

NATIONAL SUGAR TRADING AND/OR THE SUGAR REGULATORY ADMINISTRATION, PETITIONERS, VS. PHILIPPINE NATIONAL BANK, RESPONDENT.

G.R. No. 151218. January 28, 2003

Ponente: YNARES-SANTIAGO, J.

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YNARES-SANTIAGO, J.:

This is a petition for review which seeks to set aside the decision of the Court of Appeals dated August 10, 2001 in CA-G.R. SP. No. 58102,[1] upholding the decision of the Office of the President dated September 17, 1999,[2] as well as the resolution dated December 12, 2001 denying petitioners' motion for reconsideration.

The antecedent facts, as culled from the records, are as follows:

Sometime in February 1974, then President Ferdinand E. Marcos issued Presidential Decree No. 388[3] constituting the Philippine Sugar Commission (PHILSUCOM), as the sole buying and selling agent of sugar on the quedan permit level. In November of the same year, PD 579[4] was issued, authorizing the Philippine Exchange Company, Inc. (PHILEXCHANGE), a wholly owned subsidiary of Philippine National Bank (PNB) to serve as the marketing agent of PHILSUCOM. Pursuant to PD 579, PHILEXCHANGE's purchases of sugar shall be financed by PNB and the proceeds of sugar trading operations of PHILEXCHANGE shall be used to pay its liabilities with PNB.[5]

Similarly, in February 1975, PD 659 was issued, constituting PHILEXCHANGE and/or PNB as the exclusive sugar trading agencies of the government for buying sugar from planters or millers and selling or exporting them.[6] PNB then extended loans to PHILEXCHANGE for the latter's sugar trading operations. At first, PHILEXCHANGE religiously paid its obligations to PNB by depositing the proceeds of the sale of sugar with the bank. Subsequently, however, with the fall of sugar prices in the world market, PHILEXCHANGE defaulted in the payments of its loans amounting to P206,070,172.57.[7]

In July 1977, the National Sugar Trading Corporation (NASUTRA) replaced PHILEXCHANGE as the marketing agent of PHILSUCOM. Accordingly, PHILEXCHANGE sold and turned over all sugar quedans to NASUTRA. However, no physical inventory of the sugar covered by the quedans was made.[8] Neither NASUTRA nor PHILSUCOM was required to immediately pay PHILEXCHANGE. Notwithstanding this concession, NASUTRA and PHILSUCOM still failed to pay the sugar stocks covered by quedans to PHILEXCHANGE which, as of June 30, 1984, amounted to P498,828,845.03. As a consequence, PHILEXCHANGE was not able to pay its obligations to PNB.

To finance its sugar trading operations, NASUTRA applied for and was granted[9] a P408 Million Revolving Credit Line by PNB in 1981. Every time NASUTRA availed of the credit line,[10] its Executive Vice-President, Jose Unson, executed a promissory note in favor of PNB.

In order to stabilize sugar liquidation prices at a minimum of P300.00 per picul, PHILSUCOM issued on March

15, 1985 Circular Letter No. EC-4-85, considering all sugar produced during crop year 1984-1985 as domestic sugar. Furthermore, PHILSUCOM's Chairman of Executive Committee, Armando C. Gustillo proposed on May 14, 1985 the following liquidation scheme of the sugar quedans[11] assigned to PNB by the sugar planters:

Upon notice from NASUTRA, PNB shall credit the individual producer and millers loan accounts for their sugar proceeds and shall treat the same as loans of NASUTRA.

