

P.I. MANUFACTURING, INCORPORATED, Petitioner, vs. P.I. MANUFACTURING SUPERVISORS AND FOREMAN ASSOCIATION and the NATIONAL LABOR UNION, Respondents.

G.R. No. 167217. February 04, 2008

Ponente: SANDOVAL-GUTIERREZ, J.

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SANDOVAL-GUTIERREZ, J.:

The Court has always promoted the policy of encouraging employers to grant wage and allowance increases to their employees higher than the minimum rates of increases prescribed by statute or administrative regulation. Consistent with this, the Court also adopts the policy that requires recognition and validation of wage increases given by employers either unilaterally or as a result of collective bargaining negotiations in an effort to correct wage distortions.[1]

Before us is a motion for reconsideration of our Resolution dated April 18, 2005 denying the present petition for review on certiorari for failure of the petitioner to show that a reversible error has been committed by the Court of Appeals in its (a) Decision dated July 21, 2004 and (b) Resolution dated February 18, 2005.

The facts are:

Petitioner P.I. Manufacturing, Incorporated is a domestic corporation engaged in the manufacture and sale of household appliances. On the other hand, respondent P.I. Manufacturing Supervisors and Foremen Association (PIMASUFA) is an organization of petitioner's supervisors and foremen, joined in this case by its federation, the National Labor Union (NLU).

On December 10, 1987, the President signed into law Republic Act (R.A.) No. 6640[2] providing, among others, an increase in the statutory minimum wage and salary rates of employees and workers in the private sector. Section 2 provides:

SEC. 2. The statutory minimum wage rates of workers and employees in the private sector, whether agricultural or non-agricultural, shall be increased by ten pesos (P10.00) per day, except non-agricultural workers and employees outside Metro Manila who shall receive an increase of eleven pesos (P11.00) per day: Provided, That those already receiving above the minimum wage up to one hundred pesos (P100.00) shall receive an increase of ten pesos (P10.00) per day. Excepted from the provisions of this Act are domestic helpers and persons employed in the personal service of another.

Thereafter, on December 18, 1987, petitioner and respondent PIMASUFA entered into a new Collective Bargaining Agreement (1987 CBA) whereby the supervisors were granted an increase of P625.00 per month and the foremen, P475.00 per month. The increases were made retroactive to May 12, 1987, or prior to the passage of R.A. No. 6640, and every year thereafter until July 26, 1989. The pertinent portions of the 1987 CBA read:

ARTICLE IV
SALARIES AND OVERTIME

Section 1. The COMPANY shall grant to all regular supervisors and foremen within the coverage of the unit represented by the ASSOCIATION, wage or salary increases in the amount set forth as follows:

A. For FOREMEN

Effective May 12, 1987, an increase of P475.00 per month to all qualified regular foremen who are in the service of the COMPANY as of said date and who are still in its employ on the signing of this Agreement, subject to the conditions set forth in sub-paragraph (d) hereunder;

- a) Effective July 26, 1988, an increase of P475.00 per month/employee to all covered foremen;
- b) Effective July 26, 1989, an increase of P475.00 per month/per employee to all covered foremen;
- c) The salary increases from May 12, 1987 to November 30, 1987 shall be excluding and without increment on fringe benefits and/or premium and shall solely be on basic salary.

B. For SUPERVISORS

- a) Effective May 12, 1987, an increase of P625.00 per month/employee to all qualified regular supervisors who are in the service of the COMPANY as of said date and who are still in its employ on the signing of the Agreement, subject to the conditions set forth in subparagraph (d) hereunder;
- b) Effective July 26, 1988, an increase of P625.00 per month/employee to all covered supervisors;
- c) Effective July 26, 1989, an increase of P625.00 per month/employee to all covered supervisors;
- d) The salary increase from May 12, 1987 to November 30, 1987 shall be excluding and without increment on fringe benefits and/or premiums and shall solely be on basic salary.

On January 26, 1989, respondents PIMASUFA and NLU filed a complaint with the Arbitration Branch of the National Labor Relations Commission (NLRC), docketed as NLRC-NCR Case No. 00-01-00584, charging petitioner with violation of R.A. No. 6640.[3] Respondents attached to their complaint a numerical illustration of wage distortion resulting from the implementation of R.A. No. 6640.

