

EMILIO GONZALES LAO, PETITIONER, VS. REPUBLIC OF THE PHILIPPINES AND THE GOVERNMENT SERVICE INSURANCE SYSTEM, RESPONDENTS.

G.R. NO. 160719. January 23, 2006

Ponente: CORONA, J.

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CORONA, J.:

In this petition for review on certiorari,[1] petitioner Emilio Gonzales La'O seeks to reverse the June 27, 2003[2] decision of the Court of Appeals (CA) in CA-G.R. CV No. 62580, affirming in toto the decision[3] of Branch 41 of the Regional Trial Court (RTC) of Manila and the CA's November 10, 2003 resolution[4] denying petitioner's motion for reconsideration.

The factual antecedents follow.

The Government Service Insurance System (GSIS) is the registered owner of three parcels of land with an area of around 821 square meters,[5] with a five-storey building and the other improvements thereon.[6] The property is situated at the corner of Mabini and Arquiza streets in Ermita, Manila and covered by Transfer Certificate of Title No. 108252.[7]

On June 22, 1978, the GSIS and the Republic of the Philippines, through the Office of the Government Corporate Counsel (OGCC), entered into a "lease-purchase" agreement (first contract). GSIS agreed to transfer the property to the OGCC for a consideration of P1.5 million, payable in equal yearly amortization-lease rentals of P100,000 for a period of 15 years.[8]

On December 22, 1980, petitioner offered to purchase the property.[9]

On May 10, 1982, GSIS and petitioner executed a "lease-purchase" agreement (second contract). GSIS agreed to sell the same property to petitioner for P2,000,000, with a down payment of P200,000 and the balance payable within a period of 15 years at 12% interest per annum, compounded yearly.[10]

Under the second contract, GSIS obligated itself to construct for the OGCC a three-storey building on the Manila Bay reclaimed area or to make available another property acceptable to the OGCC, to be conveyed to the Republic under the same or mutually acceptable terms and conditions as those of the first contract. In the meantime, the OGCC was allowed to continue occupying the second to the fifth floors of the building at an annual rental of P100,000, payable to petitioner.[11] Furthermore, petitioner was entitled to lease out the ground floor and collect the corresponding rentals.[12]

It appears that on April 11, 1982, then President Ferdinand E. Marcos approved the second contract by scribbling on the right upper hand corner "11 April 1982 – Approved – Ferdinand E. Marcos." [13] On April 23, 1982, the GSIS Board of Trustees approved the same.[14]

In 1989, after the overthrow of Marcos (in 1986), respondents filed before the RTC of Manila, Branch 41 a

complaint against petitioner alleging that:

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- Upon [petitioner's] behest and representations, then President Ferdinand E. Marcos directed then GSIS General Manager Roman A. Cruz, Jr. to arrange the transfer of [the property] to [petitioner].

- On April 11, 1982, at a time when no action was yet taken by the GSIS Board of Trustees on the transfer of [the property], then President Marcos indicated his approval of the second Lease-Purchase Agreement which had been prepared pursuant to the instructions and orders of then President Marcos who exercised total and absolute power[.]

- By reason of such insidious machinations engineered by [petitioner] and upon instructions or orders of then President Marcos, the Republic, through the OGCC, was forced, intimidated and coerced to execute a waiver of its rights and interests to the property, and the Board of Trustees of the GSIS was likewise constrained to approve [the] offer of [petitioner] and to execute [the second Lease-Purchase Agreement] of May 10, 1982.

- [The second Lease-Purchase Agreement] is burdensome and grossly disadvantageous to the Republic, through the OGCC and the GSIS. Notwithstanding that [the property was] already valued then at or about Ten Million Pesos (P10,000,000.00), they were sold to [petitioner] for only Two Million Pesos (P2,000,000.00), and, worse yet, payable on a fifteen-year installment basis. Furthermore, the agreement obligated the GSIS to provide the Republic, through the OGCC, an office and parking space equivalent to a three-storey office building at its new building located at the Reclamation site in the Manila Bay Area or some other acquired properties to house its offices, on or before June 1989. The value of this obligation of the GSIS to the Republic, at the moment is worth at least Twenty Million Pesos (P20,000,000.00).

