



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

**VECTOR SHIPPING
CORPORATION and
FRANCISCO SORIANO,**
Petitioners,

G.R. No. 159213

Present:

SERENO, C.J.,
*VELASCO, JR.,
LEONARDO-DE CASTRO,
BERSAMIN, and
VILLARAMA, JR., JJ.

-versus-

**AMERICAN HOME
ASSURANCE COMPANY and
SULPICIO LINES, INC.,**
Respondents.

Promulgated:

JUL 03 2013

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DECISION

BERSAMIN, J.:

Subrogation under Article 2207 of the *Civil Code* gives rise to a cause of action created by law. For purposes of the law on the prescription of actions, the period of limitation is ten years.

The Case

Vector Shipping Corporation (Vector) and Francisco Soriano appeal the decision promulgated on July 22, 2003,¹ whereby the Court of Appeals (CA) held them jointly and severally liable to pay ₱7,455,421.08 to American Home Assurance Company (respondent) as and by way of actual damages on the basis of respondent being the subrogee of its insured Caltex Philippines, Inc. (Caltex).

* In lieu of Associate Justice Bienvenido L. Reyes who penned the decision of the Court of Appeals under review, pursuant to the raffle of June 26, 2013.

¹ *Rollo*, pp. 51-64; penned by Associate Justice Bienvenido L. Reyes (now a Member of this Court), with Associate Justice Salvador J. Valdez, Jr. (retired/deceased) and Associate Justice Arsenio J. Magpale (retired/deceased) concurring.

Antecedents

Vector was the operator of the motor tanker M/T Vector, while Soriano was the registered owner of the M/T Vector. Respondent is a domestic insurance corporation.²

On September 30, 1987, Caltex entered into a contract of affreightment³ with Vector for the transport of Caltex's petroleum cargo through the M/T Vector. Caltex insured the petroleum cargo with respondent for ₱7,455,421.08 under Marine Open Policy No. 34-5093-6.⁴ In the evening of December 20, 1987, the M/T Vector and the M/V Doña Paz, the latter a vessel owned and operated by Sulpicio Lines, Inc., collided in the open sea near Dumali Point in Tablas Strait, located between the Provinces of Marinduque and Oriental Mindoro. The collision led to the sinking of both vessels. The entire petroleum cargo of Caltex on board the M/T Vector perished.⁵ On July 12, 1988, respondent indemnified Caltex for the loss of the petroleum cargo in the full amount of ₱7,455,421.08.⁶

On March 5, 1992, respondent filed a complaint against Vector, Soriano, and Sulpicio Lines, Inc. to recover the full amount of ₱7,455,421.08 it paid to Caltex (Civil Case No. 92-620).⁷ The case was raffled to Branch 145 of the Regional Trial Court (RTC) in Makati City.

On December 10, 1997, the RTC issued a resolution dismissing Civil Case No. 92-620 on the following grounds:

This action is upon a quasi-delict and as such must be commenced within four [4] years from the day they may be brought. [Art. 1145 in relation to Art. 1150, Civil Code] "From the day [the action] may be brought" means from the day the quasi-delict occurred. [Capuno v. Pepsi Cola, 13 SCRA 663]

The tort complained of in this case occurred on 20 December 1987. The action arising therefrom would under the law prescribe, unless interrupted, on 20 December 1991.

When the case was filed against defendants Vector Shipping and Francisco Soriano on 5 March 1992, the action not having been interrupted, had already prescribed.

² Records (Volume I), pp. 1-2.

³ Id. at 6-9.

⁴ Id. at 10-21.

⁵ *Rollo*, p. 53.

⁶ Records (Volume II), pp. 390-391.

⁷ Records (Volume I), pp. 1-5.

Under the same situation, the cross-claim of Sulpicio Lines against Vector Shipping and Francisco Soriano filed on 25 June 1992 had likewise prescribed.

