. It thus discharges a role no less crucial than that appertaining to the other two departments in the maintenance of the rule of law. To assure stability in legal relations and avoid confusion, it has to speak with one voice. It does so with finality,

logically and rightly, through the highest judicial organ, this Court. What it says then should be definitive and authoritative, binding on those occupying the lower ranks in the judicial hierarchy. They have to defer and to submit." [21]

WHEREFORE, the decision of August 29, 1963 dismissing the complaint of the Republic of the Philippines is reversed and set aside. Costs against defendant Guanzon.

Barredo, Antonio, Fernandez, and Aquino, JJ., concur.

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[1] Brownell vs. Sun Life Assurance Company, 95 Phil. 228 (1954) and Brownell vs. Bautista and Republic of the Philippines, 95 Phil. 853 (1954).

[2] Brief for the Appellant Republic of the Philippines, 3-4.

[3] Brief for the Appellee Emilio G. Guanzon, 1.

[4] 40 Stat. 411 (1917).

[5] Vesting Order No. P-4 dated January 21, 1946.

[6] Commercial Trust Co. of New Jersey vs. Miller, 262 US 51, 56 (1923). Cf. Reyes vs. Pecson, 86 Phil. 181 (1950) and Parreno vs. McGranery, 92 Phil. 791 (1953).

[7] Brief for the Appellant Republic of the Philippines 6-7.

[8] Brief for the Appellee Emilio G. Guanzon, 2-3.

[9] 95 Phil. 228 (1954). Cf. Philippine Alien Property Administration vs. Castelo, 89 Phil. 568 (1951); Brownell Jr. vs. Bautista, 95 Phil. 853 (1954); Osorio vs. McGrath, 96 Phil. 411 (1955); De los Santos vs. Republic, 96 Phil. 577 (1955); Flores vs. Philippine Alien Property Administrator, 107 Phil. 773 (1960).

[10] Ibid, 231.

[11] Ibid. 230-231.

[12] Ibid, 232.

[13] Ibid, 233.

[14] Ibid.

[15] Ibid, 234.

[16] 7 Cranch 116.

[17] L-26379, December 27, 1969, 30 SCRA 968.

[18] Ibid, 973.

[19] According to Rule 129, Section 1 of the Rules of Court: "The existence and territorial extent of states, their forms of government and symbols of nationality, the law of nations, the admiralty and maritime courts of the world and their seals, the political constitution and history of the Philippines, the official acts of the legislative, executive, and judicial departments of the Philippines, the laws of nature, the measure of time, the geographical divisions and political history of the world, and all similar matters which are of public knowledge, or are capable of unquestionable demonstration, or ought to be known to judges because of their judicial functions, shall be

judicially recognized by the court without the introduction of proof; but the court may receive evidence upon any of the subjects in this section stated, when it shall find it necessary for its own information, and may resort for its aid to appropriate books or documents of reference.

[20] L-31589, July 31, 1970, 34 SCRA 98.

[21] Ibid, 107.

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