

RODZSSEN SUPPLY CO. INC., PETITIONER, VS. FAR EAST BANK & TRUST CO., RESPONDENT.

G.R. No. 109087. May 09, 2001

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

When both parties to a transaction are mutually negligent in the performance of their obligations, the fault of one cancels the negligence of the other. Thus, their rights and obligations may be determined equitably. No one shall enrich oneself at the expense of another.

The Case

Before us is a Petition for Review on Certiorari[1] under Rule 45 of the Rules of Court, assailing the January 21, 1993 Decision[2] of the Court of Appeals[3] (CA) in CA-GR CV No. 26045. The challenged Decision affirmed with modification the ruling of the Regional Trial Court of Bacolod City in Civil Case No. 2296. The CA ruled as follows:

"WHEREFORE, the decision under appeal should be, as it is hereby affirmed in all its aspects, except for the deletion of paragraph 2 of its dispositive portion, which paragraph shall be replaced by a new paragraph which shall read as follows:

'2. ordering the defendant to pay the plaintiff the sum equivalent to 10% of the total amount due and collectible, as attorney's fees; and'

"No pronouncement as to costs."[4]

On the other hand, the trial court had rendered this judgment:

"1. Ordering the defendant to pay the plaintiff the sum of P76,000.00, representing the principal amount being claimed in this action, plus interest thereon at the rate of 12% per annum counted from October 1979 until fully paid;

"2. Ordering the defendant to pay the plaintiff the sum equivalent to 25% of the total amount due and collectible; and

"3. Ordering the defendant to pay the costs of the suit."[5]

The Facts

The factual and procedural antecedents of the case are summarized by the Court of Appeals as follows:

"In the complaint from which the present proceedings originated, it is alleged that on January 15, 1979, defendant Rodzszen Supply, Inc. opened with plaintiff Far East Bank and Trust Co. a 30-day domestic letter of credit, LC No. 52/0428/79-D, in the amount of P190,000.00 in favor of Ekman and Company, Inc. (Ekman) for the purchase from the latter of five units of hydraulic loaders, to expire on February 15, 1979; that subsequent

amendments extended the validity of said LC up to October 16, 1979; that on March 16, 1979, three units of the hydraulic loaders were delivered to defendant for which plaintiff on March 26, 1979, paid Ekman the sum of P114,000.00, which amount defendant paid plaintiff before the expiry date of the LC; that the shipment of the remaining two units of hydraulic loaders valued at P76,000.00 sent by Ekman was 'readily received by the defendant' before the expiry date [of] subject LC; that upon Ekman's presentation of the documents for the P76,000.00 'representing final negotiation' on the LC before the expiry date, and 'after a series of negotiations', plaintiff paid to Ekman the amount of P76,000.00; and that upon plaintiff's demand on defendant to pay for said amount (P76,000.00), defendant 'refused to pay ... without any valid reason'. Plaintiff prays for judgment ordering defendant to pay the abovementioned P76,000.00 plus due interest thereon, plus 25% of the amount of the award as attorney's fees.

"In the Answer, defendant interposed, inter alia, by way of special and affirmative defenses that plaintiff ha[d] no cause of action against defendant; that there was a breach of contract by plaintiff who in bad faith paid Ekman, knowing that the two units of hydraulic loaders had been delivered to defendant after the expiry date of subject LC; and that in view of the breach of contract, defendant offered to return to plaintiff the two units of hydraulic loaders, 'presently still with the defendant' but plaintiff refused to take possession thereof.

"The trial court's ruling that plaintiff [was] entitled to recover from defendant the amount of P76,000.00 was based on its following findings/conclusions: (1) under the contract of sale of the five loaders between Ekman and defendant, upon Ekman's delivery to, and acceptance by, defendant of the two remaining units of the five loaders, defendant became liable to Ekman for the payment of said two units. However, as defendant did not pay Ekman, the latter pressed plaintiff for the payment of said two loaders in the amount of P76,000.00. In the honest belief that it was still under obligation to Ekman for said amount, considering that Ekman had presented all the necessary documents, plaintiff voluntarily paid the said amount to Ekman. Plaintiff's x x x voluntary and lawful act of payment g[a]ve rise to a quasi-contract between plaintiff and defendant; and if defendant should escape liability for said amount, the result would be to allow defendant to enrich itself at plaintiff's expense x x x.

