

DEVELOPMENT BANK OF THE PHILIPPINES, PETITIONER, VS. THE NATIONAL LABOR RELATIONS COMMISSION AND MALAYANG SAMAHAN NG MGA MANGGAGAWA SA ATLAS TEXTILE DEVELOPMENT CORPORATION, RES...

G.R. No. 86227. January 19, 1994

Ponente: VITUG, J.

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VITUG, J.:

This "petition for review on certiorari" (in reality a petition for certiorari), filed by the Development Bank of the Philippines ("DBP"), seeks the reversal of the decision of the National Labor Relations Commission ("NLRC"), affirming that of the Labor Arbiter, which holds the petitioner, along with Atlas Textile Development Corporation ("ATLAS"), liable to the private respondents for wage differentials, "illegal" salary deductions, separation pay, and similar money claims.

The private respondents were employees of ATLAS, a textile firm, which hypothecated its certain assets to DBP. After ATLAS defaulted in its obligations, DBP foreclosed on the mortgage in March 1985. The latter acquired the mortgaged assets by virtue of the foreclosure sale.

The private respondents filed their aforementioned claim, on 30 October 1985, against both ATLAS and DBP. The Labor Arbiter ruled for the private respondents. On appeal by DBP, the decision was sustained by the NLRC.

Hence, the instant petition.

The petitioner contends that it is error on the part of the public respondent to consider the workers' preference under Article 110 of the Labor Code over that of DBP's mortgage lien.

This issue has been put to fore in a number of cases brought to and decided by this Court.

In *Republic vs. Peralta*, 150 SCRA 37, the Court, through Mr. Justice Feliciano, ruled:

"Article 110 of the Labor Code does not purport to create a lien in favor of workers or employees for unpaid wages either upon all of the properties or upon any particular property owned by their employer. Claims for unpaid wages do not therefore fall at all within the category of specially preferred claims established under Articles 2241 and 2242 of the Civil Code, except to the extent that such claims for unpaid wages are already covered by Article 2241, number 6: 'claims for laborers' wages, on the goods manufactured or the work done;' or by Article 2242, number 3; 'claims of laborers and other workers engaged in the construction, reconstruction or repair of buildings, canals and other works upon said buildings, canals or other works.' To the extent that claims for unpaid wages fall outside the scope of Article 2241, number 6 and 2242, number 3, they would come within the ambit of the category of ordinary preferred credits under Article 2244. Applying Article 2241, number 6 to the instant case, the claims of the Unions for separation pay of their members constitute liens attaching to the processed leaf tobacco, cigars and cigarettes and other products produced or manufactured by the Insolvent, but not to other assets owned by the Insolvent. And even in respect of such

tobacco and tobacco products produced by the Insolvent, the claims of the Unions may be given effect only after the Bureau of Internal Revenue's claim for unpaid tobacco inspection fees shall have been satisfied out of the products so manufactured by the Insolvent."

Article 110 of the Labor Code was later amended by Republic Act No. 6715 which became effective on 21 March 1989. As so modified, the provision thenceforth provided:

"Article 110. Worker preference in case of bankruptcy. - In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards their unpaid wages and other monetary claims, any provision of law to the contrary notwithstanding. Such unpaid wages, and monetary claims shall be paid in full before the claims of the Government and other creditors may be paid."

The effects of the amendatory law were put to issue and passed upon in subsequent cases. In *Development Bank of the Philippines vs. National Labor Relations Commission*, 183 SCRA 328, the Court, through Mme. Justice Melencio-Herrera, elucidated:

"The amendment expands worker preference to cover not only unpaid wages but also other monetary claims to which even claims of the Government must be deemed subordinate.

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"Notably, the terms 'declaration' of bankruptcy or 'judicial' liquidation have been eliminated. Does this mean then that liquidation proceedings have been done away with?

"We opine in the negative upon the following considerations:

"1. Because of its impact on the entire system of credit, Article 110 of the Labor Code cannot be viewed in isolation but must be read in relation to the Civil Code scheme on classification and preference of credits.

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"2. In the same way that the Civil Code provisions on classification of credits and the Insolvency Law have been brought into harmony, so also must the kindred provisions of the Labor Law be made to harmonize with those laws.

