

COMPAÑIA GENERAL DE TABACOS DE FILIPINAS, PETITIONER, VS. COURT OF APPEALS, PHILIPPINE NATIONAL BANK AND DEVELOPMENT BANK OF THE PHILIPPINES, RESPONDENTS.

G.R. No. 59534. May 10, 1990

Ponente: NARVASA, J.

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NARVASA, J.:

The conflicting claims of the mortgagees of a sugar quota or production allowance, on the one hand, and the mortgagors' subsequent vendees of the same, on the other, are the subject of the petition for review on certiorari at bar.

It appears that an unregistered partnership known as Gomez & Torres -- composed of Francisco M. Gomez and Hector Torres -- was the "principal and majority stockholder of the Philippine Milling Company, a domestic corporation which owns and operates in the Mindoro Mill District a sugar mill where all the sugar cane planters of that mill district mill their sugar cane." [1] "Gomez & Torres" was also "registered in the Sugar Quota Administration as the owner and holder of the entire production allowance or quota appertaining to Plantation No. 30-15 of the Mindoro Mill District." [2]

As security for a loan of P2,000,000.00 obtained from the Rehabilitation Finance Corporation (RFC), said Philippine Milling Company (thru its president, Hector A. Torres), and the above mentioned Hector A. Torres and Francisco Gomez, executed on August 7, 1950, a deed of mortgage hypothecating to the RFC, particularly described real and personal property, "together with all the buildings and improvements now existing or which may hereafter be constructed on the mortgaged property, all easements, sugar quotas, agricultural or land indemnities, aids or subsidies and all other rights or benefits annexed to or inherent therein, now existing or which may hereafter exist." [3]

The mortgagors above named also assigned to the RFC on August 16, 1950, in a public instrument [4] "the sugar quota of the mill district aggregating no less than 148,000 piculs and sugar warehouse receipts covering the first 29,500 piculs of sugar milled by the sugar central annually and such additional sugar as may be necessary to cover the annual amortization of the loan, taking into consideration the fluctuating sugar prices, which assignments shall remain in full force and effect as long as ** (their) aforementioned loan has not been settled in full."

Some fifteen months later, or on November 2, 1951, the same mortgagors executed in favor of the same mortgagee (the RFC) a second mortgage, this time as security for another loan of P1,860,000.00. The mortgage covered real and/or personal properties listed in the deed, "together with all the buildings and improvements now existing or which may hereafter be constructed on the mortgaged property, all easements, sugar quotas, agricultural or land indemnities, aids or subsidies, and all other rights or benefits annexed to or inherent therein, now existing or which may hereafter exist ** and also other assets acquired with the proceeds of such loan **." [5]

The mortgagors also executed on November 2, 1951 an assignment in favor of the RFC, like that of August 16, 1950, *supra*, respecting "its rights and interests on all the sugar quota of the Mindoro Mill District aggregating no

less than 148,000 piculs and additional sugar warehouse receipts covering the first 27,350 piculs of sugar milled by the sugar central annually, and such additional sugar as may be necessary to cover the annual amortization on the loan, until the full amount of the additional loan has been fully paid." [6]

Both deeds of (real estate and chattel) mortgages were registered in the Register of Deeds of Occidental Mindoro on August 20, 1950 and November 9, 1951, respectively. [7]

Earlier, or on or about January 13, 1951, the real estate and personal property subject of the two (2) mortgages just described, were again mortgaged by Philippine Milling Co., Francisco M. Gomez and Hector A. Torres, this time in favor of the Philippine National Bank as collateral for a loan of P235,000.00. This real estate and chattel mortgage was amended on April 6, 1951 by increasing its consideration from P235,000.00 to P335,000.00, and still later, on January 18, 1952, by further increasing the consideration to P1,405,000.00. [8] The original deed and its two (2) amendments were all registered with the Register of Deeds of Occidental Mindoro.

In July, 1957, two (2) letters-agreements were executed between Gomez & Torres (represented by Francisco M. Gomez) on the one hand, and Theo H. Davies & Co., Ltd. ("for itself and representing [or as authorized representative of] San Carlos Planters' Association"), on the other, by virtue of which the former sold to the latter a total of 18,000 piculs of the production allowance (or sugar quota) of Plantation No. 30-15, to wit:

(1) on July 3, 1957: 8,250 piculs of "our 'A' quota and 1,750.00 piculs of our 'B' quota corresponding to Plantation No. 30-15 of the Mindoro Mill District which is duly registered in our name;" [9] and

(2) on July 11, 1957: 6,600.00 piculs of "our 'A' quota and 1,400.00 piculs of our 'B' quota **."

