

EUROTECH INDUSTRIAL TECHNOLOGIES, INC., PETITIONER, VS. EDWIN CUIZON AND ERWIN CUIZON, RESPONDENTS.

G.R. NO. 167552. April 23, 2007

Ponente: CHICO-NAZARIO, J.

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CHICO-NAZARIO, J.:

Before Us is a petition for review by certiorari assailing the Decision[1] of the Court of Appeals dated 10 August 2004 and its Resolution[2] dated 17 March 2005 in CA-G.R. SP No. 71397 entitled, "Eurotech Industrial Technologies, Inc. v. Hon. Antonio T. Echavez." The assailed Decision and Resolution affirmed the Order[3] dated 29 January 2002 rendered by Judge Antonio T. Echavez ordering the dropping of respondent EDWIN Cuizon (EDWIN) as a party defendant in Civil Case No. CEB-19672.

The generative facts of the case are as follows:

Petitioner is engaged in the business of importation and distribution of various European industrial equipment for customers here in the Philippines. It has as one of its customers Impact Systems Sales ("Impact Systems") which is a sole proprietorship owned by respondent ERWIN Cuizon (ERWIN). Respondent EDWIN is the sales manager of Impact Systems and was impleaded in the court a quo in said capacity.

From January to April 1995, petitioner sold to Impact Systems various products allegedly amounting to ninety-one thousand three hundred thirty-eight (P91,338.00) pesos. Subsequently, respondents sought to buy from petitioner one unit of sludge pump valued at P250,000.00 with respondents making a down payment of fifty thousand pesos (P50,000.00).[4] When the sludge pump arrived from the United Kingdom, petitioner refused to deliver the same to respondents without their having fully settled their indebtedness to petitioner. Thus, on 28 June 1995, respondent EDWIN and Alberto de Jesus, general manager of petitioner, executed a Deed of Assignment of receivables in favor of petitioner, the pertinent part of which states:

- 1.) That ASSIGNOR[5] has an outstanding receivables from Toledo Power Corporation in the amount of THREE HUNDRED SIXTY FIVE THOUSAND (P365,000.00) PESOS as payment for the purchase of one unit of Selwood Spate 100D Sludge Pump;
- 2.) That said ASSIGNOR does hereby ASSIGN, TRANSFER, and CONVEY unto the ASSIGNEE[6] the said receivables from Toledo Power Corporation in the amount of THREE HUNDRED SIXTY FIVE THOUSAND (P365,000.00) PESOS which receivables the ASSIGNOR is the lawful recipient;
- 3.) That the ASSIGNEE does hereby accept this assignment.[7]

Following the execution of the Deed of Assignment, petitioner delivered to respondents the sludge pump as shown by Invoice No. 12034 dated 30 June 1995.[8]

Allegedly unbeknownst to petitioner, respondents, despite the existence of the Deed of Assignment, proceeded to collect from Toledo Power Company the amount of P365,135.29 as evidenced by Check Voucher No. 0933[9] prepared by said power company and an official receipt dated 15 August 1995 issued by Impact Systems.[10]

Alarmed by this development, petitioner made several demands upon respondents to pay their obligations. As a result, respondents were able to make partial payments to petitioner. On 7 October 1996, petitioner's counsel sent respondents a final demand letter wherein it was stated that as of 11 June 1996, respondents' total obligations stood at P295,000.00 excluding interests and attorney's fees.[11] Because of respondents' failure to abide by said final demand letter, petitioner instituted a complaint for sum of money, damages, with application for preliminary attachment against herein respondents before the Regional Trial Court of Cebu City.[12]

On 8 January 1997, the trial court granted petitioner's prayer for the issuance of writ of preliminary attachment.[13]

On 25 June 1997, respondent EDWIN filed his Answer[14] wherein he admitted petitioner's allegations with respect to the sale transactions entered into by Impact Systems and petitioner between January and April 1995.[15] He, however, disputed the total amount of Impact Systems' indebtedness to petitioner which, according to him, amounted to only P220,000.00.[16]

By way of special and affirmative defenses, respondent EDWIN alleged that he is not a real party in interest in this case. According to him, he was acting as mere agent of his principal, which was the Impact Systems, in his transaction with petitioner and the latter was very much aware of this fact. In support of this argument, petitioner points to paragraphs 1.2 and 1.3 of petitioner's Complaint stating —

1.2. Defendant Erwin H. Cuizon, is of legal age, married, a resident of Cebu City. He is the proprietor of a single proprietorship business known as Impact Systems Sales ("Impact Systems" for brevity), with office located at 46-A del Rosario Street, Cebu City, where he may be served summons and other processes of the Honorable Court.

