

THIRD DIVISION

[G.R. No. 171995, April 18, 2012]

STEELCASE, INC., PETITIONER, VS. DESIGN INTERNATIONAL SELECTIONS, INC., RESPONDENT.

D E C I S I O N

MENDOZA, J.:

This is a petition for review on certiorari under Rule 45 assailing the March 31, 2005 Decision^[1] of the Court of Appeals (CA) which affirmed the May 29, 2000 Order^[2] of the Regional Trial Court, Branch 60, Makati City (RTC), dismissing the complaint for sum of money in Civil Case No. 99-122 entitled "*Steelcase, Inc. v. Design International Selections, Inc.*"

The Facts

Petitioner Steelcase, Inc. (*Steelcase*) is a foreign corporation existing under the laws of Michigan, United States of America (U.S.A.), and engaged in the manufacture of office furniture with dealers worldwide.^[3] Respondent Design International Selections, Inc. (*DISI*) is a corporation existing under Philippine Laws and engaged in the furniture business, including the distribution of furniture.^[4]

Sometime in 1986 or 1987, Steelcase and DISI orally entered into a dealership agreement whereby Steelcase granted DISI the right to market, sell, distribute, install, and service its products to end-user customers within the Philippines. The business relationship continued smoothly until it was terminated sometime in January 1999 after the agreement was breached with neither party admitting any fault.^[5]

On January 18, 1999, Steelcase filed a complaint^[6] for sum of money against DISI alleging, among others, that DISI had an unpaid account of US\$600,000.00. Steelcase prayed that DISI be ordered to pay actual or compensatory damages, exemplary damages, attorney's fees, and costs of suit.

In its Answer with Compulsory Counterclaims^[7] dated February 4, 1999, DISI sought the following: (1) the issuance of a temporary restraining order (*TRO*) and a writ of preliminary injunction to enjoin Steelcase from selling its products in the Philippines except through DISI; (2) the dismissal of the complaint for lack of merit; and (3) the payment of actual, moral and exemplary damages together with attorney's fees and expenses of litigation. DISI alleged that the complaint failed to state a cause of action and to contain the required allegations on Steelcase's capacity to sue in the Philippines despite the fact that it (*Steelcase*) was doing business in the Philippines without the required license to do so. Consequently, it posited that the complaint should be dismissed because of Steelcase's lack of legal

capacity to sue in Philippine courts.

On March 3, 1999, Steelcase filed its Motion to Admit Amended Complaint^[8] which was granted by the RTC, through then Acting Presiding Judge Roberto C. Diokno, in its Order^[9] dated April 26, 1999. However, Steelcase sought to further amend its complaint by filing a Motion to Admit Second Amended Complaint^[10] on March 13, 1999.

In his Order^[11] dated November 15, 1999, Acting Presiding Judge Bonifacio Sanz Maceda dismissed the complaint, granted the TRO prayed for by DISI, set aside the April 26, 1999 Order of the RTC admitting the Amended Complaint, and denied Steelcase's Motion to Admit Second Amended Complaint. The RTC stated that in requiring DISI to meet the Dealer Performance Expectation and in terminating the dealership agreement with DISI based on its failure to improve its performance in the areas of business planning, organizational structure, operational effectiveness, and efficiency, Steelcase unwittingly revealed that it participated in the operations of DISI. It then concluded that Steelcase was "doing business" in the Philippines, as contemplated by Republic Act (R.A.) No. 7042 (The Foreign Investments Act of 1991), and since it did not have the license to do business in the country, it was barred from seeking redress from our courts until it obtained the requisite license to do so. Its determination was further bolstered by the appointment by Steelcase of a representative in the Philippines. Finally, despite a showing that DISI transacted with the local customers in its own name and for its own account, it was of the opinion that any doubt in the factual environment should be resolved in favor of a pronouncement that a foreign corporation was doing business in the Philippines, considering the twelve-year period that DISI had been distributing Steelcase products in the Philippines.

Steelcase moved for the reconsideration of the questioned Order but the motion was denied by the RTC in its May 29, 2000 Order.^[12]

Aggrieved, Steelcase elevated the case to the CA by way of appeal, assailing the November 15, 1999 and May 29, 2000 Orders of the RTC. On March 31, 2005, the CA rendered its Decision affirming the RTC orders, ruling that Steelcase was a foreign corporation doing or transacting business in the Philippines without a license. The CA stated that the following acts of Steelcase showed its intention to pursue and continue the conduct of its business in the Philippines: (1) sending a letter to Phinma, informing the latter that the distribution rights for its products would be established in the near future and directing other questions about orders for Steelcase products to Steelcase International; (2) cancelling orders from DISI's customers, particularly Visteon, Phils., Inc. (*Visteon*); (3) continuing to send its products to the Philippines through Modernform Group Company Limited (*Modernform*), as evidenced by an Ocean Bill of Lading; and (4) going beyond the mere appointment of DISI as a dealer by making several impositions on management and operations of DISI. Thus, the CA ruled that Steelcase was barred from access to our courts for being a foreign corporation doing business here without the requisite license to do so.

Steelcase filed a motion for reconsideration but it was denied by the CA in its Resolution dated March 23, 2006.^[13]

Hence, this petition.

The Issues

Steelcase filed the present petition relying on the following grounds:

I

THE COURT OF APPEALS COMMITTED REVERSIBLE ERROR WHEN IT FOUND THAT STEELCASE HAD BEEN “DOING BUSINESS” IN THE PHILIPPINES WITHOUT A LICENSE.

II

THE COURT OF APPEALS COMMITTED REVERSIBLE ERROR IN NOT FINDING THAT RESPONDENT WAS ESTOPPED FROM CHALLENGING STEELCASE’S LEGAL CAPACITY TO SUE, AS AN AFFIRMATIVE DEFENSE IN ITS ANSWER.

