

## THIRD DIVISION

[ G.R. No. 198849, August 07, 2019 ]

### CAMP JOHN HAY DEVELOPMENT CORPORATION, PETITIONER, VS. CHARTER CHEMICAL AND COATING CORPORATION, RESPONDENT.

#### DECISION

##### LEONEN, J.:

Rescission under Article 1191 of the Civil Code is the proper remedy when a party breaches a reciprocal obligation. Because each case has its own distinct circumstances, this Court's power to fix a period of an obligation under Article 1197 is discretionary and should be exercised only if there is just cause.

This resolves a Petition for Review on Certiorari<sup>[1]</sup> assailing the May 13, 2011 Decision<sup>[2]</sup> and September 30, 2011 Resolution<sup>[3]</sup> of the Court of Appeals in CA-G.R. SP No. 108335. The Court of Appeals affirmed the March 30, 2009 Final Award<sup>[4]</sup> in CIAC Case No. 19-2008 issued by the Construction Industry Arbitration Commission, which found that Charter Chemical and Coating Corporation (Charter Chemical) is entitled to the payment of the monetary equivalent of two (2) units in Camp John Hay Suites in the total amount of P5,900,000.00 and attorney's fees in the amount of P590,000.00.<sup>[5]</sup>

Camp John Hay Development Corporation (Camp John Hay Development) is the investment arm of a consortium engaged in the construction of the Camp John Hay Manor in Baguio City.<sup>[6]</sup>

In January 2001, Camp John Hay Development entered into a Contractor's Agreement<sup>[7]</sup> with Charter Chemical, the company awarded to complete the interior and exterior painting works of unit 2E of the Camp John Hay Manor for the contract price of P15,500,000.00. This was inclusive of the price of two (2)-studio type units at Camp John Hay Suites, the total amount of which would be based on the units chosen by Charter Chemical.<sup>[8]</sup>

Although the Contractor's Agreement contained no date of the units' turnover, it allowed Charter Chemical to choose the units for offsetting under an offsetting scheme:

1. Compensation:

.....

b. Off-setting against Two (2) Units - Studio Type at Suite 2A. Total amount shall be based on the final unit[s] chosen by the Contractor.<sup>[9]</sup>

Charter Chemical chose Units 102 and 104 studio type in the second phase of Camp John Hay Suites.<sup>[10]</sup>

At the time the Contractor's Agreement was signed in 2001, the actual construction of the Camp John Hay Suites had not yet commenced.<sup>[11]</sup>

Later on, the contract price was reduced to P13,239,734.16, for which Camp John Hay Development paid P7,339,734.16. The balance of P5,900,000.00 was ought to be settled by offsetting the price of the two (2) studio units.<sup>[12]</sup>

In 2003, Charter Chemical completed the painting works, after which Camp John Hay Development issued a Final Inspection and Acceptance Certificate belatedly on May 30, 2005. Charter Chemical demanded the execution of the deed of sale and delivery of the titles of the two (2) units in September 2004, with a follow-up in April 2005.<sup>[13]</sup> In June 2005, Camp John Hay Development and Charter Chemical executed contracts to sell. The uniform contracts state in part:

[P]ossession of the Unit shall be delivered by Seller to Buyer within a reasonable period of time from the date of completion of the Unit either by (a) serving written Notice of Completion to the Buyer or (b) by delivering to the Buyer the Limited Warranty Deed covering the Unit. The delivery of the Notice of Completion or the Limited Warranty Deed shall constitute constructive delivery of the Unit and immediately thereafter the risk of loss to the Unit and all obligations and assessments provided in this Contract, the Project Plan and Declaration of Restrictions, the Articles of Incorporation and By-Laws of the Association, and the House Rules, shall pertain to Buyer.<sup>[14]</sup>

In August 2005, Camp John Hay Development issued certifications to Charter Chemical that the two (2) units were fully paid under their offsetting scheme. However, the units were not delivered because the construction of Camp John Hay Suites was not yet complete.<sup>[15]</sup>

Camp John Hay Development had initially estimated that the construction would be completed by 2006. In a Lease Agreement<sup>[16]</sup> executed on October 19, 1996, Camp John Hay Development and Bases Conversion and Development Authority provided for a period of three and a half (3.5) years from the execution of the Lease Agreement to complete the various physical components in Camp John Hay. When this timetable was not followed due to alleged mutual delays and *force majeure*, they entered into at least four (4) more amendments to the Lease Agreement. Two (2) of these, the July 18, 2003 and July 1, 2008 Memoranda of Agreement, covered the revision of the Project Implementation Plan providing the targeted completion dates of the various facilities in Camp John Hay.<sup>[17]</sup>