In the latter agreement, Gomez & Torres guaranteed "that said 8,000.00 piculs of quotas as well as the 10,000.00 piculs sold to you on July 3, 1957, belong to us and are free from any lien or incumbrance whatsoever." [10]

The transferees presented the two (2) agreements for recording in the District Office of the Sugar Quota Administration, on July 12, 1957. But the Sugar Quota Administrator declined to give due course to the transfer until "necessary corrections" were made in the registration documents (known as DTRs: "district transfer registries"), and "the written conformity of the PNB," secured. [11]

In a letter to the Philippine Milling Company dated September 10, 1957, the Administrator cited several reasons for his refusal: [12]

"1. There is no signature nor initial of the Permit Agent assigned to your District.

2. There is no distribution of coefficients in Columns F, I, and J in both of your DTR's.

3. This Office received a letter from the Philippine National Bank advising this Office that the allotments of Plantations Nos. 30-4, 30-8c, 30-9c, 30-14, 30-15 and 30-16a are mortgaged to the PNB and to advise the PNB of any sale, transfer or conveyance affecting the quota of the Philippine Milling Company, Hector A. Torres and Francisco M. Gomez and to withhold the registration without the consent of the PNB."

The letter of the PNB above referred to (par. 3) was that written by its Vice President, J. V. Buenaventura, dated September 4, 1957. [13]

On October 2, 1957, San Carlos Planters' Association and Theo H. Davies Co. Ltd. submitted "two copies of the mill district coefficients and allowances of the 1957-1958 crop of the San Carlos Mill District." In response, the Sugar Quota Administrator sent them a letter dated October 3, 1957 advising that it was inappropriate for them to include "in said list, sugar allotments rights in the quantity of 14,850 piculs for 'A' and 3,150 for 'B' purchased by San Carlos Milling Co., Ltd. from Mindoro Mill District," because "this purchase has not been given due course

by this office in view of the defects ** (which) have not yet been corrected." [14]

The Governor of the RFC also wrote to the SQA, under date of October 9, 1957, informing it of the mortgage to it of the sugar quota in question "aggregating no less than 148,000 piculs," and requesting "that no transfer or conveyance affecting the said sugar quota rights of the Philippine Milling Co. and Messrs. Hector A. Torres and Francisco Gomez that may have been presented or ** may be presented ** be given due course without the written consent of this Corporation." [15]

On October 17, 1957, the San Carlos Milling Co. Ltd. and Theo H. Davies & Co. Far East Ltd. wrote to the SQA, in reply to the latter's communication of October 3, 1957. Adverting to a letter of the Philippine Milling Co. "of Sept. 15th, 1957 and ** memorandum enclosure of the same date addressed to the Phil. Milling Co., the transferor central, by Torres and Gomez, owners and sellers of the quota rights in question," they demanded "that the transfer of said quotas be given effect immediately from Mindoro Plantation Audit 30-15 of Torres and Gomez to Plantation Audit No. 38-E-24 of the San Carlos Mill District for account of the San Carlos Planters' Association." [16]

The matter of registration remained in a state of flux until about a year later, or more precisely, August 5, 1958, when the Administrator ultimately authorized the transfer. [17]

On January 6 and 7, 1959, the San Carlos Planters' Association in turn executed sales of portions of the sugar quota of 18,000 piculs acquired by it in favor of various individual sugar planters, all of which sales were recorded in the San Carlos District Transfer Registry. [18] Then on January 16, 1959, San Carlos effected a change in the Plantation Number of its remaining portion of the sugar quota purchased by it (57.06 piculs of "A" quota and 12.12 piculs of "B" quota) from No. 38-E-24 to No. 38-343. [19]

Eventually, the Development Bank of the Philippines (formerly RFC) caused the extrajudicial foreclosure of its mortgages of August 7, 1950 and November 2, 1951 by the Provincial Sheriff of Occidental Mindoro. The foreclosure sale was held on November 28, 1958. The DBP was the highest bidder. A certificate of sale was accordingly drawn up in its favor by the sheriff on January 19, 1959. [20] As might be expected, among the properties specified in the certificate of sale, as having been sold to DBP, were [21]-

"All sugar quota rights of the Philippine Milling Company including those of Spouses, Francisco M. Gomez and Francisca Villanueva and the Spouses, Hector A. Torres and Galinica Romano, as well as those of Gomez and Torres partnership in the Mindoro Mill District aggregating to no less than 148,000 piculs of sugar, which are attached to any and or all parcels of land described above and mortgaged to the Rehabilitation Finance Corporation now Development Bank of the Philippines as well as the said sugar central's share in the above sugar and quota rights."