On March 19, 1990, the Labor Arbiter rendered his Decision in favor of respondents. Petitioner was ordered to give the members of respondent PIMASUFA wage increases equivalent to 13.5% of their basic pay they were receiving prior to December 14, 1987. The Labor Arbiter held:

As regards the issue of wage distortion brought about by the implementation of R.A. 6640 –

It is correctly pointed out by the union that employees cannot waive future benefits, much less those mandated by law. That is against public policy as it would render meaningless the law. Thus, the waiver in the CBA does not bar the union from claiming adjustments in pay as a result of distortion of wages brought about by the implementation of R.A. 6640.

Just how much are the supervisors and foremen entitled to correct such distortion is now the question. Pursuant to the said law, those who on December 14, 1987 were receiving less than P100.00 are all entitled to an automatic across-the-board increase of P10.00 a day. The percentage in increase given those who received benefits under R.A. 6640 should be the same percentage given to the supervisors and foremen.

The statutory minimum pay then was P54.00 a day. With the addition of P10.00 a day, the said minimum pay raised to P64.00 a day. The increase of P10.00 a day is P13.5% of the minimum wage prior to December 14, 1987. The same percentage of the pay of members of petitioner prior to December 14, 1987 should be given them.

Finally, the claim of respondent that the filing of the present case, insofar as the provision of R.A. 6640 is

concerned, is premature does not deserve much consideration considering that as of December 1988, complainant submitted in grievance the aforementioned issue but the same was not settled.[4]

On appeal by petitioner, the NLRC, in its Resolution dated January 8, 1991, affirmed the Labor Arbiter's judgment.

Undaunted, petitioner filed a petition for certiorari with this Court. However, we referred the petition to the Court of Appeals pursuant to our ruling in *St. Martin Funeral Homes v. NLRC*.^[5] It was docketed therein as CA-G.R. SP No. 54379.

On July 21, 2004, the appellate court rendered its Decision affirming the Decision of the NLRC with modification by raising the 13.5% wage increase to 18.5%. We quote the pertinent portions of the Court of Appeals Decision, thus:

Anent the fourth issue, petitioner asseverates that the wage distortion issue is already barred by Sec. 2 Article IV of the Contract denominated as "The Company and Supervisors and Foremen Contract" dated December 18, 1987 declaring that it "absolves, quit claims and releases the COMPANY for any monetary claim they have, if any there might be or there might have been previous to the signing of this agreement." Petitioner interprets this as absolving it from any wage distortion brought about by the implementation of the new minimum wage law. Since the contract was signed on December 17, 1987, or after the effectivity of Republic Act No. 6640, petitioner claims that private respondent is deemed to have waived any benefit it may have under the new law.

We are not persuaded.

Contrary to petitioner's stance, the increase resulting from any wage distortion caused by the implementation of Republic Act 6640 is not waivable. As held in the case of *Pure Foods Corporation vs. National Labor Relations Commission, et al.*:

"Generally, quitclaims by laborers are frowned upon as contrary to public policy and are held to be ineffective to bar recovery for the full measure of the worker's rights. The reason for the rule is that the employer and the employee do not stand on the same footing."

Moreover, Section 8 of the Rules Implementing RA 6640 states:

No wage increase shall be credited as compliance with the increase prescribed herein unless expressly provided under valid individual written/collective agreements; and provided further that such wage increase was granted in anticipation of the legislated wage increase under the act. But such increases shall not include anniversary wage increases provided in collective bargaining agreements.

Likewise, Article 1419 of the Civil Code mandates that:

When the law sets, or authorizes the setting of a minimum wage for laborers, and a contract is agreed upon by which a laborer accepts a lower wage, he shall be entitled to recover the deficiency.

Thus, notwithstanding the stipulation provided under Section 2 of the Company and Supervisors and Foremen Contract, we find the members of private respondent union entitled to the increase of their basic pay due to wage distortion by reason of the implementation of RA 6640.

On the last issue, the increase of 13.5% in the supervisors and foremen's basic salary must further be increased to 18.5% in order to correct the wage distortion brought about by the implementation of RA 6640. It must be recalled that the statutory minimum pay before RA 6640 was P54.00 a day. The increase of P10.00 a day under RA 6640 on the prior minimum pay of P54.00 is 18.5% and not 13.5%. Thus, petitioner should be made to pay the amount equivalent to 18.5% of the basic pay of the members or private respondent union in compliance with

the provisions of Section 3 of RA 6640.”

Petitioner filed a motion for reconsideration but it was denied by the appellate court in its Resolution dated February 18, 2005.

