



Republic of the Philippines Supreme Court Manila SECOND DIVISION

CHEVRON PHILIPPINES, INC. (FORMERLY KNOWN AS CALTEX PHILIPPINES, INC.), Petitioner, G.R. No. 211533

- versus -

LEO Z. MENDOZA,

,	Respondent.
X	X
LEO Z. MENDOZA,	

versus -

CHEVRON PHILIPPINES, INC.,

Petitioner,

Respondent.

G.R. No. 212071

Present:

CARPIO, J., Chairperson, PERLAS-BERNABE, CAGUIOA, J. REYES, JR., and LAZARO-JAVIER, J.J.

Promulgated:

19 JUN 2019

DECISION

CAGUIOA, J.:

Before the Court are two consolidated petitions. In G.R. No. 211533, Chevron Philippines, Inc. (Chevron), formerly known as Caltex Philippines, Inc. (Caltex), filed a Petition for Review on *Certiorari*¹ under Rule 45 (Chevron Petition) dated April 14, 2014 against Leo Z. Mendoza (Mendoza),

Rolio (G.R. No. 211533), Vol. 1, pp. 15-48.

partially assailing the Decision² dated September 18, 2013 (assailed Decision) and Resolution³ dated February 24, 2014 (assailed Resolution) rendered by the Court of Appeals (CA) in CA-G.R. CV, No. 93847. **G.R. No. 212071**, in turn, is the Petition for Review on *Certiorari*⁴ under Rule 45 dated April 4, 2014, filed by Mendoza (Mendoza Petition) against Chevron, praying for the reversal of the CA's assailed Decision and Resolution.

The Facts and Antecedent Proceedings

As culled from the CA's recital of the facts in the assailed Decision, as well as from the records of the instant case, the pertinent facts and antecedent proceedings are as follows:

Sometime in 1997, Mendoza applied with Caltex for dealership of a company-owned service station in Sta. Cruz, Virac, Catanduanes ("Virac"). Pursuant to the selection procedure of Caltex, Mendoza passed the psychographic exam, had undergone the required on-the-job evaluation and training ("OJET") and made a successful defense of his business proposal.

The dealer selection board of Caltex, however, awarded the Virac dealership to the Spouses Carmen ("Carmen") Francisco and Jose ("Jose") Romeo Francisco (collectively, "the Franciscos"). Jose happened to be the grandson of the owner/lessor of the lot occupied by the Virac service station. In a letter⁵ dated February 28, 1997, Caltex informed Mendoza of its decision regarding his application:

"Dear Mr. Mendoza:

We thank you for your time and effort in your interests in our station in Virac, Catanduanes.

However, please be advised that your name has been included in the Dealers Pool listing. You have met our minimum dealer requirements and will be eligible to apply at any of our future retail station sites, provided you submit and defend your new business plan for the site you are interested in.

We will be informing you of any of our retail station opening and we look forward in becoming Business Partners soon. x x x" (Emphasis supplied)

Decision

² Id. at 51-68. Penned by Associate Justice Florito S. Macalino with Associate Justices Sesinando E. Villon and Pedro B. Corales, concurring.

³ Id. at 71-71-A.

⁴ *Rollo* (G.R. No. 212071), Vol. 1, pp. 9-23.

⁵ Rollo (G.R. No. 211533), Vol. 1, p. 104.

Dissatisfied with the result of his application, Mendoza wrote the President of Caltex a letter of protest⁶ dated March 11, 1997, the pertinent portion of which provides:

"May I remark at the outset that I have a coapplicant who is the lot owner on which the said Caltex , Station leases for operation. My findings made me to conclude that the company and the lot owner were in cahoots. That there was indeed an internal arrangement between the good company and the fortunate lot owner. That the said lot owner was given priority not based on the disclosed criteria and qualifications. To mention one, it was confirmed that my co-applicant resigned from x x x her former job right after the OJET and before the submission of the business plan or before the awarding of the contested station. But sheer logic or pure reason would infere (sic) than an ordinary applicant, at her age and with alluring position and salary in a prestigious international pharmaceutical company will never dare to risk to resign from the said company unless there is a promise or guarantee from the Caltex (Phil.), Inc. x x x" (Copied verbatim)

On July 9, 1998, Mendoza re-applied for dealership of a dealerowned service station either in Virac or San Andres, since one (1) of the two (2) Caltex service stations in Catanduanes had closed. Mendoza offered four (4) service station sites to Caltex, three (3) of which were owned by him.

