

RELIANCE COMMODITIES, INC. AND THE PROVINCIAL SHERIFF OF NUEVA ECIJA, PETITIONERS, VS. INTERMEDIATE APPELLATE COURT, MARVIN PAEZ AND ROSA VALINO, RESPONDENTS.

G.R. No. 74729, May 31, 2000

Ponente: PARDO, J.

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PARDO, J.:

The case before the Court is an appeal from a decision of the Intermediate Appellate Court, the dispositive portion of which reads:

"WHEREFORE, the decision appealed from is hereby set aside and another one entered, declaring both the "Deed of First Real Estate Mortgage" (Exhibit F) and the "Addendum to Operating Agreement" (Exhibit A) null and void, and ordering defendant Reliance Commodities, Inc. to pay the plaintiffs the amount of P20,000.00 for unrealized profits in the amount of P3,500.00 as attorney's fees. The restraining order issued in this case is hereby made permanent.

"Cost against the defendant Reliance Commodities, Inc.

"SO ORDERED." [1]

The facts, as found by the Intermediate Appellate Court, are as follows:

"x x x on April 19, 1972, plaintiff Marvin Paez entered into contract with Samuel Chuason, president and general manager of defendant Reliance Commodities, Inc. whereby the latter agreed to provide the former with funds and equipment for the operation of the manganese mining claims of Daniel Garde located in Malinas, Gabaldon, Nueva Ecija. (Exhibit I, RTC Record, p. 199). On June 1, 1972, Samuel Chuason and Marvin Paez entered into another agreement called "Addendum to Operating Agreement" (Exhibit A, Folder of Exhibits, p. 1), the pertinent provisions of which are as follows:

"(1) PAEZ shall segregate the Manganese Ores into two (2) classes:

"Pursuant to this agreement and upon the suggestion of plaintiff Marvin Paez, defendant Reliance Commodities, Inc. gave a cash advance of P8,300.00 (Exhibit B, Ibid., p. 5). With this amount, plaintiff Marvin Paez hired laborers and purchased the necessary tools, supplies and foodstuff. With the bulldozer, dump truck and cobra drill supplied by defendant Reliance Commodities, Inc. the mining operation in the mountains of Gabaldon, Nueva Ecija started on July 1, 1972 (t.s.n. August 27, 1976, pp. 9-10).

"On July 28, 1972, plaintiffs Marvin Paez and his wife Rosa Valino executed a deed of first real estate mortgage on their property (Exhibit F, Folder of Exhibits, p. 9) in favor of defendant Reliance Commodities, Inc. as security for more cash advances needed to sustain the mining operation.

"On the basis of this mortgage agreement, defendant Reliance Commodities, Inc. made several cash advances to

plaintiff Marvin Paez (Exhibits 6, 7, 8 and 9, RTC Record, pp. 203, 204, 206, 208) amounting to P25,030.00. Subsequently, a difference arose between plaintiff Marvin Paez and defendant company concerning cash advances. Defendant Reliance Commodities, Inc. demanded the return of the bulldozer, the dump truck and the cobra drill. Marvin Paez' laborers refused to release the equipment, for the reason that they had not been paid their wages. Defendant Reliance Commodities, Inc. thereupon gave plaintiff Marvin Paez the amount of P800.00 on November 24, 1972 for the laborers' salaries (Exhibit C, Folder of Exhibits, p. 6). Later, defendant Reliance Commodities, Inc. foreclosed extrajudicially the mortgage executed by plaintiffs in its favor. Consequently, the provincial sheriff of Nueva Ecija served notice on plaintiff Marvin Paez that the mortgaged property would be sold at public auction on June 4, 1974.

"Plaintiff Marvin Paez with his wife as co-plaintiff filed the present action in the court below (Court of First Instance of Nueva Ecija) on May 29, 1974, praying for: 1) a writ of preliminary injunction to enjoin the provincial sheriff from proceeding with the auction sale, 2) an order annulling the Deed of First Real Estate Mortgage (Exhibit F, Ibid., p. 9) and the Addendum (Exhibit A, Ibid., p. 1), and 3) a directive requiring the defendant Reliance Commodities to make further cash advances to plaintiffs in the amount of P75,000.00 plus moral damages, attorney's fees and costs." [2]

In the answer filed on July 8, 1974, defendants claimed that the violation of the contracts came from the plaintiffs because they failed to deliver at all the manganese ores stipulated in the contract according to the schedule outlined. Hence, plaintiffs were not entitled to rescind the contracts or recover damages and by reason of which defendant was entitled to foreclose on the security constituted. [3]