- Since the terms of [the] second agreement are manifestly and grossly disadvantageous to the government and to the GSIS and its members, the contract is contrary to law, being violative of RA 3019, and the public officers responsible thereof are liable under Section 3(g) of [RA 3019]. Considering that the cause or consideration of the second contract is contrary to law, the same is void (Art. 1352, Civil Code).

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- Also, the second agreement has not yet become effective. Number 18, Page 10 thereof provides that the same shall become effective upon its approval by the President of the Republic of the Philippines. This notwithstanding, neither the former President of the Philippines nor the incumbent President has given his/her approval to the said agreement after its execution.

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- Upon execution of the second Lease-Purchase Agreement, [petitioner] took possession of one (1) commercial space of the five-storey building of the subject premises and leased out the rest of the ground floor thereof to other persons, thus, realizing a monthly rental income in the sum of [P25,000], more or less, apart from the [P100,000] yearly rental he receives from the Republic, through the OGCC.

- Considering the circumstances attendant to the negotiation and execution of the second Lease-Purchase Agreement, the same is null and void, and [petitioner] should be made to pay for the office space he had been occupying thereunder and to account for and to return to the Republic, through the OGCC, all moneys he unjustly received, including those received from such tenant-lessees by way of rentals beginning May, 1982, with interest thereon at the legal rate until fully paid.[15]

Respondents prayed for the nullification of the second contract and the forfeiture of all payments made by petitioner to the GSIS in favor of the Republic, through the OGCC, which payments were to be deemed payments by the Republic to the GSIS under the first contract. They also prayed for the payment by petitioner to the

Republic, through the OGCC, of: (a) a reasonable amount as rental for his occupancy of one commercial space in the ground floor from May, 1982 until he vacated the same; (b) all sums of money received as rentals from the tenant-lessees of the building at the rate of P25,000 per month, plus legal interest, and (c) all sums of money received from the Republic, through the OGCC, by way of rentals at the annual rate of P100,000 from May, 1982, with legal interest thereon until fully paid. Respondents further prayed for the payment of actual damages, attorney's fees and litigation expenses, exemplary damages and costs of suit.[16]

On September 14, 1998, the trial court rendered its decision. It ruled in favor of respondents and declared the May 10, 1982 lease-purchase agreement between GSIS and petitioner null and void. It also ordered the forfeiture in favor of respondents of the purchase price paid by petitioner to GSIS as well as the rentals received by petitioner.[17]

As stated earlier, the CA affirmed the decision of the RTC in toto.[18]

Hence this petition.[19]

The issues raised by petitioner are actually anchored to one main issue: Was the second contract valid as claimed by petitioner or null and void as decided by the courts below?

Before we delve into the merits, we shall first dispose of the question of jurisdiction. Petitioner asserts that it is the Sandiganbayan, not the RTC, which has jurisdiction over this "ill-gotten wealth" case because the complaint involved the annulment of a fraudulent conveyance of government property to a Marcos crony and the recovery of such "ill-gotten wealth" by the government.[20] Furthermore, for failure to consolidate this civil case with the criminal case in the Sandiganbayan [charging petitioner with violation of Section 3(g) of RA 3019], this case should be considered abandoned.[21]

Petitioner's contention has no merit.

Petitioner argued and discussed this particular issue for the first time in his memorandum before this Court.[22] While it is true that jurisdiction over the subject matter of a case may be raised at any stage of the proceedings since it is conferred by law, it is nevertheless settled that a party may be barred from raising it on the ground of estoppel.[23] After voluntarily submitting a cause and encountering an adverse decision on the merits, it is improper and too late for the losing party to question the jurisdiction of the court.[24] A party who has invoked the jurisdiction of a court over a particular matter to secure affirmative relief cannot be permitted to afterwards deny that same jurisdiction to escape liability.[25] Thus petitioner is estopped from questioning the jurisdiction of the courts below.

Now, the merits of the petition.

We agree with the conclusion of the CA[26] and the RTC that the second contract was null and void ab initio.