1.3. Defendant Edwin B. Cuizon is of legal age, Filipino, married, a resident of Cebu City. He is the Sales Manager of Impact Systems and is sued in this action in such capacity.[17]

On 26 June 1998, petitioner filed a Motion to Declare Defendant ERWIN in Default with Motion for Summary Judgment. The trial court granted petitioner's motion to declare respondent ERWIN in default "for his failure to answer within the prescribed period despite the opportunity granted"[18] but it denied petitioner's motion for summary judgment in its Order of 31 August 2001 and scheduled the pre-trial of the case on 16 October 2001.[19] However, the conduct of the pre-trial conference was deferred pending the resolution by the trial court of the special and affirmative defenses raised by respondent EDWIN.[20]

After the filing of respondent EDWIN's Memorandum[21] in support of his special and affirmative defenses and petitioner's opposition[22] thereto, the trial court rendered its assailed Order dated 29 January 2002 dropping respondent EDWIN as a party defendant in this case. According to the trial court —

A study of Annex "G" to the complaint shows that in the Deed of Assignment, defendant Edwin B. Cuizon acted in behalf of or represented [Impact] Systems Sales; that [Impact] Systems Sale is a single proprietorship entity and the complaint shows that defendant Erwin H. Cuizon is the proprietor; that plaintiff corporation is represented by its general manager Alberto de Jesus in the contract which is dated June 28, 1995. A study of Annex "H" to the complaint reveals that [Impact] Systems Sales which is owned solely by defendant Erwin H. Cuizon, made a down payment of P50,000.00 that Annex "H" is dated June 30, 1995 or two days after the execution of Annex "G", thereby showing that [Impact] Systems Sales ratified the act of Edwin B. Cuizon; the records further show that plaintiff knew that [Impact] Systems Sales, the principal, ratified the act of Edwin B. Cuizon, the agent, when it accepted the down payment of P50,000.00. Plaintiff, therefore, cannot say that it was deceived by defendant Edwin B. Cuizon, since in the instant case the principal has ratified the act of its agent and plaintiff knew about said ratification. Plaintiff could not say that the subject contract was entered into by Edwin B. Cuizon in excess of his powers since [Impact] Systems Sales made a down payment of

P50,000.00 two days later.

In view of the Foregoing, the Court directs that defendant Edwin B. Cuizon be dropped as party defendant.[23]

Aggrieved by the adverse ruling of the trial court, petitioner brought the matter to the Court of Appeals which, however, affirmed the 29 January 2002 Order of the court a quo. The dispositive portion of the now assailed Decision of the Court of Appeals states:

WHEREFORE, finding no viable legal ground to reverse or modify the conclusions reached by the public respondent in his Order dated January 29, 2002, it is hereby AFFIRMED.[24]

Petitioner's motion for reconsideration was denied by the appellate court in its Resolution promulgated on 17 March 2005. Hence, the present petition raising, as sole ground for its allowance, the following:

THE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR WHEN IT RULED THAT RESPONDENT EDWIN CUIZON, AS AGENT OF IMPACT SYSTEMS SALES/ERWIN CUIZON, IS NOT PERSONALLY LIABLE, BECAUSE HE HAS NEITHER ACTED BEYOND THE SCOPE OF HIS AGENCY NOR DID HE PARTICIPATE IN THE PERPETUATION OF A FRAUD.[25]

To support its argument, petitioner points to Article 1897 of the New Civil Code which states:

Art. 1897. The agent who acts as such is not personally liable to the party with whom he contracts, unless he expressly binds himself or exceeds the limits of his authority without giving such party sufficient notice of his powers.