The letter of demand upon defendant Sulpicio Lines allegedly on 6 November 1991 did not interrupt the [tolling] of the prescriptive period since there is no evidence that it was actually received by the addressee. Under such circumstances, the action against Sulpicio Lines had likewise prescribed.

Even assuming that such written extra-judicial demand was received and the prescriptive period interrupted in accordance with Art. 1155, Civil Code, it was only for the 10-day period within which Sulpicio Lines was required to settle its obligation. After that period lapsed, the prescriptive period started again. A new 4-year period to file action was not created by the extra-judicial demand; it merely suspended and extended the period for 10 days, which in this case meant that the action should be commenced by 30 December 1991, rather than 20 December 1991.

Thus, when the complaint against Sulpicio Lines was filed on 5 March 1992, the action had prescribed.

PREMISES CONSIDERED, the complaint of American Home Assurance Company and the cross-claim of Sulpicio Lines against Vector Shipping Corporation and Francisco Soriano are **DISMISSED**.

Without costs.

SO ORDERED.⁸

Respondent appealed to the CA, which promulgated its assailed decision on July 22, 2003 reversing the RTC.⁹ Although thereby absolving Sulpicio Lines, Inc. of any liability to respondent, the CA held Vector and Soriano jointly and severally liable to respondent for the reimbursement of the amount of ₱7,455,421.08 paid to Caltex, explaining:

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The resolution of this case is primarily anchored on the determination of what kind of relationship existed between Caltex and M/V Dona Paz and between Caltex and M/T Vector for purposes of applying the laws on prescription. The Civil Code expressly provides for the number of years before the extinctive prescription s[e]ts in depending on the relationship that governs the parties.

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After a careful perusal of the factual milieu and the evidence adduced by the parties, We are constrained to rule that the relationship that

⁸ *Rollo*, pp. 67-68.

⁹ *Supra* note 1.

existed between Caltex and M/V Dona Paz is that of a **quasi-delict** while that between Caltex and M/T Vector is **culpa contractual** based on a Contract of Affreightment or a charter party.

X X X X

On the other hand, the claim of appellant against M/T Vector is anchored on a breach of contract of affreightment. The appellant averred that M/T Vector committed such act for having misrepresented to the appellant that said vessel is seaworthy when in fact it is not. The contract was executed between Caltex and M/T Vector on September 30, 1987 for the latter to transport thousands of barrels of different petroleum products. Under **Article 1144** of the New Civil Code, actions based on written contract must be brought within 10 years from the time the right of action accrued. A passenger of a ship, or his heirs, can bring an action based on culpa contractual within a period of 10 years because the ticket issued for the transportation is by itself a complete written contract (*Peralta de Guerrero vs. Madrigal Shipping Co., L 12951, November 17, 1959*). Viewed with reference to the statute of limitations, an action against a carrier, whether of goods or of passengers, for injury resulting from a breach of contract for safe carriage is one on contract, and not in tort, and is therefore, in the absence of a specific statute relating to such actions governed by the statute fixing the period within which actions for breach of contract must be brought (*53 C.J.S. 1002 citing Southern Pac. R. Co. of Mexico vs. Gonzales 61 P. 2d 377, 48 Ariz. 260, 106 A.L.R. 1012*).

Considering that We have already concluded that the prescriptive periods for filing action against M/V Doña Paz based on *quasi delict* and M/T Vector based on *breach of contract* have not yet expired, are We in a position to decide the appeal on its merit.

We say yes.

X X X X

Article 2207 of the Civil Code on subrogation is explicit that if the plaintiff's property has been insured, and he has received indemnity from the insurance company for the injury or loss arising out of the wrong or breach of contract complained of, the insurance company should be subrogated to the rights of the insured against the wrongdoer or the person who has violated the contract. Undoubtedly, the herein appellant has the rights of a subrogee to recover from M/T Vector what it has paid by way of indemnity to Caltex.

WHEREFORE, foregoing premises considered, the decision dated December 10, 1997 of the RTC of Makati City, Branch 145 is hereby REVERSED. Accordingly, the defendant-appellees Vector Shipping Corporation and Francisco Soriano are held jointly and severally liable to the plaintiff-appellant American Home Assurance Company for the payment of P7,455,421.08 as and by way of *actual damages*.

