

NEW FRONTIER SUGAR CORPORATION,PETITIONER,-VS.- REGIONAL TRIAL COURT, BRANCH 39, ILOILO CITY, RESPONDENTS.

G.R. NO. 165001. January 31, 2007

Ponente: AUSTRIA-MARTINEZ, J.

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AUSTRIA-MARTINEZ, J.:

In the present petition for review under Rule 45 of the Rules of Court, petitioner assails the decision of the Court of Appeals (CA)[1] in CA-G.R. SP No. 78673, dismissing its special civil action for certiorari and affirming the dismissal orders dated January 13, 2003 and April 14, 2003 issued by the Regional Trial Court (RTC) of Iloilo City, Branch 39, acting as a special commercial court, in Civil Case No. 02-27278.

As borne by the records, New Frontier Sugar Corporation (petitioner) is a domestic corporation engaged in the business of raw sugar milling. Foreseeing that it cannot meet its obligations with its creditors as they fell due, petitioner filed a Petition for the Declaration of State of Suspension of Payments with Approval of Proposed Rehabilitation Plan under the Interim Rules of Procedure on Corporate Rehabilitation (2000) some time in August 2002.[2] Finding the petition to be sufficient in form and substance, the RTC issued a Stay Order dated August 20, 2002, appointing Manuel B. Clemente as rehabilitation receiver, ordering the latter to put up a bond, and setting the initial hearing on the petition.[3]

One of petitioner's creditors, the Equitable PCI Bank (respondent bank), filed a Comment/Opposition with Motion to Exclude Property, alleging that petitioner is not qualified for corporate rehabilitation, as it can no longer operate because it has no assets left. Respondent bank also alleged that the financial statements, schedule of debts and liabilities, inventory of assets, affidavit of general financial condition, and rehabilitation plan submitted by petitioner are misleading and inaccurate since its properties have already been foreclosed and transferred to respondent bank before the petition for rehabilitation was filed, and petitioner, in fact, still owes respondent bank deficiency liability.[4]

On January 13, 2003, the RTC issued an Omnibus Order terminating the proceedings and dismissing the case.[5] Petitioner filed an Omnibus Motion but this was denied by the RTC in its Order dated April 14, 2003.[6]

Petitioner then filed with the CA a special civil action for certiorari, which was denied by the CA per assailed Decision dated July 19, 2004, the dispositive portion of which reads:

WHEREFORE, in view of the foregoing premises, judgment is hereby rendered by us DISMISSING the petition filed in this case and AFFIRMING the orders assailed by the petitioner.

SO ORDERED.[7]

In dismissing the petition, the CA sustained the findings of the RTC that since petitioner no longer has sufficient assets and properties to continue with its operations and answer its corresponding liabilities, it is no longer eligible for rehabilitation. The CA also ruled that even if the RTC erred in dismissing the petition, the same could not be corrected anymore because what petitioner filed before the CA was a special civil action for certiorari under Rule

65 of the Rules of Court instead of an ordinary appeal.[8]

Hence, herein petition based on the following reasons:

(a)

THE COURT OF APPEALS ERRED AND GRAVELY ABUSED ITS DISCRETION IN UPHOLDING THE FINDINGS OF THE SPECIAL COMMERCIAL COURT (RTC BR. 39, ILOILO CITY), PREMATURELY EXCLUDING THE FORECLOSED PROPERTY OF PETITIONER AND DECLARING THAT PETITIONER HAS NO SUBSTANTIAL PROPERTY LEFT TO MAKE CORPORATE REHABILITATION FEASIBLE AS THERE IS AN ONGOING LITIGATION FOR THE ANNULMENT OF SUCH FORECLOSURE IN ANOTHER PROCEEDING.

(b)

THE COURT OF APPEALS ERRED IN DISMISSING THE PETITION FOR CERTIORARI FILED BEFORE IT AS "IMPROPER," APPEAL BEING AN AVAILABLE REMEDY.[9]

The Court denies the petition.

Rehabilitation contemplates a continuance of corporate life and activities in an effort to restore and reinstate the corporation to its former position of successful operation and solvency.[10] Presently, the applicable law on rehabilitation petitions filed by corporations, partnerships or associations,[11] including rehabilitation cases transferred from the Securities and Exchange Commission to the RTCs pursuant to Republic Act No. 8799 or the Securities Regulation Code,[12] is the Interim Rules of Procedure on Corporate Rehabilitation (2000).

