

PRUDENTIAL BANK, PETITIONER, VS. NATIONAL LABOR RELATIONS COMMISSION, CECILIA ORQUELLO, ET AL., ZENaida UCHI, ET AL., ALU-INTERASIA CONTAINER INDUSTRIES INC., AND RAUL REMODO, R...

G.R. No. 112592. December 19, 1995

Ponente: BELLOSILLO, J.

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BELLOSILLO, J.:

This petition for certiorari impugns the Resolutions of the National Labor Relations Commission (NLRC) dated 18 August and 12 November 1993 in NLRC Cases Nos. RAB-III-580-82 (Orquillo v. Interasia Container Industries, Inc.), RAB-III-3-585-82, (Uchi v. Interasia Container Industries, Inc.) and RAB-III-08-0049-87, (ALU-Interasia Container Industries, Inc. v. Interasia Container Industries, Inc.) dismissing the appeal of petitioner from the order of the Labor Arbiter denying its third-party claim to the personal properties subject of levy on execution based on its trust receipts.

The records show that Interasia Container Industries, Inc. (INTERASIA), was embroiled in three (3) labor cases which were eventually resolved against it. Thus in NLRC Cases Nos. RAB-III-03-580-82 and RAB-III-03-585-82 monetary awards consisting of 13th-month pay differentials and other benefits were granted to complainants. Subsequently the monetary award was recomputed to include separation pay in the total sum of P126,788.30 occasioned by the closure of operations of INTERASIA. In RAB-03-08-0049-87 the Labor Arbiter declared the closure or shutdown of operations effected by INTERASIA as illegal and awarded to complainants the sum of P1,188,466.32 as wage differentials, separation pay and other benefits.

With the finality of the three (3) decisions, writs of execution were issued. The Sheriff levied on execution personal properties located in the factory of INTERASIA thus - "For Case 580 and 585: One (1) lot - plastic sacks (scrap, one (1) lot - sling sacks, one (1) lot - plastic in spools; and, For Case 0049: Five hundred (500) bags - plastic resins, one (1) lot - plastic resins sweeping (scrap) and one (1) lot - all plastic linings."

Petitioner filed an Affidavit of Third-Party Claim asserting ownership over the seized properties on the strength of trust receipts executed by INTERASIA in its favor. As a result, the Sheriff suspended the public auction sale. But on 18 September 1992 the Labor Arbiter denied the claim of petitioner and directed the Sheriff to proceed with the levy of the properties. Petitioner then filed separate appeals to the NLRC.

On 14 October 1992 the Sheriff posted Notices of Levy and Sale of the seized properties on 21 October 1992. However, no bidder appeared on the scheduled date hence the public auction sale was postponed to 5 November 1992. At the rescheduled date the Sheriff declared Angel Peliglorio the highest bidder with an offer of P128,000.00 on the properties levied in Cases Nos. 580 (RAB-III-580-82) and 585 (RAB-III-3-585-82), and P1,191,110.00 in Case No. 0049 (RAB-111-08-0049-87).

On 12 December 1992 the Labor Arbiter ordered the release of the properties to Peliglorio prompting

INTERASIA to file a Motion to Set Aside and/or Declare Public Auction Sale Null and Void Ab Initio for non-compliance with legal requisites. On 23 December 1992 the Labor Arbiter denied the motion and directed the Sheriff to break open the plant of INTERASIA in order that Peliglorio could enter and take possession of the auctioned properties. INTERASIA moved to reconsider the order.

On 12 January 1993 the Labor Arbiter inhibited himself from the case because of INTERASIA's accusation of partiality. The records were then forwarded to the NLRC. On the other hand, petitioner filed a Third-Party Claimant's Appeal/Memorandum. On 18 August 1993 the NLRC dismissed petitioner's appeal as well as INTERASIA's Motion for Reconsideration of the resolution dated 23 December 1992. INTERASIA and petitioner separately moved to reconsider the ruling but on 12 November 1993 their motions were denied.[1] Hence petitioner brought this present recourse raising questions on the validity not only of the NLRC resolutions of 18 August and 12 November 1993 but also of the public auction sale.[2]

