Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

DR. BENJAMIN D. ADAPON*, for himself and on behalf of the COMPUTERIZED IMAGING INSTITUTE, INC., formerly known as the COMPUTED TOMOGRAPHY CENTER, INC., Petitioners, -versus- **MEDICAL DOCTORS, INC.,** Respondent.	**G.R. No. 229956** Present: LEONEN, *J., Chairperson,* HERNANDO**, INTING, DELOS SANTOS, and LOPEZ, J., *JJ.* **Promulgated:** June 14, 2021 MisDCBath

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DECISION

LEONEN, *J.*:

Arbitration laws[1] and rules[2] prescribe limited and exclusive grounds to vacate an arbitral award. These grounds pertain to matters that are extraneous to the merits and do not delve into errors of facts or law in the award. Unless any of the conditions to vacate has been established, the regional trial court must confirm the arbitral award as a matter of course.[3]

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* As noted in the October 15,2018 Resolution, Dr. BenjaminD. Adapon died on July 9, 2018.

** On wellness leave.

1 *See* Republic Act No. 876 or The Arbitration Law of 1953 and Republic Act No. 9285 or the Alternative Dispute Resolution Act of 2004.

2 S. COURT RULE ON ADR. A.M. No. 07-11-08-SC, September 1, 2009.

3 *Fruehauf Electronics Philippines Corp. v. Technology Electronics Assembly and Management Pacific Corp.*, 800 Phil. 721 (2016) [Per J. Brion, Second Division].

This Court resolves a Petition for Review[4] assailing the Decision[5] of the Court of Appeals, which reversed the Regional Trial Court Resolution[6] confirming the arbitral tribunal's Final Award.[7]

On April 25, 2011,[8] Dr. Benjamin D. Adapon (Dr. Adapon) filed a Complaint[9] for himself and as a minority stockholder of Computerized Imaging Institute, Inc. (CII) against Medical Doctors, Inc. (Medical Doctors) for violation of the parties' non-compete agreement. Dr. Adapon is "a medical expert in the field of Neuroradiology, Computed Tomography, diagnostic and therapeutic Neuroangiography[.]"[10] Medical Doctors, on the other hand, owns and operates the Makati Medical Center.

In the late 1970s, Dr. Adapon was approached by Dr. Constantino P. Manahan, Dr. Raul G. Fores and Dr. Romeo H. Gustillo,[11] three of the incorporators, directors, and principal doctors of Medical Doctors. They requested him to set up, operate, and head a computed tomography facility for the Makati Medical Center.[12] Even while already established in the United States, Dr. Adapon heeded the call and set up the first computed tomography facility in the Philippines and in Southeast Asia.[13]

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4 *Rollo*, pp. 35–76. Filed under Rule 19.36 of the Special Rules of Court on Alternative Dispute Resolution which provides:

Rule 19.36. *Review discretionary.* - A review by the Supreme Court is not a matter of right, but of sound judicial discretion, which will be granted only for serious and compelling reasons resulting in grave prejudice to the aggrieved party. The following, while neither controlling nor fully measuring the court's discretion, indicate the serious and compelling, and necessarily, restrictive nature of the grounds that will warrant the exercise of the Supreme Court's discretionary powers, when the Court of Appeals:

a. Failed to apply the applicable standard or test for judicial review prescribed in these Special ADR Rules in arriving at its decision resulting in substantial prejudice to the aggrieved party;

b. Erred in upholding a final order or decision despite the lack of jurisdiction of the court that rendered such final order or decision;

c. Failed to apply any provision, principle, policy or rule contained in these Special ADR Rules resulting in substantial prejudice to the aggrieved party; and

d. Committed an error so egregious and harmful to a party as to amount to an undeniable excess of jurisdiction.

The mere fact that the petitioner disagrees with the Court of Appeals' determination of questions of fact, of law or both questions of fact and law, shall not warrant the exercise of the Supreme Court's discretionary power. The error imputed to the Court of Appeals must be grounded upon any of the above prescribed grounds for review or be closely analogous thereto.

A mere general allegation that the Court of Appeals has committed serious and substantial error or that it has acted with grave abuse of discretion resulting in substantial prejudice to the petitioner without indicating with specificity the nature of such error or abuse of discretion and the serious prejudice suffered by the petitioner on account thereof, shall constitute sufficient ground for the Supreme Court to dismiss outright the petition.

5 Id. at 10–29. The February 15, 2017 Decision was penned by Associate Justice Ma. Luisa C. Quijano-Padilla and concurred in by Associate Justices Normandie B. Pizarro (Chair) and Samuel H. Gaerlan (now Supreme Court Associate Justice) of the Thirteenth Division, Court of Appeals, Manila.

6 Id. at 196–202. The February 19, 2016 Resolution was penned by Presiding Judge Cesar O. Untalan of the Regional Trial Court of Makati, Branch 149.

7 Id. at 98–137. The Final Award dated May 8, 2015 was penned by former Chief Justice Reynato S. Puno and concurred in by former Integrated Bar of the Philippines President Atty. Jose A. Grapilon. Former Associate Justice Dante O. Tinga dissented (*See rollo,* pp. 138–193).

8 Id. at 46.

9 Id. at 204–237.

10 Id. at 98.

11 Id.

12 Id. at 78.

13 Id. at 99.

On February 15, 1978, Medical Doctors and Dr. Adapon formally incorporated then Computed Tomography Center, Inc., now CII, with 60% of the outstanding capital stock belonging to Medical Doctors and 40% owned by Dr. Adapon and his nominees. As the expert in computed tomography, Dr. Adapon took charge of the Makati Medical Center's operations as its president.[14]

The parties proceeded with their venture without any written formal agreement.[15] Medical Doctors referred patients who needed tomography to CII for its services. Medical Doctors billed, collected, and remitted the payments of the patients to CII.[16]

In 1988, Dr. Adapon proposed to purchase magnetic resonance imaging equipment for CII to enable it to offer additional services to patients of Makati Medical Center and expand its growing business. Around the time, the parties also executed a Letter of Intent prepared by Medical Doctors, containing a non-compete agreement[17] which reads in part:

> 4. MDI and MMC shall not compete either directly or indirectly with CTCI and shall channel and give all computer tomographical imaging and magnetic resonance imaging work to CTCI. Dr. Benjamin Adapon shall not compete directly or indirectly with CTCI in these fields.
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> . . . .
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> 11. If the parties cannot agree on the specific details to be incorporated in the agreements, as well as any matter arising out of this Letter of Intent, the parties shall agree to have the disputed or unsettled matters arbitrated by a panel of arbitrators and to abide by the ruling of the panel of arbitrators.
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> The arbitration panel shall be composed of three (3) arbitrators. Each party shall be entitled to choose an arbitrator and the third arbitrator shall be a person mutually agreed upon by both parties. Pending the result of the arbitration, the parties shall commit to maintain the status quo.[18]

Dr. Adapon signed the Letter of Intent in November 1988, and Drs. Manahan, Gustilo, and Fores signed on behalf of Medical Doctors.[19] The parties still continued to conduct their business, with Dr. Adapon heading CII, which provided tomography and MRI services for Makati Medical Center patients.[20]

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14 Id.
15 Id. at 78.
16 Id. at 99.
17 Id.
18 Id. at 100–101.
19 Id. at 101.
20 Id. at 101–102.

Ten years later, in 1998, Medical Doctors acquired and installed a 16-slice CT Scanner to be used in the hospital's X-Ray Department. Dr. Adapon questioned this purchase for violating the non-compete agreement.[21] Drs. Manahan, Fores, and Gustilo supposedly assured him that his concerns were unfounded and that the machine would only be used for charity patients.[22]

Yet, Dr. Adapon later learned that Medical Doctors also bought its own MRI machine and instructed its employees to refer patients that needed computed tomography imaging and magnetic imaging procedure to the hospital's own X-Ray Department instead of CII's facility. Dr. Adapon claimed that this action created a false impression that the services offered in CII's facility were inferior to that of the Makati Medical Center. Dr. Adapon called the attention of Medical Doctors, but his complaints were ignored.[23]

In 2011, Medical Doctors installed a Siemens 128-slice CT Scanner, and an MRI Scanner in 2012, for the paying patients of the Makati Medical Center.[24]

To Dr. Adapon, all these acts signified Medical Doctors' intention to directly compete with the services offered by CII, in violation of their non-compete agreement. Thus, he filed his Complaint[25] with a prayer for preliminary injunction or a temporary restraining order. He also claimed that Medical Doctors failed to pay for past services rendered by CII to the hospital's patients, and to reimburse CII for the damages on its equipment incurred during the hospital's renovation.[26]

The Regional Trial Court, as a special commercial court, denied Dr. Adapon's application for temporary restraining order in an August 3, 2011 Order.[27] It also suspended the proceedings and ordered the parties to undergo arbitration pursuant to paragraph 11 of the Letter of Intent.[28]

Medical Doctors manifested that the Letter of Intent was not a binding contract, but voluntarily entered into arbitration before the Philippine Dispute Resolution Center, Inc. in Taguig City.[29]

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21 Id. at 78.
22 Id. at 78–79.
23 Id. at 79.
24 Id. at 103.
25 Id. at 204–237.
26 Id. at 79.
27 Id. at 238–243. The August 3, 2011 Order was penned by Presiding Judge Cesar Untalan.
28 Id. at 80.
29 Id. at 48.

