

**PHILIPPINE FISHERIES DEVELOPMENT AUTHORITY, PETITIONER,
VS. COURT OF APPEALS AND QVEGG MARINE TRANSPORT AND
BUILDERS CORPORATION, RESPONDENTS.**

G.R. NO. 159821. August 19, 2005

Ponente: CARPIO MORALES, J.

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CARPIO MORALES, J.:

Assailed via petition for review on certiorari are the November 8, 2002 Decision and August 25, 2003 Resolution of the Court of Appeals in CA-G.R. CV No. 46297, "QVEGG Marine Transport and Builders Corporation v. Philippine Fisheries Development Authority."

On August 1, 1989, petitioner Philippine Fisheries Development Authority as lessor, and respondent QVEGG Marine Transport and Builders Corporation as lessee, entered into a 10-year lease contract[1] covering the Iloilo Fishing Port Complex slipways and other auxiliary facilities for a monthly rental of P85,000.00. The pertinent provision of the contract reads:

3.

For and in consideration of the use of the leased premises and above-mentioned equipment, the LESSEE hereby agrees to pay the LESSOR a monthly rental of EIGHTY FIVE THOUSAND PESOS (P85,000.00) for the first year of this Contract reckoned from the date of signing. The monthly rental shall be payable within the first five days of each month without need of demand at the office of the LESSOR. In case of delay in the payment of the said monthly rental, it shall earn interest at the rate of 3% per month on any or all delayed payments, provided that failure on the part of the LESSEE to pay rentals for two (2) successive months shall be a ground for the termination of this Contract without need of judicial action. The LESSEE likewise agrees to a yearly escalation rate of 10% on the monthly lease rental effective on the second year. (Emphasis and underscoring supplied).

It appears that respondent was delinquent in the performance of its contractual obligations, prompting petitioner to terminate the contract by letter[2] dated November 16, 1992.

Responding to the letter of termination, respondent requested the restructuring of its overdue account. By letter[3] dated February 1, 1993, petitioner granted respondent's request subject to the following "instructions":

- Initial payment of P200,000.00 plus all interest charges up to December 31, 1992 payable on or before February 15, 1993.
- Balance of the arrears up to December 31, 1992 shall be payable by post dated checks in six (6) equal monthly installments starting March 15, 1993 and every 15th day of the month thereafter. This requirement shall likewise be submitted on or before February 15, 1993.
- Regular payment of 1993 current monthly rentals in addition to monthly power and water bills. (Emphasis supplied)

Petitioner's letter of February 1, 1993 contained a caveat that should respondent fail to comply with the "instructions," it would terminate the contract and file the necessary legal action.

It appears, however, that it was only on February 22, 1993 that respondent paid its January 1993 space rental and electric and water bills.[4] For "failure to comply strictly with the terms and conditions imposed" in its letter of February 1, 1993, petitioner, by letter[5] dated March 1, 1993, terminated the lease contract.

Respondent sought reconsideration of petitioner's March 1, 1993 letter, by letter[6] dated March 2, 1993, explaining that it interpreted paragraph c of petitioner's February 1, 1993 letter, in relation to paragraph 3 of the contract which provides that its failure to pay rentals for two successive months shall be a ground for the termination of the contract.

Petitioner, by letter[7] dated March 8, 1993, denied respondent's request for reconsideration of its March 1, 1993 letter.

Respondent thereupon filed on March 12, 1993 a complaint[8] for Enforcement of Contract and Damages with prayer for restraining order and writ of preliminary injunction against petitioner before the Regional Trial Court (RTC) of Iloilo City seeking the following reliefs:

- To declare the Contract of Lease as illegally terminated by [petitioner] and that the same be considered valid and binding in accordance with the full terms thereof[;]
- To declare the continued bindingness (sic) of paragraph 3 of the Contract of Lease, including [respondent's] right to enjoy the 2-month rental payment grace period;
- To forever enjoin the defendant from interfering with [respondent's] operation, use and occupancy of the leased shipyard and shiprepair facilities throughout the duration of the Contract of Lease as long as [petitioner] pays the stipulated rentals in accordance to the full terms of paragraph 3 thereof;
- To order defendant to pay plaintiff the following amounts:
 - 4.1. Nominal damages in the amount of P300,000.00
 - 4.2. Exemplary damages in the amount of P100,000.00
 - 4.3. Attorney's fees in the amount of P75,000.00
 - 4.4. Litigation expenses in the amount of P20,000.00

Branch 24 of the Iloilo RTC, by Order of March 16, 1993,[9] temporarily restrained petitioner "from interfering with [respondent's] exercise of its rights and prerogatives as lessee under the Contract of Lease . . ."

Petitioner subsequently filed a Motion to Dismiss[10] the complaint on the following grounds: 1) venue was improperly laid; 2) the complaint states no cause of action; and 3) respondent has no valid cause of action for failure to exhaust administrative remedies. The motion was, however, denied by Order[11] of April 7, 1993.