On June 17, 1960 -- the one-year redemption period granted by law to the mortgagors having expired without a redemption having been attempted, and the DBP having consolidated its ownership over the real and personal property subject of the mortgage sale -- the DBP executed a deed of sale in favor of the PNB covering all the foreclosed property, for P5,147,309.07 and other valuable consideration. [22]

Now, as regards the sugar quota in question, said deed stipulated inter alia that:

- 1) The "sugar quota rights pertaining to the Philippine Milling Company shall not be covered by this agreement until after the expiration of the 1959-1960 crop year, but in no case earlier than June 30, 1960;" [23] and
- 2) " ** while the 18,000 piculs of 'A' and 'B' sugar are expressly excluded in this Deed of Sale because of certain circumstances, the Vendee may, however, take such action as it may deem proper in order to recover

the said 18,000 piculs of 'A' and 'B' sugar quota and Vendor agrees to join such action whenever requested by the Vendee, it being understood, however, that Vendor shall not in any way be responsible for said 18,000 piculs nor be liable for the outcome of such action **." [24]

After about two (2) years, in March, 1962, PNB wrote to the San Carlos Planters' Association and the planters to whom the latter had sold portions of the 18,000 piculs of the sugar quota in question, supra, demanding the restoration and delivery to it (the PNB) of their respective portions of said quota. As already mentioned, [25] the 18,000 piculs consisted of 14,850 piculs of 'A' quota and 3,150 piculs of 'B' quota.

When the latter failed to do so, the PNB, together with the DBP brought suit in the Court of First Instance of Occidental Mindoro against Francisco M. Gomez and Hector A. Torres and their spouses; the partnership of Gomez & Torres; the Philippine Planters' Association; all the sugar planters to whom as aforementioned had been sold parts of the 18,000 piculs of the sugar quota in question; and the Sugar Quota Administration. [26] It set out three (3) causes of action in its complaint and prayed for judgment as follows:

"ON THE FIRST CAUSE OF ACTION

- a. Declare the plaintiff PNB owner of the sugar quota in question in the quantity equal to 14,850 piculs of 'A' quota and 3,150 piculs of 'B' quota presently registered in the Sugar Quota Administration in the names of the defendants PLANTERS and defendant San Carlos Planters' Ass'n in the quantity and under the plantation numbers indicated in par. 3 of the First Cause of Action of this Complaint.
- b. Order the defendants PLANTERS of the San Carlos Mill District and the defendant San Carlos Planters' Ass'n to return and restore to the plaintiff PNB the sugar quota in question;
- c. Order the cancellation of the District Transfer Registry * * (regarding the transfers to the defendants) and declare same of no force and effect.

"ON THE SECOND AND ALTERNATIVE CAUSE OF ACTION

- a. Declare the plaintiff PNB owner of the sugar quota in question in the quantity equal to 14,850 piculs of 'A' quota and 3,150 piculs of 'B' quota presently registered in the Sugar Quota Administration in the names of the defendants PLANTERS and defendant San Carlos Planters' Ass'n. in the quantity and under the plantation numbers indicated in par. 3 of the First Cause of Action of this Complaint;
- b. Declare the sale of the sugar quota in question made by defendant TORRES & GOMEZ on July 3, 1957 and July 11, 1957 null and void;
- c . Declare the transfer of the sugar quota in question from the Mindoro Mill District to the San Carlos Mill District null and void;
- d. Declare the subsequent transfer of the sugar quota in question made by defendant San Carlos Planters' Ass'n. to the defendant PLANTERS of the San Carlos Mill District null and void;
- e. Order the said defendants PLANTERS and the defendant San Carlos Planters' Ass'n. to return and restore to the plaintiff PNB the sugar quota in question; and
- f. Order the cancellation of the District Transfer Registry, Annexes 'F', 'G', 'H', 'I' and 'J' and declare same of no force and effect.