A three-person arbitration panel heard the dispute,[30] composed of former Chief Justice Renato S. Puno, the arbitrator mutually agreed upon by the parties who acted as chairperson; retired Justice Dante O. Tinga (Justice Tinga), Medical Doctors' nominee; and former Integrated Bar of the Philippines President Atty. Jose A. Grapilon, Dr. Adapon's nominee.[31]

The parties jointly crafted and signed the Terms of Reference that governed the arbitration proceedings. Dr. Adapon submitted his Statement of Claims and Medical Doctors submitted its Statement of Defenses. After trial, the parties submitted their respective Memorials.[32]

On May 8, 2015, the arbitral tribunal issued a Final Award.[33] It first rejected Medical Doctors' claim of lack of jurisdiction, owing to the parties' agreement to arbitrate under the Letter of Intent and pursuant to Sections 2 and 4 of Republic Act No. 876.[34] It also held that since the derivative suit could include Dr. Adapon's personal claims against Medical Doctors, the case fell under the jurisdiction of the Regional Trial Court.[35]

On the substantive issues, the arbitral tribunal held that the non-compete provision in the Letter of Intent was binding and enforceable,[36] and that Medical Doctors violated the non-compete agreement when it installed the equipment in 1997, 2011, and 2012 for the service-paying patients of the Makati Medical Center.[37] However, it held that prescription barred the claim for damages from 1998 until 2009, though not those beyond 2009.[38]

The tribunal further held that: (1) the non-compete agreement was not an unlawful restraint of trade;[39] (2) no evidence showed that Dr. Adapon violated the non-compete agreement to bar him from seeking redress;[40] (3) the case was both a derivative suit and a direct action filed by Dr. Adapon, allowing him to claim for damages in his own capacity;[41] (4) the award of damages was based on the unrebutted evidence presented by Dr. Adapon;[42] and (5) the principle of *rebus sic stantibus*, or the doctrine of unforeseen events, which Medical Doctors had invoked,[43] did not apply to the case.[44]

The dispositive portion of the Final Award reads:

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30 Id. at 81.
31 Id. at 64.
32 Id. at 48.
33 Id. at 98–137.
34 Id. at 104–105.
35 Id. at 106–107.
36 Id. at 107–108.
37 Id. at 111.
38 Id. at 118.
39 Id. at 123.
40 Id. at 125.
41 Id. at 126.
42 Id. at 127.
43 Id.
44 Id. at 130.

> IN VIEW WHEREOF, we find the respondent MDI violated in bad faith its non-compete agreement contained in their LOI with the claimants and hereby adjudge them to pay the following:
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> I. (a) the sum of PhP 71,349,157.45 by way of actual and compensatory damages to claimant Dr. Benjamin D. Adapon;
> (b) the sum of five million pesos (PhP 5,000,000.00) by way of moral damages to claimants, Dr. Benjamin D. Adapon and CII;
> (c) the sum of two million pesos (PhP 2,000,000.00) by way of exemplary damages to claimants, Dr. Benjamin D. Adapon and CII;
> (d) the sum of nine million pesos (PhP 9,000,000.00) by way of attorney's fees and expenses of litigation to claimants, Dr. Benjamin D. Adapon and CII.
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> II. Respondent MDI's counterclaims are dismissed for lack of merit.
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> III. The cost of suit shall be paid jointly by the parties in accordance with the agreement and pursuant to the rules of the Philippine Dispute Resolution Center, Inc.
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> SO ORDERED.[45]

In his dissenting opinion, Justice Tinga stated that both parties' claims should be dismissed on the following grounds: (1) lack of jurisdiction of the Regional Trial Court as a special commercial court over Dr. Adapon's personal claims against Medical Doctors, and consequently, lack of authority to refer the case to arbitration;[46] (2) the Letter of Intent and the non-compete clause were not binding;[47] (3) prescription;[48] (4) the non-compete agreement, assuming binding, was an unreasonable restraint of trade,[49] which meant the parties were *in pari delicto*;[50] (5) the catastrophic effects to the Makati Medical Center's residency program of the non-compete clause's enforcement warranted the *rebus sic stantibus* doctrine's application;[51] and (6) the award of damages lacked legal and factual bases.[52]

Medical Doctors filed a Petition to Vacate Arbitral Award before the Regional Trial Court,[53] anchored on the following grounds:

> 1. The Majority of the Arbitral Tribunal exceeded its power when they ruled that Section I paragraph 4 of the Letter of Intent (or the alleged non-compete clause) can stand alone, hence, binding and enforceable

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45 Id. at 137.
46 Id. at 141.
47 Id. at 146 & 150.
48 Id. at 155.
49 Id. at 167–169.
50 Id. at 174–177.
51 Id. at 177–179.
52 Id. at 183–186 and 188–189.
53 Id. at 82.

against respondent MDI, because:

a. There is no evidence that Drs. Manahan, Gustillo and Fores were authorized by MDI to enter into the LOI.
b. The LOI is merely an expression of intent and which by its very nature is not a binding agreement. The LOI is clear and needs no interpretation.
c. The legal argument that non-compete item in the LOI is "complete" in itself – and not just part of the list of items to be negotiated upon by the signatories – has no legal basis (a) since it goes against the principle that a document should be read in its entirety and (b) since the clause is bereft of terms and conditions.

2. Assuming arguendo that Section I paragraph 4 of the Letter of Intent (or the alleged non-compete clause) can stand alone, hence binding and enforceable against respondent MDI, the Majority of the Arbitral Tribunal exceeded its power when they ruled that while the cause of action from 1998 to 2009 has prescribed, the cause of action after 2009 has not prescribed under the "continuing violation theory" and conformably due to "equitable considerations".

3. . . . the Majority of the Arbitral Tribunal exceeded its power when they failed to apply the principle of "*rebus sic stantibus*"[.]

4. . . . the Majority of the Arbitral Tribunal exceeded its power when they ruled that the "clean hands" doctrine is not applicable.

5. . . . the Majority of the Arbitral Tribunal exceeded its power when they ruled that [the] non-compete provision is [not] an unreasonable restraint of trade.

6. . . . the Majority of the Arbitral Tribunal exceeded its power when they awarded actual and compensatory damages to Dr. Adapon considering (I) that the cause of action belongs to CII and (II) the award is based on speculation.

7. . . . the Majority of the Arbitral Tribunal exceeded its power when they awarded damages based on conjecture and speculations.

8. The Majority of the Arbitral Tribunal exceeded its power when they awarded moral damages, exemplary damages and cost of litigation in favor of Dr. Adapon.[54]

Dr. Adapon and CII filed their Opposition to Vacate Arbitral Award and Counter-Petition for Confirmation of Final Award.[55]

The Regional Trial Court confirmed the Final Award in its February 19, 2016 Resolution.[56] It held that: (1) the Letter of Intent was a valid and enforceable agreement; (2) Medical Doctors failed to establish any of the valid grounds in Rule 11.4 of the Special Rules on Alternative Dispute Resolution (Special ADR Rules) to vacate a final award; and (3) the award

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54 Id. at 197–198.
55 Id. at 48.
56 Id. at 196–202. The Resolution was penned by Presiding Judge Cesar O. Untalan.

of damages involves a determination of facts and application of laws, which the court could not disturb.

