

THIRD DIVISION

[G.R. No. 131680, September 14, 2000]

SUBIC BAY METROPOLITAN AUTHORITY, RICHARD J. GORDON, FERDINAND M. ARISTORENAS, MANUEL W. QUIJANO AND RAYMOND P. VENTURA, PETITIONERS, VS. UNIVERSAL INTERNATIONAL GROUP OF TAIWAN, UIG INTERNATIONAL DEVELOPMENT CORPORATION AND SUBIC BAY GOLF AND COUNTRY CLUB, INC., RESPONDENTS.

DECISION

PANGANIBAN, J.:

A stipulation authorizing a party to extrajudicially rescind a contract and to recover possession of the property in case of contractual breach is lawful. But when a valid objection is raised, a judicial determination of the issue is still necessary before a takeover may be allowed. In the present case, however, respondents do not deny that there was such a breach of the Agreement; they merely argue that the stipulation allowing a rescission and a recovery of possession is void. Hence, the other party may validly enforce such stipulation.

The Case

Before us is a Petition^[1] under Rule 45 of the Rules of Court assailing the December 3, 1997 Decision^[2] of the Court of Appeals (CA) in CA-GR SP No. 45501. The decretal portion of the CA Decision reads as follows:

"WHEREFORE, premises considered, the Petition is, as it is hereby, **DISMISSED** for lack of merit, and certiorari **DENIED**. The Orders of the respondent court both dated 03 October 1997 hereby **STAND**."^[3]

The first Order^[4] of the Regional Trial Court (RTC) of Olongapo City (Branch 73),^[5] which was affirmed by the appellate court, granted herein respondents' application for a writ of preliminary mandatory and prohibitory injunction in this wise:^[6]

"WHEREFORE, premises considered, the defendants, their agents, officers and employees, and all persons acting in their behalf are directed to restore peacefully to the plaintiffs all possession of the golf course, clubhouse, offices and other appurtenances subject of the Lease and Development Agreement between UIG Taiwan and the SBMA; and the said defendants, and their agents, officers [and] employees to refrain [from] obstructing or meddling in the operation and management thereof or x x x otherwise committing acts inimical to the interest of plaintiffs in the management or operation of the same, until the parties may be heard on the merits of the case.

"The Injunction bond is fixed at One Million Pesos (P1,000,000.00) in cash or surety bond provided by a surety company of reputable solvency."

The second RTC Order, also dated October 3, 1997, disposed of petitioners' Motion to Dismiss as follows:^[7]

"WHEREFORE, and the foregoing p[re]mises considered, Defendants' Amended and Consolidated Motion To Dismiss is hereby DENIED for lack of merit.

"The Motion to Dismiss filed by Richard J. Gordon is [g]ranted insofar as the suit against him is concerned in his private or personal capacity. He shall, however, remain as defendant in his official capacity."

The Facts

The undisputed facts are summarized by the Court of Appeals as follows:^[8]

"On 25 May 1995, a 'Lease and Development Agreement' was executed by respondent UIG and petitioner SBMA under which respondent UIG shall lease from petitioner SBMA the Binictican Golf Course and appurtenant facilities thereto to be transformed into a world class 18-hole golf course, golf club/resort, commercial tourism and residential center. The contract in pertinent part contains pre-termination clauses, which provide:

'Section 22. Default

(a) The following acts and omissions shall constitute default by Tenant (each an Event of Default):

x x x

x x x

x x x

(ii) Tenant or any of its Subsidiaries shall commit a material breach or violation of any of the conditions, covenants or agreements herein made by Tenant or such Subsidiary (other than those described in Sections 22.2 [a] [I] and such violation or failure shall continue for thirty (30) days after notice from the Landlord, or, at Landlord's sole discretion, sixty (60) days if such violations or failure is reasonably susceptible of cure during such 60 day period and Tenant or such Subsidiary begins and diligently pursues to completion such cure within thirty (30) days of the initial notice from Landlord;

x x x

x x x

x x x

(b) If an event of default shall have occurred and be continuing, Landlord may, in its sole discretion;

(i) Terminate this Lease thirty (30) days after the expiration of any period granted hereunder to cure any Event of Default

and retain all rent and other amounts previously paid by tenant and its Subsidiaries. Thereafter, Landlord may immediately reenter, renovate or relet all or part of the Property to others, and cancel all rights and privileges granted to Tenant and its Subsidiaries without any restriction on recovery by Landlord for rents, fees and damages owned by Tenant and its Subsidiaries.'

"On 4 February 1997, Petitioner SBMA sent a letter to private respondent UIG calling its attention to its alleged several contractual violations in view of private respondent UIG's failure to deliver its various contractual obligations, primarily its failure to complete the rehabilitation of the Golf Course in time for the APEC Leader's Summit, and to pay accumulated lease rentals and utilities, and to post the required performance bond. Respondent UIG, in its letter of 7 February 1997, interposed as an excuse the alleged default of its main contractor FF Cruz, resulting in their filing of suit against the latter, and committed itself to comply with its obligations within a few days. Private respondent UIG, however, failed to comply with its undertakings. On 7 March 1997, petitioner SBMA sent a letter to private respondent UIG declaring the latter in default of its contractual obligations to SBMA under Section 22.1 of the Lease and Development Agreement and required it to show cause why petitioner SBMA should not pre-terminate the agreement. Private respondents paid the rental arrearages but the other obligations remained unsatisfied.

"On 8 September 1997, a letter of pre-termination was served by petitioner SBMA requiring private respondent UIG to vacate the premises. On 12 September 1997, petitioner served the formal notice of closure of Subic Bay Golf Course and took over possession of the subject premises. On even date, private respondent filed a complaint against petitioner SBMA for 'Injunction and Damages' with prayer for a writ of temporary restraining order and writ of preliminary injunction. On 3 October 1997, respondent court issued the two assailed orders subject of the petition."

Ruling of the Court of Appeals

The Court of Appeals upheld the capacity to sue of Respondent Universal International Group of Taiwan (UIG) because petitioners, having entered into a Lease Development Agreement (LDA) with it, were estopped from questioning its standing. It also held that Respondents UIG International Development Corporation (UIGDC) and Subic Bay Golf and Country Club, Inc., (SBGCCI) were real parties in interest because they had made substantial investments in the venture and had been in possession of the property when Subic Bay Metropolitan Authority (SBMA) rescinded the LDA.

Likewise, it debunked petitioners' submission that Section 21 of RA 7227^[9] was "a blanket proscription against the issuance of any and all injunctive relief[s] against SBMA." It said that "those actions which are removed from the stated objectives of the corporate entity x x x cannot be placed beyond the pale of prohibitory writs."^[10]

While it conceded that the law allowed extrajudicial rescission of a contract, it ruled that "no rationalization was possible" for the extrajudicial taking of possession. It

reasoned that “no one may take the law into his own hands. To hold otherwise would be productive of nothing but mischief and chaos.”

It also rejected petitioners’ reliance on *Consing v. Jamandre*,^[11] in which the Supreme Court allowed a contractual stipulation giving the lessor the right to take possession of the leased property without need of court order. It explained that *Consing* was a “judicial aberration, not common but not unknown in the body of our jurisprudence, which lays down a ruling contrary to the teaching of the greater mass of cases.”^[12]

Furthermore, it held that the issuance of the Writ of Preliminary Injunction did not dispose of the main issue. Concluding, it observed that “we cannot and should not send the message to foreigners who do business here that we are a group of jingoists who cannot look beyond our narrow interests and must look at every stranger with a wary eye and treat them with uneven hands.”

Disagreeing with the above judgment, petitioners elevated the matter to this Court.^[13]

The Issues

In its Memorandum, Petitioner SBMA submits the following issues for our consideration:^[14]

I.

“Whether or not the respondent court committed a reversible error in ruling that petitioner’s action of *extra-judicially recovering the possession* of the subject premises is supposedly illegal [as it] runs counter to the established law and [the] applicable decisions of the Supreme Court on the matter.

II.

“Whether or not the respondent court committed a reversible error in ruling that:

(a) The trial court ha[d] *jurisdiction* over the nature and subject matter of the case despite the fact that the suit filed by private respondents is essentially an *ejectment case*, and

(b) The trial court ha[d] authority to issue the questioned *injunctive relief* despite the express prohibition under Section 21 of R.A. 7227

III.

“Whether or not respondent court committed a reversible error in ruling that private respondents ha[d] the *capacity* to *sue* and possess *material interest* to institute an action against petitioners.

IV.

"Whether or not the respondent court committed a reversible error by sanctioning departure by the trial court from the accepted and usual course of judicial proceedings by failing to make any ruling on the essential elements of injunctive relief consisting of: (1) *a clear and unmistakable* right and (2) *irreparable damage* on the part of the private respondents.

V.

"Whether or not respondent court committed a reversible error in departing from the accepted and usual course of judicial proceedings by sanctioning the illegal procedure of *taking possession of the subject premises* from petitioner SBMA and transferring it into the hands of the private respondents, although the rights of the latter ha[d] not yet been clearly established.

VI.

"Whether or not respondent court committed a reversible error by departing from the accepted and usual course of judicial proceedings by sustaining the grant of injunctive relief which *effectively prejudged* the merits of the main case.

VII.

"Whether or not respondent court committed a reversible error by departing from the accepted and usual course of judicial proceedings by sustaining the grant of injunctive relief in favor of the private respondents although the latter [we]re clearly not entitled thereto as they came before the courts with *unclean hands*.

VIII.

"Whether or not in the event of a 'no reversible error' judgment on the questioned decision of the respondent court, this Honorable Division of the Supreme Court might *modify* or even *reverse* the doctrines and principles of law laid down by the Supreme Court in several leading cases, in violation of Section 4, Article VIII of the 1987 Philippine Constitution.

IX.

"Whether or not in the event of a 'no reversible error' judgment, this Honorable Division of the Supreme Court might unwittingly cause great loss or irreparable damage to the government because such a ruling tend[ed] to send a wrong signal that Philippine Courts [would] *reward rather than punish* foreign investors who miserably failed to comply with their contractual commitments to develop vital government assets."

Distilling the above-quoted assignment of errors, we find two main issues before us: (a) whether the denial of petitioners' Motion to Dismiss was correct, and (b) whether