Petitioner contends that the Court of Appeals failed to appreciate the effect of ERWIN's act of collecting the receivables from the Toledo Power Corporation notwithstanding the existence of the Deed of Assignment signed by EDWIN on behalf of Impact Systems. While said collection did not revoke the agency relations of respondents, petitioner insists that ERWIN's action repudiated EDWIN's power to sign the Deed of Assignment. As EDWIN did not sufficiently notify it of the extent of his powers as an agent, petitioner claims that he should be made personally liable for the obligations of his principal.[26]

Petitioner also contends that it fell victim to the fraudulent scheme of respondents who induced it into selling the one unit of sludge pump to Impact Systems and signing the Deed of Assignment. Petitioner directs the attention of this Court to the fact that respondents are bound not only by their principal and agent relationship but are in fact full-blooded brothers whose successive contravening acts bore the obvious signs of conspiracy to defraud petitioner.[27]

In his Comment,[28] respondent EDWIN again posits the argument that he is not a real party in interest in this case and it was proper for the trial court to have him dropped as a defendant. He insists that he was a mere agent of Impact Systems which is owned by ERWIN and that his status as such is known even to petitioner as it is alleged in the Complaint that he is being sued in his capacity as the sales manager of the said business venture. Likewise, respondent EDWIN points to the Deed of Assignment which clearly states that he was acting as a representative of Impact Systems in said transaction.

We do not find merit in the petition.

In a contract of agency, a person binds himself to render some service or to do something in representation or on behalf of another with the latter's consent.[29] The underlying principle of the contract of agency is to accomplish results by using the services of others — to do a great variety of things like selling, buying, manufacturing, and transporting.[30] Its purpose is to extend the personality of the principal or the party for whom another acts and from whom he or she derives the authority to act.[31] It is said that the basis of agency is representation, that is,

the agent acts for and on behalf of the principal on matters within the scope of his authority and said acts have the same legal effect as if they were personally executed by the principal.[32] By this legal fiction, the actual or real absence of the principal is converted into his legal or juridical presence — *qui facit per alium facit per se*. [33]

The elements of the contract of agency are: (1) consent, express or implied, of the parties to establish the relationship; (2) the object is the execution of a juridical act in relation to a third person; (3) the agent acts as a representative and not for himself; (4) the agent acts within the scope of his authority.[34]

In this case, the parties do not dispute the existence of the agency relationship between respondents ERWIN as principal and EDWIN as agent. The only cause of the present dispute is whether respondent EDWIN exceeded his authority when he signed the Deed of Assignment thereby binding himself personally to pay the obligations to petitioner. Petitioner firmly believes that respondent EDWIN acted beyond the authority granted by his principal and he should therefore bear the effect of his deed pursuant to Article 1897 of the New Civil Code.

We disagree.

Article 1897 reinforces the familiar doctrine that an agent, who acts as such, is not personally liable to the party with whom he contracts. The same provision, however, presents two instances when an agent becomes personally liable to a third person. The first is when he expressly binds himself to the obligation and the second is when he exceeds his authority. In the last instance, the agent can be held liable if he does not give the third party sufficient notice of his powers. We hold that respondent EDWIN does not fall within any of the exceptions contained in this provision.

The Deed of Assignment clearly states that respondent EDWIN signed thereon as the sales manager of Impact Systems. As discussed elsewhere, the position of manager is unique in that it presupposes the grant of broad powers with which to conduct the business of the principal, thus:

The powers of an agent are particularly broad in the case of one acting as a general agent or manager; such a position presupposes a degree of confidence reposed and investiture with liberal powers for the exercise of judgment and discretion in transactions and concerns which are incidental or appurtenant to the business entrusted to his care and management. In the absence of an agreement to the contrary, a managing agent may enter into any contracts that he deems reasonably necessary or requisite for the protection of the interests of his principal entrusted to his management. x x x.[35]

Applying the foregoing to the present case, we hold that Edwin Cuizon acted well-within his authority when he signed the Deed of Assignment. To recall, petitioner refused to deliver the one unit of sludge pump unless it received, in full, the payment for Impact Systems' indebtedness.[36] We may very well assume that Impact Systems desperately needed the sludge pump for its business since after it paid the amount of fifty thousand pesos (P50,000.00) as down payment on 3 March 1995,[37] it still persisted in negotiating with petitioner which culminated in the execution of the Deed of Assignment of its receivables from Toledo Power Company on 28 June 1995.[38] The significant amount of time spent on the negotiation for the sale of the sludge pump underscores Impact Systems' perseverance to get hold of the said equipment. There is, therefore, no doubt in our mind that respondent EDWIN's participation in the Deed of Assignment was "reasonably necessary" or was required in order for him to protect the business of his principal. Had he not acted in the way he did, the business of his principal would have been adversely affected and he would have violated his fiduciary relation with his principal.