"ON THE THIRD CAUSE OF ACTION

a. Order the defendants TORRES & GOMEZ, Francisco Gomez, Hector A. Tones, Conrado Manalansan, as Sugar Quota Administrator, Theo H. Davies & Co. Ltd. and the San Carlos Planters' Ass'n. to pay jointly and severally the plaintiff PNB the sum of P50,400.00 as lost and/or unrealized rental of the sugar quota in question for the 1958-1959 crop year;

b. Order the defendants TORRES & GOMEZ, Francisco Gomez, Hector A. Torres, Conrado Manalansan, as Sugar Quota Administrator, Theo H. Davies & Co. Ltd. and the San Carlos Planters' Ass'n. to pay jointly and severally the plaintiff PNB the sum of P93,465.00 as unrealized profits on the sugar quota in question in connection with the agreement for conversion for 1959-1960 crop year;

c. Order the defendants TORRES & GOMEZ, Francisco Gomez, Hector A. Torres, Conrado Manalansan, as Sugar Quota Administrator, Theo H. Davies & Co. Ltd. and the San Carlos Planters' Ass'n. to pay jointly and severally the plaintiff PNB the sum of P93,465.00 as unrealized profits on the sugar quota in question in connection with the agreement for conversion entered with the BISCOP for the 1960-1961 crop year;

d. Order the defendants TORRES & GOMEZ, Francisco Gomez, Hector A. Torres, Conrado Manalansan, as Sugar Quota Administrator, Theo H. Davies & Co. Ltd., San Carlos Planters' Ass'n. and the defendants PLANTERS to pay jointly and severally the plaintiff PNB the sum of P9,000.00 annually for three crop years beginning with the 1961-1962 as lost and/or unrealized rental of the sugar quota in question.

Plaintiffs further pray for such other relief which this Honorable Court may deem just and proper to grant in the premises, with costs against the defendants."

Answers were in due course filed by the several defendants. At the pre-trial, the parties entered into a partial stipulation of facts which contained, in substance:

- 1) an admission of all the relevant documents appended to the complaint, as well as other documents, already above specified;
- 2) an acknowledgment that the consideration fixed in the two (2) letters-contracts between Gomez & Torres and Theo H. Davies & Co. Ltd. and the San Carlos Planters' Association, dated July 3 and 11, 1957,[27] had been paid;
- 3) a statement that the transfer of a part of the sugar quota to Cia. General de Tabacos de Filipinas (TABACALERA) was for valid consideration, and was accompanied by the usual warranty of the vendor's full right of disposition thereof and of absence of any lien or encumbrance thereon; and
- 4) a request that the Court "take judicial notice of all executive orders, circulars and regulations which are pertinent to sugar quotas or which are otherwise in implementation of, or connected with, legislation on sugar trade and industry." [28]

Trial ensued after which judgment was rendered. The Trial Court's judgment, rendered on April 8, 1968,[29] went against the plaintiffs.[30] It made the following explicit findings:

"1. That while the defendants, Philippine Milling Company and Gomez and Torres assigned the rights over the Sugar Quota to the R.F.C., said assignment of rights, not having been duly registered in accordance with the rules and regulations of the Sugar Quota Administration, did not affect third parties who acquired said sugar quota in good faith and for value;

2. That the San Carlos Planters Association, the Theo H. Davies, the TABACALERA and all the transferees had acquired the sugar quota in question legally and in good faith, hence, the plaintiff has no cause of action against them; (and)

3. That nevertheless, a valid cause of action exists as against defendants Francisco M. Gomez and Hector Torres on the basis of the mortgage and assignment executed by them in favor of the Development Bank of the Philippines and the Philippine National Bank.

And on said findings, the Court:

- 1) dismissed the case "as against the San Carlos (Planters') Association, Theo H. Davies Co., Ltd., TABACALERA, the Sugar Quota Administrator and all the other private defendants who are the transferees;" but
- 2) ordered defendants "Francisco M. Gomez and Hector Torres ** to pay the value of the 18,000 piculs of 'A' and 'B' sugar quota allowance in the amount of P270,000.00 to the Philippine National Bank, plus interest at the legal rate from 1958 up to the actual payment thereof and to pay the costs."