Such loans shall be charged interest at the prevailing rates and it shall commence five (5) days after receipt by PNB of quedans from NASUTRA.[12]

PNB, for its part, issued Resolution No. 353 dated May 20, 1985 approving[13] the PHILSUCOM/NASUTRA proposal for the payment of the sugar quedans assigned to it. Pursuant to said resolution, NASUTRA would assume the interest on the planter/mill loan accounts. The pertinent portion of the Resolution states:

Five (5) days after receipt of the quedans, NASUTRA shall absorb the accruing interest on that portion of the planter/mill loan with PNB commensurate to the net liquidation value of the sugar delivered, or in other words, NASUTRA proposes to assume interest that will run on the planter/mill loan equivalent to the net proceeds of the sugar quedans, reckoned five (5) days after quedan delivery to PNB.[14]

Despite such liquidation scheme, NASUTRA/PHILSUCOM still failed to remit the interest payments to PNB and its branches, which interests amounted to P65,412,245.84 in 1986.[15] As a result thereof, then President Marcos issued PD 2005 dissolving NASUTRA effective January 31, 1986. NASUTRA's records of its sugar trading operations, however, were destroyed during the Edsa Revolution in February 1986.

On May 28, 1986, then President Corazon C. Aquino issued Executive Order (EO) No. 18 creating the Sugar Regulatory Administration (SRA) and abolishing PHILSUCOM. All the assets and records of PHILSUCOM[16] including its beneficial interests over the assets of NASUTRA were transferred to SRA.[17] On January 24, 1989, before the completion of the three-year winding up period, NASUTRA established a trusteeship to liquidate and settle its accounts.[18] This notwithstanding, NASUTRA still defaulted in the payment of its loans amounting to P389,246,324.60 (principal and accrued interest) to PNB.

In the meantime, PNB received remittances from foreign banks totaling US\$36,564,558.90 or the equivalent of P696,281,405.09 representing the proceeds of NASUTRA's sugar exports.[19] Said remittances were then applied by PNB to the unpaid accounts of NASUTRA/ PHILSUCOM with PNB and PHILEXCHANGE. The schedule of remittances and applications are as follows:

SCHEDULE OF REMITTANCES & APPLICATIONS Account of NASUTRA July 31, 1988

REMITTANCES

Date

Remitting Bank

Amount

11-19-85

Bankers Trust-New York

P259,253,573.46

11-26-85

Bankers Trust-New York

144,459,242.84

03-06-86

Credit Lyonnais-Manila

209,880, 477.07

04-22-86

Société Generalé-Manila

82,151,953.10

06-09-86

Credit Lyonnais-Manila

536,158.62

Total

P696,281,405.09

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APPLICATIONS

Date Applied to

Amount

1986 NASUTRA account with PNB

P389,246,324.60

1986 Claims of various CAB planters

15, 863,898.79

1987 Claims of various PNB branches for interest or the unpaid CY 1984-85 sugar proceeds

65, 412,245.84

1987 & 1988 Philscom account carried in the books of Philexchange

206,070,172.57

P676,592,641.80

=====

Unapplied Remittance

P 19,688,763.29

”[20]

Subsequently, PNB applied the P19,688,763.29 to PHILSUCOM’s account with PHILEXCHANGE which in

turn was applied to PHILEXCHANGE's account with PNB.[21]

Accordingly, NASUTRA requested[22] PNB to furnish it with the necessary documents and/or explanation[23] concerning the disposition/ application, accounting and restitution of the remittances in question. Dissatisfied, and believing that PNB failed to provide them with said documents, NASUTRA and SRA filed a petition for arbitration[24] with the Department of Justice on August 13, 1991.

After due proceedings, the Secretary of Justice rendered a decision, to wit:

WHEREFORE, judgment is hereby rendered-

- Declaring that of the amount of Six Hundred Ninety Six Million Two Hundred Eighty One Thousand Four Hundred Five and 09/100 Pesos (P696,281,405.09) equivalent of US\$36,564,558.90, foreign remittances received by respondent PNB, for and in behalf of petitioner NASUTRA—

a)

the amount of Three Hundred Eighty Nine Million Two Hundred Forty Six Thousand Three Hundred Twenty Four and 60/100 Pesos (P389,246,324.60) was validly applied to outstanding account of NASUTRA to PNB;

b)

the amount of Sixty Five Billion Four Hundred Twelve Thousand Two Hundred Forty Five and 84/100 Pesos (P65,412,245.84) was validly applied to claims of various PNB branches for interest on the unpaid CY 1984-85 sugar proceeds;

Or a total of Four Hundred Fifty Four Million Six Hundred Fifty Eight Thousand Five Hundred Seventy and 44/100 Pesos (P454,658,570.44).

