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Because of inexcusable negligence and dilatory tactics employed by the petitioner and her counsel, the resolution of a simple ejectment case has dragged on for four years and the valuable time and efforts of four levels of the judiciary expended beyond justification. It is time to close this case.

WHEREFORE, the petition is hereby DENIED. The questioned decision and resolution of the Court of Appeals are AFFIRMED. This decision is immediately executory.

SO ORDERED.

Fernan (Chairman), C.J., Feliciano, and *Cortes, JJ.*, concur.

Bidin, J., took no part.

EN BANC

[G.R. No. 84606. June 28, 1989]

SPOUSES RAMON A. GONZALES and LILIA Y. GONZALES, *petitioners, vs.* **SUGAR REGULATORY ADMINISTRATION,** *respondent.*

SYLLABUS

1. MERCANTILE LAW; CORPORATIONS; CORPORATE LIFE OF JURIDICAL PERSONS, NOT IMPRESCRIPTIBLE. — One who asserts a claim against a juridical entity has no constitutional right to the perpetual existence of such entity. Juridical persons, whether incorporated or not, whether owned by the government or the private sector, may come to an end at one time or another for a variety of reasons, *e.g.*, the fulfillment or the abandonment of the business purposes for which a corporation was set up. Thus, the Corporation Code provides for termination of corporate life, the dissolution of the corporation, the winding up of its operations, the liquidation of its assets, the payment of its

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obligations and distribution of any residual assets to its stockholders. The termination of the life of a juridical entity does not by itself imply the diminution or extinction of rights demandable against such juridical entity.

2. **ID.; ID.; PHILSUCOM; ABOLISHED BY EXECUTIVE ORDER NO. 18; SUCCESSION OF THE SUGAR REGULATORY ADMINISTRATION TO THE ASSETS AND LIABILITIES OF PHILSUCOM, LIMITED.** — Executive Order No. 18, promulgated on 28 May 1986, abolished the Philsucom, created the SRA and authorized the transfer of assets from Philsucom to SRA. Executive Order No. 18 did not provide for universal succession, as it were, of SRA to Philsucom, or more specifically to the assets and liabilities of Philsucom. Under the second paragraph of Section 13 quoted above, the SRA has been authorized to determine which of the assets and records of Philsucom are required for the carrying out of the activities which the SRA is to carry on or undertake. The succession of the SRA to the assets and records of the Philsucom is thus limited in nature; the extent of such succession is left to the discretionary determination of the SRA itself. More importantly, Executive Order No. 18 is silent as to the *liabilities* of Philsucom; it does *not* speak of assumption of such liabilities by the SRA.

3. **ID.; ID.; ID.; ID.; LIMITED STATUTORY SUCCESSION, DELIBERATE.** — We must assume that this limited statutory succession was deliberately rather than inadvertently prescribed. For the second paragraph of Section 13 of Executive Order No. 18 stands in sharp contrast with Section 10 of P.D. No. 388, as amended, promulgated on 2 February 1974 which created the Philsucom and in turn abolished the pre-existing Philippine Sugar Institute and the Sugar Quota Administration. The Philsucom succeeded as a matter of course to all the assets, liabilities and records of the Philippine Sugar Institute and the Sugar Quota Administration. The SRA did not, quite possibly because the Government wanted the opportunity to examine the assets, liabilities and records carefully and to determine the compatibility of (asserted) liabilities of the Philsucom with applicable law and relevant requirements of public policy and the public interest.

4. **ID.; ID.; ID.; ID.; ID.; SUGAR REGULATION ADMINISTRATION LIABLE FOR CLAIMS AGAINST PHILSUCOM TO THE EXTENT OF THE FAIR VALUE OF ASSETS ACTUALLY**

