

## FIRST DIVISION

[ G.R. No. 139629, June 21, 2004 ]

**SANTIAGO LIGHTERAGE CORPORATION, PETITIONER, VS.  
COURT OF APPEALS, C-SQUARE CONSOLIDATED MINES AND  
MANUEL A. PELAEZ, RESPONDENTS.**

### D E C I S I O N

**CARPIO, J.:**

#### The Case

This is a petition for review on *certiorari*<sup>[1]</sup> to annul the Decision<sup>[2]</sup> dated 15 October 1998 of the Court of Appeals ("appellate court") in CA-G.R. CV No. 52661, and its Resolution dated 5 August 1999 denying the motion for reconsideration. The appellate court affirmed the Decision<sup>[3]</sup> dated 4 May 1992 of Branch 56 of the Regional Trial Court of Quezon City ("trial court") in Civil Case No. Q-89-3769, ordering respondent Manuel A. Pelaez ("Pelaez") to pay respondent C-Square Consolidated Mines ("C-Square") actual damages, attorney's fees, and costs of suit. The trial court ordered petitioner Santiago Lighterage Corporation ("petitioner") to pay Pelaez, in turn, actual damages, attorney's fees, and costs of suit.

#### Antecedent Facts

C-Square filed a complaint for damages against Pelaez before the trial court. C-Square signed a single voyage charter agreement<sup>[4]</sup> with Pelaez, who represented himself as the disponent owner<sup>[5]</sup> of MV Christine Gay. Pelaez warranted that MV Christine Gay was seaworthy and can undertake a voyage to South Korea. Since MV Christine Gay failed to start the voyage, C-Square asked the trial court to hold Pelaez liable for actual, moral, and exemplary damages, plus attorney's fees.

On 24 October 1989, Pelaez filed a third-party complaint against petitioner for damages with prayer for writ of preliminary attachment. Pelaez signed the bareboat charter agreement<sup>[6]</sup> with petitioner because of petitioner's representations that MV Christine Gay was seaworthy and fit to undertake a voyage to South Korea. MV Christine Gay failed to begin the voyage. In turn, Pelaez sought to hold petitioner liable for whatever damages the trial court may award to C-Square.

Petitioner filed its answer to Pelaez's third-party complaint on 29 January 1990. Petitioner argued that Pelaez has no cause of action against petitioner because MV Christine Gay was seaworthy at the time of delivery.

Following an examination of the evidence presented by the parties, the trial court summarized the facts thus:

Sometime in August 1989, defendant-third party plaintiff Manuel A. Pelaez as sole proprietor of the firm M.A.P. Trading offered to plaintiff [C-Square Consolidated Mines] the vessel "MV Christine Gay" for the use of the latter in shipping and exporting its milled chromite ores in bulk to Pohang Port, South Korea. Pelaez assured Emilio G. Libatigue, Vice-President of plaintiff-corporation, that the "MV Christine Gay" was seaworthy (Exh. C, pp. 1-2). Because it needed a vessel to transport its milled chromite ores to its buyer in South Korea, plaintiff accepted the offer of Pelaez and it entered into a [Voyage] Charter Agreement (Exh. C-1) dated 26 August 1989 with Pelaez, it being specifically agreed upon in Exhibit C-1 that the [Voyage] Charter Agreement shall "automatically be considered rescinded and inoperative" if the "(v)essel is found not seaworthy to undertake a safe voyage to Korea" or if the defendant should fail to "(g)et the necessary permits and/or shipping documents to allow said voyage to Korea."

As the "MV Christine Gay" was the subject of a [Bareboat] Charter Agreement (Exh. 1-A-Third Party Defendants) dated 22 August 1989 between Santiago Lighterage Corporation as owner of said vessel and M.A.P. Trading as charterer of said vessel, and pursuant to the understanding of plaintiff and Pelaez, the plaintiff paid to third party defendant Santiago Lighterage Corporation – for the account of M.A.P. Trading – the amount of P740,000, as evidenced by a Receipt dated 31 August 1989 (Exh. C-2; TSN, 8 November 1990, p. 11).

On 1 September 1989, the "MV Christine Gay" was turned over by Santiago Lighterage Corporation to Pelaez in Manila (Exh. 1-B-Third Party Defendants). The new set of crew members boarded and took possession of the vessel to determine her actual condition. After boarding the vessel, they immediately proceeded to Masinloc, Zambales from Manila (TSN, 2 October 1990, p. 7).