Under the Interim Rules, the RTC, within five (5) days from the filing of the petition for rehabilitation and after finding that the petition is sufficient in form and substance, shall issue a Stay Order appointing a Rehabilitation Receiver, suspending enforcement of all claims, prohibiting transfers or encumbrances of the debtor's properties, prohibiting payment of outstanding liabilities, and prohibiting the withholding of supply of goods and services from the debtor.[13] Any transfer of property or any other conveyance, sale, payment, or agreement made in violation of the Stay Order or in violation of the Rules may be declared void by the court upon motion or motu proprio.[14]

Further, the Stay Order is effective both against secure and unsecured creditors. This is in harmony with the principle of "equality is equity" first enunciated in *Aleamar's Sibal & Sons, Inc. v. Elbinias*,[15] thus:

During rehabilitation receivership, the assets are held in trust for the equal benefit of all creditors to preclude one from obtaining an advantage or preference over another by the expediency of an attachment, execution or otherwise. For what would prevent an alert creditor, upon learning of the receivership, from rushing posthaste to the courts to secure judgments for the satisfaction of its claims to the prejudice of the less alert creditors.

As between creditors, the key phrase is "equality is equity." When a corporation threatened by bankruptcy is taken over by a receiver, all the creditors should stand on an equal footing. Not anyone of them should be given any preference by paying one or some of them ahead of the others. This is precisely the reason for the suspension of all pending claims against the corporation under receivership. Instead of creditors vexing the courts with suits against the distressed firm, they are directed to file their claims with the receiver who is a duly appointed officer of the SEC. (Emphasis supplied)

Nevertheless, the suspension of the enforcement of all claims against the corporation is subject to the rule that it shall commence only from the time the Rehabilitation Receiver is appointed. Thus, in *Rizal Commercial Banking Corporation v. Intermediate Appellate Court*,[16] the Court upheld the right of RCBC to extrajudicially foreclose the mortgage on some of BF Homes' properties, and reinstated the trial court's judgment ordering the sheriff to

execute and deliver to RCBC the certificate of auction sale involving the properties. The Court vacated its previous Decision rendered on September 14, 1992 in the same case, finding that RCBC can rightfully move for the extrajudicial foreclosure of the mortgage since it was done on October 16, 1984, while the management committee was appointed only on March 18, 1985. The Court also took note of the SEC's denial of the petitioner's consolidated motion to cite the sheriff and RCBC for contempt and to annul the auction proceedings and sale.

In this case, respondent bank instituted the foreclosure proceedings against petitioner's properties on March 13, 2002 and a Certificate of Sale at Public Auction was issued on May 6, 2002, with respondent bank as the highest bidder. The mortgage on petitioner's chattels was likewise foreclosed and the Certificate of Sale was issued on May 14, 2002. It also appears that titles over the properties have already been transferred to respondent bank.[17]

On the other hand, the petition for corporate rehabilitation was filed only on August 14, 2002 and the Rehabilitation Receiver appointed on August 20, 2002. Respondent bank, therefore, acted within its prerogatives when it foreclosed and bought the property, and had title transferred to it since it was made prior to the appointment of a rehabilitation receiver.

The fact that there is a pending case for the annulment of the foreclosure proceedings and auction sales[18] is of no moment. Until a court of competent jurisdiction, which in this case is the RTC of Dumangas, Iloilo, Branch 68, annuls the foreclosure sale of the properties involved, petitioner is bereft of a valid title over the properties.[19] In fact, it is the trial court's ministerial duty to grant a possessory writ over the properties.[20]

Consequently, the CA was correct in upholding the RTC's dismissal of the petition for rehabilitation in view of the fact that the titles to petitioner's properties have already passed on to respondent bank and petitioner has no more assets to speak of, specially since petitioner does not dispute the fact that the properties which were foreclosed by respondent bank comprise the bulk, if not the entirety, of its assets.

It should be stressed that the Interim Rules was enacted to provide for a summary and non-adversarial rehabilitation proceedings.[21] This is in consonance with the commercial nature of a rehabilitation case, which is aimed to be resolved expeditiously for the benefit of all the parties concerned and the economy in general.

As provided in the Interim Rules, the basic procedure is as follows:

- (1) The petition is filed with the appropriate Regional Trial Court;[22]
- (2) If the petition is found to be sufficient in form and substance, the trial court shall issue a Stay Order, which shall provide, among others, for the appointment of a Rehabilitation Receiver; the fixing of the initial hearing on the petition; a directive to the petitioner to publish the Order in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks; and a directive to all creditors and all interested parties (including the Securities and Exchange Commission) to file and serve on the debtor a verified comment on or opposition to the petition, with supporting affidavits and documents. [23]
- 3) Publication of the Stay Order;
- 4) Initial hearing on any matter relating to the petition or on any comment and/or opposition filed in connection therewith. If the trial court is satisfied that there is merit in the petition, it shall give due course to the petition;[24]
- 5) Referral for evaluation of the rehabilitation plan to the rehabilitation receiver who shall submit his recommendations to the court;[25]
- 6) Modifications or revisions of the rehabilitation plan as necessary;[26]

7) Submission of final rehabilitation plan to the trial court for approval;[27]

8) Approval/disapproval of rehabilitation plan by the trial court;[28]

In the present case, the petition for rehabilitation did not run its full course but was dismissed by the RTC after due consideration of the pleadings filed before it. On this score, the RTC cannot be faulted for its summary dismissal, as it is tantamount to a finding that there is no merit to the petition. This is in accord with the trial court's authority to give due course to the petition or not under Rule 4, Section 9 of the Interim Rules. Letting the petition go through the process only to be dismissed later on because there are no assets to be conserved will not only defeat the reason for the rules but will also be a waste of the trial court's time and resources.

