

MATUGUINA INTEGRATED WOOD PRODUCTS, INC., PETITIONER, VS. THE HON. COURT OF APPEALS, DAVAO ENTERPRISES CORPORATION, THE HON. MINISTER, (NOW SECRETARY) OF NATURAL RESOURCES AND P...

G.R. No. 98310. October 24, 1996

Ponente: TORRES, JR., J.

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TORRES, JR., J.:

Matuguina Integrated Wood Products Inc. (MIWPI, for brevity) filed this action for prohibition, Damages and Injunction, in order to prevent the respondent Minister (now Secretary) of Natural Resources from enforcing its Order of Execution against it, for liability arising from an alleged encroachment of the petitioner over the timber concession of respondent DAVENCOR located in Mati, Davao Oriental.

The Regional Trial Court, Branch 17, Davao City, ruled in favor of the petitioner, but on appeal, was reversed by the respondent Court of Appeals in its decision dated February 25, 1991, which found MIWPI, as an alter ego of Milagros Matuguina and/or Matuguina Logging enterprises (MLE, to be liable to DAVENCOR for illegal encroachment.

The following are the antecedent facts:

On June 28, 1973, the Acting Director of the Bureau of Forest Development issued Provisional Timber License (PTL) No. 30, covering an area of 5,400 hectares to Ms. Milagros Matuguina who was then doing business under the name of MLE, a sole proprietorship venture. A portion, covering 1,900 hectares, of the said area was located within the territorial boundary of Gov. Generoso in Mati, Davao Oriental, and adjoined the timber concession of Davao Enterprises Corporation (DAVENCOR), the private respondent in this case.

On July 10, 1974, petitioner Matuguina Integrated Wood Products, Inc. (MIWPI), was incorporated, having an authorized capital stock of Ten Million Pesos (P10,000,000.00).[1] The incorporators/stockholders of MIWPI, and their stock subscriptions were as follows:

Name

No. Of Shares Subscribed

Amount of Capital Stock Subscribed

1. Henry Wee

1,160,000

1,160,000.00

2. Ma. Milagros Matuguina

400,000

400,000.00

3. Alejandro Chua Chun

200,000

200,000.00

4. Bernadita Chua

120,000

120,000.00

5. Domingo Herrera

40,000

40,000.00

6. Manuel Hernaez

40,000

40,000.00

7. Luis Valderama

40,000

40,000.00

2,000,000

2,000,000.00

Milagros Matuguina became the majority stockholder of MIWPI on September 24, 1974, when the latter's Board of Directors approved by Resolution the transfer of 1,000,000 shares from Henry Wee to Milagros Matuguina, thus giving her seventy percent (70%) stock ownership of MIWPI.

In an undated letter[2] to the Director of Forest Development (BFD) on November 26, 1974, Milagros Matuguina requested the Director for a change of name and transfer of management of PTL No. 30, from a single proprietorship under her name, to that of MIWPI.

This request was favorably endorsed on December 2, 1974[3] by the BFD's Acting Director, Jose Viado to respondent Secretary of Natural Resources, who approved the same on September 5, 1975.[4]

On July 17, 1975, Milagros Matuguina and petitioner MIWPI executed a Deed of Transfer[5] transferring all of the former's rights, interests, ownership and participation in Provincial Timber License No. 30 to the latter for and in consideration of 148,000 shares of stocks in MIWPI.

A copy of said deed was submitted to the Director of Forest Development and Petitioner MIWPI had since been acting as holder and licensee of PTL No. 30.

On July 28, 1975, pending approval of the request to transfer the PTL to MIWPI, DAVENCOR, through its Assistant General Manager, complained to the District Forester at Mati, Davao Oriental that Milagros

Matuguina/MLE had encroached into and was conducting logging operations in DAVENCOR's timber concession.

After investigation of DAVENCOR's complaint, the Investigating Committee which looked into DAVENCOR's complaint submitted its report to the Director, finding that MLE had encroached on the concession area of DAVENCOR. In line with this, the Director of Forest Development issued an Order[6] on July 15, 1981, finding and declaring MLE to have encroached upon, and conducted illegal logging operations within the licensed or concession area of DAVENCOR.