From the time they started their voyage from Manila to Masinloc, Zambales, Marine Chief Engineer Simeon Panaguition observed that the engine of the vessel was not in good condition because heavy smoke was going out from the exhaust manifold (TSN, 14 March 1991, p. 7; TSN, 2 October 1990, pp. 7, 12). Engr. Panaguition, however, allowed the vessel to make the voyage to Zambales, because he was assured that the vessel will be repaired in Masinloc (TSN, 2 October 1990, p. 14).

At Masinloc, Zambales, the chromite ores of plaintiff were loaded on the vessel while repairs on the vessel were also being made by the men of third party defendants Santiago Lighterage Corporation and Robert Tan. A Report (Exh. C-3) was made by Capt. Beltran Sorongon, the master of the vessel, about the condition of the hull and superstructures of the vessel. Because of the inadequacy of the repairs, Engr. Panaguition recommended to Pelaez that the vessel may not be able to continue with her voyage to South Korea (TSN, 2 October 1990, pp. 16-20). He also informed Capt. Sorongon that the vessel was not seaworthy. Capt. Sorongon's "reaction was that, it was not really seaworthy" (id., pp. 21-22).

Thereafter, it was decided that the vessel which was already loaded with chromite ores will sail back towards Manila instead of proceeding to Korea as sailing to Korea would be very dangerous (id., p. 24). At about 2:00 o'clock to 3:00 o'clock in the afternoon of 22 September 1989, the engines of the vessel suddenly stopped, thus, making the vessel stop in the middle of the sea (Exh. B, p. 3). Because of this, Capt. Sorongon allowed Maximo Alvarez, the ship purser, to board a passing fishing boat, and instructed Alvarez to inform plaintiff, Pelaez, and Tan about what happened to the vessel (ibid.). Capt. Sorongon also had a handwritten note (Exh. C-4) for Atty. Paculdo of plaintiff-corporation, informing the latter that the vessel was drifting on the sea because some of the pistons and piston rings of the engines of the vessel were damaged.

Also on 22 September 1989, the plaintiff served a notice (Exh. C-5) of rescission of the Charter Agreement upon Pelaez who gave his conformity thereto.

Thereafter, the plaintiff sent a demand letter dated 24 September 1989 (Exh. C-6) informing Pelaez that the former suffered damages in the amount of at least P2,000,000 because the vessel lacked the documentation and that the vessel was not seaworthy.

On 29 September 1989, the counsel of Pelaez wrote a letter (Exh. 7) addressed to Santiago Lighterage Corporation and Robert (Roberto) Tan informing them about the demand letter of plaintiff. In the letter, counsel for Pelaez also demanded that Pelaez be paid the amount of P2,000,000 and the further sum of P1,000,000 representing his unrealized profit on the transaction.

Because the engines of the vessel suffered a breakdown, the vessel was towed by a tugboat to Manila. On 5 October 1989, Pelaez wrote a letter (Exh. 5) to the Maritime Industry Authority (MARINA) requesting for a re-investigation of the seaworthiness of the vessel. The re-investigation was conducted by a MARINA surveyor on 6 October 1989. On 12 October 1989, MARINA issued a report (Exh. 6) stating that the "MV Christine Gay" was a "dead" ship at the time of inspection.

Consequently, plaintiff had to contract with other companies to transport its chromite ores to South Korea, and this entailed additional expenses. Moreover, the ores had to be unloaded from the vessel "MV Christine Gay." And, plaintiff spent for the salaries of the officers and crew members of the vessel, provisions, fuel, and other things needed. A summary (Exh. C-7) of the total expenditures incurred by the plaintiff on "MV Christine Gay" in the amount of P3,133,031.15 was prepared. Supporting this summary are various receipts and documents marked as Exhibits D to D-115 inclusive.<sup>[7]</sup>

The only issue presented by the parties to the trial court for resolution was whether MV Christine Gay was seaworthy when Pelaez signed the bareboat charter agreement to undertake a voyage to South Korea.

