

PETRON CORPORATION, PETITIONER, VS. NATIONAL COLLEGE OF BUSINESS AND ARTS, RESPONDENT.

G.R. NO. 155683. February 16, 2007

Ponente: CORONA, J.

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CORONA, J.:

The sole question raised in this petition for review on certiorari[1] is whether petitioner Petron Corporation (Petron) should be held liable to pay attorney's fees and exemplary damages to respondent National College of Business and Arts (NCBA).

This case, however, is but part of a larger controversy over the lawful ownership of seven parcels of land[2] in the V. Mapa area of Sta. Mesa, Manila (the V. Mapa properties) that arose out of a series of events that began in 1969.[3]

Sometime in 1969, the V. Mapa properties, then owned by Felipe and Enrique Monserrat, Jr., were mortgaged to the Development Bank of the Philippines (DBP) as part of the security for the P5.2 million loan of Manila Yellow Taxicab Co., Inc. (MYTC) and Monserrat Enterprises Co. MYTC, for its part, mortgaged four parcels of land located in Quiapo, Manila.

On March 31, 1975, however, Felipe's ½ undivided interest in the V. Mapa properties was levied upon in execution of a money judgment rendered by the Regional Trial Court (RTC) of Manila in *Filoil Marketing Corporation v. MYTC, Felipe Monserrat, and Rosario Vda. De Monserrat* (the Manila case).[4] DBP challenged the levy through a third-party claim asserting that the V. Mapa properties were mortgaged to it and were, for that reason, exempt from levy or attachment. The RTC quashed it.

On June 18, 1981, MYTC and the Monserrats got DBP to accept a *dacion en pago* arrangement whereby MYTC conveyed to the bank the four mortgaged Quiapo properties as full settlement of their loan obligation. But despite this agreement, DBP did not release the V. Mapa properties from the mortgage.

On May 21, 1982, Felipe, acting for himself and as Enrique's attorney-in-fact, sold the V. Mapa properties to respondent NCBA. Part of the agreement was that Felipe and Enrique would secure the release of the titles to the properties free of all liens and encumbrances including DBP's mortgage lien and Filoil's levy on or before July 31, 1982. But the Monserrats failed to comply with this undertaking. Thus, on February 3, 1983, NCBA caused the annotation of an affidavit of adverse claim on the TCTs covering the V. Mapa properties.

Shortly thereafter, NCBA filed a complaint against Felipe and Enrique for specific performance with an alternative prayer for rescission and damages in the RTC of Manila. The case was raffled to Branch 30 and docketed as Civil Case No. 83-16617. On March 30, 1983, NCBA had a notice of *lis pendens* inscribed on the TCTs of the V. Mapa properties. A little over two years later, NCBA impleaded DBP as an additional defendant in order to compel it to release the V. Mapa properties from mortgage.

On February 28, 1985, during the pendency of Civil Case No. 83-16617, Enrique's ½ undivided interest in the V.

Mapa properties was levied on in execution of a judgment of the RTC of Makati (the Makati case)[5] holding him liable to Petron (then known as Petrophil Corporation) on a 1972 promissory note. On April 29, 1985, the V. Mapa properties were sold at public auction to satisfy the judgments in the Manila and Makati cases. Petron, the highest bidder, acquired both Felipe's and Enrique's undivided interests in the property. The final deeds of sale of Enrique's and Felipe's shares in the V. Mapa properties were awarded to Petron in 1986. Sometime later, the Monserrats' TCTs were cancelled and new ones were issued to Petron. Thus it was that, towards the end of 1987, Petron intervened in NCBA's suit against Felipe, Enrique and DBP (Civil Case No. 83-16617) to assert its right to the V. Mapa properties.

