

PHILIPPINE EXPORT AND FOREIGN LOAN GUARANTEE CORPORATION, PETITIONER, VS. THE HON. COURT OF APPEALS, AND RAIMUND DIEHL, RESPONDENTS.

G.R. No. 118701. December 12, 1995

Ponente: VITUG, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-118701/>

VITUG, J.:

The 10th January 1995 decision of the Court of Appeals which set aside the 04th and 27th June 1991 Orders of the Regional Trial Court of Makati, Branch 64, for the latter's lack of jurisdiction, and which ordered the trial court judge to cease and desist from further hearing Civil Case No. 91--1360, entitled "Philippine Export and Foreign Loan Guarantee Corporation v. Hon. Edilberto Pangan, in his capacity as Labor Arbiter of the National Labor Relations Commission, etc., et al.," is assailed in this petition for review on certiorari.

On 13 May 1988, private respondent Raimund Diehl, a resident alien, lodged a complaint for illegal dismissal against the Philippine German Wire Mesh Reinforcing Corporation ("FILFORCE") with the National Labor Relations Commission ("NLRC") (docketed NLRC-NCR Case No. 00-05--021-88). Parenthetically, five (5) years earlier, or on 28 July 1983, FILFORCE had mortgaged its plant and other property located at EPZA, Mariveles, Bataan, in favor of herein petitioner Philippine Export and Foreign Loan Guarantee Corporation ("PHILGUARANTEE"), a government owned and controlled corporation, to secure a guarantee which the latter executed in favor of Kuwait Asia Bank, E.C., over fifty one percent (51%) of the US\$1,357,600.00 loan which had been extended to FILFORCE by the bank. The mortgage in PHILGUARANTEE's favor was duly registered, on 29 July 1983, with the Register of Deeds of Bataan.

On 21 December 1990, a judgment favorable to respondent Diehl was rendered by Labor Arbiter Edilberto J. Pangan; it read:

"WHEREFORE, respondents Philippine German Wire Mesh Reinforcing Corporation, J. Roberto C. Delgado and Basilio Sison are hereby ordered to pay complainant Raimund Diehl the amount of US\$41,624.64 or its equivalent in Philippine Pesos, and P35,212.00.

"Respondents too shall pay 10% of the total award as attorney's fees, it appearing that they have unlawfully withheld complainant's entitlements, and complainant had to secure the services of a counsel to prosecute his claims.

"The claim for damages, as well as his alleged loss (sic) earnings and expenses for staying in the Philippines while waiting for the promised payments, for not having been established by clear and sufficient evidence, are denied.

"SO ORDERED." [1]

The decision became final with respect to FILFORCE and Basilio Sison who both did not take an appeal. J. Roberto C. Delgado appealed but he did not interpose any objection on Diehl's Urgent Ex-Parte Motion for

Execution.

On 04 April 1991, Labor Arbiter Pangan issued a writ of execution^[2] directing NLRC Sheriff Abe Estrada to execute the judgment against FILFORCE and Basilio Sison. Failing to collect the sum due, Sheriff Estrada was directed to cause the satisfaction of the award by levying on the property of FILFORCE. Deputy Sheriff Estrada effected the levy and scheduled a public auction sale. Since the assets had previously been mortgaged to it, PHILGUARANTEE filed, on 15 April 1991, a third-party claim which resulted in the suspension of the scheduled 16th April 1991 auction sale. Upon the submission, on 22 April 1991, by Diehl of an indemnity bond issued by Plaridel Surety and Insurance Company, with a face value of P1,320,772.11, the Deputy Sheriff issued a notice resetting the auction sale for 27 April 1991. PHILGUARANTEE promptly filed, on 26 April 1991, a petition/manifestation before the Labor Arbiter questioning, among other things, the integrity of the indemnity bond^[3] posted by Diehl and, at the same time, asserting its superior right and prior lien over the levied property. Deputy Sheriff Estrada proceeded, nonetheless, with the auction sale at which Diehl was declared the sole and winning bidder. Forthwith, a Certificate of Sale was issued by the Deputy Sheriff in favor of respondent Diehl.