Petitioner thus filed its Answer[12] dated May 10, 1993. Arguing for the dismissal of the complaint, petitioner contended that paragraph 3 of the lease contract was rendered ineffective by the new terms and conditions set forth in its February 1, 1993 letter; and that respondent failed to exhaust available administrative remedies by not appealing to the Department of Agriculture.

The trial court, by Decision[13] of March 14, 1994, found for respondent and declared illegal the termination of the contract by petitioner, it holding that paragraph c of the February 1, 1993 letter did not modify paragraph 3 of the lease contract. It, however, dismissed respondent's prayer for damages on the ground that petitioner acted in good faith when it terminated the lease. The dispositive portion of the trial court's decision reads:

WHEREFORE, premises considered, the Court renders judgment as follows:

(1) The termination by the [petitioner] of the Contract of Lease on March 8, 1993 (Exh. G) is hereby declared illegal and is thus nullified.

(2) [Petitioner] is enjoined from terminating the lease contract in derogation of the Court's interpretation of paragraph C of Exh. 24, should there be cause henceforth to terminate the lease.

The claim for damages by either is dismissed.

Petitioner appealed the trial court's decision to the Court of Appeals before which it assigned to the trial court the following errors:[14]

- THE LOWER COURT SERIOUSLY ERRED IN ITS DECISION WHEN IT DECLARED ILLEGAL AND NULLIFIED THE TERMINATION BY [PETITIONER] PFDS OF THE CONTRACT OF LEASE ON MARCH 8, 1993[; and]

- THE LOWER COURT SERIOUSLY ERRED IN ITS DECISION WHEN IT ENJOINED [PETITIONER] PFDA FROM TERMINATING THE LEASE CONTRACT IN DEROGATION OF THE LOWER COURT'S INTERPRETATION OF PARAGRAPH C OF EXHIBIT "24" SHOULD THERE BE CAUSE HENCEFORTH TO TERMINATE THE LEASE.

Respondent too appealed the trial court's decision, questioning the dismissal of its claim for damages, attorney's fees and litigation expenses.[15]

The Court of Appeals, by the assailed Decision[16] of November 8, 2002, dismissed the respective appeals of petitioner and respondent for want of merit. In sustaining the trial court's finding that petitioner's termination of the lease contract was illegal, the Court of Appeals ratiocinated:

Due reading of paragraph C of [petitioner's] letter dated February 1, 1993, and of the entire letter itself, shows that it is not the intention the parties to do away with the prescription embodied in the original lease agreement, particularly Section 3 thereof, which provided for the amount, manner and period for payment of regular lease rentals.

Indeed, the provisions of paragraph C of the letter dated February 1, 1993, cannot stand alone, and are inutile without the prescription stipulated under Section 3 of the parties' original lease, inasmuch as paragraph C makes no provision as to the amount, period and manner of payment, other than providing that such payments must be regularly paid. Thus, the lower court was correct in interpreting the parties' agreement to be embodied in both instruments, in the manner that it did, as such interpretation gives life to the expressed intention of the parties and renders their lease agreement effectual. As expressed under substantive law, an interpretation gives sense to all the stipulations of a contract, and renders the same effectual and binding between the parties is favored, rather than one which is absurd and ineffectual.

x x x (Underscoring supplied)

Petitioner's Motion for Reconsideration having been denied by the Court of Appeals by Resolution[17] of August 25, 2003, it filed the present petition raising the following issues:

- WHETHER OR NOT THE IMPOSSIBILITY OF PRIVATE RESPONDENT TO RENDER ITS OBLIGATION WHICH IS THE PAYMENT OF RENTALS, ARISING FROM THE LEASE AGREEMENT GIVES RIGHT TO THE PETITIONER TO HAVE THE LEASE AGREEMENT RESCINDED.

- WHETHER ARTICLE 1191 OF THE NEW CIVIL CODE PROVIDES FOR A RESCISSION BY AGREEMENT THAT DOES NOT REQUIRE THE AGGRIEVED PARTY TO THE CONTRACT TO RESORT

TO COURT ACTION BEFORE THE SAID CONTRACT CAN BE RESCINDED.

- WHETHER OR NOT AN ACTION FOR RESCISSION OF CONTRACT IS AVAILABLE ON A CONTRACT WHICH HAD ALREADY EXPIRED.[18]

Petitioner submits that Article 1191 of the Civil Code provides for rescission by mutual agreement and, therefore, does not require the aggrieved party to resort to court action. It thus faults the Court of Appeals to have gravely erred in "requiring [it] to file a distinct action for rescission on Contracted Lease which already expired." Petitioner thus prays that:

- Judgment be rendered declaring the act of petitioner in rescinding the Contract of Lease as valid under Article 1191 of the New Civil Code.

- Judgment be rendered dismissing the case for lack of any factual or legal basis.[19]

Respondent counters that the petition raises purely moot and academic matters, pointing out that the lease contract, the unilateral rescission of which was being challenged in the court a quo, had already expired in 1999; and even if the Court of Appeals decision is reversed, it would not in anyway change the position and circumstances of the parties on account of the expiration of the contract.

The petition must be denied.

Nowhere in the challenged Court of Appeals decision is petitioner required to first file a separate action for rescission. All that the Court of Appeals held is that, as found by the trial court, the termination by petitioner of the contract by letter of March 1, 1993 is illegal since paragraph 3 of the contract calls for its termination only after respondent fails for two successive months to comply with its obligations thereunder.

Moreover, as correctly pointed out by respondent, the issues raised by petitioner in the instant petition are already moot and academic due to the expiration in 1999 of the lease contract. To still discuss them would be of no practical significance. Besides, the issues raised herein are premised on petitioner's erroneous submission that the Court of Appeals was requiring it to file an action for rescission of the lease contract.

At all events, on the merits, this Court finds no reversible error on the part of the Court of Appeals in upholding the decision of the trial court.

The New Civil Code provides that "various stipulations of a contract shall be interpreted together, attributing to the doubtful ones that sense which may result from all of them taken jointly." [20]

Indeed, paragraph c of the February 1, 1993 letter cannot stand alone independently of paragraph 3 of the lease contract for paragraph c does not provide for the amount, period or manner of payment. Said paragraph c did not thus amend paragraph 3 of the lease contract, hence, it is only after respondent fails to pay rentals for two (2) successive months that petitioner may terminate the contract.

This Court quotes with approval the following observation of the Court of Appeals refuting petitioner's claim that paragraph 3 of the lease contract was rendered ineffective by the new terms and conditions set forth in its February 1, 1993 letter to respondent:

. . . [I]t appears that [petitioner] PFDA's proposals for the reinstatement of the lease was made on February 1, 1993; at a time when it should be aware that the rentals for January 1993 have not been paid within the first five days of said month. It strikes us as absurd, therefore, that [petitioner] would be accusing the [respondent] of an infraction, when at the time the said infraction is allegedly being made, [petitioner] was already performing acts showing its tolerance, if not acquiescence to such acts. As aptly observed by the lower court in its decision:

The letter of February 1, 1993 was signed and issued by the [petitioner] knowing fully well that as of said date [respondent] had not yet paid its rental for the current month of January 1993 (which it paid later only on February 22, 1993). If [petitioner] seriously believed that [respondent] could no longer avail of the two-month grace period then it should not have issued at all the same amicable letter at the time when [petitioner] had already a one-month unpaid rental for January 1993.

This bolsters our conclusion that the parties had agreed to be bound by the prescriptions in both contracts, particularly that the lessee is allowed a two-month grace period for payment of rentals, before rescission of the contract could be made. In order to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered.

x x x[21] (Emphasis and underscoring supplied).

In fine, by the parties' contemporaneous and subsequent acts, they did not intend to do away with the two-month grace period for the payment of rentals under the contract of lease before said contract could be terminated.

. . . [T]he Court finds relevant and significant the cardinal rule in the interpretation of contracts that the intention of the parties shall be accorded primordial consideration and in case of doubt, their contemporaneous and subsequent acts shall be principally considered. Where the parties to a contract have given it a practical construction by their conduct as by acts in partial performance, such construction may be considered by the court in construing the contract, determining its meaning and ascertaining the mutual intention of the parties at the time of contracting. The parties' practical construction of their contract has been characterized as a clue or index to, or as evidence of, their intention or meaning and as an important, significant, convincing, persuasive, or influential factor in determining the proper construction of the contract.[22] (Emphasis supplied).

WHEREFORE, the petition is hereby DENIED.

Costs against petitioner.

SO ORDERED.

Panganiban, (Chairman), Sandoval-Gutierrez, Corona, and Garcia, JJ., concur.

[1] Records at 8-11.

[2] Exh. "23," Defendant's Exhibit Folder.

[3] Exh. "B," Records at 12.

[4] Exh. "G-1," Records at 81.

[5] Records at 14-15.

[6] Id. at 16-17.

[7] Id. at 43.

[8] Id. at 1-7

[9] Id. at 19.

[10] Id. at 22-29.

[11] Id. at 55-56.

[12] Id. 63-72.

[13] Id. at 276-278.

[14] Court of Appeals (CA) Rollo at 34-35.

[15] CA Rollo at 77-95.

[16] Rollo at 67-76.

[17] Id. at 78-79.

[18] Id. at 22-23.

[19] Id. at 28.

[20] Article 1374.

[21] Rollo at 74-75.

[22] *Riviera Filipina, Inc. v. Court of Appeals* 380 SCRA 245, 261 (2002); *Vide, Javier v. Court of Appeals*, 183 SCRA 171, 179 (1990).

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