SO ORDERED.¹⁰

¹⁰ Rollo, pp. 55-64.

Respondent sought the partial reconsideration of the decision of the CA, contending that Sulpicio Lines, Inc. should also be held jointly liable with Vector and Soriano for the actual damages awarded.¹¹ On their part, however, Vector and Soriano immediately appealed to the Court on September 12, 2003.¹² Thus, on October 1, 2003, the CA held in abeyance its action on respondent's partial motion for reconsideration pursuant to its internal rules until the Court has resolved this appeal.¹³

Issues

The main issue is whether this action of respondent was already barred by prescription for bringing it only on March 5, 1992. A related issue concerns the proper determination of the nature of the cause of action as arising either from a quasi-delict or a breach of contract.

The Court will not pass upon whether or not Sulpicio Lines, Inc. should also be held jointly liable with Vector and Soriano for the actual damages claimed.

Ruling

The petition lacks merit.

Vector and Soriano posit that the RTC correctly dismissed respondent's complaint on the ground of prescription. They insist that this action was premised on a quasi-delict or upon an injury to the rights of the plaintiff, which, pursuant to Article 1146 of the *Civil Code*, must be instituted within four years from the time the cause of action accrued; that because respondent's cause of action accrued on December 20, 1987, the date of the collision, respondent had only four years, or until December 20, 1991, within which to bring its action, but its complaint was filed only on March 5, 1992, thereby rendering its action already barred for being commenced beyond the four-year prescriptive period;¹⁴ and that there was no showing that respondent had made extrajudicial written demands upon them for the reimbursement of the insurance proceeds as to interrupt the running of the prescriptive period.¹⁵

¹¹ CA *rollo*, pp. 106-120.

¹² *Rollo*, pp. 10-35.

¹³ CA *rollo*, p. 189.

¹⁴ *Rollo*, pp. 20-24.

¹⁵ *Id.* at 24-27.

We concur with the CA's ruling that respondent's action did not yet prescribe. The legal provision governing this case was not Article 1146 of the *Civil Code*,¹⁶ but Article 1144 of the *Civil Code*, which states:

Article 1144. The following actions must be brought within ten years from the time the cause of action accrues:

- (1) Upon a written contract;
- (2) Upon an obligation created by law;
- (3) Upon a judgment.

We need to clarify, however, that we cannot adopt the CA's characterization of the cause of action as based on the contract of affreightment between Caltex and Vector, with the breach of contract being the failure of Vector to make the M/T Vector seaworthy, as to make this action come under Article 1144 (1), *supra*. Instead, we find and hold that that the present action was not upon a written contract, but upon an obligation created by law. Hence, it came under Article 1144 (2) of the *Civil Code*. This is because the subrogation of respondent to the rights of Caltex as the insured was by virtue of the express provision of law embodied in Article 2207 of the *Civil Code*, to wit:

Article 2207. If the plaintiff's property has been insured, and he has received indemnity from the insurance company for the injury or loss arising out of the wrong or breach of contract complained of, **the insurance company shall be subrogated to the rights of the insured against the wrongdoer or the person who has violated the contract.** If the amount paid by the insurance company does not fully cover the injury or loss, the aggrieved party shall be entitled to recover the deficiency from the person causing the loss or injury. (Emphasis supplied)

The juridical situation arising under Article 2207 of the *Civil Code* is well explained in *Pan Malayan Insurance Corporation v. Court of Appeals*,¹⁷ as follows:

Article 2207 of the Civil Code is founded on the well-settled principle of subrogation. If the insured property is destroyed or damaged through the fault or negligence of a party other than the assured, then the insurer, upon payment to the assured, will be subrogated to the rights of the assured to recover from the wrongdoer to the extent that the insurer

¹⁶ Article 1146. The following actions must be instituted within four years:

- (1) Upon an injury to the rights of the plaintiff;
- (2) Upon a quasi-delict. (n)

However, when the action arises from or out of any act, activity, or conduct of any public officer involving the exercise of powers or authority arising from Martial Law, including the arrest, detention and/or trial of the plaintiff, the same must be brought within one (1) year. (As amended by PD No. 1755, Dec. 24, 1980.)