The RTC rendered judgment on March 11, 1996.[6] It ruled, among other things, that Petron never acquired valid title to the V. Mapa properties as the levy and sale thereof were void and that NCBA was now the lawful owner of the properties. Moreover, the RTC held Petron, DBP, Felipe and Enrique jointly and severally liable to NCBA for exemplary damages and attorney's fees for the following reasons:

FELIPE and ENRIQUE had no reason to renege on their undertaking in the Deed of Absolute Sale "to secure the release of the titles to the properties xxx free from all the liens and encumbrances, and to cause the lifting of the levy on execution of Commercial Credit Corporation, Industrial Finance Corporation[,] and Filoil over the V. Mapa [p]roperty. Moreover, ENRIQUE had no reason to repudiate FELIPE and disavow authority he had [given] the latter to sell his share in the V. Mapa property.

On the other hand, the mortgage in favor of DBP had been fully extinguished thru dacion en pago as early as 18 June 1981 but it unjustifiably and whimsically refused to release the mortgage and to surrender to the buyer (NCBA) the owner's duplicate copies of Transfer Certificates of Title No[s]. 83621 to 83627, thereby preventing NCBA from registering the sale in its favor.

Similarly, [Petron] has absolutely no reason to claim the V. Mapa property. For, as shown above, the levy in execution and sale of the shares of FELIPE and ENRIQUE in the V. Mapa property were null and void.

Finally, in their Memorandum of Agreement dated 25 September 1992 with Technical Institute of the Philippines, [Petron] and DBP attempted to pre-empt this Court's power to adjudicate on the claim of ownership stipulating that "to facilitate their defenses and cause of action in Civil Case No. 83-16617," they agreed on the disposition of the V. Mapa property among themselves. For obvious reasons, this Court refused to give its imprimatur and denied their prayer for dismissal of the complaint against DBP.

These acts of defendants and intervenor demonstrate their wanton, fraudulent, reckless, oppressive and malevolent conduct in their dealings with NCBA. Furthermore, they acted with gross and evident bad faith in refusing to satisfy NCBA's plainly valid and demandable claims. Assessment of exemplary damages and attorney's fees in the amounts of P100,000.00 and P150,000.00, respectively, is therefore in order (Arts. 2208 and 2232, Civil Code).[7]

Enrique, DBP and Petron appealed to the Court of Appeals (CA). The appeal was docketed as CA-G.R. CV No. 53466. In a decision dated June 21, 2002,[8] the CA affirmed the RTC decision in toto. On motion for reconsideration, Petron and DBP tried to have the award of exemplary damages and attorney's fees deleted for lack of legal and factual basis. The Philippine National Oil Company (PNOC), which had been allowed to intervene in the appeal as transferee pendente lite of Petron's right to the V. Mapa properties, moved for reconsideration of the ruling on ownership. In a resolution dated October 16, 2002,[9] the CA denied these motions for lack of merit. Thereupon, Petron and PNOC took separate appeals to this Court.

In this appeal, the only issue is Petron's liability for exemplary damages and attorney's fees. And on this matter, we reverse the rulings of the trial and appellate courts.

Article 2208 lays down the rule that in the absence of stipulation, attorney's fees cannot be recovered except in the following instances:

- (1) When exemplary damages are awarded;
- (2) When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expense to protect his interest;
- (3) In criminal cases of malicious prosecution against the plaintiff;
- (4) In case of a clearly unfounded civil action or proceeding against the plaintiff;
- (5) Where the defendant acted in gross and evident bad faith in refusing to satisfy the plaintiff's plainly valid, just and demandable claim;
- (6) In actions for legal support;
- (7) In actions for the recovery of wages of household helpers, laborers and skilled workers;
- (8) In actions for indemnity under workmen's compensation and employer's liability laws;
- (9) In a separate civil action to recover civil liability arising from a crime;
- (10) When at least double judicial costs are awarded;
- (11) In any other case where the court deems it just and equitable that attorney's fees and expenses of litigation should be recovered.[10]

Here, the RTC held Petron liable to NCBA for attorney's fees under Article 2208(5), which allows such an award "where the defendant acted in gross and evident bad faith in refusing to satisfy the plaintiff's plainly valid, just, and demandable claim." However, the only justification given for this verdict was that Petron had no reason to claim the V. Mapa properties because, in the RTC's opinion, the levy and sale thereof were void.[11] This was sorely inadequate and it was erroneous for the CA to have upheld that ruling built on such a flimsy foundation.

