

THIRD DIVISION

[G.R. No. 137798, October 04, 2000]

**LUCIA R. SINGSON, PETITIONER, VS. CALTEX (PHILIPPINES),
INC. RESPONDENT.**

D E C I S I O N

GONZAGA-REYES, J.:

Petitioner seeks a review on certiorari of the decision of the former Special Second Division of the Court of Appeals dated November 27, 1998,^[1] affirming the decision of the Regional Trial Court of Manila, Branch 25^[2] which dismissed petitioner's action for reformation of contract and adjustment of rentals.

The facts of the case are undisputed ---

Petitioner and respondent entered into a contract of lease on July 16, 1968 over a parcel of land in Cubao, Quezon City. The land, which had an area of 1,400 square meters and was covered by Transfer Certificates of Title No. 43329 and 81636 issued by the Register of Deeds of Quezon City, was to be used by respondent as a gasoline service station.

The contract of lease provides that the lease shall run for a period of twenty (20) years and shall abide by the following rental rates:

xxx xxx xxx xxx

Rental. --- The LESSEE agrees to pay the following rental for said premises:

P2.50/sq.m. per month from the 1st to 10th years and P3.00/sq.m. per month from the 11th to 20th years, payable monthly in advance within the 1st 15 days of each month; provided that the rentals for the 1st 5 years less a discount of eleven (11) percent per annum computed on a monthly diminishing balance, shall be paid to LESSOR upon compliance of the three (3) conditions provided in clause (2) above.

LESSEE also agrees to pay lessor, the sum of Six Thousand Pesos (P6,000.00) as demolition expenses, upon effectivity of this lease.

The rental herein provided for is in any event the maximum rental which LESSOR may collect during the term of this lease or any renewal or extension thereof. LESSEE further agrees for thirty (30) days after written notice of such default has actually been delivered to the General Manager of Caltex (Philippines), Inc. LESSOR shall then have the right to

terminate this lease on thirty (30) days written notice to LESSEE. xxx xxx
xxx^[3]

Thus, based on the foregoing provisions of the lease contract, the monthly rental was fixed at P3,500.00 for the first ten years, and at P4,200.00 for the succeeding ten years of the lease.

On June 23, 1983, or five years before the expiration of the lease contract, petitioner asked respondent to adjust or increase the amount of rentals citing that the country was experiencing extraordinary inflation. In a letter dated August 3, 1983, respondent refused petitioner's request and declared that the terms of the lease contract are clear as to the rental amounts therein provided being "the maximum rental which the lessor may collect during the term of the lease."^[4]

On September 21, 1983, petitioner instituted a complaint before the RTC praying for, among other things, the payment by respondent of adjusted rentals based on the value of the Philippine peso at the time the contract of lease was executed. The complaint invoked Article 1250 of the Civil Code, stating that since the execution of the contract of lease in 1968 an extraordinary inflation had supervened resulting from the deterioration of worldwide economic conditions, a circumstance that was not foreseen and could not have been reasonably foreseen by the parties at the time they entered into contract.

To substantiate its allegation of extraordinary inflation, petitioner presented as witness Mr. Narciso Uy, Assistant Director of the Supervising and Examining Sector of the Central Bank, who attested that the inflation rate increased abruptly during the period 1982 to 1985, caused mainly by the devaluation of the peso.^[5] Petitioner also submitted into evidence a certification of the official inflation rates from 1966 to 1986 prepared by the National Economic Development Authority ("NEDA") based on consumer price index, which reflected that at the time the parties entered into the subject contract, the inflation rate was only 2.06%; then, it soared to 34.51% in 1974, and in 1984, reached a high of 50.34%.^[6]

In a decision rendered on July 15, 1991, the RTC dismissed the complaint for lack of merit. This judgment was affirmed by the Court of Appeals. Both courts found that petitioner was unable to prove the existence of extraordinary inflation from 1968 to 1983 (or from the year of the execution of the contract up to the year of the filing of the complaint before the RTC) as to justify an adjustment or increase in the rentals based upon the provisions of Article 1250 of the Civil Code.

The Court of Appeals declared that although, admittedly, there was an economic inflation during the period in question, it was not such as to call for the application of Article 1250 which is made to apply only to "violent and sudden changes in the price level or uncommon or unusual decrease of the value of the currency. (It) does not contemplate of a normal or ordinary decline in the purchasing power of the peso."^[7]

The Court of Appeals also found similarly with the trial court that the terms of rental in the contract of lease dated July 16, 1968 are clear and unequivocal as to the specific amount of the rental rates and the fact that the rentals therein provided shall be the "maximum rental" which petitioner as lessor may collect. Absent any

showing that such contractual provisions are contrary to law, morals, good customs, public order or public policy, the Court of Appeals held that there was no basis for not acknowledging their binding effect upon the parties. It also upheld the application by the trial court of the ruling in *Filipino Pipe and Foundry Corporation vs. National Waterworks and Sewerage Authority*, 161 SCRA 32, where the Court held that although there has been a decline in the purchasing power of the Philippine peso during the period 1961 to 1971, such downward fall of the currency could not be considered "extraordinary" and was simply a universal trend that has not spared the Philippines.

Thus, the dispositive portion of the decision of the Court of Appeals reads:

WHEREFORE, in view of the foregoing, the appeal is hereby DISMISSED and the decision appealed from is hereby AFFIRMED.

SO ORDERED.^[8]

Petitioner's motion for reconsideration of the above decision was denied by the Court of Appeals in a resolution dated March 10, 1999.

Aggrieved, petitioner filed this petition for review on certiorari where she assails as erroneous the decision of the Court of Appeals, specifically, (1) in ruling that Article 1250 of the Civil Code is inapplicable to the instant case, (2) in not recognizing the applicability of the principle of *rebus sic stantibus*, and (3) in applying the ruling in *Filipino Pipe and Foundry Corporation vs. NAWASA*.

Petitioner contends that the monthly rental of P3.00 per square meter is patently inequitable. Based on the inflation rates supplied by NEDA, there was an unusual increase in inflation that could not have been foreseen by the parties; otherwise, they would not have entered into a relatively long-term contract of lease. She argued that the rentals in this case should not be regarded by their quantitative or nominal value, but as "debts of value", that is, the rental rates should be adjusted to reflect the value of the peso at the time the lease was contracted.^[9]

Petitioner also insists that the factual milieu of the present case is distinct from that in *Filipino Pipe and Foundry Corporation vs. NAWASA*. She pointed out that the inflation experienced by the country during the period 1961 to 1971 (the pertinent time period in the *Filipino Pipe* case) had a lowest of 1.35% in 1969 and a highest of 15.03% in 1971, whereas in the instant case, involving the period 1968 to 1983, there had been highly abnormal inflation rates like 34.51% in 1974 (triggered by the OPEC oil price increases in 1973) and 50.34% in 1984 (caused by the assassination of Benigno Aquino, Jr. in 1983). Petitioner argues that the placing of the country under martial rule in 1972, the OPEC oil price increases in 1973, and the Aquino assassination which triggered the EDSA revolution, were fortuitous events that drastically affected the Philippine economy and were beyond the reasonable contemplation of the parties.

To further bolster her arguments, petitioner invokes by analogy the principle of *rebus sic stantibus* in public international law, under which a vital change of circumstances justifies a state's unilateral withdrawal from a treaty. In the herein case, petitioner posits that in pegging the monthly rental rates of P2.50 and P3.00 per square meter, respectively, the parties were guided by the economic conditions