Under the July 18, 2003 revision, Camp John Hay Development and Bases Conversion and Development Authority estimated that the second phase of the Camp John Hay Suites would be completed by the end of the second quarter of 2006.<sup>[18]</sup> Admitting various unforeseen events, Camp John Hay Development again failed to complete its construction. Under the July 1, 2008 revision, the Camp John Hay Suites was estimated to be completed by 2012.<sup>[19]</sup>

Due to the subsisting construction delay, Charter Chemical, through counsel, wrote Camp John Hay Development, demanding that it transfer the units or pay the value of these units in the sum of P6,996,517.48.<sup>[20]</sup>

When it felt that further demands would be futile, Charter Chemical, on June 12, 2008, filed before the Construction Industry Arbitration Commission a Request for Arbitration<sup>[21]</sup> under the arbitration clause in the Contractor's Agreement.

In its March 30, 2009 Final Award,<sup>[22]</sup> the Construction Industry Arbitration Commission ordered Camp John Hay Development to pay the amounts of P5,900,000.00, the monetary value of the two (2) units in Camp John Hay Suites, and P590,000.00 as attorney's fees.<sup>[23]</sup>

The arbitral tribunal ruled that Charter Chemical was entitled to its claim for the value of the two (2) units because Camp John Hay Development failed to deliver the units within the targeted completion date.<sup>[24]</sup>

The Final Award read:

On the basis of the evidence the Arbitration Tribunal finds and so holds that:

1. Claimant is entitled to its claim for the monetary equivalent of the two (2) units CJH Suites in the total sum of Php5,900,000.00.
2. Claimant is not entitled to its claim for exemplary damages.
3. Claimant is entitled to its claim for attorney's fees for the sum of Php590,000.00 which is 10% of the total monetary value for the two (2) units CJH Suites of Php5,900,000.00 which had not been delivered by respondent.
4. The Court should not fix the period for the delivery of the subject units as provided for in Article 1197 of the Civil Code because the reciprocal nature of the contract itself provides for the period of their delivery. Moreover, CIAC can fix the period if necessary.<sup>[25]</sup>

Camp John Hay Development filed before the Court of Appeals a Petition for Review<sup>[26]</sup> under Rule 43 of the Rules of Court. It argued that the arbitral tribunal did not have jurisdiction over the dispute because the arbitration clause had been superseded by a subsequent dispute resolution clause contained in the contracts to sell.<sup>[27]</sup> It further asserted that it had neither agreed on the completion date of the two (2) units nor admitted that the units were to be completed within three (3) years from 2003 or 2005.<sup>[28]</sup> Instead, it asked for a fixing of the term or period when the units would be completed.<sup>[29]</sup>

In its May 13, 2011 Decision,<sup>[30]</sup> the Court of Appeals affirmed the arbitral tribunal's award. It held that the arbitration clause in the Contractor's Agreement was neither modified nor superseded by the contracts to sell, which were merely devices by

which to transfer possession and title over the units to Charter Chemical. The Contractor's Agreement, it noted, remained the principal covenant.<sup>[31]</sup>

The Court of Appeals also ruled that Camp John Hay Development was already in delay when Charter Chemical demanded the transfer of units on August 3, 2007. When Charter Chemical finished the work in 2003, a timetable based on the 2003 Memorandum of Agreement between Camp John Hay Development and Bases Conversion and Development Authority stated that the units would be completed by 2006. This showed that there was a definite time for the completion of the units. Although Charter Chemical was an outsider to this agreement, it was "equivalent to an announcement to all concerned that the units would be completed at such and such a date."<sup>[32]</sup>

On June 3, 2011, Camp John Hay Development filed a Motion for Reconsideration, but it was denied by the Court of Appeals in its September 30, 2011 Resolution.<sup>[33]</sup>

Camp John Hay Development received the September 30, 2011 Resolution on October 7, 2011.<sup>[34]</sup> Before the lapse of the original 15-day period, it filed on October 21, 2011 a Motion for Extension of Time to File Petition for Review under Rule 45, asking for a period of 30 days from October 22, 2011, or until November 21, 2011, within which to file the Petition.<sup>[35]</sup> This Motion for Extension was granted by this Court.<sup>[36]</sup>

On November 23, 2011, Camp John Hay Development filed a Petition for Review on Certiorari.<sup>[37]</sup> Charter Chemical filed its Comment<sup>[38]</sup> on February 6, 2012 and, in turn, Camp John Hay Development filed its Reply<sup>[39]</sup> on May 16, 2012.