- Ordering respondent PNB to pay petitioners—

a)

the amount of Two Hundred Six Million Seventy Thousand One Hundred Seventy Two and 57/100 Pesos (P206,070,172.57) representing the amount of remittance applied to PHILSUCOM account carried in the books of Philexchange;

b)

the amount of Fifteen Million Eight Hundred Sixty Three Thousand Eight Hundred Ninety Eight and 79/100 Pesos (P15,863,898.79) representing the amount applied to settle Claims of Various CAB Planters; and to pay interest on both items, at legal rate from date of filing of this case.

Costs of suit will be shared equally by the parties.

SO ORDERED.[25]

Both parties appealed before the Office of the President. On September 17, 1999, the Office of the President modified the decision of the Secretary of Justice, to wit:

IN VIEW OF ALL THE FOREGOING, the decision of the Secretary of Justice is hereby AFFIRMED with the MODIFICATION that the application by the Philippine National Bank of the amounts of P225,758,935.86 and P15,863,898.79 as payment of the Philippine Sugar Commission's account carried in the books of Philippine Exchange Co., Inc. and the claims of various CAB planters, respectively, is hereby declared legal and valid.

SO ORDERED.[26]

Petitioners' subsequent Motion for Reconsideration was denied by the Office of the President.[27] Thereafter, petitioners filed a petition for review with the Court of Appeals, alleging, inter alia, that the Office of the President erred when it relied solely on the documents submitted by PNB to determine the amount of the subject remittances and in not ordering PNB to render an accounting of the said remittances; in declaring as valid and legal PNB's application of the subject remittances to alleged NASUTRA's accounts with PNB and PHILEXCHANGE without NASUTRA's knowledge, consent and authority.

On August 10, 2001, Court of Appeals rendered judgment dismissing the petition.[28] Petitioners filed a Motion for Reconsideration, which was denied on December 12, 2001.

Hence this petition, raising the lone issue:

THE CA DECIDED NOT IN ACCORD WITH LAW AND WITH THE APPLICABLE DECISION OF THIS HONORABLE COURT, AND GRAVELY ABUSED ITS DISCRETION, WHEN IT UPHELD THE LEGALITY AND VALIDITY OF THE OFFSETTING OR COMPENSATION OF THE SUBJECT REMITTANCES TO ALLEGED ACCOUNTS OF NASUTRA WITH PNB AND PHILEX DESPITE THE FACT THAT NO CREDITOR-DEBTOR RELATIONSHIP EXISTED BETWEEN PNB AND NASUTRA WITH RESPECT TO THE SAID REMITTANCES.

In essence, NASUTRA and SRA aver that no compensation involving the subject remittances can take effect by operation of law since the relationship created between PNB and NASUTRA was one of trustee-beneficiary and not one of creditor and debtor. They also claim that no legal compensation can take place in favor of PHILEXCHANGE since the subject remittances were received by PNB and not PHILEXCHANGE, a corporation clothed with a separate and distinct corporate personality from PNB. They added that PHILEXCHANGE's account had already prescribed.

Moreover, NASUTRA and SRA contend that, assuming arguendo that creditor-debtor relationship existed between PNB and NASUTRA, compensation was still illegal, since PNB has not proven the existence of the P408 million revolving credit line and the CAB Planters Account. Petitioners also assert that the CAB Planters Account is an unliquidated account considering that it still has to be recomputed pursuant to the Sugar Reconstitution Law.[29]

Respondent PNB counters that it can apply the foreign remittances on the long-overdue obligations of NASUTRA. They were entered into by NASUTRA with the blessing, if not with express mandate, of the National Government in the pursuit of national interest and policy. PNB invokes also the Letter of Intent submitted by the National Government to the International Monetary Fund (IMF), wherein the government made specific reference to the immediate payment by NASUTRA and PHILSUCOM of their outstanding obligations with PNB to buoy up the country's sagging economy.[30]

Petitioners' arguments are specious.