MLE appealed the Order to the Ministry of Natural Resources, which appeal was docketed as MNR CASE No. 6450. During the pendency of the appealed case with the Minister of Natural Resources, Ma. Milagros Matuguina disposed of her shares in petitioner MIWPI, thereby ceasing to be a stockholder of the petitioner of March 16, 1986.[7]

On October 1, 1986, The Minister of Natural Resources, Hon. Ernesto M. Maceda rendered his Decision,[8] affirming the aforesaid order of the Director of Forest Development, stating thus:

DECISION

"For our Resolution is the appeal by MATUGUINA LOGGING ENTERPRISES (MLR, for short) of the Order dated 15 July 1991 of the Director of Forest Development finding and declaring MLE to have encroached upon, and conducted illegal logging operations within the license or concession area of DAVAO ENTERPRISES CORPORATION. The aforesaid Order dispositively states:

"WHEREFORE, there being a clear and convincing proof that Matuguina Conducted illegal operation within the licensed area of DAVENCOR, above named respondent is hereby ordered to pay to the complainant the equivalent value in pesos of 2,352.04 cubic meters of timber based on the market price obtaining, at the logpond of the respondent at the time of cutting, minus the cost of production, or to restitute to the complainant equal volume of 2,352.04 cubic meters of logs owned by respondent to be taken at respondent's logpond. The respondent is hereby directed to comply with this Order within a period of ninety (90) days from receipt of this Order and after the lapse of the said period, no compliance has been made by the respondent, its logging operations shall ipso facto become automatically suspended until respondent shall have complied as directed.

The Regional Director of Region II, Davao City is hereby instructed to implement this Order and to submit his compliance report within ten (10) days after the lapse of the ninety (90) days period within which the respondent is directed to comply with this order"

And that the dispositive portion of the said decision states;

"WHEREFORE, the Order dated 15 July 1981 of the Director of Forest Development is hereby AFFIRMED."

When the Decision of the Minister of Natural Resources became final and executory, Philip Co and DAVENCOR requested the respondent Minister on October 30, 1986 to issue immediately a writ of execution against MLE and/or MIWPI.[9] The Order of Execution[10] was issued on January 6, 1987 by the Minister through the latter's Assistant on Legal Affairs. The said Order directed the issuance of a writ of execution, not only against MLE, but likewise against MIWPI. The dispositive portion of the order provides:

"WHEREFORE, let a Writ of Execution be issued against Matuguina Logging Enterprises and/or Matuguina Integrated Wood Products, Inc. For the satisfaction of the Decision of the Bureau of Forest Development dated 15 July 1981, and the Order of this office dated 1 October 1986.

SO ORDERED."

Subsequently, a writ of execution[11] dated January 8, 1987 was issued in favor of the respondent DAVENCOR, which states:

"The City/Provincial Sheriff
Davao City

GREETINGS:

You are hereby directed to enforce, implement and execute the Order of Execution dated 06 June 1987 of this Office in the above-entitled case against Matuguina Logging Enterprises and/or Matuguina Integrated Wood Products, Inc. its officers or any person or corporation in its behalf and conformably with the Order dated 15 July 1981 of the Director of Forest Development, stating dispositively.

xxx

You are hereby requested to submit your return to this Office within the period of sixty (60) days from your receipt hereof as to action taken hereon.

SO ORDERED."

On February 11, 1987, MIWPI filed the instant complaint[12] for prohibition, damages and injunction, with prayer for restraining order, which case was docketed as Civil Case No. 18,457-87 in the Regional Trial Court -- Davao City, Branch 17. MIWPI stated its primary cause of action, the relevant portion of which reads, viz.:

"5. That plaintiff which has a distinct and separate personality of its own under the law, and was never a party to the case between DAVENCOR and MLE, suddenly became a party to the case after the decision became final and executory with the issuance of Annex "B" hereof for reasons known to the defendants alone:

6. That the issuance of Annex 'B' hereof (the order of execution) by the defendant Minister has been made not only without or in excess of his authority but that the same was issued patently without any factual or legal basis, hence, a gross violation of plaintiff's constitutional rights under the due process clause;

7. That plaintiff, in the face of the order (Annex 'B') complained of, there being no appeal or any plain, speedy, and adequate remedy in the ordinary course of law, does not have any alternative but to ventilate the present recourse;

8. That defendant Minister is doing, threatens or is about to do, or is procuring or suffering to be done, some act which definitely is in violation of the plaintiff's rights respecting the subject matter of the action, and unless said act or acts are restrained or prohibited at least during the pendency of this case, said act or acts would probably work not only injustice to plaintiff but would tend to render the judgment of this Honorable court ineffectual;

9. That the commission or continuance of the acts complained of during the present litigation would not only cause great and irreparable injury, but will also work injustice to the plaintiff, and would complicate, aggravate and multiply the issues in this case;

10. That the plaintiff is entitled to the relief demanded, and the whole or part of such relief consist in restraining the commission or continuance of the acts complained of, or in the performance of acts, either for a limited period or perpetually;

11. That great and irreparable injury would inevitably result to the plaintiff before the matter can be heard on notice, hence, immediate issuance of a restraining order is necessary and proper;

12. That the plaintiff is willing and able to file the necessary bond executed to the defendants, in an amount to be fixed by the Court, to the effect that the plaintiff will pay to the defendants all damages which they may sustain by reason of the injunction if the court should finally decide that the plaintiff was not entitled thereto."