Hence, the present recourse, petitioner alleging that the Court of Appeals erred:

- 1) In awarding wage increase to respondent supervisors and foremen to cure an alleged wage distortion that resulted from the implementation of R.A. No. 6640.
- 2) In disregarding the wage increases granted under the 1987 CBA correcting whatever wage distortion that may have been created by R.A. No. 6640.
- 3) In awarding wage increase equivalent to 18.5% of the basic pay of the members of respondent PIMASUFA in violation of the clear provision of R.A. No. 6640 excluding from its coverage employees receiving wages higher than P100.00.
- 4) In increasing the NLRC’s award of wage increase from 13.5% to 18.5%, which increase is very much higher than the P10.00 daily increase mandated by R.A. No. 6640.

Petitioner contends that the findings of the NLRC and the Court of Appeals as to the existence of a wage distortion are not supported by evidence; that Section 2 of R.A. No. 6640 does not provide for an increase in the wages of employees receiving more than P100.00; and that the 1987 CBA has obliterated any possible wage distortion because the increase granted to the members of respondent PIMASUFA in the amount of P625.00 and P475.00 per month substantially widened the gap between the foremen and supervisors and as against the rank and file employees.

Respondents PIMASUFA and NLU, despite notice, failed to file their respective comments.

In a Minute Resolution dated April 18, 2005, we denied the petition for petitioner’s failure to show that the Court of Appeals committed a reversible error.

Hence, this motion for reconsideration.

We grant the motion.

In the ultimate, the issue here is whether the implementation of R.A. No. 6640 resulted in a wage distortion and whether such distortion was cured or remedied by the 1987 CBA.

R.A. No. 6727, otherwise known as the Wage Rationalization Act, explicitly defines “wage distortion” as:

x x x a situation where an increase in prescribed wage rates results in the elimination or severe contraction of intentional quantitative differences in wage or salary rates between and among employee groups in an establishment as to effectively obliterate the distinctions embodied in such wage structure based on skills, length of service, or other logical bases of differentiation.

Otherwise stated, wage distortion means the disappearance or virtual disappearance of pay differentials between lower and higher positions in an enterprise because of compliance with a wage order.[6]

In this case, the Court of Appeals correctly ruled that a wage distortion occurred due to the implementation of R.A. No. 6640. The numerical illustration submitted by respondents[7] shows such distortion, thus:

II WAGE DISTORTION REGARDING RA-6640 (P10.00 per day increase effective December 31, 1987)

Illustration of Wage Distortion and corresponding wage adjustments as provided in RA-6640

NAME OF SUPERVISOR (S)
AND
FOREMAN (F)

