

SECOND DIVISION

[G.R. No. 128448, February 01, 2001]

**SPOUSES ALEJANDRO MIRASOL AND LILIA E. MIRASOL,
PETITIONERS, VS. THE COURT OF APPEALS, PHILIPPINE
NATIONAL BANK, AND PHILIPPINE EXCHANGE CO., INC.,
RESPONDENTS.**

DECISION

QUISUMBING, J.:

This is a petition for review on *certiorari* of the decision of the Court of Appeals dated July 22, 1996, in CA-G.R. CV No. 38607, as well as of its resolution of January 23, 1997, denying petitioners' motion for reconsideration. The challenged decision reversed the judgment of the Regional Trial Court of Bacolod City, Branch 42 in Civil Case No. 14725.

The factual background of this case, as gleaned from the records, is as follows:

The Mirasols are sugarland owners and planters. In 1973-1974, they produced 70,501.08 piculs^[1] of sugar, 25,662.36 of which were assigned for export. The following crop year, their acreage planted to the same crop was lower, yielding 65,100 piculs of sugar, with 23,696.40 piculs marked for export.

Private respondent Philippine National Bank (PNB) financed the Mirasols' sugar production venture for crop years, 1973-1974 and 1974-1975 under a crop loan financing scheme. Under said scheme, the Mirasols signed Credit Agreements, a Chattel Mortgage on Standing Crops, and a Real Estate Mortgage in favor of PNB. The Chattel Mortgage empowered PNB as the petitioners' attorney-in-fact to negotiate and to sell the latter's sugar in both domestic and export markets and to apply the proceeds to the payment of their obligations to it.

Exercising his law-making powers under Martial Law, then President Ferdinand Marcos issued Presidential Decree (P.D.) No. 579^[2] in November, 1974. The decree authorized private respondent Philippine Exchange Co., Inc. (PHILEX) to purchase sugar allocated for export to the United States and to other foreign markets. The price and quantity was determined by the Sugar Quota Administration, PNB, the Department of Trade and Industry, and finally, by the Office of the President. The decree further authorized PNB to finance PHILEX's purchases. Finally, the decree directed that whatever profit PHILEX might realize from sales of sugar abroad was to be remitted to a special fund of the national government, after commissions, overhead expenses and liabilities had been deducted. The government offices and entities tasked by existing laws and administrative regulations to oversee the sugar export pegged the purchase price of export sugar in crop years 1973-1974 and 1974-1975 at P180.00 per picul.

PNB continued to finance the sugar production of the Mirasols for crop years 1975-1976 and 1976-1977. These crop loans and similar obligations were secured by real estate mortgages over several properties of the Mirasols and chattel mortgages over standing crops. Believing that the proceeds of their sugar sales to PNB, if properly accounted for, were more than enough to pay their obligations, petitioners asked PNB for an accounting of the proceeds of the sale of their export sugar. PNB ignored the request. Meanwhile, petitioners continued to avail of other loans from PNB and to make unfunded withdrawals from their current accounts with said bank. PNB then asked petitioners to settle their due and demandable accounts. As a result of these demands for payment, petitioners on August 4, 1977, conveyed to PNB real properties valued at P1,410,466.00 by way of *dacion en pago*, leaving an unpaid overdrawn account of P1,513,347.78.

On August 10, 1982, the balance of outstanding sugar crop and other loans owed by petitioners to PNB stood at P15,964,252.93. Despite demands, the Mirasols failed to settle said due and demandable accounts. PNB then proceeded to extrajudicially foreclose the mortgaged properties. After applying the proceeds of the auction sale of the mortgaged realties, PNB still had a deficiency claim of P12,551,252.93.

Petitioners continued to ask PNB to account for the proceeds of the sale of their export sugar for crop years 1973-1974 and 1974-1975, insisting that said proceeds, if properly liquidated, could offset their outstanding obligations with the bank. PNB remained adamant in its stance that under P.D. No. 579, there was nothing to account since under said law, all earnings from the export sales of sugar pertained to the National Government and were subject to the disposition of the President of the Philippines for public purposes.

On August 9, 1979, the Mirasols filed a suit for accounting, specific performance, and damages against PNB with the Regional Trial Court of Bacolod City, docketed as Civil Case No. 14725.

On June 16, 1987, the complaint was amended to implead PHILEX as party-defendant.

The parties agreed at pre-trial to limit the issues to the following:

- "1. The constitutionality and/or legality of Presidential Decrees numbered 338, 579, and 1192;
- "2. The determination of the total amount allegedly due the plaintiffs from the defendants corresponding to the allege(d) unliquidated cost price of export sugar during crop years 1973-1974 and 1974-1975."^[3]

After trial on the merits, the trial court decided as follows:

"WHEREFORE, the foregoing premises considered, judgment is hereby rendered in favor of the plaintiffs and against the defendants Philippine National Bank (PNB) and Philippine Exchange Co., Inc. (PHILEX):

- (1) Declaring Presidential Decree 579 enacted on November 12, 1974 and all circulars, as well as policies, orders and other issuances issued in furtherance thereof,

unconstitutional and therefore, NULL and VOID being in gross violation of the Bill of Rights;

- (2) Ordering defendants PNB and PHILEX to pay, jointly and severally, plaintiffs the whole amount corresponding to the residue of the unliquidated actual cost price of 25,662 piculs in export sugar for crop year 1973-1974 at an average price of P300.00 per picul, deducting therefrom however, the amount of P180.00 already paid in advance plus the allowable deductions in service fees and other charges;
- (3) And also, for the same defendants to pay, jointly and severally, same plaintiffs the whole amount corresponding to the unpaid actual price of 14,596 piculs of export sugar for crop year 1974-1975 at an average rate of P214.14 per picul minus however, the sum of P180.00 per picul already paid by the defendants in advance and the allowable deducting (sic) in service fees and other charges.