"x x x. While defendant, indeed offered to return the two loaders to plaintiff, x x x this offer was made 3 years after defendant's receipt of the goods, when plaintiff pressed for payment. By said voluntary acceptance of the two loaders, estoppel works against defendant who should have refused delivery of, and/or immediately offered to return, the goods.

"Accordingly, judgment was rendered in favor of the plaintiff and against the defendant x x x."[6]

The CA Ruling

The CA rejected petitioner's imputation of bad faith and negligence to respondent bank for paying for the two hydraulic loaders, which had been delivered after the expiration of the subject letter of credit. The appellate court pointed out that petitioner received the equipment after the letter of credit had expired. "To absolve defendant from liability for the price of the same," the CA explained, "is to allow it to get away with its unjust enrichment at the expense of the plaintiff."

Hence, this Petition.[7]

Issues

Petitioner presents the following issues for resolution:

- "1. Whether or not it is proper for a banking institution to pay a letter of credit which has long expired or been cancelled.
- "2. Whether or not respondent courts were correct in their conclusion that there was a consummated sale between petitioner and Ekman Co.

"3. Whether or not Respondent Court of Appeals was correct in evading the issues raised in the appeal that under the trust receipt, petitioner was merely the depository of private respondent with respect to the goods covered by the trust receipt." [8]

The Court's Ruling

We affirm the Court of Appeals, but lower the interest rate to only 6 percent and delete the award of attorney's fees.

First Issue:

Efficacy of Letter of Credit

Petitioner asserts that respondent bank was negligent in paying for the two hydraulic loaders, when it no longer had any obligation to do so in view of the expiration and cancellation of the Letter of Credit.

Petitioner Rodzssen Supply Inc. applied for and obtained an irrevocable 30-day domestic Letter of Credit from Far East Bank and Trust Company Inc. on January 15, 1979, in favor of Ekman and Company Inc., in order to finance the purchase of five units of hydraulic loaders in the amount of P190,000. Originally set to expire on February 15, 1979, the subject Letter of Credit was amended several times to extend its validity until October 16, 1979.

The Letter of Credit expressly restricted the negotiation to respondent bank and specifically instructed Ekman and Company Inc. to tender the following documents: (1) delivery receipt duly acknowledged by the buyer, (2) accepted draft, and (3) duly signed commercial invoices. Likewise, the instrument contained a provision with regard to its expiration date. [9]

For the first three hydraulic loaders that were delivered, the bank paid the amount specified in the letter of credit. The present dispute pertains only to the last two hydraulic loaders.

Clearly, the bank paid Ekman when the former was no longer bound to do so under the subject Letter of Credit. The records show that respondent paid the latter P76,000 for the last two hydraulic loaders on March 14, 1980, [10] five months after the expiration of the Letter of Credit on October 16, 1979. [11] In fact, on December 27, 1979, the bank had informed Rodzssen of the cancellation of the commercial paper and credited P22,800 to the account of the latter. The amount represented the marginal deposit, which petitioner had been required to put up for the unnegotiated portion of the Letter of Credit - P76,000 for the two hydraulic loaders. [12]

The subject Letter of Credit had become invalid upon the lapse of the period fixed therein. [13] Thus, respondent should not have paid Ekman; it was not obliged to do so. In the same vein, of no moment was Ekman's presentation, within the prescribed period, of all the documents necessary for collection, as the Letter of Credit had already expired and had in fact been cancelled.

Second Issue:

Was Petitioner Liable to Respondent?

Be that as it may, we agree with the CA that petitioner should pay respondent bank the amount the latter expended for the equipment belatedly delivered by Ekman and voluntarily received and kept by petitioner.

Respondent bank's right to seek recovery from petitioner is anchored, not upon the inefficacious Letter of Credit, but on Article 2142 of the Civil Code which reads as follows:

"Certain lawful, voluntary and unilateral acts give rise to the juridical relation of quasi-contract to the end that

no one shall be unjustly enriched or benefited at the expense of another."