The second contract was null and void ab initio for being in contravention of Section 3(e) and (g) of RA 3019, otherwise known as the "Anti-Graft and Corrupt Practices Act".[27] Both the trial and appellate courts found that the second contract gave petitioner unwarranted benefits and was grossly disadvantageous to the government.[28] Under Article 1409(7) of the Civil Code,[29] the contract was null and void from the beginning.

We quote the discussion of the CA with approval:

The inquiry that must be settled is – Whether or not the subject Agreement had been grossly disadvantageous to the economic interests of the Republic.

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x x x prior to the subject Agreement, there was a subsisting lease-purchase Agreement between GSIS and the Republic, thru the OGCC, whereby the latter undertakes to pay the former the total amount of [P1,500,000], payable within [15] years and the payment of the yearly amortization of [P100,000] shall be made in equal quarterly installments of [P25,000]. Under the same Agreement, the Republic, thru the OGCC shall manage and administer the leased premises as if it were the absolute owner thereof. As of August 1982, the Republic, thru the OGCC had been collecting an average monthly rental of [P10,000] from [various tenants of the premises].

The foregoing figures [leads] to the conclusion that the Republic, thru the OGCC, had been earning an average annual rental income of [P120,000], an amount which is more than enough to cover its yearly amortization-rental to the GSIS which is only [P100,000].

The economic benefit which the Republic, thru the OGCC, enjoys during the subsistence of the prior Agreement is shown by its being able to liquidate its yearly amortization-rental from the rental income of the subject property without any need for the Republic to appropriate additional funds for such disbursement and further, by the transfer of absolute ownership of the subject property to the Republic, thru the OGCC, at the termination of the [15] year lease-purchase Agreement.

In the subject Agreement with [petitioner], the consideration was increased to [P2,000,000] with a down payment of [P200,000] and the balance payable within a period of [15] years at [12%] per annum interest thereon, compounded yearly, with a yearly amortization of [P264,278.37], including principal and interest. Under the same Agreement, the OGCC was likewise allowed to continue occupying its offices from the second to the fifth floors of the premises, at the rental rate of [P100,000] annually.

The Agreement between [petitioner] and the GSIS which is the subject of the instant case had in fact transferred the economic benefits which the Republic used to enjoy to [petitioner]. At the end of [15] years, [petitioner] shall become the absolute owner of the subject property upon full payment of the [15] yearly amortizations. At bottom, however, is the fact that, at least for the first [five] years of the [Agreement], [petitioner] shall not be shelling out of his own pocket the yearly amortization since the same shall be covered by the annual rental coming from the OGCC and the other tenants thereof. In the meantime, the Republic, thru the OGCC, shall not only be appropriating additional funds for its annual rental but worse, it was stripped of the opportunity to become the absolute owner of the subject property.

The Court cannot also ignore the marked differences between the consideration of TWO MILLION PESOS (P2,000,000.00) and the valuations of the subject property in 1982 as appraised by Mr. Narlito Mari'o to the effect that the fair market value of the subject property from FIVE MILLION FIVE HUNDRED SEVENTY FIVE THOUSAND PESOS (P5,575,000.00) as the minimum and SEVEN MILLION EIGHTY THREE THOUSAND THREE HUNDRED PESOS (P7,083,300.00) as the maximum and Cuervo Appraisers, Inc. to the effect that the fair market value of the subject property is EIGHT MILLION FIVE THOUSAND FIVE HUNDRED PESOS (P8,005,500.00). While concededly the foregoing property appraisal was conducted in 1989 and 1996 respectively, the Court is not unmindful of the fact that the valuations were arrived at by taking into consideration all the parameters that, by practice, could provide reasonable statistical indication of the value of the subject property in 1982.

On this respect, [respondents'] assertion that the subject Agreement is at the behest of [petitioner] and is grossly disadvantageous to the Republic had become self-evident since it certainly bewilders the mind why the GSIS would enter into an Agreement which smacks of disturbing economic implications, i.e. the Republic would need to appropriate additional funds to pay for its rentals and abandon the chance of becoming the owner of the subject property which it uses for governmental purposes and the fact that the subject property was negotiated by the government via a losing proposition.

