

SECOND DIVISION

[G.R. No. 225007, July 24, 2019]

**SAN MIGUEL FOODS, INC. AND JAMES A. VINOYA, PETITIONERS,
VS. ERNESTO RAOUL V. MAGTUTO, RESPONDENT.**

D E C I S I O N

CARPIO, J.:

The Case

This is a petition for review on certiorari^[1] assailing the Decision^[2] dated 28 August 2015 and the Resolution^[3] dated 6 May 2016 of the Court of Appeals (CA) in CA-G.R. CV No. 101074.

The Facts

Sometime in July 2002, respondent Ernesto Raoul V. Magtuto (Magtuto), a businessman engaged in growing broiler chicks and doing business under the name Alyssandra Farms, attended a gathering of broiler chick growers of Swift Foods, Inc., which was closing operations in Bicol at the end of the year 2002. The gathering, organized by Dr. Edwin Rosales, at that time the Branch Manager of the Bicol branch and a veterinarian for the contract growing operation of Swift Foods, Inc., was held at Villa Caceres Hotel in Naga City. Those in attendance were broiler chick growers and some employees of Swift Foods, Inc. and representatives of petitioner San Miguel Foods, Inc. (SMFI), a company engaged in the business of breeding and hatching broiler chickens, poultry processing, and manufacturing of poultry and livestock feeds.

Magtuto was present at the gathering since he was a grower for Swift Foods, Inc. for six years from 1996 to 2002 and was well-known as one of the biggest broiler chick growers in the Bicol region maintaining several grow-out facilities in Carolina, Nabua and Baao, Camarines Sur. Petitioner Dr. James A. Vinoya^[4] (Vinoya), SMFI's veterinarian and production supervisor, and Engr. Rene C. Ogilvie (Ogilvie), SMFI's Bicol Region Poultry Operations Manager, attended the gathering representing SMFI. The growers were there to know if they can do business with SMFI and successively, SMFI, as an integrator, was looking into recruiting new growers or getting additional capacity for the company's production program in the region. At the gathering, SMFI presented to the contract growers SMFI's chick growing scheme, payment system, and benefits.

Several months after the said gathering or sometime in September 2002, Magtuto and Vinoya arrived at an agreement. Vinoya told Magtuto that he can be accommodated as a broiler chick grower of SMFI only if excess chicks would be available from the SMFI hatchery located in Laguna. They did not execute a written contract. However, Vinoya showed Magtuto a copy of SMFI's standard Broiler

Chicken Contract Growing Agreement and told Magtuto that he is bound by the same terms and conditions as their regular contract growers and Magtuto agreed.

The agreement involved the delivery of 36,000 day-old chicks by SMFI which Magtuto would grow for a period of about 30-35 days at his grow-out facility located in Carolina, Camarines Sur. SMFI would provide all the feeds, medicines, materials, and technical support. After the 30-35 day period, the grown chickens, after reaching the desired age and weight, would be harvested and hauled by SMFI. Then Magtuto would be given a period of 15 days to clear, disinfect, and prepare his grow-out facility for the next delivery.

To guarantee the faithful performance by Magtuto of his obligations as a grower and for the protection of both parties, Magtuto gave SMFI the amount of P72,000, as cash bond, equivalent to two successive grows of P36,000 per grow where PI for every chick delivered would be deducted from Magtuto's account.

Magtuto and Vinoya did not discuss how long the agreement would last but for the months of October and November 2002, and January and April 2003, SMFI delivered chicks to Magtuto four times consisting of 36,000 chicks per delivery. After every harvest, SMFI paid Magtuto a grower's fee for his service of growing the chicks for the company.

Then sometime in June 2003, on the fifth delivery, the broiler chicks delivered by SMFI was short of 4,000 heads. Instead of 36,000 broiler chicks, SMFI only delivered 32,000 chicks. Magtuto reported this to Vinoya. Vinoya replied and told Magtuto that there were no more excess chicks to give due to the low supply from the hatchery and the decline in the demand of chicken in the market because of the influx of cheap chicken coming from other countries. Magtuto demanded that Vinoya deliver more chicks in order to make use of his facility to the maximum capacity but Vinoya said that he was only being accommodated and their priority would be the official contract growers of SMFI.

After several exchange of messages, Magtuto felt that Vinoya responded arrogantly and in an insulting manner instead of addressing his query; thus, Magtuto went straight to SMFI and sent a letter-complaint^[5] dated 12 June 2003 addressed to Ogilvie expressing his dissatisfaction with Vinoya's alleged "arrogance, incompetence and unprofessional attitude."^[6] Ogilvie, however, did not take any action on the matter.

On 12 August 2003, Vinoya informed Magtuto that their arrangement was terminated due to "poor working relationship." Magtuto was surprised claiming that the termination was prompted by the complaint on unprofessional conduct he made against Vinoya. Magtuto then sent a letter^[7] dated 25 August 2003 to Benjamin Hilario, SMFI's Assistant Vice President and Luzon Processing Manager, narrating his experience with Vinoya and Ogilvie's inaction. Magtuto mentioned that the timing of the notice of termination delayed his July chick-in by three weeks and that he incurred considerable expenses in preparing his grow-out facility and was deprived of income for the month of July. In the same letter, Magtuto stated that he was withdrawing the P72,000 cash bond that he posted which should be deducted from his account with SMFI.

Thereafter, Magtuto filed a complaint^[8] for damages against SMFI, Vinoya, and Ogilvie before the Regional Trial Court (RTC) of Naga City, Branch 22.

In his complaint, Magtuto claimed that because of the abrupt unilateral termination of contract by SMFI (1) he was deprived of income for the month of July 2003 in the amount of not less than P360,000; (2) he incurred considerable expenses in preparing his grow-out facility in the amount of not less than P150,000; and (3) his good reputation as a contract grower was tainted, causing him social humiliation, mental anguish and serious anxiety, which SMFI must compensate in the amount of not less than P500,000. Also, Magtuto alleged that SMFI's act in terminating the agreement was contrary to justice and good faith causing damage and injury to his rights for which SMFI, Vinoya, and Ogilvie must be condemned to pay nominal damages of not less than P100,000, and by way of example for the public good, SMFI, Vinoya, and Ogilvie must pay him exemplary damages in the amount of not less than P200,000. Further, Magtuto (1) claimed that the 4,000 broiler chicks lacking in the delivery of June 2003 deprived him of income amounting to P48,000, (2) demanded the return of the bond deposited with SMFI in the amount of P72,000, and (3) claimed that he was constrained to litigate and engage the services of counsel at an agreed attorney's fees of P100,000 and P1,500 per appearance fee.

In its Answer,^[9] SMFI claimed that Magtuto was not a contract grower of SMFI and that SMFI did not execute any written broiler chicken contract growing agreement with Magtuto. SMFI narrated that sometime in September 2002, Magtuto was the one who manifested his desire to become a contract grower of SMFI to Vinoya. Vinoya, without the knowledge and prior consent of SMFI, entered into a private arrangement by way of "accommodation" with Magtuto. As an accommodation, Vinoya promised to deliver to Magtuto broiler chicks from the SMFI hatchery only when the surplus was not earmarked for delivery to contract growers of SMFI. Vinoya intended that if Magtuto maintains a healthy working relation and proves his competence, Vinoya would recommend Magtuto for possible execution of the written broiler chicken contract growing agreement with SMFI. SMFI added that since the accommodation by Vinoya was without the knowledge and consent of SMFI, Vinoya required Magtuto to post a bond of P72,000 to secure SMFI from any loss and Vinoya from being held liable by SMFI for extending an accommodation to Magtuto. Afterwards, Vinoya delivered 36,000 heads of broiler chicks to Magtuto. Other deliveries were made, though not on a regular basis, and only when there were surplus broiler chicks from the hatchery not earmarked for delivery to contract growers of SMFI. Then, sometime in June 2003, Magtuto conveyed to Vinoya that the delivery of broiler chicks was short of 4,000 heads. Vinoya explained that as an accommodated party, the delivery would depend on the surplus of broiler chicks, and that SMFI's priority would be the official contract growers. However, Magtuto continuously demanded delivery of the 4,000 heads. Thus, Vinoya ignored Magtuto's demands. Magtuto then sent a letter to Ogilvie who also ignored said letter thinking that Magtuto does not have any vested right to demand from SMFI. Also, SMFI averred that Magtuto was formerly a contract grower of Swift Foods, Inc. and at the time he was accommodated by Vinoya, Magtuto had a contract with Bounty Fresh Food, Inc., a competing company. SMFI asserted that Magtuto maintains his grow-out facility in Carolina and incurred expenses, not because of his relation with SMFI, but because he was also a regular grower for other companies engaged in the same business. Thus, SMFI strongly averred that Magtuto was not a contract grower of

SMFI and that the delivery of broiler chicks made to Magtuto was only by way of accommodation. There is no termination of contract but a mere withdrawal or termination of the accommodation due to the decrease in the production of broiler chicks and decline in the demand for chicken in the market. SMFI claimed that Magtuto was aware of the accommodation given to him by Vinoya and that he was never made nor misled to believe that there existed a contract between him and SMFI.

