



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

TOYOTA SHAW, INC.,

Petitioner,

G.R. No. 249660

- *versus* -

CAROLINA VALDECAÑAS,
and DEPARTMENT OF
TRADE AND INDUSTRY,

Respondents.

X-----X

DEPARTMENT OF TRADE
AND INDUSTRY,

Petitioner,

G.R. No. 249714

Present:
PERLAS-BERNABE, S.A.J.,
Chairperson,

HERNANDO,
INTING,
GAERLAN, and
DIMAAMPAO, JJ.

- *versus* -

TOYOTA SHAW, INC.,

Respondent.

Promulgated:

OCT 06 2021

X-----X

DECISION

INTING, J.:

The consolidated Petitions for Review on *Certiorari*¹ assail the Decision² dated March 27, 2019 of the Court of Appeals (CA) in CA-G.R. SP No. 157257. The CA affirmed the Decision³ dated May 28, 2018 of the Department of Trade and Industry (DTI) with modification in that it deleted the administrative fine of ₱240,000.00 imposed against Toyota Shaw, Inc. (TSI) and remanded the case to the DTI for computation of the amount to be refunded to Carolina Valdecañas⁴ (Carolina). Likewise being challenged is the Resolution⁵ dated October 2, 2019 of the CA denying the parties' respective partial motions for reconsideration.

The Antecedents

Carolina purchased a brand new Toyota Rav 4 from TSI in the amount of ₱1,246,000.00. She gave a downpayment of ₱497,200.00 and obtained a bank loan for the balance.⁶ On July 25, 2016, TSI delivered to her the subject vehicle with the following specifications:

- a. Model Name: RAV4 4x2 A/T – V1
- b. Model Year: 2016
- c. Engine No.: 2AR-F240010
- d. Serial No.: JTMZF9EV5GD091039
- e. Stock No.: VG3480⁷

On August 24, 2016, Carolina brought the subject vehicle to TSI for its first checkup. She stated that during the checkup, she reported to the service advisor (SA) that she was hearing a rattling sound at the center console of the car; that as advised by the SA, she returned the vehicle on August 30, 2016; and that after the car evaluation, TSI assured her that the issue had been addressed. But while driving home, she again heard the rattling sound of the car.⁸

On September 5, 2016, Carolina was driving alone and wearing

¹ *Rollo* (G.R. No. 249660), pp. 12-25; *Rollo* (G.R. No. 249714), pp. 36-48.

² *Rollo* (G.R. No. 249660), pp. 160-168; penned by Associate Justice Mario V. Lopez (now a Member of the Court) with Associate Justices Elihu A. Ybañez and Zenaida T. Galapate-Laguilles, concurring.

³ *Id.* at 101-104; signed by Department of Trade and Industry (DTI) Undersecretary Rowel S. Barba.

⁴ Spelled as Valdecanas in some parts of the *rollo*.

⁵ *Rollo* (G.R. No. 249660), pp. 178-182.

⁶ *Id.* at 42, 160-161.

⁷ *Id.* at 40.

⁸ *Id.* at 60.

the seatbelt, but the seatbelt indicator on the dashboard lit up with a warning sound indicating that the seatbelt must be worn. For fear that the incident had a safety implication, she informed TSI of the matter and the latter assured her that it had no safety repercussions.⁹

On September 6, 2016, Carolina returned to TSI for two reasons: the rattling sound and the malfunctioning seatbelt indicator of the subject vehicle. According to her, immediately after she left the premises of TSI on September 7, 2016, she again heard the rattling sound while driving her car.¹⁰

On September 14, 2016, Carolina was again driving alone when the problem with the seatbelt indicator recurred but, this time, without the emitted sound. She immediately brought the car to TSI and the latter's personnel witnessed the flashing light on the seatbelt indicator. Despite this, TSI assured her anew that the subject vehicle was safe to drive.¹¹