RATE
BEFORE
INCREASE
OF
RA-6640
P10.00

RATE
AFTER
INCREASE
OF
RA-6640
P10.00

P109.01
OVER-
PASSED
P108.80
RATE AFTER
ADJUSTMENT
P10.00

P118.80
OVER-
PASSED
P188.08
RATE AFTER
ADJUSTMENT
P10.00

P128.08
OVER-
PASSED
P123.76
RATE AFTER
ADJUSTMENT
P10.00

1. ALCANTARA, V (S)

P 99.0**P 109.01****2. MORALES, A (F)**

94.93

104.93

3. SALVO, R (F)

96.45

106.45

Note: No. 1 to 3 with increase of RA-6640

4. BUENCHUCHILLO, C (S)

102.38

102.38

P 112.38**5. MENDOZA, D (F)**

107.14

107.14

117.14

6. DEL PRADO, M (S)

108.80

108.80

118.80

7. PALENZO, A (F)

109.71

109.71

P 119.71**8. OJERIO, E (S)**

111.71

111.71

121.71

9. REYES, J (S)

114.98

114.98

124.98

10. PALOMIQUE, S (F)

116.79

116.79

126.79

11. PAGLINAWAN, A (S)

116.98

116.98

126.98

12. CAMITO, M (S)

117.04

117.04

127.04

13. TUMBOCON, P (S)

117.04

117.44

127.44

14. SISON JR., B (S)

118.08

118.08

128.08

15. BORJA, R (S)

119.80

119.80

P129.80

16. GINON, D (S)

123.76

123.76

133.76

17. GINON, T (S)

151.49

151.49

18. ANDRES, M (S)

255.72

255.72

Note: No. 4 to 18 no increase in R.A. No. 6640

Notably, the implementation of R.A. No. 6640 resulted in the increase of P10.00 in the wage rates of Alcantara, supervisor, and Morales and Salvo, both foremen. They are petitioner's lowest paid supervisor and foremen. As a consequence, the increased wage rates of foremen Morales and Salvo exceeded that of supervisor Buencuchillo. Also, the increased wage rate of supervisor Alcantara exceeded those of supervisors Buencuchillo and Del Prado. Consequently, the P9.79 gap or difference between the wage rate of supervisor Del Prado and that of supervisor Alcantara was eliminated. Instead, the latter gained a P.21 lead over Del Prado. Like a domino effect, these gaps or differences between and among the wage rates of all the above employees have been substantially altered and reduced. It is therefore undeniable that the increase in the wage rates by virtue of R.A. No. 6640 resulted in wage distortion or the elimination of the intentional quantitative differences in the wage rates of the above employees.

However, while we find the presence of wage distortions, we are convinced that the same were cured or remedied when respondent PIMASUFA entered into the 1987 CBA with petitioner after the effectivity of R.A. No. 6640. The 1987 CBA increased the monthly salaries of the supervisors by P625.00 and the foremen, by P475.00, effective May 12, 1987. These increases re-established and broadened the gap, not only between the supervisors and the foremen, but also between them and the rank-and-file employees. Significantly, the 1987 CBA wage increases almost doubled that of the P10.00 increase under R.A. No. 6640. The P625.00/month means P24.03 increase per day for the supervisors, while the P475.00/month means P18.26 increase per day for the foremen. These increases were to be observed every year, starting May 12, 1987 until July 26, 1989. Clearly, the gap between the wage rates of the supervisors and those of the foremen was inevitably re-established. It continued to broaden through the years.

Interestingly, such gap as re-established by virtue of the CBA is more than a substantial compliance with R.A. No. 6640. We hold that the Court of Appeals erred in not taking into account the provisions of the CBA viz-a-viz the wage increase under the said law. In *National Federation of Labor v. NLRC*,^[8] we held:

We believe and so hold that the re-establishment of a significant gap or differential between regular employees and casual employees by operation of the CBA was more than substantial compliance with the requirements of the several Wage Orders (and of Article 124 of the Labor Code). That this re-establishment of a significant

differential was the result of collective bargaining negotiations, rather than of a special grievance procedure, is not a legal basis for ignoring it. The NLRC En Banc was in serious error when it disregarded the differential of P3.60 which had been restored by 1 July 1985 upon the ground that such differential “represent[ed] negotiated wage increase[s] which should not be considered covered and in compliance with the Wage Orders. x x x”

In *Capitol Wireless, Inc. v. Bate*,^[9] we also held:

x x x The wage orders did not grant across-the-board increases to all employees in the National Capital Region but limited such increases only to those already receiving wage rates not more than P125.00 per day under Wage Order Nos. NCR-01 and NCR-01-A and P142.00 per day under Wage Order No. NCR-02. Since the wage orders specified who among the employees are entitled to the statutory wage increases, then the increases applied only to those mentioned therein. The provisions of the CBA should be read in harmony with the wage orders, whose benefits should be given only to those employees covered thereby.

It has not escaped our attention that requiring petitioner to pay all the members of respondent PIMASUFA a wage increase of 18.5%, over and above the negotiated wage increases provided under the 1987 CBA, is highly unfair and oppressive to the former. Obviously, it was not the intention of R.A. No. 6640 to grant an across-the-board increase in pay to all the employees of petitioner. Section 2 of R.A. No. 6640 mandates only the following increases in the private sector: (1) P10.00 per day for the employees in the private sector, whether agricultural or non-agricultural, who are receiving the statutory minimum wage rates; (2) P11.00 per day for non-agricultural workers and employees outside Metro Manila; and (3) P10.00 per day for those already receiving the minimum wage up to P100.00. To be sure, only those receiving wages P100.00 and below are entitled to the P10.00 wage increase. The apparent intention of the law is only to upgrade the salaries or wages of the employees specified therein.^[10] As the numerical illustration shows, almost all of the members of respondent PIMASUFA have been receiving wage rates above P100.00 and, therefore, not entitled to the P10.00 increase. Only three (3) of them are receiving wage rates below P100.00, thus, entitled to such increase. Now, to direct petitioner to grant an across-the-board increase to all of them, regardless of the amount of wages they are already receiving, would be harsh and unfair to the former. As we ruled in *Metropolitan Bank and Trust Company Employees Union ALU-TUCP v. NLRC*:^[11]

x x x To compel employers simply to add on legislative increases in salaries or allowances without regard to what is already being paid, would be to penalize employers who grant their workers more than the statutory prescribed minimum rates of increases. Clearly, this would be counter-productive so far as securing the interests of labor is concerned.