MIWPI, likewise alleges that in wantonly and imprudently procuring the Writ of Execution against it, which DAVENCOR and Philip Co seek to enforce a 2.5 Million Peso liability of plaintiff, the latter has been constrained

to bring the present action, thereby incurring damages in the sum of P500,000.00 in concept of actual and compensatory damages, and P250,000.00 in attorney's fees, which amount petitioner now seeks to recover.

The trial court issued a temporary restraining order the next day, February 12, 1987, restraining and/or enjoining the private respondents and the Hon. Secretary of Natural Resources from enforcing, implementing and/or carrying into effect, the decision of the respondent Secretary dated October 1, 1986, as well as the order of execution dated January 6, 1987.

On February 17, 1987, private respondent filed a Motion to Dismiss[13] alleging that the trial court had no jurisdiction over the case under Presidential Decree No. 705, to which Motion to Dismiss, petitioner filed an Opposition[14] dated February 1987. On March 9, 1987, the trial court issued an order[15] denying private respondent's Motion to Dismiss. Hence, private respondents filed their Answer[16] dated March 13, 1987 and an Amended Answer[17]

In the latter pleading, private respondents raised the following special and affirmative defenses:

"7. That neither Milagros Matuguina nor Matuguina Integrated Wood Products, Inc. advised defendant Davencor of the change of name, and transfer of management of PTL No. 30. From Milagros Matuguina to Matuguina Integrated Wood Products, Inc., during the pendency of MNR Case No. 6540 before the Bureau of Forest Development and the Ministry of Natural Resources, notwithstanding that the lawyer of matuguina Integrated Wood Products, Inc., who was also a stockholder thereof, had appeared for Milagros Matuguina in said administrative case.

8. That plaintiff has acted in bad faith and is now in estoppel from questioning the Writ of Execution issued against Milagros Matuguina (now Matuguina Integrated Wood Products, Inc.) to satisfy the judgment in MNR Case No. 6540.

9. This Honorable Court has no jurisdiction over the nature and subject matter of this action, especially because:

(a) The plaintiff has not exhausted administrative remedies available to it before initiating this action;

(b) In the guise of entertaining an action for damages, this Court is being misled by the plaintiff into deciding questions properly for the Department of Natural Resources to decide exclusively in the lawful exercise of its regulatory jurisdiction;

(c) The plaintiff is now precluded and estopped from filing this action.

10. The plaintiff has no cause of action against the defendants and has not stated any in its complaint, especially because:

(a) Having failed to exhaust administrative remedies, plaintiff is without a ripe cause of action that can be pleaded before this Honorable Court;

(b) In substance, there is no justifiable question raised under the facts and circumstances of this case.

Meanwhile, on June 2, 1987, the trial court issued an order[18] granting the petitioner's prayer for the issuance of a writ of preliminary injunction against the private respondents and the Secretary of Natural Resources, ordering them to desist, refrain and prevent from enforcing respondent Secretary's Decision dated October 1, 1986 as well as the writ of execution dated January 8, 1987.

On May 10, 1989, the trial court rendered its Decison[19] in favor of the petitioner, disposing of the action as follows:

"WHEREFORE, in view of the foregoing, finding the evidence of plaintiff, Matuguina Integrated Wood Products, Inc. sufficient to sustain a preponderance of evidence, showing that the order of execution dated January 6, 1987, issued by the Minister of Natural Resources, through Alexander C. Castro, Assistant Minister for Legal Affairs, included therein, plaintiff Matuguina Integrated Wood Products, Inc., despite non-inclusion of plaintiff in the decision of the then Minister of Natural Resources, dated October 1, 1986, already final and executory before the issuance of the order and execution, said order or execution is hereby declared null and void and without any legal effect.

As a consequence thereof, the writ of preliminary injunction issued by this court, dated June 2, 1987 is hereby made permanent.

Moreover, as a result of the filing of this case, defendant Philip Co and Davencor Corporation, are ordered to jointly and severally pay the amount of P100,000.00 as actual and compensatory damages, along with another amount of P20,000.00 as attorney's fees and costs of this action, in favor of plaintiff Matuguina Integrated Wood Products, Inc.

SO ORDERED."

Private respondents appealed the trial court's decision on May 19, 1989. Their notice of appeal was approved by the trial court. The appealed case was docketed with respondent Honorable Court of Appeals as CA-G.R. SP No. 19887.