Indeed, equitable considerations behoove us to allow recovery by respondent. True, it erred in paying Ekman, but petitioner itself was not without fault in the transaction. It must be noted that the latter had voluntarily received and kept the loaders since October 1979.

Petitioner claims that it accepted the late delivery of the equipment, only because it was bound to accept it under the company's trust receipt arrangement with respondent bank.

Granting that petitioner was bound under such arrangement to accept the late delivery of the equipment, we note its unexplained inaction for almost four years with regard to the status of the ownership or possession of the loaders. Bewildering was its lack of action to validate the ownership and possession of the loaders, as well as its stolidity over the purported failed sales transaction. Significant too is the fact that it formalized its offer to return the two pieces of equipment only after respondent's demand for payment, which came more than three years after it accepted delivery.

When both parties to a transaction are mutually negligent in the performance of their obligations, the fault of one cancels the negligence of the other and, as in this case, their rights and obligations may be determined equitably under the law proscribing unjust enrichment.

Payment of Interest

We, however, disagree with both the CA and the trial court's imposition of 12 percent interest on the sum to be paid by petitioner. In *Eastern Shipping Lines v. CA*,^[14] the Court laid down the following guidelines in the imposition of interest:

"x x x

x x x

x x x

2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code) but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.

3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit."

Although the sum of money involved in this case was payable to a bank, the present factual milieu clearly shows that it was not a loan or forbearance of money. Thus, pursuant to established jurisprudence and Article 2009 of the Civil Code, petitioner is bound to pay interest at 6 percent per annum, computed from April 7, 1983, the time respondent bank demanded payment from petitioner. From the finality of the judgment until its satisfaction, the interest shall be 12 percent per annum.

Attorney's Fees

Considering that negligence is imputable to both parties, both should bear their respective costs of the suit. We also delete the award of attorney's fees in favor of respondent bank.[15]

WHEREFORE, the Petition is DENIED and the assailed Decision of the Court of Appeals AFFIRMED with the following MODIFICATIONS:

1. Petitioner Rodzssen Supply Co., Inc. is ORDERED to reimburse Respondent Far East Bank and Trust Co., Inc. P76,000 plus interest thereon at the rate of 6 percent per annum computed from April 7, 1983. After this judgment becomes final, the interest shall be 12 percent per annum.
2. The award of attorney's fees in favor of respondent is DELETED.
3. No pronouncement as to costs.

SO ORDERED.

Melo (Chairman), Vitug, Gonzaga-Reyes, and Sandoval-Gutierrez, JJ., concur.

[1] Rollo, pp. 9-36.

[2] Rollo, pp. 38-44.

[3] First Division composed of Presiding Justice Lorna S. Lombos-de La Fuente (Division chairman and ponente) and Justices Jaime M. Lantin and Fortunato A. Vailoces, both of whom concurred.

[4] Rollo, p. 44.

[5] RTC Decision, p. 7; RTC Records, pp. 246-252. The August 15, 1989 Decision was penned by Judge Romeo S. Habaradas.

[6] Rollo, pp. 38-40.

[7] To eliminate its backlog, the Court on February 27, 2001 resolved to redistribute long-pending cases to justices who had none, and who were thus tasked to prioritize these old cases. Consequently, this case was raffled to the ponente for study and report.

[8] Petitioner's Memorandum, p. 10; rollo, p. 120. Upper case used in the original.

[9] RTC Records, p. 5.

[10] RTC Records, p. 140.

[11] Ibid., p. 193.

[12] Ibid., p. 187.

[13] Vitug, Pandect of Commercial Law and Jurisprudence, revised edition, p. 17.

[14] 234 SCRA 88, July 12, 1994, per Vitug, J. See also Keng Hua Paper Products Co., Inc. v. Court of Appeals, 286 SCRA 257, February 12, 1998; Eastern Assurance and Surety Corporation v. CA, GR No. 127135, January 18, 2000; Crismina Garments v. CA, 304 SCRA 356, March 9, 1999.

[15] Art. 2208, Civil Code.

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