Petitioner rails against the public auction of 5 November 1992 which was allegedly conducted without notice and in a place other than the premises of INTERASIA as required by the Manual of Instructions for Sheriffs. It also raises issue on the extent of its security title over the properties subject of the levy on execution, submitting that while it may not have absolute ownership over the properties, still it has right, interest and ownership consisting of a security title which attaches to the properties. Petitioner differentiates a trust receipt, which is a security for the payment of the obligations of the importer, from a real estate mortgage executed as security for the payment of an obligation of a borrower. Petitioner argues that in the latter the ownership of the mortgagor may not necessarily have any bearing on its acquisition, whereas in the case of a trust receipt the acquisition of the goods by the borrower results from the advances made by the bank. It concludes that the security title of the bank in a trust receipt must necessarily be of the same or greater extent than the nature of the security arising from a real estate mortgage. Petitioner maintains that it is a preferred claimant to the proceeds from the foreclosure to the extent of its security title in the goods which are valued at P46,100,253.92 otherwise its security title will become useless.[3]

In their comment, private respondents support the findings of the NLRC. They submit that petitioner's negligence to immediately assert its right to cancel the Trust Receipt Agreements, upon INTERASIA's failure to comply with its obligation, is fatal to its claim.

For its part, the NLRC claims to rely on our pronouncement on trust receipts in *Vintola v. Insular Bank of Asia and America*.^[4] It justifies the dismissal of petitioner's third-party claim on the ground that trust receipts are mere security transactions which do not vest upon petitioner any title of ownership, and that although the Trust Receipt Agreements described petitioner as owner of the goods, there was no showing that it canceled the trust receipts and took possession of the goods.^[5]

The petition is impressed with merit. We cannot subscribe to NLRC's simplistic interpretation of trust receipt arrangements. In effect, it has reduced the Trust Receipt Agreements to a pure and simple loan transaction. This perception was clearly dispelled in *People v. Nitafan*,^[6] citing the *Vintola* and *Samo* cases, where we explained the nature of a trust receipt thus —

(A) trust receipt arrangement does not involve a simple loan transaction between a creditor and debtor-importer. Apart from a loan feature, the trust receipt arrangement has a security feature that is covered by the trust receipt itself. (*Vintola v. Insular Bank of Asia and America*, 150 SCRA 578 [1987]) That second feature is what provides the much needed financial assistance to our traders in the importation or purchase of goods or merchandise through the use of those goods or merchandise as collateral for the advancements made by a bank (*Samo v. People*, 115 Phil 346 [1962]). The title of the bank to the security is the one sought to be protected and not the

loan which is a separate and distinct agreement.

Reliance cannot be placed upon the Vintola case as an excuse for the dismissal of petitioner's claim. For in that case we sustained, rather than frustrated, the claim of the bank for payment of the advances it had made to the purchaser of the goods, notwithstanding that it was not the factual owner thereof and that petitioners had already surrendered the goods to it due to their inability to sell them. We stated that the fact that the Vintolas were unable to sell the seashells in question did not affect IBAA's right to recover the advances it had made under the loan covered by the Letter of Credit, with the trust receipt as a security for the loan. Thus, except for our disquisition on the nature of a trust receipt as restated in Nitafan, Vintola hardly has any bearing on the case at bench since the issue here involves the effect and enforcement of the security aspect whereas the former case deals with the loan aspect of a trust receipt transaction. Apparently, the NLRC was confused about the nature of a trust receipt, specifically the security aspect thereof.

The mechanics and effects flowing from a trust receipt transaction, particularly the importance given to the security held by the entruster, i.e., the person holding title over the goods, were fully discussed in earlier decisions, as follows —

By this arrangement a banker advances money to an intending importer, and thereby lends the aid of capital, of credit, or of business facilities and agencies abroad, to the enterprise of foreign commerce. Much of this trade could hardly be carried on by any other means, and therefore it is of the first importance that the fundamental factor in the transaction, the banker's advance of money and credit, should receive the amplest protection. Accordingly, in order to secure that the banker shall be repaid at the critical point - that is, when the imported goods finally reach the hands of the intended vendee - the banker takes the full title to the goods at the very beginning; he takes it as soon as the goods are bought and settled for by his payments or acceptances in the foreign country, and he continues to hold that title as his indispensable security until the goods are sold in the United States and the vendee is called upon to pay for them. This security is not an ordinary pledge by the importer to the banker, for the importer has never owned the goods, and moreover, he is not able to deliver the possession; but the security is the complete title vested originally in the bankers, and this characteristic of the transaction has again and again been recognized and protected by the courts. Of course, the title is at bottom a security title, as it has sometimes been called, and the banker is always under the obligation to reconvey; but only after his advances have been fully repaid and after the importer has fulfilled the other terms of the contract (underscoring supplied).[7]

x x x x [I]n a certain manner, (trust receipt contracts) partake of the nature of a conditional sale as provided by the Chattel Mortgage Law, that is, the importer becomes absolute owner of the imported merchandise as soon as he has paid its price. The ownership of the merchandise continues to be vested in the owner thereof or in the person who has advanced payment, until he has been paid in full, or if the merchandise has already been sold, the proceeds of the sale should be turned over to him by the importer or by his representative or successor in interest (underscoring supplied).[8]

