

## SECOND DIVISION

[ G.R. No. 204197, November 23, 2016 ]

**FRUEHAUF ELECTRONICS PHILIPPINES CORPORATION,  
PETITIONER, VS. TECHNOLOGY ELECTRONICS ASSEMBLY AND  
MANAGEMENT PACIFIC CORPORATION, RESPONDENT.**

### DECISION

**BRION, J.:**

The fundamental importance of this case lies in its delineation of the extent of permissible judicial review over arbitral awards. We make this determination from the prism of our existing laws on the subject and the prevailing state policy to uphold the autonomy of arbitration proceedings.

This is a petition for review on *certiorari* of the Court of Appeals' (CA) decision in **CA-G.R. SP. No. 112384** that reversed an arbitral award and dismissed the arbitral complaint for lack of merit.<sup>[1]</sup> The CA breached the bounds of its jurisdiction when it reviewed the substance of the arbitral award outside of the permitted grounds under the Arbitration Law.<sup>[2]</sup>

#### ***Brief Factual Antecedents***

In 1978, Fruehauf Electronics Philippines Corp. (*Fruehauf*) leased several parcels of land in Pasig City to Signetics Filipinas Corporation (Signetics) for a period of 25 years (until May 28, 2003). Signetics constructed a semiconductor assembly factory on the land on its own account.

In 1983, Signetics ceased its operations after the Board of Investments (*BOI*) withdrew the investment incentives granted to electronic industries based in Metro Manila.

In 1986, Team Holdings Limited (THL) bought Signetics. THL later changed its name to Technology Electronics Assembly and Management Pacific Corp. (*TEAM*).

In March 1987, Fruehauf filed an unlawful detainer case against TEAM. In an effort to amicably settle the dispute, both parties executed a Memorandum of Agreement (*MOA*) on June 9, 1988.<sup>[3]</sup> Under the MOA, TEAM undertook to pay Fruehauf 14.7 million pesos as unpaid rent (for the period of December 1986 to June 1988).

They also entered a 15-year lease contract<sup>[4]</sup> (expiring on June 9, 2003) that was renewable for another 25 years upon mutual agreement. The contract included an arbitration agreement:<sup>[5]</sup>

In the event of any dispute or disagreement between the parties hereto involving the interpretation or implementation of any provision of this Contract of Lease, the dispute or disagreement shall be referred to arbitration by a three (3) member arbitration committee, one member to be appointed by the LESSOR, another member to be appointed by the LESSEE, and the third member to be appointed by these two members. The arbitration shall be conducted in accordance with the Arbitration Law (R.A. No. 876).

The contract also authorized TEAM to sublease the property. TEAM subleased the property to Capitol Publishing House (*Capitol*) on December 2, 1996 after notifying Fruehauf.

On May 2003, TEAM informed Fruehauf that it would not be renewing the lease.<sup>[6]</sup>

On May 31, 2003, the sublease between TEAM and Capitol expired. However, Capitol only vacated the premises on March 5, 2005. In the meantime, the master lease between TEAM and Fruehauf expired on June 9, 2003.

On March 9, 2004, Fruehauf instituted **SP Proc. No. 11449** before the Regional Trial Court (RTC) for "*Submission of an Existing Controversy for Arbitration.*"<sup>[7]</sup> It alleged: (1) that when the lease expired, the property suffered from damage that required extensive renovation; (2) that when the lease expired, TEAM failed to turn over the premises and pay rent; and (3) that TEAM did not restore the property to its original condition as required in the contract. Accordingly, the parties are obliged to submit the dispute to arbitration pursuant to the stipulation in the lease contract.

The RTC granted the petition and directed the parties to comply with the arbitration clause of the contract.<sup>[8]</sup>

Pursuant to the arbitration agreement, the dispute was referred to a three-member arbitration tribunal. TEAM and Fruehauf appointed one member each while the Chairman was appointed by the first two members. The tribunal was formally constituted on September 27, 2004 with retired CA Justice Hector L. Hofileña, as chairman, retired CA Justice Mariano M. Umali and Atty. Maria Clara B. Tankeh Asuncion as members.<sup>[9]</sup>

The parties initially submitted the following issues to the tribunal for resolution:<sup>[10]</sup>

1. Whether or not TEAM had complied with its obligation to return the leased premises to Fruehauf after the expiration of the lease on June 9, 2003.
  - 1.1. What properties should be returned and in what condition?
2. Is TEAM liable for payment of rentals after June 9, 2003?
  - 2.1. If so, how much and for what period?
3. Is TEAM liable for payment of real estate taxes, insurance, and other expenses on the leased premises after June 9, 2003?

