

DEL MONTE CORPORATION-USA, PAUL E. DERBY, JR., DANIEL COLLINS AND LUIS HIDALGO, PETITIONERS, VS. COURT OF APPEALS, JUDGE BIENVENIDO L. REYES IN HIS CAPACITY AS PRESIDING JUDGE, ...*G.R. No. 136154. February 07, 2001*

Ponente: BELLOSILLO, J.

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This Petition for Review on certiorari assails the 17 July 1998 Decision[1] of the Court of Appeals affirming the 11 November 1997 Order[2] of the Regional Trial Court which denied petitioners' Motion to Suspend Proceedings in Civil Case No. 2637-MN. It also questions the appellate court's Resolution[3] of 30 October 1998 which denied petitioners' Motion for Reconsideration.

On 1 July 1994, in a Distributorship Agreement, petitioner Del Monte Corporation-USA (DMC-USA) appointed private respondent Montebueno Marketing, Inc. (MMI) as the sole and exclusive distributor of its Del Monte products in the Philippines for a period of five (5) years, renewable for two (2) consecutive five (5) year periods with the consent of the parties. The Agreement provided, among others, for an arbitration clause which states -

12. GOVERNING LAW AND ARBITRATION[4]

This Agreement shall be governed by the laws of the State of California and/or, if applicable, the United States of America. All disputes arising out of or relating to this Agreement or the parties' relationship, including the termination thereof, shall be resolved by arbitration in the City of San Francisco, State of California, under the Rules of the American Arbitration Association. The arbitration panel shall consist of three members, one of whom shall be selected by DMC-USA, one of whom shall be selected by MMI, and third of whom shall be selected by the other two members and shall have relevant experience in the industry x x x

In October 1994 the appointment of private respondent MMI as the sole and exclusive distributor of Del Monte products in the Philippines was published in several newspapers in the country. Immediately after its appointment, private respondent MMI appointed Sabrosa Foods, Inc. (SFI), with the approval of petitioner DMC-USA, as MMI's marketing arm to concentrate on its marketing and selling function as well as to manage its critical relationship with the trade.

On 3 October 1996 private respondents MMI, SFI and MMI's Managing Director Liong Liong C. Sy (LILY SY) filed a Complaint[5] against petitioners DMC-USA, Paul E. Derby, Jr.,[6] Daniel Collins[7] and Luis Hidalgo,[8] and Dewey Ltd.[9] before the Regional Trial Court of Malabon, Metro Manila. Private respondents predicated their complaint on the alleged violations by petitioners of Arts. 20,[10] 21[11] and 23[12] of the Civil Code. According to private respondents, DMC-USA products continued to be brought into the country by parallel importers despite the appointment of private respondent MMI as the sole and exclusive distributor of Del Monte products thereby causing them great embarrassment and substantial damage. They alleged that the products brought into the country by these importers were aged, damaged, fake or counterfeit, so that in March 1995 they

had to cause, after prior consultation with Antonio Ongpin, Market Director for Special Markets of Del Monte Philippines, Inc., the publication of a "warning to the trade" paid advertisement in leading newspapers. Petitioners DMC-USA and Paul E. Derby, Jr., apparently upset with the publication, instructed private respondent MMI to stop coordinating with Antonio Ongpin and to communicate directly instead with petitioner DMC-USA through Paul E. Derby, Jr.

Private respondents further averred that petitioners knowingly and surreptitiously continued to deal with the former in bad faith by involving disinterested third parties and by proposing solutions which were entirely out of their control. Private respondents claimed that they had exhausted all possible avenues for an amicable resolution and settlement of their grievances; that as a result of the fraud, bad faith, malice and wanton attitude of petitioners, they should be held responsible for all the actual expenses incurred by private respondents in the delayed shipment of orders which resulted in the extra handling thereof, the actual expenses and cost of money for the unused Letters of Credit (LCs) and the substantial opportunity losses due to created out-of-stock situations and unauthorized shipments of Del Monte-USA products to the Philippine Duty Free Area and Economic Zone; that the bad faith, fraudulent acts and willful negligence of petitioners, motivated by their determination to squeeze private respondents out of the outstanding and ongoing Distributorship Agreement in favor of another party, had placed private respondent LILY SY on tenterhooks since then; and, that the shrewd and subtle manner with which petitioners concocted imaginary violations by private respondent MMI of the Distributorship Agreement in order to justify the untimely termination thereof was a subterfuge. For the foregoing, private respondents claimed, among other reliefs, the payment of actual damages, exemplary damages, attorney's fees and litigation expenses.

On 21 October 1996 petitioners filed a Motion to Suspend Proceedings[13] invoking the arbitration clause in their Agreement with private respondents.

In a Resolution[14] dated 23 December 1996 the trial court deferred consideration of petitioners' Motion to Suspend Proceedings as the grounds alleged therein did not constitute the suspension of the proceedings considering that the action was for damages with prayer for the issuance of Writ of Preliminary Attachment and not on the Distributorship Agreement.