¹⁷ G.R. No. 81026, April 3, 1990, 184 SCRA 54, 58.

has been obligated to pay. **Payment by the insurer to the assured operates as an equitable assignment to the former of all remedies which the latter may have against the third party whose negligence or wrongful act caused the loss. The right of subrogation is not dependent upon, nor does it grow out of, any privity of contract or upon written assignment of claim. It accrues simply upon payment of the insurance claim by the insurer** [Compania Maritima v. Insurance Company of North America, G.R. No. L-18965, October 30, 1964, 12 SCRA 213; Fireman's Fund Insurance Company v. Jamilla & Company, Inc., G.R. No. L-27427, April 7, 1976, 70 SCRA 323].¹⁸

Verily, the contract of affreightment that Caltex and Vector entered into did not give rise to the legal obligation of Vector and Soriano to pay the demand for reimbursement by respondent because it concerned only the agreement for the transport of Caltex's petroleum cargo. As the Court has aptly put it in *Pan Malayan Insurance Corporation v. Court of Appeals, supra*, respondent's right of subrogation pursuant to Article 2207, *supra*, was "not dependent upon, nor d[id] it grow out of, any privity of contract or upon written assignment of claim [but] accrue[d] simply upon payment of the insurance claim by the insurer."

Considering that the cause of action accrued as of the time respondent actually indemnified Caltex in the amount of ₱7,455,421.08 on July 12, 1988,¹⁹ the action was not yet barred by the time of the filing of its complaint on March 5, 1992,²⁰ which was well within the 10-year period prescribed by Article 1144 of the *Civil Code*.

The insistence by Vector and Soriano that the running of the prescriptive period was not interrupted because of the failure of respondent to serve any extrajudicial demand was rendered inconsequential by our foregoing finding that respondent's cause of action was not based on a quasi-delict that prescribed in four years from the date of the collision on December 20, 1987, as the RTC misappreciated, but on an obligation created by law, for which the law fixed a longer prescriptive period of ten years from the accrual of the action.

Still, Vector and Soriano assert that respondent had no right of subrogation to begin with, because the complaint did not allege that respondent had actually paid Caltex for the loss of the cargo. They further assert that the subrogation receipt submitted by respondent was inadmissible for not being properly identified by Ricardo C. Ongpauco, respondent's witness, who, although supposed to identify the subrogation receipt based on his affidavit, was not called to testify in court; and that respondent presented

¹⁸ Bold emphasis supplied.

¹⁹ Records (Volume II), p. 390.

²⁰ Records (Volume I), p. 1.

only one witness in the person of Teresita Espiritu, who identified Marine Open Policy No. 34-5093-6 issued by respondent to Caltex.²¹

We disagree with petitioners' assertions. It is undeniable that respondent preponderantly established its right of subrogation. Its Exhibit C was Marine Open Policy No. 34-5093-6 that it had issued to Caltex to insure the petroleum cargo against marine peril.²² Its Exhibit D was the formal written claim of Caltex for the payment of the insurance coverage of ₱7,455,421.08 coursed through respondent's adjuster.²³ Its Exhibits E to H were marine documents relating to the perished cargo on board the M/V Vector that were processed for the purpose of verifying the insurance claim of Caltex.²⁴ Its Exhibit I was the subrogation receipt dated July 12, 1988 showing that respondent paid Caltex ₱7,455,421.00 as the full settlement of Caltex's claim under Marine Open Policy No. 34-5093-6.²⁵ All these exhibits were unquestionably duly presented, marked, and admitted during the trial.²⁶ Specifically, Exhibit C was admitted as an authentic copy of Marine Open Policy No. 34-5093-6, while Exhibits D, E, F, G, H and I, inclusive, were admitted as parts of the testimony of respondent's witness Efren Villanueva, the manager for the adjustment service of the Manila Adjusters and Surveyors Company.²⁷

Consistent with the pertinent law and jurisprudence, therefore, Exhibit I was already enough by itself to prove the payment of ₱7,455,421.00 as the full settlement of Caltex's claim.²⁸ The payment made to Caltex as the insured being thereby duly documented, respondent became subrogated as a matter of course pursuant to Article 2207 of the *Civil Code*. In legal contemplation, subrogation is the "substitution of another person in the place of the creditor, to whose rights he succeeds in relation to the debt;" and is "independent of any mere contractual relations between the parties to be affected by it, and is broad enough to cover every instance in which one party is required to pay a debt for which another is primarily answerable, and which in equity and conscience ought to be discharged by the latter."²⁹

Lastly, Vector and Soriano argue that Caltex waived and abandoned its claim by not setting up a cross-claim against them in Civil Case No. 18735, the suit that Sulpicio Lines, Inc. had brought to claim damages for the loss of the M/V Doña Paz from them, Oriental Assurance Company (as insurer of the M/T Vector), and Caltex; that such failure to set up its cross-

²¹ *Rollo*, pp. 27-28.

²² Records (Volume II), pp. 371-384.

²³ *Id.* at 384.

²⁴ *Id.* at 385-389.

²⁵ *Id.* at 390.

²⁶ *Id.* at 510.

²⁷ *Id.*

²⁸ *Gaisano Cagayan, Inc., v. Insurance Company of North America*, G.R. No. 147839, June 8, 2006, 490 SCRA 286, 300.

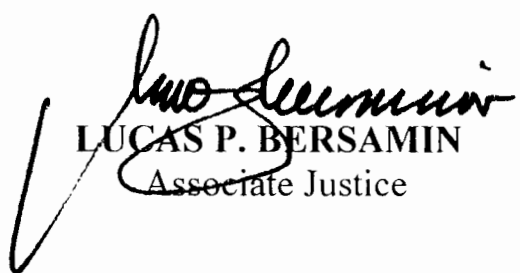
²⁹ *II Bouvier's Law Dictionary*, Eighth Edition, p. 3166, citing *Johnson v. Barrett*, 117 Ind. 551, 19 N.E. 199, 10 Am. St. Rep. 83.

claim on the part of Caltex, the real party in interest who had suffered the loss, left respondent without any better right than Caltex, its insured, to recover anything from them, and forever barred Caltex from asserting any claim against them for the loss of the cargo; and that respondent was similarly barred from asserting its present claim due to its being merely the successor-in-interest of Caltex.

The argument of Vector and Soriano would have substance and merit had Civil Case No. 18735 and this case involved the same parties and litigated the same rights and obligations. But the two actions were separate from and independent of each other. Civil Case No. 18735 was instituted by Sulpicio Lines, Inc. to recover damages for the loss of its M/V Doña Paz. In contrast, this action was brought by respondent to recover from Vector and Soriano whatever it had paid to Caltex under its marine insurance policy on the basis of its right of subrogation. With the clear variance between the two actions, the failure to set up the cross-claim against them in Civil Case No. 18735 is no reason to bar this action.

WHEREFORE, the Court **DENIES** the petition for review on *certiorari*; **AFFIRMS** the decision promulgated on July 22, 2003; and **ORDERS** petitioners to pay the costs of suit.

SO ORDERED.




LUCAS P. BERSAMIN
Associate Justice

WE CONCUR:



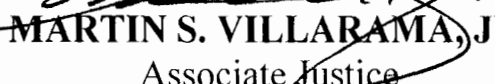
MARIA LOURDES P. A. SERENO
Chief Justice



PRESBITERO J. VELASCO, JR.
Associate Justice



TERESITA J. LEONARDO-DE CASTRO
Associate Justice



MARTIN S. VILLARAMA, JR.
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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