PNB and Francisco Gomez appealed to the Court of Appeals.[31] The PNB ascribed to the Trial Court the following errors, to wit:

- 1) not finding that a valid mortgage was duly constituted also on the sugar quota allowances in question with binding effect against third persons including the defendants-appellees;
- 2) not finding that the defendants-appellees had both actual and constructive notice of the mortgage in favor of the Philippine National Bank and the Development Bank of the Philippines which covered the sugar quota allowances;
- 3) not finding that the PNB is the owner of the sugar quota allowance and in not ordering the defendants-appellees to return or reconvey the said sugar quota allowances to the PNB.

The decision of the Court of Appeals[32] was rendered on October 30, 1980.[33] It modified the Trial Court's judgment as follows:

"IN VIEW OF THE FOREGOING CONSIDERATIONS, the judgment appealed from is hereby modified, in these aspects:

1. declaring the Philippine National Bank the owner of the sugar quota or production allowances in question;
2. ordering the defendants-appellees (excepting the defendant-appellee Administrator of the Sugar Quota Office) to reconvey to plaintiff-appellant PNB, the said sugar quota or production allowance in question registered in their names, or if the same can not now be legally done, directing the defendants-appellees (excepting appellee Administrator of the Sugar Quota Office) to jointly and severally pay to PNB the value of the sugar quota or production allowance in question.

The appealed judgment is hereby affirmed in all other respects."

From this judgment, the Compañia General de Tabacos (TABACALERA) has appealed to this Court. Here it submits that said judgment should be reversed on the basis of the following considerations, to wit:

- 1) that sugar quotas are not "ordinary property ** which may be appropriated, transferred, conveyed and/or encumbered by the private grantee at his whim and discretion without the intervention of the State," it being "regulated property, the disposal or encumbrance of which is made subject to certain restrictions and regulations provided for by law;" hence, "any form of alienation thereof should be made subject to governmental regulations and should be processed and approved by the implementing arm of the government, the Sugar Quota Administration;" and the mortgage constituted over the sugar quota in this case by the parties to whom the same had originally been awarded -- the partnership of Gomez and Torres or the Philippine Milling company -- was void, "(a)pproval or sanction of the Sugar Quota Administration ** (being) sorely and fatally lacking;"

a) moreover, "the very terms of the deed of sale executed by the DBP in favor of PNB on June 17, 1966 specifically and expressly excluded the 18,000 piculs in question;

2) even if the mortgage be accorded validity, it was "binding only as between the mortgagors and the mortgagees and did not have any effect in third persons who subsequently acquired the same," because the mortgages had not yet been "duly registered with the Sugar Quota Administration" when TABACALERA and others purchased parts of the quota in question from the Philippine Planters' Association; indeed, the transfers from the latter had "received the sanction and approval of the Sugar Quota Administrator;"

3) the direction by the Court of Appeals for TABACALERA, among others, to reconvey the quota to the PNB is vague and indefinite since it does not state the point of time to be considered in computing the value thereof; furthermore, since it "benefited only to the extent of the ** (precise quantity purchased by it, out of the 18,000 piculs), it would be "clearly contrary to law and grossly iniquitous" for it to be made solidarily liable for the value of the entire sugar quota in question; and

4) if TABACALERA reconveys or pays the value of the sugar quota acquired from San Carlos Planters' Association, the latter should, upon its implied and express warranty against eviction, reimburse it therefor.

The argument that Theo H. Davies & Co., Ltd., San Carlos Planters' Association, and their privies and successors in interest like TABACALERA, are purchasers in good faith of the sugar quota in question because they could not be deemed to have prior knowledge of the encumbrances thereon, is untenable.

For one thing, as the Court of Appeals has pointed out, the intangible property that is the sugar quota in question should be considered as real property by destination, "an improvement attaching to the land entitled thereto." [34] Moreover, as is axiomatic, the recording in the Registry of Deeds of a mortgage over lands and other immovables operates to charge "the whole world" with notice thereof. [35] The registration therefore of the mortgages executed by the Philippine Milling Company, Hector A. Torres and Francisco Gomez in favor of the RFC and later of the PNB, thus had the effect of charging all persons, including Theo H. Davies & Co., Ltd., San Carlos Planters' Association, and their privies and successors in interest, with notice of the encumbrance, not only over the lands belonging to the mortgagors but also of the sugar quotas as well as "all the buildings and improvements ** existing or which may hereafter be constructed on the mortgaged property, all easements, * * agricultural or land indemnities, aids or subsidies and all other rights or benefits annexed to or inherent therein, now existing or which may hereafter exist." So, none of the parties in this case can plead lack of knowledge of the mortgage lien over the sugar quota or production allowance.