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TAKEN OVER BY IT; REASON. — That the assets of the Philsucom must respond for payment of lawful obligations of Philsucom, does not appear to require demonstration. The assets which, in accordance with the second paragraph of Section 13 of Executive Order No. 18, may be taken over by the SRA, can thus be only *net or residual* assets, assets remaining after payment of the valid and enforceable liabilities of Philsucom has been made or been adequately provided for. We believe, in other words, that Section 13 of Executive Order No. 18 is not to be interpreted as authorizing respondent SRA to disable Philsucom from paying Philsucom's demandable obligations by simply taking over Philsucom's assets and immunizing them from legitimate claims against Philsucom. The right of those who have previously contracted with, or otherwise acquired lawful claims against, Philsucom, to have the assets of Philsucom applied to the satisfaction of those claims, is a substantive right and not merely a procedural remedy. Section 13 cannot be read as permitting the SRA to destroy that substantive right. We think that such an interpretation would result in Section 13 of Executive Order No. 18 colliding with the non-impairment of contracts clause of the Constitution insofar as contractual claims are concerned, and with the due process clause insofar as the non-contractual claims are concerned. To avoid such a result, we believe and so hold that should the assets of Philsucom remaining in Philsucom at the time of its abolition not be adequate to pay for all lawful claims against Philsucom, respondent SRA must be held liable for such claims against Philsucom *to the extent of the fair value of assets actually taken over by the SRA from Philsucom, if any.*

5. REMEDIAL LAW; ACTIONS; DISMISSAL OF COMPLAINT WITH CAUSE OF ACTION, PREMATURE. — The dismissal of petitioners' complaint against respondent SRA was clearly premature. Petitioners have a cause of action against SRA to the extent that they are able to prove lawful claims against Philsucom, which claims Philsucom is or may be unable to satisfy, and to the extent respondent SRA did, or does, in fact take over all or some of the assets of Philsucom. At the very least, the motion to dismiss was not shown to rest upon indubitable grounds and should, therefore, have been denied not only in respect of Philsucom but also in respect of respondent SRA.

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APPEARANCES OF COUNSEL

Ramon A. Gonzales for petitioners.
The Government Corporate Counsel for respondent.

D E C I S I O N

FELICIANO, *J.*:

This is a Petition for *Certiorari* which asks this Court to reverse the order of the Regional Trial Court, Branch 33, Iloilo City in Civil Case No. 17926, dismissing petitioners' complaint as against herein respondent Sugar Regulatory Administration ("SRA").

The background facts of this case are quickly summarized:

On 23 December 1987, petitioner spouses, Ramon A. Gonzales and Lilia Y. Gonzales, filed a complaint seeking cancellation of a mortgage and recovery of a sum of money against the Republic Planters Bank ("RPBank"), Philippine Sugar Commission ("Philsucom") and the SRA. The complaint alleged that on 13 May 1980, petitioners obtained a loan from the RPBank in the amount of ₱176,000.00 secured by a real estate mortgage. The proceeds of the loan were released on a staggered basis and the loan was "payable from [the] 1980-1981 sugar crop,"[1] the amortization payments to be remitted by the Philsucom to the RPBank. The RPBank is owned and controlled by the Philsucom. The complaint also stated that on 24 September 1987, petitioners received a statement of account from the RPBank setting forth that petitioners had an outstanding loan balance due to the bank of ₱652,446.38. Petitioners then requested copies of the promissory notes executed by them as well as the breakdown of re-payments they had made on their loan. On the basis of the promissory notes and the list of re-payments made, the complaint continued, it appeared that petitioners had received the total amount of ₱1,041,610.55 in

[1] Petition, *Rollo*, p. 2.

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loan funds from the RPBank and that petitioners had re-paid thereon the total amount of ₱1,051,296.77; in other words, petitioners had already more than fully repaid their loan. The complaint further averred that Philsucom had deducted from the export sugar proceeds of petitioners the amount of ₱421,517.32 without the authority and consent of petitioners with the result that petitioners had overpaid the RPBank by ₱289,260.88. Petitioners prayed that the real estate mortgage be cancelled, and that Philsucom and SRA be required jointly and severally to reimburse the petitioners the amount of ₱289,260.88 as well as moral damages of ₱50,000.00 and attorney's fees of another ₱50,000.00.

The RPBank, Philsucom and herein respondent SRA moved to dismiss the complaint upon the ground of lack of cause of action. Philsucom and respondent SRA, through the Solicitor General, denied any obligation on the part of the Philsucom to return any amount to petitioners on account of allegedly unauthorized deductions from the proceeds of petitioners' sugar sold by the Philsucom. For its part, the SRA also noted that while the deductions complained of were made by the Philsucom during the period from 1980 to 1984, the SRA itself had been created by Executive Order No. 18 only on 18 May 1986 and that it was not a party to the real estate mortgage between petitioners and the RPBank.