On 15 January 1997 petitioners filed a Motion for Reconsideration to which private respondents filed their Comment/Opposition. On 31 January 1997 petitioners filed their Reply. Subsequently, private respondents filed an Urgent Motion for Leave to Admit Supplemental Pleading dated 2 April 1997. This Motion was admitted, over petitioners' opposition, in an Order of the trial court dated 27 June 1997.

As a result of the admission of the Supplemental Complaint, petitioners filed on 22 July 1997 a Manifestation adopting their Motion to Suspend Proceedings of 17 October 1996 and Motion for Reconsideration of 14 January 1997.

On 11 November 1997 the Motion to Suspend Proceedings was denied by the trial court on the ground that it "will not serve the ends of justice and to allow said suspension will only delay the determination of the issues, frustrate the quest of the parties for a judicious determination of their respective claims, and/or deprive and delay their rights to seek redress." [15]

On appeal, the Court of Appeals affirmed the decision of the trial court. It held that the alleged damaging acts recited in the Complaint, constituting petitioners' causes of action, required the interpretation of Art. 21 of the Civil Code[16] and that in determining whether petitioners had violated it "would require a full blown trial" making arbitration "out of the question." [17] Petitioners' Motion for Reconsideration of the affirmation was denied. Hence, this Petition for Review.

The crux of the controversy boils down to whether the dispute between the parties warrants an order compelling them to submit to arbitration.

Petitioners contend that the subject matter of private respondents' causes of action arises out of or relates to the Agreement between petitioners and private respondents. Thus, considering that the arbitration clause of the Agreement provides that all disputes arising out of or relating to the Agreement or the parties' relationship, including the termination thereof, shall be resolved by arbitration, they insist on the suspension of the proceedings in Civil Case No. 2637-MN as mandated by Sec. 7 of RA 876[18] -

Sec. 7. Stay of Civil Action. If any suit or proceeding be brought upon an issue arising out of an agreement providing for arbitration thereof, the court in which such suit or proceeding is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration, shall stay the action or proceeding until an arbitration has been had in accordance with the terms of the agreement. Provided, That the applicant for the stay is not in default in proceeding with such arbitration.

Private respondents claim, on the other hand, that their causes of action are rooted in Arts. 20, 21 and 23 of the Civil Code,[19] the determination of which demands a full blown trial, as correctly held by the Court of Appeals. Moreover, they claim that the issues before the trial court were not joined so that the Honorable Judge was not given the opportunity to satisfy himself that the issue involved in the case was referable to arbitration. They submit that, apparently, petitioners filed a motion to suspend proceedings instead of sending a written demand to private respondents to arbitrate because petitioners were not sure whether the case could be a subject of arbitration. They maintain that had petitioners done so and private respondents failed to answer the demand, petitioners could have filed with the trial court their demand for arbitration that would warrant a determination by the judge whether to refer the case to arbitration. Accordingly, private respondents assert that arbitration is out of the question.

Private respondents further contend that the arbitration clause centers more on venue rather than on arbitration. They finally allege that petitioners filed their motion for extension of time to file this petition on the same date[20] petitioner DMC-USA filed a petition to compel private respondent MMI to arbitrate before the United States District Court in Northern California, docketed as Case No. C-98-4446. They insist that the filing of the petition to compel arbitration in the United States made the petition filed before this Court an alternative remedy and, in a way, an abandonment of the cause they are fighting for here in the Philippines, thus warranting the dismissal of the present petition before this Court.

There is no doubt that arbitration is valid and constitutional in our jurisdiction.[21] Even before the enactment of RA 876, this Court has countenanced the settlement of disputes through arbitration. Unless the agreement is such as absolutely to close the doors of the courts against the parties, which agreement would be void, the courts will look with favor upon such amicable arrangement and will only interfere with great reluctance to anticipate or nullify the action of the arbitrator.[22] Moreover, as RA 876 expressly authorizes arbitration of domestic disputes, foreign arbitration as a system of settling commercial disputes was likewise recognized when the Philippines adhered to the United Nations "Convention on the Recognition and the Enforcement of Foreign Arbitral Awards of 1958" under the 10 May 1965 Resolution No. 71 of the Philippine Senate, giving reciprocal recognition and allowing enforcement of international arbitration agreements between parties of different nationalities within a contracting state.[23]

A careful examination of the instant case shows that the arbitration clause in the Distributorship Agreement between petitioner DMC-USA and private respondent MMI is valid and the dispute between the parties is arbitrable. However, this Court must deny the petition.

