

CHUA YEK HONG, PETITIONER, VS. INTERMEDIATE APPELLATE COURT, MARIANO GUNO, AND DOMINADOR OLIT, RESPONDENTS.

G.R. No. 74811. September 30, 1988

Ponente: MELENCIO-HERRERA, J.

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MELENCIO-HERRERA, J.:

In this Petition for Review on Certiorari petitioner seeks to set aside the Decision of respondent Appellate Court in AC-G.R. No. 01375 entitled "Chua Yek Hong vs. Mariano Guno, et al.," promulgated on 3 April 1986, reversing the Trial Court and relieving private respondents (defendants below) of any liability for damages for loss of cargo.

The basic facts are not disputed:

Petitioner is a duly licensed copra dealer based at Puerta Galera, Oriental Mindoro, while private respondents are the owners of the vessel, "M/V Luzviminda I," a common carrier engaged in coastwise trade from the different ports of Oriental Mindoro to the Port of Manila.

In October 1977, petitioner loaded 1,000 sacks of copra, valued at P101,227.40, on board the vessel "M/V Luzviminda I" for shipment from Puerta Galera, Oriental Mindoro, to Manila. Said cargo, however, did not reach Manila because somewhere between Cape Santiago and Calatagan, Batangas, the vessel capsized and sank with all its cargo.

On 30 March 1979, petitioner instituted before the then Court of First Instance of Oriental Mindoro, a Complaint for damages based on breach of contract of carriage against private respondents (Civil Case No. R-3205).

In their Answer, private respondents averred that even assuming that the alleged cargo was truly loaded aboard their vessel, their liability had been extinguished by reason of the total loss of said vessel.

On 17 May 1983, the Trial Court rendered its Decision, the dispositive portion of which follows:

"WHEREFORE, in view of the foregoing considerations, the court believes and so holds that the preponderance of evidence militates in favor of the plaintiff and against the defendants by ordering the latter, jointly and severally, to pay the plaintiff the sum of P101,227.40 representing the value of the cargo belonging to the plaintiff which was lost while in the custody of the defendants; P65,550.00 representing miscellaneous expenses of plaintiff on said lost cargo; attorney's fees in the amount of P5,000.00, and to pay the costs of suit." (p. 30, Rollo).

On appeal, respondent Appellate Court ruled to the contrary when it applied Article 587 of the Code of Commerce and the doctrine in *Yangco vs. Laserna* (73 Phil. 330 [1941]) and held that private respondents' liability, as shipowners, for the loss of the cargo is merely co-extensive with their interest in the vessel such that a total loss thereof results in its extinction. The decretal portion of that Decision^[1] reads:

"IN VIEW OF THE FOREGOING CONSIDERATIONS, the decision appealed from is hereby REVERSED, and another one entered dismissing the complaint against defendants-appellants and absolving them from any

and all liabilities arising from the loss of 1,000 sacks of copra belonging to plaintiff-appellee. Costs against appellee." (p. 19, Rollo).

Unsuccessful in his Motion for Reconsideration of the aforesaid Decision, petitioner has availed of the present recourse.

The basic issue for resolution is whether or not respondent Appellate Court erred in applying the doctrine of limited liability under Article 587 of the Code of Commerce as expounded in *Yangco vs. Laserna*, supra.

Article 587 of the Code of Commerce provides:

Art. 587. The shipagent shall also be civilly liable for the indemnities in favor of third persons which may arise from the conduct of the captain in the care of the goods which he loaded on the vessel; but he may exempt himself therefrom by abandoning the vessel with all the equipments and the freight it may have earned during the voyage."

The term "shipagent" as used in the foregoing provision is broad enough to include the shipowner (*Standard Oil Co. vs. Lopez Castelo*, 42 Phil. 256 [1921]). Pursuant to said provision, therefore, both the shipowner and shipagent are civilly and directly liable for the indemnities in favor of third persons, which may arise from the conduct of the captain in the care of goods transported, as well as for the safety of passengers transported (*Yangco vs. Laserna*, supra; *Manila Steamship Co., Inc. vs. Abdulhaman, et al.*, 100 Phil. 32 [1956]).

However, under the same Article, this direct liability is moderated and limited by the shipagent's or shipowner's right of abandonment of the vessel and earned freight. This expresses the universal principle of limited liability under maritime law. The most fundamental effect of abandonment is the cessation of the responsibility of the shipagent/owner (*Switzerland General Insurance Co., Ltd. vs. Ramirez*, L-48264, February 21, 1980, 96 SCRA 297). It has thus been held that by necessary implication, the shipagent's or shipowner's liability is confined to that which he is entitled as of right to abandon - "the vessel with all her equipment and the freight it may have earned during the voyage," and "to the insurance thereof if any" (*Yangco vs. Laserna*, supra). In other words, the shipowner's or agent's liability is merely co-extensive with his interest in the vessel such that a total loss thereof results in its extinction. "No vessel, no liability" expresses in a nutshell the limited liability rule. The total destruction of the vessel extinguishes maritime liens as there is no longer any res to which it can attach (*Govt. Insular Maritime Co. vs. The Insular Maritime*, 45 Phil 805, 807 [1924]).

As this Court held:

"If the shipowner or agent may in any way be held civilly liable at all for injury to or death of passengers arising from the negligence of the captain in cases of collisions or shipwrecks, his liability is merely co-extensive with his interest in the vessel such that a total loss thereof results in its extinction." (*Yangco vs. Laserna, et al.*, supra).

The rationale therefor has been explained as follows:

"The real and hypothecary nature of the liability of the shipowner or agent embodied in the provisions of the Maritime Law, Book III, Code of Commerce, had its origin in the prevailing conditions of the maritime trade and sea voyages during the medieval ages, attended by innumerable hazards and perils. To offset against these adverse conditions and to encourage shipbuilding and maritime commerce, it was deemed necessary to confine the liability of the owner or agent arising from the operation of a ship to the vessel, equipment, and freight, or insurance, if any, so that if the shipowner or agent abandoned the ship, equipment, and freight, his liability was extinguished." (*Abueg vs. San Diego*, 77 Phil. 730 [1946])

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"Without the principle of limited liability, a shipowner and investor in maritime commerce would run the risk of being ruined by the bad faith or negligence of his captain, and the apprehension of this would be fatal to the interest of navigation." (Yangco vs. Laserna, supra).

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"As evidence of this 'real' nature of the maritime law we have (1) the limitation of the liability of the agents to the actual value of the vessel and the freight money, and (2) the right to retain the cargo and the embargo and detention of the vessel even in cases where the ordinary civil law would not allow more than a personal action against the debtor or person liable. It will be observed that these rights are correlative, and naturally so, because if the agent can exempt himself from liability by abandoning the vessel and freight money, thus avoiding the possibility of risking his whole fortune in the business, it is also just that his maritime creditor may for any reason attach the vessel itself to secure his claim without waiting for a settlement of his rights by a final judgment, even to the prejudice of a third person." (Phil. Shipping Co. vs. Vergara, 6 Phil. 284 [1906]).

The limited liability rule, however, is not without exceptions, namely: (1) where the injury or death to a passenger is due either to the fault of the shipowner, or to the concurring negligence of the shipowner and the captain (Manila Steamship Co., Inc. vs. Abdulhaman, supra); (2) where the vessel is insured; and (3) in workmen's compensation claims (Abueg vs. San Diego, supra). In this case, there is nothing in the records to show that the loss of the cargo was due to the fault of the private respondents as shipowners, or to their concurrent negligence with the captain of the vessel.

What about the provisions of the Civil Code on common carriers? Considering the "real and hypothecary nature" of liability under maritime law, these provisions would not have any effect on the principle of limited liability for shipowners or shipagents. As was expounded by this Court:

"In arriving at this conclusion, the fact is not ignored that the ill-fated, S.S. Negros, as a vessel engaged in interisland trade, is a common carrier, and that the relationship between the petitioner and the passengers who died in the mishap rests on a contract of carriage. But assuming that petitioner is liable for a breach of contract of carriage, the exclusively 'real and hypothecary nature' of maritime law operates to limit such liability to the value of the vessel, or to the insurance thereon, if any. In the instant case it does not appear that the vessel was insured." (Yangco vs. Laserna, et al., supra).

Moreover, Article 1766 of the Civil Code provides:

"Art. 1766. In all matters not regulated by this Code, the rights and obligations of common carriers shall be governed by the Code of Commerce and by special laws."

In other words, the primary law is the Civil Code (Arts. 1732-1766) and in default thereof, the Code of Commerce and other special laws are applied. Since the Civil Code contains no provisions regulating liability of shipowners or agents in the event of total loss or destruction of the vessel, it is the provisions of the Code of Commerce, more particularly Article 587, that govern in this case.

In sum, it will have to be held that since the shipagent's or shipowner's liability is merely co-extensive with his interest in the vessel such that a total loss thereof results in its extinction. (Yangco vs. Laserna, supra), and none of the exceptions to the rule on limited liability being present, the liability of private respondents for the loss of the cargo of copra must be deemed to have been extinguished. There is no showing that the vessel was insured in this case.

WHEREFORE, the judgment sought to be reviewed is hereby **AFFIRMED**. No costs.

SO ORDERED.

Paras, Padilla, Sarmiento, and Regalado, JJ., concur.

[1] Penned by Presiding Justice Ramon C. Gaviola, Jr. and concurred in by Justices Ma. Rosario Quetulio-Losa and Leonor Ines Luciano.

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