On February 25, 1991, the respondent Court rendered its Decision,[20] reversing the lower court's pronouncement. The dispositive portion of the decision reads:

"WHEREFORE, premises considered, the decision appealed from is reversed and set aside and the Order of Execution issued by the Minister of Natural Resources dated January 6, 1987 is affirmed. Without pronouncement as to costs.

SO ORDERED."

In due time, petitioner filed a motion for reconsideration.[21] Private respondents filed their opposition[22] to the same on April 2, 1991. In a Resolution[23] dated April 12, 1991, the motion was denied by the respondent Court.

Not content with the court's pronouncement, petitioner is now before us on a Petition for Review on Certiorari,[24] alleging that the respondent court acted with grave abuse of discretion in rendering the questioned decision and its companion resolution, denying the motion for reconsideration.

The reasons relied upon by the Petitioner in filing its petition are hereby restated:

I

PETITIONER WAS DENIED DUE PROCESS OF LAW WHEN IT WAS MADE LIABLE BY RESPONDENT SECRETARY OF NATURAL RESOURCES IN HIS ORDER OF EXECUTION DATED 06 JANUARY 1987 (EXHIBIT "B" OF ATTACHMENT "O") ISSUED IN MNR CASE NO. 6540 DESPITE THE FACT THAT PETITIONER WAS NEVER A PARTY NOR A PARTICIPANT IN THE SAID CASE: IN FACT, PETITIONER NEVER HAD NOTICE OF THE PROCEEDINGS IN MNR CASE NO. 6540.

II

THE FAILURE TO AFFORD PETITIONER THE OPPORTUNITY TO BE HEARD IN THE ADMINISTRATIVE LEVEL (MNR CASE NO. 6540) COULD NOT HAVE BEEN CURED BY THE INSTITUTION OF THE ACTION FOR PROHIBITION IN THE TRIAL COURT BECAUSE SAID COURT HAD NO JURISDICTION TO DETERMINE WHETHER PETITIONER WAS GUILTY OF ENCROACHMENT ON PRIVATE RESPONDENT DAVENCOR'S TIMBER CONCESSION; FURTHERMORE, THE QUESTION ON WHETHER PETITIONER WAS GUILTY OF ENCROACHMENT

WAS NEVER PUT IN ISSUE IN THE CASE BEFORE THE TRIAL COURT.

III

THE LIABILITY OF MILAGROS/MLE AS FOUND BY RESPONDENT SECRETARY IN ITS DECISION DATED 01 OCTOBER 1986 (EXHIBIT "A" OF THE ATTACHMENT "0") CANNOT BE IMPUTED AGAINST PETITIONER SINCE THE LATTER IS A CORPORATION HAVING A PERSONALITY SEPARATE AND DISTINCT FROM MILAGROS/MLE.

IV

PETITIONER CANNOT BE MADE LIABLE TO PRIVATE RESPONDENTS UNDER THE DEED OF TRANSFER DATED 18 JULY 1975 (EXHIBIT "3" OF ATTACHMENT "P") AND SECTION 61 OF THE REVISED FORESTRY CODE OF THE PHILIPPINES (P.D. 705, AS AMENDED):

A. THE ALLEGED TRANSFER OF PTL NO. 30 FROM MILAGROS/MLE TO PETITIONER NEVER BECAME BINDING AND EFFECTIVE SINCE PTL NO. 30 REMAINED IN THE NAME OF MILAGROS/MLE UNTIL ITS EXPIRATION ON 30 JUNE 1977: THIS IS DUE TO THE FACT THAT SAID TRANSFER WAS NEVER APPROVED BY THE SECRETARY OF NATURAL RESOURCES.

B. GRANTING ARGUENDO THAT THERE WAS AN EFFECTIVE TRANSFER OF PTL NO. 30 FROM MILAGROS/MLE TO PETITIONER, THE TRANSFER COULD NOT MAKE PETITIONER LIABLE FOR THE ALLEGED ENCROACHMENT OF PRIVATE RESPONDENT DAVENCOR'S TIMBER CONCESSION, SINCE:

1. SAID TRANSFER WAS EXECUTED PRIOR TO THE COMMISSION OF THE ALLEGED ENCROACHMENT AND THE FILING OF THE ADMINISTRATIVE COMPLAINT FOR ENCROACHMENT DATED 28 JULY 1975; THUS, PETITIONER CANNOT BE MADE LIABLE FOR OBLIGATIONS OF MILAGROS/MLE WHICH WERE INCURRED AFTER DATE OF THE SAID TRANSFER.

