



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

NOTICE

Sirs/Mesdames:

Please take notice that the Court, First Division, issued a Resolution dated September 28, 2022 which reads as follows:

“G.R. No. 249977 (*Ricardo C. Papa and Hermilina P. Papa v. Design Arki Inc.*). – This Petition for Review¹ on *Certiorari* (petition) filed under Rule 45 of the Rules of Court, seeks to reverse and set aside the Decision² dated 28 February 2019 and the Resolution³ dated 18 October 2019 promulgated by the Court of Appeals (CA) in CA-G.R. CV No. 106516.

Antecedents

Respondent Design Arki Inc. (respondent) is a duly-licensed construction company. It entered into a Construction Agreement⁴ with petitioner spouses Ricardo and Hermilina Papa (petitioners) for the construction of a two-storey residential building at Teddy Street, Tierra Pura, Quezon City, for a total contract price of ₱8,219,183.16.⁵

According to respondent, petitioners constantly ordered changes to the plans contained in the General Specifications⁶ during the course of the construction of the building.

On 09 April 2013, respondent was prevented from installing the roof and its employees were barred from entering the construction site due to petitioners’ termination of the Construction Agreement. Respondent demanded the payment of ₱2,379,996.76, which is the value of the work

¹ *Rollo*, pp. 12-25.

² *Id.* at 27-39; penned by Associate Justice Elihu A. Ybañez and concurred in by Associate Justices Maria Luisa Quijano-Padilla and Henri Jean Paul B. Inting (now a Member of the Court).

³ *Id.* at 41-42; penned by Associate Justice Elihu A. Ybañez and concurred in by Associate Justices Stephen C. Cruz and Maria Luisa Quijano-Padilla.

⁴ *Id.* at 48-56.

⁵ *Id.* at 50.

⁶ *Id.* at 57-65.

performed, less payments made, on that ground it had fulfilled its obligations under the Construction Agreement.⁷ It also demanded the return of the construction bond in the amount of ₱200,000.00, plus ₱73,561.69.⁸

Petitioners failed to accede to the demand, prompting respondent to file a Complaint⁹ for specific performance and damages against petitioners before Branch 88, Regional Trial Court (RTC) of Quezon City.

In their Answer, petitioners claimed that respondent defaulted when it failed to finish the project. They alleged that respondent repeatedly deviated from the specifications, committed fraudulent acts, and failed to supervise the project diligently and provide adequate manpower. In fact, the value of the rectification works cost more than the amount demanded by respondent. According to petitioners, since the construction of the building and its rectification are still ongoing, the action is premature.¹⁰

Ruling of the RTC

In its Order dated 26 June 2015, the RTC dismissed the complaint and referred the case to the Construction Industry Arbitration Commission (CIAC), pursuant to Office of the Court Administrator (OCA) Circular No. 103-2015.¹¹

On 29 July 2015, the CIAC informed the RTC of the following requirements before the CIAC can act on the case:

1. Submission of a duly accomplished Request for Arbitration (CIAC Form No. 001) attached as Annex 1, x x x
2. Payment of the required initial deposit x x x¹²

The trial court merely noted the CIAC's letter. On 04 August 2015, respondent sought the reconsideration of the RTC's Order dated 26 June 2015. The motion was denied by the RTC in its Order dated 02 December 2015.¹³

Ruling of the CA

On appeal, the CA reversed the RTC in its Decision¹⁴ dated 28 February 2019, the dispositive portion of which reads:

⁷ Id. at 45

⁸ Id.

⁹ Id. at 44-47

¹⁰ Id. at 29.

¹¹ Id. at 30.

¹² Id. at 31.

¹³ Id.

¹⁴ Id. at 27-39.

FOR THESE REASONS, the appeal is hereby **GRANTED**. The assailed Orders dated 26 June 2015 and 02 December 2015 issued by Branch 88 of the National Capital Judicial Region of the Regional Trial Court (RTC) of Quezon City in Civil Case No. R-QZN-13-02219-CV are **NULLIFIED** and **SET ASIDE**. The court *a quo* is ordered to proceed with the prompt disposition of Civil Case No. R-QZN-13-02219-CV on the merits.

SO ORDERED.¹⁵

In so ruling, the CA stated that the CIAC only has exclusive jurisdiction over disputes arising from or connected with construction contracts when the parties agree to submit their dispute to voluntary arbitration.¹⁶ Likewise, the Revised Rules of Procedure Governing Construction Arbitration requires the arbitration agreement or the subsequent submission to be alleged in the Complaint. In this case, there is nothing in the records that would indicate that the parties agreed to submit their dispute to arbitration.¹⁷ Accordingly, the CA deemed it appropriate for the RTC to try the case on the merits.

Petitioners filed a Motion for Reconsideration, but the same was denied by the CA in its Resolution¹⁸ dated 18 October 2019.

Hence, this Petition, assigning this sole issue for Our consideration:

Issue

**WHETHER OR NOT THE COURT OF APPEALS
ERRONEOUSLY GRANTED THE APPEAL.** [sic]¹⁹

Ruling of the Court

We find the instant petition to be devoid of merit. Essentially, the issue to be resolved in this case is whether the CA correctly determined that the RTC has jurisdiction over the dispute and not the CIAC.