4. Who is liable for payment of damages and how much?

5. Who is liable for payment of attorney's fees and how much?

Subsequently, the following issues were also submitted for resolution after TEAM proposed<sup>[11]</sup> their inclusion:

1. Who is liable for the expenses of arbitration, including arbitration fees?
2. Whether or not TEAM has the obligation to return the premises to Fruehauf as a "complete, rentable, and fully facilitated electronic plant."

### **The Arbitral Award**<sup>[12]</sup>

On December 3, 2008, the arbitral tribunal awarded Fruehauf: (1) 8.2 million pesos as (the balance of) unpaid rent from June 9, 2003 until March 5, 2005; and (2) 46.8 million pesos as damages.<sup>[13]</sup>

The tribunal found that Fruehauf made several demands for the return of the leased premises before and after the expiration of the lease<sup>[14]</sup> and that there was no express or implied renewal of the lease after June 9, 2003. It recognized that the sub-lessor, Capitol, remained in possession of the lease. However, relying on the commentaries of Arturo Tolentino on the subject, the tribunal held that it was not enough for lessor to simply vacate the leased property; *it is necessary that he place the thing at the disposal of the lessor, so that the latter can receive it without any obstacle.*<sup>[15]</sup>

For failing to return the property to Fruehauf, TEAM remained liable for the payment of rents. However, if it can prove that Fruehauf received rentals from Capitol, TEAM can deduct these from its liability.<sup>[16]</sup> Nevertheless, the award of rent and damages was without prejudice to TEAM's right to seek redress from its sub-lessee, Capitol.<sup>[17]</sup>

With respect to the improvements on the land, the tribunal viewed the situation from two perspectives:

First, while the Contract admitted that Fruehauf was only leasing the land and not the buildings and improvements thereon, it nevertheless obliged TEAM to deliver the buildings, installations and other improvements existing at the inception of the lease upon its expiration.<sup>[18]</sup>

The other view, is that the MOA and the Contract recognized that TEAM owned the existing improvements on the property and considered them as separate from the land for the initial 15-year term of the lease.<sup>[19]</sup> However, Fruehauf had a vested right to become the owner of these improvements at the end of the 15-year term. Consequently, the contract specifically obligated TEAM not to remove, transfer, destroy, or in any way alienate or encumber these improvements without prior written consent from Fruehauf.<sup>[20]</sup>

**Either way**, TEAM had the obligation to deliver the existing improvements on the

land upon the expiration of the lease. However, there was no obligation under the lease to return the premises as a "*complete, rentable, and fully facilitated electronics plant.*"<sup>[21]</sup> Thus, TEAM's obligation was to vacate the leased property and deliver to Fruehauf the buildings, improvements, and installations (including the machineries and equipment existing thereon) in the same condition as when the lease commenced, save for what had been lost or impaired by the lapse of time, ordinary wear and tear, or any other inevitable cause.<sup>[22]</sup>

The tribunal found TEAM negligent in the maintenance of the premises, machineries, and equipment it was obliged to deliver to Fruehauf.<sup>[23]</sup> For this failure to conduct the necessary repairs or to notify Fruehauf of their necessity, the tribunal held TEAM accountable for damages representing the value of the repairs necessary to restore the premises to a condition "*suitable for the use to which it has been devoted*" less their depreciation expense.<sup>[24]</sup>

On the other issues, the tribunal held that TEAM had no obligation to pay real estate taxes, insurance, and other expenses on the leased premises considering these obligations can only arise from a renewal of the contract.<sup>[25]</sup> Further, the tribunal refused to award attorney's fees, finding no evidence that either party acted in bad faith.<sup>[26]</sup> For the same reason, it held both parties equally liable for the expenses of litigation, including the arbitrators' fees.<sup>[27]</sup>

TEAM moved for reconsideration<sup>[28]</sup> which the tribunal denied.<sup>[29]</sup> Thus, TEAM petitioned the RTC to partially vacate or modify the arbitral award.<sup>[30]</sup> It argued that the tribunal failed to properly appreciate the facts and the terms of the lease contract.

