

Title: Philippine National Bank vs. Cruz, et al.

Facts:

1. In 1980, Aggregate Mining Exponents (AMEX) faced economic difficulties and laid off approximately 70% of its workforce. The remaining employees, approximately 30%, were not paid their wages.
2. By July 1982, AMEX ceased operations entirely and leased its equipment to T.M. San Andres Development Corporation.
3. The unpaid employees, who had not received their wages, filed a complaint with the Labor Arbiter.
4. On August 27, 1986, the Labor Arbiter ruled in favor of the employees, granting them unpaid wages and separation pay, calculated for each employee based on their years of service and salary rate.
5. The decision held that should AMEX be unable to satisfy the awards, payments could be made from the proceeds or fruits of its machineries and equipment operated under the lease agreement.

Procedural Posture:

1. AMEX and its President did not appeal the Labor Arbiter's decision, which was final as to them.
2. However, Philippine National Bank (PNB), as a mortgagee-creditor of AMEX, appealed to the National Labor Relations Commission (NLRC), challenging the scope of the workers' lien on AMEX's properties, arguing the lien should not cover separation pay.
3. The NLRC upheld the Labor Arbiter's decision on October 27, 1987.
4. PNB petitioned the Supreme Court seeking a reversal of the NLRC's ruling, arguing that Article 110 of the Labor Code, which provides preferential treatment to workers for unpaid wages in cases of bankruptcy, should not include separation pay and should respect Civil Code prior liens.

Issues:

1. Does Article 110 of the Labor Code give workers' claims for unpaid wages precedence over all other claims, including those of secured creditors like PNB?
2. Is separation pay considered a part of "wages" under Article 110 for the purpose of preference in the event of bankruptcy or liquidation?
3. Should Article 110 be interpreted independently of the Civil Code provisions on the classification and preference of credits, or should they be harmonized?

Court's Decision:

1. The Supreme Court dismissed PNB's petition, affirming Article 110 of the Labor Code grants workers priority over all other claims, including those of secured creditors.
2. The Court ruled that separation pay is considered part of "wages" for the purposes of Article 110, citing the broad interpretation of workers' benefits.
3. It held that Article 110 should prevail over conflicting provisions in the Civil Code due to its more recent enactment and clear legislative intent to prioritize workers' claims.

Doctrine:

- Article 110 of the Labor Code grants workers' claims for unpaid wages and other monetary benefits first preference over all creditors, whether secured or unsecured, in the context of bankruptcy or liquidation of an employer's business.
- The concept of "wages" includes separation and termination pay, as defined in this and related cases.

Class Notes:

- Key Elements:
- Labor Code Article 110: Preference of workers' claims in bankruptcy/liquidation.
- Civil Code articles 2241-2245: General order of preference of credits (superseded by Article 110 for workers' claims).
- Legal precedence of later statutes over earlier conflicting laws.
- Court's reliance on social justice and the protection of labor as central constitutional tenets.
  
- Application: This case reaffirms that labor welfare is a paramount consideration in legal interpretations, especially where workers' claims intersect with creditors' rights in liquidation cases.

Historical Background:

- The case reflects the socio-economic conditions of the 1980s in the Philippines, characterized by economic volatility impacting businesses, resulting in labor disputes over unpaid wages as companies became insolvent.
- During this period, worker protection and social justice continued to evolve as core principles in Philippine labor law, with legislative developments consistently aimed to safeguard employees' rights in the event of their employer's financial collapse.