# Republic of the Philippines
# Supreme Court
# Manila

**SECOND DIVISION**

**FRUEHAUF ELECTRONICS PHILIPPINES CORPORATION,**
Petitioner,

- versus -

**TECHNOLOGY ELECTRONICS ASSEMBLY AND MANAGEMENT PACIFIC CORPORATION,**
Respondent.

**G.R. No. 204197**

Present:

CARPIO, *J., Chairperson,*
BRION,
DEL CASTILLO,
MENDOZA, and
LEONEN, *JJ.*

Promulgated:
23 NOV 2016

x----------x

## DECISION

**BRION, *J.*:**

The fundamental importance of this case lies in its delineation of the extent of permissible judicial review over arbitral awards. We make this determination from the prism of our existing laws on the subject and the prevailing state policy to uphold the autonomy of arbitration proceedings.

This is a petition for review on *certiorari* of the Court of Appeals' *(CA)* decision in **CA-G.R. SP. No. 112384** that reversed an arbitral award and dismissed the arbitral complaint for lack of merit.[1] The CA breached the bounds of its jurisdiction when it reviewed the substance of the arbitral award outside of the permitted grounds under the Arbitration Law.[2]

---

1 Penned by Associate Justice Vicente S.E. Veloso and concurred in by Associate Justices Francisco P. Acosta and Ramon A. Cruz.

2 *An Act to Authorize the Making of Arbitration and Submission Agreements, to Provide for the Appointment of Arbitrators, and the Procedure for Arbitration in Civil Controversies, and for Other Purposes,* Republic Act No. 876, [THE ARBITRATION LAW] (1953).

***Brief Factual Antecedents***

In 1978, Fruehauf Electronics Philippines Corp. *(Fruehauf)* leased several parcels of land in Pasig City to Signetics Filipinas Corporation *(Signetics)* for a period of 25 years (until May 28, 2003). Signetics constructed a semiconductor assembly factory on the land on its own account.

In 1983, Signetics ceased its operations after the Board of Investments *(BOI)* withdrew the investment incentives granted to electronic industries based in Metro Manila.

In 1986, Team Holdings Limited (THL) bought Signetics. THL later changed its name to Technology Electronics Assembly and Management Pacific Corp. *(TEAM)*.

In March 1987, Fruehauf filed an unlawful detainer case against TEAM. In an effort to amicably settle the dispute, both parties executed a Memorandum of Agreement *(MOA)* on June 9, 1988.[3] Under the MOA, TEAM undertook to pay Fruehauf 14.7 million pesos as unpaid rent (for the period of December 1986 to June 1988).

They also entered a 15-year lease contract[4] (expiring on June 9, 2003) that was renewable for another 25 years upon mutual agreement. The contract included an arbitration agreement:[5]

> 17. ARBITRATION
>
> In the event of any dispute or disagreement between the parties hereto involving the interpretation or implementation of any provision of this Contract of Lease, the dispute or disagreement shall be referred to arbitration by a three (3) member arbitration committee, one member to be appointed by the LESSOR, another member to be appointed by the LESSEE, and the third member to be appointed by these two members. The arbitration shall be conducted in accordance with the Arbitration Law (R.A. No. 876).

The contract also authorized TEAM to sublease the property. TEAM subleased the property to Capitol Publishing House *(Capitol)* on December 2, 1996 after notifying Fruehauf.

On May 2003, TEAM informed Fruehauf that it would not be renewing the lease.[6]

---

3 *Rollo*, pp. 147-150.
4 Id. at 151-159.
5 Id. at 159.
6 Id. at 170.

On May 31, 2003, the sublease between TEAM and Capitol expired. However, Capitol only vacated the premises on March 5, 2005. In the meantime, the master lease between TEAM and Fruehauf expired on June 9, 2003.

On March 9, 2004, Fruehauf instituted **SP Proc. No. 11449** before the Regional Trial Court *(RTC)* for "*Submission of an Existing Controversy for Arbitration.*"[7] It alleged: (1) that when the lease expired, the property suffered from damage that required extensive renovation; (2) that when the lease expired, TEAM failed to turn over the premises and pay rent; and (3) that TEAM did not restore the property to its original condition as required in the contract. Accordingly, the parties are obliged to submit the dispute to arbitration pursuant to the stipulation in the lease contract.

The RTC granted the petition and directed the parties to comply with the arbitration clause of the contract.[8]

Pursuant to the arbitration agreement, the dispute was referred to a three-member arbitration tribunal. TEAM and Fruehauf appointed one member each while the Chairman was appointed by the first two members. The tribunal was formally constituted on September 27, 2004 with retired CA Justice Hector L. Hofileña, as chairman, retired CA Justice Mariano M. Umali and Atty. Maria Clara B. Tankeh-Asuncion as members.[9]

The parties initially submitted the following issues to the tribunal for resolution:[10]

1. Whether or not TEAM had complied with its obligation to return the leased premises to Fruehauf after the expiration of the lease on June 9, 2003.

   1.1. What properties should be returned and in what condition?

2. Is TEAM liable for payment of rentals after June 9, 2003?

   2.1. If so, how much and for what period?

3. Is TEAM liable for payment of real estate taxes, insurance, and other expenses on the leased premises after June 9, 2003?

4. Who is liable for payment of damages and how much?

5. Who is liable for payment of attorney's fees and how much?

---

7 Id. at 171.
8 Id. at 180.
9 Id. at 183.
10 Id. at 184-185.

Subsequently, the following issues were also submitted for resolution after TEAM proposed[11] their inclusion:

1. Who is liable for the expenses of arbitration, including arbitration fees?

2. Whether or not TEAM has the obligation to return the premises to Fruehauf as a "complete, rentable, and fully facilitized electronic plant."

***The Arbitral Award***[12]

On December 3, 2008, the arbitral tribunal awarded Fruehauf: (1) 8.2 million pesos as (the balance of) unpaid rent from June 9, 2003 until March 5, 2005; and (2) 46.8 million pesos as damages.[13]

The tribunal found that Fruehauf made several demands for the return of the leased premises before and after the expiration of the lease[14] and that there was no express or implied renewal of the lease after June 9, 2003. It recognized that the sub-lessor, Capitol, remained in possession of the lease. However, relying on the commentaries of Arturo Tolentino on the subject, the tribunal held that it was not enough for lessor to simply vacate the leased property; *it is necessary that he place the thing at the disposal of the lessor, so that the latter can receive it without any obstacle.*[15]

For failing to return the property to Fruehauf, TEAM remained liable for the payment of rents. However, if it can prove that Fruehauf received rentals from Capitol, TEAM can deduct these from its liability.[16] Nevertheless, the award of rent and damages was without prejudice to TEAM's right to seek redress from its sub-lessee, Capitol.[17]

With respect to the improvements on the land, the tribunal viewed the situation from two perspectives:

*First*, while the Contract admitted that Fruehauf was only leasing the land and not the buildings and improvements thereon, it nevertheless obliged TEAM to deliver the buildings, installations and other improvements existing at the inception of the lease upon its expiration.[18]