Magtuto, aside from presenting himself as a witness in court also presented two other witnesses: (1) Dr. Edwin Rosales and (2) Ramon B. Bayta, Jr., a former co-contract grower at Swift Foods, Inc. who also had an experience being "accommodated" by SMFI for two grows and at the time he testified, was a poultry contract grower for Bounty Fresh Food, Inc.

SMFI, on the other hand, presented three witnesses: (1) Vinoya, (2) Ogilvie, and (3) Dante Gito, a Finance Analyst of SMFI Naga Plant in-charge of the liquidation of contract growers.

In a Decision^[10] dated 4 February 2013, the RTC resolved the case in favor of Magtuto. The RTC stated that Magtuto was a contract grower of SMFI even in the absence of a written broiler chicken contract growing agreement. The RTC explained that the verbal agreement of Magtuto and Vinoya created respective obligations between them. Magtuto posted a cash bond to guarantee full performance of his obligations under the same terms and conditions as contained in a written growing agreement. SMFI, in turn, delivered five times to Magtuto for the growing of the day-old chicks, harvested the grown chickens, and paid Magtuto his grower's fee like any of its contract growers. Thus, the RTC did not treat the arrangement between Magtuto and Vinoya as an accommodation only but as a contract growing agreement even if not made in writing. The dispositive portion states:

WHEREFORE, viewed in the light of the foregoing premises, DECISION is hereby rendered ORDERING the DEFENDANTS SAN MIGUEL FOODS, INC. and JAMES VINOYA, to jointly and severally pay PLAINTIFF, ERNESTO RAOUL V. MAGTUTO, the following:

- a) The amount of Php 334,556.41 as ACTUAL and COMPENSATORY DAMAGES;
- b) The amount of Php 500,000.00 as MORAL DAMAGES;
- c) The amount of Php 100,000.00 as NOMINAL DAMAGES;
- d) The amount of Php 200,000.00 as EXEMPLARY DAMAGES;
- e) The amount of Php 100,000.00 as and for ATTORNEY'S FEES;
- f) The further sum of Php 13,583.80 as EXPENSES OF LITIGATION; and
- g) All other CLAIMS and COUNTERCLAIMS are hereby ordered DISMISSED for lack of merit.

No pronouncement as to costs.

SO ORDERED.^[11]

Petitioners filed an appeal with the CA. In a Decision dated 28 August 2015, the CA affirmed with modification the decision of the RTC. The dispositive portion of the decision states:

WHEREFORE, premises considered, the assailed 04 February 2013 Decision of the Regional Trial Court of Naga City, Branch 22 is hereby MODIFIED. The amount of the actual or compensatory damages is INCREASED to PhP383,835.85. The awards for moral and exemplary damages are hereby DELETED for lack of factual basis. Likewise, the award for nominal damages is DELETED for being improper.

SO ORDERED.^[12]

Petitioners filed a Motion for Reconsideration which was denied by the CA in a Resolution dated 6 May 2016.

Hence, this petition.

The Issue

Whether or not the appellate court committed reversible error in holding that Magtuto is entitled to actual or compensatory damages absent a written broiler chicken contract growing agreement between Magtuto and SMFI.

The Court's Ruling

The petition is partly meritorious.

Petitioner SMFI contends that there was never any written broiler chicken contract growing agreement between SMFI and Magtuto. SMFI asserts that it had no participation in and knowledge of the agreement made to Magtuto by Vinoya, who had no authority to enter into a contract growing agreement with any person in behalf of SMFI. SMFI asserts that Vinoya only accommodated Magtuto on the condition that excess chicks would be available since the company's priority would be their official contract growers. Thus, the continuity of the accommodation and the supply of the day-old chicks were contingent upon the availability of excess chicks from SMFPs hatchery. SMFI also submits that Vinoya and Magtuto did not even fix a duration on how long the arrangement would be. SMFI insists that the lower and appellate courts, in awarding actual or compensatory damages, erroneously relied on the self-serving testimony of Magtuto, absent any clear and convincing proof that Magtuto is entitled to such damages.

Under the Civil Code, a contract is a meeting of the minds, with respect to the other, to give something or to render some service. Article 1318 of the Civil Code provides:

Art. 1318. There is no contract unless the following requisites concur:

- (1) Consent of the contracting parties;
- (2) Object certain which is the subject matter of the contract; and