Medical Doctors' Motion for Reconsideration was also denied in a June 21, 2016 Order.[57]

Medical Doctors filed its Verified Petition for Review before the Court of Appeals.[58] Aside from the grounds pertaining to excess of powers raised in its Petition before the Regional Trial Court, it raised jurisdictional grounds, arguing:

> A. The Regional Trial Court erred in not vacating the decision of the Majority of the members of the Arbitral Tribunal despite the strong Dissenting Opinion of Tribunal Member-Justice Dante Tinga considering that the Majority of the Arbitral Tribunal exceeded its power when they ruled that . . . the Tribunal had jurisdiction over the case because:
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> a. Under the LOI, there shall be arbitration only if there are disagreements during negotiation of the future agreements. Since there was no negotiation, there is nothing to arbitrate.
>
> b. Assuming arguendo that negotiations were made and no agreement was reached on the specific items to be incorporated in the intended agreements, the Tribunal cannot create terms and conditions and formulate a contract for the parties.
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> c. The tribunal does not have jurisdiction over the personal claims of Dr. Adapon considering the Complaint filed by Dr. Adapon is a derivative suit and the cause of action belongs to CII and no one else.[59]

Meanwhile, Dr. Adapon and CII were able to obtain the corresponding Writ of Execution before the Regional Trial Court. However, upon posting of the required bond by Medical Doctors, the Court of Appeals resolved to maintain the status quo in a September 20, 2016 Resolution.[60]

Subsequently, in a February 15, 2017 Decision,[61] the Court of Appeals reversed the Regional Trial Court's rulings and vacated the Final Award.

The Court of Appeals agreed with Justice Tinga that from its plain and clear terms,[62] the Letter of Intent was not intended to be a binding contract, but only "an initial step or a written statement expressing the intention of the

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57 Id. at 203.
58 Id. at 49.
59 Id. at 82–83.
60 Id. at 244–245.
61 Id. at 77–96.
62 Id. at 90.

parties to enter into a formal business agreement."[63] Thus, it said, there was no binding agreement to arbitrate.[64]

The Court of Appeals also held that prescription had already set in, since more than 10 years had lapsed from the first violation of the non-compete clause in 1998 up to the filing of the Complaint.[65]

Furthermore, the Court of Appeals held that the Regional Trial Court improperly assumed jurisdiction over the case,[66] noting that the action was for a breach of contract, which was an ordinary civil action and not an intra-corporate controversy subject to the jurisdiction of the special commercial court.[67] It also ruled that the Regional Trial Court should have dismissed the case or vacated the Final Award because the arbitral tribunal exceeded its authority in awarding damages in favor of Dr. Adapon "despite an inexistent contract and despite the fact that Dr. Adapon has, strictly speaking, no cause of action against [Medical Doctors]."[68]

The Court of Appeals disposed, thus:

> WHEREFORE, premises considered, the Resolution dated February 19, 2016 of the Regional Trial Court, Branch 149, Makati City and the Order dated June 21, 2016 in Civil Case No. 11-343 are hereby REVERSED and SET ASIDE.
>
> The Final Award dated May 8, 2015 of the Arbitration Tribunal is accordingly VACATED.
>
> SO ORDERED.[69]

Hence, Dr. Adapon, for himself and on behalf of CII, filed this Petition. Petitioners aver that the Court of Appeals "ignored or overlooked the pertinent standards[70] of tests for judicial review as provided for in the Special ADR Rules[.]"[71]

Petitioners contend that the Court of Appeals, in vacating the Final Award, went against the mandate in the Special ADR Rules that courts shall not disturb the arbitral tribunal's determination of facts or interpretation of law.[72] They add that Justice Tinga's dissenting opinion was inconsequential

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63 Id. at 89.
64 Id.
65 Id. at 92.
66 Id.
67 Id. at 93.
68 Id. at 94.
69 Id. at 96.
70 As provided in Rules 2.1, 2.2, 2.4, 11.9, 19.7, 19.10, 19.24 of the Special Rules of Court on ADR.
71 *Rollo*, p. 37.
72 Id. at 55.

and should not have been exploited by the Court of Appeals in vacating the Final Award.[73]

Petitioners argue that the Letter of Intent is a binding agreement[74] that memorialized the longstanding verbal contract of the parties to be business partners but without competing with each other.[75] Even if some of its provisions were couched in provisional language, petitioners contend that the non-compete clause cannot be considered transitional.[76] At any rate, they contend that the arbitration clause is binding in itself.[77]

Petitioners add that for 19 years from 1978 until 1997, respondent was not competing against them in offering computer tomography and magnetic resonance imaging diagnostic services to patients of the Makati Medical Center. Respondent allegedly referred to petitioners all the patients requiring such diagnostic facilities, and collected and remitted the payments to CII.[78] It also admitted having financially benefitted from such contractual relations with petitioners. Thus, petitioners contend that respondent is estopped from arguing that the Letter of Intent and its non-compete clause, which respondent exclusively crafted, were *ultra vires*.[79]

Claiming that they were not in delay in asserting their rights, petitioners reasoned that: (1) they were assured by respondent that the 1998 CT Scanner would be used for charity patients, hence non-competing; (2) petitioner Dr. Adapon had for many years, periodically aired his gripes against respondent; (3) the parties even tried to settle their differences amicably; and (4) it only became clear to petitioners in April 2011 that respondent was committed on violating their non-competition clause.[80]

As to the issue on jurisdiction, petitioners contend that respondent's active participation in the arbitration proceedings barred it from attacking at a late stage both the arbitral tribunal's jurisdiction and its findings and conclusions.[81]

Petitioners further contend that the Court of Appeals seriously erred in holding that the arbitral tribunal was incompetent to award damages to Dr. Adapon. First, respondent is barred from assailing the jurisdiction of the arbitral tribunal to rule on Dr. Adapon's personal claims, which it previously agreed to include as one of the issues in the arbitral Terms of Reference.

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73 Id. at 67.
74 Id. at 60.
75 Id. at 54.
76 Id. at 60.
77 Id. at 62.
78 Id. at 56.
79 Id. at 57.
80 Id. at 59.
81 Id. at 65.

Second, the case was both a derivative suit and a direct action.[82] Third, a personal claim by a stockholder is permissible as an additional cause of action in a derivative suit filed by the same stockholder.[83]

In the Supplement to Petition for Review,[84] petitioners expand on their arguments by discussing the historical roots and legal basis of arbitration, along with the relevant jurisprudence on it.

In its Comment/Opposition,[85] respondent counters that the Petition should be dismissed outright because: (1) petitioners' arguments are not serious and compelling, but merely betrays their disagreement with the Court of Appeals' interpretation and application of the law on contract, prescription, and the Special ADR Rules; and (2) petitioners did not move for reconsideration before the Court of Appeals before resorting to this Court.[86]

Respondent contends that the Court of Appeals acted appropriately and pursuant to the Special ADR Rules when it vacated the Final Award.[87] It says the arbitral tribunal exceeded its jurisdiction in awarding damages to petitioner Dr. Adapon in a derivative suit.[88] Assuming the actual damages were awarded in favor of CII, the arbitral tribunal allegedly exceeded its power in declaring the entire amount, in violation of the prerogative of CII's board of directors to declare dividends.[89]

Respondent adds that the arbitral tribunal exceeded its jurisdiction in ruling that the cause of action after 2009 has not prescribed under the "continuing violation theory" and due to "equitable considerations."[90] This, says respondent, disregards the parties' agreement on the conduct of arbitration.[91] It also notes that the arbitral tribunal erred in holding that the Letter of Intent, as with the non-compete clause, was a binding and complete contract, in clear disregard of the parties' intent.[92]

Finally, respondent says the arbitral tribunal exhibited evident partiality in allowing, over its objections, Atty. Victor P. Lazatin, Dr. Adapon's counsel, to express his opinion on the Letter of Intent's validity as an expert witness.[93]

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82 Id. at 66.
83 Id. at 67.
84 Id. at 291–318.
85 Id. at 346–398.
86 Id. at 355 and 358.
87 Id. at 361.
88 Id. at 369.
89 Id. at 375–376.
90 Id. at 376–377.
91 Id. at 382.
92 Id. at 391.
93 Id. at 392.

This Court resolves the issue of whether or not the Court of Appeals properly vacated the Final Arbitral Award based on its findings that the Letter of Intent was not a binding contract, the cause of action has prescribed, the Regional Trial Court lacked jurisdiction, and the award of damages was improper.

The Petition is granted.

I

Arbitration is a voluntary dispute resolution process "outside the regular court system," where parties agree to submit their conflict to an arbitrator or panel of arbitrators of their own choice.[94] Resort to arbitration requires consent from the parties either through an arbitration clause in the contract or an agreement to submit an existing controversy between them to arbitration.[95]

Section 2[96] of Republic Act No. 9285, or the Alternative Dispute Resolution Act of 2004 (ADR Act of 2004), expresses the State policy "to actively promote party autonomy in the resolution of disputes or the freedom of the parties to make their own arrangements to resolve their disputes." This is further enhanced or strengthened by Rule 2.1 of A.M. No. 07-11-08-SC, or the Special Rules on Alternative Dispute Resolution (Special ADR Rules), with the inclusion of the phrase "with the greatest cooperation of and the least intervention from the courts." It states:

> 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 resolution of disputes with the *greatest cooperation of and the least intervention from the courts.* To this end, the objectives of the Special ADR Rules are to encourage and promote the use of ADR, particularly arbitration and mediation, as an important means to achieve speedy and efficient resolution of disputes, impartial justice, curb a litigious culture and to de-clog court dockets.

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94 Republic Act No. 9285 (2004), sec. 3(d), Alternative Dispute Resolution Act of 2004.

95 Republic Act No. 876 (1953) sec. 3. The Arbitration Law.

96 SECTION 2. *Declaration of Policy.* — It is hereby declared the *policy of the State* to actively *promote party autonomy* in the resolution of disputes or the *freedom of the parties to make their own arrangements to resolve their disputes.* Towards this end, the State shall encourage and actively promote the use of Alternative Dispute Resolution (ADR) as an important means to achieve speedy and impartial justice and declog court dockets. As such, the State shall provide means for the use of ADR as an efficient tool and an alternative procedure for the resolution of appropriate cases. Likewise, the State shall enlist active private sector participation in the settlement of disputes through ADR. This Act shall be without prejudice to the adoption by the Supreme Court of any ADR system, such as mediation, conciliation, arbitration, or any combination thereof as a means of achieving speedy and efficient means of resolving cases pending before all courts in the Philippines which shall be governed by such rules as the Supreme Court may approve from the time to time. (Emphasis supplied)

> *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.* (Emphasis supplied)

Being a purely private system of adjudication, the parties generally have autonomy over the conduct of the proceedings. They can choose: (a) the arbitrators,[97] and thus, tailor-fit the tribunal's composition to the nature of their dispute;[98] the procedures that will control the arbitral proceedings;[99] and the place of arbitration.[100]

Recognizing party autonomy and the policy favoring arbitration, the Special ADR Rules further ordain judicial restraint in arbitration. Courts shall intervene only in the cases allowed by law or the Special ADR Rules. Rule 19.7 expressly provides for the non-appealability of arbitral awards:

> 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.
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> *Consequently, a party to an arbitration is precluded from filing an appeal or a petition for certiorari questioning the merits of an arbitral award.* (Emphasis supplied)

This pro-arbitration policy is further strengthened by the presumption in favor of enforcement of arbitral awards. This is most apparent in Rules 11.9 and 19.10 of the Special ADR Rules:

> RULE 11.9. *Court Action.* — Unless a ground to vacate an arbitral award under Rule 11.4[101] above is fully established, *the court shall confirm the award.*
>
> *An arbitral award shall enjoy the presumption that it was made and released in due course of arbitration and is subject to confirmation by the court.*
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> In resolving the petition or petition in opposition thereto in accordance with these Special ADR Rules, the court shall either confirm or vacate the arbitral award. *The court shall not disturb the arbitral tribunal's determination of facts and/or interpretation of law.*
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> In a petition to vacate an award or in petition to vacate an award in opposition to a petition to confirm the award, the petitioner may simultaneously apply with the Court to refer the case back to the same arbitral tribunal for the purpose of making a new or revised award or to

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97 Republic Act No. 876, sec. 8. *See also* Article 11 of the Model Law in relation to Section 33 of Republic Act No. 9285 or the Alternative Dispute Resolution Act of 2004.

98 *Fruehauf Electronics Philippines Corp. v. Technology Electronics Assembly and Management Pacific Corp.*, 800 Phil. 721 (2016) [Per J. Brion, Second Division].

99 S. COURT RULE ON ADR, Rule 2.3.

100 Republic Act No. 9285 (2004), sec. 30 in relation to sec. 33.

101 Rule 11.5 in the Rules.

> direct a new hearing, or in the appropriate case, order the new hearing before a new arbitral tribunal, the members of which shall be chosen in the manner provided in the arbitration agreement or submission, or the law. In the latter case, any provision limiting the time in which the arbitral tribunal may make a decision shall be deemed applicable to the new arbitral tribunal.
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> In referring the case back to the arbitral tribunal or to a new arbitral tribunal pursuant to Rule 24 of Republic Act No. 876, *the court may not direct it to revise its award in a particular way, or to revise its findings of fact or conclusions of law or otherwise encroach upon the independence of an arbitral tribunal in the making of a final award.*
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> . . . .
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> 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.*
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> 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.*** (Emphasis supplied)

Thus, judicial interference is actively restrained under the Special ADR Rules for arbitration to be a true alternative dispute resolution mechanism, and not merely an added preliminary step to judicial resolution.

Pursuant to the policy of judicial restraint in arbitration proceedings, this Court's review of a Court of Appeals decision is discretionary and limited to specific grounds provided under the Special ADR Rules."[102] Thus:

> RULE 19.36. *Review discretionary.* — A review by the Supreme Court is not a matter of right, but of sound judicial discretion, which will be granted *only for serious and compelling reasons* resulting in grave prejudice to the aggrieved party. The following, while neither controlling nor fully measuring the court's discretion, indicate the serious and compelling, and necessarily, restrictive nature of the grounds that will

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[102] *Mabuhay Holdings Corp. v. Sembcorp Logistics Limited,* G.R. No. 212734, December 5, 2018, <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/64839> [Per J. Tijam, First Division].

warrant the exercise of the Supreme Court's discretionary powers, when the Court of Appeals:

> *(1) Failed to apply the* ***applicable standard or test for judicial review*** *prescribed in these Special ADR Rules in arriving at its decision resulting in substantial prejudice to the aggrieved party;*
>
> (2) Erred in upholding a final order or decision despite the lack of jurisdiction of the court that rendered such final order or decision;
>
> (3) *Failed to apply any provision, principle, policy or rule contained in these Special ADR Rules resulting in substantial prejudice to the aggrieved party;* and
>
> (4) Committed an error so egregious and harmful to a party as to amount to an undeniable excess of jurisdiction.
>
> The mere fact that the petitioner disagrees with the Court of Appeals' determination of questions of fact, of law or both questions of fact and law, shall not warrant the exercise of the Supreme Court's discretionary power. *The error imputed to the Court of Appeals must be grounded upon any of the above prescribed grounds for review or be closely analogous thereto.*
>
> A mere general allegation that the Court of Appeals has committed serious and substantial error or that it has acted with grave abuse of discretion resulting in substantial prejudice to the petitioner without indicating with specificity the nature of such error or abuse of discretion and the serious prejudice suffered by the petitioner on account thereof, shall constitute sufficient ground for the Supreme Court to dismiss outright the petition.[103] (Emphasis supplied)

The applicable standard or test of judicial review is found in Rule 11.4 of the Special ADR Rules, which essentially put together Sections 24 and 25 of Republic Act No. 876, or the Arbitration Law:

> RULE 11.4. *Grounds.* — (A) *To vacate an arbitral award.* — The arbitral award may be vacated on the following grounds:
>
> a. The arbitral award was procured through corruption, fraud or other undue means;
> b. There was evident partiality or corruption in the arbitral tribunal or any of its members;
> c. The arbitral tribunal was guilty of misconduct or any form of misbehavior that has materially prejudiced the rights of any party such as refusing to postpone a hearing upon sufficient cause shown or to hear evidence pertinent and material to the controversy;
> d. One or more of the arbitrators was disqualified to act as such under the law and wilfully refrained from disclosing such disqualification; or

[103] S. COURT RULE ON ADR, Rule 19.36.

> e. The arbitral tribunal *exceeded its powers, or so imperfectly executed them,* such that a complete, final and definite award upon the subject matter submitted to them was not made.
>
> The award may also be vacated on any or all of the following grounds:
>
> a. *The arbitration agreement did not exist, or is invalid for any ground for the revocation of a contract or is otherwise unenforceable*; or
> b. A party to arbitration is a minor or a person judicially declared to be incompetent.
>
> . . . .
>
> *In deciding the petition to vacate the arbitral award, the court shall disregard any other ground than those enumerated above.*
>
> (B) *To correct/modify an arbitral award.* — The Court may correct/modify or order the arbitral tribunal to correct/modify the arbitral award 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.[104]

The Regional Trial Court may also set aside the arbitral award based on the following grounds under Article 34 of the United Nations Commission on International Trade Law[105] or UNCITRAL Model Law.[106] Article 34(2) of the Model Law states:

> Article 34. . . .
>
> . . . .
>
> (2) An arbitral award may be set aside by the court specified in article 6 only if:
>
> (a) the party making the application furnishes proof that:

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[104] S. COURT RULE ON ADR, Rule 11.4.

[105] The ADR Act of 2004 expressly incorporates the Model Law on International Commercial Arbitration adopted by the United Nations Commission on International Trade Law on June 21, 1985.

[106] S. COURT RULE ON ADR, Rule 19.10.

(i) 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

(ii) 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

(iii) 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 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

(iv) 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

(b) The Court finds that:

(i) the subject-matter of the dispute is not capable of settlement by arbitration under the law of the Philippines; or

(ii) the award is in conflict with the public policy of the Philippines.[107]

The standards to vacate an arbitral award are firmly confined to grounds extraneous to the merits of the arbitral award. The grounds concern either the *conduct* of the arbitral tribunal and the arbitrator's *qualifications*,[108] or the *regularity* of arbitration proceedings.[109] "They do not refer to the arbitral tribunal's errors of fact and law, misappreciation of evidence, or conflicting findings of fact."[110] The list is exclusive in that any other ground raised shall be disregarded by the court.[111] Rule 19.24 of the

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[107] UNCITRAL Model Law, art. 34(2). The grounds are also reproduced under Article 4.34 of the IRR of the ADR Act of 2004.

[108] *Metro Bottled Water Corp. v. Andrada Construction & Development Corp., Inc.*, G.R. No. 202430, March 6, 2019, <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/65151> [Per J. Leonen, Third Division].

[109] *Fruehauf Electronics Philippines Corp. v. Technology Electronics Assembly and Management Pacific Corp.*, 800 Phil. 721 (2016) [Per J. Brion, Second Division].

[110] *Metro Bottled Water Corp. v. Andrada Construction & Development Corp., Inc.*, G.R. No. 202430, March 6, 2019, <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/65151> [Per J. Leonen, Third Division].

[111] Republic Act No. 9285 (2004), sec. 41 provides:
SECTION 41. *Vacation Award.* — A party to a domestic arbitration may question the arbitral award with the appropriate Regional Trial Court in accordance with 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.* (Emphasis supplied)

Special ADR Rules again emphasizes that the Court of Appeals cannot substitute its judgment for the arbitral tribunal's ruling on the merits of the controversy.

> RULE 19.24. *Subject of Appeal Restricted in Certain Instance.* — If the decision of the Regional Trial Court refusing to recognize and/or enforce, vacating and/or setting aside an arbitral award is premised on a finding of fact, the Court of Appeals may inquire only into such fact to determine the existence or non-existence of the specific ground under the arbitration laws of the Philippines relied upon by the Regional Trial Court to refuse to recognize and/or enforce, vacate and/or set aside an award. *Any such inquiry into a question of fact shall not be resorted to for the purpose of substituting the court's judgment for that of the arbitral tribunal as regards the latter's ruling on the merits of the controversy.* (Emphasis supplied)

Taking these into account, we proceed to resolve whether the Court of Appeals erred in vacating the arbitral tribunal's Final Award.

II

At the outset, this Court finds untenable respondent's argument that petitioners did not exhaust all available remedies because they did not move for reconsideration before the Court of Appeals.

The pertinent provisions of the Special ADR Rules state:

> RULE 19.38. *Time for Filing; Extension.* — The petition shall be filed within fifteen (15) days *from notice of the judgment or final order or resolution appealed from,* ***or*** of the *denial of the petitioner's motion for new trial or reconsideration* filed in due time after notice of the judgment.
>
> On motion duly filed and served, with full payment of the docket and other lawful fees and the deposit for costs before the expiration of the reglementary period, the Supreme Court may for justifiable reasons grant an extension of thirty (30) days only within which to file the petition.[112]
>
> RULE 19.40. *Contents of Petition.* — The petition shall be filed in eighteen (18) copies, with the original copy intended for the court being indicated as such by the petitioner, and shall (a) state the full name of the appealing party as the petitioner and the adverse party as respondent, without impleading the lower courts or judges thereof either as petitioners or respondents; (b) *indicate the material dates showing when notice of the judgment or final order or resolution subject thereof was received,* ***when a motion for new trial or reconsideration, if any,*** *was filed and when notice of the denial thereof was received;* (c) set forth concisely a statement of the matters involved, and the reasons or arguments relied on for the allowance of the petition; (d) be accompanied by a clearly legible duplicate original, or a certified true copy of the judgment or final order or

[112] S. COURT RULE ON ADR, Rule 19.38.

> resolution certified by the clerk of court of the court *a quo* and the requisite number of plain copies thereof, and such material portions of the record as would support the petition; and (e) contain a sworn certification against forum shopping.[113] (Emphasis supplied)

The Special ADR Rules allow the filing of a petition for review on certiorari before this Court within 15 days from receipt of notice of the judgment appealed from *or* order denying a party's motion for reconsideration. As to the petition's contents, the party must include a statement of material dates showing: (1) when the notice of judgment was received; (2) when a motion for reconsideration, *if any*, was filed; and (3) when the notice of the motion's denial was received.

Thus, petitioners did not err when they directly appealed to this Court without first moving for reconsideration before the Court of Appeals.

III

The Court of Appeals reversed the Regional Trial Court Resolution and vacated the Final Award on the following grounds: (1) there was no binding arbitration agreement; (2) the action to enforce the non-compete agreement has already prescribed; (3) the Regional Trial Court had no jurisdiction over the case, and hence, no competence to refer the case to arbitration; and (4) the arbitral tribunal exceeded its authority in awarding damages in favor of petitioner Dr. Adapon.

III (A)

Rule 2.4 of the Special ADR Rules recognizes the policy of *competence-competence* and sets well-defined limits to judicial interference against its operation or use. It states in part:

> RULE 2.4. *Policy Implementing Competence-Competence Principle. — The arbitral tribunal shall be accorded the first opportunity or competence* to rule on the issue of whether or not it has the competence or jurisdiction to decide a dispute submitted to it for decision, including any objection with respect to the existence or validity of the arbitration agreement.

The doctrine of competence-competence requires the regional trial court to exercise restraint and give the arbitral tribunal the first opportunity to determine its competence or jurisdiction over the dispute. When confronted with the question of whether an arbitration agreement is void, inoperative or incapable of being performed, the court makes no more than a

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[113] S. COURT RULE ON ADR, Rule 19.48.

prima facie determination of the issue. Once it finds that an arbitration agreement is extant and binding, the court must suspend its own proceedings and refer the parties to arbitration.[114] Such a *prima facie* finding is not subject to a motion for reconsideration, appeal, or certiorari.[115]

After an arbitral award is released, a party may still raise as an issue the existence and validity of an arbitration agreement *in an action to vacate or set aside the arbitral award.* In such a case, the resolution of that issue shall not be limited to a *prima facie* determination, but shall be a full review of the tribunal's ruling upholding the existence, validity, and enforceability of the arbitration agreement.[116] Nevertheless, that full review must adhere to the standard of judicial review under the Special ADR Rules:[117] "T]he court shall not disturb the arbitral tribunal's determination of facts and/or interpretation of law"[118] because the court cannot substitute its judgment for that of the arbitral tribunal.

Here, the Court of Appeals committed a serious and reversible error in ruling that the arbitration clause is not binding and enforceable.

First, respondent did not raise the issue of the validity or enforceability of the arbitration clause in its Opposition or Counter-Petition to vacate the arbitral award. Instead, it pertained to the "excess of power" committed by the arbitral tribunal in awarding on the merits:

> 1. The Majority of the Arbitral Tribunal exceeded its power when they ruled that Section I paragraph 4 of the Letter of Intent (or the alleged non-compete clause) can stand alone, hence, binding and enforceable against respondent MDI because:
>
> a. There is no evidence that Drs. Manahan, Gustillo and Fores were authorized by MDI to enter into the LOI.
>
> b. The LOI is merely an expression of intent and which by its very nature is not a binding agreement. The LOI is clear and needs no interpretation.
>
> c. The legal argument that non-compete item in the LOI is "complete" in itself – and not just part of the list of items to be negotiated upon by the signatories – has no legal basis (a) since it goes against the principle that a document should be read in its entirety and (b) since the clause is bereft of terms and conditions.
>
> 2. Assuming arguendo that Section I paragraph 4 of the Letter of Intent (or the alleged non-compete clause) can stand alone, hence binding and enforceable against respondent MDI, the Majority of the Arbitral

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[114] S. COURT RULE ON ADR, Rule 2.4.
[115] S. COURT RULE ON ADR, Rule 3.11.
[116] S. COURT RULE ON ADR, Rule 3.11.
[117] S. COURT RULE ON ADR, Rule 3.11.
[118] S. COURT RULE ON ADR, Rule 11.9.

