

FIRST DIVISION

[G.R. No. 151218, January 28, 2003]

**NATIONAL SUGAR TRADING AND/OR THE SUGAR REGULATORY
ADMINISTRATION, PETITIONERS, VS. PHILIPPINE NATIONAL
BANK, RESPONDENT.**

DECISION

YNARES-SANTIAGO, J.:

This is a petition for review which seeks to set aside the decision of the Court of Appeals dated August 10, 2001 in CA-G.R. SP. No. 58102,^[1] upholding the decision of the Office of the President dated September 17, 1999,^[2] as well as the resolution dated December 12, 2001 denying petitioners' motion for reconsideration.

The antecedent facts, as culled from the records, are as follows:

Sometime in February 1974, then President Ferdinand E. Marcos issued Presidential Decree No. 388^[3] constituting the Philippine Sugar Commission (PHILSUCOM), as the sole buying and selling agent of sugar on the *quedan* permit level. In November of the same year, PD 579^[4] was issued, authorizing the Philippine Exchange Company, Inc. (PHILEXCHANGE), a wholly owned subsidiary of Philippine National Bank (PNB) to serve as the marketing agent of PHILSUCOM. Pursuant to PD 579, PHILEXCHANGE's purchases of sugar shall be financed by PNB and the proceeds of sugar trading operations of PHILEXCHANGE shall be used to pay its liabilities with PNB.^[5]

Similarly, in February 1975, PD 659 was issued, constituting PHILEXCHANGE and/or PNB as the exclusive sugar trading agencies of the government for buying sugar from planters or millers and selling or exporting them.^[6] PNB then extended loans to PHILEXCHANGE for the latter's sugar trading operations. At first, PHILEXCHANGE religiously paid its obligations to PNB by depositing the proceeds of the sale of sugar with the bank. Subsequently, however, with the fall of sugar prices in the world market, PHILEXCHANGE defaulted in the payments of its loans amounting to P206,070,172.57.^[7]

In July 1977, the National Sugar Trading Corporation (NASUTRA) replaced PHILEXCHANGE as the marketing agent of PHILSUCOM. Accordingly, PHILEXCHANGE sold and turned over all sugar *quedans* to NASUTRA. However, no physical inventory of the sugar covered by the *quedans* was made.^[8] Neither NASUTRA nor PHILSUCOM was required to immediately pay PHILEXCHANGE. Notwithstanding this concession, NASUTRA and PHILSUCOM still failed to pay the sugar stocks covered by *quedans* to PHILEXCHANGE which, as of June 30, 1984, amounted to P498,828,845.03. As a consequence, PHILEXCHANGE was not able to pay its obligations to PNB.

To finance its sugar trading operations, NASUTRA applied for and was granted^[9] a P408 Million Revolving Credit Line by PNB in 1981. Every time NASUTRA availed of the credit line,^[10] its Executive Vice-President, Jose Unson, executed a promissory note in favor of PNB.

In order to stabilize sugar liquidation prices at a minimum of P300.00 per *picul*, PHILSUCOM issued on March 15, 1985 Circular Letter No. EC-4-85, considering all sugar produced during crop year 1984-1985 as domestic sugar. Furthermore, PHILSUCOM's Chairman of Executive Committee, Armando C. Gustillo proposed on May 14, 1985 the following liquidation scheme of the sugar *quedans*^[11] assigned to PNB by the sugar planters:

Upon notice from NASUTRA, PNB shall credit the individual producer and millers loan accounts for their sugar proceeds and shall treat the same as loans of NASUTRA.

Such loans shall be charged interest at the prevailing rates and it shall commence five (5) days after receipt by PNB of *quedans* from NASUTRA.