On 03 May 1991, PHILGUARANTEE received a copy of an "Urgent Ex-Parte Motion for the Issuance of an Alias Writ of Execution" from Diehl where he alleged that of the then total monetary award of One Million Three Hundred Twenty Thousand Seven Hundred Seventy Two Pesos and 11/100 (P1,320,772.11), only Seven Hundred Seventy Six Thousand Pesos (P776,000.00) worth of property belonging to FILFORCE was levied and sold at public auction, thus leaving a deficiency of Five Hundred Forty Four Thousand Seven Hundred Seventy Two Pesos & 11/100 (P544,772.11). Labor Arbiter Pangan again acted favorably on Diehl's ex--parte motion; on 06 May 1991, he issued an alias writ of execution directing the Deputy Sheriff to further collect the sum of P544,772.11.^[4]

On 15 May 1991, PHILGUARANTEE went to the Regional Trial Court of Makati and there filed a complaint for "Annulment of Sale, Recovery of Possession and Injunction with Urgent Prayer for the Issuance of a Writ of Preliminary Injunction and/or Temporary Restraining Order and/or Status Quo Order" (docketed as Civil Case No. 91-1360). Two days later, or on 17 May 1991, a temporary restraining order was issued and a hearing for the reception of evidence in support of the prayer for the issuance of a writ of preliminary injunction was set by the trial court. On 04 June 1991, the court issued an order which read:

"WHEREFORE, plaintiff's application for preliminary injunction is hereby GRANTED. Accordingly, plaintiff is required to file with the Court a bond executed to defendants in the amount of THREE HUNDRED THOUSAND (P300,000.00) PESOS, to the effect that the plaintiff will pay the defendant all damages which they may sustain by reason of the injunction if the Court should finally decide that plaintiff is not entitled thereto.

"SO ORDERED."^[5]

Separate motions to dismiss were soon filed by Diehl, the Labor Arbiter and the Deputy Sheriff, on the ground that the trial court had no jurisdiction over the case. The motions were denied by the trial court in its order of 27 June 1991; it then, instead, directed defendants to file their responsive pleadings.

Diehl assailed the above orders of the trial court in a petition for certiorari and prohibition, with prayer for the issuance of a writ of preliminary injunction, before this Court (docketed G.R. No. 100774) which petition it referred, in its resolution of 05 August 1991, to respondent Court of Appeals (there docketed CA-G.R. SP No. 25831) conformably with Section 9, paragraph 1, of B.P. Blg. 129.

In its now assailed decision, the appellate court found the petition to be impressed with merit; hence, it held:

"WHEREFORE, the petition is GRANTED, and the assailed Orders of June 4, 1991 and June 27, 1991 are set

aside, and it is hereby ORDERED that respondent Judge cease from further hearing Civil Case No. 91-1360 for lack of jurisdiction."

PHILGUARANTEE is before this Court solely on the contention that the appellate court has erred in holding that the court a quo did not have jurisdiction over the case.

The appellate court did not commit error.

The question of whether or not the trial court below was in any good position to take cognizance over the complaint filed by PHILGUARANTEE and to issue an injunctive relief depended, in turn, on whether or not the acts complained of arose out of, or were connected or interwoven with, cases falling under the exclusive jurisdiction of the Labor Arbiter or the NLRC.[6] While, ostensibly, the complaint filed with the trial court was for the annulment of sale, recovery of possession and injunction, in essence, however, the action challenged the legal propriety of the execution sale, as well as the acts performed by the Labor Arbiter and the Deputy Sheriff in the conduct thereof, and the subsequent issuance of an alias writ of execution. In reality, petitioner's action to annul the execution sale was a motion to quash the writ of execution on a case aptly within the jurisdiction of the Labor Arbiter. The case brought before the trial court, being a matter growing out of the labor dispute decided by the Labor Arbiter, clearly fell outside the competence of the trial court.

Another reason that militates against the trial court's assumption of jurisdiction over the case is Article 254 of the Labor Code which states:

"Art. 254. Injunction prohibited. - No temporary or permanent injunction or restraining order in any case involving or growing out of labor disputes shall be issued by any court or other entity, except as otherwise provided in Articles 218 and 264 of this Code."

In *Pucan v. Bengzon*[7] and in *Guimoc v. Rosales*,[8] the Court has thus responded in the negative when queried on whether or not a civil court may interfere by injunction with the execution of a final and executory judgment of the NLRC.