Even if the sugar quota is assumed to be personal, not real property, and hence not embraced in the mortgage of the immovables created by the corresponding deeds, it would nevertheless still be covered by the chattel mortgage created in and by the same deeds. Since, like the recording of a real estate mortgage, registration of a chattel mortgage also puts all persons on notice of its existence, the legal situation would be exactly the same: the registration of the above described deeds of chattel (and real estate) mortgage over the sugar quota, among other things, would also have charged all persons with notice thereof from the time of such registration. [36]

Again, being themselves engaged and possessed of no little experience in the sugar industry, said Theo H. Davies & Co., Ltd., San Carlos Planters' Association (and their own transferees) could not but have known, when negotiations for their respective purchases of the sugar quota in question commenced, that the sugar quota they were dealing with had perforce to pertain to some specific sugar plantation or farm, i.e., Plantation 30-15 of the Mindoro Mill District. Sugar quota allocations do not have existence independently of any particular tract of land. They are essentially ancillary, not principal, assets, necessarily annexed to a specific sugar plantation or land, improvements "attaching to the land entitled thereto." [37] Hence, the very first inquiry in any negotiation

affecting sugar quotas necessarily would have to do with the identification of the district, plantation or land to which the quotas appertain. No transaction can be had of sugar quotas in the abstract, without reference whatsoever to any particular land. Indeed, any deed of conveyance of sugar quota would unavoidably have to describe the sugar plantation and district to which it refers or relates. There can be no sale simply of sugar quota of a certain number of piculs without specification of the land to which it relates. Such a sale would be inconsistent with established usage, and would be void for want of a determinate subject matter.[38] Theo H. Davies & Co., Ltd. and San Carlos Planters' Association can not therefore plead ignorance of the fact that the quota they were buying pertained to land belonging to the sellers, Plantation No. 30-15 of the Mindoro Mill District.

Furthermore, Theo H. Davis & Co., Ltd. and San Carlos Planters' Association were obviously of the belief that a mortgage or sale of a sugar quota is void if "(a)pproval or sanction of the Sugar Quota Administration ** (is) lacking," this being in fact a proposition TABACALERA lays before this Court, although it cites no particular authority for it and has thus failed to convince this Court of its validity. Be this as it may, it was with this proposition in mind that Theo H. Davis & Co. Ltd. and San Carlos Planters' Association submitted the deed of conveyance in their favor of the sugar quota in question, to the SQA, precisely to obtain the latter's approval of that transaction. That approval, as already stated, was not given until a year later. But long before that approval, they were clearly and categorically informed that the sugar quota, subject of the sale to them for which they were seeking approval by the SQA, was already mortgaged to the RFC and then to the PNB. Since good faith is obviously a state of the mind, and since -- prior to the approval of the conveyance to them of the sugar quota by the SQA, which approval they thought to be essential for the validity of said conveyance -- they came to know of the earlier encumbrance thereof to other parties, it is not possible for them, without contradicting themselves, to claim good faith in the transaction.

Turning now to TABACALERA and the other vendees of Theo H. Davis & Co. Ltd. and San Carlos Planters Association, it is self-evident that they are also quite familiar with sugar quotas, including the nature and process of transferring the same, these being an important factor in their operations and transactions. They therefore had to know that the sugar quotas they were purchasing had originally to be part and parcel of some sugar plantation. Hence, apart from being charged with knowledge, as above discussed, of the mortgage of the land to which the sugar quota in question was an integrated adjunct -- and that the mortgage extended to said sugar quotas like the buildings and improvements thereon standing -- it may reasonably be assumed as a fact, too, that they inquired about and were duly informed of the origin of, and immediately preceding transactions involving, the sugar quotas they were acquiring.