Petitioners filed, on 17 March 1988, an amended complaint which assailed the constitutionality of Executive Order No. 18. Petitioners urged that the abolition of the Philsucom by Executive Order No. 18 in effect destroyed the petitioners' right to recover from Philsucom what petitioners claim in their complaint is due to them. Petitioners hence assert that they had been deprived of property without due process of law and that the abolition of Philsucom and the transfer of assets from Philsucom to respondent SRA, are unconstitutional and ineffective. In a separate pleading, petitioners also opposed the motions to dismiss arguing, once more, that Executive Order No. 18, to the extent it abolished the Philsucom and transferred its assets to respondent SRA, deprived petitioners of a property right without due process of law.

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On 2 August 1988, the trial court issued an order granting the motion to dismiss *insofar as SRA was concerned*, while denying that same motion insofar as RPBank and Philsucom were concerned.

Hence, this Petition for Review of the trial court's Order to the extent that that order would dismiss the complaint *vis-a-vis* respondent SRA.

It is petitioners' position, as already noted, that dismissal of the complaint as against SRA was erroneous because the abolition of Philsucom and transfer of assets from Philsucom to respondent SRA constitute an unconstitutional taking of property rights and, therefore, ineffective. The implicit theory of petitioners is that they have a right to follow Philsucom's assets in the hands of the SRA.

Petitioners' argument on unconstitutionality is too impressionistic and needs to be more sharply focused. One who asserts a claim against a juridical entity has no constitutional right to the perpetual existence of such entity. Juridical persons, whether incorporated or not, whether owned by the government or the private sector, may come to an end at one time or another for a variety of reasons, *e.g.*, the fulfillment or the abandonment of the business purposes for which a corporation was set up. Thus, the Corporation Code provides for termination of corporate life, the dissolution of the corporation, the winding up of its operations, the liquidation of its assets, the payment of its obligations and distribution of any residual assets to its stockholders.[2] The termination of the life of a juridical entity does not by itself imply the diminution or extinction of rights demandable against such juridical entity.[3]

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[2] Sections 117-122, *Batas Pambansa Blg.* 68.

[3] Thus, Section 122 of the Corporation Code provides, in part:

"Sec. 122. *Corporate liquidation.* — *Every corporation* whose charter expires by its own limitation or is annulled by forfeiture or otherwise, or *whose corporate existence* for other purposes *is terminated* in any other manner, *shall nevertheless be continued as a body corporate for three(3) years after the time when it would have been so dissolved, for the purpose*

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Executive Order No. 18, promulgated on 28 May 1986, abolished the Philsucom, created the SRA and authorized the transfer of assets from Philsucom to SRA. Section 13 of Executive Order No. 18 reads as follows:

Sec. 13. *Transitory Provisions. — The Philippine Sugar Commission (Philsucom) is hereby abolished.* The Sugar Regulatory Administration may retain some of the personnel of said agency as it may deem necessary. Any public officer or employee separated from service as a result of the abolition of Philsucom effected under the laws then in force, receive the retirement and other benefits accruing thereunder. In case of lack of funds to support the retirement and separation pay of affected officers and employees of the Philsucom, a special fund shall be set aside by the Ministry of Budget for this purpose.

"*Assets and records* that, as determined by the Sugar Regulatory Administration, are required in its operation are hereby *transferred to the Sugar Regulatory Administration.*

"*Although the Philsucom is hereby abolished, it shall nevertheless continue as a juridical entity for three years after the time when it would have been so abolished, for the purpose of prosecuting and defending suits by or against it and enabling it to settle and close its affairs, to dispose of and convey its property and to distribute its assets*, but not for the purpose of continuing the functions for which it was established, under the supervision of the Sugar Regulatory Administration." (Italics supplied)

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of prosecuting and defending suits by or against it and enabling it to settle and close its affairs, to dispose of and convey its property and to distribute its assets, but not for the purpose of continuing the business for which it was established.

