478 Phil. 24

THIRD DIVISION

[G.R. No. 143304, July 08, 2004]

SPECIAL STEEL PRODUCTS, INC., PETITIONER, VS. LUTGARDO VILLAREAL AND FREDERICK SO, RESPONDENTS.

D E C I S I O N

SANDOVAL-GUTIERREZ, J.:

May an employer withhold its employees' wages and benefits as lien to protect its interest as a surety in the latter's car loan and for expenses incurred in a training abroad? This is the basic issue for our resolution in the instant case.

At bar is a petition for review on *certiorari* under Rule 45 of the 1997 Rules of Civil Procedure, as amended, assailing the Decision[1] dated October 29, 1999 and Resolution[2] dated May 8, 2000 of the Court of Appeals in CA-G.R. SP No. 50957, entitled "*Special Steel Products, Inc. vs. National Labor Relations Commission, Lutgardo Villareal and Frederick So*."

The factual antecedents as borne by the records are:

Special Steel Products, Inc., petitioner, is a domestic corporation engaged in the principal business of importation, sale, and marketing of BOHLER steel products. Lutgardo C. Villareal and Frederick G. So, respondents, worked for petitioner as assistant sales manager and salesman, respectively.

Sometime in May 1993, respondent Villareal obtained a car loan from the Bank of Commerce, with petitioner as surety, as shown by a "continuing suretyship agreement" and "promissory note" wherein they jointly and severally agreed to pay the bank P786,611.60 in 72 monthly installments. On January 15, 1997, respondent Villareal resigned and thereafter joined Hi-Grade Industrial and Technical Products, Inc. as executive vice-president.

Sometime in August 1994, petitioner "sponsored" respondent Frederick So to attend a training course in Kapfenberg, Austria conducted by BOHLER, petitioner's principal company. This training was a reward for respondent So's outstanding sales performance. When respondent returned nine months thereafter, petitioner directed him to sign a memorandum providing that BOHLER requires trainees from Kapfenberg to continue working with petitioner for a period of three (3) years after the training. Otherwise, each trainee shall refund to BOHLER $6,000.00 (US dollars) by way of set-off or compensation. On January 16, 1997 or 2 years and 4 months after attending the training, respondent resigned from petitioner.

Immediately, petitioner ordered respondents to render an accounting of its various Christmas giveaways[3] they received. These were intended for distribution to petitioner's customers.

In protest, respondents demanded from petitioner payment of their separation benefits, commissions, vacation and sick leave benefits, and proportionate 13th month pay. But petitioner refused and instead, withheld their 13th month pay and other benefits.

On April 16, 1997, respondents filed with the Labor Arbiter a complaint for payment of their monetary benefits against petitioner and its president, Augusto Pardo, docketed as NLRC NCR Case No. 04-02820-97.

In due course, the Labor Arbiter rendered a Decision dated February 18, 1998, the dispositive portion of which reads:

> "WHEREFORE, decision is hereby rendered ordering the respondents, Special Steel Products, Inc. and Mr. Augusto Pardo to pay, jointly and severally, complainants Frederick G. So and Lutgardo C. Villareal the amounts of Seventy One Thousand Two Hundred Seventy Nine Pesos and Fifty Eight Centavos (P71,279.58) and One Hundred Sixty Four Thousand Eight Hundred Seventy Three Pesos (P164,873.00), respectively, representing their commissions, retirement benefit (for Villareal), proportionate 13th month, earned vacation and sick leave benefits, and attorney's fees.
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> x x x
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> SO ORDERED."

On appeal, the National Labor Relations Commission (NLRC), in a Decision dated June 29, 1998, affirmed with modification the Arbiter's Decision in the sense that Pardo, petitioner's president, was exempted from any liability.

On September 11, 1998, petitioner filed a motion for reconsideration but was denied.

Hence, petitioner filed with the Court of Appeals a petition for *certiorari*.

On October 29, 1999, the Court of Appeals rendered a Decision dismissing the petition and affirming the assailed NLRC Decision, thus:

> "At the outset, the Court notes that despite its Seventh Assignment of Error, petitioner does not question the NLRC's decision affirming the labor arbiter's award to private respondents of commissions, proportionate 13th month pay, earned vacation and sick leave benefits and retirement benefit (for Villareal). It merely asserts that it was withholding private respondents' claims by reason of their pending obligations.
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> Petitioner justifies its withholding of Villareal's monetary benefits as a lien for the protection of its right as surety in the car loan. It asserts that it would release Villareal's monetary benefits if he would cause its substitution as surety by Hi-Grade. It further asserts that since Villareal's debt to the Bank is now due and demandable, it may, pursuant to Art. 2071 of the New Civil Code, '*demand a security that shall protect him*

from any proceeding by the creditor and from the danger of insolvency of the debtor.'