The law that confers jurisdiction over construction disputes to the CIAC is Executive Order No. (EO) 1008,²⁰ otherwise known as the Construction Industry Arbitration Law. Section 4 of said law states:

Section 4. *Jurisdiction.* — The CIAC shall have original and exclusive jurisdiction over disputes arising from, or connected with, contracts entered into by parties involved in construction in the Philippines, whether the dispute arises before or after the completion of

¹⁵ Id. at 38.

¹⁶ Id.

¹⁷ Id. at 3-4.

¹⁸ Id. at 41-42.

¹⁹ Id. at 16.

²⁰ Entitled "CREATING AN ARBITRATION MACHINERY IN THE CONSTRUCTION INDUSTRY OF THE PHILIPPINES." Approved: 04 February 1985.

the contract, or after the abandonment or breach thereof. These disputes may involve government or private contracts. For the Board to acquire jurisdiction, the parties to a dispute must agree to submit the same to voluntary arbitration.

The jurisdiction of the CIAC may include, but is not limited to, violation of specifications for materials and workmanship; violation of the terms of agreement; interpretation and/or application of contractual time and delays; maintenance and defects; and payment, default of employer or contractor, and changes in contract cost.²¹ Excluded from the coverage of this law are disputes arising from employer-employee relationships, which shall continue to be covered by the Labor Code of the Philippines.²²

More specifically, Section 4 of EO 1008 lays down three requisites for acquisition of jurisdiction by the CIAC, first: a dispute arising from or connected with a construction contract; second, such contract must have been entered into by parties involved in construction in the Philippines; and third, an agreement by the parties to submit their dispute to arbitration.²³

The Court has defined *construction* within the context of CIAC's jurisdiction as "referring to all on-site works on buildings or altering structures, from land clearance through completion including excavation, erection and assembly and installation of components and equipment."²⁴

Without a doubt, the present controversy involves a construction dispute since respondent seeks to recover payment for the services it has rendered under the Construction Agreement. However, there remains the matter of the parties' agreement to submit the dispute to arbitration, as required under Section 4 of EO 1008.

As pointed out by the CA, there is nothing in the records that would indicate that the parties agreed to submit their dispute to arbitration.²⁵ Notably, the Construction Agreement entered into by the parties did not include any agreement to refer any dispute between them for voluntary arbitration before the CIAC.²⁶

Article XV of the Construction Contract on the "Settlement of Disputes" reads:

ARTICLE XV – SETTLEMENT OF DISPUTES

15.1 Any dispute arising in the course of the execution and performance of this Agreement by reason of difference in interpretation of the

²¹ *Wyeth Philippines, Inc. v. Construction Industry Arbitration Commission*, G.R. No. 220045-48, 22 June 2020.

²² *Id.*

²³ *Ang v. De Venecia*, G.R. No. 217151, 12 February 2020.

²⁴ *Fort Bonifacio Development Corporation v. Sorongon*, 605 Phil. 689, 696 (2009).

²⁵ *Rollo*, p. 34.

²⁶ *Id.*

Supporting Documents which the OWNER and the BUILDING CONTRACTOR are unable to resolve amicably between themselves shall be submitted by either party to the appropriate court in Quezon City, which shall have exclusive jurisdiction on the matter.

It is hereby agreed that pendency of litigation or other matters in connection with matters mentioned in the preceding paragraph shall not be reason for the BUILDING CONTRACTOR to suspend work as contemplated by this Contract nor affect the time of completion set forth in Article VII of this Contract.²⁷

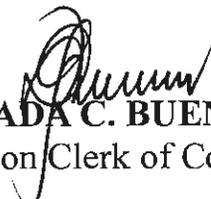
While the provision is titled "Settlement of Disputes," the same does not appear to be an arbitration clause or an agreement to submit the dispute to arbitration. In fact, said provision provides that disputes shall be brought to the "appropriate court" and the proper venue for said actions. This is sanctioned under Section 4(b) of the Amended Rules of Civil Procedure.

Clearly, the foregoing provision cannot be classified as an agreement to submit the dispute to arbitration. Without such agreement, the RTC, not the CIAC, has jurisdiction over the action for specific performance and damages. No fault may therefore be attributed to the CA whose Decision to dismiss the appeal and remand the case to the RTC for further proceedings is in line with existing laws and jurisprudence.

WHEREFORE, the Petition for Review on *Certiorari* is hereby **DENIED**. The Decision dated 28 February 2019 and the Resolution dated 18 October 2019 rendered by the Court of Appeals in CA-G.R. CV No. 106516 are **AFFIRMED**.

SO ORDERED."

By authority of the Court:


LIBRADA C. BUENA
Division Clerk of Court *off* *10/18*

by:

MARIA TERESA B. SIBULO
Deputy Division Clerk of Court

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²⁷ Id. at 55.

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Court of Appeals (x)
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(CA-G.R. CV No. 106516)

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