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THIRD DIVISION

[G.R. No. 126773. April 14, 1999]

RUBBERWORLD (PHILS.), INC., or JULIE YAP ONG, *petitioner, vs.* **NATIONAL LABOR RELATIONS COMMISSION, MARILYN F. ARELLANO, EMILY S. LEGASPI, MYRNA S. GALGANA, MERCEDITA R. SONGCO, WILFREDO V. SANTOS, JOSEPHINE S. RAMOS, REDENTOR G. HONA, LUZ B. HONA, ROLANDO B. CRUZ, GUILLERMA R. MUZONES, CARMELITA V. HALILI, SUSAN A. REYES, EMILY A. ROBILLOS, PLACIDO REYES, MANOLITO DELA CRUZ, VICTORINO C. FRANCISCO, ROGER B. MARIÑAS, VIOLETA ALEJO, RICARDO T. TORRES, EMMA DELA TORRE, PERLA N. MANZANERO, FRANCISCO D. SERDONCILLO, LUISITO P. HERNANDEZ, RAYMOND PEREÑA, EDITHA A. SERDONCILLO, FRANCISCO GENER, MARIO B. REYES, VALERIANO A. HERRERA, JORGE S. SEÑERES, ELENA S. IGNACIO, EMERITA S. CACHERO, NERIZA G. ENRIQUEZ, LOLITA M. FABULAR, NORMITA M. HERNANDEZ, DOMINADOR P. ENRIQUEZ,** *respondents.*

SYNOPSIS

By virtue of a SEC Order, all actions for claims against Rubberworld Phil., Inc., pending before any court, tribunal, office, body or board were suspended. Consequently, all pending incidents for preliminary injunctions, attachments, foreclosures and the like were rendered moot and academic. Meanwhile, private respondents who are employees of Rubberworld filed against the latter their respective complaints for illegal dismissal, unfair labor practice, damages and payment of separation pay, retirement benefits, 13th month pay and service incentive pay. Rubberworld moved to suspend the proceedings in the labor cases on the strength of the SEC Order, but the same was denied. Hence, this petition.

It must be noted that, upon petition of Rubberworld with the SEC, the latter ordered the creation of a management committee

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and the suspension of all actions for claims against Rubberworld. Thus, the applicable law here is PD 902-A, as amended. No exception in favor of labor claims is mentioned in the law. Thus, allowing labor cases to proceed clearly defeats the purpose of the automatic stay and severely encumbers the management committee's time and resources, whose primary and urgent duty is to work towards rehabilitating the corporation and making it viable again. Besides, even if the NLRC awards the claims of private respondents, as it did, its ruling could not be enforced as long as the petitioner is under the management committee. True the NLRC has the power to hear and decide labor disputes but such authority is deemed suspended when PD 902-A was put also effect by the SEC. Further, the preferential right of workers and employees under Article 110 of the Labor Code may be invoked only upon the institution of insolvency or judicial liquidation proceedings. The present case involves the rehabilitation, not the liquidation of the corporation. Hence, the preference of credit granted the worker or employees under Article 110 of the Labor Code is not applicable.

SYLLABUS

1. CORPORATION LAW; PD 902-A AS AMENDED; SEC ORDER CREATING A REHABILITATION RECEIVER AND SUSPENDING ALL ACTION FOR CLAIMS; JUSTIFICATION OF THE STORY.— Petitioner Rubberworld filed before the SEC a Petition for Declaration of Suspension of Payments, as well as a proposed rehabilitation plan. The SEC ordered the creation of a management committee and the suspension of all actions for claims against Rubberworld. Clearly, the applicable law is PD 902-A, as amended; that "upon the appointment [by the SEC] of a management committee or a rehabilitation receiver," all actions for claims against the corporation pending before any court, tribunal or board shall *ipso jure* be suspended. The justification for the automatic stay of all pending actions for claims is to enable the management committee or the rehabilitation receiver to effectively exercise its/his powers free from any judicial or extra-judicial interference that might unduly hinder or prevent the "rescue" of the debtor company. To allow such other actions to continue would only add to the burden of the management committee or rehabilitation receiver, whose time, effort and resources would be wasted in defending claims against the corporation instead of being directed toward its

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restructuring and rehabilitation. Parenthetically, the rehabilitation of a financially distressed corporation benefits its employees, creditors, stockholders and, in a larger sense, the general public. And in considering whether to rehabilitate or not, the SEC gives preference to the interest of creditors, including employees. The reason is that shareholders can recover their investments only upon liquidation of the corporation, and only if there are assets remaining after all corporate creditors are paid.