In a letter-reply⁷ dated August 3, 1998, Caltex, through its Luzon South Retail District Manager, Constantino F. Bocanegra ("Bocanegra"), apprised Mendoza that "it has been decided that the Caltex dealership be awarded to the site which offers a more strategic location and is more accessible to the target market (which is comprised of the municipalities of San Andres, Pandan and Caramoran)." It turned out that the San Andres dealership was awarded to Mendoza's brother-in-law, [Joseph] Cua [(Cua)], whom Mendoza claims to have not even passed the initial screening of Caltex to qualify and be included in the dealers pool listing.

Firmly believing that he was again by-passed, Mendoza mailed a letter⁸ dated January 21, 1999 to [Frank] Cruz [(Cruz)], the Country Manager of Caltex, reminding the latter that his membership in the dealers pool established a "partnership inchoate" between him and Caltex which must be respected and fulfilled. Mendoza added that as a member of the dealers pool, he expects that he will be given priority and that his proposed site will be well-evaluated. Mendoza, through his counsel, likewise delivered a letter of demand⁹ dated February 24, 1999 to Caltex, reiterating his position that the award of the San Andres dealership to Cua deprived him of his rightful dealership, causing him injustice and irreparable damages. Thus, Mendoza demanded that Caltex

⁹ Id. at 110.

⁶ Id. at 199-201.

⁷ Id. at 105.

⁸ Id. at 106-107.

settle the matter within fifteen (15) days from receipt of the letter of demand; otherwise he will be constrained to take the necessary legal remedy to protect his interest.

Through a letter-reply¹⁰ dated February 25, 1999, Caltex explained to Mendoza that:

"As you yourself know, the outlet under consideration is a *dealer-owned* outlet; in which case, consistent with oil industry practice, it is the lot-owner who is appointed dealer, he having put in the investment. In a very real sense, we are powerless to dictate who the dealer will be in a dealer-owned station, because our discretion is limited to pinpointing the *most preferable site* thereof to ensure its commercial viability and maximize its service to the public.

In your case, while it is true that you have offered a lot in the same town of San Andres, your lot is in the *interior* thereof and on a *one-way street*. On the other hand, the location we have chosen is on the *national highway* and therefore is more convenient to motorists not just from San Andres, but also those from the nearby towns of Pandan and Caramoran whom we seek to serve. As you can see, public interest was very much in our mind when we made the choice we did.

Although you are indeed a member of our dealer pool in the area, this does not, by any means guarantee that you will be chosen dealer, nor does it create a 'Partnership Inchoate' between us, as you so creatively allege. Nowhere in our advertisements or communications is this implied or stated. On the contrary, we made it clear to you and the other applicants that our dealership selection is a highly competitive process, and that owing to the very limited number of stations available, less than half of the applicants would ultimately be awarded dealerships. x x x" (Emphasis supplied)

Still discontented with the explanation of Caltex, Mendoza filed his Complaint [for Torts & Damages with Preliminary Mandatory Injunction and/or Temporary Restraining Order¹¹ (Complaint) before the Regional Trial Court of Virac, Catanduanes, Branch 43 (RTC)] on March 29, 1999. [The case was docketed as Civil Case No. 1886.]

After due hearing, Mendoza's application for a temporary restraining order was denied by the RTC in its Order dated May 18, 1999. $x \times x$

10 ld. at 108-109.

¹¹ Id. at 75-79.

Meanwhile, On October 13, 2000, Caltex filed its Answer with Counterclaims,¹² restating the explanations it previously offered to Mendoza and setting up as an affirmative defense Mendoza's lack of cause of action against it since he had no vested right to a dealership from Caltex. As Mendoza's unfounded allegations allegedly tarnished its good name and reputation, Caltex prayed that it be awarded moral and exemplary damages, attorney's fees and litigation expenses. [Caltex subsequently changed its name to Chevron Philippines, Inc. (Chevron).]

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After the parties have filed their respective memoranda, the RTC rendered the Assailed Decision¹³ dated March 30, 2009.

In ruling against Mendoza, the RTC applied the Supreme Court's declaration in Cebu Country Club et al. v. Elizagaque that the petitioners therein "committed fraud and evident bad faith in disapproving respondent's applications" because the respondent: (1) was left groping in the dark wondering why his application was disapproved; (2) was not even informed that a unanimous vote of the Board Members was required; (3) did not receive any reply to his letter for reconsideration and an inquiry whether there was an objection to his application; and (4) was not informed why his application was disapproved. The RTC ruled that the four (4) circumstances mentioned are unavailing in the instant case. It also held that Chevron had no obligation to award the dealership to Mendoza; hence, Mendoza is not entitled to any of the damages he prayed for. Conversely, considering its stature and prestige in the oil industry, the RTC deemed reasonable the award of PhP 1,000,000.00 as moral damages and PhP500,000.00 as exemplary damages to Chevron. The RTC also deemed just and equitable the award of attorney's fees in the amount of PhP 291,838.85^{13a} to Chevron since Mendoza's Complaint against it was unfounded.

His Motion for Reconsideration¹⁴ having been denied by the RTC in its Assailed Order dated June 22, 2009, Mendoza filed his Notice of Appeal,¹⁵ which was given due course by the RTC on July 21, 2009.¹⁶

The Ruling of the CA

The main issue decided by the CA was "whether Chevron's act of awarding dealerships to the Franciscos and Cua, and not to Mendoza, constitutes an abuse of right which is compensable under our civil laws."¹⁷

In the assailed Decision, the CA answered the aforementioned question in the negative; Mendoza's appeal was denied for lack of merit. In

¹² Id. at 89-103.

¹³ Id. at 434-448. Penned by Presiding Judge Lelu P. Contreras.

^{13a} Also indicated as PhP 292, 838.85 in some parts of the *rollo*.

¹⁴ *Rollo* (G.R. No. 211533), Vol. 1, pp. 450-471.

¹⁵ Id. at 495-497.

¹⁶ Id. at 52-59.

¹⁷ Id. at 60.

sum, the CA found that "[n]o abuse of right can be ascribed to Chevron in not awarding the two (2) dealerships to Mendoza."¹⁸

Nevertheless, while sustaining the award of attorney's fees and costs of suit in favor of Chevron, the CA held that Chevron is not entitled to moral and exemplary damages, finding that there was no evidence presented establishing the factual basis for the award of moral and exemplary damages in favor of Chevron.

Hence, the dispositive portion of the assailed Decision reads:

WHEREFORE, premises considered, the Decision dated March 30, 2009 and the Order dated June 22, 2009 of the Regional Trial Court of Virac, Catanduanes, Branch 43 are hereby AFFIRMED with **MODIFICATION** in that the award of moral and exemplary damages in favor of Chevron Philippines, Inc. is **DELETED**. The award of attorney's fees in the amount of PhP 291,838.85, as well as the award of costs, in favor of Chevron Philippines, Inc. stand.

SO ORDERED.¹⁹

Chevron filed its Motion for Partial Reconsideration²⁰ on October 14, 2013, while Mendoza filed his Motion for Partial Reconsideration²¹ on October 22, 2013.

In the assailed Resolution, the CA denied the two Motions for Partial Reconsideration filed respectively by Chevron and Mendoza.

Hence, the instant Petitions for Review on *Certiorari* were respectively filed by Chevron and Mendoza. Chevron's appeal was docketed as G.R. No. 211533, while Mendoza's appeal was docketed as G.R. No. 212071.

On October 23, 2014, Mendoza filed his Comment²² to the Chevron Petition.

On October 14, 2014, Chevron filed a Motion for Consolidation,²³ praying that G.R. Nos. 211533 and 212071 be consolidated. On November 26, 2014, the Court issued a Resolution²⁴ consolidating G.R. Nos. 211533 and 212071.

¹⁸ Id. at 61.

¹⁹ Id. at 68.

²⁰ *Rollo* (G.R. No. 211533), Vol. 2, pp. 827-836.

²¹ *Rollo* (G.R. No. 212071), Vol. 1, pp. 43-49.

²² *Rollo* (G.R. No. 211533), Vol. 2, pp. 855-866.

²³ Id. at 842-850.

²⁴ Id. at 899-901.

On March 11, 2015, Chevron filed its Reply²⁵ to Mendoza's Comment to the Chevron Petition.

Chevron filed its Comment²⁶ to the Mendoza Petition, to which Mendoza responded with a Reply,²⁷ which was filed on April 24, 2018.

<u>Issues</u>

In the Mendoza Petition, two issues are raised: (1) whether the CA erred in affirming the RTC's Decision dismissing Mendoza's Complaint for being unfounded; and (2) whether the CA erred in maintaining the award of attorney's fees and costs of suit in favor of Chevron.

Meanwhile, in the Chevron Petition, two main issues are raised: (1) whether the CA erred in deleting the award of moral damages previously awarded by the RTC in favor of Chevron; and (2) whether the CA erred in deleting the award of exemplary damages previously awarded by the RTC in favor of Chevron.

The Court's Ruling

After a review of the records of the instant case, the Court finds the Chevron and Mendoza Petitions equally unmeritorious.

Chevron did not commit any abuse of right in awarding dealerships to the Franciscos and Cua, and not to Mendoza. •

The Court shall first delve into the argument raised by Mendoza that the CA supposedly erred in sustaining the RTC's Decision, which held that Chevron's act of awarding dealerships to the Franciscos and Cua, and not to Mendoza, did not constitute an abuse of right. Mendoza maintains that "[Chevron's] actions bordered on the abuse of its prerogative of choice."²⁸

The Court finds Mendoza's argument patently unmeritorious. There was no abuse of right committed by Chevron in denying an award of dealership in favor of Mendoza. The CA did not commit any reversible error when it sustained the RTC's Decision dismissing Mendoza's Complaint for lack of merit.

The Court has previously explained that the aforesaid Civil Code provision contains what is commonly referred to as the **principle of abuse**

²⁵ Id. at 910-931.

²⁶ Rollo (G.R. No. 212071), Vol. 1, pp. 251-292

²⁷ *Rollo* (G.R. No. 211533), Vol. 2, pp. 946-954.

²⁸ *Rollo* (G.R. No. 212071), Vol. 1, p. 17.

of rights. It sets certain standards which may be observed not only in the exercise of one's rights but also in the performance of one's duties. These standards are the following: to act with justice; to give everyone his due; and to observe honesty and good faith.²⁹

The recognized Civil Law Commentator, former CA Justice Eduardo P. Caguioa, explained that through the principle of abuse of rights, "he incurs in liability who, acting under the aegis of a legal right and an apparently valid exercise of the same, oversteps the bounds or limitations imposed on the right by equity and good faith[,] thereby causing damage to another or to society."³⁰

As correctly explained by the CA in the assailed Decision, jurisprudence has held that the elements of an abuse of right under Article 19 of the Civil Code³¹ are the following: (1) the existence of a legal right or duty, (2) which is exercised in bad faith, and (3) for the sole intent of prejudicing or injuring another. **Malice or bad faith is at the core of an abuse of right**. Malice or bad faith implies a conscious and intentional design to do a wrongful act for a dishonest purpose or moral obliquity. **Such must be substantiated by evidence**.³² In the instant case, as noted by the CA, "Mendoza utterly failed in this regard, and was unable to prove the alleged indications of bad faith on the part of Chevron."³³

The unchallenged factual finding of the CA states that:

x x x [I]t is clear that [the Franciscos] were awarded the Virac dealership not because of the former's relationship with the lessor of the land where the service station is situated, but because among the three (3) finalists, the Franciscos ranked first and Mendoza ranked only second. Mendoza cannot impeach Jose, who is his own witness, under Section 12, Rule 132 of the Rules of Court. Having voluntarily offered Jose to the witness stand, Mendoza is bound by his testimony.³⁴

To recall, Jose, Mendoza's own witness, testified under oath that Chevron assured the Franciscos that there was absolutely no undue advantage given to them by Chevron and that they were awarded the franchise by the latter because of Jose's qualifications as a civil engineer and his wife's experience as a former marketing manager.³⁵ There is absolutely no argument raised by Mendoza in his Petition that belies this factual finding by the CA.

²⁹ Albenson Enterprises Corp. v. Court of Appeals, 291 Phil. 17, 27 (1993).

³⁰ Eduardo P. Caguioa, COMMENTS AND CASES ON CIVIL LAW, CIVIL CODE OF THE PHILIPPINES, 3rd ed., 1967, Vol. I, p. 30.

ART. 19. Every person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith.

³² ABS-CBN Broadcasting Corp. v. CA, 361 Phil. 499, 531 (1999).

³³ *Rollo* (G.R. No. 211533), Vol. 1, p. 61.

³⁴ Id. at 62.

³⁵ Id.

With respect to Chevron's award of the San Andres dealership to Cua, as emphasized by the CA, it was stipulated by the parties during the pre-trial that the site offered by Cua was a two-way street located along the national highway, making the site obviously and manifestly preferable compared to Mendoza's site, which was located at a one-way, inner street not located along the national highway.³⁶ Again, upon perusal of the Mendoza Petition, there is undeniably no cogent argument raised that seriously contradicts the factual finding by the CA that Chevron's act of awarding a dealership in favor of Cua was perfectly above-board and was exercised in good faith.

In sum, the Court completely concurs with the CA's assessment that "Chevron had been more than patient and accommodating to Mendoza who could not simply accept his defeat."³⁷ Chevron's act of denying Mendoza's stubborn and obstinate attempts to obtain something which he has absolutely no right to acquire is definitely not an actionable wrong.

The Court shall now delve into the issues raised with respect to the damages previously awarded by the RTC in favor of Chevron.

Chevron is <u>not</u> entitled to moral damages.

In the Chevron Petition, Chevron insist that the RTC committed an error in deleting the award for moral damages because the acts of Mendoza purportedly "showed the intention to destroy the reputation and credibility of petitioner Chevron."³⁸

The Court does not agree.

A corporation is not as a rule entitled to moral damages because, not being a natural person, it cannot experience physical suffering or such sentiments as wounded feelings, serious anxiety, mental anguish and moral shock. The only exception to this rule is where **the corporation has a good reputation that is debased, resulting in its social humiliation**.³⁹

Be that as it may, as explained in the very recent case of *Noell Whessoe, Inc. v. Independent Testing Consultants, Inc.*,⁴⁰ the Court held that "[c]laims for moral damages must have <u>sufficient factual basis</u>, either in the evidence presented or in the factual findings of the lower courts."⁴¹

³⁶ Id. at 64-65.

³⁷ Id. at 65.

³⁸ Id. at 31; emphasis and capitalization omitted.

³⁹ Simex International (Manila), Inc. v. Court of Appeals, 262 Phil. 387, 394 (1990).

⁴⁰ G.R. No. 199851, November 7, 2018, accessed at http://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/64830.

⁴¹ Id.; emphasis and underscoring supplied.

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Similarly, in the earlier case of *Crystal v. Bank of the Philippine Islands*,⁴² the Court held that:

x x x [T]here must still be proof of the existence of the factual basis of the damage and its causal relation to the defendant's acts. This is so because moral damages, though incapable of pecuniary estimation, are in the category of an award designed to compensate the claimant for *actual injury* suffered and not to impose a penalty on the wrongdoer.⁴³ (Emphasis supplied and italics in the original)

In the instant case, the CA factually found that: "Here, no evidence was presented by Chevron to establish the factual basis of its claim for moral damages. Mere allegations do not suffice; they must be substantiated by clear and convincing proof. Thus, We delete the award of moral damages in favor of Chevron."⁴⁴

At this juncture, it must be stressed that, as an elementary rule, in an appeal by *certiorari* under Rule 45, the Court does not pass upon questions of fact as the factual findings of the trial and appellate courts are binding on the Court. The Court is not a trier of facts.⁴⁵

In any case, the Court finds that the CA did not commit any reversible error in not granting moral damages in favor of Chevron. Chevron supports its claim for moral damages merely by pointing out that Mendoza copy furnished third persons his correspondence with Chevron. However, there was absolutely no evidence presented showing that Chevron's reputation was even remotely scathed by the letters of Mendoza. It is very much implausible and inconceivable how the mere act of furnishing copy of the letters from a single, unknown trader can even slightly affect the reputation of one of the largest oil companies in the country.

Hence, the CA's assessment that no evidence was presented by Chevron to establish the factual basis of its claim for moral damages must be left undisturbed.

Chevron is <u>not</u> entitled to exemplary damages.

Considering that Chevron is not entitled to moral damages, necessarily, it is likewise not entitled to exemplary damages. As made clear under Article 2234 of the Civil Code, the plaintiff must show that he is entitled to moral, temperate or compensatory damages before the court may consider the question of whether or not exemplary damages should be awarded. Hence, exemplary damages are <u>merely ancillary</u> with respect

⁴² 593 Phil. 344 (2008).

⁴³ Id. at 355, citing Development Bank of The Phil. v. Court of Appeals, 451 Phil. 563, 586-587 (2003).

⁴⁴ *Rollo* (G.R. No. 211533), Vol. 1, p. 67; emphasis supplied.

⁴⁵ *Romualdez-Licaros v. Licaros*, 449 Phil. 824, 837 (2003).

to moral, temperate, or compensatory damages. Jurisprudence has held that "this specie of damages is allowed only in addition to moral damages such that no exemplary damages can be awarded unless the claimant first establishes his clear right to moral damages."⁴⁶

Therefore, the CA was correct in deleting the award of exemplary damages previously awarded by the RTC in favor of Chevron.

The CA did not err in sustaining attorney's fees and costs of suit in favor of Chevron

Lastly, in the Mendoza Petition, Mendoza argues that the CA was mistaken in upholding the award of attorney's fees and costs of suit in favor of Chevron, alleging that such award finds no basis.

The argument fails to convince.

According to Article 2208 of the Civil Code, attorney's fees and expenses of litigation can be awarded by the court in the case of a **clearly unfounded civil action or proceeding** or **in any other case where the court deems it just and equitable** that attorney's fees and expenses of litigation should be recovered.

As held by the CA, the award of attorney's fees and costs of suit are warranted because "Mendoza's Complaint against Chevron is unfounded."⁴⁷ Further, the RTC found that based on the documentary evidence on record, Mendoza's Complaint was merely an unfounded suit instigated by a "sore loser x x x [who] refused to accept [the reasonable explanation of Chevron]."⁴⁸

Considering the serious lack of merit of Mendoza's Complaint against Chevron, which considerably and palpably failed to substantiate the claim of abuse of right hurled against Chevron, the Court has no reason to overturn the RTC and CA's assessment and exercise of discretion that it is just and equitable to impose attorney's fees and litigation costs against Mendoza in favor of Chevron.

WHEREFORE, in view of the foregoing, the Petitions in G.R. Nos. 211533 and 212071 are hereby **DENIED**. The Decision dated September 18, 2013 and Resolution dated February 24, 2014 rendered by the Court of Appeals in CA-G.R. CV No. 93847 are AFFIRMED.

⁴⁶ Mahinay v. Atty. Velasquez, Jr., 464 Phil. 146, 150 (2004); emphasis supplied.

⁴⁷ *Rollo* (G.R. No. 211533), Vol. 1, p. 68.

⁴⁸ Id. at 446-447.

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SO ORDERED.

MIN S. CAGUIOA FRED sociate Justice

WE CONCUR:

ANTONIO T. CARPIO Associate Justice Chairperson

ESTELA M BERNABE Associate Justice

JØSE C. REYES, JR. Associate Justice

. LAZARO-JAVIER AMY C 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, Second Division

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.

LUCAS P. BEN AMIN Chief Justice