

## THIRD DIVISION

[ G.R. No. 172239, March 28, 2008 ]

**CONCHITA TAN, DOING BUSINESS UNDER THE NAME MARMAN TRADING, PETITIONER, VS. PLANTERS PRODUCTS, INC., RESPONDENT.**

### DECISION

**REYES, R.T., J.:**

STRICT application of technical rules of procedure should be shunned when they hinder rather than promote substantial justice. Clear stipulation in a lease contract should be interpreted literally in accordance with the intent of the parties.

These principles are relevant in this petition for review on *certiorari* of the Decision<sup>[1]</sup> of the Court of Appeals (CA) which affirmed with modification the Order<sup>[2]</sup> of the Regional Trial Court (RTC) in Makati City in a complaint for specific performance filed by petitioner Conchita Tan doing business under the name Marman Trading (Marman) against respondent Planters Products, Inc. (PPI).

#### The Facts

On April 27, 1992 and June 10, 1992, respondent PPI, as lessor, and petitioner Marman, as lessee, entered into two contracts of lease<sup>[3]</sup> of sulfuric acid tanks and ammonium tanks in Limay, Bataan for a period of ten years. The two contracts have identical stipulations on renewal of the lease at the expiration of the ten-year term, to wit:

The LESSEE has the option to renew his leasehold interest in the leased premises for an additional ten (10) years at the expiration of the term of his lease under such terms and conditions as may be agreed upon by the parties provided that the LESSEE shall give the LESSOR, prior to the expiration of the term of this Lease, 180 days notice, in writing, of his desire to procure such new Lease.<sup>[4]</sup>

On December 4, 2001, Marman manifested to PPI its intention to renew the lease contracts.<sup>[5]</sup> Two months later, Marman communicated to PPI its proposed terms for the renewal of the lease.<sup>[6]</sup> PPI replied with a counter offer which included, among others, lessening the period of the lease and increase in the variable fee, escalation rate and minimum required volume per year.<sup>[7]</sup>

On April 16, 2002, Marman wrote a letter urging PPI to adhere to the ten year renewal period under the original lease contracts. Marman also manifested its willingness to discuss the other points raised by PPI in the counter offer.<sup>[8]</sup>

PPI stood firm on its counter offer and informed Marman of additional items that it wanted clarified and completed prior to renewal,<sup>[9]</sup> namely:

- a. Proposed repair plan, estimated cost and timetable of completion of the middle dock,
- b. Proposed relocation plan of sulfuric acid pipelines and timetable of completion duly approved by PPI, and
- c. Payment of past due accounts.

On October 21, 2002, a meeting was held between PPI and Marman wherein the counter offer terms of PPI were discussed. Marman acknowledged the terms of the counter offer and manifested that new lease contracts will be executed only upon reaching mutual agreement on all its terms and conditions.<sup>[10]</sup> In the meeting, Marman agreed to the commercial terms of the counter offer (rents, variable fee and minimum escalation volume). No agreement, however, was reached on the non-commercial terms of the contract (relocation of ammonia tanks and pipelines and the immediate repair of the middle dock facilities).

On January 15, 2003, PPI wrote a letter<sup>[11]</sup> to Marman expressing its inclination not to renew the lease contracts because of alleged violations of the original contracts of lease, specifically Marman's failure to conduct due maintenance of the pier facilities and overextension of its pipeline from the middle dock to the causeway area. Nonetheless, PPI manifested in its letter that it was giving utmost consideration to a possible renewal but it stands firm on all its proposed counter offer terms. At that time, the original lease contract had expired.

On February 28, 2003, Marman filed a complaint for specific performance<sup>[12]</sup> against PPI with the RTC in Makati. Marman prayed, among others, that PPI execute new lease contracts for ten years pursuant to its option under Section 1 of the original contracts of lease.