The CA also correctly ruled that petitioner availed of the wrong remedy when it filed a special civil action for certiorari with the CA under Rule 65 of the Rules of Court.

Certiorari is a remedy for the correction of errors of jurisdiction, not errors of judgment. It is an original and independent action that was not part of the trial that had resulted in the rendition of the judgment or order complained of. More importantly, since the issue is jurisdiction, an original action for certiorari may be directed against an interlocutory order of the lower court prior to an appeal from the judgment; or where there is no appeal or any plain, speedy or adequate remedy. A petition for certiorari should be filed not later than sixty days from the notice of judgment, order, or resolution, and a motion for reconsideration is generally required prior to the filing of a petition for certiorari, in order to afford the tribunal an opportunity to correct the alleged errors.[29]

The Omnibus Order dated January 13, 2003 issued by the RTC is a final order since it terminated the proceedings and dismissed the case before the trial court; it leaves nothing more to be done. As such, petitioner's recourse is to file an appeal from the Omnibus Order.

In this regard, A.M. No. 00-8-10-SC promulgated by the Court on September 4, 2001 provides that a petition for rehabilitation is considered a special proceeding given that it seeks to establish the status of a party or a particular fact. Accordingly, the period of appeal provided in paragraph 19 (b) of the Interim Rules Relative to the Implementation of Batas Pambansa Blg. 129 for special proceedings shall apply. Under said paragraph 19 (b), the period of appeal shall be thirty (30) days, a record of appeal being required.

However, it should be noted that the Court issued A.M. No. 04-9-07-SC on September 14, 2004, clarifying the proper mode of appeal in cases involving corporate rehabilitation and intra-corporate controversies. It is provided therein that all decisions and final orders in cases falling under the Interim Rules of Corporate Rehabilitation and the Interim Rules of Procedure Governing Intra-Corporate Controversies under Republic Act No. 8799 shall be appealed to the CA through a petition for review under Rule 43 of the Rules of Court to be filed within fifteen (15) days from notice of the decision or final order of the RTC.

In any event, as previously stated, since what petitioner filed was a petition for certiorari under Rule 65 of the Rules, the CA rightly dismissed the petition and affirmed the assailed Orders.

WHEREFORE, the petition is DENIED for lack of merit.

Costs against petitioner.

SO ORDERED.

Ynares-Santiago, (Chairperson), Callejo, Sr., and Chico-Nazario, JJ., concur.

- [1] Associate Justice Isaias P. Dicdican, ponente, with Associate Justices Elvi John S. Asuncion and Ramon M. Bato, Jr., concurring.
- [2] Rollo, pp. 42-52.
- [3] Id. at 53-56.
- [4] Id. at 57-61.
- [5] Id. at 37-40.
- [6] Id. at 41.
- [7] CA rollo, p. 205.
- [8] Id. at 203-205.
- [9] Rollo, pp. 15-16.
- [10] Ruby Industrial Corporation v. Court of Appeals, 348 Phil. 480, 497 (1998).
- [11] Section 1, Interim Rules of Procedure on Corporate Rehabilitation (2000).
- [12] Section 2, id.
- [13] Section 6, id.
- [14] Section 8, id.
- [15] G.R. No. 75414, June 4, 1990, 186 SCRA 94, 99-100.
- [16] 378 Phil. 10 (1999).
- [17] Rollo, p. 149.
- [18] Docketed as Civil Case No. 02-023.
- [19] Yulienco v. Court of Appeals, 441 Phil. 397, 409 (2002).
- [20] Ibid.
- [21] Rule 3, Section 1, Interim Rules of Procedure on Corporate Rehabilitation (2000).
- [22] Rule 4, Section 1.
- [23] Rule 4, Section 6.
- [24] Rule 4, Section 9.
- [25] Ibid.
- [26] Rule 4, Sections 20, 21 and 22.
- [27] Rule 4, Sections 22.
- [28] Rule 4, Sections 23 and 27.
- [29] Madrigal Transport, Inc. v. Lapanday Holdings Corp., G.R. No. 156067, August 11, 2004, 436 SCRA 123, 136

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