2. **ID.; ID.; ID.; DURATION THEREOF.**— PD 902-A itself does not provide for the duration of the automatic stay. Neither does the Order of the SEC. Hence, the suspensive effect have no time limit and remains in force as long as reasonably necessary to accomplish the purpose of the Order.

3. **ID.; ID.; ID.; LABOR CLAIMS, INCLUDED.**— Upon the creation of a management committee or the appointment of a rehabilitation receiver, all claims for actions "shall be suspended accordingly." No exception in favor of labor claims is mentioned in the law. Since the law makes no distinction or exemptions, neither should this Court. *Ubi lex non distinguit nec nos distinguere debemos.* Allowing labor cases to proceed clearly defeats the purpose of the automatic stay and severely encumbers the management committee's time and resources. The said committee would need to defend against these suits, to the detriment of its primary and urgent duty to work towards rehabilitating the corporation and making it viable again.To rule otherwise would open the floodgates to other similarly situated claimants and forestall if not defeat the rescue efforts. Besides, even if the NLRC awards the claims of private respondents, as it did, its ruling could not be enforced as long as the petitioner is under the management committee.

4. **STATUTORY CONSTRUCTION; ARTICLE 217 OF THE LABOR CODE SHOULD BE READ IN HARMONY WITH PD 902-A.**— Article 217 of the Labor Code should be construed not in isolation but in harmony with PD 902-A, according to the basic rule in statutory construction that implied repeals are not favored. Indeed, it is axiomatic that each and every statute must be construed in a way that would avoid conflict with existing laws. Tue, the NLRC has the power to hear and decide labor disputes, but such authority is deemed suspended when PD 902-A is put into effect by the Securities and Exchange Commission.

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5. LABOR AND SOCIAL LEGISLATION; PREFERENTIAL RIGHT OF EMPLOYEES CAN BE INVOKED ONLY IN INSOLVENCY PROCEEDINGS.— The preferential right of workers and employees under Article 110 of the Labor Code may be invoked only upon the institution of insolvency or judicial liquidation proceedings. Indeed, it is well-settled that "a declaration of bankruptcy or a judicial liquidation must be present before preferences over various money claims may be enforced." But debtors resort to preference of credit — giving preferred creditors the right to have their claims paid ahead of those of other claimants — only when their assets are insufficient to pay their debts fully. The purpose of rehabilitation proceedings is precisely to enable the company to gain a new lease on life and thereby allow creditors to be paid their claims from its earnings. In insolvency proceedings, on the other hand, the company stops operating, and the claims of creditors are satisfied from the assets of the insolvent corporation. The present case involves the rehabilitation, not the liquidation, of petitioner-corporation. Hence, the preference of credit granted to workers or employees under Article 110 of the Labor Code is not applicable.

APPEARANCES OF COUNSEL

Yngson and Associates for petitioner.
The Solicitor General for public respondent.
David A. Domingo for private respondent.

D E C I S I O N

PANGANIBAN, *J.*:

Presidential Decree 902-A, as amended, provides that "upon the appointment of a management committee, rehabilitation receiver, board or body pursuant to this Decree, all actions for claims against corporations, partnerships, or associations under management or receivership pending before any court, tribunal, board or body shall be suspended accordingly."[1] Such suspension is intended to give enough breathing space for the management committee or rehabilitation receiver to make the business viable

[1] Section 6 (c).

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again, without having to divert attention and resources to litigations in various fora. Among the actions suspended are those for money claims before labor tribunals, like the National Labor Relations Commission (NLRC) and the Labor arbiters.

Statement of the Case

The foregoing summarizes this Court's grant of the Petition for *Certiorari* under Rule 65 of the Rules of Court, assailing the April 26, 1996 Resolution[2] promulgated by the NLRC[3] which upheld the labor arbiter's refusal to suspend proceedings involving monetary claims of the petitioner's employees.