PPI filed its Answer<sup>[13]</sup> alleging, as affirmative defenses, lack of jurisdiction and failure to state a cause of action. It also raised as counterclaim the payment of unpaid rent, cost of repair of the middle dock facility and damages.

On April 13, 2004, Marman filed a motion for summary judgment.<sup>[14]</sup> PPI countered by filing a motion for preliminary hearing of its affirmative defenses,<sup>[15]</sup> which was treated as a motion to dismiss. Both motions were jointly heard and after due proceedings the RTC required the parties to submit their respective memoranda.

### **RTC Disposition**

On June 11, 2004, the RTC issued an Order<sup>[16]</sup> granting Marman's motion for summary judgment and denying PPI's motion to dismiss, disposing as follows:

WHEREFORE, defendant's motion to dismiss the case on the grounds cited as affirmative defenses in its Answer is denied for lack of merit. Summary judgment is hereby rendered in favor of plaintiff Marman Trading and against defendant Planters Products, Inc. as follows:

1. Ordering defendant to honor and recognize that the lease contracts had been renewed for another ten (10) years from their original expiration, and ordering defendant to execute the written contract of renewal of the lease contracts for another ten (10) years from their expiration, the rental rate to be determined by applying the agreed escalation rate of 7.75% to the rental rate last paid by plaintiff;
2. Ordering defendant to pay plaintiff exemplary damages in the amount of P200,000.00;
3. Ordering defendant to pay plaintiff attorney's fees and cost of litigation in the amount of P200,000.00.

All counterclaims are hereby **DISMISSED** for lack of merit.

SO ORDERED. <sup>[17]</sup>

In granting specific performance, the RTC ratiocinated:

While defendant correctly pointed out that a renewal provision, even if construed for the benefit of one party, cannot be unilateral in the sense that there still has to be a mutual agreement between the parties. Yet, it is equally true that the contract cannot be renewed on the mere whim of the plaintiff since there has to be a mutual agreement as to the terms and conditions of the renewal. However, it should be noted that the provision had already specified a period of time for the renewal, particularly ten years. To follow defendant's line of thinking would be to disregard completely a contractual agreement between the parties. Clearly, the term of the renewal had already been pre-agreed upon, and can no longer be the subject of further negotiation. Moreover, this Court finds that the cases of *Heirs of Dalisay v. Court of Appeals* (201 SCRA 751) and *Fernandez v. Court of Appeals* (166 SCRA 577) cited by defendant are not directly applicable to the instant case since the antecedent facts therein are much different from the facts in this case.

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Moreover, this Court has the legal duty to uphold and enforce to the letter the contractual obligations of the parties, absent any showing that such obligations are contrary to laws, morals, good customs and public policy. More so where the terms being insisted on by defendant would make it impossible for plaintiff to recover its investments. Plaintiff correctly pointed out that "the imposition of unreasonable terms and exorbitant terms is equivalent to an outright rejection of plaintiff's right to seek the renewal of the lease contracts. This is tantamount to negotiating in bad faith." The case of *Tuason v. Del Asis* (107 Phil. 131) establishes the power of this Court to determine whether the terms demanded by a lessor are exorbitant and to determine what is a reasonable rent given the circumstances.

Using such discretion, this Court finds that plaintiff is entitled to the

renewal of the lease contracts under the commercial terms mutually agreed upon for an additional period of ten years, counted from the time of the expiration of the original contracts. First of all, the length of the term is already stated in the lease contracts, thus can no longer be altered by one party without the consent of the other. The terms of the renewal provisions cannot be disregarded - ten years is ten years no matter how you look at it. Thus, the intent of the parties when the contracts were perfected should stand. Furthermore, this Court finds that the shortening of the term despite the increased rental rates and minimum volume constitutes unreasonable and exorbitant terms that would leave one party unable to recoup its investments while leaving the other party unjustly enriched at the expense of plaintiff. This Court cannot permit such an injustice to take place.<sup>[18]</sup>

In denying PPI's counterclaims for non-payment of docket fees, the RTC stated:

As regards the affirmative defenses raised by the defendants as grounds for a motion to dismiss, after much consideration this Court finds the same bereft of merit. While it is true that the failure to pay the docket fees would be reasonable cause to have the complaint expunged from the records, this court finds no defect in the amount of docket fees paid by plaintiff. The Manchester case cited by defendant clearly states that all complaints should "specify the amount of damages being prayed for not only in the body of the pleading but also in the prayer." However, despite reading plaintiff's third alternative cause of action several times over, this Court finds no indication that plaintiff ever directly sought or prayed for the market value of the improvements from defendant. The fact that plaintiff stated in its complaint the alleged market value of the improvements does not necessarily mean that it is praying for the compensation of such amount, more so when it is clearly stated that what is sought is merely a declaration of ownership. Besides, the claim is only an alternative cause of action and does not have any bearing on the resolution of the main complaint.

Anent the contention that the complaint fails to state a cause of action since there is no showing that plaintiff is entitled to the renewal of the lease contracts, suffice it to say that this Court has already found, through summary judgment, plaintiff to be entitled to the renewal of the lease contracts. This Court has already given its reasons for finding that plaintiff had a valid cause of action for specific performance against defendant. Thus, the ground raised by defendant is evidently bereft of any legal basis at this point.<sup>[19]</sup>

Marman moved for partial reconsideration<sup>[20]</sup> but its motion was denied.<sup>[21]</sup> PPI appealed to the CA.

### **CA Disposition**

On November 23, 2005, the CA issued a Decision<sup>[22]</sup> affirming with modification the RTC decision, with a *fallo* reading:

**WHEREFORE**, the appeal is **PARTIALLY GRANTED**. The Order dated June 11, 2004 of the Regional Trial Court of Makati City, Branch 150 is hereby **AFFIRMED** with the **MODIFICATION** that the complaint filed by Conchita Tan, doing business under the name Marman Trading is hereby **DISMISSED**.

**SO ORDERED.** <sup>[23]</sup>

The CA reversed the RTC order compelling PPI to execute written contracts of renewal of lease. The appellate court reasoned that mere acceptance by Marman of the commercial terms of the counter offer of PPI (i.e., rents, variable fee and minimum escalation volume) did not result in the perfection of new lease contracts absent agreement on other terms of the counter offer, thus:

As We see it, as far the provisions granting an option to renew are concerned, the only term on which there has been a clear agreement is the period of the renewed contract, i.e., ten (10) years. The provisions are silent as to the other terms and conditions as these were still subject to agreement by both PPI and Marman.

Under Article 1318 of the Civil Code, there is no contract unless there is consent of the contracting parties. Article 1319 of the same Code further states that "*consent is manifested by the meeting of the offer and the acceptance upon the thing and the cause which are to constitute the contract.*" Thus, as a general rule, if the parties come to an agreement on the essential points of a contract, that is, on the object and the cause, there is already perfection even if there are other points that have yet to be agreed upon or have been reserved for future agreement.

This being the case, should the acceptance by Marman of the economic conditions proposed by PPI, a renewed contract of lease had already been perfected as the other terms and conditions that have yet to be agreed upon were "irrelevant to the instant case." We disagree.

In *A. Magsaysay, Inc. vs. Cebu Portland Cement Co.*, the Supreme Court laid down an exception to the general rule that an agreement on the essential points of a contract already amounts to perfection. Thus:

While Article 1319 of the New Civil Code prescribes that 'consent is manifested by the meeting of the offer and the acceptance upon the thing and the cause which are to constitute the contract,' this rule does not apply to a situation like the one before us, wherein one or both parties consider that other matters or details, in addition to the subject matter and consideration, should be stipulated and agreed upon. In that case, the area of agreement must extend to all points that the parties deem material or there is no contract.

Civil law commentator Arturo M. Tolentino has a similar opinion.

If the intention of one or both parties is that there be