2. SAID TRANSFER COVERED ONLY FORESTRY CHARGES AND OTHER GOVERNMENT FEES, AND DID NOT INCLUDE THE PERSONAL LIABILITY OF MILAGROS/MLE THAT AROSE FROM THE ENCROACHMENT OF THE TIMBER CONCESSION OF RESPONDENT DAVENCOR.[25]

Private Respondent DAVENCOR and the public respondent Hon. Minister (now Secretary) of Natural Resources filed separate Comments[26] on September 5, 1991 and June 8, 1992 respectively.

The essential issues of the present controversy boil down to the following:

Was the Petitioner denied due process when it was adjudged liable with MLE for encroaching upon the timber concession of DAVENCOR in the respondent Minister's order of Execution?

Is the petitioner a transferee of MLE's interest, as to make it liable for the latter's illegal logging operations in DAVENCOR's timber concession, or more specifically, is it possible to pierce the veil of MIWPI's corporate existence, making it a mere conduit or successor of MLE?

Generally accepted is the principle that no man shall be affected by any proceeding to which he is a stranger, and strangers to a case are not bound by judgment rendered by the court. In the same manner an execution can be issued only against a party and not against one who did not have his day in court. In *Lorenzo vs. Cayetano*, 78 SCRA 485 [1987], this Court held that only real parties in interest in an action are bound by judgment therein and by writs of execution and demolition issued pursuant thereto.[27]

Indeed a judgment cannot bind persons who are not parties to the action.[28] It is elementary that strangers to a case are not bound by the judgment rendered by the court and such judgment is not available as an adjudication

either against or in favor of such other person. A decision of a court will not operate to divest the rights of a person who has not and has never been a party to a litigation, either as plaintiff or as defendant. Execution of a judgment can only be issued against one who is a party to the action, and not against one who, not being a party in the action has not yet had his day in court.[29]

The writ of execution must conform to the judgment which is to be executed, as it may not vary the terms of the judgment it seeks to enforce.[30] Nor may it go beyond the terms of the judgment which sought to be executed. Where the execution is not in harmony with the judgment which gives it life and exceeds it, it has pro tanto no validity. To maintain otherwise would be to ignore the constitutional provision against depriving a person of his property without due process of law.[31]

The writ of execution issued by the Secretary of Natural Resources on January 8, 1987 clearly varies the term of his Decision of October 1, 1986, inasmuch as the Writ includes the MIWPI as party liable whereas the Decision only mentions Milagros Matuguina/MLE.

There is no basis for the issuance of the Order of Execution against the petitioner. The same was issued without giving the petitioner an opportunity to defend itself and oppose the request of DAVENCOR for the issuance of a writ of execution against it. In fact, it does not appear that petitioner was at all furnished with a copy of DAVENCOR's letter requesting for the Execution of the Honorable Secretary's decision against it. Petitioner was suddenly made liable upon the order of execution by the respondent Secretary's expedient conclusions that MLE and MIWPI are one and the same, apparently on the basis merely of DAVENCOR's letter requesting for the Order, and without hearing or impleading MIWPI. Until the issuance of the Order of execution, petitioner was not included or mentioned in the proceedings as having any participation in the encroachment in DAVENCOR's timber concession. This action of the respondent Secretary disregards the most basic tenets of due process and elementary fairness.

The liberal atmosphere which pervades the procedure in administrative proceedings does not empower the presiding officer to make conclusions of fact before hearing all the parties concerned.[32] In *Police Commission vs. Hon Judge Lood*,[33] we held that the formalities usually attendant in court hearings need not be present in an administrative investigation, provided that the parties are heard and given the opportunity to adduce their evidence. The right to notice and hearing is essential to due process and its non-observance will, as a rule, invalidate the administrative proceedings.

As observed by the appellate court, to wit:

"the appellant should have filed a Motion with the Minister with Notice to the appellee to include the latter as party liable for the judgment in order to afford the appellee an opportunity to be heard on its liability for the judgment rendered against Ma. Milagros Matuguina doing business under the name Matuguina Logging Enterprises.[34]

Continuing, the said court stated further that:

"Nevertheless, the failure to comply with the procedure in order to satisfy the requirements of due process was cured by the present action for prohibition where the liability of appellee has been ventilated."

We do not agree. Essentially, Prohibition is a remedy to prevent inferior courts, corporations, boards or persons from usurping or exercising a jurisdiction or power with which they have not been vested by law[35] As we held in *Mafinco Trading Corporation vs. Ople, et al*,[36] in a certiorari or prohibition case, only issues affecting the jurisdiction of the tribunal, board and offices involved may be resolved on the basis of undisputed facts.

The issue of whether or not petitioner is an alter ego of Milagros Matuguina/MLE, is one of fact, and which

should have been threshed out in the administrative proceedings, and not in the prohibition proceedings in the trial court, where it is precisely the failure of the respondent Minister of Natural Resources to proceed as mandated by law in the execution of its order which is under scrutiny.