"The unliquidated amount of money due the plaintiffs but withheld by the defendants, shall earn the legal rate of interest at 12% per annum computed from the date this action was instituted until fully paid; and, finally -

- (4) Directing the defendants PNB and PHILEX to pay, jointly and severally, plaintiffs the sum of P50,000.00 in moral damages and the amount of P50,000.00 as attorney's fees, plus the costs of this litigation.

"SO ORDERED."^[4]

The same was, however, modified by a Resolution of the trial court dated May 14, 1992, which added the following paragraph:

"This decision should however, be interpreted without prejudice to whatever benefits that may have accrued in favor of the plaintiffs with the passage and approval of Republic Act 7202 otherwise known as the 'Sugar Restitution Law,' authorizing the restitution of losses suffered by the plaintiffs from Crop year 1974-1975 to Crop year 1984-1985 occasioned by the actuations of government-owned and controlled agencies. (Underscoring in the original).

"SO ORDERED."^[5]

The Mirasols then filed an appeal with the respondent court, docketed as CA-G.R. CV No. 38607, faulting the trial court for not nullifying the *dacion en pago* and the mortgage contracts, as well as the foreclosure of their mortgaged properties. Also faulted was the trial court's failure to award them the full money claims and damages sought from both PNB and PHILEX.

On July 22, 1996, the Court of Appeals reversed the trial court as follows:

"WHEREFORE, this Court renders judgment REVERSING the appealed Decision and entering the following verdict:

- "1. Declaring the *dacion en pago* and the foreclosure of the mortgaged properties valid;
- "2. Ordering the PNB to render an accounting of the sugar account of the Mirasol[s] specifically stating the indebtedness of the latter to the former and the proceeds of Mirasols' 1973-1974 and 1974-1975 sugar production sold pursuant to and in accordance with P.D. 579 and the issuances therefrom;
- "3. Ordering the PNB to recompute in accordance with RA 7202 Mirasols' indebtedness to it crediting to the latter payments already made as well as the auction price of their foreclosed real estate and stipulated value of their properties ceded to PNB in the *dacon* (sic) *en pago*;
- "4. Whatever the result of the recomputation of Mirasols' account, the outstanding balance or the excess payment shall be governed by the pertinent provisions of RA 7202.

"SO ORDERED."^[6]

On August 28, 1996, petitioners moved for reconsideration, which the appellate court denied on January 23, 1997.

Hence, the instant petition, with petitioners submitting the following issues for our resolution:

- "1. Whether the Trial Court has jurisdiction to declare a statute unconstitutional without notice to the Solicitor General where the parties have agreed to submit such issue for the resolution of the Trial Court.
- "2. Whether PD 579 and subsequent issuances^[7] thereof are unconstitutional.
- "3. Whether the Honorable Court of Appeals committed manifest error in not applying the doctrine of piercing the corporate veil between respondents PNB and PHILEX.
- "4. Whether the Honorable Court of Appeals committed manifest error in upholding the validity of the foreclosure on petitioners property and in upholding the validity of the *dacion en pago* in this case.
- "5. Whether the Honorable Court of Appeals committed manifest error in not awarding damages to petitioners grounds relied upon the allowance of the petition. (Underscored in the original)"^[8]

On the *first issue*. It is settled that Regional Trial Courts have the authority and jurisdiction to consider the constitutionality of a statute, presidential decree, or executive order.^[9] The Constitution vests the power of judicial review or the power to declare a law, treaty, international or executive agreement, presidential decree, order, instruction, ordinance, or regulation not only in this Court, but in all Regional Trial Courts.^[10] In *J.M. Tuason and Co. v. Court of Appeals*, 3 SCRA 696 (1961) we held:

"Plainly, the Constitution contemplates that the inferior courts should have jurisdiction in cases involving constitutionality of any treaty or law, for it speaks of appellate review of final judgments of inferior courts in cases where such constitutionality happens to be in issue."^[11]

Furthermore, B.P. Blg. 129 grants Regional Trial Courts the authority to rule on the conformity of laws or treaties with the Constitution, thus:

"SECTION 19. *Jurisdiction in civil cases*. - Regional Trial Courts shall exercise exclusive original jurisdiction:

(1) In all civil actions in which the subject of the litigations is incapable of pecuniary estimation;"

The pivotal issue, which we must address, is whether it was proper for the trial court to have exercised judicial review.

Petitioners argue that the Court of Appeals erred in finding that it was improper for the trial court to have declared P.D. No. 579^[12] unconstitutional, since petitioners had not complied with Rule 64, Section 3, of the Rules of Court. Petitioners contend that said Rule specifically refers only to actions for declaratory relief and not to an ordinary action for accounting, specific performance, and damages.

Petitioners' contentions are bereft of merit. Rule 64, Section 3 of the Rules of Court provides:

"SEC. 3. *Notice to Solicitor General*. - In any action which involves the validity of a statute, or executive order or regulation, the Solicitor General shall be notified by the party attacking the statute, executive order, or regulation, and shall be entitled to be heard upon such question."

This should be read in relation to Section 1 [c] of P.D. No. 478,^[13] which states in part:

"SECTION 1. *Functions and Organizations* - (1) The Office of the Solicitor General shall...have the following specific powers and functions:

xxx

"[c] Appear in any court in any action involving the validity of any treaty, law, executive order or proclamation, rule or regulation when in his judgment his intervention is necessary or when requested by the court."