At any time during said three (3) years, *the corporation* is authorized and empowered *to convey all of its property to trustees for the benefit of* stockholders, members, *creditors, and other persons in interest.* From and after any such conveyance by the corporation of its property in trust for the benefit of its stockholders, members, creditors and others in interest, *all interest which the corporation had in the property terminates*, the legal interest vests in the trustees, and *the beneficial interest in the* stockholders, members, *creditors* or *other persons in interest.*

x x x x x x x x x"

(Italics supplied)

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We note that Executive Order No. 18 did not provide for universal succession, as it were, of SRA to Philsucom, or more specifically to the assets and liabilities of Philsucom. Under the second paragraph of Section 13 quoted above, the SRA has been authorized to determine which of the assets and records of Philsucom are required for the carrying out of the activities which the SRA is to carry on or undertake. The succession of the SRA to the assets and records of the Philsucom is thus limited in nature; the extent of such succession is left to the discretionary determination of the SRA itself. More importantly, Executive Order No. 18 is silent as to the liabilities of Philsucom; it does *not* speak of assumption of such liabilities by the SRA.

We must assume that this limited statutory succession was deliberately rather than inadvertently prescribed. For the second paragraph of Section 13 of Executive Order No. 18 stands in sharp contrast with Section 10 of P.D. No. 388, as amended, promulgated on 2 February 1974 which created the Philsucom and in turn abolished the pre-existing Philippine Sugar Institute and the Sugar Quota Administration. Section 10 of P.D. No. 388, as amended, provided as follows:

"Sec. 10. *Transitory Provisions. — The Philippine Sugar Institute and the Sugar Quota Administration* are hereby *abolished and absorbed* effective upon the organization of the Commission and *all their assets, liabilities and records shall be transferred to the Commission*. The Commission may retain the personnel of said agencies as it may deem necessary. Those of the personnel who may not be retained shall be entitled to retirement benefits, otherwise they shall be granted gratuity to be determined by the Commission." (Italics supplied)

The Philsucom, it will be seen, succeeded as a matter of course to all the assets, liabilities and records of the Philippine Sugar Institute and the Sugar Quota Administration. The SRA did not, quite possibly because the Government wanted the opportunity to examine the assets, liabilities and records carefully and to determine the compatibility of (asserted) liabilities of the

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Philsucom with applicable law and relevant requirements of public policy and the public interest.[4]

That the assets of the Philsucom must respond for payment of lawful obligations of Philsucom, does not appear to require demonstration. The assets which, in accordance with the second paragraph of Section 13 of Executive Order No. 18, may be

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[4] It seems relevant to note that the Philsucom had a wide range of extraordinary powers during the martial law administration of former President Marcos. The range of these powers is indicated by Section 4 of Presidential Decree No. 388 as amended by Presidential Decrees Nos. 1192, 1905, 1918 and 1944 which included among the powers of Philsucom the following:

x x x x x x x x x

(d)To act as a buying and selling agency of sugar thru its affiliate/ subsidiary for the purchase and/or local marketing of sugar on a voluntary and contractual basis in order to promote the effective merchandising of sugar and to act as the country's sole export trading agency for sugar to ensure generation of optimum foreign exchange earnings from sugar exports;

(f) To borrow money from local and foreign sources as may be necessary for its operations;

x x x x x x x x x

(i) To hold lands and acquire rights over agricultural lands in excess of the areas permitted to private corporations, associations and persons of statute;

(j) To engage in export and import business of sugar and its derivatives, as well as in related activities;

x x x x x x x x x

(p) To assume control and/or supervision of sugar mill and refinery that has failed to meet its financial and other contracted obligations for two years or has become inefficient in its operation;

(q)To organize, register, regulate and maintain exclusive control and supervision over sugar planters and sugar producers marketing cooperatives and to restore those existing under laws before their repeal by the provisions of Presidential Decree No. 175; x x x;

(r) To allow sugar planters and/or sugar producers marketing cooperatives to enjoy privileges and incentives heretofore granted under laws of their creation before their repeal by the provisions of Presidential Decree No. 175, and those granted by all government agencies to business organization under existing laws; x x x;

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taken over by the SRA, can thus be only *net or residual* assets, assets remaining after payment of the valid and enforceable liabilities of Philsucom has been made or been adequately provided for. We believe, in other words, that Section 13 of Executive Order No. 18 is not to be interpreted as authorizing respondent SRA to disable Philsucom from paying Philsucom's demandable obligations by simply taking over Philsucom's assets and immunizing them from legitimate claims against Philsucom. The right of those who have previously contracted with, or otherwise acquired lawful claims against, Philsucom, to have the assets of Philsucom applied to the satisfaction of those claims, is a substantive right and not merely a procedural remedy. Section 13 cannot be read as permitting the SRA to destroy that substantive right. We think that such an interpretation would result in Section 13 of Executive Order No. 18 colliding with the non-impairment of contracts clause of the Constitution insofar as contractual claims are concerned, and with the due process clause insofar as the non-contractual claims are concerned.[5] To avoid such a result, we believe and so hold that should the assets of Philsucom remaining in Philsucom at

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(s) To determine the manner and extent by which powers, privileges and incentives provided by existing laws shall be exercised or enjoyed by sugar planters and/or sugar producers marketing cooperatives; x x x;

(t) To suspend the operation or cancel the registration of any sugar planters and/or sugar producers marketing cooperatives after hearing and when in its judgment based on findings, such cooperative is operating in violation of this Decree, rules and regulations existing laws as well as the by-laws of the sugar cooperatives;

(u) To finance the activities of the sugar industry, or any of its component elements, where such assistance is needed and conducive to the progress of the industry in all its phases;

(v) To organize affiliate corporations for the purpose of carrying out any of the above functions. x x x;

x x x x x x x x x

[5] See, generally, *Clemons v. Nolting*, 42 Phil. 702 (1922); *Government of the Philippines v. Visayan Surety*, 66 Phil. 326 (1938); *Rutter v. Esteban*, 93 Phil. 68 (1953); and *Coombes v. Getz*, 285 U.S. 434, 76 L. ed. 866 (1932).

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the time of its abolition not be adequate to pay for all lawful claims against Philsucom, respondent SRA must be held liable for such claims against Philsucom *to the extent of the fair value of assets actually taken over by the SRA from Philsucom, if any*. To this extent, claimants against Philsucom do have a right to follow Philsucom's assets in the hands of SRA or any other agency for that matter. This result appears no more than a dictate of elementary fairness, particularly when one takes into account that under Section 11 of Executive Order No. 18, the SRA will continue, "until otherwise provided, as directed and ordered by the President of the Philippines," to collect and receive the proceeds of "levies, charges and other impositions as [then] granted by law, decree and/or executive order, to the [Philsucom]." Whether the deductions here assailed by petitioners are included among the "levies, charges and other impositions" then made by Philsucom and now continued by SRA, must be determined by the trial court.

Petitioners have noted in this connection that the three (3) year period provided for in the third paragraph of Section 13 of Executive Order No. 18 is about to expire. There is nothing to prevent Philsucom from appointing a trustee (SRA, for instance) and conveying all its properties to such trustee, for the benefit of the Government, creditors and other persons in interest, following at least by analogy the provisions of the second paragraph of Section 122 of the Corporation Code. Should

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Lothrop and others v. Stedman, etc., 42 Conn. 583 (1875), while fairly ancient, still apropos:

> "A repeal of a charter does not of itself violate or impair the obligation of any contract which the corporation has entered into. But the legislature cannot establish such rules in regard to the management and disposition of the assets of the corporation, that the avails shall be diverted from or divided unfairly and unequally among the creditors, and thus impair the obligation of contracts, or that the portion of the avails which belong to the stockholders shall be sequestered and diverted from the owners, and thus injure vested rights.
>
> x x x x x x x x x x x x"

(42 Conn. at 591)

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Philsucom decline to so appoint SRA as trustee, the principles set forth above would of course apply, *mutatis mutandis*, in respect of whichever public agency may find itself actually holding the assets and records of Philsucom.

We conclude that dismissal of petitioners' complaint against respondent SRA was clearly premature. Petitioners have a cause of action against SRA to the extent that they are able to prove lawful claims against Philsucom, which claims Philsucom is or may be unable to satisfy, and to the extent respondent SRA did, or does, in fact take over all or some of the assets of Philsucom. At the very least, the motion to dismiss was not shown to rest upon indubitable grounds and should, therefore, have been denied not only in respect of Philsucom but also in respect of respondent SRA.

WHEREFORE, the order of the trial court dated 2 August 1988 in Civil Case No. 17926 is hereby *SET ASIDE* to the extent that such order dismissed petitioners' complaint against respondent SRA.

SO ORDERED.

Fernan, C.J., Narvasa, Melencio-Herrera, Gutierrez, Jr., Cruz, Paras, Gancayco, Padilla, Bidin, Sarmiento, Cortes, Griño-Aquino, Medialdea, and *Regalado, JJ.*, concur.