The Court, however, cannot end its ponencia on this simple case without calling attention to serious lapses in the proceedings before the Labor Arbiter concerning the third party claim of PHILGUARANTEE. Section 2, Rule VI, of the Manual of Instructions for Sheriffs of the NLRC prescribes in detail the procedure that must be followed in the event that the property levied upon to satisfy a final judgment is claimed by any person other than the losing party,[9] viz:

"Sec. 2. Proceedings. - If property levied upon be claimed by any person other than the losing party or his agent, such person shall make an affidavit of his title thereto or right to the possession thereof, stating the grounds of such right or title and shall file the same with the sheriff and copies thereof served upon the Labor Arbiter or proper officer issuing the writ and upon the prevailing party. Upon receipt of the third party claim, all proceedings with respect to the execution of the property subject of the third party claim shall automatically be suspended and the Labor Arbiter or proper officer issuing the writ shall conduct a hearing with due notice to all parties concerned and resolve the validity of the claim within ten (10) working days from receipt thereof and his decision is appealable to the Commission within ten (10) working days from notice, and the Commission shall likewise resolve the appeal within the same period.

"However, should the prevailing party put up an indemnity bond in a sum not less than the value of the property levied, the execution shall proceed. In case of disagreement as to such value, the same shall be determined by the Labor Arbiter, National Labor Relations Commission or the Philippine Overseas Employment Administration issuing the writ, as the case may be." (Italics supplied.)

Evidently, the Court's exhortation in *Guimoc v. Rosales*, i.e., that "(i)n executing an order, resolution, or decision

of the NLRC, the sheriff of the Commission, or other officer acting as such, must be guided strictly by the Sheriff's Manual x x x," was not properly heeded. We could consider the following:

1. The Manual (second paragraph of Section 1 of Rule VI) requires that the indemnity bond that must be posted up by the prevailing party should be in a sum not less than the value of the property levied. Here, Diehl has put up a bond of only P1,320,772.11; the appraised value, however, of the property levied has been itemized thusly:

1. TWO (2) UNITS "WAFIOS" RS4 Straightening Machine Serial Nos. 2--6135-190-6135-222

P 1,032,000.00

2. ONE (1) UNIT "WAFIOS" RFB4 Straightening Machine Serial No. 2--6184-016

P 660,000.00

3. ONE (1) UNIT "EVG" G35/102 Mat Welding Machine Serial No. 500

P 2,700,000.00

4. TWO (2) UNITS "STAHL" Overhead Travelling Cranes

P 382,000.00

5. JUNKS and ACCESSORIES

P 160,000.00

TOTAL

P 4,934,000.00

2. The Manual provides that in case of disagreement on the value of the property levied, the matter shall be determined by the Labor Arbiter. Not only did PHILGUARANTEE promptly challenge the integrity of the bond submitted by Diehl but it also did question the amount of the bond. Since the difference is substantial, it should have behooved the Labor Arbiter to take more than just a passing glance on the claim of PHILGUARANTEE.

A final observation. On 21 March 1989, Article 110 of the Labor Code was amended by Republic Act No. 6715 so as to read:

"Article 110. Worker preference in case of bankruptcy. - In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards their wages and other monetary claims, any provisions of law to the contrary notwithstanding. Such unpaid wages and monetary claims shall be paid in full before claims of the Government and other creditors may be paid."

Since then, the Court has had a number of occasions to rule on the effects of the amendment. In *Development Bank of the Philippines vs. National Labor Relations Commission* (183 SCRA 328, 336-339), the Court has said:

"The amendment expands worker preference to cover not only unpaid wages but also other monetary claims to which even claims of the Government must be deemed subordinate.

"xxx xxx xxx

"Notably, the terms 'declaration' of bankruptcy or 'judicial' liquidation have been eliminated. Does this mean then that liquidation proceedings have been done away with?

"We opine in the negative, upon the following considerations:

"1. Because of its impact on the entire system of credit, Article 110 of the Labor Code cannot be viewed in

isolation but must be read in relation to the Civil Code scheme on classification and preference of credits.

"xxx xxx xxx

"2. In the same way that the Civil Code provisions on classification of credits and the Insolvency Law have been brought into harmony, so also must the kindred provisions of the Labor Law be made to harmonize with those laws.