Petitioner's posture is not sanctioned by law. It may only protect its right as surety by instituting an '*action x x x to demand a security*' (*Kuenzle and Streiff vs. Tan Sunco*, 16 Phil 670). It may not take the law into its own hands. Indeed, it is '*unlawful for any person, directly or indirectly, to withhold any amount from the wages of a worker or induce him to give up any part of his wages by force, stealth, intimidation, threat or by any other means whatsoever without the worker's consent*' (Art. 116, Labor Code).

Moreover, petitioner has made no payment on the car loan. Consequently, Villareal is not indebted to petitioner. On the other hand, petitioner owes Villareal for the decreed monetary benefits. The withholding of Villareal's monetary benefits had effectively prevented him from settling his arrearages with the Bank.

With regard to So's money claims. We find no cogent reason to disturb the findings of the NLRC. x x x.

So's all-expense paid trip to Austria was a bonus for his outstanding sales performance. Before his sojourn to Austria, petitioner issued him a memorandum (or 'memo') stating that 'Bohler is now imposing that trainees coming to Kapfenberg to stay with the local representative for at least three (3) years after training, otherwise, a lump sum compensation of not less than US $6,000.00 will have to be refunded to them by the trainee'. So did not affix his signature on the memo. However, nine (9) months after coming back from his training, he was made to sign the memo. In his letter to Augusto Pardo dated July 18, 1997, So stated that his signature was needed only as a formality and that he was left with no choice but to accommodate Augusto Pardo's request. The labor arbiter gave credence to such explanation.

Assuming arguendo that the memo is binding on So, his more than two years post-training stay with petitioner is a substantial compliance with the condition. Besides, So tendered his resignation effective February 16, 1997. Instead of asking So to defer his resignation until the expiration of the three-year period, petitioner advanced its effectivity by one month - as of January 16, 1997. This means that petitioner no longer needed So's services, particularly the skill and expertise acquired by him from the training. More importantly, the party entitled to claim the US $6,000.00 liquidated damages is BOHLER and not petitioner. Consequently, petitioner has no right to insist on payment of the liquidated damages, much less to withhold So's monetary benefits in order to exact payment thereof.

With regard to the Christmas giveaways. We agree with the findings of the labor arbiter (affirmed by the NLRC) 'that there is no existing memorandum requiring the accounting of such giveaways and that no actual accounting has ever been required before, as in the case of then Sales Manager Benito Sayo whose resignation took effect on December

31, 1996 but was not required to account for the Christmas giveaways. To make So account now for said items would amount to discrimination.' In any event, the matter of accounting of the giveaways may be ventilated in the proper forum.

Finally, **petitioner may not offset its claims against private respondents' monetary benefits**. With respect to its being the surety of Villareal, two requisites of compensation are lacking, to wit: '*that each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other*' and '*that (the two debts) be liquidated and demandable*' (Art. 1279 (1) and (4), New Civil Code). And in respect to its claim for liquidated damages against So, there can be no compensation because his '*creditor*' is not petitioner but BOHLER (Art. 1278, New Civil Code).

Consequently, the NLRC committed no grave abuse of discretion.

WHEREFORE, the petition is DISMISSED while the assailed decision of the NLRC is AFFIRMED.

SO ORDERED."

On December 15, 1999, petitioner filed a motion for reconsideration but was denied by the Appellate Court in a Resolution dated May 8, 2000.

Hence, this petition for review on certiorari. Petitioner contends that as a guarantor, it could legally withhold respondent Villareal's monetary benefits as a preliminary remedy pursuant to Article 2071 of the Civil Code, as amended.[4] As to respondent So, petitioner, citing Article 113 of the Labor Code, as amended,[5] in relation to Article 1706 of the Civil Code, as amended,[6] maintains that it could withhold his monetary benefits being authorized by the memorandum he signed.

Article 116 of the Labor Code, as amended, provides:

"ART. 116. *Withholding of wages and kickbacks prohibited*. – **It shall be unlawful for any person, directly or indirectly, to withhold any amount from the wages (and benefits) of a worker** or induce him to give up any part of his wages by force, stealth, intimidation, threat or by any other means whatsoever **without the worker's consent**."

The above provision is clear and needs no further elucidation. Indeed, petitioner has no legal authority to withhold respondents' 13th month pay and other benefits. What an employee has worked for, his employer must pay.[7] Thus, an employer cannot simply refuse to pay the wages or benefits of its employee because he has either defaulted in paying a loan guaranteed by his employer; or violated their memorandum of agreement; or failed to render an accounting of his employer's property.[8]

Nonetheless, petitioner, relying on Article 2071 (earlier cited), contends that the right to demand security and obtain release from the guaranty it executed in favor of respondent Villareal may be exercised even without initiating a separate and