The Agreement between petitioner DMC-USA and private respondent MMI is a contract. The provision to submit to arbitration any dispute arising therefrom and the relationship of the parties is part of that contract and is itself a contract. As a rule, contracts are respected as the law between the contracting parties and produce effect as between them, their assigns and heirs.[24] Clearly, only parties to the Agreement, i.e., petitioners DMC-USA and its Managing Director for Export Sales Paul E. Derby, Jr., and private respondents MMI and its Managing Director LILY SY are bound by the Agreement and its arbitration clause as they are the only signatories thereto. Petitioners Daniel Collins and Luis Hidalgo, and private respondent SFI, not parties to the Agreement and cannot even be considered assigns or heirs of the parties, are not bound by the Agreement and the arbitration clause therein. Consequently, referral to arbitration in the State of California pursuant to the arbitration clause and the suspension of the proceedings in Civil Case No. 2637-MN pending the return of the arbitral award could be called for[25] but only as to petitioners DMC-USA and Paul E. Derby, Jr., and private respondents MMI and LILY SY, and not as to the other parties in this case, in accordance with the recent case of *Heirs of Augusto L. Salas, Jr. v. Laperal Realty Corporation*,[26] which superseded that of *Toyota Motor Philippines Corp. v. Court of Appeals*. [27]

In *Toyota*, the Court ruled that "[t]he contention that the arbitration clause has become dysfunctional because of the presence of third parties is untenable ratiocinating that "[c]ontracts are respected as the law between the contracting parties"[28] and that "[a]s such, the parties are thereby expected to abide with good faith in their contractual commitments." [29] However, in *Salas, Jr.*, only parties to the Agreement, their assigns or heirs have the right to arbitrate or could be compelled to arbitrate. The Court went further by declaring that in recognizing the right of the contracting parties to arbitrate or to compel arbitration, the splitting of the proceedings to arbitration as to some of the parties on one hand and trial for the others on the other hand, or the suspension of trial pending arbitration between some of the parties, should not be allowed as it would, in effect, result in multiplicity of suits, duplicitous procedure and unnecessary delay.[30]

The object of arbitration is to allow the expeditious determination of a dispute.[31] Clearly, the issue before us could not be speedily and efficiently resolved in its entirety if we allow simultaneous arbitration proceedings and trial, or suspension of trial pending arbitration. Accordingly, the interest of justice would only be served if the trial court hears and adjudicates the case in a single and complete proceeding.[32]

WHEREFORE, the petition is DENIED. The Decision of the Court of Appeals affirming the Order of the Regional Trial Court of Malabon, Metro Manila, in Civil Case No. 2637-MN, which denied petitioners' Motion to Suspend Proceedings, is AFFIRMED. The Regional Trial Court concerned is directed to proceed with the hearing of Civil Case No. 2637-MN with dispatch. No costs.

SO ORDERED.

Mendoza, Buena, and De Leon, Jr., JJ., concur.

Quisumbing, J., no part, related to counsel of a party.

[1] Penned by Associate Justice Demetrio G. Demetria, concurred in by Associate Justices Ramon A. Barcelona and Omar U. Amin.

[2] Penned by Judge Bienvenido L. Reyes (now Associate Justice of the Court of Appeals), RTC-Br. 74, Malabon, Metro Manila.

[3] See Note 1.

[4] Rollo, p. 68.

[5] Id., pp. 40-82.

[6] Managing Director of Del Monte Corporation's Export Sales Department.

[7] Regional Director of Del Monte Corporation's Export Sales Department.

[8] Head of Credit Services Department of Del Monte Corporation.

[9] Owner by assignment of Del Monte Trademarks in the Philippines.

[10] Art. 20. Every person who, contrary to law, willfully and negligently causes damage to another, shall indemnify the latter for the same.

[11] Art. 21. Any person who willfully causes loss or damage to another in a manner that is contrary to morals, good custom or public policy shall compensate the latter for damages.

[12] Art. 23. Even when an act or event causing damage to another's property was not due to the fault or negligence of the defendant, the latter shall be liable to indemnity, if through the act or event, he was benefited.

[13] Rollo, pp. 83-88.

[14] Penned by Presiding Judge Amanda Valera Cabigao, RTC-Br. 73, Malabon, Metro Manila.

[15] See Note 2.

[16] See Note 10.

[17] See Note 1.

[18] The Arbitration Law.

[19] See Notes 9, 10 and 11.

[20] 18 November 1998.

[21] Chapter 2, Title XIV, Book IV, New Civil Code of the Philippines.

[22] Puromines, Inc. v. Court of Appeals, G.R. No. 91228, 22 March 1993, 220 SCRA 281.

[23] National Union Fire Insurance Company of Pittsburg v. Stolt-Nielsen Philippines, Inc., G.R. No. 87958, 26 April 1990.

[24] Art. 1311, New Civil Code of the Philippines.

[25] See Note 22.

[26] G.R. No. 135362, 13 December 1999, 320 SCRA 610.

[27] G.R. No. 102881, 7 December 1992, 216 SCRA 236.

[28] Citing Mercantile Ins. Co., Inc. v. Felipe Ysmael, Jr. & Co., Inc., G.R. No. 43862, 13 January 1989, 169 SCRA 66.

[29] Citing Quillian v. Court of Appeals, G.R. No. 55457, 20 January 1989, 169 SCRA 279.

[30] Ibid.

[31] Coquia, Jorge R., Annotation, Arbitration as a Means of Reducing Court Congestion, 29 July 1977, 78 SCRA 121.

[32] See Note 26.

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