Petitioner likewise assails the June 20, 1996 NLRC Resolution[4] which denied its Motion for Reconsideration.

On November 20, 1996, this Court issued a temporary restraining order signed by then Chief Justice Andres R. Narvasa, "restraining the public respondents from further conducting proceedings in the aforesaid cases effective immediately x x x."

The Facts

The facts are undisputed. They are narrated by the Office of the Solicitor General as follows:

"Petitioner x x x is a domestic corporation which used to be in the business of manufacturing footwear, bags and garments. It filed with the Securities and Exchange Commission on November 24, 1994 a petition for suspension of payments praying that it be declared in a state of suspension of payments and that the SEC accordingly issue an order restraining its creditors from enforcing their claims against petitioner corporation. It further prayed for the creation of a management committee as well as for the approval of the proposed rehabilitation plan and memorandum of agreement between petitioner corporation and its creditors.

"In an order dated December 28, 1994, the SEC favorably ruled on the petition for suspension of payments thusly:

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[2] *Rollo*, pp. 25-28.

[3] Third Division, composed of Comm. Joaquin A. Tanodra, *ponente*; Pres. Comm. Lourdes C. Javier and Comm. Ireneo B. Bernardo, both concurring.

[4] *Ibid.*, pp. 29-30.

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'Accordingly, with the creation of the Management Committee, all actions for claims against Rubberworld Philippines, Inc. pending before any court, tribunal, office, board, body Commission of Sheriff are hereby deemed SUSPENDED.

'Consequently, all pending incidents for preliminary injunctions, writ of attachments (sic), foreclosures' and the like are hereby rendered moot and academic.'

"Private respondents, who claim to be employees of petitioner corporation, filed against petitioners [from] April to July 1995 their respective complaints for illegal dismissal, unfair labor practice, damages and payment of separation pay, retirement benefits, 13th month pay and service incentive pay.

"Petitioners moved to suspend the proceedings in the above labor cases on the strength of the SEC Order dated December 28, 1994. Likewise, petitioners cited the rulings of *BF Homes vs. Court of Appeals* (190 SCRA 262), *Alemar's Sibal & Sons, Inc. vs. Elbinias* (186 SCRA 94) and *Bank of Philippine Islands vs. Court of Appeals* (229 SCRA 223) to support their motion to suspend the proceedings in the labor cases.

"In an Order dated September 25, 1995, the Labor Arbiter denied the aforesaid motion holding that the injunction contained in the SEC Order applied only to the enforcement of established rights and did not include the suspension of proceedings involving claims against petitioner which have yet to be ascertained. The Labor Arbiter further held that the order of the SEC suspending all actions for claims against petitioners does not cover the claims of private respondents in the labor cases because said claims and the concomitant liability of petitioners still had to be determined, thus carrying no dissipation of the assets of petitioners.

"Petitioners appealed the adverse order of the Labor Arbiter to public respondent which, in a Resolution dated April 26, 1996, dismissed the appeal for lack of merit and, instead, sustained the rulings of the Labor Arbiter.

"The motion for reconsideration of petitioners fared no better and was denied by public respondent in a Resolution dated June 20, 1996."[5]

Hence, this petition.[6]

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[5] Memorandum for Public respondent, pp. 1-3; *rollo*, pp. 250-252.

[6] The case was deemed submitted for resolution upon receipt by the Court of the Memorandum for Private respondents on April 20, 1998.

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The Issue

Petitioner raises only one issue:

"Whether or not the Respondent NLRC acted without or in excess of jurisdiction or with grave abuse of discretion amounting to lack of jurisdiction in affirming the order of Labor Arbiter Voltaire A. Balitaan denying petitioners' motion to suspend proceedings despite the Order of the Securities and Exchange Commission under Sec. 6 (c) of P.D. 902-A directing the suspension of all actions against a company under the first stages of insolvency proceedings."[7]

This Court's Ruling

The petition is meritorious.