Article 1306 of the New Civil Code provides:

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.

In the instant case, NASUTRA applied for a P408 million credit line with PNB in order to finance its trading operations. PNB, on the other hand, approved said credit line in its Resolution No. 68. Thereafter, NASUTRA availed of the credit and in fact drew P389,246,324.60, in principal and accrued interest, from the approved credit line. Evidence shows that every time NASUTRA availed of the credit, its Executive Vice President, Jose Unson, executed a promissory note[31] in favor of PNB with the following proviso:

In the event that this note is not paid at maturity or when the same becomes due under any of the provisions hereof, I/We hereby authorize the Bank, at its option and without notice, to apply to the payment of this note, any and all moneys, securities and things of values which may be in the hands on deposit or otherwise belonging to me/us and for this purpose, I/We hereby, jointly and severally, irrevocably constitute and appoint the Bank to be my/our true Attorney-in-Fact with full power and authority for me/us and in my/our name and behalf and without prior notice to negotiate, sell and transfer any moneys, securities and things of value which it may hold, by public or private sale and apply the proceeds thereof to the payment of this note. (*Italics ours*)

While we agree with petitioners that the application of subject remittances cannot be justified under Article 1278 in relation to Article 1279 of the Civil Code, considering that some elements of legal compensation were lacking, application of the subject remittances to NASUTRA's account with PNB and the claims of various PNB branches for interest on the unpaid CY 1984-1985 sugar proceeds is authorized under the above-quoted stipulation. PNB correctly treated the subject remittances for the account of NASUTRA as moneys in its hands which may be applied for the payment of the note.

Also, the relationship between NASUTRA/SRA and PNB when the former constituted the latter as its attorney-in-fact is not a simple agency. NASUTRA/SRA has assigned and practically surrendered its rights in favor of PNB for a substantial consideration.[32] To reiterate, NASUTRA/SRA executed promissory notes in favor of PNB every time it availed of the credit line. The agency established between the parties is one coupled with interest which cannot be revoked or cancelled at will by any of the parties.[33]

Notwithstanding its availment of the approved credit, NASUTRA, for reasons only known to itself, insisted in claiming for refund of the remittances. NASUTRA's posture is untenable. NASUTRA's actuation runs counter to the good faith covenant in contractual relations, required under Article 1159 of the Civil Code, to wit:

Obligations arising from contract have the force of law between the contracting parties and should be complied with in good faith.

Verily, parties may freely stipulate their duties and obligations which perforce would be binding on them. Not being repugnant to any legal proscription, the agreement entered into by NASUTRA/SRA and PNB must be respected and have the force of law between them.

With respect to the application of the sum of P65,412,245.84,[34] the record shows that NASUTRA failed to remit the interest payments to PNB despite its obligation under the liquidation scheme proposed by the Chairman of its Executive Committee, Armando C. Gustillo, to stabilize sugar liquidation prices. Certainly, the authority granted by NASUTRA to Armando Gustillo to propose such liquidation scheme was an authority to represent NASUTRA. Undisputedly, any obligation or liability arising from such agreement shall be binding on the parties. NASUTRA, for its part, cannot now renege on its duties, considering that it took advantage of the loan.

Having established that PNB validly applied the subject remittances to the interest of NASUTRA's loan in the amount of P65,412,245.84, the application of the remainder of the remittance amounting to P15,863,898.79 to the principal is proper.