More importantly, owing to the vital role trust receipts play in international and domestic commerce, Sec. 12 of P.D. No. 115[9] assures the entruster of the validity of his claim against all creditors -

Sec. 12. Validity of entruster's security interest as against creditors. — The entruster's security interest in goods, documents, or instruments pursuant to the written terms of a trust receipt shall be valid as against all creditors of the trustee for the duration of the trust receipt agreement.

From the legal and jurisprudential standpoint it is clear that the security interest of the entruster is not merely an empty or idle title. To a certain extent, such interest becomes a "lien" on the goods because the entruster's

advances will have to be settled first before the entrustee can consolidate his ownership over the goods. A contrary view would be disastrous. For to refuse to recognize the title of the banker under the trust receipt as security for the advance of the purchase price would be to strike down a bona fide and honest transaction of great commercial benefit and advantage founded upon a well-recognized custom by which banking credit is officially mobilized for manufacturers and importers of small means.[10]

The NLRC argues that inasmuch as petitioner did not cancel the Trust Receipt Agreements and took possession of the properties it could not claim ownership of the properties.

We do not agree. Significantly, the law uses the word "may" in granting to the entruster the right to cancel the trust and take possession of the goods.[11] Consequently, petitioner has the discretion to avail of such right or seek any alternative action, such as a third-party claim or a separate civil action which it deems best to protect its right, at any time upon default or failure of the entrustee to comply with any of the terms and conditions of the trust agreement.

Besides, as earlier stated, the law warrants the validity of petitioner's security interest in the goods pursuant to the written terms of the trust receipt as against all creditors of the trust receipt agreement.[12] The only exception to the rule is when the properties are in the hands of an innocent purchaser for value and in good faith. The records however do not show that the winning bidder is such purchaser. Neither can private respondents plead preferential claims to the properties as petitioner has the primary right to them until its advances are fully paid.

In fine, we hold that under the law and jurisprudence the NLRC committed grave abuse of discretion in disregarding the third-party claim of petitioner. Necessarily the auction sale held on 5 November 1992 should be set aside. For there would be neither justice nor equity in taking the funds from the party whose means had purchased the property under the contract.[13]

WHEREFORE, the petition for certiorari is GRANTED. The Resolutions of the National Labor Relations Commission dated 18 August and 12 November 1993 are SET ASIDE and a new judgment is entered GRANTING the Third-Party Claim and ORDERING the Sheriff or his representative to immediately deliver to petitioner PRUDENTIAL BANK the properties subject of the Trust Receipt Agreements.

SO ORDERED.

Padilla, (Chairman), Davide, Jr., Kapunan, and Hermosisima, Jr., JJ., concur.

[1] Rollo, pp. 85-96.

[2] Id., p. 14.

[3] Id., pp. 10-18; 230-239.

[4] G.R. No. 73271, 29 May 1987, 150 SCRA 578.

[5] Id., pp. 97-100.

[6] G.R. Nos. 81559-60, 6 April 1992, 207 SCRA 726, 730.

[7] *People v. Yu Chai Ho*, 53 Phil. 874, 876-877 (1929), quoting the case of *In re Dunlap Carpet Co.*, 206 Fed. 726.

[8] *National Bank v. Viuda e Hijos de Angel Jose*, 63 Phil. 814, 821 (1936).

[9] Providing for the Regulation of Trust Receipts Transactions.

[10] 49 A.L.R. 285.

[11] Sec. 7. Rights of the entruster. — x x x x The entruster may cancel the trust and take possession of the goods, documents or instruments subject of the trust or of the proceeds realized therefrom at any time upon default or failure of the trustee to comply with any of the terms and conditions of the trust receipt or any other agreement between the entruster and the trustee x x x x

[12] See Note 8.

[13] *Mershon v. Wheeler*, 45 N.W. 95.

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