Sole Issue:

Suspension Proceedings

Jurisprudence teaches us:

"x x x where the petition filed is one for declaration of a state of suspension of payments due to a recognition of the inability to pay one's debts and liabilities, *and* where the petitioning corporation either: (a) has sufficient property to cover all its debts but foresees the impossibility of meeting them when they fall due (solvent but illiquid) or (b) has no sufficient property (insolvent) but is under the management of a rehabilitation receiver or a management committee, the applicable law is P.D. 902-A pursuant to Sec. 5 par. (d) thereof. However, if the petitioning corporation has no sufficient assets to cover its liabilities *and is not* under a rehabilitation receiver or a management committee created under P.D. 902-A and *does not seek merely to have the payments of its debts suspended*, but seeks a declaration of insolvency xxx the applicable law is Act 1956 [The Insolvency Law] on voluntary insolvency, x x x."[8]

In the case at bar, Petitioner Rubberworld filed before the SEC a Petition for Declaration of Suspension of Payments, as well as a proposed rehabilitation plan. On December 28, 1994, the SEC

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[7] Memorandum for Petitioner, p. 14; *rollo*, p. 229.

[8] *Ching v. LandBank of the Philippines,* 201 SCRA 190, 199, September 2, 1991, per Fernan, *C.J.*

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ordered the creation of a management committee and the suspension of all actions for claims against Rubberworld. Clearly, the applicable law is PD 902-A, as, amended, the relevant provision of which read:

"SECTION 5. In addition to the regulatory adjudicative functions of the Securities and Exchange Commission over corporations, partnerships and other forms of associations registered with it as expressly granted under existing laws and decrees, it shall have original and exclusive jurisdiction to hear and decide cases involving:

x x x x x x x x x

d) Petitions of corporations, partnerships or associations to be declared in the state of suspension of payments in cases where the corporation, partnership or association possesses sufficient property to cover all its debts but foresees the impossibility of meeting them when they respectively fall due or in cases where the corporation, partnership or association has no sufficient assets to cover its liabilities, but is under the management of a rehabilitation receiver or management committee created pursuant to this Decree.

SECTION 6. In order to effectively exercise such jurisdiction, the Commission shall possess the following powers:

x x x x x x x x x

c) To appoint one or more receivers of the property, real or personal, which is the subject of the action pending before the Commission in accordance with the pertinent provisions of the Rules of Court in such other cases whenever necessary in order to preserve the rights of the parties-litigants and/or protect the interest of the investing public and creditors: x x x *Provided, finally*, That upon appointment of a management committee, the rehabilitation receiver, board or body, pursuant to this Decree, all actions for claims against corporations, partnerships, or associations under management or receivership pending before any court, tribunal, board or body shall be suspended accordingly."

It is plain from the foregoing provisions of law that "upon the appointment [by, the SEC] of a management committee or a rehabilitation receiver," all actions for claims against the corporation pending before any court, tribunal or board shall *ipso jure*, be suspended.[9] The justification for the automatic stay

[9] See *Barotac Sugar Mills Inc. v. Court of Appeals*, 275 SCRA 497, 503, July 15, 1997, per Davide, Jr., *C.J.*

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of all pending actions for claims "is to enable the management committee or the rehabilitation receiver to effectively exercise its/his powers free from any judicial or extra-judicial interference that might unduly hinder or prevent the 'rescue' of the debtor company. To allow such other actions to continue would only add to the burden of the management committee or rehabilitation receiver, whose time, effort and resources would be wasted in defending claims against the corporation instead of being directed toward its restructuring and rehabilitation."[10]

Parenthetically, the rehabilitation of a financially distressed corporation benefits its employees, creditors, stockholders and, in a larger sense, the general public. And in considering, whether to rehabilitate or not, the SEC gives preference to the interest of creditors, including employees. The reason is that shareholders can recover their investments only upon liquidation of' the corporation, and only if there are assets remaining, after all corporate creditors are paid.[11]

Labor Claims Included in Suspension Order

The Solicitor General, representing Public Respondent NLRC, argues that the rationale for an automatic stay will not be frustrated even if the NLRC proceeds with the disposition of these labor cases, because any favorable judgment obtained by the private respondents would only establish their rights as creditors. The solicitor general also contends that the assailed Resolutions of the NLRC will not result in an undue preference for the assets of Rubberworld, as the private respondents will still present their claims before the management committee.[12]

We disagree. The law is clear: upon the creation of a management committee or the appointment of rehabilitation receiver, *all* claims for actions "shall be suspended accordingly."

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[10] *BF Homes, Incorporated vs. Court of Appeals*, 190 SCRA 262, 269, October 3, 1990, per Cruz, *J.*

[11] Jose C. Campos Jr. and Maria Clara Lopez-Campos, *The Corporation Code Comments, Notes and Selected Cases,* p. 27 (1990)

[12] Memorandum for Public Respondent, p. 7; *rollo*, p. 256.

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No exception in favor of labor claims is mentioned in the law. Since the law makes no distinction or exemptions, neither should this Court. *Ubi lex non distinguit nec nos distinguere debemos.*[13] Allowing labor cases to proceed clearly defeats the purpose of the automatic stay and severely encumbers the management committee's time and resources. The said committee would need to defend against these suits, to the detriment of its primary and urgent duty to work towards rehabilitating the corporation and making it viable again. To rule otherwise would open the floodgates to other similarly situated claimants and forestall if not defeat the rescue efforts. Besides, even if the NLRC awards the claims of private respondents, as it did, its ruling could not be enforced as long as the petitioner is under management the committee.[14]

In *Chua v. National Labor Relations Commission,*[15] we ruled that labor claims cannot proceed independently of a bankruptcy liquidation proceeding, since these claims "would spawn needless controversy, delays, and confusion."[16] With more reason, allowing labor claims to continue in spite of a SEC suspension order in rehabilitation case would merely lead to such results.

The solicitor general insists that since Article 217 of the Labor Code[17] vested public respondent with jurisdiction to hear and

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[13] *Colgate Palmolive v. Gimenez*, 1 SCRA 267, January 28, 1961.

[14] See *BF Homes, Incorporated v. Court of Appeals, supra*, p. 268.

[15] 190 SCRA 558 October 17, 1990, per Gutierrez, Jr., *J.*

[16] *Ibid.*, p. 576.

[17] "Art 217 *Jurisdiction of Labor Arbiters and the Commission.* (a) Except as otherwise provided under this Code, the Labor Arbiters shall have original and exclusive jurisdiction to hear and decide, within thirty (30) calendar days after the submission of the case by the parties for decision without extension, even in the absence of stenographic notes, the following cases involving all workers, whether agricultural or non-agicultural:

1. Unfair labor practice cases

2. Termination disputes

3. If accompanied with a claim for reinstatement, those cases that workers may file involving wages, rates of pay, hours of work and other terms and conditions of employment.

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decide these labor cases, the NLRC did not exceed its jurisdiction when it refused to suspend the proceedings therein.[18] The Court is not persuaded.

Article 217 of the Labor Code should be construed not in isolation but in harmony with PD 902-A, according, to the basic rule in statutory construction that implied repeals are not favored.[19] Indeed, it is axiomatic that each and every statute must be construed in a way that would avoid conflict with existing laws.[20] True, the NLRC has the power to hear and decide labor disputes, but such authority, is deemed suspended when PD 902-A is put into effect by the Securities and Exchange Commission.

Preference in Favor of Workers in Case of Bankruptcy or Liquidation

The private respondents contend that automatic stay under PD 902-A is not applicable to the instant case; otherwise, the

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4. Claims for actual, moral, exemplary and other forms of damages arising from the employer-employee relations.

5. Cases arising from any violation of Article 264 of this Code, including questions involving the legality of strikes and lockouts.

6. Except claims for Employees' Compensation, Social Security, Medicare and maternity benefits, all other claims arising from employer-employee relations, including those of persons in domestic or household service, involving an amount exceeding five thousand pesos (P5,000.00) regardless of whether accompanied with a claim for reinstatement.

(b) The Commission shall have exclusive appellate jurisdiction over all cases decided by Labor Arbiters.

(c) Cases arising from the interpretation of collective bargaining agreements and those arising from the interpretation or enforcement of company personnel policies shall be disposed of by the Labor Arbiter by referring the same to the grievance machinery and voluntary arbitration as may be provided in said agreements."