*The other view*, is that the MOA and the Contract recognized that TEAM owned the existing improvements on the property and considered

---

11 Id.
12 Id. at 181-353.
13 Id. at 352-353.
14 Id. at 304.
15 Id. at 320, citing TOLENTINO, Commentaries and Jurisprudence on the Civil Code of the Philippines, Vol. V, p. 239, citing Vera 151.
16 Id. at 320.
17 Id. at 350.
18 Id. at 306 and 307.

them as separate from the land for the initial 15-year term of the lease.[19] However, Fruehauf had a vested right to become the owner of these improvements at the end of the 15-year term. Consequently, the contract specifically obligated TEAM not to remove, transfer, destroy, or in any way alienate or encumber these improvements without prior written consent from Fruehauf.[20]

**Either way**, TEAM had the obligation to deliver the existing improvements on the land upon the expiration of the lease. However, there was no obligation under the lease to return the premises as a "*complete, rentable, and fully facilitized electronics plant.*"[21] Thus, TEAM's obligation was to vacate the leased property and deliver to Fruehauf the buildings, improvements, and installations (including the machineries and equipment existing thereon) in the same condition as when the lease commenced, save for what had been lost or impaired by the lapse of time, ordinary wear and tear, or any other inevitable cause.[22]

The tribunal found TEAM negligent in the maintenance of the premises, machineries, and equipment it was obliged to deliver to Fruehauf.[23] For this failure to conduct the necessary repairs or to notify Fruehauf of their necessity, the tribunal held TEAM accountable for damages representing the value of the repairs necessary to restore the premises to a condition "*suitable for the use to which it has been devoted*" less their depreciation expense.[24]

On the other issues, the tribunal held that TEAM had no obligation to pay real estate taxes, insurance, and other expenses on the leased premises considering these obligations can only arise from a renewal of the contract.[25] Further, the tribunal refused to award attorney's fees, finding no evidence that either party acted in bad faith.[26] For the same reason, it held both parties equally liable for the expenses of litigation, including the arbitrators' fees.[27]

TEAM moved for reconsideration[28] which the tribunal denied.[29] Thus, TEAM petitioned the RTC to partially vacate or modify the arbitral award.[30] It argued that the tribunal failed to properly appreciate the facts and the terms of the lease contract.

---

19 Id. at 309 and 310.
20 Id. at 310.
21 Id. at 317.
22 Id. at 318.
23 Id. at 348.
24 Id. at 328-332, 340.
25 Id. at 325.
26 Id. at 352.
27 Id.
28 Id. at 354.
29 Id. at 376-380.
30 Id. at 381-408.

***The RTC Ruling***

On April 29, 2009, the RTC[31] found ***insufficient legal grounds*** under Sections 24 and 25 of the Arbitration Law to modify or vacate the award.[32] It denied the petition and CONFIRMED the arbitral award.[33] TEAM filed a Notice of Appeal.

On July 3, 2009,[34] the RTC refused to give due course to the Notice of Appeal because according to Section 29[35] of the Arbitration Law, an ordinary appeal under Rule 41 is not the proper mode of appeal against an order confirming an arbitral award.[36]

TEAM moved for reconsideration but the RTC denied the motion on November 15, 2009.[37] Thus, TEAM filed a petition for *certiorari*[38] before the CA arguing that the RTC gravely abused its discretion in: (1) denying due course to its notice of appeal; and (2) denying the motion to partially vacate and/or modify the arbitral award.[39]

TEAM argued that an ordinary appeal under Rule 41 was the proper remedy against the RTC's order confirming, modifying, correcting, or vacating an arbitral award.[40] It argued that Rule 42 was not available because the order denying its motion to vacate was not rendered in the exercise of the RTC's appellate jurisdiction. Further, Rule 43 only applies to decisions of quasi-judicial bodies. Finally, an appeal under Rule 45 to the Supreme Court would preclude it from raising questions of fact or mixed questions of fact and law.[41]

TEAM maintained that it was appealing the RTC's order denying its petition to partially vacate/modify the award, **not the arbitral award itself.**[42] Citing Rule 41, Section 13 of the Rules of Court, the RTC's authority to dismiss the appeal is limited to instances when it was filed out of time or when the appellant fails to pay the docket fees within the reglementary period.[43]

---

31 RTC, Pasig City, Branch 161 acting through Judge Nicanor A. Manalo, Jr. in **Sp. Proc. No. 11449.**

32 *Rollo*, p. 130.

33 Id.

34 Id.at 527.

35 THE ARBITRATION LAW:

**Section 29.** *Appeals.* – **An appeal** may be taken from an order made in a proceeding under this Act, or from a judgment entered upon an award **through certiorari proceedings, but such appeals shall be limited to questions of law**. The proceedings upon such appeal, including the judgment thereon shall be governed by the Rules of Court in so far as they are applicable.

36 *Rollo*, p. 132.

37 Id. at 133.

38 Id. at 65-126.

39 Id. at 87.

40 Id. at 91.

41 Id. at 94.

42 Id. at 92.

43 Id. at 88.

TEAM further maintained that the RTC gravely abused its discretion by confirming the Arbitral Tribunal's award when it evidently had legal and factual errors, miscalculations, and ambiguities.[44]

The petition was docketed as **CA-G.R. SP. No. 112384.**

***The CA decision***[45]

The CA initially dismissed the petition.[46] As the RTC did, it cited Section 29 of the Arbitration Law:

> **Section 29.** *Appeals.* – **An appeal may be taken** from an order made in a proceeding under this Act, or from a judgment entered upon an award through **certiorari proceedings**, but such appeals shall be **limited to questions of law**. The proceedings upon such appeal, including the judgment thereon shall be governed by the Rules of Court in so far as they are applicable.

It concluded that the appeal contemplated under the law is an appeal by *certiorari* limited only to questions of law.[47]

The CA continued that TEAM failed to substantiate its claim as to the "evident miscalculation of figures." It further held that disagreement with the arbitrators' factual determinations and legal conclusions does not empower courts to amend or overrule arbitral judgments.[48]

However, the CA amended its decision on October 25, 2012 upon a motion for reconsideration.[49]

The CA held that Section 29 of the Arbitration Law does not preclude the aggrieved party from resorting to other judicial remedies.[50] Citing *Asset Privatization Trust v. Court of Appeals*,[51] the CA held that the aggrieved party may resort to a petition for *certiorari* when the RTC to which the award was submitted for confirmation has acted without jurisdiction, or with grave abuse of discretion and there is no appeal, nor any plain, speedy remedy in the course of law.[52]

The CA further held that the mere filing of a notice of appeal is sufficient as the issues raised in the appeal were not purely questions of

---

44 Id. at 95.
45 Id. at 30-45.
46 Id. at 47-63.
47 Id. at 60.
48 Id. at 62.
49 Id. at 30-45.
50 Id. at 33.
51 360 Phil. 768 (1998).
52 *Rollo*, p. 33.

law.[53] It further cited Section 46 of the Alternative Dispute Resolution *(ADR)* Law:[54]

> **SEC. 46.** ***Appeal from Court Decisions on Arbitral Awards.*** - A decision of the regional trial court confirming, vacating, setting aside, modifying or correcting an arbitral award may be appealed to the Court of Appeals in accordance with the rules of procedure to be promulgated by the Supreme Court.
>
> The losing party who appeals from the judgment of the court confirming an arbitral award shall be required by the appellant court to post counterbond executed in favor of the prevailing party equal to the amount of the award in accordance with the rules to be promulgated by the Supreme Court.[55]

However, the CA made no further reference to A.M. No. 07-11-08-SC, the Special Rules of Court on Alternative Dispute Resolution *(Special ADR Rules)* which govern the appeal procedure.

