

THIRD DIVISION

[G.R. No. 232688, April 26, 2021]

MAZDA QUEZON AVENUE, PETITIONER, VS. ALEXANDER CARUNCHO, RESPONDENTS.

DECISION

LEONEN, J.:

A supplier is liable for product imperfections that it cannot resolve within the warranty period. Moreover, the two-year prescriptive period for actions arising from the Consumer Act only runs from the expiration of the warranty period agreed upon by the parties.

This is a Petition for Review^[1] seeking to set aside the Court of Appeals' Decision^[2] and Resolution^[3] dismissing the Petition for Certiorari filed by Mazda Quezon Avenue (Mazda). Mazda sought to annul the Department of Trade and Industry Appeals Committee's (Appeals Committee) Decision,^[4] which affirmed the Department of Trade and Industry Adjudication Officer's (Adjudication Officer) Decision^[5] finding Mazda liable for violating Republic Act No. 7394, otherwise known as Consumer Act of the Philippines (Consumer Act).

On January 12, 2011,^[6] Alexander Caruncho (Caruncho) bought a brand-new, luxury, mid-sized, top-of-the-line 2011 Mazda 6 sedan from Mazda. However, after only a week from his purchase, Caruncho noticed a strange knocking and rattling sound from under the vehicle's hood. He brought it immediately to Mazda and requested an immediate refund.^[7]

Mazda's General Manager refused the refund and instead guaranteed to fix the problem. After road tests, Mazda's technicians found that the vehicle's rack and pinion mechanism was defective. Mazda assured the replacement of the vehicle after its first 1,000-kilometer check-up. Despite this assurance, the knocking and rattling sound persisted. Mazda replaced the defective part five times during the vehicle's three-year warranty period.^[8]

On February 19, 2014, Mazda's service manager and mechanic conducted a vehicle test drive. They confirmed that the knocking and rattling sound persisted. Because the issue remained unresolved, Caruncho requested a full refund of the purchase price and also demanded compensation for consequential damages he incurred.^[9] Thus, on July 31, 2014, he filed a Complaint against Mazda before the Department of Trade and Industry Consumer Assistance and Protection Division, Office of the Legal Affairs.^[10]

In its Answer,^[11] Mazda said that although Caruncho complained of the knocking

and rattling sound, he could still use the vehicle for three years with a mileage of 30,000 kilometers. It also argued that the knocking and rattling sound did not automatically warrant a replacement of the entire unit, but only an application of the provisions in the Warranty Information and Maintenance Record, which states:

During this coverage period, authorized MAZDA dealers will repair, replace, or adjust all parts of your vehicle that are defective in factory-supplied materials or workmanship under normal use, except those items listed under "What is not covered?"^[12]

During the thorough technical inspection pursuant to the Warranty and Maintenance Record, Mazda confirmed that the engine and the parts were all within the standard operating specifications and were in good running condition. Mazda said that Caruncho's demand was out of place and without a legal basis since there was no factory defect. It complied with the warranty provisions that only covered servicing the vehicle without charge.^[13]

The Adjudication Officer rendered a Decision finding Mazda liable for violating the Consumer Act. The dispositive portion of the Decision reads:

WHEREFORE, IN VIEW OF THE FOREGOING, this office hereby finds Respondent to have violated the provisions of the Consumer Act of the Philippines and hereby ordered to:

- 1) Replace the car of another brand new unit or of higher brand with the price difference, if there will be any, to be paid by Complainant; or
- 2) Reimburse the total purchase amount, in case Complainant decide (sic) to avail of it, less the three (3) year beneficial use of the subject car for reason (sic) of equity;
- 3) Pay an administrative fine in the amount of Php25,000.00 to be paid at the DTI Cashier's Office, 4th Floor, DTI Building, 361 Sec Gil J. Puyat Avenue, Makati City; and
- 4) Pay an additional administrative fine of One (1) Thousand (Php1,000.00) Pesos for every day of delay upon the finality of the subject DECISION.

SO ORDERED.^[14]

Mazda appealed to the Appeals Committee, which dismissed the appeal and sustained the Adjudication Officer's Decision.^[15]

Aggrieved, Mazda filed a Petition for Certiorari before the Court of Appeals, claiming grave abuse of discretion on the part of the Department of Trade and Industry. It argued that the defect was not a factory defect and that Caruncho's claim had already prescribed.^[16] The Court of Appeals disagreed and dismissed the petition. The dispositive portion of the Decision reads:

WHEREFORE, premises considered, the *Petition for Certiorari* is **DISMISSED.**

SO ORDERED.^[17]

Mazda moved for reconsideration, but the Court of Appeals denied this in its Resolution.^[18]

Hence, Mazda filed this Petition.

Petitioner claims that the engine and parts were all within their standard operating specifications during the technical inspection, and the unit was in good running condition. Thus, it said that it honored the warranty provisions of the Warranty Information and Maintenance Record.^[19]

It maintained that respondent's suit had no basis since what he was complaining of was not a factory defect. It also claimed that the warranty only covered servicing the vehicle without charge and possible replacement or repair of parts; it did not cover a full refund of the purchase price.^[20]

Petitioner also asserts that respondent's action had already prescribed since he has been using the vehicle for three years. The Consumer Act states that actions shall be filed within two years "from the time the consumer transaction was consummated, or in case of hidden defects, from the date of discovery."^[21]

For his Comment,^[22] respondent argues that its claim for a full refund was based on the buyer's right to rescind a sale under Article 1561 of the New Civil Code.^[23] Moreover, respondent anchors his claim on Article 1599, which entitles the buyer to file an action for breach of warranty by the seller.^[24]

Respondent also cites the Consumer Act, which provides that, "in case of breach of express warranty, the consumer may elect to have the goods repaired or its purchase price refunded by the warrantor...In case of breach of implied warranty, the consumer may retain the goods and recover damages, or reject the goods, cancel [the] contract, and recover from the seller so much of the purchase price as has been paid, including damages."^[25]

He reiterates the Court of Appeals' ruling that the defective part has been established as an integral part of the vehicle, directly affecting the vehicle's roadworthiness and making it unfit or inadequate for the purpose for which it was then designed.^[26]

In its Reply,^[27] petitioner repeated its rejection of respondent's claim for a full refund. According to it, respondent was able to use the vehicle for three years, consuming a mileage of 30,000 kilometers.^[28] It also maintains that it is not the vehicle's manufacturer but only its dealer. Moreover, it conducted a thorough technical inspection, where the petitioner found that the vehicle's engine and its parts were all within Mazda's standard operating specifications. Thus, petitioner claims that it complied with all the warranty provisions.^[29]

Finally, petitioner also reiterates its argument regarding prescription of action.^[30] It

also argues that the issues encountered by the respondent were "not to such extent that there can be deemed a violation of the Consumer Act."^[31]

The main issue, in this case, is whether or not the Court of Appeals erred in not finding grave abuse of discretion on the part of the Appeals Committee when it held petitioner liable for the violation of the Consumer Act for selling a defective vehicle to respondent.

The Court of Appeals is correct.

I

The Consumer Act makes a supplier liable for product imperfections:

ARTICLE 100. *Liability for Product and Service Imperfection.* The suppliers of durable or non-durable consumer products are jointly liable for imperfections in quality that render the products unfit or inadequate for consumption for which they are designed or decrease their value, and for those resulting from inconsistency with the information provided on the container, packaging, labels or publicity messages/advertisement, with due regard to the variations resulting from their nature, the consumer being able to demand replacement to the imperfect parts.

If the imperfection is not corrected within thirty (30) days, the consumer may alternatively demand at his [or her] option:

- a) the replacement of the product by another of the same kind, in a perfect state of use;
- b) the immediate reimbursement of the amount paid, with monetary updating, without prejudice to any losses and damages;
- c) a proportionate price reduction.

The parties may agree to reduce or increase the term specified in the immediately preceding paragraph; but such shall not be less than seven (7) nor more than one hundred and eighty (180) days.

The consumer may make immediate use of the alternatives under the second paragraph of this Article when by virtue of the extent of the imperfection, the replacement of the imperfect parts may jeopardize the product quality or characteristics, thus decreasing its value.

If the consumer opts for the alternative under sub-paragraph (a) of the second paragraph of this Article, and replacement of the product is not possible, it may be replaced by another of a different kind, mark or model: *Provided*, That any difference in price may result thereof shall be supplemented or reimbursed by the party which caused the damage, without prejudice to the provisions of the second, third and fourth paragraphs of this Article.

Department Administrative Order No. 2, series of 1993, or the Implementing Rules and Regulations for the Consumer Act of the Philippines, Chapter V, Rule III, Section 2, Paragraph 2.1 defines what a product imperfection is:

CHAPTER V

Liability for Products and Services

....

RULE III

Liability for Product Quality Imperfection

....

SECTION 2. *When is There Product Imperfection.* - With due regard to variations resulting from their nature, the following shall constitute product imperfection:

2.1. Those that render the products unfit or inadequate for the purpose, use or consumption for which they are designed or intended[.][32]

The Court of Appeals correctly sustained Appeals Committee's conclusion that, based on substantial evidence, the defect was a product imperfection. The Vehicle Service History and the Technical Report show that petitioner confirmed that the vehicle had a defective rack and pinion mechanism. Petitioner replaced this part five times, but the problem remained unresolved. The rack and pinion mechanism is an integral part of the vehicle and is used for maneuvering; its defect affected the vehicle's roadworthiness, making it unfit for its intended use. As observed by the Appeals Committee, the five replacements would have resolved the problem had it not been a product imperfection.[33] It also did not find proof other than petitioner's bare allegations that the problem did not warrant a refund or replacement of the entire unit.[34]

Petitioner cannot escape liability by referring to its Warranty Information and Maintenance Record provisions, which only require it to maintain and service the vehicle without charge. That it did so does not free it from the operation of and its liability under the Consumer Act. More specifically, the law allows the consumer the remedy of full reimbursement.[35] This remedy echoed in the Implementing Rules and Regulations:

SECTION 3. *Remedies of the Consumer.* - Should the supplier fail to correct the imperfection of a consumer product within the period or time provided in these Rules, the consumer may alternatively demand for any of the following remedies:

3.1. The replacement of the product by another of the same kind and which shall be in a similar state of use. Such "similar state of use" shall be deemed to mean the status of use of the product when the same was first purchased by the consumer, whether brand-new, second-hand or deteriorated or scrap;

3.2. The immediate reimbursement of the amount paid, with monetary