[18] Memorandum for Public Respondent, pp. 4-6; *rollo*, pp. 253-255.

[19] See *Ching v. Land Bank of the Philippines, supra*, p. 202. See also *Governor Pablo P. Garcia et. al. v. Hon Jose P. Burgos, et al.*, G.R No. 124130, pp. 28-29, June 29, 1998; citing *Frivaldo v. Commission on Elections*, 257 SCRA 727, 743-744, June 28, 1996.

[20] *Sajonas v. Court of Appeals*, 258 SCRA 79, July 5, 1996.

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preference granted to workers by Article 110 of the Labor Code would be rendered ineffective.[21] This contention is misleading.

The preferential right of workers and employees under Article 110 of the Labor Code may be invoked only upon the institution of insolvency or judicial liquidation proceedings.[22] Indeed, it is well-settled that "a declaration of bankruptcy or a judicial liquidation must be present before preferences over various money claims may be enforced."[23] But debtors resort to preference of credit — giving preferred creditors the right to have their claims paid ahead of those of other claimants — only when their assets are insufficient to pay their debts fully.[24] The purpose of rehabilitation proceedings is precisely to enable the company to gain a new lease on life and thereby allow creditors to be paid their claims from its earnings. In insolvency proceedings, on the other hand, the company stops operating, and the claims of creditors are satisfied from the assets of the insolvent corporation. The present case involves the rehabilitation, not the liquidation, of petitioner-corporation. Hence, the preference of credit granted to workers or employees under Article 110 of the Labor Code is not applicable.

Duration of Automatic Stay Under PD 902-A

Finally, private respondents posit that under Section 6 of the Insolvency Law, the December 28, 1994 Order of the SEC suspending all actions for claims against Rubberworld should

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[21] Memorandum for Private Respondents, pp. 6-7; *rollo*, pp. 268-269.

"ART. 110 *Worker preference in case of bankruptcy.* — In the event of bankruptcy or liquidation of an employer's business, his workers shall enjoy first preference as regards their wages and other monetary claims, any provisions of law to the contrary notwithstanding. Such unpaid wages and monetary claims shall be paid in full before claims of the government and other creditors may be paid."

[22] *Development Bank of the Philippines v. Secretary of Labor*, 179 SCRA 630, 634, November 28, 1989.

[23] *Chua v. National Labor Relations Commission, supra*, p. 575

[24] *Development Bank of the Philippines v. Secretary of Labor, supra*, pp. 634-635.

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have expired after three months, in the absence of an agreement between the company and the corporate creditors.[25] Private respondents also accuse the SEC of abusing its power by "allowing said suspension order to remain pending for many years without resolving and approving any rehabilitation plan."[26] They contend that "[t]his is fatal to the instant petition for it had been a party to the abuse by the SEC of its suspension order."[27]

This Court notes that PD 902-A itself does not provide for the duration of the automatic stay. Neither does the Order[28] of the SEC. Hence, the suspensive effect has no time limit and remains in force as long as reasonably necessary to accomplish the purpose of the Order.[29] On the other hand, the attack against the SEC's alleged "abuse of power" is misplaced. Under review in this Petition for *Certiorari* are Resolutions of the NLRC, not of the SEC. The scope of this review is thus limited to whether the NLRC gravely abused or exceeded its jurisdiction in refusing to heed the SEC Order of Suspension and in issuing its challenged Resolutions. In any event, the *bare* allegation of inaction is insufficient to condemn the Securities and Exchange Commission and the management committee where, it should be noted, all affected parties, including, the labor union in the company, are represented.

WHEREFORE, the petition is hereby *GRANTED*. The assailed Resolutions of the NLRC dated April 26, 1996, and June 20, 1996, are *REVERSED* and *SET ASIDE*. No costs.

SO ORDERED.

Romero (Chairman), Vitug, Purisima, and *Gonzaga-Reyes, JJ.,* concur.

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[25] Memorandum for Private Respondents, pp. 9-10; *rollo*, pp. 271-272.

[26] *Ibid.*, p. 10; *rollo*, p. 272

[27] *Ibid.*

[28] See *rollo*, pp, 31-35.

[29] *BF Homes Incorporated v. Court of Appeals, supra,* p. 268.