We likewise take note of the fact that in this case, petitioner is seeking to recover both from respondents ERWIN, the principal, and EDWIN, the agent. It is well to state here that Article 1897 of the New Civil Code upon which petitioner anchors its claim against respondent EDWIN "does not hold that in case of excess of authority, both the

agent and the principal are liable to the other contracting party." [39] To reiterate, the first part of Article 1897 declares that the principal is liable in cases when the agent acted within the bounds of his authority. Under this, the agent is completely absolved of any liability. The second part of the said provision presents the situations when the agent himself becomes liable to a third party when he expressly binds himself or he exceeds the limits of his authority without giving notice of his powers to the third person. However, it must be pointed out that in case of excess of authority by the agent, like what petitioner claims exists here, the law does not say that a third person can recover from both the principal and the agent. [40]

As we declare that respondent EDWIN acted within his authority as an agent, who did not acquire any right nor incur any liability arising from the Deed of Assignment, it follows that he is not a real party in interest who should be impleaded in this case. A real party in interest is one who "stands to be benefited or injured by the judgment in the suit, or the party entitled to the avails of the suit." [41] In this respect, we sustain his exclusion as a defendant in the suit before the court a quo.

WHEREFORE, premises considered, the present petition is DENIED and the Decision dated 10 August 2004 and Resolution dated 17 March 2005 of the Court of Appeals in CA-G.R. SP No. 71397, affirming the Order dated 29 January 2002 of the Regional Trial Court, Branch 8, Cebu City, is AFFIRMED.

Let the records of this case be remanded to the Regional Trial Court, Branch 8, Cebu City, for the continuation of the proceedings against respondent Erwin Cuizon.

SO ORDERED.

Ynares-Santiago, (Chairperson), Austria-Martinez, Callejo, Sr., and Nachura, JJ., concur.

[1] Penned by Associate Justice Vicente L. Yap with Associate Justices Arsenio J. Magpale and Ramon M. Bato, Jr., concurring; rollo, pp. 33-36.

[2] Id. at 37-39.

[3] Id. at 83-84.

[4] Annex "H" of the Complaint; records, p. 18.

[5] Referring to Impact Systems Sales.

[6] Referring to petitioner Eurotech Industrial Technologies, Inc.

[7] Annex "G" of the Complaint; records, p. 17.

[8] Annex "H" of the Complaint; id. at 18.

[9] Annex "I" of the Complaint; id. at 19.

[10] Annex "J" of the Complaint; id. at 20.

[11] Annex "L" of the Complaint; id. at 22.

[12] The case was raffled off to Branch 8 of the RTC Cebu City.

[13] Records, p. 27.

[14] Id. at 38-41.

[15] Id. at 38.

[16] Ibid.

[17] Id. at 1.

[18] Id. at 50.

[19] Id. at 61.

[20] Edwin Cuizon's counsel requested that the Special and Affirmative Defenses in his Answer be treated as his Motion to Dismiss; Order dated 16 October 2001; id. at 78.

[21] Id. at 82-86.

[22] Memorandum dated 16 November 2001; id. at 87-91.

[23] Id. at 95-96.

[24] Rollo, p. 35.

[25] Id. at 17.

[26] Id. at 21-22.

[27] Id. at 25-26.

[28] Id. at 98-114.

[29] Article 1868 of the Civil Code.

[30] Reuschlein and Gregory, Agency and Partnership (1979 edition), p. 1.

[31] 3 Am Jur 2d, §1.

[32] Padilla, Agency Text and Cases, (1986 edition), p. 2.

[33] He who acts through another acts by or for himself; id. at §2.

[34] Yu Eng Cho v. Pan American World Airways, Inc., 385 Phil. 453, 465 (2000).

[35] 3 Am Jur 2d, §91, p. 602.

[36] Records, p. 2.

[37] Annex "H" of the Complaint; records, p. 18.

[38] Annex "G" of the Complaint; id. at 17.

[39] Philippine Products Company v. Primateria Societe Anonyme Pour Le Commerce Extérieur, 122 Phil. 698, 702 (1965).

[40] De Leon and De Leon, Jr., Comments and Cases on Partnership, Agency, and Trusts (1999 edition), p. 512.

[41] Rule 3, §1 of the Revised Rules of Court.

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