Assuming, arguendo, that prohibition is the proper remedy for determining the propriety of piercing the separate personality of petitioner with its stockholders, the evidence presented at said trial does not warrant such action.

It is settled that a corporation is clothed with a personality separate and distinct from that of persons composing it. It may not generally be held liable for that of the persons composing it. It may not be held liable for the personal indebtedness of its stockholders or those of the entities connected with it. Conversely, a stockholder cannot be made to answer for any of its financial obligations even if he should be its president.[37] But when the juridical personality of the corporation is used to defeat public convenience, justify wrong, protect fraud or defend crime, the corporation shall be considered as a mere association of persons (Koppel, Inc. vs. Yatco, 77 Phil 496, Palay, Inc. vs. Clave, G.R. No. 56076, September 21, 1983, 124 SCRA 638), and its responsible officers and/or stockholders shall be individually liable (Namarco vs. Associated Finance Co., Inc., G.R. No. L- 20886, April 27, 1967, 19 SCRA 962). For the same reasons, a corporation shall be liable for the obligations of a stockholder (Palacio vs. Fely Transportation Co., G.R. No. L-15121, August 31, 1963, 5 SCRA 1011), or a corporation and its successor-in-interest shall be considered as one and the liability of the former attach to the latter.[38]

But for the separate juridical personality of a corporation to be disregarded, the wrongdoing must be clearly and convincingly established. It cannot be presumed.[39]

In the case at bar, there is, insufficient basis for the appellate court's ruling that MIWPI is the same as Matuguina. The trial court's observation is enlightening.

"Despite apparently opposing evidence of both parties, the Court gathered and finds, that defendant's attempt to pierce the veil of corporate personality of plaintiff corporation, as to consider plaintiff corporations merely an adjunct or alter ego of Maria Milagros Matuguina Logging Enterprises, to justify defendants claim against plaintiff corporation, suffers heavily from insufficiency of evidence.

It is the vehement contention of defendants, to bolster its claim, that plaintiff corporation is the alter ego of Maria Milagros Matuguina Logging Enterprises, because when Milagros Matuguina became the Chairman of the Board of Directors of plaintiff corporation, she requested for the change of name and transfer of management of PTL No. 30, from her single proprietorship, to plaintiff corporation.

Secondly, when Milagros Matuguina executed the deed of transfer, transferring her forest concession under PTL No. 30, together with all the structures and improvements therein, to plaintiff corporation, for a consideration of P14,800.00 representing 148,000 shares of stocks of plaintiff corporation actually all existing shares of stocks of Milagros Matuguina, in plaintiff corporation represents 77.4% therein; suffice to say that plaintiff corporation practically became an alter ego of Milagros Matuguina.

Defendants' arguments on this peripheral aspect of corporate existence, do not at all indicate that such a legal fiction, was granted.

In the first place the alleged control of plaintiff corporation was not evident in any particular corporate acts of plaintiff corporation, wherein Maria Milagros Matuguina Logging Enterprises using plaintiff corporation, executed acts or powers directly involving plaintiff corporation.

Neither was there any evidence of defendants, that Maria Milagros Matuguina Logging Enterprises, using the facilities and resources of plaintiff corporation, involved itself in transaction using both single proprietorship and plaintiff corporation in such particular line of business undertakings.

As stated by this court in resolving plaintiff's prayer for issuance of a writ of preliminary injunction, said:

‘There is actually, no evidence presented by defendant, showing that sometime on March 15, 1986, to January 1987, during which period, the subject decision of Hon. Secretary of Natural Resources and corresponding writ of execution, Maria Milagros Matuguina was a stockholder of plaintiff corporation in such amount or was she an officer of plaintiff corporation in whatever capacity.’

The above circumstances is relevant and significant to assume any such justification of including plaintiff corporation in the subject writ of execution, otherwise as maintained by defendants, what matters most was the control of Milagros Matuguina Logging Enterprises of plaintiff corporation in 1974 and 1975, when the administrative case was pending, this circumstance alone without formally including plaintiff corporation in said case, will not create any valid and sufficient justification for plaintiff corporation, to have been supposedly included in the suit against defendants and Maria Milagros Matuguina Logging Enterprises, in the administrative case.

Yet, granting as claimed by defendants, that in 1974 or in 1975, Maria Milagros Matuguina became the controlling stockholder of plaintiff corporation, on account of the change of name and transfer of management of PTL No. 30, this circumstance, we repeat, does not of itself prove that plaintiff corporation was the alter ego of Maria Milagros Matuguina Logging Enterprise, as enunciated in various decisions of this Court, to wit:

‘It is important to bear in mind that mere ownership by a single stockholder or by another corporation of all or nearly all of the capital stocks of the corporation, is not itself a sufficient warrant for disregarding the fiction of separate personality. (Liddel and Co. vs. Collector of Internal revenue, G.R. No. 9687, June 30, 1961).’

It is recognized as lawful to obtain a corporation charter, even with a single substantial stockholder, to engage in specific activity and such activity may co-exist with other private activities of the stockholders.

If the corporation is substantial one, conducted lawfully; without fraud on another, its separate identity is to be respected.[40]

In this jurisdiction, it is a settled rule that conclusions and findings of fact by trial court are entitled to great weight on appeal and should not be disturbed unless for strong and cogent reasons because the trial court is in a better position to examine real evidence, as well as to observe the demeanor of the witnesses while testifying in the case.[41]

It is likewise improper to state that the MIWPI is the privy or the successor-in-interest of MLE, as the liability for the encroachment over DAVENCOR’s timber concession is concerned, by reason of the transfer of interest in PTL No. 30 from MLE to MIWPI.

First at all, it does not appear indubitable that the said transfer ever became effective, since PTL No. 30 remained in the name of Milagros Matuguina/MLE until it expired on June 30, 1977.[42]

More importantly, even if it is deemed that there was a valid change of name and transfer of interest in the PTL No. 30, this only signifies a transfer of authority, from MLE to MIWPI, to conduct logging operations in the area covered by PTL No. 30. It does not show indubitable proof that MIWPI was a mere conduit or successor of Milagros Matuguina/MLE, as far the latter’s liability for the encroachment upon DAVENCOR’s concession is concerned. This is the only conclusion which we can discern from the language of Section 61 of P.D. 705,[43] and the letters of the Acting Minister of Natural Resources to Milagros Matuguina/MLE and to MIWPI, on September 16, 1975.[44] In Soriano vs. Court of Appeals, this Court stated in clear language, that-

"It is the general rule that the protective mantle of a corporation’s separate and distinct personality could only be pierced and liability attached directly to its officers and/or members - stockholders, when the same is used for fraudulent, unfair, or illegal purpose. In the case at bar, there is no showing that the Association entered into the transaction with the private respondent for the purpose of defrauding the latter of his goods or the

payment thereof. xxx. Therefore, the general rule on corporate liability, not the exception, should be applied in resolving this case. (G.R. No. 49834, June 22, 1989)

The respondents cite Section 61 of P.D. 705 to establish MIWPI's succession to the liability of Milagros Matuguina/MLE:

"SEC. 61. Transfer. "Unless authorized by the Department Head, no licensee, lessee, or permittee may transfer, exchange, sell, or convey his license agreement, license, lease or permit, or any of his rights or interest therein, or any of his assets used in connection therewith.

The licensee, lessee, or permittee shall be allowed to transfer or convey his license agreement, license, lease, or permit only if he has not violated any forestry law, rule or regulation; has been faithfully complying with the terms and conditions of the license agreement, license, lease or permit; the transferee has all the qualifications and none of the disqualifications to hold a license agreement, license, lease or permit; there is no evidence that such transfer or conveyance is being made for purposes of speculation; and the transferee shall assume all the obligations of the transferor.

The transferor shall forever be barred from acquiring another license agreement, license, lease or permit."

Even if it is mandated in the abovestated provision that "the transferee shall assume all the obligations of the transferor" this does not mean that all obligations are assumed, indiscriminately.

Invariably, it is not the letter, but the spirit of the law and intent of the legislature that is important. When the interpretation of a statute according to the exact and literal import of its words would lead to absurdity, it should be construed according to the spirit and reason, disregarding if necessary the letter of the law.[45]

In construing statutes, the terms used therein are generally to be given their ordinary meaning, that is, such meaning which is ascribed to them when they are commonly used, to the end that absurdity in the law must be avoided.[46] The term "obligations" as used in the final clause of the second paragraph of Section 61 of P.D. 705 is construed to mean those obligations incurred by the transferor in the ordinary course of business. It cannot be construed to mean those obligations or liabilities incurred by the transferor as a result of transgressions of the law, as these are personal obligations of the transferor, and could not have been included in the term "obligations" absent any modifying provision to that effect.

In the September 16, 1975 letters of Acting Director of the Bureau of Forest Development to Milagros Matuguina and MIWPI informing them of the approval of Matuguina's request for the change of name and transfer of management of PTL No. 30, the following statements were made by the Acting Director:

"In view hereof, (Matuguina Integrated Wood Products, Inc.) shall assume the responsibility of paying whatever pending liabilities and/or accounts remaining unsettled, if any, by the former licensee, Milagros Matuguina, with the government." (Emphasis ours)[47]

Accordingly, the letter's language implies that the obligations which MIWPI are to assume as transferee of Milagros Matuguina/MLE are those obligations in favor of the government only, and not to any other entity. Thus this would include Forestry Charges, Taxes, Fees, and similar accountabilities.

In sum, the Court makes the following pronouncements:

(a) The respondent Honorable Minister of Natural Resources gravely abuse its discretion when it issued its Order of Execution on January 6, 1987, including therein as one of the parties liable the petitioner Matuguina Integrated Wood Products, Inc., which was never a party to the assailed proceeding resulting in the issuance of such Order and, without affording the same an opportunity to be heard before it was adjudged liable.

(b) The petitioner is a corporate entity separate and distinct from Milagros Matuguina/Matuguina Logging Enterprises, there being no clear basis for considering it as a mere conduit or alter ego of Matuguina/MLE, and therefore, cannot be made liable for the obligations of the same for encroachment over the timber concession of private respondent DAVENCOR.

IN VIEW OF THE FOREGOING, the petition is hereby GRANTED, and the Decision dated February 25, 1991 is SET ASIDE. The decision of the Regional Trial Court is hereby REINSTATED, and correspondingly, Order of Execution of the respondent Secretary of Natural Resources is declared Null and Void and without effect.

No pronouncement as to cost.

SO ORDERED.

Regalado (Chairman), Romero, Puno, and Mendoza, JJ., concur.

[1] Articles of Incorporation of MIWPI are on p. 232 of Rollo.

[2] Rollo, p. 222.

[3] Ibid., p. 227.

[4] Ibid., p. 228.

[5] Ibid., p. 250.

[6] Infra.

[7] Rollo, p. 194.

[8] Ibid., p. 172.

[9] Ibid., 188.

[10] Ibid., 93.

[11] Ibid., 191.

[12] Ibid., p. 77.

[13] Ibid., p. 102.

[14] Ibid., p. 106.

[15] Ibid., p. 109.

[16] Ibid., p. 117.

[17] Ibid., p. 159.17 dated July 16, 1987

[18] Ibid, p. 122.

[19] Ibid., p. 309.

[20] Ibid., p. 63.

[21] Ibid., p. 383.

[22] Ibid., p. 388.

- [23] Ibid., p. 72.
- [24] Ibid., p. 10.
- [25] Petition, Rollo, 26.
- [26] Comment of DAVENCOR, Rollo, p. 409; Comment of respondent Minister (Secretary) of Natural Resources, Rollo, p. 497.
- [27] Vda. De Medina vs. Hon Fernando A. Cruz, etc., G.R. No. L-39272, May 4, 1988, 161 SCRA 36.
- [28] Buazon, et. al. vs. Court of appeals, et. al., G.R. No. 97749, March 19, 1993, 220 SCRA 182.
- [29] St Dominic Corp. vs. Intermediate Appellate Court, etc., G.R., Nos. L-70623, L-48630, June 30, 1987, 151 SCRA 577.
- [30] Buan vs. court of Appeals, et al., G.R. No. 101614, August 17, 1994, 235 SCRA 424.
- [31] Moran, M., Comments on the Rules of Court, 1979 ed., vol. 2, p. 278.
- [32] Ang Tibay vs. Court of Industrial Relations, 69 Phil 635.
- [33] G.R. No. 34637, February 24, 1984, 127 SCRA 757.
- [34] RTC Decision, supra.
- [35] 3 Moran, p. 183.
- [36] G.R. No. L-37790, March 25, 1976, 70 SCRA 139.
- [37] Laperal Development Corporation vs. Court of Appeals, G.R. No. 96354, June 8, 1993, 223 SCRA 261.
- [38] Koppel vs. Yatco, supra; Liddell & Co. vs. CIR, G.R. No. L-9687, June 30, 1961, 2 SCRA 632.
- [39] Del Rosario vs. NLRC, G.R. No. 85416, July 24, 1990, 187 SCRA 777.
- [40] RTC Decision, supra.
- [41] Bael, et al., vs. IAC, et al., G.R. No. 74423, January 30, 1989, 169 SCRA 617.
- [42] See BFD Certification to that effect, Rollo, p. 193.
- [43] 71 O.G. No. 28, 4289, July 14, 1975.
- [44] Rollo, pp. 229-230.
- [45] Lopez vs. Court of Tax Appeals, G.R. No. 9274, February 1, 1957, 100 Phil 850.
- [46] 82 C.J.S. p. 639, cited in Martin R., Statutory Construction, 1979 ed., p. 83.
- [47] Rollo, pp. 229-230.

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