"3. In the event of insolvency, a principal objective should be to effect an equitable distribution of the insolvent's property among his creditors. To accomplish this there must first be some proceeding where notice to all of the insolvent's creditors may be given and where the claims of preferred creditors may be bindingly adjudicated (*De Barretto vs. Villanueva*, No. L-14938, December 29, 1962, 6 SCRA 928). The rationale therefore has been expressed in the recent case of *DBP vs. Secretary of Labor* (G.R. No. 79351, 28 November 1989), x x x

"4. A distinction should be made between a preference of credit and a lien. A preference applies only to claims which do not attach to specific properties. A lien creates a charge on a particular property. The right of first preference as regards unpaid wages recognized by Article 110 does not constitute a lien on the property of the insolvent debtor in favor of workers. It is but a preference of credit in their favor, a preference in application. It is a method adopted to determine and specify the order in which credits should be paid in the final distribution of the proceeds of the insolvent's assets. It is a right to a first preference in the discharge of the funds of the judgment debtor.

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"6. Even if Article 110 and its Implementing Rule, as amended, should be interpreted to mean "absolute preference," the same should be given only prospective effect in line with the cardinal rule that laws shall have no retroactive effect, unless the contrary is provided (Article 4, Civil Code). Thereby, any infringement on the constitutional guarantee on non-impairment of the obligation of contracts (Section 10, Article III, 1987

Constitution) is also avoided. In point of fact, DBP's mortgage credit antedated by several years the amendatory law, RA No. 6715. To give Article 110 retroactive effect would be to wipe out the mortgage in DBP's favor and expose it to a risk which it sought to protect itself against by requiring a collateral in the form of real property.

"In fine, the right of preference given to workers under Article 110 of the labor Code cannot exist in any effective way prior to the time of its presentation in distribution proceedings. It will find application when, in proceedings such as insolvency, such unpaid wages shall be paid in full before the 'claims of the Government and other creditors' may be paid. But, for an orderly settlement of a debtor's assets, all creditors must be convened, their claims ascertained and inventoried, and thereafter the preferences determined in the course of judicial proceedings which have for their object the subjection of the property of the debtor to the payment of his debts and other lawful obligations. Thereby, an orderly determination of preference of creditors' claims is assured (Philippine Savings Bank vs. Lantin, No. L-33929, September 2, 1983, 124 SCRA 476); the adjudication made will be binding on all parties-in-interest, since those proceedings are proceedings in rem; and the legal scheme of classification, concurrence and preference of credits in the Civil Code, the Insolvency Law, and the Labor Code is preserved in harmony."

The ruling was reiterated in *Development Bank of the Philippines vs. National Labor Relations Commission*, 186 SCRA 841, as well as cases thereafter, and just recently in *Development Bank of the Philippines vs. NLRC*, 218 SCRA 183.

The case at bench concerns monetary claims of workers that are not involved in judicial proceedings in rem in adjudication of claims of creditors vis-a-vis the assets of the debtor, nor have such claims accrued after the effectivity of Republic Act 6715. The petition thus raises issues heretofore squarely resolved in our aforequoted decisions. To recapitulate:

- (1) Article 110 of the Labor Code, as amended, must be viewed and read in conjunction with the provisions of the Civil Code on concurrence and preferences of credits;
- (2) The aforesaid provisions of the Civil Code, including Article 110 of the Labor Code, require judicial proceedings in rem in adjudication of creditors' claims against the debtor's assets to become operative;
- (3) Republic Act No. 6715 has the effect of expanding the "worker preference" to cover not only unpaid wages but also other monetary claims of laborers, to which even claims of the Government must be deemed subordinate; and
- (4) The amendatory provisions of Republic Act 6715, which took effect on 21 March 1989, should only be given prospective application.

WHEREFORE, the petition is GRANTED. The assailed decision of public respondent, National Labor Relations Commission and that of the Labor Arbiter, insofar as the latter holds the petitioner liable for monetary claims of the private respondents, are hereby REVERSED and SET ASIDE. SO ORDERED.

Feliciano, Bidin, Romero, and Melo, JJ., concur.

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