Corollarily, the Court of Appeals erred in citing *Pure Foods Corporation v. National Labor Relations Commission*^[12] as basis in disregarding the provisions of the 1987 CBA. The case involves, not wage distortion, but illegal dismissal of employees from the service. The Release and Quitclaim executed therein by the Pure Food’s employees were intended to preclude them from questioning the termination of their services, not their entitlement to wage increase on account of a wage distortion.

At this juncture, it must be stressed that a CBA constitutes the law between the parties when freely and voluntarily entered into.^[13] Here, it has not been shown that respondent PIMASUFA was coerced or forced by petitioner to sign the 1987 CBA. All of its thirteen (13) officers signed the CBA with the assistance of respondent NLU. They signed it fully aware of the passage of R.A. No. 6640. The duty to bargain requires that the parties deal with each other with open and fair minds. A sincere endeavor to overcome obstacles and difficulties that may arise, so that employer-employee relations may be stabilized and industrial strife eliminated, must be apparent.^[14] Respondents cannot invoke the beneficial provisions of the 1987 CBA but disregard the concessions it voluntarily extended to petitioner. The goal of collective bargaining is the making of agreements that will stabilize business

conditions and fix fair standards of working conditions.[15] Definitely, respondents' posture contravenes this goal.

In fine, it must be emphasized that in the resolution of labor cases, this Court has always been guided by the State policy enshrined in the Constitution that the rights of workers and the promotion of their welfare shall be protected. However, consistent with such policy, the Court cannot favor one party, be it labor or management, in arriving at a just solution to a controversy if the party concerned has no valid support to its claim, like respondents here.

WHEREFORE, we GRANT petitioner's motion for reconsideration and REINSTATE the petition we likewise GRANT. The assailed Decision of the Court of Appeals in CA-G.R. SP No. 54379 is REVERSED.

SO ORDERED.

Puno, C.J., Corona, Azcuna and Leonardo-De Castro, JJ., concur.

[1] National Federation of Labor v. National Labor Relations Commission, G.R. No. 103586, July 21, 1994, 234 SCRA 311.

[2] An Act Providing for an Increase in the Wage of Public or Government Sector Employees on a Daily Wage Basis and in the Statutory Minimum Wage and Salary Rates of Employees and Workers in the Private Sector and for other Purposes. Official Gazette, Vol. 84, No. 7, February 15, 1988, pp. 759-761.

[3] Rollo, NCR-AC-N0.-00112, p. 2.

[4] Record, National Labor Relations Commission, pp. 172-173.

[5] G.R. No. 130866, September 16, 1998, 295 SCRA 494, ruling that all references in the amended Section 9 of B.P. No. 129 to supposed appeals from the NLRC to the Supreme Court are interpreted and hereby declared to mean and refer to petitions for certiorari under Rule 65. Consequently, all such petitions should henceforth be initially filed in the Court of Appeals in strict observance of the doctrine on the hierarchy of courts as the appropriate forum for the relief desired.

[6] Azucena, The Labor Code with Comments and Cases, Vol. 1, p. 301.

[7] Rollo, NCR-AC-No. 00112, p. 120.

[8] Supra, footnote 1.

[9] 316 Phil. 355 (1995).

[10] Manila Mandarin Employees Union v. National Labor Relations Commission, G.R. No. 108556, November 19, 1996, 264 SCRA 320.

[11] G.R. No. 102636, September 10, 1993, 226 SCRA 269.

[12] G.R. No. 122653, December 12, 1987, 283 SCRA 133.

[13] Mactan Workers Union v. Aboitiz, G.R. No. L-30241, June 30, 1972, 45 SCRA 577, citing Shell Oil Workers Union v. Shell Company of the Philippines, 39 SCRA 276 (1971).

[14] Werne, Law and Practice of the Labor Contract, Volume 1 Origin and Operation Disputes, 1957, p. 20.

[15] Werne, Law and Practice of the Labor Contract, Volume 1 Origin and Operation Disputes, 1957, p. 180.

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