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... [I]n view of GSIS' undertaking to construct another building for the OGCC ... what was revealed is the fact that if only to accommodate the subject Agreement with the [petitioner], the GSIS had undertaken to build another building for the OGCC or to make available for OGCC's use any other acquired property and to grant the same terms and conditions as that of the previous agreement. Necessarily so, the GSIS had imposed additional economic burden upon itself, at the expense of government funds, in order to meet the terms and conditions of the subject Agreement when the same was not necessary during the subsistence of the prior agreement.[30](emphasis supplied)

The foregoing clearly shows that the second contract caused undue injury to the government, gave petitioner unwarranted benefits and was grossly disadvantageous to the government. The disquisition of the CA is sufficiently exhaustive and convincing considering that in civil cases like this one, the party with the burden of proof (in this case, the respondents) needs only to establish its case by a preponderance of evidence.[31]

The act of entering into the second contract was a corrupt practice and was therefore unlawful. It was a contract expressly prohibited by RA 3019. As a result, it was null and void from the beginning under Art. 1409(7) of the Civil Code.[32]

As for the forfeiture of the payments made by petitioner, the latter did not raise any substantial argument against it. He merely stated that "there should be no reason why the amounts paid by petitioner should be forfeited in favor of the Republic" since the property was owned by GSIS and the Republic, through the OGCC, was merely a lessee.

The RTC decision was clear. The amount forfeited was in favor of GSIS as owner of the property.

Having disposed of the main issue and ruling that the second contract was void ab initio for being prohibited by law, a discussion of the other ancillary issues raised by petitioner is no longer necessary.

WHEREFORE, the petition is hereby DENIED and the June 27, 2003 decision and November 10, 2003 resolution of the Court of Appeals in CA-G.R. CV No. 62580 AFFIRMED.

Costs against petitioner.

SO ORDERED.

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

[1] Under Rule 45 of the Rules of Court.

[2] Penned by Associate Justice Andres B. Reyes, Jr. and concurred in by Associate Justices Eugenio S. Labitoria and Regalado E. Maambong of the Fifth Division of the Court of Appeals; Rollo, pp. 38-72.

[3] Dated September 14, 1998 in Civil Case No. 89-48662 penned by Judge Rodolfo A. Ponferrada; Rollo, pp. 179-192.

[4] Rollo, p. 92.

[5] Id., p. 149.

[6] The parcels of land and the improvements will be collectively referred to as the "property".

[7] Rollo, p. 39.

[8] Id., pp. 133-134.

[9] Id., p. 41.

[10] Resulting in a yearly amortization of P264,278.37 including principal and interest; Id., pp. 149-150.

[11] Rollo, pp. 147-150.

[12] Id., p. 153.

[13] Id., pp. 43 and 47.

[14] Id., p. 47.

[15] Id., pp. 124-126, citations omitted.

[16] Id., pp. 127-128.

[17] Id., p. 192.

[18] Id., p. 72.

[19] The petition is anchored on the following grounds:

I

THE [CA] ERRED IN FINDING THAT THE MAY 10, 1982 AGREEMENT WAS VITIATED BY UNDUE INFLUENCE OR MORAL COERCION ON THE MERE PREMISE THAT AT THE TIME IT WAS ENTERED INTO "THE GOVERNMENT WAS DICTATORIAL."

II

THE [CA] ERRED IN CONCLUDING THAT THE HANDWRITTEN APPROVAL OF THEN PRESIDENT FERDINAND E. MARCOS ON THE RIGHT TOP MARGIN OF THE AGREEMENT WAS NOT THE APPROVAL CONTEMPLATED IN THE LETTER OF INSTRUCTION NO. 620, BUT THAT SUCH APPROVAL MUST APPEAR ON THE FINAL DRAFT OF THE AGREEMENT.

III

THE [CA] ERRED IN AFFIRMING THE RULING DECISION OF THE [RTC] ORDERING THE FORFEITURE OF THE AMOUNTS PAID BY PETITIONER.