^[12]

PNB, for its part, issued Resolution No. 353 dated May 20, 1985 approving^[13] the PHILSUCOM/NASUTRA proposal for the payment of the sugar *quedans* assigned to it. Pursuant to said resolution, NASUTRA would assume the interest on the planter/mill loan accounts. The pertinent portion of the Resolution states:

Five (5) days after receipt of the *quedans*, NASUTRA shall absorb the accruing interest on that portion of the planter/mill loan with PNB commensurate to the net liquidation value of the sugar delivered, or in other words, NASUTRA proposes to assume interest that will run on the planter/mill loan equivalent to the net proceeds of the sugar *quedans*, reckoned five (5) days after *quedan* delivery to PNB.^[14]

Despite such liquidation scheme, NASUTRA/PHILSUCOM still failed to remit the interest payments to PNB and its branches, which interests amounted to P65,412,245.84 in 1986.^[15] As a result thereof, then President Marcos issued PD 2005 dissolving NASUTRA effective January 31, 1986. NASUTRA's records of its sugar trading operations, however, were destroyed during the EDSA Revolution in February 1986.

On May 28, 1986, then President Corazon C. Aquino issued Executive Order (EO) No. 18 creating the Sugar Regulatory Administration (SRA) and abolishing PHILSUCOM. All the assets and records of PHILSUCOM^[16] including its beneficial interests over the assets of NASUTRA were transferred to SRA.^[17] On January 24, 1989, before the completion of the three-year winding up period, NASUTRA established a trusteeship to liquidate and settle its accounts.^[18] This notwithstanding, NASUTRA still defaulted in the payment of its loans amounting to P389,246,324.60 (principal and accrued interest) to PNB.

In the meantime, PNB received remittances from foreign banks totaling US\$36,564,558.90 or the equivalent of P696,281,405.09 representing the proceeds

of NASUTRA's sugar exports.^[19] Said remittances were then applied by PNB to the unpaid accounts of NASUTRA/ PHILSUCOM with PNB and PHILEXCHANGE. The schedule of remittances and applications are as follows:

SCHEDULE OF REMITTANCES & APPLICATIONS Account of
NASUTRA July 31, 1988

REMITTANCES

Date	Remitting Bank	Amount
11-19-85	Bankers Trust-New York	P259,253,573.46
11-26-85	Bankers Trust-New York	144,459,242.84
03-06-86	Credit Lyonnais-Manila	209,880, 477.07
04-22-86	Société Generalé-Manila	82,151,953.10
06-09-86	Credit Lyonnais-Manila	536,158.62
Total		P696,281,405.09 =====

APPLICATIONS

<u>Date</u>	<u>Applied to</u>	<u>Amount</u>
1986	NASUTRA account with PNB	P389,246,324.60
1986	Claims of various CAB planters	15, 863,898.79
1987	Claims of various PNB branches for interest or the unpaid CY 1984-85 sugar proceeds	65, 412,245.84
1987 & 1988	Philsucom account carried in the books of Philexchange	206,070,172.57
		P676,592,641.80 =====
Unapplied Remittance		P 19,688,763.29" ^[20]

Subsequently, PNB applied the P19,688,763.29 to PHILSUCOM's account with PHILEXCHANGE which in turn was applied to PHILEXCHANGE's account with PNB.^[21]

Accordingly, NASUTRA requested^[22] PNB to furnish it with the necessary documents and/or explanation^[23] concerning the disposition/ application, accounting and restitution of the remittances in question. Dissatisfied, and believing that PNB failed to provide them with said documents, NASUTRA and SRA filed a petition for arbitration^[24] with the Department of Justice on August 13, 1991.

After due proceedings, the Secretary of Justice rendered a decision, to wit:

WHEREFORE, judgment is hereby rendered-

1. Declaring that of the amount of Six Hundred Ninety Six Million Two Hundred Eighty One Thousand Four Hundred Five and 09/100 Pesos (P696,281,405.09) equivalent of US\$36,564,558.90, foreign remittances received by respondent PNB, for and in behalf of petitioner NASUTRA—

- a) the amount of Three Hundred Eighty Nine Million Two Hundred Forty Six Thousand Three Hundred Twenty Four and 60/100 Pesos (P389,246,324.60) was validly applied to outstanding account of NASUTRA to PNB;
- b) the amount of Sixty Five Billion Four Hundred Twelve Thousand Two Hundred Forty Five and 84/100 Pesos (P65,412,245.84) was validly applied to claims of various PNB branches for interest on the unpaid CY 1984-85 sugar proceeds;

Or a total of Four Hundred Fifty Four Million Six Hundred Fifty Eight Thousand Five Hundred Seventy and 44/100 Pesos (P454,658,570.44).