The CA further revisited the merits of the arbitral award and found several errors in law and in fact. It held: (1) that TEAM was not obliged to pay rent because it was Capitol, not TEAM, that remained in possession of the property upon the expiration of the lease;[56] and (2) that Fruehauf was not entitled to compensation for the repairs on the buildings because it did not become the owner of the building until after the expiration of the lease.[57]

Also citing Tolentino, the CA opined: (1) that a statement by the lessee that he has abandoned the premises should, as a general rule, constitute sufficient compliance with his duty to return the leased premises; and (2) that any new arrangement made by the lessor with another person, such as the sub-lessor, operates as a resumption of his possession.[58]

On the issue of damages, the CA held that TEAM can never be liable for the damages for the repairs of the improvements on the premises because they were owned by TEAM itself (through its predecessor, Signetics) when the lease commenced.[59]

The CA **REVERSED AND SET ASIDE** the arbitral award and **DISMISSED** the arbitral complaint for lack of merit.[60]

This CA action prompted Fruehauf to file the present petition for review.

---

53 Id.
54 Id. at 34.
55 Sec. 46, An Act to Institutionalize the Use of an Alternative Dispute Resolution System in the Philippines and to Establish the Office for Alternative Dispute Resolution, and for Other Purposes, Republic Act No. 9285, [ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004] (2004).
56 Id. at 35.
57 Id. at 44.
58 Id. at 38, citing TOLENTINO, p. 239.
59 Id. at 41.
60 Id. at 44-45.

***The Arguments***

Fruehauf argues that courts do not have the power to substitute their judgment for that of the arbitrators.[61] It also insists that an ordinary appeal is not the proper remedy against an RTC's order confirming, vacating, correcting or modifying an arbitral award but a petition for review on *certiorari* under Rule 45.[62]

Furthermore, TEAM's petition before the CA went beyond the permissible scope of *certiorari* – the existence of grave abuse of discretion or errors jurisdiction – by including questions of fact and law that challenged the merits of the arbitral award.[63]

However, Fruehauf inconsistently argues that the remedies against an arbitral award are (1) a petition to vacate the award, (2) a petition for review under Rule 43 raising questions of fact, of law, or mixed questions of fact and law, or (3) a petition for *certiorari* under Rule 65.[64] Fruehauf cites an article from the Philippine Dispute Resolution Center[65] and *Insular Savings Bank v. Far East Bank and Trust, Co.*[66]

TEAM counters that the CA correctly resolved the substantive issues of the case and that the arbitral tribunal's errors were sufficient grounds to vacate or modify the award.[67] It insists that the RTC's misappreciation of the facts from a patently erroneous award warranted an appeal under Rule 41.[68]

TEAM reiterates that it "**disagreed with the arbitral award mainly on questions of fact and not only on questions of law**," specifically, "**on factual matters relating to specific provisions in the contract on ownership of structures and improvements thereon, and the improper award of rentals and penalties.**"[69] Even assuming that it availed of the wrong mode of appeal, TEAM posits that its appeal should still have been given due course in the interest of substantial justice.[70]

TEAM assails the inconsistencies of Fruehauf's position as to the available legal remedies against an arbitral award.[71] However, it maintains that Section 29 of the Arbitration Law does not foreclose other legal remedies (aside from an appeal by *certiorari*) against the RTC's order confirming or vacating an arbitral award pursuant to *Insular Savings Bank*

---

61 Id. at 13.
62 Id. at 44-45.
63 Id. at 21, 23, 24, 449 and 450.
64 Id. at 461.
65 Id. at 454.
66 Id. at 461.
67 Id. at 450, 524 and 530.
68 Id. at 453.
69 Id. at 455.
70 Id.
71 Id. at 454.

and *ABS-CBN Broadcasting Corporation v. World Interactive Network Systems (WINS) Japan Co., Ltd.*[72]

***The Issues***

This case raises the following questions:

1. What are the remedies or the modes of appeal against an unfavorable arbitral award?

2. What are the available remedies from an RTC decision confirming, vacating, modifying, or correcting an arbitral award?

3. Did the arbitral tribunal err in awarding Fruehauf damages for the repairs of the building and rental fees from the expiration of the lease?

**Our Ruling**

The petition is meritorious.

Arbitration is an alternative mode of dispute resolution ***outside of the regular court system***. Although adversarial in character, arbitration is technically not litigation. It is a voluntary process in which one or more arbitrators – appointed according to the parties' agreement or according to the applicable rules of the Alternative Dispute Resolution *(ADR)* Law – resolve a dispute by rendering an award.[73] While arbitration carries many advantages over court litigation, in many ways these advantages also translate into its disadvantages.

Resort to arbitration is voluntary. It requires ***consent from both parties*** in the form of an arbitration clause that ***pre-existed the dispute*** *or a* ***subsequent submission agreement***. This written arbitration agreement is an independent and legally enforceable contract that must be complied with in good faith. By entering into an arbitration agreement, the parties agree to submit their dispute to an arbitrator (or tribunal) of their own choosing and be bound by the latter's resolution.

However, this **contractual** and **consensual** character means that the parties cannot implead a third-party in the proceedings even if the latter's participation is necessary for a complete settlement of the dispute. The tribunal does not have the power to compel a person to participate in the arbitration proceedings without that person's consent. It also has no authority to decide on issues that the parties did not submit (or agree to submit) for its resolution.

---

72 Id. at 455.

73 Sec. 3(d), ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.

As a **purely private mode of dispute resolution**, arbitration proceedings, including the records, the evidence, and the arbitral award, are confidential[74] unlike court proceedings which are generally public. This allows the parties to avoid negative publicity and protect their privacy. Our law highly regards the confidentiality of arbitration proceedings that it devised a judicial remedy to prevent or prohibit the unauthorized disclosure of confidential information obtained therefrom.[75]

The contractual nature of arbitral proceedings affords the parties substantial **autonomy over the proceedings**. The parties are free to agree on *the procedure to be observed* during the proceedings.[76] This lends considerable flexibility to arbitration proceedings as compared to court litigation governed by the Rules of Court.

The parties likewise **appoint the arbitrators** based on agreement. There are no other legal requirements as to the competence or technical qualifications of an arbitrator. Their only legal qualifications are: (1) being of legal age; (2) full-enjoyment of their civil rights; and (3) the ability to read and write.[77] The parties can tailor-fit the tribunal's composition to the nature of their dispute. Thus, a specialized dispute *can* be resolved by experts on the subject.