With respect to the Central Azucarera de Bais (CAB) Planters account, petitioners maintained that the subject remittance cannot be applied to payment thereof, considering that it is unliquidated and needs recomputation, pursuant to Section 3 of Republic Act No. 7202 or the Sugar Reconstitution Law, which provides:

The Philippine National Bank, the Republic Planters Bank, the Development Bank of the Philippines and other government-owned and controlled financial institutions which have granted loans to the sugar producers shall extend to accounts of said sugar producers incurred from Crop Year 1974-1975 up to and including Crop Year 1984-1985 the following:

(a) Condonation of interest charged by the banks in excess of twelve percent (12%) per annum and all penalties and surcharges:

(b) The recomputed loans shall be amortized for a period of thirteen (13) years inclusive of a three-year grace period on principal effective upon the approval of this Act. The principal portion of the loan will carry an interest rate of twelve percent (12%) and on the outstanding balance effective when the original promissory notes were signed and funds released to the producer.

Section 6 of Rules and Regulations implementing RA No. 7202 also provides:

SECTION 2. In cases, however, where sugar producers have no outstanding loan balance with said financial institutions as of the date of effectivity of RA No. 7202 (i.e. sugar producers who have fully paid their loans either through actual payment or foreclosure of collateral, or who have partially paid their loans and after the recomputation of the interest charges, they end up with excess payment to said financial institutions), said producers shall be entitled to the benefits of recomputation in accordance with Sections 3 and 4 of RA No. 7202, but the said financial institutions, instead of refunding the interest in excess of twelve (12%) per cent per annum, interests, penalties and surcharges, apply the excess payment as an offset and/or as payment for the producers' outstanding loan obligations. Applications of restructuring banks under Section 6 of RA No. 7202 shall be filed with the Central Monetary Authority of the Philippines within one (1) year from application of excess payment.

Although it appears from said provision that PNB was directed to condone interest, penalties and surcharges charged in excess of 12% per annum, the passage of said law did not forestall legal compensation that had taken place before its effectivity. The loan had been definitely ascertained, assessed and determined by PNB. Pursuant to Section 4[35] of RA 7202, there would be condonation of interest whether the accounts were fully or partially paid.

With regard to the application of the amount of P206,070,172.57 to the PHILSUCOM account carried in the books of PHILEXCHANGE, petitioners maintain that there could be no application of the subject remittance, considering that the remittances were received by PNB and not PHILEXCHANGE which has a personality separate and distinct from PNB.

Petitioners' contention is not well-taken.

There exist clear indications that insofar as sugar trading was concerned, PHILEXCHANGE and PNB were treated as one entity. Purchases of sugar of PHILEXCHANGE as the exclusive sugar trading arm of PHILSUCOM were financed by PNB pursuant to PD 579. More importantly, PNB, a wholly owned bank of the government at that time, in turn wholly owned and controlled PHILEXCHANGE. Also, Section 2 (a), PD 659 declared as illegal the sale, transfer and assignment of sugar by any planter, producer, miller, central, or refinery to any person or entity other than Philippine Exchange, Inc. and/or the PNB. To reiterate, PHILEXCHANGE failed to pay its loans with PNB because of the fall of the sugar prices in the world market. When NASUTRA substituted PHILEXCHANGE as marketing agent of PHILSUCOM, 1,485,532.47 metric tons[36] of export sugar were turned over by PHILEXCHANGE to NASUTRA. To reiterate, the foreign remittances constituted proceeds of the sale of the sugar covered by quedans transferred by PHILEXCHANGE to NASUTRA.

WHEREFORE, in view of the foregoing, the instant petition for review is DENIED. The decision of the Court of Appeals dated August 10, 2001 is AFFIRMED.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Vitug and Carpio, JJ., concur.

Azcuna, J., I take no part.

[1] Rollo, p. 202; penned by Associate Justice Buenaventura J. Guerrero, concurred in by Associate Justices Eriberto Rosario, Jr. and Edgardo P. Cruz.

[2] Rollo, p. 102.

[3] Philippine Sugar Commission Decree.