"3. In the event of insolvency, a principal objective should be to effect an equitable distribution of the insolvent's property among his creditors. To accomplish this there must first be some proceeding where notice to all of the insolvent's creditors may be given and where the claims of preferred creditors may be bindingly adjudicated (*De Barretto vs. Villanueva*, No. L-14938, December 29, 1962, 6 SCRA 928). The rationale therefore has been expressed in the recent case of *DBP vs. Secretary of Labor* (G.R. No. 79351, 28 November 1989), which we quote:

"xxx xxx xxx

"4. A distinction should be made between a preference of credit and a lien. A preference applies only to claims which do not attach to specific properties. A lien creates a charge on a particular property. The right of first preference as regards unpaid wages recognized by Article 110 does not constitute a lien on the property of the insolvent debtor in favor of workers. It is but a preference of credit in their favor, a preference in application. It is a method adopted to determine and specify the order in which credits should be paid in the final distribution of the proceeds of the insolvent's assets. It is a right to a first preference in the discharge of the funds of the judgment debtor.

"xxx xxx xxx

"6. Even if Article 110 and its Implementing Rule, as amended, should be interpreted to mean 'absolute preference,' the same should be given only prospective effect in line with the cardinal rule that laws shall have no retroactive effect, unless the contrary is provided (Article 4, Civil Code). Thereby, any infringement on the constitutional guarantee on non-impairment of the obligation of contracts (Section 10, Article III, 1987 Constitution) is also avoided. In point of fact, DBP's mortgage credit antedated by several years the amendatory law, RA No. 6715. To give Article 110 retroactive effect would be to wipe out the mortgage in DBP's favor and expose it to a risk which it sought to protect itself against by requiring a collateral in the form of real property.

"In fine, the right to preference given to workers under Article 110 of the Labor Code cannot exist in any effective way prior to the time of its presentation in distribution proceedings. It will find application when, in proceedings such as insolvency, such unpaid wages shall be paid in full before the 'claims of the Government and other creditors' may be paid. But, for an orderly settlement of a debtor's assets, all creditors must be convened, their claims ascertained and inventoried, and thereafter the preferences determined in the course of judicial proceedings which have for their object the subjection of the property of the debtor to the payment of his debts or other lawful obligations. Thereby, an orderly determination of preference of creditors' claims is assured (*Philippine Savings Bank vs. Lantin*, No. L-33929, September 2, 1983, 124 SCRA 476); the adjudication made will be binding on all parties-in-interest, since those proceedings are proceedings in rem; and the legal scheme of classification, concurrence and preference of credits in the Civil Code, the Insolvency Law, and the Labor Code is preserved in harmony."

The pronouncement was later reiterated in *Bolinao, Jr. vs. Padolina* (186 SCRA 368), *Development Bank of the Philippines vs. National Labor Relations Commission* (186 SCRA 841), *Development Bank of the Philippines vs. National Labor Relations Commission* (218 SCRA 183) and, not too long ago, in *Development Bank of the Philippines vs. National Labor Relations Commission* (229 SCRA 350), *Hautea vs. National Labor Relations Commission* (230 SCRA 119) and *Development Bank of the Philippines vs. The National Labor Relations*

Commission (236 SCRA 117).

As so succinctly found by the appellate court, however, petitioner's remedy does not lie with the trial court below; thus, its instant petition must unavoidably be denied.

WHEREFORE, the petition is DENIED and the assailed 10 January 1995 decision of the Court of Appeals is AFFIRMED without prejudice, however, to an appropriate recourse by petitioner before the proper forum. No costs.

SO ORDERED.

Romero, Melo, and Panganiban, JJ., concur.

Feliciano, J., (Chairman), on leave.

[1] Rollo, p. 42.

[2] Rollo, pp. 96-98.

[3] The petition quotes part of a certification allegedly issued by the Supreme Court on "Supervision of Bonding Companies," dated 03 April 1991 which states that:

"Reports of different courts show that PLARIDEL SURETY & INSURANCE COMPANY has pending obligations and/or liabilities to the government consisting of writs of execution and/or confiscated bonds in civil and criminal cases; that said company/corporation was issued a Certificate of Authority by the Insurance Commission.

"Bonds offered by said PLARIDEL SURETY & INSURANCE COMPANY may be accepted, provided however, that at the time of presentation of such bond, the records of obligations/liabilities of the court concerned show that it may still be permitted transacting business with the court."

[4] Rollo, pp. 137-140.

[5] Rollo, pp. 43-44.

[6] *Kaisahan ng Mga Manggagawa sa La Campana v. Sarmiento* 133 SCRA 220.

[7] 155 SCRA 692.

[8] 201 SCRA 468.

[9] This Manual of Instructions was issued on 19 May 1988 and published in The Official Gazette (84 O.G. No. 29, 4327) on 18 July 1988. It became effective fifteen (15) days later.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.