579 Phil. 631

SECOND DIVISION

[G.R. No. 156571, July 09, 2008]

INTRA-STRATA ASSURANCE CORPORATION AND PHILIPPINE HOME ASSURANCE CORPORATION, PETITIONERS, VS. REPUBLIC OF THE PHILIPPINES, REPRESENTED BY THE BUREAU OF CUSTOMS, RESPONDENT.

D E C I S I O N

BRION, J.:

Before this Court is the Petition for Review on *Certiorari* under Rule 45 of the Rules of Court filed by Intra-Strata Assurance Corporation (*Intra-Strata*) and Philippine Home Assurance Corporation (*PhilHome*), collectively referred to as *"petitioners."*

The petition seeks to set aside the decision dated November 26, 2002 of the Court of Appeals[1] (*CA*) that in turn affirmed the ruling of the Regional Trial Court (*RTC*), Branch 20, Manila in Civil Case No. 83-15071. [2] In its ruling, the RTC found the petitioners liable as sureties for the customs duties, internal revenue taxes, and other charges due on the importations made by the importer, Grand Textile Manufacturing Corporation (*Grand Textile*). [3]

BACKGROUND FACTS

Grand Textile is a local manufacturing corporation. In 1974, it imported from different countries various articles such as dyestuffs, spare parts for textile machinery, polyester filament yarn, textile auxiliary chemicals, trans open type reciprocating compressor, and trevira filament. Subsequent to the importation, these articles were transferred to Customs Bonded Warehouse No. 462. As computed by the Bureau of Customs, the customs duties, internal revenue taxes, and other charges due on the importations amounted to P2,363,147.00. To secure the payment of these obligations pursuant to Section 1904 of the Tariff and Customs Code (*Code*),[4] Intra- Strata and PhilHome each issued general warehousing bonds in favor of the Bureau of Customs. These bonds, the terms of which are fully quoted below, commonly provide that the goods shall be withdrawn from the bonded warehouse *"on payment of the legal customs duties, internal revenue, and other charges to which they shall then be subject."*[5]

Without payment of the taxes, customs duties, and charges due and for purposes of domestic consumption, Grand Textile withdrew the imported goods from storage.[6] The Bureau of Customs demanded payment of the amounts due from Grand Textile as importer, and from Intra-Strata and PhilHome as sureties. All three failed to pay. The government responded on January 14, 1983 by filing a collection suit against the parties with the RTC of Manila.

LOWER COURT DECISIONS

After hearing, the RTC rendered its January 4, 1995 decision finding Grand Textile (as importer) and the petitioners (as sureties) liable for the taxes, duties, and charges due on the imported articles. The dispositive portion of this decision states: [7]

> WHEREFORE, premises considered, the Court RESOLVES directing:
>
> (1) the defendant Grand Textile Manufacturing Corporation to pay plaintiff, the sum of P2,363,174.00, plus interests at the legal rate from the filing of the Complaint until fully paid;
>
> (2) the defendant Intra-Strata Assurance Corporation to pay plaintiff, jointly and severally, with defendant Grand, the sum of P2,319,211.00 plus interest from the filing of the Complaint until fully paid; and the defendant Philippine Home Assurance Corporation to pay plaintiff the sum of P43,936.00 plus interests to be computed from the filing of the Complaint until fully paid;
>
> (3) the forfeiture of all the General Warehousing Bonds executed by Intra- Strata and PhilHome; and
>
> (4) all the defendants to pay the costs of suit.
>
> SO ORDERED.

The CA fully affirmed the RTC decision in its decision dated November 26, 2002. From this CA decision, the petitioners now come before this Court through a petition for review on *certiorari* alleging that the CA decided the presented legal questions in a way not in accord with the law and with the applicable jurisprudence.