[4] Rationalizing and Stabilizing the Export of Sugar and for Other Purposes.

[5] Section 7, PD 579.

[6] Penalizing the Illegal Trading and the Illegal Exportation of Philippine Sugar.

[7] Annex “A”, CA Rollo, p. 62.

[8] Annex “G-12”, CA Rollo, p. 94.

[9] Exhibit 7, CA Rollo, p. 131.

[10] Annexes “G-1 to G-5”, CA Rollo, pp. 83-87, see Exhibits 2-6, CA Rollo, pp. 122-126.

[11] Annex “G-8”, CA Rollo, p. 90, see also Annexes “G-7 and G-8, L-2”, CA Rollo, pp. 88-89, 117.

[12] Annex “G-6”, CA Rollo, p. 88, see also Annex “G-8”, CA Rollo, p. 90.

[13] Annexes “L-3 and L-4”, CA Rollo, pp. 117-118.

[14] Annex “G-7”, CA Rollo, p. 89, see Annexes “G-9 and G-10, L-5”, CA Rollo, pp. 91-92, 119.

[15] Annexes 3, 3-A, and 3-B, CA Rollo, pp. 154-156 see Annexes 3-K to 3-Z, 3-Z-148, CA Rollo, pp. 165-180, 181-288.

[16] Section 13, Executive Order No. 18.

[17] Exhibits “O & O-1”, CA Rollo, pp. 60-61.

[18] Exhibits “N and N-1”, CA Rollo, p. 58-59.

[19] Annex “C”, CA Rollo, p. 68.

[20] Annex “A-3”, CA Rollo, p. 65.

[21] Annex “E-1”, CA Rollo, p. 73.

[22] Annex “B, D, D-1, E-7, E-8, E-9, H, H-1, I”, CA Rollo, pp. 66, 70, 71, 79, 80, 81, 110, 111, 112.

[23] See Annexes “C, C-1, E, E-1, E-2, E-3, E-4, E-5, E-6, G, G-1 to G-5, G-6, G-7, G-8, G-9, G-10, G-11, G-12, G-13, G-14, G-15, G-16, G-17, G-18, G-19, G-20, G-21, G-22, G-23, G-24, G-25, G-26, G-27, H, H-1, I, L, L-1, L-2, L-3, L-4, L-5, M, CA Rollo, pp. 68-69, 72-78, 83-87, 88-109, 110-111, 112, 114-119, 121.

[24] PD 242 in relation to EO 292 otherwise known as the Administrative Code of 1987, Annex “A” to the Motion for Reconsideration of the Order of Dismissal of the Petition, CA Rollo, p. 258.

[25] Annex “C” to the Motion for Reconsideration of the Order Dismissing the Petition, CA Rollo, pp. 20-21.

[26] Annex “C-1” to the Petition, Rollo, p. 111.

[27] Annex “C-2” to the Petition, Rollo, p. 126.

[28] Annex “E” to the Petition, Rollo, p. 218.

[29] Republic Act No. 7202.

[30] Annexes 42 and 43 to PNB’s Comment.

[31] Resolution No. 285-81.

[32] Moomba Mining Exploration Company v. Court of Appeals, 317 SCRA 388 [1999].

[33] Article 1927 of the Civil Code.

[34] Annexes “E-5, E-6, CA Rollo, pp. 77-78.

[35] Accounts of sugar producers pertaining to Crop Year 1974-1975 up to and including Crop Year 1984-1985 which have been fully or partially paid, or may have been the restructuring and other similar arrangements with government banks shall be covered by the provisions above-stated.

[36] Annexes “G-13-G-14”, CA Rollo, pp. 95-96, see also Annexes “G-22 to G-26”, CA Rollo, pp. 101-108, 69,360.62 metric tons of domestic sugar between 21 July 1977 and 28 December 1977 and 1,416,171.85 metric tons of export sugar between August 1, 1977 and February 15, 1978.

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