However, because arbitrators do not necessarily have a background in law, they cannot be expected to have the legal mastery of a magistrate. There is a greater risk that an arbitrator might misapply the law or misappreciate the facts *en route* to an erroneous decision.

This *risk of error* is compounded by the **absence of an effective appeal mechanism**. The errors of an arbitral tribunal are not subject to correction by the judiciary. As a private alternative to court proceedings, **arbitration is meant to be an end, *not the beginning*, of litigation**.[78] Thus, the arbitral award is final and binding on the parties by reason of their contract – the arbitration agreement.[79]

*An Arbitral Tribunal does not exercise quasi-judicial powers*

Quasi-judicial or administrative adjudicatory power is the power: (1) to hear and determine *questions of fact* to which legislative policy is to apply, and (2) to decide in accordance with the *standards laid down by the law*

---

74 Sec. 23, ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.

75 Sec. 23, ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.

76 Art. 5.18, *Implementing Rules and Regulations of the Alternative Dispute Resolution Act of 2004,* Department of Justice *(DOJ)* Circular No. 98, series of 2009, [IRR OF ADR ACT] (2009).

77 Sec. 10, THE ARBITRATION LAW.

78 *Asset Privatization Trust v. CA, supra* note 51, at 792, reiterated in *RCBC Capital Corporation v. Banco de Oro Unibank, Inc.*, 700 Phil. 687, 725 (2012).

79 Rule 19.7, *Special Rules of Court on Alternative Dispute Resolution,* A.M. No. 07-11-08-SC, [SPECIAL ADR RULES], (2009).

*itself in enforcing and administering the same law.*[80] Quasi-judicial power is only exercised by administrative agencies – legal organs of the government.

Quasi-judicial bodies can only exercise such powers and jurisdiction as are expressly or by necessary implication conferred upon them by their enabling statutes.[81] Like courts, a quasi-judicial body's jurisdiction over a subject matter is conferred by law and exists independently from the will of the parties. As government organs necessary for an effective legal system, a quasi-judicial tribunal's legal existence continues beyond the resolution of a specific dispute. In other words, quasi-judicial bodies are ***creatures of law.***

As a contractual and consensual body, the *arbitral tribunal does not have any inherent powers over the parties*. It has no power to issue coercive writs or compulsory processes. Thus, there is a need to resort to the regular courts for interim measures of protection[82] and for the recognition or enforcement of the arbitral award.[83]

The arbitral tribunal acquires jurisdiction over the parties and the subject matter through stipulation. Upon the rendition of the final award, the tribunal becomes *functus officio* and – save for a few exceptions[84] – ceases to have any further jurisdiction over the dispute.[85] The tribunal's powers (or in the case of *ad hoc* tribunals, their very existence) stem from the obligatory force of the arbitration agreement and its ancillary stipulations.[86] Simply put, **an arbitral tribunal** is a ***creature of contract.***

***Deconstructing the view that arbitral tribunals are quasi-judicial agencies***

We are aware of the contrary view expressed by the late Chief Justice Renato Corona in *ABS-CBN Broadcasting Corporation v. World Interactive Network Systems (WINS) Japan Co., Ltd.*[87]

The *ABS-CBN Case* opined that a voluntary arbitrator is a "quasi-judicial instrumentality" of the government[88] pursuant to *Luzon Development Bank v. Association of Luzon Development Bank Employees*,[89]

---

80 *Bedol v. Commission on Elections,* 621 Phil. 498, 510 (2009) citing *Dole Philippines, Inc. v. Esteva,* G.R. No. 161115, November 30, 2006, 509 SCRA 332, 369-370.

81 *Radio Communications of the Philippines, Inc. v. Board of Communications,* 170 Phil. 493, 496 (1977).

82 Or for the implementation of interim measures of protection issued by the tribunal.

83 Secs. 28 and 29, ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.

84 Art. 4.32, 4.33, and 4.34, IRR OF ADR ACT.

85 Article 32, 1985 Model Law in relation to Sec. 33, ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.

86 CIVIL CODE:

**Article 1315.** Contracts are perfected by mere consent, and from that moment the parties are bound not only to the fulfillment of what has been expressly stipulated but also to all the consequences which, according to their nature, may be in keeping with good faith, usage and law.

87 368 Phil. 282, 294 (2008).

88 Id. at 291-292.

89 319 Phil. 262, 270-271 (1995).

*Sevilla Trading Company v. Semana,*[90] *Manila Midtown Hotel v. Borromeo,*[91] and *Nippon Paint Employees Union-Olalia v. Court of Appeals.*[92] Hence, voluntary arbitrators are included in the Rule 43 jurisdiction of the Court of Appeals:

> SECTION 1. *Scope.*—This Rule shall apply to appeals from judgments or final orders of the Court of Tax Appeals and from awards, judgments, final orders or resolutions of or authorized by any quasi-judicial agency in the exercise of its quasi-judicial functions. Among these agencies are the Civil Service Commission, Central Board of Assessment Appeals, Securities and Exchange Commission, Office of the President, Land Registration Authority, Social Security Commission, Civil Aeronautics Board, Bureau of Patents, Trademarks and Technology Transfer, National Electrification Administration, Energy Regulatory Board, National Telecommunications Commission, Department of Agrarian Reform under Republic Act No. 6657, Government Service Insurance System, Employees Compensation Commission, Agricultural Inventions Board, Insurance Commission, Philippine Atomic Energy Commission, Board of Investments, Construction Industry Arbitration Commission, and **voluntary arbitrators authorized by law.**[93] (emphasis supplied)

Citing *Insular Savings Bank v. Far East Bank and Trust Co.*,[94] the *ABS-CBN Case* pronounced that the losing party in an arbitration proceeding may avail of three alternative remedies: (1) a petition to vacate the arbitral award before the RTC; (2) a petition for review with the CA under Rule 43 of the Rules of Court raising questions of fact, of law, or of both; and (3) a petition for *certiorari* under Rule 65 should the arbitrator act beyond its jurisdiction or with grave abuse of discretion.[95]

At first glance, the logic of this position appears to be sound. However, a critical examination of the supporting authorities would show that the conclusion is wrong.

**First**, the pronouncements made in *the ABS-CBN Case* and in the *Insular Savings Bank Case* (which served as the authority for the ABS-CBN Case) were both *obiter dicta.*

In the ***ABS-CBN Case,*** we sustained the CA's dismissal of the petition because it was filed as an "*alternative petition for review under Rule 43 or petition for certiorari under Rule 65.*"[96] We held that it was an *inappropriate* mode of appeal because a petition for review and a petition for *certiorari* are mutually exclusive and not alternative or successive.

---

90 G.R. No. 152456, 28 April 2004, 428 SCRA 239, 243.
91 482 Phil. 137 (2004).
92 485 Phil. 675, 680 (2004).
93 Rule 43, Sec. 1 of the RULES OF COURT.
94 525 Phil. 238, 249 (2006).
95 *ABS-CBN Broadcasting Corp. v. World Interactive Network Systems (WINS), Japan Co., supra* note 87, at 294.
96 Id. at 294.

In the ***Insular Savings Bank case,*** the *lis mota* of the case was the RTC's jurisdiction over an appeal from an arbitral award. The parties to the arbitration agreement agreed that the rules of the arbitration provider[97] – which stipulated that the RTC shall have jurisdiction to review arbitral awards – will govern the proceedings.[98] The Court ultimately held that the RTC does not have jurisdiction to review the merits of the award because legal jurisdiction is conferred by law, not by mere agreement of the parties.

In both cases, the pronouncements as to the remedies against an arbitral award were unnecessary for their resolution. Therefore, these are *obiter dicta* – judicial comments made in passing which are not essential to the resolution of the case and cannot therefore serve as precedents.[99]

**Second**, even if we disregard the *obiter dicta* character of both pronouncements, a more careful scrutiny deconstructs their legal authority.

The **ABS-CBN Case** committed the classic ***fallacy of equivocation***. It equated the term "voluntary arbitrator" used in Rule 43, Section 1 and in the cases of *Luzon Development Bank v. Association of Luzon Development Bank Employees, Sevilla Trading Company v. Semana, Manila Midtown Hotel v. Borromeo,* and *Nippon Paint Employees Union-Olalia v. Court of Appeals* with the term "arbitrator/arbitration tribunal."

The first rule of legal construction, *verba legis,* requires that, wherever possible, the words used in the Constitution or in the statute must be given their ordinary meaning *except where technical terms are employed.*[100] Notably, all of the cases cited in the *ABS-CBN Case* involved **labor disputes**.

The term "*Voluntary Arbitrator*" does not refer to an ordinary "*arbitrator*" who voluntarily agreed to resolve a dispute. It is a technical term with a specific definition under the Labor Code:

> Art. 212 **Definitions. xxx**
>
> 14. "Voluntary Arbitrator" means any person accredited by the Board as such or any person named or designated in the Collective Bargaining Agreement by the parties to act as their Voluntary Arbitrator, or one chosen with or without the assistance of the National Conciliation and Mediation Board, pursuant to a selection procedure agreed upon in the Collective Bargaining Agreement, or any official that may be authorized

---

97 The Philippine Clearing House Corporation's Arbitration Committee.

98 *Insular Savings Bank v. Far East Bank and Trust Co., supra* note 94, at 250.

99 *Obiter Dictum*, Black's Law 8th Ed. (2004).

100 *J.M. Tuason & Co., Inc. v. Land Tenure Administration*, G.R. No. L-21064, February 18, 1970, 31 SCRA 413, 422-423; *Abas Kida v. Senate*, 683 Phil. 198, 218 (2012) citing *Francisco v House of Representatives*, 460 Phil. 830, 884 (2003).

> by the Secretary of Labor and Employment to act as Voluntary Arbitrator upon the written request and agreement of the parties to a labor dispute.[101]

Voluntary Arbitrators resolve labor disputes and grievances arising from the interpretation of Collective Bargaining Agreements.[102] These disputes were specifically excluded from the coverage of both the Arbitration Law[103] and the ADR Law.[104]

Unlike purely commercial relationships, the relationship between capital and labor are *heavily impressed with public interest.*[105] Because of this, Voluntary Arbitrators authorized to resolve labor disputes have been clothed with quasi-judicial authority.

On the other hand, commercial relationships covered by our commercial arbitration laws are purely private and contractual in nature. Unlike labor relationships, they do not possess the same compelling state interest that would justify state interference into the autonomy of contracts. Hence, commercial arbitration is a *purely private system* of adjudication facilitated by *private citizens* instead of government instrumentalities wielding quasi-judicial powers.

*Moreover*, judicial or quasi-judicial jurisdiction cannot be conferred upon a tribunal by the parties alone. The Labor Code itself confers subject-matter jurisdiction to Voluntary Arbitrators.[106]

Notably, the other arbitration body listed in Rule 43 – the Construction Industry Arbitration Commission *(CIAC)* – is also a government agency[107] attached to the Department of Trade and Industry.[108]

---

101 Art. 219 (renumbered from 212), *A Decree Instituting a Labor Code Thereby Revising and Consolidating Labor and Social Laws to Afford Protection to Labor, Promote Employment and Human Resources Development and Insure Industrial Peace Based on Social Justice,* Presidential Decree No. 442 [LABOR CODE OF THE PHILIPPINES] as amended (1974).

102 Arts. 274 and 275 (renumbered from 261 and 262), LABOR CODE OF THE PHILIPPINES.

103 THE ARBITRATION LAW:

> Section 3. *Controversies or cases not subject to the provisions of this Act.* - This Act shall not apply to controversies and to cases which are **subject to the jurisdiction of the Court of Industrial Relations** or which have been submitted to it as provided by Commonwealth Act Numbered One hundred and three, as amended.

104 ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004:

> SEC. 6. ***Exception to the Application of this Act.*** - The provisions of this Act shall not apply to resolution or settlement of the following: **(a) labor disputes covered by Presidential Decree No. 442, otherwise known as the Labor Code of the Philippines, as amended and its Implementing Rules and Regulations**; (b) the civil status of persons; (c) the validity of a marriage; (d) any ground for legal separation; (e) the jurisdiction of courts; (f) future legitime; (g) criminal liability; and (h) those which by law cannot be compromised.

105 Art. 1700, NEW CIVIL CODE; *Halagueña v. Philippine Airlines, Inc.*, 617 Phil. 502 (2009).

106 Arts. 274 and 275 (renumbered from 261 and 262), LABOR CODE OF THE PHILIPPINES.

107 *Creating an Arbitration Machinery in the Construction Industry of the Philippines,* Executive Order No. 1008, [CONSTRUCTION INDUSTRY ARBITRATION LAW], (1985).

108 Book IV, Title X, Chapter 5, Sec. 12, REVISED ADMINISTRATIVE CODE (1987).

Its jurisdiction is likewise conferred by statute.[109] By contrast, the subject-matter jurisdiction of commercial arbitrators is stipulated by the parties.

These account for the legal differences between "ordinary" or "commercial" arbitrators under the Arbitration Law and the ADR Law, and "voluntary arbitrators" under the Labor Code. The two terms are *not* synonymous with each other. Interchanging them with one another results in the logical fallacy of *equivocation* – using the same word with different meanings.

*Further,* Rule 43, Section 1 enumerates quasi-judicial tribunals whose decisions are appealable to the CA instead of the RTC. But where legislation provides for an appeal from decisions of certain *administrative* bodies to the CA, it means that *such bodies are co-equal with the RTC in terms of rank and stature, logically placing them beyond the control of the latter.*[110]

However, arbitral tribunals and the RTC are *not co-equal* bodies because the RTC is authorized to confirm or to vacate (but not reverse) arbitral awards.[111] If we were to deem arbitrators as included in the scope of Rule 43, we would effectively place it on equal footing with the RTC and remove arbitral awards from the scope of RTC review.

All things considered, there is no legal authority supporting the position that commercial arbitrators are quasi-judicial bodies.

*What are remedies from a final domestic arbitral award?*

The right to an appeal is neither a natural right nor an indispensable component of due process; it is a mere statutory privilege that cannot be invoked in the absence of an enabling statute. Neither the Arbitration Law nor the ADR Law allows a losing party to appeal from the arbitral award. The statutory absence of an appeal mechanism reflects the State's policy of upholding the autonomy of arbitration proceedings and their corresponding arbitral awards.

This Court recognized this when we enacted the *Special Rules of Court on Alternative Dispute Resolution* in 2009:[112]

> **Rule 2.1.** *General policies.* -- It is the policy of the State to actively promote the use of various modes of ADR and to respect party autonomy or the freedom of the parties to make their own arrangements in the

---

109 Sec. 4, CONSTRUCTION INDUSTRY ARBITRATION LAW; AS A QUASI-JUDICIAL BODY, THE CIAC'S AWARDS ARE SPECIFICALLY MADE APPEALABLE TO THIS COURT BY LAW, SEE SEC. 19, CONSTRUCTION INDUSTRY ARBITRATION LAW.

110 *Springfield Development v. Hon. Presiding Judge,* 543 Phil 298, 311 (2007); *Board of Commissioners v. Dela Rosa,* 274 Phil. 1156, 1191-1192 (1991); *Presidential Anti-Dollar Salting Task Force v. Court of Appeals,* 253 Phil. 344, 355 (1989).

111 Secs. 40 and 41, ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.

112 A.M. No. 7-11-08-SC, effective October 30, 2009.

> resolution of disputes with the greatest cooperation of and the least intervention from the courts. xxx
>
> The Court shall exercise the power of judicial review as provided by these Special ADR Rules. **Courts shall intervene only in the cases allowed by law or these Special ADR Rules.** [113]
>
> x x x x
>
> **Rule 19.7.** *No appeal or certiorari on the merits of an arbitral award.* – An agreement to refer a dispute to arbitration shall mean that the arbitral award shall be final and binding. Consequently, a party to an arbitration is **precluded from filing an appeal or a petition for certiorari questioning the merits of an arbitral award.** [114] **(emphasis supplied)**

More than a decade earlier in ***Asset Privatization Trust v. Court of Appeals***, we likewise defended the autonomy of arbitral awards through our policy of non-intervention on their substantive merits:

> As a rule, the award of an arbitrator cannot be set aside for mere errors of judgment either as to the law or as to the facts. Courts are **without power to amend or overrule merely because of disagreement with matters of law or facts determined by the arbitrators**. They will not review the findings of law and fact contained in an award, and **will not undertake to substitute their judgment for that of the arbitrators,** since any other rule would make an award the commencement, not the end, of litigation. Errors of law and fact, or an erroneous decision of matters submitted to the judgment of the arbitrators, are **insufficient to invalidate an award fairly and honestly made.** Judicial review of an arbitration is, thus, more limited than judicial review of a trial.[115]

Nonetheless, an arbitral award is not absolute. Rule 19.10 of the Special ADR Rules – by referring to Section 24 of the Arbitration Law and Article 34 of the 1985 United Nations Commission on International Trade Law *(UNCITRAL)* Model Law – recognizes the very limited exceptions to the autonomy of arbitral awards:

> **Rule 19.10.** ***Rule on judicial review on arbitration in the Philippines.*** – As a general rule, the court can only vacate or set aside the decision of an arbitral tribunal upon a clear showing that the award suffers from any of the infirmities or grounds for vacating an arbitral award **under Section 24 of Republic Act No. 876 or under Rule 34 of the Model Law in a domestic arbitration**, or for setting aside an award in an international arbitration under Article 34 of the Model Law, or for such other grounds provided under these Special Rules.
>
> If the Regional Trial Court is asked to set aside an arbitral award in a domestic or international arbitration **on any ground other than those provided in the Special ADR Rules**, the court shall entertain such ground

---

113 Rule 2.1, SPECIAL ADR RULES.

114 Rule 19.7, SPECIAL ADR RULES.

115 *Asset Privatization Trust v. CA, supra* note 51, at 792 reiterated in *RCBC Capital Corporation v. Banco de Oro Unibank, Inc., supra* note 78, at 725.

> for the setting aside or non-recognition of the arbitral award **only if the same amounts to a violation of public policy.**
>
> The court **shall not set aside or vacate the award of the arbitral tribunal merely on the ground that the arbitral tribunal committed errors of fact, or of law, or of fact and law, as the court cannot substitute its judgment for that of the arbitral tribunal.**[116]

The grounds for **vacating** a domestic arbitral award under Section 24 of the Arbitration Law contemplate the following scenarios:

(a) when the award is procured by corruption, fraud, or other undue means; or

(b) there was evident partiality or corruption in the arbitrators or any of them; or

(c) the arbitrators were guilty of misconduct that materially prejudiced the rights of any party; or

(d) the arbitrators exceeded their powers, or so imperfectly executed them, that a mutual, final and definite award upon the subject matter submitted to them was not made.[117]

The award may also be vacated if an arbitrator who was disqualified to act willfully refrained from disclosing his disqualification to the parties.[118] Notably, none of these grounds pertain to the correctness of the award but relate to the *misconduct of arbitrators*.

The RTC may also set aside the arbitral award based on Article 34 of the UNCITRAL Model Law. These grounds are reproduced in Chapter 4 of the *Implementing Rules and Regulations (IRR) of the 2004 ADR Act:*

> (i) the party making the application furnishes proof that:
>
> (aa) a party to the arbitration agreement was under some incapacity; or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the Philippines; or
>
> (bb) the party making the application was not given proper notice of the appointment of an arbitrator or of the arbitral proceedings or was otherwise unable to present his case; or
>
> (cc) the award deals with a dispute not contemplated by or not falling within the terms of the submission to arbitration, or contains decisions on matters beyond the scope of the submission to arbitration, provided that, if the decisions on matters submitted to

---

116 Rule 19.10, SPECIAL ADR RULES.
117 Section 24, THE ARBITRATION LAW.
118 Art. 5.35 (iv), IRR OF ADR ACT.

> arbitration can be separated from those not so submitted, only the part of the award which contains decisions on matters not submitted to arbitration may be set aside; or
>
> (dd) the composition of the arbitral tribunal or the arbitral procedure was not in accordance with the agreement of the parties, unless such agreement was in conflict with a provision of ADR Act from which the parties cannot derogate, or, failing such agreement, was not in accordance with ADR Act; or
>
> (ii) The Court finds that:
>
> (aa) the subject-matter of the dispute is **not capable of settlement by arbitration under the law of the Philippines**; or
>
> (bb) the award is ***in conflict with the public policy*** of the Philippines.[119]

Chapter 4 of the IRR of the ADR Act applies particularly to International Commercial Arbitration. However, the abovementioned grounds taken from the UNCITRAL Model Law are specifically made applicable to domestic arbitration by the Special ADR Rules.[120]

Notably, these grounds are not concerned with the correctness of the award; they go into the validity of the arbitration agreement or the regularity of the arbitration proceedings.

These grounds for vacating an arbitral award are exclusive. Under the ADR Law, courts are obliged to disregard any other grounds invoked to set aside an award:

> **SEC. 41.** ***Vacation Award.*** - A party to a domestic arbitration may question the arbitral award with the appropriate regional trial court in accordance with the rules of procedure to be promulgated by the Supreme Court only on those grounds enumerated in Section 25 of Republic Act No. 876. **Any other ground raised against a domestic arbitral award shall be disregarded by the regional trial court.**[121]

Consequently, the winning party can generally expect the enforcement of the award. This is a stricter rule that makes Article 2044[122] of the Civil Code regarding the finality of an arbitral award redundant.

As established earlier, an arbitral award is not appealable via Rule 43 because: (1) there is no statutory basis for an appeal from the final award of arbitrators; (2) arbitrators are not quasi-judicial bodies; and (3) the Special ADR Rules specifically prohibit the filing of an appeal to question the merits of an arbitral award.

---

119 Art. 4.34, IRR OF ADR ACT.

120 Rule 19.10, SPECIAL ADR RULES.

121 Sec. 41, ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.

122 Art. 2044. Any stipulation that the arbitrators' award or decision shall be final, is valid, without prejudice to Articles 2038, 2039, and 2040.

The Special ADR Rules allow the RTC to correct or modify an arbitral award pursuant to Section 25 of the Arbitration Law. However, this authority cannot be interpreted as jurisdiction to review the merits of the award. The RTC can modify or correct the award only in the following cases:

a. Where there was an evident miscalculation of figures or an evident mistake in the description of any person, thing or property referred to in the award;

b. Where the arbitrators have awarded upon a matter not submitted to them, not affecting the merits of the decision upon the matter submitted;

c. Where the arbitrators have omitted to resolve an issue submitted to them for resolution; or

d. Where the award is imperfect in a matter of form not affecting the merits of the controversy, and if it had been a commissioner's report, the defect could have been amended or disregarded by the Court.[123]

A losing party is likewise precluded from resorting to *certiorari* under Rule 65 of the Rules of Court.[124] *Certiorari* is a prerogative writ designed to correct errors of jurisdiction committed by a judicial or quasi-judicial body.[125] Because an arbitral tribunal is ***not a government organ*** exercising judicial or quasi-judicial powers, it is removed from the ambit of Rule 65.

Not even the Court's expanded *certiorari* jurisdiction under the Constitution[126] can justify judicial intrusion into the merits of arbitral awards. While the Constitution expanded the scope of *certiorari* proceedings, this power remains limited to a review of the acts of *"any branch or instrumentality of the Government."* As a purely private creature of contract, an arbitral tribunal remains outside the scope of *certiorari*.

Lastly, the Special ADR Rules are a self-contained body of rules. The parties cannot invoke remedies and other provisions from the Rules of Court unless they were incorporated in the Special ADR Rules:

---

123 Rule 11.4, SPECIAL ADR RULES.
124 Rule 19.7, SPECIAL ADR RULES.
125 Rule 65, Sec. 1, RULES OF COURT.
126 Art. VIII, CONSTITUTION:

SECTION 1. The Judicial power shall be vested in one Supreme Court and in such lower courts as may be established by law.

Judicial power includes the duty of the courts of justice to settle actual controversies involving rights which are legally demandable and enforceable, and to determine whether or not there has been a grave abuse of discretion amounting to lack or excess of jurisdiction **on the part of any branch or instrumentality of the Government.**

> Rule 22.1. *Applicability of Rules of Court.* – The provisions of the Rules of Court **that are applicable** to the proceedings enumerated in Rule 1.1 of these Special ADR Rules **have either been included and incorporated in these Special ADR Rules or specifically referred to herein.**
>
> In Connection with the above proceedings, the Rules of Evidence shall be liberally construed to achieve the objectives of the Special ADR Rules.[127]

Contrary to TEAM's position, the Special ADR Rules actually forecloses against other remedies outside of itself. Thus, a losing party cannot assail an arbitral award through a petition for review under Rule 43 or a petition for *certiorari* under Rule 65 because these remedies are not specifically permitted in the Special ADR Rules.

In sum, the only remedy against a final domestic arbitral award is to file petition to vacate or to modify/correct the award not later than thirty (30) days from the receipt of the award.[128] Unless a ground to vacate has been established, the RTC must confirm the arbitral award as a matter of course.

*The remedies against an order confirming, vacating, correcting, or modifying an arbitral award*

Once the RTC orders the confirmation, vacation, or correction/modification of a domestic arbitral award, the aggrieved party may move for reconsideration within a non-extendible period of fifteen (15) days from receipt of the order.[129] The losing party may also opt to appeal from the RTC's ruling instead.

Under the Arbitration Law, the mode of appeal was via petition for review on *certiorari*:

> **Section 29.** *Appeals.* – **An appeal** may be taken from an order made in a proceeding under this Act, or from a judgment entered upon an award through ***certiorari* proceedings**, but such appeals **shall be limited to questions of law**. The proceedings upon such appeal, including the judgment thereon shall be governed by the Rules of Court in so far as they are applicable.[130]

The Arbitration Law did not specify which Court had jurisdiction to entertain the appeal but left the matter to be governed by the Rules of Court. As the appeal was limited to questions of law and was described as "certiorari proceedings," the mode of appeal can be interpreted as an Appeal By Certiorari to this Court under Rule 45.

---

127 Rule 22.1, SPECIAL ADR RULES.
128 Rule 11.2, SPECIAL ADR RULES.
129 Rule 19.1 and 19.2, SPECIAL ADR RULES.
130 Section 29, THE ARBITRATION LAW.

When the **ADR Law was enacted in 2004**, it specified that the appeal shall be made to the CA in accordance with the rules of procedure to be promulgated by this Court.[131] The Special ADR Rules provided that the mode of appeal from the RTC's order confirming, vacating, or correcting/modifying a domestic arbitral award was through a petition for review with the CA.[132] However, the **Special ADR Rules only took effect on October 30, 2009**.

In the present case, the RTC disallowed TEAM's notice of appeal from the former's decision confirming the arbitral award on July 3, 2009. TEAM moved for reconsideration which was likewise denied on November 15, 2009. In the interim, the Special ADR Rules became effective. Notably, the Special ADR Rules apply retroactively in light of its procedural character.[133] TEAM filed its petition for *certiorari* soon after.

Nevertheless, whether we apply Section 29 of the Arbitration Law, Section 46 of the ADR Law, or Rule 19.12 of the Special ADR Rules, there is no legal basis that an ordinary appeal (via notice of appeal) is the correct remedy from an order confirming, vacating, or correcting an arbitral award. Thus, there is no merit in the CA's ruling that the RTC gravely abused its discretion when it refused to give due course to the notice of appeal.

*The correctness or incorrectness of the arbitral award*

We have deliberately refrained from passing upon the merits of the arbitral award – not because the award was erroneous – but because it would be improper. None of the grounds to vacate an arbitral award are present in this case and as already established, the *merits* of the award cannot be reviewed by the courts.

Our refusal to review the award is not a simple matter of putting procedural technicalities over the substantive merits of a case; it goes into the very legal substance of the issues. There is no law granting the judiciary authority to review the merits of an arbitral award. If we were to insist on reviewing the correctness of the award *(or consent to the CA's doing so)*, it would be tantamount to expanding our jurisdiction without the benefit of legislation. This translates to judicial legislation – a breach of the fundamental principle of separation of powers.