ASSIGNED ERRORS

The petitioners present the following points as the conclusions the CA should have made:

1. that they were released from their obligations under their bonds when Grand Textile withdrew the imported goods without payment of taxes, duties, and other charges; and

2. that their non-involvement in the active handling of the warehoused items from the time they were stored up to their withdrawals substantially increased the risks they assumed under the bonds they issued, thereby releasing them from liabilities under these bonds.[8]

In their arguments, they essentially pose the legal issue of ***whether the withdrawal of the stored goods, wares, and merchandise - without notice to them as sureties - released them from any liability for the duties, taxes, and charges they committed to pay under the bonds they issued.*** They additionally posit that they should be released from any liability because the Bureau of Customs, through the fault or negligence of its employees, allowed the withdrawal of the goods without the payment of the duties, taxes, and other charges due.

The respondent, through the Solicitor General, maintains the opposite view.

THE COURT'S RULING

We find no merit in the petition and consequently affirm the CA decision.

Nature of the Surety's Obligations

Section 175 of the Insurance Code defines a contract of suretyship as an agreement whereby a party called the surety guarantees the performance by another party called the principal or obligor of an obligation or undertaking in favor of another party called the obligee, and includes among its various species bonds such as those issued pursuant to Section 1904 of the Code.[9] Significantly, "pertinent provisions of the Civil Code of the Philippines shall be applied in a suppletory character whenever necessary in interpreting the provisions of a contract of suretyship."[10] By its very nature under the terms of the laws regulating suretyship, the liability of the surety is joint and several but limited to the amount of the bond, and its terms are determined strictly by the terms of the contract of suretyship in relation to the principal contract between the obligor and the obligee.[11]

The definition and characteristics of a suretyship bring into focus the fact that a surety agreement is an accessory contract that introduces a third party element in the fulfillment of the principal obligation that an obligor owes an obligee. In short, there are effectively two (2) contracts involved when a surety agreement comes into play - a principal contract and an accessory contract of suretyship. Under the accessory contract, the surety becomes directly, primarily, and equally bound with the principal as the original promissor although he possesses no direct or personal interest over the latter's obligations and does not receive any benefit therefrom.[12]

The Bonds Under Consideration

That the bonds under consideration are surety bonds (and hence are governed by the above laws and rules) is not disputed; the petitioners merely assert that they should not be liable for the reasons summarized above. Two elements, both affecting the suretyship agreement, are material in the issues the petitioners pose. The first is the effect of the law on the suretyship agreement; the terms of the suretyship agreement constitute the second.

A feature of the petitioners' bonds, not stated expressly in the bonds themselves but one that is true in every contract, is that applicable laws form part of and are read into the contract without need for any express reference. This feature proceeds from Article 1306 of the Civil Code pursuant to which we had occasion to rule:

> It is to be recognized that a large degree of autonomy is accorded the contracting parties. Not that it is unfettered. They may, according to Article 1306 of the Civil Code "establish such stipulations, clauses, terms, and conditions as they may deem convenient, provided that they are not contrary to law, morals, good customs, public order, or public policy." The

law thus sets limits. **It is a fundamental requirement that the contract entered into must be in accordance with, and not repugnant to, an applicable statute. Its terms are embodied therein. The contracting parties need not repeat them. They do not even have to be referred to. Every contract thus contains not only what has been explicitly stipulated but also the statutory provisions that have any bearing on the matter**."[13]

Two of the applicable laws, **principally pertaining to the importer**, are Sections 101 and 1204 of the Tariff and Customs Code which provide that:

> Sec 101. *Imported Items Subject to Duty* - All articles when imported from any foreign country into the Philippines shall be subject to duty upon such importation even though previously exported from the Philippines, except as otherwise specifically provided for in this Code or in clear laws.
>
> x x x x
>
> Sec. 1204. *Liability of Importer for Duties* - Unless relieved by laws or regulations, the liability for duties, taxes, fees, and other charges attaching on importation constitutes a personal debt due from the importer to the government which can be discharged only by payment in full of all duties, taxes, fees, and other charges legally accruing. It also constitutes a lien upon the articles imported which may be enforced which such articles are in custody or subject to the control of the government.

The obligation to pay, principally by the importer, is shared by the latter with a willing third party under a suretyship agreement under Section 1904 of the Code which itself provides:

> Section 1904. *Irrevocable Domestic Letter of Credit or Bank Guarantee or Warehousing Bond* - After articles declared in the entry of warehousing shall have been examined and the duties, taxes, and other charges shall have been determined, the Collector shall require from the importer, an irrevocable domestic letter of credit, bank guarantee, or bond equivalent to the amount of such duties, taxes, and other charges conditioned upon the withdrawal of the articles within the period prescribed by Section 1908 of this Code and for payment of any duties, taxes, and other charges to which the articles shall then be subject and upon compliance with all legal requirements regarding their importation.

We point these out to stress the legal basis for the submission of the petitioners' bonds and the conditions attaching to these bonds. As heretofore mentioned, there is, *firstly*, a principal obligation belonging to the importer-obligor as provided under Section 101; *secondly*, there is an accessory obligation, assumed by the sureties pursuant to Section 1904 which, by the nature of a surety agreement, directly, primarily, and equally bind them to the obligee to pay the obligor's obligation.

The second element to consider in a suretyship agreement relates to the terms of the bonds themselves, under the rule that the terms of the suretyship are determined by the suretyship contract itself.[14] The General Warehousing Bond [15] that is at the core of the present dispute provides:

> KNOW ALL MEN BY THESE PRESENTS:
>
> That I/we GRAND TEXTILE MANUFACTURING CORPORATION - Km. 21, Marilao, Bulacan, as Principal, and PHILIPPINE HOME ASSURANCE as the latter being a domestic corporation duly organized and existing under and by virtue of the laws of the Philippines, as Surety, are **held and firmly bound unto the Republic of the Philippines, in the sum of PESOS TWO MILLION ONLY (P2,000,000.00), Philippine Currency, to be paid to the Republic of the Philippines, for the payment whereof, we bind ourselves, our heirs, executors, administrators and assigns, jointly and severally, firmly by these presents:**
>
> WHEREAS, the above-bounden Principal will from time to time make application to make entry for storing in customs-internal revenue bonded warehouse certain goods, wares, and merchandise, subject to customs duties and special import tax or internal revenue taxes or both;
>
> WHEREAS, the above principal in making application for storing merchandise in customs-internal revenue bonded warehouse as above stated, will file this in his name as principal, which bond shall be approved by the Collector of Customs or his Deputy; and
>
> WHEREAS, **the surety hereon agrees to accept all responsibility jointly and severally for the acts of the principal done in accordance with the terms of this bond**.
>
> NOW THEREFORE, the condition of this obligation is such that if within six (6) months from the date of arrival of the importing vessel in any case, the goods, wares, and merchandise shall be **regularly and lawfully withdrawn from public stores or bonded warehouse on payment of the legal customs duties, internal revenue taxes, and other charges to which they shall then be subject**; or if at any time within six (6) months from the said date of arrival, or within nine (9) months if the time is extended for a period of three (3) months, as provided in Section 1903 of the Tariff and Customs Code of the Philippines, said importation shall be so withdrawn for consumption, **then the above obligation shall be void, otherwise, to remain in full force and effect**.
>
> Obligations hereunder may only be accepted during the calendar year 1974 and the right to reserve by the corresponding Collector of Customs to refuse to accept further liabilities under this general bond, whenever, in his opinion, conditions warrant doing so.
>
> IN WITNESS WHEREOF, we have signed our names and affixed our seals on this 20th day of September, 1974 at Makati, Rizal, Philippines.

Considered in relation with the underlying laws that are deemed read into these bonds, it is at once clear that the bonds **shall subsist** - that is, *"shall remain in full*