Tribunal exceeded its power when they ruled that while the cause of action from 1998 to 2009 has prescribed, the cause of action after 2009 has not prescribed under the "continuing violation theory" and conformably due to "equitable considerations."

3. . . . the Majority of the Arbitral Tribunal exceeded its power when they failed to apply the principle of "*rebus sic stantibus*"[.]

4. . . . the Majority of the Arbitral Tribunal exceeded its power when they ruled that the "clean hands" doctrine is not applicable.

5. . . . the Majority of the Arbitral Tribunal exceeded its power when they ruled that [the] non-compete provision is [not] an unreasonable restraint of trade.

6. . . . the Majority of the Arbitral Tribunal exceeded its power when they awarded actual and compensatory damages to Dr. Adapon considering (I) that the cause of action belongs to CII and (II) the award is based on speculation.

7. . . . the Majority of the Arbitral Tribunal exceeded its power when they awarded damages based on conjecture and speculations.

8. The Majority of the Arbitral Tribunal exceeded its power when they awarded moral damages, exemplary damages and cost of litigation in favor of Dr. Adapon.[119]

Only before the Court of Appeals did respondent raise the issue of jurisdiction, thus:

Jurisdictional Issues

A. The Regional Trial Court erred in not vacating the decision of the Majority of the members of the Arbitral Tribunal despite the strong Dissenting Opinion of Tribunal Member-Justice Dante Tinga considering that the Majority of the Arbitral Tribunal exceeded its power when they ruled that . . . the Tribunal had jurisdiction over the case because:

a. Under the LOI, there shall be arbitration only if there are disagreements during negotiation of the future agreements. Since there was no negotiation, there is nothing to arbitrate.

b. Assuming arguendo that negotiations were made and no agreement was reached on the specific items to be incorporated in the intended agreements, the Tribunal cannot create terms and conditions and formulate a contract for the parties.

c. The tribunal does not have jurisdiction over the personal claims of Dr. Adapon considering the Complaint filed by Dr. Adapon is a derivative suit and the cause of action belongs to CII and no one else.[120]

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[119] *Rollo*, pp. 197–198.
[120] Id. at 82–83.

Hence, the arbitral tribunal's determination of its jurisdiction over the dispute, as well as the existence and validity of the arbitration agreement, should not have been disturbed by the Court of Appeals.

Second, the Letter of Intent explicitly contains an arbitration clause in Section 11, which states:

> 11. If the parties cannot agree on the specific details to be incorporated in the agreements, as well as any matter arising out of this Letter of Intent, the parties shall agree to have the disputed or unsettled matters arbitrated by a panel of arbitrators and to abide by the ruling of the panel of arbitrators.
>
> The arbitration panel shall be composed of three (3) arbitrators. Each party shall be entitled to choose an arbitrator and the third arbitrator shall be a person mutually agreed upon by both parties. Pending the result of the arbitration, the parties shall commit to maintain the status quo.[121]

The provision was couched in broad terms, stating that the parties' disagreement on "any matter arising out of this Letter of Intent" will be resolved through arbitration. The parties also agreed to "abide by the ruling of the panel of arbitrators."

This Court has held that "a submission to arbitration is a contract. A clause in a contract providing that all matters in dispute between the parties shall be referred to arbitration is a contract[.]"[122]

In *LM Power Engineering Corporation v. Capitol Industrial Construction Groups, Inc.*,[123] this Court pronounced a liberal approach in construing arbitration clauses to encourage alternative dispute resolution. It held that so long as a clause "is susceptible of an interpretation that covers the asserted dispute, an order to arbitrate should be granted" since "[a]ny doubt should be resolved in favor of arbitration."[124]

Even if the other provisions of the Letter of Intent appear incomplete and subject to further agreement between the parties, it does not affect the validity and enforceability of the arbitration agreement. Under the principle of separability of the arbitration clause recognized in the Special ADR Rules, the arbitration clause "shall be treated as an agreement independent of the other terms of the contract of which it forms part. A decision that the contract is null and void shall not entail *ipso jure* the invalidity of the arbitration clause."[125]

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[121] Id. at 101.
[122] *Gonzales v. Climax Mining Ltd.*, 541 Phil. 143, 164 (2007) [Per J. Tinga, Special Second Division].
[123] 447 Phil. 705 (2003) [Per J. Panganiban, Third Division].
[124] Id. at 714.
[125] S. COURT RULE ON ADR, Rule 2.2.

In *Cargill Philippines, Inc. v. San Fernando Regala Trading, Inc.*:[126]

> [A]n arbitration agreement which forms part of the main contact shall not be regarded as invalid or nonexistent just because the main contract is invalid or did not come into existence, since the arbitration agreement shall be treated as a separate agreement independent of the main contract. To reiterate, a contrary ruling would suggest that a party's mere repudiation of the main contract is sufficient to avoid arbitration and that is exactly the situation that the separability doctrine sought to avoid. Thus, we find that even the party who has repudiated the main contract is not prevented from enforcing its arbitration clause.[127]

Third, the Court of Appeals disturbed the arbitral tribunal's determination of facts and/or interpretation of law when it held that the Letter of Intent, along with its non-compete clause, is not a binding and enforceable contract. It did not maintain fealty to the instructions in Rules 11.4 and 19.10 of the Special ADR Rules when it rendered its Decision.

The arbitral tribunal ruled that "regardless of some provisions of the [Letter of Intent] which may yet be incomplete, the non-compete provision of the [Letter of Intent] can stand alone, hence binding and enforceable on the respondent [Medical Doctors]."[128] It went beyond the Letter of Intent's face and considered the totality of facts and environmental circumstances—the actions taken by the parties before, during, and after the Letter of Intent had been crafted, along with all other relevant circumstances.[129] Thus:

> It is crystal clear that the parties voluntarily agreed, hence, consented to establish the CII and their business was to provide initially, computed tomography and later, magnetic resonance imaging work to paying patients of MMC owned by respondent MDI. Undoubtedly, the success of their business lies in the agreement not to compete with each other in the services they were providing to the paying patients of MMC. . . . Indeed, overwhelming evidence reveals that from the beginning of their relationship in 1978, the parties were able to implement without more this agreement not to compete with each other. They complied with that unwritten agreement for nearly ten (10) years without need to sit down and discuss further details on how it will be implemented. This non-compete agreement was reduced in writing in 1988 when the parties signed their LOI. Even then, they faithfully complied with it without need of further agreement how to enforce it. Fairness does not look kindly at any effort of the respondent MDI to create any cloud of doubt on the enforceability of their non-competition agreement when it was crafted by them and complied by them without ifs and buts for so many years.[130]

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126 656 Phil. 29 (2011) [Per J. Peralta, Second Division].
127 Id. at 46.
128 *Rollo*, p. 107–108.
129 Id. at 108.
130 Id. at 110–111.

In vacating the Final Award, the Court of Appeals held that the Letter of Intent's plain wording reveals that the document was not intended to be binding, but a mere expression of intent, because it was conditioned on the execution of documents that have yet to be mutually agreed upon by the parties. It also ruled that the principle of separability does not apply because there is no main contract to speak of. It likewise disagreed with the arbitral tribunal's finding on the enforceability of the non-compete clause under Section 4 of the Letter of Intent, holding:

> The majority, nonetheless, failed to appreciate that Article 1371 is only an exception to the cardinal rule in the interpretation of contracts embodied in Article 1370: "If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control." Applying the plain meaning doctrine to our case, we rule that the words used by the parties in their LOI are clear and unambiguous. There could have been no mistake or difficulty in its interpretation that said LOI is only meant to be preliminary understanding of the parties to guide them in the execution of future agreements concerning their relationship, which contracts, will be conditional upon and subject to their mutual agreement.
>
> Anent the parties' contemporaneous and subsequent acts which ostensibly complied with the LOI, we hold that these alone do not change the fact that the LOI is not a binding contract.[131] (Citations omitted)

In *National Power Corporation v. Alonzo-Legasto*,[132] this Court expressed the policy of non-intervention on the substantive merits of arbitral awards:

> As a rule, the arbitrator's award cannot be set aside for mere errors of judgment either as to the law or as to the facts. Courts are generally 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. A contrary rule would make an arbitration award the commencement, not the end, of litigation. Errors of law and fact, or an erroneous decision on matters submitted to the judgment of the arbitrators, are insufficient to invalidate an award fairly and honestly made. Judicial review of an arbitration award is, thus, more limited than judicial review of a trial.[133] (Citation omitted)

Here, the Court of Appeals substituted its own interpretation of the language and import of the Letter of Intent and its non-compete clause for that of the arbitral tribunal. In vacating the Final Award, the Court of Appeals went against the clear mandate in Rules 11.4 and 19.10 of the

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131 Id. at 90.
132 485 Phil. 732 (2004) [Per J. Tinga, Second Division].
133 Id. at 747–748.