IV

THE [CA] ERRED IN AFFIRMING THE DECISION OF THE [RTC] DISMISSING PETITIONER'S COUNTERCLAIM. (Rollo, pp. 16-17.)

[20] Petitioner cited Executive Order No. 14 (1986); Rollo, pp. 395 and 397.

[21] Petitioner cited PD 1606 as amended by PD 1861, RA 7975 and RA 8249.

[22] Rollo, p. 399. Petitioner also raised the issue of lack of jurisdiction in his Answer with Compulsory Counterclaim without however explaining his basis; Rollo, p. 161.

[23] *Ocheda v. Court of Appeals*, G.R. No. 85517, 16 October 1992, 214 SCRA 629, 639, citations omitted.

[24] Id., p. 640.

[25] Id.

[26] However, we do not concur with the CA when it stated that the second contract is null and void because respondents' consent was vitiated by the undue influence of then President Marcos. It is clear under the law of

contracts that vitiation of consent does not make a contract null and void ab initio. It merely results in a voidable contract. We declared this in *MWSS v. CA* (357 Phil. 966, 978-979 [1998]):

As noted by both lower courts, petitioner MWSS admits that it consented to the sale of the property, with the qualification that such consent was allegedly unduly influenced by the President Marcos. Taking such allegation to be hypothetically true, such would have resulted in only voidable contracts because all three elements of a contract, still obtained nonetheless. The alleged vitiation of MWSS' consent did not make the sale null and void ab initio. Thus, "a contract where consent is given through mistake, violence, intimidation, undue influence or fraud, is voidable." Contracts "where consent is vitiated by mistake, violence, intimidation, undue influence or fraud" are voidable or annulable. These are not void as '

"Concepts of Voidable Contracts. — Voidable or annulable contracts are existent, valid, and binding, although they can be annulled because of want of capacity or vitiated consent of the one of the parties, but before annulment, they are effective and obligatory between parties. Hence, it is valid until it is set aside and its validity may be assailed only in an action for that purpose. They can be confirmed or ratified."

[27] Sec. 3. Corrupt practices of public officers. — In addition to acts or omissions of public officers already penalized by existing law, the following shall constitute corrupt practices of any public officer and are hereby declared to be unlawful:

(e) Causing any undue injury to any party, including the Government, or giving any private party any unwarranted benefits, advantage or preference in the discharge of his official, administrative or judicial functions through manifest partiality, evident bad faith or gross inexcusable negligence. This provision shall apply to officers and employees of offices or government corporations charged with the grant of licenses or permits or other concessions.

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(g) Entering, on behalf of the Government, into any contract or transaction manifestly and grossly disadvantageous to the same, whether or not the public officer profited or will profit thereby.

[28] Rollo, pp. 185 and 191.

[29] Art. 1409. The following contracts are inexistent and void from the beginning:

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(7) Those expressly prohibited or declared void by law.

[30] Rollo, pp. 61-66, 70-71.

[31] See *Londres v. Court of Appeals*, G.R. No. 136427, 17 December 2002, 394 SCRA 133, 143, citing *Sapu-an v. Court of Appeals*, G.R. 91869, 19 October 1992, 214 SCRA 701, 706.

[32] See *E. Razon, Inc. v. Philippine Ports Authority* (G.R. L-75197, 22 June 1987, 151 SCRA 233). We held in that case that the management contract executed by and between E. Razon, Inc. and PPA, represented by its then General Manager. E.S. Baclig, Jr. on June 27, 1980 was null and void. At the time of the execution of the management contract, E. Razon, Inc. later known as Metro Port Services, Inc. was controlled by Alfredo "Bejo" Romualdez, brother-in-law of deposed President Marcos. Under Section 5 of the Anti-Graft and Corrupt Practices Act (R.A. No. 3019) Romualdez, by reason of his relationship with the then President of the Philippines, was prohibited from intervening, directly or indirectly, in any transaction or business with the government. Thus, the management contract, entered into by E. Razon, Inc. which was controlled by Alfredo Romualdez as 60% equity owner thereof, is null and void and of no effect, being one expressly prohibited by law (par. [7], Art. 1409, Civil

Code of the Philippines).

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