

THIRD DIVISION

[G.R. No. 142936, April 17, 2002]

**PHILIPPINE NATIONAL BANK & NATIONAL SUGAR
DEVELOPMENT CORPORATION, PETITIONERS, VS. ANDRADA
ELECTRIC & ENGINEERING COMPANY, RESPONDENT.**

DECISION

PANGANIBAN, J.:

Basic is the rule that a corporation has a legal personality distinct and separate from the persons and entities owning it. The corporate veil may be lifted only if it has been used to shield fraud, defend crime, justify a wrong, defeat public convenience, insulate bad faith or perpetuate injustice. Thus, the mere fact that the Philippine National Bank (PNB) acquired ownership or management of some assets of the Pampanga Sugar Mill (PASUMIL), which had earlier been foreclosed and purchased at the resulting public auction by the Development Bank of the Philippines (DBP), will not make PNB liable for the PASUMIL's contractual debts to respondent.

Statement of the Case

Before us is a Petition for Review assailing the April 17, 2000 Decision^[1] of the Court of Appeals (CA) in CA-GR CV No. 57610. The decretal portion of the challenged Decision reads as follows:

"WHEREFORE, the judgment appealed from is hereby AFFIRMED."^[2]

The Facts

The factual antecedents of the case are summarized by the Court of Appeals as follows:

"In its complaint, the plaintiff [herein respondent] alleged that it is a partnership duly organized, existing, and operating under the laws of the Philippines, with office and principal place of business at Nos. 794-812 Del Monte [A]venue, Quezon City, while the defendant [herein petitioner] Philippine National Bank (herein referred to as PNB), is a semi-government corporation duly organized, existing and operating under the laws of the Philippines, with office and principal place of business at Escolta Street, Sta. Cruz, Manila; whereas, the other defendant, the National Sugar Development Corporation (NASUDECO in brief), is also a semi-government corporation and the sugar arm of the PNB, with office and principal place of business at the 2nd Floor, Sampaguita Building, Cubao, Quezon City; and the defendant Pampanga Sugar Mills (PASUMIL in short), is a corporation organized, existing and operating under the 1975 laws of the Philippines, and had its business office before 1975 at Del Carmen, Floridablanca, Pampanga; that the plaintiff is engaged in the

business of general construction for the repairs and/or construction of different kinds of machineries and buildings; that on August 26, 1975, the defendant PNB acquired the assets of the defendant PASUMIL that were earlier foreclosed by the Development Bank of the Philippines (DBP) under LOI No. 311; that the defendant PNB organized the defendant NASUDECO in September, 1975, to take ownership and possession of the assets and ultimately to nationalize and consolidate its interest in other PNB controlled sugar mills; that prior to October 29, 1971, the defendant PASUMIL engaged the services of plaintiff for electrical rewinding and repair, most of which were partially paid by the defendant PASUMIL, leaving several unpaid accounts with the plaintiff; that finally, on October 29, 1971, the plaintiff and the defendant PASUMIL entered into a contract for the plaintiff to perform the following, to wit –

- `(a) Construction of one (1) power house building;
- `(b) Construction of three (3) reinforced concrete foundation for three (3) units 350 KW diesel engine generating set[s];
- `(c) Construction of three (3) reinforced concrete foundation for the 5,000 KW and 1,250 KW turbo generator sets;
- `(d) Complete overhauling and reconditioning tests sum for three (3) 350 KW diesel engine generating set[s];
- `(e) Installation of turbine and diesel generating sets including transformer, switchboard, electrical wirings and pipe provided those stated units are completely supplied with their accessories;
- `(f) Relocating of 2,400 V transmission line, demolition of all existing concrete foundation and drainage canals, excavation, and earth fillings – all for the total amount of P543,500.00 as evidenced by a contract, [a] xerox copy of which is hereto attached as Annex 'A' and made an integral part of this complaint;'

that aside from the work contract mentioned-above, the defendant PASUMIL required the plaintiff to perform extra work, and provide electrical equipment and spare parts, such as:

- `(a) Supply of electrical devices;
- `(b) Extra mechanical works;
- `(c) Extra fabrication works;

- '(d) Supply of materials and consumable items;
- '(e) Electrical shop repair;
- '(f) Supply of parts and related works for turbine generator;
- '(g) Supply of electrical equipment for machinery;
- '(h) Supply of diesel engine parts and other related works including fabrication of parts.'

that out of the total obligation of P777,263.80, the defendant PASUMIL had paid only P250,000.00, leaving an unpaid balance, as of June 27, 1973, amounting to P527,263.80, as shown in the Certification of the chief accountant of the PNB, a machine copy of which is appended as Annex 'C' of the complaint; that out of said unpaid balance of P527,263.80, the defendant PASUMIL made a partial payment to the plaintiff of P14,000.00, in broken amounts, covering the period from January 5, 1974 up to May 23, 1974, leaving an unpaid balance of P513,263.80; that the defendant PASUMIL and the defendant PNB, and now the defendant NASUDECO, failed and refused to pay the plaintiff their just, valid and demandable obligation; that the President of the NASUDECO is also the Vice-President of the PNB, and this official holds office at the 10th Floor of the PNB, Escolta, Manila, and plaintiff besought this official to pay the outstanding obligation of the defendant PASUMIL, inasmuch as the defendant PNB and NASUDECO now owned and possessed the assets of the defendant PASUMIL, and these defendants all benefited from the works, and the electrical, as well as the engineering and repairs, performed by the plaintiff; that because of the failure and refusal of the defendants to pay their just, valid, and demandable obligations, plaintiff suffered actual damages in the total amount of P513,263.80; and that in order to recover these sums, the plaintiff was compelled to engage the professional services of counsel, to whom the plaintiff agreed to pay a sum equivalent to 25% of the amount of the obligation due by way of attorney's fees. Accordingly, the plaintiff prayed that judgment be rendered against the defendants PNB, NASUDECO, and PASUMIL, jointly and severally to wit:

- '(1) Sentencing the defendants to pay the plaintiffs the sum of P513,263.80, with annual interest of 14% from the time the obligation falls due and demandable;
- '(2) Condemning the defendants to pay attorney's fees amounting to 25% of the amount claim;
- '(3) Ordering the defendants to pay the costs of the suit.'

"The defendants PNB and NASUDECO filed a joint motion to dismiss the complaint chiefly on the ground that the complaint failed to state sufficient allegations to establish a cause of action against both

defendants, inasmuch as there is lack or want of privity of contract between the plaintiff and the two defendants, the PNB and NASUDECO, said defendants citing Article 1311 of the New Civil Code, and the case law ruling in *Salonga v. Warner Barnes & Co.*, 88 Phil. 125; and *Manila Port Service, et al. v. Court of Appeals, et al.*, 20 SCRA 1214.

"The motion to dismiss was by the court a quo denied in its Order of November 27, 1980; in the same order, that court directed the defendants to file their answer to the complaint within 15 days.

"In their answer, the defendant NASUDECO reiterated the grounds of its motion to dismiss, to wit:

'That the complaint does not state a sufficient cause of action against the defendant NASUDECO because: (a) NASUDECO is not x x x privity to the various electrical construction jobs being sued upon by the plaintiff under the present complaint; (b) the taking over by NASUDECO of the assets of defendant PASUMIL was solely for the purpose of reconditioning the sugar central of defendant PASUMIL pursuant to martial law powers of the President under the Constitution; (c) nothing in the LOI No. 189-A (as well as in LOI No. 311) authorized or commanded the PNB or its subsidiary corporation, the NASUDECO, to assume the corporate obligations of PASUMIL as that being involved in the present case; and, (d) all that was mentioned by the said letter of instruction insofar as the PASUMIL liabilities [were] concerned [was] for the PNB, or its subsidiary corporation the NASUDECO, to make a study of, and submit [a] recommendation on the problems concerning the same.'

"By way of counterclaim, the NASUDECO averred that by reason of the filing by the plaintiff of the present suit, which it [labeled] as unfounded or baseless, the defendant NASUDECO was constrained to litigate and incur litigation expenses in the amount of P50,000.00, which plaintiff should be sentenced to pay. Accordingly, NASUDECO prayed that the complaint be dismissed and on its counterclaim, that the plaintiff be condemned to pay P50,000.00 in concept of attorney's fees as well as exemplary damages.

"In its answer, the defendant PNB likewise reiterated the grounds of its motion to dismiss, namely: (1) the complaint states no cause of action against the defendant PNB; (2) that PNB is not a party to the contract alleged in par. 6 of the complaint and that the alleged services rendered by the plaintiff to the defendant PASUMIL upon which plaintiff's suit is erected, was rendered long before PNB took possession of the assets of the defendant PASUMIL under LOI No. 189-A; (3) that the PNB take-over of the assets of the defendant PASUMIL under LOI 189-A was solely for the purpose of reconditioning the sugar central so that PASUMIL may resume its operations in time for the 1974-75 milling season, and that nothing in the said LOI No. 189-A, as well as in LOI No. 311, authorized or directed PNB to assume the corporate obligation/s of PASUMIL, let

alone that for which the present action is brought; (4) that PNB's management and operation under LOI No. 311 did not refer to any asset of PASUMIL which the PNB had to acquire and thereafter [manage], but only to those which were foreclosed by the DBP and were in turn redeemed by the PNB from the DBP; (5) that conformably to LOI No. 311, on August 15, 1975, the PNB and the Development Bank of the Philippines (DBP) entered into a 'Redemption Agreement' whereby DBP sold, transferred and conveyed in favor of the PNB, by way of redemption, all its (DBP) rights and interest in and over the foreclosed real and/or personal properties of PASUMIL, as shown in Annex 'C' which is made an integral part of the answer; (6) that again, conformably with LOI No. 311, PNB pursuant to a Deed of Assignment dated October 21, 1975, conveyed, transferred, and assigned for valuable consideration, in favor of NASUDECO, a distinct and independent corporation, all its (PNB) rights and interest in and under the above 'Redemption Agreement.' This is shown in Annex 'D' which is also made an integral part of the answer; [7] that as a consequence of the said Deed of Assignment, PNB on October 21, 1975 ceased to managed and operate the above-mentioned assets of PASUMIL, which function was now actually transferred to NASUDECO. In other words, so asserted PNB, the complaint as to PNB, had become moot and academic because of the execution of the said Deed of Assignment; [8] that moreover, LOI No. 311 did not authorize or direct PNB to assume the corporate obligations of PASUMIL, including the alleged obligation upon which this present suit was brought; and [9] that, at most, what was granted to PNB in this respect was the authority to 'make a study of and submit recommendation on the problems concerning the claims of PASUMIL creditors,' under sub-par. 5 LOI No. 311.

"In its counterclaim, the PNB averred that it was unnecessarily constrained to litigate and to incur expenses in this case, hence it is entitled to claim attorney's fees in the amount of at least P50,000.00. Accordingly, PNB prayed that the complaint be dismissed; and that on its counterclaim, that the plaintiff be sentenced to pay defendant PNB the sum of P50,000.00 as attorney's fees, aside from exemplary damages in such amount that the court may seem just and equitable in the premises.

"Summons by publication was made via the Philippines Daily Express, a newspaper with editorial office at 371 Bonifacio Drive, Port Area, Manila, against the defendant PASUMIL, which was thereafter declared in default as shown in the August 7, 1981 Order issued by the Trial Court.

"After due proceedings, the Trial Court rendered judgment, the decretal portion of which reads:

'WHEREFORE, judgment is hereby rendered in favor of plaintiff and against the defendant Corporation, Philippine National Bank (PNB) NATIONAL SUGAR DEVELOPMENT CORPORATION (NASUDECO) and PAMPANGA SUGAR MILLS (PASUMIL), ordering the latter to pay jointly and severally the former the following: