

WILLIAM GOLANGCO CONSTRUCTION CORPORATION, PETITIONER, VS. PHILIPPINE COMMERCIAL INTERNATIONAL BANK, RESPONDENT

G.R. NO. 142830. March 24, 2006

Ponente: CORONA, J.

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CORONA, J.:

The facts of this case are straightforward.[1]

William Golangco Construction Corporation (WGCC) and the Philippine Commercial International Bank (PCIB) entered into a contract for the construction of the extension of PCIB Tower II (denominated as PCIB Tower II, Extension Project [project])[2] on October 20, 1989. The project included, among others, the application of a granite wash-out finish[3] on the exterior walls of the building.

PCIB, with the concurrence of its consultant TCGI Engineers (TCGI), accepted the turnover of the completed work by WGCC in a letter dated June 1, 1992. To answer for any defect arising within a period of one year, WGCC submitted a guarantee bond dated July 1, 1992 issued by Malayan Insurance Company, Inc. in compliance with the construction contract.[4]

The controversy arose when portions of the granite wash-out finish of the exterior of the building began peeling off and falling from the walls in 1993. WGCC made minor repairs after PCIB requested it to rectify the construction defects. In 1994, PCIB entered into another contract with Brains and Brawn Construction and Development Corporation to re-do the entire granite wash-out finish after WGCC manifested that it was "not in a position to do the new finishing work," though it was willing to share part of the cost. PCIB incurred expenses amounting to P11,665,000 for the repair work.

PCIB filed a request for arbitration with the Construction Industry Arbitration Commission (CIAC) for the reimbursement of its expenses for the repairs made by another contractor. It complained of WGCC's alleged non-compliance with their contractual terms on materials and workmanship. WGCC interposed a counterclaim for P5,777,157.84 for material cost adjustment.

The CIAC declared WGCC liable for the construction defects in the project.[5] WGCC filed a petition for review with the Court of Appeals (CA) which dismissed it for lack of merit.[6] Its motion for reconsideration was similarly denied.[7]

In this petition for review on certiorari, WGCC raises this main question of law: whether or not petitioner WGCC is liable for defects in the granite wash-out finish that occurred after the lapse of the one-year defects liability period provided in Art. XI of the construction contract.[8]

We rule in favor of WGCC.

The controversy pivots on a provision in the construction contract referred to as the defects liability period:

ARTICLE XI —GUARANTEE

Unless otherwise specified for specific works, and without prejudice to the rights and causes of action of the OWNER under Article 1723 of the Civil Code, the CONTRACTOR hereby guarantees the work stipulated in this Contract, and shall make good any defect in materials and workmanship which [becomes] evident within one (1) year after the final acceptance of the work. The CONTRACTOR shall leave the work in perfect order upon completion and present the final certificate to the ENGINEER promptly.

If in the opinion of the OWNER and ENGINEER, the CONTRACTOR has failed to act promptly in rectifying any defect in the work which appears within the period mentioned above, the OWNER and the ENGINEER may, at their own discretion, using the Guarantee Bond amount for corrections, have the work done by another contractor at the expense of the CONTRACTOR or his bondsmen.

However, nothing in this section shall in any way affect or relieve the CONTRACTOR'S responsibility to the OWNER. On the completion of the [w]orks, the CONTRACTOR shall clear away and remove from the site all constructional plant, surplus materials, rubbish and temporary works of every kind, and leave the whole of the [s]ite and [w]orks clean and in a workmanlike condition to the satisfaction of the ENGINEER and OWNER.[9] (emphasis ours)

Although both parties based their arguments on the same stipulations, they reached conflicting conclusions. A careful reading of the stipulations, however, leads us to the conclusion that WGCC's arguments are more tenable.

AUTONOMY OF CONTRACTS

The autonomous nature of contracts is enunciated in Article 1306 of the Civil Code.

Article 1306. The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.

Obligations arising from contracts have the force of law between the parties and should be complied with in good faith.[10] In characterizing the contract as having the force of law between the parties, the law stresses the obligatory nature of a binding and valid agreement.

The provision in the construction contract providing for a defects liability period was not shown as contrary to law, morals, good customs, public order or public policy. By the nature of the obligation in such contract, the provision limiting liability for defects and fixing specific guaranty periods was not only fair and equitable; it was also necessary. Without such limitation, the contractor would be expected to make a perpetual guarantee on all materials and workmanship.

The adoption of a one-year guarantee, as done by WGCC and PCIB, is established usage in the Philippines for private and government construction contracts.[11] The contract did not specify a different period for defects in the granitite wash-out finish; hence, any defect therein should have been brought to WGCC's attention within the one-year defects liability period in the contract.