Article 2208(5) contemplates a situation where one refuses unjustifiably and in evident bad faith to satisfy another's plainly valid, just and demandable claim, compelling the latter needlessly to seek redress from the courts.[12] In such a case, the law allows recovery of money the plaintiff had to spend for a lawyer's assistance in suing the defendant – expenses the plaintiff would not have incurred if not for the defendant's refusal to comply with the most basic rules of fair dealing. It does not mean, however, that the losing party should be made to pay attorney's fees merely because the court finds his legal position to be erroneous and upholds that of the other party, for that would be an intolerable transgression of the policy that no one should be penalized for exercising the right to have contending claims settled by a court of law.[13] In fact, even a clearly untenable defense does not justify an award of attorney's fees unless it amounts to gross and evident bad faith.[14]

Petron's claim to the V. Mapa properties, founded as it was on final deeds of sale on execution, was far from untenable. No gross and evident bad faith could be imputed to Petron merely for intervening in NCBA's suit against DBP and the Monserrats in order to assert what it believed (and had good reason to believe) were its rights and to have the disputed ownership of the V. Mapa properties settled decisively in a single lawsuit.

With respect to the award of exemplary damages, the rule in this jurisdiction is that the plaintiff must show that he is entitled to moral, temperate or compensatory damages before the court may even consider the question of whether exemplary damages should be awarded.[15] In other words, no exemplary damages may be awarded without the plaintiff's right to moral, temperate, liquidated or compensatory damages having first been established. Therefore, in view of our ruling that Petron cannot be made liable to NCBA for compensatory damages (i.e., attorney's fees), Petron cannot be held liable for exemplary damages either.

WHEREFORE, the petition is hereby GRANTED. The imposition of liability on Petron Corporation for exemplary damages and attorney's fees is REVOKED. The June 21, 2002 decision and October 16, 2002 resolution of the Court of Appeals in CA–G.R. CV No. 53466 and the March 11, 1996 decision of the Regional Trial Court of Manila in Civil Case No. 83-16617 are hereby MODIFIED accordingly.

SO ORDERED.

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

[1] Under Rule 45 of the Rules of Court. Rollo, pp. 8-23.

[2] Covered by Transfer Certificates of Title (TCT) Nos. 83621 to 83627.

[3] The latter issue is the subject of Philippine National Oil Company v. National College of Business and Arts, docketed as G.R. No. 155698, now pending in the Third Division.

[4] Civil Case No. 89462.

[5] Civil Case No. 7285, entitled, Petrophil Corporation v. Enrique Monserrat, Jr.

[6] Penned by Judge Senecio O. Ortile. Rollo, pp. 27-46.

[7] Id., p. 44.

[8] Penned by Associate Justice Romeo A. Brawner (retired) and concurred in by Associate Justices Jose L. Sabio, Jr. and Mario Guariña III of the Fourteenth Division of the Court of Appeals. Id., pp. 47-59.

[9] Id., pp. 61-64.

[10] CIVIL CODE, Art. 2208.

[11] Supra note 7.

[12] Herrera v. Luy Kim Guan, 110 Phil. 1020 (1960).

[13] Justiva v. Gustilo, 117 Phil. 71 (1963); Herrera v. Luy Kim Guan, 110 Phil. 1020 (1960).

[14] Jimenez v. Bucoy, 103 Phil. 40, 45 (1958).

[15] CIVIL CODE, Art. 2234. See also Civil Code, Art. 2229. Exemplary or corrective damages are imposed, by way of example or correction for the public good, in addition to the moral, temperate, liquidated, or compensatory damages. (*italics supplied*)

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