The CA **reversed** the arbitral award – *an action that it has no power to do* – because it disagreed with the tribunal's factual findings and application of the law. However, the alleged incorrectness of the award is insufficient cause to vacate the award, given the State's policy of upholding the autonomy of arbitral awards.

---

131 Sec. 46, ALTERNATIVE DISPUTE RESOLUTION ACT OF 2004.
132 Rule 19.12, SPECIAL ADR RULES.
133 Rule 24.1, SPECIAL ADR RULES.

The CA passed upon questions such as: (1) whether or not TEAM effectively returned the property upon the expiration of the lease; (2) whether or not TEAM was liable to pay rentals after the expiration of the lease; and (3) whether or not TEAM was liable to pay Fruehauf damages corresponding to the cost of repairs. These were the same questions that were specifically submitted to the arbitral tribunal for its resolution.[134]

The CA disagreed with the tribunal's factual determinations and legal interpretation of TEAM's obligations under the contract – particularly, that TEAM's obligation to turn over the improvements on the land at the end of the lease in the same condition as when the lease commenced translated to an obligation to make ordinary repairs necessary for its preservation.[135]

Assuming *arguendo* that the tribunal's interpretation of the contract was incorrect, the errors would have **been simple errors of law**. It was the tribunal – not the RTC or the CA – that had jurisdiction and authority over the issue by virtue of the parties' submissions; the CA's substitution of its own judgment for the arbitral award cannot be more compelling than the overriding public policy to uphold the autonomy of arbitral awards. Courts are precluded from disturbing an arbitral tribunal's factual findings and interpretations of law.[136] The CA's ruling is an unjustified judicial intrusion in excess of its jurisdiction – a judicial overreach.[137]

Upholding the CA's ruling would weaken our alternative dispute resolution mechanisms by allowing the courts to "throw their weight around" whenever they disagree with the results. It *erodes* the obligatory force of arbitration agreements by allowing the losing parties to "forum shop" for a more favorable ruling from the judiciary.

Whether or not the arbitral tribunal correctly passed upon the issues is irrelevant. Regardless of the amount of the sum involved in a case, a simple error of law remains a simple error of law. Courts are precluded from revising the award in a particular way, revisiting the tribunal's findings of fact or conclusions of law, or otherwise encroaching upon the independence of an arbitral tribunal.[138] At the risk of redundancy, we emphasize Rule 19.10 of the Special ADR Rules promulgated by this Court *en banc*:

> **Rule 19.10.** *Rule on judicial review on arbitration in the Philippines.* - As a general rule, the court **can only vacate or set aside the decision of an arbitral tribunal upon a clear showing that the award suffers from any of the infirmities or grounds for vacating an arbitral award under Section 24 of Republic Act No. 876 or under Rule 34 of the Model Law in a domestic arbitration**, or for setting aside an award in an

---

134 *Rollo*, pp. 184-185.
135 Id. at 41.
136 Rule 11.9, SPECIAL ADR RULES.
137 *Korea Technologies, Co. v. Lerma*, 566 Phil. 1, 35 (2008).
138 Rule 11.9 and 19.7, SPECIAL ADR RULES.

> international arbitration under Article 34 of the Model Law, or for such other grounds provided under these Special Rules.
>
> If the Regional Trial Court is asked to set aside an arbitral award in a domestic or international arbitration on any ground other than those provided in the Special ADR Rules, the court shall entertain such ground for the setting aside or non-recognition of the arbitral award **only if the same amounts to a violation of public policy.**
>
> The court **shall not set aside or vacate the award of the arbitral tribunal merely on the ground that the arbitral tribunal committed errors of fact, or of law, or of fact and law, as the court cannot substitute its judgment for that of the arbitral tribunal.**

In other words, simple errors of fact, of law, or of fact and law committed by the arbitral tribunal are not justiciable errors in this jurisdiction.[139]

TEAM agreed to submit their disputes to an arbitral tribunal. It understood all the risks – *including the absence of an appeal mechanism* – and found that its benefits (both legal and economic) outweighed the disadvantages. Without a showing that any of the grounds to vacate the award exists or that the same amounts to a violation of an overriding public policy, the award is subject to confirmation as a matter of course.[140]

---

139 A survey of prevailing arbitration laws in other jurisdictions reveal the absence of an appeal mechanism from the merits of an arbitral award. As in the Philippines, the remedy is to vacate or set aside the award based on the lack of jurisdiction of the tribunal (based on the arbitral agreement and the submissions), procedural irregularities and misconduct committed by the tribunal, the arbitrability of the issue, extrinsic fraud, or the existence of an overriding public policy. This is owed primarily to the widespread adoption of the UNCITRAL Model Law:

*See:*
United States of America, U.S. FEDERAL ARBITRATION ACT, 9 U.S.C. §10 and 11;
The People's Republic of China, ARBITRATION LAW OF THE PEOPLE'S REPUBLIC OF CHINA, art. 58 (1994) [*notably, the PRC allows the setting aside of the award if a litigant commits fraud against the tribunal itself*];
Hong Kong Special Administrative Region of the People's Republic of China, THE ARBITRATION ORDINANCE, Cap 609 § 81 (2011);
The Republic of China (Taiwan), The Republic of China Arbitration Law, art. 38 and 40 (2015) [*the ROC does not grant an appeal on the merits but notably allows the Courts to revoke the award if a litigant commits fraud against the tribunal or when the award relies on a judgment/ruling that was subsequently reversed or materially altered*];
The Republic of India, Ss. 34 & 37, THE ARBITRATION AND CONCILIATION ACT, 1996 (as amended);
The Republic of Singapore, INTERNATIONAL ARBITRATION ACT (Cap 143A, 2002 Rev Ed) s 24.

However, in a few jurisdictions, an appeal based on **a question of law** is permitted *if* (1) all the parties agree to the appeal and (2) the court grants leave to the appeal.

*See:*
New South Wales, *Commercial Arbitration Act 2010* (NSW), pt7 34A;
England, Wales, and Northern Ireland, ENGLISH ARBITRATION ACT OF 1996, § 69.

140 Rule 11.9, SPECIAL ADR RULES.

**WHEREFORE**, we **GRANT** the petition. The CA's decision in **CA-G.R. SP. No. 112384 is SET ASIDE** and the RTC's order **CONFIRMING** the arbitral award in **SP. Proc. No. 11449** is **REINSTATED**.

**SO ORDERED.**

**ARTURO D. BRION**
Associate Justice

**WE CONCUR:**

**ANTONIO T. CARPIO**
Associate Justice
Chairperson

Please see dissenting opinion

**MARIANO C. DEL CASTILLO**
Associate Justice

**JOSE CATRAL MENDOZA**
Associate Justice

**MARVIC M.V.F. LEONEN**
Associate Justice

**ATTESTATION**

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**ANTONIO T. CARPIO**
Associate Justice
Chairperson

## CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**MARIA LOURDES P. A. SERENO**
Chief Justice