

THIRD DIVISION

[G.R. NO. 159821, August 19, 2005]

**PHILIPPINE FISHERIES DEVELOPMENT AUTHORITY,
PETITIONER, VS. COURT OF APPEALS AND QVEGG MARINE
TRANSPORT AND BUILDERS CORPORATION, RESPONDENTS.**

DECISION

CARPIO MORALES, J.:

Assailed via petition for review on certiorari are the November 8, 2002 Decision and August 25, 2003 Resolution of the Court of Appeals in CA-G.R. CV No. 46297, "*QVEGG Marine Transport and Builders Corporation v. Philippine Fisheries Development Authority.*"

On August 1, 1989, petitioner Philippine Fisheries Development Authority as lessor, and respondent QVEGG Marine Transport and Builders Corporation as lessee, entered into a 10-year lease contract^[1] covering the Iloilo Fishing Port Complex slipways and other auxiliary facilities for a monthly rental of P85,000.00. The pertinent provision of the contract reads:

3. For and in consideration of the use of the leased premises and above-mentioned equipment, the LESSEE hereby agrees to pay the LESSOR a monthly rental of EIGHTY FIVE THOUSAND PESOS (P85,000.00) for the first year of this Contract reckoned from the date of signing. The monthly rental shall be payable within the first five days of each month without need of demand at the office of the LESSOR. In case of delay in the payment of the said monthly rental, it shall earn interest at the rate of 3% per month on any or all delayed payments, provided that failure on the part of the LESSEE to pay rentals for two (2) successive months shall be a ground for the termination of this Contract without need of judicial action. The LESSEE likewise agrees to a yearly escalation rate of 10% on the monthly lease rental effective on the second year. (Emphasis and underscoring supplied).

It appears that respondent was delinquent in the performance of its contractual obligations, prompting petitioner to terminate the contract by letter^[2] dated November 16, 1992.

Responding to the letter of termination, respondent requested the restructuring of its overdue account. By letter^[3] dated February 1, 1993, petitioner granted respondent's request subject to the following "instructions":

- a. Initial payment of P200,000.00 plus all interest charges up to December 31, 1992 payable on or before February 15, 1993.

- b. Balance of the arrears up to December 31, 1992 shall be payable by post dated checks in six (6) equal monthly installments starting March 15, 1993 and every 15th day of the month thereafter. This requirement shall likewise be submitted on or before February 15, 1993.

c. Regular payment of 1993 current monthly rentals in addition to monthly power and water bills. (Emphasis supplied)

Petitioner's letter of February 1, 1993 contained a *caveat* that should respondent fail to comply with the "instructions," it would terminate the contract and file the necessary legal action.

It appears, however, that it was only on February 22, 1993 that respondent paid its January 1993 space rental and electric and water bills.^[4] For "failure to comply strictly with the terms and conditions imposed" in its letter of February 1, 1993, petitioner, by letter^[5] dated March 1, 1993, terminated the lease contract.

Respondent sought reconsideration of petitioner's March 1, 1993 letter, by letter^[6] dated March 2, 1993, explaining that it interpreted paragraph c of petitioner's February 1, 1993 letter, in relation to paragraph 3 of the contract which provides that its failure to pay rentals for two successive months shall be a ground for the termination of the contract.

Petitioner, by letter^[7] dated March 8, 1993, denied respondent's request for reconsideration of its March 1, 1993 letter.

Respondent thereupon filed on March 12, 1993 a complaint^[8] for Enforcement of Contract and Damages with prayer for restraining order and writ of preliminary injunction against petitioner before the Regional Trial Court (RTC) of Iloilo City seeking the following reliefs:

1. To declare the Contract of Lease as illegally terminated by [petitioner] and that the same be considered valid and binding in accordance with the full terms thereof[;]
2. To declare the continued bindingness (sic) of paragraph 3 of the Contract of Lease, including [respondent's] right to enjoy the 2-month rental payment grace period;
3. To forever enjoin the defendant from interfering with [respondent's] operation, use and occupancy of the leased shipyard and shiprepair facilities throughout the duration of the Contract of Lease as long as [petitioner] pays the stipulated rentals in accordance to the full terms of paragraph 3 thereof;
4. To order defendant to pay plaintiff the following amounts:
 - 4.1. Nominal damages in the amount of P300,000.00
 - 4.2. Exemplary damages in the amount of P100,000.00
 - 4.3. Attorney's fees in the amount of P75,000.00
 - 4.4. Litigation expenses in the amount of P20,000.00

Branch 24 of the Iloilo RTC, by Order of March 16, 1993,^[9] temporarily restrained petitioner "from interfering with [respondent's] exercise of its rights and prerogatives as lessee under the Contract of Lease . . ."

Petitioner subsequently filed a Motion to Dismiss^[10] the complaint on the following grounds: 1) venue was improperly laid; 2) the complaint states no cause of action; and 3) respondent has no valid cause of action for failure to exhaust administrative remedies. The motion was, however, denied by Order^[11] of April 7, 1993.

Petitioner thus filed its Answer^[12] dated May 10, 1993. Arguing for the dismissal of the complaint, petitioner contended that paragraph 3 of the lease contract was rendered ineffective by the new terms and conditions set forth in its February 1, 1993 letter; and that respondent failed to exhaust available administrative remedies by not appealing to the Department of Agriculture.

The trial court, by Decision^[13] of March 14, 1994, found for respondent and declared illegal the termination of the contract by petitioner, it holding that paragraph c of the February 1, 1993 letter did not modify paragraph 3 of the lease contract. It, however, dismissed respondent's prayer for damages on the ground that petitioner acted in good faith when it terminated the lease. The dispositive portion of the trial court's decision reads:

WHEREFORE, premises considered, the Court renders judgment as follows:

- (1) The termination by the [petitioner] of the Contract of Lease on March 8, 1993 (Exh. G) is hereby declared illegal and is thus nullified.
- (2) [Petitioner] is enjoined from terminating the lease contract in derogation of the Court's interpretation of paragraph C of Exh. 24, should there be cause henceforth to terminate the lease.

The claim for damages by either is dismissed.

Petitioner appealed the trial court's decision to the Court of Appeals before which it assigned to the trial court the following errors:^[14]

1. THE LOWER COURT SERIOUSLY ERRED IN ITS DECISION WHEN IT DECLARED ILLEGAL AND NULLIFIED THE TERMINATION BY [PETITIONER] PFDS OF THE CONTRACT OF LEASE ON MARCH 8, 1993[; and]
2. THE LOWER COURT SERIOUSLY ERRED IN ITS DECISION WHEN IT ENJOINED [PETITIONER] PFDA FROM TERMINATING THE LEASE CONTRACT IN DEROGATION OF THE LOWER COURT'S INTERPRETATION OF PARAGRAPH C OF EXHIBIT "24" SHOULD THERE BE CAUSE HENCEFORTH TO TERMINATE THE LEASE.

Respondent too appealed the trial court's decision, questioning the dismissal of its claim for damages, attorney's fees and litigation expenses.^[15]

The Court of Appeals, by the assailed Decision^[16] of November 8, 2002, dismissed