



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

NOTICE

Sirs/Mesdames:

*Please take notice that the Court, First Division, issued a Resolution dated **July 13, 2020** which reads as follows:*

“G.R. No. 225432 – Sumifru (Philippines) Corporation v. Spouses Leonora and Celestino Burbe

Assailed in this Petition for Review on *Certiorari* under Rule 45 is the Decision¹ dated February 24, 2016 and Resolution² dated June 7, 2016 of the Court of Appeals (CA) – Cagayan de Oro City in CA-G.R. CV No. 03736, which affirmed *in toto* the Regional Trial Court’s (RTC) disposition in a case for Specific Performance, Injunction, Damages and Attorney’s Fees.

It is undisputed that on June 18, 1999, Davao Fruits Corporation (DFC) entered into a Production and Purchase Agreement³ (PPA) with the Spouses Leonora and Celestino Burbe (respondents). Under the PPA, respondents’ parcel of land in Calinan, Davao City, with an area of 10,175 square meters and registered under Transfer Certificate of Title No. CL-3380,⁴ shall be devoted by respondents to the cultivation of Cavendish bananas exclusively sold to DFC, except those rejected by the latter for failing to meet agreed specifications. The PPA’s term of effectivity is worded in the following manner:

22. This AGREEMENT shall remain in full force and effect for an **initial term of TEN (10) years** covering period from March 11, 1999 to March 10, 2009, and shall **automatically be extended or renewed** for another term of three (3) five-year period[s] unless a written notice of cancellation or termination is served by the COMPANY at least six (6) months before the end of the initial
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¹ Penned by Associate Justice Edgardo T. Lloren, with Associate Justices Rafael Antonio M. Santos and Ruben Reynaldo G. Roxas, concurring; *rollo*, pp. 45-53

² Id. at 55.

³ Id. at 56-64.

⁴ Id. at 66-69.

term of this AGREEMENT. The notice of cancellation or termination may not be withdrawn without the prior written notice served to the other party. **The COMPANY however, reserves the sole option to renew this AGREEMENT.** (Emphasis supplied.)⁵

Meanwhile, on June 30, 2008, DFC merged with Sumifru (Philippines) Corporation (petitioner), by which the latter became the surviving corporation.⁶ Petitioner had since been subrogated to DFC's rights and obligations under the PPA with respondents.⁷

The controversy arose when respondents were reported on March 30, 2010 to have harvested bananas from the contracted area, which were brought elsewhere for packing and sale to third parties.⁸ Due to respondents' alleged refusal to exclusively sell bananas to it, petitioner lodged a Complaint⁹ with the RTC of Davao City on September 17, 2010 to compel respondents to comply with the PPA.

In its October 20, 2011 Pre-Trial Order,¹⁰ the trial court articulated the following issues to guide it in resolving the case:

1. Whether or not [respondents] are obligated to exclusively sell their bananas to [petitioner];
2. Whether or not [respondents] are liable to [petitioner] for damages, attorney's fees, litigation expenses as well as cost of suit[;and]
3. Whether or not the parties are entitled to their respective claims.¹¹

After trial, the RTC saw it fit to reform the issues in this wise:

Whether or not the Production and Purchase Agreement, at the time of the filing of the instant Complaint, still subsist that would put Defendants in breach of the PPA contract.”
(Emphasis in the original)¹²

It then arrived at the conclusion that the PPA already expired on March 10, 2009. Furthermore, the automatic renewal clause of the PPA violates the principle of mutuality of contracts and that

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⁵ Id. at 63.

⁶ Id. at 65.

⁷ Id. at 45-46.

⁸ Id. at 83-84.

⁹ Id. at 93-101.

¹⁰ Id. at 156-158.

¹¹ Id. at 157.

¹² Id. at 163.

fulfillment and termination of a contract cannot be left to the sole will of one party; thus it is void. As the alleged acts of harvesting and selling bananas by respondents on March 2010 no longer constitute an actionable breach, in its May 26, 2014 Decision,¹³ the RTC of Davao City, Branch 16, disposed:

WHEREFORE, premises considered, the instant Complaint is hereby DISMISSED.

The Counterclaim is also DISMISSED.

SO ORDERED.¹⁴

Petitioner moved for reconsideration, but the RTC denied the motion and reiterated that it “did not deviate from the issues raised by the parties in Pre-Trial Order but merely simplified them because the issue on the effectivity and/or extended term of the contract as operative basis for [respondents’] liability in case of breach, is impliedly or inferable from the said issues.”¹⁵

On appeal, the decision and resolution subject of this review affirmed the disposition of the RTC *in toto*.¹⁶ Consequently, petitioner now draws attention to the following issues:

I.

Whether or not the CA erred in ruling that the RTC did not commit error when it unilaterally reformed the issues identified in the Pre-Trial Order[;]

II.

Whether or not the CA erred in ruling that the reformed issue was a mere simplification of the issues in the Pre-Trial Order[; and]

III.

Whether or not the CA erred in ruling that the RTC committed no error in finding the automatic renewal clause in the PPA void.¹⁷

On January 20, 2017, respondents filed their Comment¹⁸ on the petition, essentially supporting the CA’s disquisition. In response, petitioner filed a Reply¹⁹ on July 10, 2017, reiterating the arguments in the current petition. Thus, from the foregoing, we distill the issue to

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¹³ Id. at 159-165.

¹⁴ Id. at 165.

¹⁵ Id. at 187-188.

¹⁶ Supra notes 1 and 2.

¹⁷ *Rollo*, p. 18.

¹⁸ Id. at 209-215.

¹⁹ Id. at 225-229.

whether or not the CA correctly affirmed in full the RTC decision voiding the automatic extension/renewal clause of the PPA.

The petition must be denied for lack of merit.

Petitioner could not successfully claim to have been caught off-guard or denied due process when the RTC narrowed down the stipulated issues to the pivotal question at the heart of the controversy. “Indeed, parties are bound by the delimitation of issues during the pre-trial.”²⁰ For this reason, “[t]he parties must disclose during pre-trial all issues they intend to raise during the trial, except those involving privileged or impeaching matters.”²¹ In this regard, “[a]lthough a pre-trial order is not meant to catalogue each issue that the parties may take up during the trial, issues not included in the pre-trial order may be considered only if they are impliedly included in the issues raised or inferable from the issues raised by necessary implication.”²² It is clear that in this instance, the trial court did not formulate a new issue, but merely reduced the issues to one that is intrinsically included among those raised.

To recall, petitioner seeks to compel respondents to perform what it perceives to be a subsisting and enforceable obligation, *i.e.*, to exclusively sell to petitioner the bananas cultivated by respondents from the subject property. There is no conceivable way this issue could be resolved without establishing whether or not the PPA still subsisted at the time of the complained acts of respondents’ refusal to sell. Petitioner should have expected it, particularly when respondents raised the one-sided nature of their obligation in their Answer.²³

There is likewise no merit in petitioner’s contention that the validity of the continued subsistence of the term of the PPA was already admitted by respondents and should have not been made an issue. Upon careful scrutiny, respondents only recognized the existence of the automatic renewal clause and not necessarily its validity. The CA, thus, committed no reversible error in concurring with the RTC, that the issue of the continued subsistence of the agreement is impliedly included or inferable by necessary implication from the issues raised.

The CA also correctly upheld the RTC’s conclusion that the provision in the PPA granting petitioner the sole option of unilaterally

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²⁰ *Licomcen, Inc. v. Engr. Abainza*, 704 Phil. 166, 174 (2013).

²¹ *Id.*, citing *Villanueva v. Court of Appeals*, 471 Phil. 394, 407 (2004).

²² *Id.*

²³ *Rollo*, p. 108.

extending or renewing the term of the agreement is a violation of the principle of mutuality of contracts.

The principle of mutuality of contracts is found in Article 1308 of the New Civil Code, which states that contracts must bind both contracting parties, and its validity or compliance cannot be left to the will of one of them. The binding effect of any agreement between parties to a contract is premised on two settled principles: (1) that any obligation arising from contract has the force of law between the parties; and (2) that there must be mutuality between the parties based on their essential equality. As such, any contract which appears to be heavily weighed in favor of one of the parties so as to lead to an unconscionable result is void. Likewise, any stipulation regarding the validity or compliance of the contract that is potestative or is left solely to the will of one of the parties is invalid. This holds true not only as to the original terms of contract but also to its modifications. Consequently, any change in a contract must be made with the consent of the contracting parties, and must be mutually agreed upon. Otherwise, it has no binding effect.²⁴ (Citations omitted)

It bears emphasizing that:

The significance of Article 1308 cannot be doubted. It is elementary that there can be no contract in the absence of the mutual assent of the parties. When the assent of either party is wanting, the act of the non-assenting party has no efficacy for his act as if it was done under duress or by an incapacitated person. Naturally, any modification made in the contract must still be with or upon consent of the contracting parties. There must still be a meeting of the minds of all the parties on the modification, especially when the modification relates to an important or material aspect of the agreement. x x x²⁵

All told, in taking respondents to court in an attempt to compel them to perform a claimed obligation, petitioner should have known that the trial court could not resolve the controversy without addressing the legal basis to compel respondents in the first place. We sustain the CA's finding that the RTC merely confined itself within the issues squarely brought before it.

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²⁴ *Security Bank Corporation v. Spouses Rodrigo and Erlinda Mercado*, G.R. No. 192934, June 27, 2018, citing *Silos v. Philippine National Bank*, G.R. No. 181045, July 2, 2014, 728 SCRA 617, 646.

²⁵ *Villa Crista Monte Realty & Development Corporation v. Equitable PCI Bank (now known as Banco De Oro Unibank, Inc.), and ex-officio Sheriff of Quezon City*, G.R. No. 208336, November 21, 2018.

ACCORDINGLY, the petition is **DENIED**. The Decision dated February 24, 2016 and Resolution dated June 7, 2016 of the Court of Appeals-Cagayan de Oro City in CA-G.R. CV No. 03736, are **AFFIRMED**.

SO ORDERED.”

By authority of the Court:


LIBRADA C. BUENA
Division Clerk of Court

by:

MARIA TERESA B. SIBULO
Deputy Division Clerk of Court
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