They should therefore all be regarded as buyers in bad faith -- the original vendees of Gomez and Torres and the Philippine Milling Company (i.e., the Philippine Planters Association and Theo H. Davies & Co. Ltd.) as well as the latter's own vendees (TABACALERA, et al.). The Court of Appeals was thus quite correct in "ordering the defendants-appellees (excepting the defendant-appellee Administrator of the Sugar Quota Office) to reconvey to plaintiff-appellant PNB, the said sugar quota or production allowance in question registered in their names, or if the same can not now be legally done, directing the defendants-appellees (excepting appellee Administrator of the Sugar Quota Office) to jointly and severally pay to PNB the value of the sugar quota or production allowance in question."

The fact that "the very terms of the deed of sale executed by the DBP in favor of PNB on June 17, 1966 specifically and expressly excluded the 18,000 piculs in question," of which TABACALERA would make capital, is of no moment. As also held by the Court of Appeals, the exclusion is more apparent than real. It is true that the deed of June 17, 1966 does provide that "the 18,000 piculs of 'A' and 'B' sugar are expressly excluded * * because

of certain circumstances.” It is however pointed out that “the Vendee may ** take such action as it may deem proper in order to recover the said 18,000 piculs of 'A' and 'B' sugar quota and Vendor agrees to join such action whenever requested by the Vendee.” The clear implication is that notwithstanding those “certain circumstances” causing the exclusion of the 18,000 piculs, there was an express assertion that a right to recover the same existed in favor of the vendor and/or its vendee; a declaration, in other words, that the sugar quota of 18,000 piculs rightfully belonged to the vendor and, by the sale, to the vendee. The ambivalent stipulation, in the mind of the Court of Appeals, merely evidenced the DBP's intention not be rendered liable to PNB on any warranty of legal title considering that the quota had in point of fact already been sold to third persons before foreclosure; the ostensible exclusion of the 18,000 piculs was a mere cautionary proviso. This Court agrees, after undertaking a review and analysis of the relevant facts.

However, TABACALERA's argument that it should not be made solidarily liable for the value of the entire sugar quota in question, because it benefited only to the extent of the precise quantity purchased by it, out of the 18,000 piculs, is well taken. It does not appear that it acted in concert with the other vendees in the acquisition of all the 18,000 piculs comprising the sugar quota in question. For aught that appears on the record, it dealt separately and individually with its vendor. Its liability should indeed be limited to a return of the exact quantity and quality of the sugar quota separately purchased by it, as indubitably appears on record, or the payment of the value thereof computed as of the time that its obligation to return that quota was adjudged by the Court of Appeals.

One final question remains to be resolved, that posed by TABACALERA, to wit: if it reconveys the sugar quota acquired from San Carlos Planters' Association, or pays its value, should not it be reimbursed therefore by the latter, upon its implied and express warranty against eviction? The answer will have to be in the negative. They, vendor and vendee, are in *pari delicto*. At the time of the transaction between them they were well aware of the encumbrance on the property dealt with; they had the common intention of negating the rights that they knew had earlier and properly been acquired by the mortgagee of the property they were treating of; they were both consequently acting in bad faith. The object or purpose of their contract was “contrary to law, morals, good customs, public order or public policy.”[39] The law says that in such a case, where “the unlawful or forbidden cause consists does not constitute a criminal offense, ** and the fault is on the part of both contracting parties, neither may recover what he has given by virtue of the contract, or demand the performance of the other's undertaking.”[40] No relief can be granted to either party; the law will leave them where they are.[41]

WHEREFORE, the challenged judgment of the Court of Appeals is hereby AFFIRMED, with the modification that the liability of petitioner Compañia General de Tabacos de Filipinas (TABACALERA) is limited to the return to the Philippine National Bank of the exact quantity and quality of the sugar quota purchased by it from the Philippine Planters Association and/or Theo H. Davies & Co., Ltd., as indubitably appears on record, or the payment of the value thereof to said Philippine National Bank computed as of the time that its obligation to return that quota was adjudged by the Court of Appeals.

IT IS SO ORDERED.

Griño-Aquino and Medialdea, JJ., concur.

Cruz, J., no part, related to petitioner's counsel.

Gancayco, J., on leave.