### **The Trial Court's Ruling**

The trial court ruled that MV Christine Gay was not seaworthy when petitioner and Pelaez signed the bareboat charter agreement. The trial court based its decision on the testimony of Engineer Simeon Panaguiton ("Engineer Panaguiton"), marine chief engineer of MV Christine Gay during the charter party, and the report of Captain Beltran Sorongon ("Captain Sorongon"), master of MV Christine Gay. Engineer Panaguiton and Captain Sorongon stated that MV Christine Gay had holes in her hull and bow, and her engines and exhaust system were defective.

The dispositive part of the trial court's decision reads:

WHEREFORE, and in view of the foregoing, judgment is rendered ordering defendant Manuel A. Pelaez to pay plaintiff C-Square Consolidated Mines, the following sums of money, to wit:

1. P3,133,031.15 representing damages pursuant to Article 2201 of the Civil Code;
2. P100,000 representing reasonable attorney's fees and expenses of litigation; and,
3. Costs of suit.

Third party defendant Santiago Lighterage Corporation is likewise ordered to pay defendant-third party plaintiff Manuel A. Pelaez the following sums of money, to wit:

1. P3,133,031.15 representing damages pursuant to Article 2201 of the Civil Code;
2. P50,000 representing reasonable attorney's fees and expenses of litigation; and
3. Costs of suit.

All other claims and counterclaim/s are denied for lack of legal or factual basis.

SO ORDERED.<sup>[8]</sup>

Petitioner filed a Motion for Reconsideration on 15 October 1992 which the trial court denied in an Order dated 29 January 1993. As Pelaez no longer appealed from the decision, a writ of execution was issued against him on 29 January 1993.

In its appeal before the appellate court, petitioner assigned the following errors:

1. THE TRIAL COURT ERRED IN GIVING WEIGHT TO THE TESTIMONY OF ENGINEER SIMEON PANAGUITON ON THE SEAWORTHINESS OF THE VESSEL "M/V CHRISTINE GAY."
2. THE TRIAL COURT ALSO ERRED IN GIVING CREDENCE TO THE REPORT OF CAPTAIN BELTRAN SORONGON ON THE SEAWORTHINESS OF THE VESSEL "M/V CHRISTINE GAY."

3. THE TRIAL COURT ERRED IN IGNORING THE PROVISIONS OF THE CHARTER AGREEMENT DATED 22 AUGUST 1989 BETWEEN THIRD-PARTY PLAINTIFF AND THIRD-PARTY DEFENDANT.
4. THE TRIAL COURT ALSO ERRED IN ORDERING THIRD-PARTY DEFENDANT TO PAY IN FAVOR OF THIRD-PARTY PLAINTIFF-APPELLEE P3,133,031.15 AS DAMAGES, P50,000 AS ATTORNEY'S FEES AND COSTS OF SUIT.<sup>[9]</sup>

### **The Appellate Court's Ruling**

The appellate court denied the appeal and affirmed the trial court's decision. The appellate court upheld the credibility of the testimonies of Engineer Panaguiton and Captain Sorongon on the unseaworthiness of MV Christine Gay.

The dispositive part of the appellate court's decision reads thus:

WHEREFORE, finding no error in the Decision appealed from, the same is hereby AFFIRMED IN TOTO. No pronouncement as to costs.

SO ORDERED.<sup>[10]</sup>

Hence, the instant petition.

### **The Issue**

Petitioner raises only one issue before this Court, thus:

Whether the trial court and the Court of Appeals could validly and legally ignore or disregard the provisions of the Charter Agreement dated 22 August 1989 between petitioner and respondent Pelaez.<sup>[11]</sup>

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

We find no merit in the appeal.

### ***Interpretation of the Charter Party Agreement***

Petitioner challenges the trial and appellate courts' appreciation of the Charter Party Agreement as part of the evidence in this case. Petitioner asserts that delivery of the MV Christine Gay to Pelaez and Pelaez's subsequent takeover of the vessel is already a full performance of petitioner's obligations. Petitioner berthed MV Christine Gay in the port of Manila as early as 26 August 1989 and Pelaez had the opportunity to inspect her from that date until 1 September 1989, when Pelaez took over the vessel.<sup>[12]</sup> Thus, petitioner is not liable for defects in MV Christine Gay after the delivery and turn over. The pertinent part of the bareboat charter agreement between petitioner and Pelaez reads:

3. Delivery – The VESSEL shall be delivered and taken over by the CHARTERERS at the port of the City of Manila, in such ready berth as the CHARTERERS may direct.