The issues to be resolved in this case are:

- (1) Whether or not Steelcase is doing business in the Philippines without a license; and
- (2) Whether or not DISI is estopped from challenging the Steelcase’s legal capacity to sue.

The Court’s Ruling

The Court rules in favor of the petitioner.

Steelcase is an unlicensed foreign corporation NOT doing business in the Philippines

Anent the first issue, Steelcase argues that Section 3(d) of R.A. No. 7042 or the Foreign Investments Act of 1991 (*FIA*) expressly states that the phrase “doing business” excludes the appointment by a foreign corporation of a local distributor domiciled in the Philippines which transacts business in its own name and for its own account. Steelcase claims that it was not doing business in the Philippines when it entered into a dealership agreement with DISI where the latter, acting as the former’s appointed local distributor, transacted business in its own name and for its own account. Specifically, Steelcase contends that it was DISI that sold Steelcase’s furniture directly to the end-users or customers who, in turn, directly paid DISI for the furniture they bought. Steelcase further claims that DISI, as a non-exclusive dealer in the Philippines, had the right to market, sell, distribute and service Steelcase products in its own name and for its own account. Hence, DISI was an independent distributor of Steelcase products, and not a mere agent or conduit of Steelcase.

On the other hand, DISI argues that it was appointed by Steelcase as the latter's exclusive distributor of Steelcase products. DISI likewise asserts that it was not allowed by Steelcase to transact business in its own name and for its own account as Steelcase dictated the manner by which it was to conduct its business, including the management and solicitation of orders from customers, thereby assuming control of its operations. DISI further insists that Steelcase treated and considered DISI as a mere conduit, as evidenced by the fact that Steelcase itself directly sold its products to customers located in the Philippines who were classified as part of their "global accounts." DISI cited other established circumstances which prove that Steelcase was doing business in the Philippines including the following: (1) the sale and delivery by Steelcase of furniture to Regus, a Philippine client, through Modernform, a Thai corporation allegedly controlled by Steelcase; (2) the imposition by Steelcase of certain requirements over the management and operations of DISI; (3) the representations made by Steven Husak as Country Manager of Steelcase; (4) the cancellation by Steelcase of orders placed by Philippine clients; and (5) the expression by Steelcase of its desire to maintain its business in the Philippines. Thus, Steelcase has no legal capacity to sue in Philippine Courts because it was doing business in the Philippines without a license to do so.

The Court agrees with the petitioner.

The rule that an unlicensed foreign corporations doing business in the Philippine do not have the capacity to sue before the local courts is well-established. Section 133 of the Corporation Code of the Philippines explicitly states:

Sec. 133. Doing business without a license. - No foreign corporation transacting business in the Philippines without a license, or its successors or assigns, shall be permitted to maintain or intervene in any action, suit or proceeding in any court or administrative agency of the Philippines; but such corporation may be sued or proceeded against before Philippine courts or administrative tribunals on any valid cause of action recognized under Philippine laws.

The phrase "doing business" is clearly defined in Section 3(d) of R.A. No. 7042 (Foreign Investments Act of 1991), to wit:

d) The phrase "doing business" shall include soliciting orders, service contracts, opening offices, whether called "liaison" offices or branches; appointing representatives or distributors domiciled in the Philippines or who in any calendar year stay in the country for a period or periods totalling one hundred eighty (180) days or more; participating in the management, supervision or control of any domestic business, firm, entity or corporation in the Philippines; and any other act or acts that imply a continuity of commercial dealings or arrangements, and contemplate to that extent the performance of acts or works, or the exercise of some of the functions normally incident to, and in progressive prosecution of, commercial gain or of the purpose and object of the business organization: Provided, however, That **the phrase "doing business" shall not be deemed to include** mere investment as a shareholder by a foreign entity in domestic corporations duly registered

to do business, and/or the exercise of rights as such investor; nor having a nominee director or officer to represent its interests in such corporation; nor **appointing a representative or distributor domiciled in the Philippines which transacts business in its own name and for its own account;** (Emphases supplied)

This definition is supplemented by its Implementing Rules and Regulations, Rule I, Section 1(f) which elaborates on the meaning of the same phrase:

f. "Doing business" shall include soliciting orders, service contracts, opening offices, whether liaison offices or branches; appointing representatives or distributors, operating under full control of the foreign corporation, domiciled in the Philippines or who in any calendar year stay in the country for a period totalling one hundred eighty [180] days or more; participating in the management, supervision or control of any domestic business, firm, entity or corporation in the Philippines; and any other act or acts that imply a continuity of commercial dealings or arrangements, and contemplate to that extent the performance of acts or works, or the exercise of some of the functions normally incident to and in progressive prosecution of commercial gain or of the purpose and object of the business organization.

The following acts shall not be deemed "doing business" in the Philippines:

1. Mere investment as a shareholder by a foreign entity in domestic corporations duly registered to do business, and/or the exercise of rights as such investor;

2. Having a nominee director or officer to represent its interest in such corporation;

3. Appointing a representative or distributor domiciled in the Philippines which transacts business in the representative's or distributor's own name and account;

4. The publication of a general advertisement through any print or broadcast media;

5. Maintaining a stock of goods in the Philippines solely for the purpose of having the same processed by another entity in the Philippines;

6. Consignment by a foreign entity of equipment with a local company to be used in the processing of products for export;

7. Collecting information in the Philippines; and

8. Performing services auxiliary to an existing isolated contract of sale which are not on a continuing basis, such as installing in the Philippines machinery it has manufactured or exported to the Philippines, servicing