Special ADR Rules that courts shall not disturb the arbitral tribunal's determination of facts and/or interpretation of law.

III (B)

Similarly, on the issue of prescription, the Court of Appeals set aside the conclusions reached by the arbitral tribunal. It ruled that petitioners' action is time-barred pursuant to Article 1144 of the Civil Code, since their cause of action for violation of the non-compete clause accrued in 1998 and the action was only filed in 2011.

The arbitral tribunal, on the other hand, considered the rationale behind civil prescriptions: "to protect those who are diligent and vigilant" and to prevent fraudulent or stale claims.[134] It also looked into jurisprudence teaching that under equitable principles, "courts should not be bound strictly by the statute of limitations or the doctrine of *laches* when to do so manifest wrong or injustice would result."[135] Accordingly, it held that while the first violation in 1998 was time-barred, the violations from 2009 (when petitioner learned of respondent's plan to install another CT scanner) onward were not. It explained:

> In the case at bar, it cannot be said that claimants continuously slept on their rights. Claimant Dr. Adapon testified that he was made to believe in 1997 that the 16-slice CT Scanner that would be purchased by respondent MDI for its X-Ray department would only service its charity and nonpaying patients, hence will not violate their non-compete agreement. Subsequently, claimant Dr. Adapon received reports that the said CT Scanner was being used to serve paying clients of MMC. In several meetings of the Board of CII, claimant Dr. Adapon brought this violation to the attention of the representatives of MDI but his pleas were ignored. In 2009, however, claimant Dr. Adapon testified that he learned that MDI would install a new CT Scanner in MMC again in violation of hteir non-compete agremeent. After consultation with his lawyer, claimant Dr. Adapon sent to respondent the letter dated December 28, 2009 demanding that respondent MDI stop breaching their non-compete agreement. There were efforts to settle their differing viewpoints but everything fell apart when respondent MDI proceeded in 2011 to install a 128-slice CT Scanner that serviced paying patients of MMC. . . .
>
> In the case at bar, the evidence does not show that the claimants . . . completely slept on his rights. It was more in deference to their relationship as fellow doctors, and more of ignorance of the rule on prescription that caused claimant Dr. Adapon to allow ten years to lapse before formally demanding from respodnent MDI that it comply with their non-compete agreement. But these mitigating facts will not exempt claimant Dr. Adapon from the rule on prescription which will bar his claim against respondent from 1998 to 2009. Be that as it may, the nature of the non-compete agreement requires continuous compliance thereto by

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[134] *Rollo*, p. 116.
[135] Id. at 117.

> the parties. Every act of noncompliance gives a cause of action to the party victimized by the violation. Consequently, violations of the non-compete agreement after 2009 have not yet prescribed for the right of claimants to file an action is still within the 10[-]year prescriptive period provided for in Article 1144 of the Civil Code.
>
> . . . .
>
> Applying equitable principles in the case at bar, we note that the claim of claimant Dr. Adapon that respondent MDI violated their non-compete agreement cannot be characterized as fraudulent. We note too that his failure to make a timely extrajudicial demand for respondent MDI to comply with their agreement is not due to lack of interest to protect his right against competition. We note too that excluding violations of the non-compete agreement after 2009 from the rule on prescription will not unduly prejudice respondent MDI in making its proper defense. . . . We note too that respondent MDI benefitted during all the time their non-compete agreement was honored by all parties. In fine, manifest injustice will result if we rule that prescription bars all claims of claimants, past, present and future. As discussed above, it is more in accord with law and the spirit of fairness and equity to rule that every act of violation of the non-compete agreement is a distinct cause of action and violations after 2009 are not yet covered by the 10[-]year prescriptive period.[136]

For the arbitral tribunal, it was more in accord with law and fairness to rule that respondent's violations from 2009 onward were not time-barred, since petitioner Dr. Adapon did not completely slept on his rights and respondent had initially concealed the true purpose for installing the first CT Scanner.

This Court finds no such egregious error committed by the arbitral tribunal as to affect the integrity of the award itself. Under the Arbitration Law, it is specifically authorized to decide as it may "deem just and equitable[.]"[137] The error committed, if any, does not fall within any of the statutory grounds for vacating an arbitral award. It does not constitute an excess or imperfect execution of the arbitral tribunal's power warranting vacation by the Court of Appeals. Our consideration for the basic objectives of voluntary arbitration requires us to apply rigorously the arbitration rules, excluding from review errors of fact and/or law. Again, the Court of Appeals transgressed the standards of review when it substituted its own judgment for the arbitral tribunal, without citing any compelling reason to overturn the Final Award.

III (C)

The Court of Appeals held that the Regional Trial Court, being a special commercial court, had no jurisdiction over the Complaint filed by

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[136] Id. at 116–118.

[137] Republic Act No. 876 (1953), sec. 20. Arbitration Law.

petitioners, and consequently, no competence to refer it to arbitration. It found that although denominated as a derivative suit, the Complaint did not involve an intra-corporate controversy, but an ordinary civil action for breach of contract and damages.

We disagree.

An arbitration is deemed a "special proceeding"[138] within the jurisdiction of the regional trial court "for the province or city in which one of the parties resides or is doing business, or in which the arbitration was held."[139] Referring the case to arbitration is a duty to be performed by the court where the action is filed.

The Arbitration Law provides that if a suit is instituted involving the subject matter of an arbitration agreement, the court, "upon being satisfied that the issue involved . . . is referable to arbitration, *shall* stay the action or proceeding until an arbitration has been had in accordance with the terms of the agreement[.]"[140] This is pursuant to the State's declared policy "to respect party autonomy or the freedom of the parties to make their own arrangements in the resolution of disputes with the greatest cooperation of and the least intervention from the courts."[141]

Here, the Regional Trial Court merely performed its duty when it first ascertained whether the parties had an arbitration agreement. After seeing that the Letter of Intent did have an arbitration clause, it suspended its proceedings as a matter of law and directed the parties to arbitration. Respondent willingly submitted itself to arbitration, pursuant to the agreed arbitral Terms of Reference it jointly drew with petitioners.[142]

As jurisprudence holds, after suspending proceedings to await the outcome of the arbitration, and after the arbitration "has been pursued and completed," the court "may confirm the award made by the arbitrator."[143]

Parenthetically, the Court of Appeals cannot belatedly attack the Regional Trial Court's assumption of jurisdiction over the parties' disagreeing claims, or more particularly, over petitioners' derivative suit, and even petitioner Dr. Adapon's personal claims.

In *Romago v. Siemens Building*,[144] this Court held that there are exceptions even to the settled doctrine that jurisdictional issues may be

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138 Republic Act No. 876 (1953), sec. 22.
139 Republic Act No. 876 (1953), sec. 22.
140 Republic Act No. 876 (1953), sec. 22.
141 S. COURT RULE ON ADR, Rule 2.1.
142 *Rollo*, p. 65.
143 *BF Corp. v. Court of Appeals*, 351 Phil. 507, 525 (1998) [Per J. Romero, Third Division].

raised by a party or reckoned by the court, at any stage of the trial and even on appeal, and is not lost by waiver or estoppel. Such an exception is when a party actively participated in the arbitration proceedings and even sought affirmative reliefs not only before the arbitral tribunal, but also before the trial court to which the arbitral award has been submitted for confirmation. That was what respondent did in this case.