Petitioner contends that there is no specific date determined for the completion or delivery of the two (2) units in any of its contracts with respondent. It argues that the action filed should have been for the fixing of a period under Articles 1191<sup>[40]</sup> and 1197<sup>[41]</sup> of the Civil Code, and not an action for the rescission of the contract.<sup>[42]</sup>

According to petitioner, both the arbitral tribunal and the Court of Appeals erred in ruling that the Contractor's Agreement between petitioner and respondent had a definite timetable based on the Memorandum of Agreement between petitioner and the Bases Conversion and Development Authority. Moreover, petitioner argues that the determination of whether there is an agreed completion date must be based on the agreement between petitioner and respondent in their contract. Thus, when the Court of Appeals resorted to a separate agreement different from the Contractor's Agreement, it recognized that the parties had never actually agreed on a specific completion date.<sup>[43]</sup>

Petitioner relies on Article 1311<sup>[44]</sup> of the Civil Code, which states that "contracts take effect only between the parties who execute them."<sup>[45]</sup> It also points out that respondent did not rely on the Master Development Plan in the Memorandum of Agreement, maintaining that its representative admitted having never seen the Master Development Plan when he signed the agreement.<sup>[46]</sup> Petitioner also notes that at the time of the execution of the Contractor's Agreement, respondent had not

yet selected the two (2) units as part of its compensation for its painting works. Petitioner argues that the date of delivery was not specified in the contracts to sell, which merely indicated that the delivery would be "within a reasonable time from the date of completion of the subject units."<sup>[47]</sup>

Additionally, petitioner claims that the arbitral tribunal had no jurisdiction over the Complaint. It asserts that the contracts to sell executed following the Contractor's Agreement contain a different mode of dispute resolution.<sup>[48]</sup> The contracts to sell provide the following clause:

ARTICLE XIV  
MISCELLANEOUS PROVISION

. . . .

4. Venue - All actions involving this Contract shall be instituted only in the proper courts of Pasig City, Metro Manila to the exclusion of all other courts.<sup>[49]</sup>

From the dispute resolution clause, petitioner points out that disputes must be adjudicated by the proper courts of Pasig City, to the exclusion of all other courts. The contracts to sell also effectively removed the parties' dispute outside the ambit of a construction dispute since they are not the construction contracts contemplated by Executive Order No. 1008, or the Construction Industry Arbitration Law.<sup>[50]</sup>

Petitioner further contests the award of attorney's fees to respondent, maintaining that neither the Court of Appeals nor the arbitral tribunal has specified the factual basis for it. It argues that the award of attorney's fees is not justified when both tribunals denied respondent's claim for exemplary damages and when petitioner has not been found to have acted in bad faith. Respondent, it points out, also failed to present any official receipt to support its claim for attorney's fees.<sup>[51]</sup>

On the other hand, respondent argues that the Court of Appeals' and the arbitral tribunal's decisions, entitling respondent to the monetary equivalent of the units for offsetting, should be respected and accorded great weight and finality. Respondent points out that it only agreed to bid for the painting works because Interpro, Inc., petitioner's project manager, assured that under the Master Development Plan, the units would be available for occupancy two (2) to three (3) years from negotiations, or sometime in 2003.<sup>[52]</sup>

Respondent further argues that since petitioner was already delayed in delivering the units in 2007, the arbitral tribunal and the Court of Appeals correctly applied Article 1191 of the Civil Code, awarding indemnity for damages to respondent.<sup>[53]</sup>

Moreover, respondent claims that the arbitral tribunal correctly acquired jurisdiction over the dispute because the relationship of the parties was born out of the Contractor's Agreement.<sup>[54]</sup> The Contractor's Agreement provided the arbitration clause in case of any dispute. The contracts to sell "cannot be considered to have superseded the Contractor's Agreement"<sup>[55]</sup> because they are merely preparatory contracts required for the processing of the titles of the units.<sup>[56]</sup>