After due trial, on May 30, 1974, the trial court rendered a decision in favor of defendants, the dispositive portion of which reads:

"WHEREFORE, judgment is hereby rendered in favor of defendant Reliance Commodities, Inc. and against the plaintiffs-spouses Marvin Paez and Rosa Valino, as follows:

"(1) Ordering the dismissal of the complaint filed by said plaintiffs in this case, for lack of merit; and

"(2) On the counterclaims of said defendant Reliance:

"(a) Ordering the said plaintiffs jointly and severally, to pay unto the defendant Reliance Commodities, Inc. the sum of P41,130.00, representing the cash advances they received from the said company, with interest thereon at the rate of 12% per annum from the dates of receipt of said advances until the same are fully paid;

"(b) Ordering the said plaintiffs, jointly and severally, to pay unto the defendant Reliance Commodities, Inc. the sum of P5,000.00 as and for attorney's fees;

"(c) Setting aside the restraining order heretofore issued in this case so that defendant Reliance may proceed with the extrajudicial foreclosure of the real estate mortgage in its favor upon plaintiff's failure to pay the cash advances and interest thereon which they are ordered to pay under this decision; and

"(d) Ordering the said plaintiffs to pay the costs.

"SO ORDERED.

"Cabanatuan City, May 24, 1982." [4]

On November 25, 1982, respondents Marvin Paez and Rosa Valino as defendants in the lower court filed an appeal to the Court of Appeals. [5]

On March 10, 1986, the Intermediate Appellate Court promulgated its decision, quoted in the opening paragraph of this opinion.

Hence, this petition.[6]

The basic issue raised is whether the Intermediate Appellate Court erred in finding that the petitioner, not respondent, gave cause for rescission of the contracts and in ruling that restitution was not available in rescission of contracts under Article 1191 of the Civil Code.

We rule in favor of petitioners.[7]

Under the agreement of petitioner Reliance Commodities, Inc. with respondent Mervin Paez, the former was to pay Paez P70.00 for every ton of manganese ores delivered with a grade of 40% to 46% or over. Payment was to be made upon delivery of the ores at the stockpile yard at Gabaldon, Nueva Ecija. Petitioner Reliance was to advance the expenses of mining and hauling as they were incurred every fifteen (15) days, and that advances made were deductible from the agreed consideration of P70.00 per ton.

Petitioner made cash advances to respondent Paez totalling P41,130.00 and also turned over to him three heavy equipment for use in the mining operation. On the other hand, respondent Paez failed to make even a single delivery of manganese ores to the stockpile yard at Gabaldon. In fact, there was no mining operation at all.

Consequently, petitioner rescinded the contracts. Contrary to the ruling of the appellate court, in reciprocal obligations, the power to rescind or resolve is given to the injured party.[8] More, the rescission of the contracts requires the parties to restore to each other what they have received by reason of the contracts.[9]

The rescission has the effect of abrogating the contracts in all parts.[10]

WHEREFORE, the Court GRANTS the petition for review on certiorari, and REVERSES the decision of the Intermediate Appellate Court. The court REVIVES and AFFIRMS the decision of the trial court, with the modification that the sum to be restituted to petitioner Reliance Commodities, Inc. shall earn legal interest only from the finality of this decision until fully paid.

No costs.

SO ORDERED.

Puno, and Kapunan, JJ., concur.

Davide, Jr., C.J., (Chairman), on official leave.

Ynares-Santiago, J., no part.

[1] In AC-Civ. No. CV 01168, promulgated on March 10, 1986, Pascual, J., ponente, Campos, Jr., Camilon, and Jurado, JJ. concurring. Petition, Annex "A", Rollo, pp. 38-43.

[2] Rollo, pp. 39-41.

[3] CFI Record, pp. 32-38.

[4] CFI Record, pp. 269-287.

[5] Docketed as AC-CIV. No. CV 01168.

[6] Rollo, pp. 7-37.

[7] Case was unloaded to ponente on December 01, 1998.

[8] Article 1191, Civil Code; Tolentino, Civil Code of the Philippines, Vol. IV, 1997 reprint, p. 176, citing Mateos vs. Lopez, 6 Phil. 206 (1906); Bosque vs. Yu Chipco, 14 Phil. 95 (1909); Boysaw vs. Interphil Promotions, Inc., 148 SCRA 635 (1987)

[9] De Erquiaga vs. Court of Appeals, 178 SCRA 1 (1989)

[10] Tolentino, *ibid.*, p. 181, citing Po Pauco vs. Siguenza, 49 Phil. 404 (1926)

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