

## SECOND DIVISION

[ G.R. No. 169438, January 21, 2010 ]

**ROMEO D. MARIANO, PETITIONER, VS. PETRON CORPORATION,  
RESPONDENT.**

### DECISION

**CARPIO, J.:**

#### The Case

For review<sup>[1]</sup> is the Decision<sup>[2]</sup> of the Court of Appeals upholding the lease contract between petitioner Romeo D. Mariano and respondent Petron Corporation.

#### The Facts

On 5 November 1968,<sup>[3]</sup> Pacita V. Aure, Nicomedes Aure Bundac, and Zeny Abundo (Aure Group), owners of a 2,064 square meter parcel of land in Tagaytay City<sup>[4]</sup> (Property), leased the Property to ESSO Standard Eastern, Inc., (ESSO Eastern), a foreign corporation doing business in the country through its subsidiary ESSO Standard Philippines, Inc. (ESSO Philippines). The lease period is 90 years<sup>[5]</sup> and the rent is payable monthly for the first 10 years, and annually for the remaining period.<sup>[6]</sup> The lease contract (Contract) contained an assignment veto clause barring the parties from assigning the lease without prior consent of the other.<sup>[7]</sup> Excluded from the prohibition were certain corporations to whom ESSO Eastern may unilaterally assign its leasehold right.<sup>[8]</sup>

On 23 December 1977, ESSO Eastern sold ESSO Philippines to the Philippine National Oil Corporation (PNOC).<sup>[9]</sup> Apparently, the Aure Group was not informed of the sale. ESSO Philippines, whose corporate name was successively changed to Petrophil Corporation then to Petron Corporation (Petron), took possession of the Property.

On 18 November 1993, petitioner Romeo D. Mariano (petitioner) bought the Property from the Aure Group and obtained title to the Property issued in his name bearing an annotation of ESSO Eastern's lease.<sup>[10]</sup>

On 17 December 1998, petitioner sent to Petron a notice to vacate the Property. Petitioner informed Petron that Presidential Decree No. 471 (PD 471),<sup>[11]</sup> dated 24 May 1974, reduced the Contract's duration from 90 to 25 years, ending on 13 November 1993.<sup>[12]</sup> Despite receiving the notice to vacate on 21 December 1998, Petron remained on the Property.

On 18 March 1999, petitioner sued Petron in the Regional Trial Court of Tagaytay City, Branch 18, (trial court) to rescind the Contract and recover possession of the Property. Aside from invoking PD 471, petitioner alternatively theorized that the Contract was terminated on 23 December 1977 when ESSO Eastern sold ESSO Philippines to PNOC, thus assigning to PNOC its lease on the Property, without seeking the Aure Group's prior consent.

In its Answer, Petron countered that the Contract was not breached because PNOC merely acquired ESSO Eastern's shares in ESSO Philippines, a separate corporate entity. Alternatively, Petron argued that petitioner's suit, filed on 18 March 1999, was barred by prescription under Article 1389 and Article 1146(1) of the Civil Code as petitioner should have sought rescission within four years from PNOC's purchase of ESSO Philippines on 23 December 1977<sup>[13]</sup> or before 23 December 1981.<sup>[14]</sup>

To dispense with the presentation of evidence, the parties submitted a Joint Motion for Judgment (Joint Motion) containing the following stipulation:

5. On December 23, 1977, the Philippine National Oil Co. (PNOC), a corporation wholly owned by the Philippine Government, acquired ownership of ESSO Standard Philippines, Inc., **including its leasehold right over the land in question, through the acquisition of its shares of stocks.**<sup>[15]</sup> (Emphasis supplied)