2. Ordering respondent PNB to pay petitioners—

- a) the amount of Two Hundred Six Million Seventy Thousand One Hundred Seventy Two and 57/100 Pesos (P206,070,172.57) representing the amount of remittance applied to PHILSUCOM account carried in the books of Philexchange;
- b) the amount of Fifteen Million Eight Hundred Sixty Three Thousand Eight Hundred Ninety Eight and 79/100 Pesos (P15,863,898.79) representing the amount applied to settle Claims of Various CAB Planters; and to pay interest on both items, at legal rate from date of filing of this case.

Costs of suit will be shared equally by the parties.

SO ORDERED.^[25]

Both parties appealed before the Office of the President. On September 17, 1999, the Office of the President modified the decision of the Secretary of Justice, to wit:

IN VIEW OF ALL THE FOREGOING, the decision of the Secretary of Justice is hereby AFFIRMED with the MODIFICATION that the application by the Philippine National Bank of the amounts of P225,758,935.86 and P15,863,898.79 as payment of the Philippine Sugar Commission's account carried in the books of Philippine Exchange Co., Inc. and the claims of various CAB planters, respectively, is hereby declared legal and valid.

SO ORDERED.^[26]

Petitioners' subsequent Motion for Reconsideration was denied by the Office of the President.^[27] Thereafter, petitioners filed a petition for review with the Court of Appeals, alleging, *inter alia*, that the Office of the President erred when it relied solely on the documents submitted by PNB to determine the amount of the subject remittances and in not ordering PNB to render an accounting of the said remittances; in declaring as valid and legal PNB's application of the subject remittances to alleged NASUTRA's accounts with PNB and PHILEXCHANGE without NASUTRA's knowledge, consent and authority.

On August 10, 2001, Court of Appeals rendered judgment dismissing the petition.^[28] Petitioners filed a Motion for Reconsideration, which was denied on December 12, 2001.

Hence this petition, raising the lone issue:

THE CA DECIDED NOT IN ACCORD WITH LAW AND WITH THE APPLICABLE DECISION OF THIS HONORABLE COURT, AND GRAVELY ABUSED ITS DISCRETION, WHEN IT UPHELD THE LEGALITY AND VALIDITY OF THE OFFSETTING OR COMPENSATION OF THE SUBJECT REMITTANCES TO ALLEGED ACCOUNTS OF NASUTRA WITH PNB AND PHILEX DESPITE THE FACT THAT NO CREDITOR-DEBTOR RELATIONSHIP EXISTED BETWEEN PNB AND NASUTRA WITH RESPECT TO THE SAID REMITTANCES.

In essence, NASUTRA and SRA aver that no compensation involving the subject remittances can take effect by operation of law since the relationship created between PNB and NASUTRA was one of trustee-beneficiary and not one of creditor and debtor. They also claim that no legal compensation can take place in favor of PHILEXCHANGE since the subject remittances were received by PNB and not PHILEXCHANGE, a corporation clothed with a separate and distinct corporate personality from PNB. They added that PHILEXCHANGE's account had already prescribed.

Moreover, NASUTRA and SRA contend that, assuming *arguendo* that creditor-debtor relationship existed between PNB and NASUTRA, compensation was still illegal, since PNB has not proven the existence of the P408 million revolving credit line and the CAB Planters Account. Petitioners also assert that the CAB Planters Account is an unliquidated account considering that it still has to be recomputed pursuant to the Sugar Reconstitution Law.^[29]

Respondent PNB counters that it can apply the foreign remittances on the long-overdue obligations of NASUTRA. They were entered into by NASUTRA with the blessing, if not with express mandate, of the National Government in the pursuit of national interest and policy. PNB invokes also the Letter of Intent submitted by the National Government to the International Monetary Fund (IMF), wherein the government made specific reference to the immediate payment by NASUTRA and PHILSUCOM of their outstanding obligations with PNB to buoy up the country's sagging economy.^[30]

Petitioners' arguments are specious.

Article 1306 of the New Civil Code provides: