

## FIRST DIVISION

[ G.R. No. 129988, July 14, 2003 ]

**CHINA AIRLINES, LTD., PETITIONER, VS. COURT OF APPEALS,  
ANTONIO S. SALVADOR AND ROLANDO C. LAO, RESPONDENTS.**

### D E C I S I O N

**CARPIO, J.:**

#### The Case

Petitioner China Airlines Ltd. ("CAL") assails the 31 July 1997 Decision<sup>[1]</sup> of the Court of Appeals affirming the award of damages made by the trial court in favor of private respondents Antonio S. Salvador ("Salvador") and Rolando C. Lao ("Lao").

#### The Antecedent Facts

Sometime in the first week of June 1990, private respondents planned to travel to Los Angeles, California to pursue a cable business deal involving the distribution of Filipino films and programs in Los Angeles. Initially, Morelia Travel Agency ("Morelia") booked private respondents' flight with CAL. Morelia scheduled the flight for Manila-Taipei-Los Angeles on 13 June 1990. On discovering that Morelia charged higher rates than American Express Travel Service Philippines ("Amexco"), private respondents dropped the services of Morelia. Instead, private respondents engaged the services of Amexco through Lao who was an Amexco cardholder.

On 11 June 1990, Lao called up Amexco claiming that he and Salvador had a confirmed booking with CAL. Lao then gave to Amexco the record locator number or booking reference number (No. 4RJ2CJ) that CAL had previously issued to Morelia when Morelia booked the reservations of private respondents. In the afternoon of the same day, Amexco called up CAL to finalize private respondents' reservation for CAL's 13 June 1990 flight. Amexco used the record locator number given by Lao in confirming the reservations of private respondents. CAL confirmed the booking. Amexco then issued to private respondents the confirmed tickets for the 13 June 1990 flight of CAL. On the same day, CAL called up Morelia to reconfirm the reservations of private respondents. Morelia cancelled the reservations of private respondents.

On 13 June 1990, private respondents were at the airport to board CAL Flight 632 but CAL personnel prevented them from boarding the airplane because their names were not in the passengers' manifest. CAL cancelled the reservations when Morelia revoked the booking it had made for private respondents. Private respondents were only able to leave for Los Angeles the following day on a different airline, Northwest Airlines ("Northwest").

Private respondents through counsel sent a demand letter<sup>[2]</sup> to CAL dated 13

August 1990 for payment of moral damages totaling P500,000. In a letter dated 10 September 1990, CAL explained that it found out upon investigation that while private respondents "indeed made their booking with Amexco, they failed to pick up their tickets from its offices so that the latter caused the cancellation of their bookings."<sup>[3]</sup> CAL further stated that private respondents' own negligence caused their failure to board CAL. Thus, CAL denied private respondents' exorbitant claim for damages.<sup>[4]</sup>

In a letter<sup>[5]</sup> dated 1 October 1990, private respondents informed CAL that they did not fail to pick up the tickets since they were able to present their tickets at the CAL counter at the designated check-in time. In a letter<sup>[6]</sup> dated 27 November 1990, CAL explained that its records showed that Morelia and not Amexco made the bookings. Morelia also sought the cancellation of the booking and CAL merely accepted the cancellation. CAL argued that private respondents' cause of action should not be against it, but against the travel agencies.

Private respondents also wrote a demand letter<sup>[7]</sup> dated 13 December 1990 to Amexco. Amexco in its letter dated 11 March 1991 denied any liability.<sup>[8]</sup>

On 11 June 1992, private respondents filed with the Regional Trial Court, Branch 12, Malolos, Bulacan a complaint for damages against CAL and Amexco. Private respondents alleged in their complaint that the one-day delay in their flight to Los Angeles caused them to lose business opportunities entitling them to actual, moral and exemplary damages and attorney's fees. The case was docketed as Civil Case No. 366-M-92.

On 25 January 1996, the Regional Trial Court issued its decision in favor of private respondents. The dispositive portion of the decision reads:

WHEREFORE, conformably with all the foregoing, judgment is hereby rendered, ordering defendant China Airlines, Ltd. (CAL) as follows:

1. To pay each of herein plaintiffs the amount of P100,000.00 as and by way of moral damages;
2. To pay both plaintiffs the amount of P50,000.00 as and by way of exemplary damages;
3. To pay both plaintiffs another amount of P50,000.00 as and by way of attorney's fees; and
4. To pay the costs of suit.

Upon the facts found and the law applicable this case is ordered dismissed, insofar as defendant PCI Travel Corporation/American Express Travel Service Philippines is concerned, whose counterclaim, like the cross-claim against it by defendant CAL, should be, as it is hereby, dismissed for insufficiency of evidence to show its right to such relief.

SO ORDERED.

CAL appealed to the Court of Appeals. On 31 July 1997, the Court of Appeals affirmed the decision of the Regional Trial Court, thus:

The FOREGOING CONSIDERED, the appealed decision is hereby AFFIRMED.

SO ORDERED.

### **The Ruling of the Trial Court**

The trial court disregarded CAL's argument that it had to cancel private respondents' reservations because of the advice of Morelia, the booking agent, and that Amexco had no right to use the booking and record locator number of Morelia. The trial court ruled that CAL already knew that private respondents had confirmed their 13 June 1990 flight, even though Amexco and not Morelia made the confirmation. The trial court found that CAL's cancellation of the reservations despite knowledge of the prior confirmation by Amexco was unjustified and tainted with bad faith.

The trial court gave credence to the testimony of Lea Hamil-Balderas ("Lea"), the booking agent of Amexco, who testified that she called up CAL identifying herself as "Lea-Amexco." Lea used the record locator number that Lao gave Amexco. Lea claimed she did not know that CAL had already assigned the record locator number to Morelia. The trial court pointed out that even if Amexco wittingly or unwittingly missed the truth with respect to the record locator number, CAL should have known better as it was the assignor of the record locator number. CAL should not have confirmed the booking made by Lea who was not a familiar caller from Morelia.

The trial court wondered why CAL took the initiative of calling up Morelia on the same afternoon that Amexco had already finalized and confirmed the reservations of private respondents. At that point, Morelia cancelled the reservations of private respondents. The trial court believed that CAL's action was highly suspicious because CAL should have waited for Morelia to confirm the reservations. When CAL discovered that Lea was not from Morelia and the record locator number she gave belonged to Morelia, CAL took this, in the view of the trial court, as an excuse to cancel private respondents' reservations. The trial court concluded that CAL's actions justified private respondents' accusation that CAL bumped them off in favor of other passengers.

The trial court was not convinced that CAL tried to contact private respondents before it cancelled private respondents' reservations. The trial court did not believe that CAL failed to contact private respondents only because they gave a different telephone number to Morelia. The trial court opined that if CAL was truly sincere in its attempt to save private respondents' booked flight, CAL should have contacted "Lea-Amexco." The trial court stressed that Lea was not a familiar caller from Morelia. The trial court surmised that if indeed the industry policy prohibited a travel agency from using the bookings made by another travel agency, then CAL should not have entertained Lea's call or CAL should have checked first with Morelia. The trial court also refused to believe that CAL thought that Lea was from Morelia. The trial court pointed out that when CAL finally decided to check with Morelia, immediately after CAL had confirmed to "Lea-Amexco" the reservations of private respondents, CAL telephoned not Lea but a certain "Joel" of Morelia.

In absolving Amexco of any liability, the trial court noted that Amexco did not misrepresent itself to CAL by posing as Morelia when Amexco confirmed the reservations of private respondents. Amexco did not know that the record locator number it was using in confirming the reservations of private respondents belonged to Morelia. Amexco assumed that private respondents acquired the record locator number from CAL itself. All that Amexco wanted was to sell to private respondents the CAL tickets and for Amexco to do this, CAL had to first confirm the reservations.

The trial court declared that CAL should have informed Amexco that private respondents' booking agent was Morelia and that "it (Amexco) could not sell the tickets to plaintiffs (private respondents) even if it wanted to, because CAL itself would not finalize the booking confirmation without Morelia's indorsement x x x."<sup>[9]</sup> CAL failed to do this. Instead, CAL confirmed the tickets of private respondents only to cancel it immediately on the afternoon of the same day. The trial court thus concluded that CAL cancelled private respondents' reservations "obviously for some reason or motive only of its own, not justifiable at all under the circumstances."<sup>[10]</sup>

Upon the finding of bad faith, the trial court awarded each of the private respondents P100,000 as moral damages, P50,000 as exemplary damages and P50,000 as attorney's fees. However, the trial court ruled that private respondents are not entitled to actual damages for the costs of their Northwest plane tickets and the car rental expenses they incurred in proceeding to San Francisco. The trial court held that these expenses were necessary in their pursuit of their cable business deal.