At any rate, assuming that the case is not an intra-corporate controversy but an ordinary civil case, the proper recourse is not the action's dismissal, but a re-raffle to all the branches of the regional trial court where the complaint was filed. In *Gonzales v. GJH Land*:[145]

> For further guidance, the Court finds it apt to point out that the same principles **apply to the inverse situation of ordinary civil cases filed before the proper RTCs but wrongly raffled to its branches designated as Special Commercial Courts**. In such a scenario, the **ordinary civil case should then be referred to the Executive Judge for re-docketing as an ordinary civil case; thereafter, the Executive Judge should then order the raffling of the case to *all branches* of the same RTC, subject to limitations under existing internal rules, and the payment of the correct docket fees in case of any difference.** Unlike the limited assignment/raffling of a commercial case only to branches designated as Special Commercial Courts in the scenarios stated above, the re-raffling of an ordinary civil case in this instance to all courts is permissible due to the fact that a particular branch which has been designated as a Special Commercial Court does not shed the RTC's general jurisdiction over ordinary civil cases under the imprimatur of statutory law, *i.e.*, Batas Pambansa Bilang (BP) 129.[146] (Emphasis in the original, citation omitted)

The Regional Trial Court had already acquired jurisdiction upon filing of the Complaint. Re-raffling the case would be more administrative than judicial, which could no longer be done at this late stage.

III (D)

The arbitral tribunal noted that this case is both a derivative suit and a direct action filed by petitioner Dr. Adapon for damages against respondent. It further held that "a shareholder like claimant Dr. Adapon may also sue in his personal capacity to enforce his rights as shareholder."[147]

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144 617 Phil. 875 (2009) [Per J. Nachura, Third Division].
145 772 Phil. 483 (2015) [Per J. Perlas-Bernabe, En Banc].
146 Id. at 515–516.
147 *Rollo*, p. 126.

In *Gochan v. Young*,[148] a stockholder's personal claim was considered permissible as an additional cause of action in a derivative suit by that same stockholder, thus:

> In the present case, the Complaint alleges all the components of a derivative suit. The allegations of injury to the Spouses Uy can coexist with those pertaining to the corporation. The personal injury suffered by the spouses cannot disqualify them from filing a derivative suit on behalf of the corporation. It merely gives rise to an additional cause of action for damages against the erring directors. This cause of action is also included in the Complaint filed before the SEC.[149]

Significantly, one of the issues included in the arbitral Terms of Reference, which respondent agreed to, was petitioner Dr. Adapon's personal claim for damages.[150] Thus, it was within the arbitral tribunal's power to determine his personal claims. Arbitrators may grant any relief that they may deem just and equitable and within the scope of the parties' agreement.[151]

The arbitral tribunal determined from the evidence presented that respondent's operation of its own tomography and MRI facility was indeed prejudicial to the interests not only of CII, but also of petitioner Dr. Adapon. The non-compete agreement required both parties not to pursue their own tomography and MRI services, but to centralize these works to CII.[152] Thus, pursuant to their agreement, respondent referred all computed tomography services to CII, while petitioner Dr. Adapon devoted himself solely to the business of CII from 1978 to 1997.[153]

The arbitral tribunal found that respondent violated the non-compete agreement in bad faith, when it bought: a CT Scanner in 1997, initially making it appear that it would be used for charity patients, but later on using it for paying patients; another CT Scanner in 2011; and an MRI System in 2012. To the arbitral tribunal, the damage respondent wrought on petitioners could not be denied.[154] Hence, it awarded compensatory damages in favor of petitioner Dr. Adapon[155] based on the profits earned by respondent from its tomography and MRI facility.[156]

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148 406 Phil. 663 (2001) [Per J. Panganiban, Third Division].
149 Id. At 676.
150 *Rollo*, p. 66.
151 Republic Act No. 876 (1953), sec. 20.
152 *Rollo*, p. 109.
153 Id. at 109--110.
154 Id. at 111.
155 Id. at 127.
156 Id. at 133–134.

Yet, the Court of Appeals held that the arbitral tribunal exceeded its authority in awarding damages to petitioner Dr. Adapon for lack of cause of action, since the injury was supposedly against CII.[157]

Again, the Special ADR Rules provide that in resolving the petition for enforcement or vacation of an arbitral award, the court shall not disturb the arbitral tribunal's determination of facts and/or interpretation of law.[158]

A commercial arbitration tribunal operates through contractual consent; hence, its findings of fact and law are binding on the parties. Its errors are generally not correctible by the judiciary. The arbitration laws and rules provide exclusive and limited exceptions to the autonomy of arbitral awards.[159] These grounds involve either the integrity of the award itself or the conduct of the arbitration proceedings.

In *Fruehauf Electronics Philippines Corporation v. Technology Electronics Assembly and Management Pacific Corporation*,[160] this Court held that the Court of Appeals breached the bounds of its jurisdiction when it reviewed the substance of the arbitral award outside of the permitted grounds under the arbitration laws:

> 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.
>
> 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.
>
> . . . Courts are precluded from disturbing an arbitral tribunal's factual findings and interpretations of law. The CA's ruling is an unjustified judicial intrusion in excess of its jurisdiction — a judicial overreach.
>
> . . . .
>
> 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

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157 *Rollo*, p. 94.

158 S. COURT RULE ON ADR, Rule 11.9.

159 S. COURT RULE ON ADR, Rule 19.10. *See also Metro Bottled Water Corp. v. Andrada Construction & Development Corp., Inc.*, G.R. No. 202430, March 6, 2019, <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/65151> [Per J. Leonen, Third Division].

160 800 Phil. 721 (2016) [Per J. Brion, Second Division]

> tribunal's findings of fact or conclusions of law, or otherwise encroaching upon the independence of an arbitral tribunal.[161] (Emphasis in the original, citations omitted)

Respondent violated the arbitration agreement to "abide by the ruling of the panel of arbitrators" by asking the Regional Trial Court to vacate the arbitral award.[162] Moreover, a closer scrutiny of its Petition to Vacate Arbitral Award reveals its intention to seek a full review of the arbitral tribunal's findings of fact and law in the guise of an "excess of power." It raised the same points and arguments raised before the arbitral tribunal: the non-enforceability of the Letter of Intent and its non-compete clause, prescription, clean hands doctrine, *rebus sic stantibus* principle, restraint of trade, and insufficiency of evidence to prove damages.

In Justice Romero's dissenting opinion in *Asset Privatization Trust v. Court of Appeals*,[163] he wrote:

> Arbitration, as an alternative mode of settlement, is gaining adherents in legal and judicial circles here and abroad. If its tested mechanism can simply be ignored by an aggrieved party, one who, it must be stressed, voluntarily and actively participated in the arbitration proceedings from the very beginning, it will destroy the very essence of mutuality inherent in consensual contracts.[164]

Respondent's belated objection to the alleged partiality of the arbitral tribunal cannot now be taken up at this late stage, it having failed to raise this issue in its Petition to Vacate.

Indeed, judicial review should be confined strictly to the limited exceptions under the arbitration laws for the arbitration process to be effective and the basic objectives of the law to be achieved. Respondent submitted itself to arbitration, and hence, bound itself to its outcome. The arbitral tribunal cannot be deemed to have exceeded its powers or imperfectly executed them when it arbitrated the issues or matters jointly submitted by the parties in the terms of reference.[165] Absent proof that any of the grounds under the arbitration laws exists, the Regional Trial Court was correct in confirming the Final Award. The Court of Appeals failed to abide by the policies, standards, and rules of the arbitration laws and Special ADR Rules when it rendered its assailed Decision.

Wherefore, the Petition is **GRANTED.** The Court of Appeals' February 15, 2017 Decision in CA-G.R. SP No. 146577 is **REVERSED**

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161 Id. at 758–760.
162 *Rollo*, pp. 110–111.
163 360 Phil. 768 (1998) [Per J. Kapunan, Third Division].
164 J. Romero, Dissenting Opinion in *Asset Privatization Trust v. Court of Appeals*, 360 Phil. 768, 822 (1998) [Per J. Kapunan, Third Division].
165 *Rollo*, p. 63.

and SET ASIDE. The February 19, 2016 Resolution and June 21, 2016 Order of the Regional Trial Court confirming the arbitral tribunal's Final Award is **REINSTATED.**

SO ORDERED.

MARVIC M.V.F. LEONEN
Associate Justice

WE CONCUR:

On wellness leave
RAMON PAUL L. HERNANDO
Associate Justice

HENRI JEAN PAUL B. INTING
Associate Justice

EDGARDO L. DELOS SANTOS
Associate Justice

JHOSEP Y. LOPEZ
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.

MARVIC M.V.F. LEONEN
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.

ALEXANDER G. GESMUNDO
Chief Justice