### **The RTC Ruling**

On April 29, 2009, the RTC<sup>[31]</sup> found ***insufficient legal grounds*** under Sections 24 and 25 of the Arbitration Law to modify or vacate the award.<sup>[32]</sup> It denied the petition and CONFIRMED, the arbitral award.<sup>[33]</sup> TEAM filed a Notice of Appeal.

On July 3, 2009,<sup>[34]</sup> the RTC refused to give due course to the Notice of Appeal because according to Section 29<sup>[35]</sup> of the Arbitration Law, an ordinary appeal under Rule 41 is not the proper mode of appeal against an order confirming an arbitral award.<sup>[36]</sup>

TEAM moved for reconsideration but the RTC denied the motion on November 15, 2009.<sup>[37]</sup> Thus, TEAM led a petition for *certiorari*<sup>[38]</sup> before the CA arguing that the RTC gravely abused its discretion in: (1) denying due course to its notice of appeal; and (2) denying the motion to partially vacate and/or modify the arbitral award.<sup>[39]</sup>

TEAM argued that an ordinary appeal under Rule 41 was the proper remedy against the RTC's order confirming, modifying, correcting, or vacating an arbitral award.<sup>[40]</sup> It argued that Rule 42 was not available because the order denying its motion to vacate was not rendered in the exercise of the RTC's appellate jurisdiction. Further, Rule 43 only applies to decisions of quasi-judicial bodies. Finally, an appeal under

Rule 45 to the Supreme Court would preclude it from raising questions of fact or mixed questions of fact and law.<sup>[41]</sup>

TEAM maintained that it was appealing the RTC's order denying its petition to partially vacate/modify the award, **not the arbitral award itself.**<sup>[42]</sup> Citing Rule 41, Section 13 of the Rules of Court, the RTC's authority to dismiss the appeal is limited to instances when it was filed out of time or when the appellant fails to pay the docket fees within the reglementary period.<sup>[43]</sup>

TEAM further maintained that the RTC gravely abused its discretion by confirming the Arbitral Tribunal's award when it evidently had legal and factual errors, miscalculations, and ambiguities.<sup>[44]</sup>

The petition was docketed as **CA-G.R. SP. No. 112384.**

### **The CA decision**<sup>[45]</sup>

The CA initially dismissed the petition.<sup>[46]</sup> As the RTC did, it cited Section 29 of the Arbitration Law:

**Section 29. Appeals.** - **An appeal may be taken** from an order made in a proceeding under this Act, or from a judgment entered upon an award through **certiorari proceedings**, but such appeals shall be limited to questions of law. The proceedings upon such appeal, including the judgment thereon shall be governed by the Rules of Court in so far as they are applicable.

It concluded that the appeal contemplated under the law is an appeal by *certiorari* limited only to questions of law.<sup>[47]</sup>

The CA continued that TEAM failed to substantiate its claim as to the "evident miscalculation of figures." It further held that disagreement with the arbitrators' factual determinations and legal conclusions does not empower courts to amend or overrule arbitral judgments.<sup>[48]</sup>

However, the CA amended its decision on October 25, 2012 upon a motion for reconsideration.<sup>[49]</sup>

The CA held that Section 29 of the Arbitration Law does not preclude the aggrieved party from resorting to other judicial remedies.<sup>[50]</sup> Citing *Asset Privatization Trust v. Court of Appeals*,<sup>[51]</sup> the CA held that the aggrieved party may resort to a petition for *certiorari* when the RTC to which the award was submitted for confirmation has acted without jurisdiction, or with grave abuse of discretion and there is no appeal, nor any plain, speedy remedy in the course of law.<sup>[52]</sup>

The CA further held that the mere filing of a notice of appeal is sufficient as the issues raised in the appeal were not purely questions of law.<sup>[53]</sup> It further cited Section 46 of the Alternative Dispute Resolution (ADR) Law:<sup>[54]</sup>