The trial court also denied the claim of private respondents for payment of unrealized income. The trial court pointed out that private respondents planned to take the business trip to the United States any day from 10 June to 17 June 1990. Private respondents were able to book the 13 June 1990 flight of CAL. When CAL prevented private respondents from taking that flight, Amexco booked private respondents with Northwest for its flight the next day, 14 June 1990. The trial court stated that private respondents' flight to the United States on 14 June 1990 with Northwest was still within the schedule set by private respondents. The trial court ruled that a delay of one day could not have resulted in the loss of business opportunity when private respondents could have still pursued the business deal until 17 June 1990. The trial court concluded that there was a pure failure of business negotiations that private respondents could not blame on CAL since there was nothing certain with private respondents' negotiations for the television cable deal.

### **The Ruling of the Court of Appeals**

The Court of Appeals dismissed the appeal of CAL.

Adopting the factual findings of the trial court, the Court of Appeals agreed with the trial court that CAL was in bad faith when it cancelled the confirmed reservation of private respondents. The Court of Appeals considered another fact. Liza Melo ("Melo"), a witness of CAL, testified that she was reluctant to cancel the bookings because they had already finalized the seating arrangements with Lea. The appellate court was convinced that such reluctance indicated CAL's bad faith.

The Court of Appeals held that CAL cancelled the reservations of private respondents without prior notice, in total disregard of private respondents' rights. Such conscious disregard of a passenger's right makes CAL answerable for moral and exemplary damages.

### **The Issues**

CAL seeks the reversal of the decisions of the trial and appellate courts on these grounds:

1. "THE RESPONDENT COURT ERRED WHEN IT FOUND THE PETITIONER LIABLE FOR THE DAMAGES AWARDED BY THE TRIAL COURT DESPITE THE FACT THAT THE PETITIONER DID ALL THE ACTS THAT AN AIRLINE COMPANY IS SUPPOSED TO DO UNDER THE CIRCUMSTANCES PRESENT IN THE INSTANT CASE."
2. THE RESPONDENT COURT ERRED WHEN IT SUSTAINED LIABILITY AGAINST THE PETITIONER DESPITE THE FACT THAT THE ACTS RESULTING IN THE COMPLAINT AGAINST IT BY PRIVATE RESPONDENT SALVADOR WERE DONE BY EMPLOYEES OF A BOOKING AGENT AND NOT BY IT OR ITS EMPLOYEES AND DESPITE IMPROBABILITY OF THE BASES OF THE CLAIM COUPLED WITH THE LACHES OF THE PRIVATE RESPONDENTS."<sup>[11]</sup>

### **The Ruling of the Court**

The petition is partly meritorious.

#### ***Laches and Use of Objectionable Language in the Comment***

Before delving into the core issues of this case, we first resolve two preliminary issues raised by CAL. CAL argues that laches has set in and barred the present action. Moreover, private respondents used improper and abusive language in their Comment, which CAL wants stricken from the records.

We are not convinced that laches has barred the present action. The essence of laches or "stale demands" is the "failure or neglect for an unreasonable and unexplained length of time to do that which, by exercising due diligence, could or should have been done earlier, thus giving rise to a presumption that the party entitled to assert it either has abandoned or declined to assert it."<sup>[12]</sup>

Private respondents' action is based on a written contract. Article 1144(1) of the Civil Code provides that the prescriptive period for an action on a written contract is 10 years from the time the right of action accrues. Private respondents' right of action accrued on 13 June 1990 when CAL disallowed them from boarding its flight. Private respondents filed this case on 11 June 1992. Clearly, private respondents did not tarry in vindicating their claim when they filed this suit within the 10-year period expressly provided by law.<sup>[13]</sup> Moreover, private respondents vigorously pursued their claim as shown by the demand letters that they sent CAL and Amexco before filing this case.

CAL calls our attention to the "highly excessive and abusive language"<sup>[14]</sup> in the