[1] Rollo, p. 43 : Record on Appeal, pp. 3, 8

[2] Id.; Rec. on App., pp. 8-9

- [3] *Id.*; *Id.*; pp. 9, 31, 32-33; emphasis supplied
- [4] *Id.*, *Id.*, pp. 300-304; italics supplied
- [5] *Id.*; *Id.*; pp. 9-10, 86, 87; emphasis supplied
- [6] *Id.*, *Id.*, pp. 296-300; italics supplied
- [7] *Id.*, pp. 9-10
- [8] *Id.*, pp. 10-11
- [9] Rollo, p. 43: Rec. on App., pp. 144-145 (Annex C of complaint)
- [10] *Id.* *Id.* pp. 145-146 (Annex D of complaint); italics supplied
- [11] *Id.*, *Id.*; pp. 13, 304-306
- [12] *Id.*, *Id.*, pp. 305-306
- [13] Rollo, p. 43: Rec. on App., pp. 310-311
- [14] Rollo, p. 43: Rec. on App., pp. 306-307
- [15] *Id.* *Id.*, 311-313
- [16] *Id.*, *Id.*, pp. 307-309
- [17] *Id.*, *Id.*, pp. 13-14
- [18] Rollo, pp. 14-18
- [19] *Id.*, p. 43: Rec. on App., pp. 176-181
- [20] Rollo, pp. 18-19; p. 43: Rec. on App., pp. 181-219
- [21] *Id.*, p. 43: Rec. on App., pp. 187-188; italics supplied
- [22] *Id.*, *Id.*, pp. 220-241
- [23] *Id.*, *Id.*, p. 231
- [24] *Id.*, *Id.*, p. 236; emphasis supplied
- [25] SEE footnotes 9 and 10, and related text, *supra*
- [26] Docketed as Civil Case No. R-149
- [27] *Id.*, *Id.*, pp. 292-293
- [28] *Id.*, *Id.*, p. 294
- [29] Per Judge (later Court of Appeals Justice) Jorge R. Coquia
- [30] *Id.*, *Id.*, pp. 313-342
- [31] *Id.*, *Id.*, pp. 342-345. The appeal was docketed as CA-G.R. No. 43697-R
- [32] Rollo, pp. 45-56
- [33] The decision was written for the Special Second Division of the Court of Appeals by Asuncion, J., with

whom concurred Sison and Cenzon, JJ.

[34] Sec. 4, RA 1825 (An Act to Provide for the Allocation, Reallocation and Administration of the Absolute Quota of Sugar) pertinently reading, "The production allowance or quota corresponding to each piece of land under the provisions of this Act shall be deemed to be an improvement attaching to the land entitled thereto."

[35] Sec. 51, Act No. 496 (Land Registration Act); *Bass v. de la Rama*, 73 Phil. 682; *Villasor v. Camon*, 89 Phil. 404; *Levin v. Bass and Mintu*, 91 Phil. 419; *Legarda v. Saleeby*, 31 Phil. 590 (1915) cited in *Gatioan v. Gaffud*, 27 SCRA 706 (1969)

[36] Sec. 4, Act 1508, as amended by Act 2496 (Chattel Mortgage Law); *Standard Oil Co. of New York v. Jaramillo*, 44 Phil. 630; *Allied Banking Corporation v. Judge Salas*, G.R. No. 49081, Dec. 30, 1988

[37] SEE footnote 35, *supra*

[38] ART. 1458, Civil Code, pertinently providing that by "the contract of sale one of the contracting parties obligates himself to transfer the ownership of and to deliver a determinate thing, and the other to pay therefor a price certain in money or its equivalent."

[39] ART. 1409, Civil Code, enumerating what are considered as "void or inexistent contracts"

[40] ART 1411, Civil Code, which further provides that when only one of the contracting parties is at fault, he cannot recover what he has given by reason of the contract, or ask for the fulfillment of what has been promised to him ** (but) the other, who is not at fault, may demand the return of what he has given without any obligation to comply with his promise.

[41] SEE Paras, Civil Code of the Philippines Anno., 1989 ed., Vol. IV, pp. 736, 740 et seq., citing *Cabauatan v. Uy Hoo*, 88 Phil. 103; *de Raquiza v. Castellvi*, 77 SCRA 88; *Teja Marketing, et al. v. Nale, et al.*, G.R. No. 65510, Mar. 9, 1987; *Padilla*, Civil Code Anno., 1974 ed., Vol. IV, pp. 993, citing *Inson v. Belzunce*, 32 Phil. 342; *Liguez v. C.A.*, 102 Phil. 577; *Relloso v. Gaw Chee Hu*, 93 Phil. 827, etc.; *Tolentino*, Civil Code, 1973 ed., Vol. IV, p. 597

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