### **The Ruling of the Trial Court**

In its Decision dated 30 May 2000, the trial court ruled for petitioner, rescinded the Contract, ordered Petron to vacate the Property, and cancelled the annotation on petitioner's title of Petron's lease.<sup>[16]</sup> The trial court ruled that ESSO Eastern's sale to PNOC of its interest in ESSO Philippines included the assignment to PNOC of ESSO Eastern's lease over the Property, which, for lack of the Aure Group's consent, breached the Contract, resulting in its termination. However, because the Aure Group (and later petitioner) tolerated ESSO Philippines' continued use of the Property by receiving rental payments, the law on implied new lease governs the relationship of the Aure Group (and later petitioner) and Petron, creating for them an implied new lease terminating on 21 December 1998 upon Petron's receipt of petitioner's notice to vacate.<sup>[17]</sup>

Petron appealed to the Court of Appeals, distancing itself from its admission in the Joint Motion that in buying ESSO Philippines from ESSO Eastern, PNOC also acquired ESSO Eastern's leasehold right over the Property. Petron again invoked its separate corporate personality to distinguish itself from PNOC.

### **The Ruling of the Court of Appeals**

In its Decision dated 29 October 2004, the Court of Appeals found merit in Petron's appeal, set aside the trial court's ruling, declared the Contract subsisting until 13 November 2058<sup>[18]</sup> and ordered petitioner to pay Petron P300,000 as attorney's fees. The Court of Appeals found no reason to pierce ESSO Philippines' corporate veil, treating PNOC's buy-out of ESSO Philippines as mere change in ESSO

Philippines' stockholding. Hence, the Court of Appeals rejected the trial court's conclusion that PNOC acquired the leasehold right over the Property. Alternatively, the Court of Appeals found petitioner's suit barred by the four-year prescriptive period under Article 1389 and Article 1146 (1) of the Civil Code, reckoned from PNOC's buy-out of ESSO Philippines on 23 December 1977 (for Article 1389) or the execution of the Contract on 13 November 1968<sup>[19]</sup> (for Article 1146 <sup>[1]</sup>).<sup>[20]</sup>

Petitioner sought reconsideration but the Court of Appeals denied his motion in its Resolution of 26 August 2005.

Hence, this petition.

### **The Issue**

The question is whether the Contract subsists between petitioner and Petron.

### **The Ruling of the Court**

We hold in the affirmative and thus sustain the ruling of the Court of Appeals.

#### ***ESSO Eastern Assigned to PNOC its Leasehold Right over the Property, Breaching the Contract***

PNOC's buy-out of ESSO Philippines was total and unconditional, leaving no residual rights to ESSO Eastern. Logically, this change of ownership carried with it the transfer to PNOC of any proprietary interest ESSO Eastern may hold through ESSO Philippines, including ESSO Eastern's lease over the Property. This is the import of Petron's admission in the Joint Motion that by PNOC's buy-out of ESSO Philippines " [PNOC], x x x acquired ownership of ESSO Standard Philippines, Inc., **including its leasehold right over the land in question, through the acquisition of its shares of stocks.**" As the Aure Group gave no prior consent to the transaction between ESSO Eastern and PNOC, ESSO Eastern violated the Contract's assignment veto clause.

Petron's objection to this conclusion, sustained by the Court of Appeals, is rooted on its reliance on its separate corporate personality and on the unstated assumption that ESSO Philippines (not ESSO Eastern) initially held the leasehold right over the Property. Petron is wrong on both counts.

Courts are loathe to pierce the fictive veil of corporate personality, cognizant of the core doctrine in corporation law vesting on corporations legal personality distinct from their shareholders (individual or corporate) thus facilitating the conduct of corporate business. However, fiction gives way to reality when the corporate personality is foisted to justify wrong, protect fraud, or defend crime, thwarting the ends of justice.<sup>[21]</sup> The fiction even holds lesser sway for subsidiary corporations whose shares are wholly if not almost wholly owned by its parent company. The structural and systems overlap inherent in parent and subsidiary relations often render the subsidiary as mere local branch, agency or adjunct of the foreign parent corporation.<sup>[22]</sup>