We cannot countenance an interpretation that undermines a contractual stipulation freely and validly agreed upon. The courts will not relieve a party from the effects of an unwise or unfavorable contract freely entered into.[12]

[T]he inclusion in a written contract for a piece of work [,] such as the one in question, of a provision defining a warranty period against defects, is not uncommon. This kind of a stipulation is of particular importance to the contractor, for as a general rule, after the lapse of the period agreed upon therein, he may no longer be held accountable for whatever defects, deficiencies or imperfections that may be discovered in the work executed by him.[13]

INTERPRETATION OF CONTRACTS

To challenge the guarantee period provided in Article XI of the contract, PCIB calls our attention to Article 62.2 which provides:

62.2 Unfulfilled Obligations

Notwithstanding the issue of the Defects Liability Certificate[,] the Contractor and the Owner shall remain liable for the fulfillment of any obligation[,] incurred under the provisions of the Contract prior to the issue of the Defects Liability Certificate[,] which remains unperformed at the time such Defects Liability Certificate is issued[. And] for the purpose of determining the nature and extent of any such obligation, the Contract shall be deemed to remain in force between the parties of the Contract. (emphasis ours)

The defects in the granite wash-out finish were not the "obligation" contemplated in Article 62.2. It was not an obligation that remained unperformed or unfulfilled at the time the defects liability certificate was issued. The alleged defects occurred more than a year from the final acceptance by PCIB.

An examination of Article 1719 of the Civil Code is enlightening:

Art. 1719. Acceptance of the work by the employer relieves the contractor of liability for any defect in the work, unless:

- (1) The defect is hidden and the employer is not, by his special knowledge, expected to recognize the same; or
- (2) The employer expressly reserves his rights against the contractor by reason of the defect.

The lower courts conjectured that the peeling off of the granite wash-out finish was probably due to "defective materials and workmanship." This they characterized as hidden or latent defects. We, however, do not agree with the conclusion that the alleged defects were hidden.

First, PCIB's team of experts[14] (who were specifically employed to detect such defects early on) supervised WGCC's workmanship. Second, WGCC regularly submitted progress reports and photographs. Third, WGCC worked under fair and transparent circumstances. PCIB had access to the site and it exercised reasonable supervision over WGCC's work. Fourth, PCIB issued several "punch lists" for WGCC's compliance before the issuance of PCIB's final certificate of acceptance. Fifth, PCIB supplied the materials for the granite wash-out finish. And finally, PCIB's team of experts gave their concurrence to the turnover of the project.

The purpose of the defects liability period was precisely to give PCIB additional, albeit limited, opportunity to oblige WGCC to make good any defect, hidden or otherwise, discovered within one year.

Contrary to the CA's conclusion, the first sentence of the third paragraph of Article XI on guarantee previously quoted did not operate as a blanket exception to the one-year guarantee period under the first paragraph. Neither did it modify, extend, nullify or supersede the categorical terms of the defects liability period.

Under the circumstances, there were no hidden defects for which WGCC could be held liable. Neither was there any other defect for which PCIB made any express reservation of its rights against WGCC. Indeed, the contract should not be interpreted to favor the one who caused the confusion, if any. The contract was prepared by TCGI for PCIB.[15]

WHEREFORE, the petition is hereby GRANTED. The decision of the Court of Appeals in CA-G.R. SP No. 41152 is ANNULLED and SET ASIDE.

SO ORDERED.

Puno, (Chairperson), Sandoval-Gutierrez, Azcuna, and Garcia, JJ., concur.

[*]Now known as Equitable PCI Bank.

[1] CA Decision, rollo, pp. 81-83.

[2] The extension of PCIB Tower II consist of the fifth up to and including the twenty-first floor. A supplement to the contract included construction work up to and including the twenty-third roof deck level.

[3] The CA referred to this as "pebble washout finish" though both parties already settled that the subject of the controversy was actually the "granitite wash-out finish."

[4] PCIB Tower II Extension Project: Contract and General Conditions (General Construction Work), rollo, p. 125.

[5] Decision in CIAC Case No. 07-95, rollo, p. 106.

[6] Penned by Associate Justice Wenceslao I. Agnir, Jr. and concurred in by Associate Justices Ramon Mabutas, Jr. and Hilarion L. Aquino of the Tenth Division; rollo, pp. 80-92.

[7] Penned by Associate Justice Wenceslao I. Agnir Jr. and concurred in by Associate Justices Ramon Mabutas, Jr. and Hilarion L. Aquino of the former Tenth Division of the Court of Appeals; rollo, p. 94.

[8] Petition, Rollo, p. 21. In conjunction with the main issue are the following:

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- Whether or not the [CA] and the CIAC Arbitral Tribunal unjustly failed to observe the rule in evidence that respondent PCIB had the burden of proof to prove its claims of alleged defects in the granite washout finish, which respondent PCIB failed dismally to discharge; and

- Whether or not the [CA] and the CIAC Arbitral Tribunal unjustly failed to observe the standard of substantial evidence required in arbitration cases.

[9] PCIB Tower II Extension Project: Contract and General Conditions (General Construction Work), rollo, pp. 123-124.

[10] Article 1159, Civil Code.

[11] See Uniform General Conditions of Contract for Government Construction (CIAP Document 101); Interim Uniform General Conditions of Contract for Private Construction (CIAP Document 102).

[12] Philippine Aluminum Wheels, Inc. v. Fasgi Enterprises, Inc., 396 Phil. 893, 913 (2000); Villareal v. Ramirez, 406 Phil. 145, 154 (2003) citing Esguerra v. Court of Appeals, 335 Phil. 58, 69 (1997); Sanchez v. Court of Appeals, 345 Phil. 155, 190-191 (1997).

[13] Philippine American General Insurance Co. v. Court of Appeals, 199 Phil. 248 (1982).

[14] PCIB's Engineer and Project Manager was TCGI. Its architect was Leandro V. Locsin & Partners.

[15] Rollo, p. 110.

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