On September 15, 2016, Carolina again brought the vehicle to TSI for the repair of the rattling sound and the seatbelt problem. The following day, TSI informed her that the computer diagnostic scan of the seatbelt failed to show any problem. However, TSI did not give attention to the issue involving the persistent rattling sound of her car despite the fact that during the drive test, three TSI personnel heard the rattling sound emanating from the subject vehicle.¹²

On September 28, 2016, she returned the vehicle to TSI per the latter's advice that the manufacturer, Toyota Motor Philippines (TMP), would conduct the appropriate repairs. However, the rattling sound still persisted. According to her, TMP requested a fifth and final attempt to repair the vehicle. Thus, on October 25, 2016, a road test was conducted and both TSI and TMP personnel heard the rattling sound coming from the subject vehicle.¹³

Consequently, in her Notice of Intention to Invoke Lemon Law

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at 60-61.

¹³ *Id.* at 61.

Rights,¹⁴ Carolina informed TSI of her intent to avail of the recourse provided under the Philippine Lemon Law or Republic Act No. (RA) 10642¹⁵ because the manufacturer, authorized dealer, or retailer of the subject vehicle failed to resolve her complaints despite several attempts to do so. She also requested TSI to conduct a final attempt to resolve her complaint. Despite the fifth attempt to repair the vehicle on October 29, 2016, the rattling sound she was complaining about was not resolved.¹⁶

Due to the failure of the parties to settle the matter amicably,¹⁷ Carolina filed a Complaint¹⁸ against TSI for violation of RA 10642 and RA 7394,¹⁹ otherwise known as “Consumer Act of the Philippines.”

Ruling of the DTI Fair Trade Enforcement Bureau (FTEB)

On December 9, 2016, the FTEB rendered a Decision²⁰ in favor of Carolina. It ordered TSI: (1) to refund her the amount of ₱1,246,000.00 representing the purchase price of the subject vehicle; and (2) to pay an administrative fine of ₱240,000.00.²¹

The FTEB declared the following:

Carolina failed to submit all the necessary documents in support of her complaint under RA 10642. However, Carolina was not precluded from exercising her rights under other applicable laws, particularly RA 7394, which also covers complaints relating to the purchase of brand new cars.²²

The defect in the subject vehicle was made evident during its maintenance checkup on August 24, 2016. The unsuccessful attempts to repair the vehicle embodied in TSI's Repair Order²³ proved that the subject car was defective and unfit for its intended use.²⁴

¹⁴ *Id.* at 35-36.

¹⁵ Approved on July 15, 2014.

¹⁶ *Rollo* (G.R. No. 249660), p. 61.

¹⁷ See Notice of Failure of Mediation dated November 21, 2016, *id.* at 39.

¹⁸ *Id.* at 32-34.

¹⁹ Approved on April 13, 1992.

²⁰ *Rollo* (G.R. No. 249660), pp. 59-66; prepared by Acting Consumer Adjudication Officer Mildred F. San Pedro and approved by Atty. Genaro C. Jacob, Chief, Adjudication Division.

²¹ *Id.* at 66.

²² *Id.* at 64-65.

²³ *Id.* at 113-114.

²⁴ *Id.* at 62.

TSI gave no satisfactory explanation why the same problem repeatedly manifested even after the repairs were conducted on the vehicle. TSI did not also present any proof that the rattling sound and the malfunctioning seatbelt indicator posed no risk to the car user. Hence, the case evidently involved an issue of product imperfection.²⁵

Carolina was entitled to the refund of the purchase price of the vehicle as its imperfection was discovered within the warranty period; and the imperfections were not addressed by TSI within the period provided under RA 7394.²⁶ The imposition of an administrative fine was also warranted pursuant to DTI Department Administrative Order No. 7, Series of 2006.

Ruling of the DTI

On May 28, 2018, the DTI affirmed the FTEB Decision.²⁷

The DTI ruled that: (1) the FTEB observed due process as it issued a notice of arbitration directing the simultaneous filing of the parties' respective position papers;²⁸ (2) TSI failed to submit its position paper despite notice to do so and the FTEB did not commit grave abuse of discretion in finding for Carolina;²⁹ (3) the repair orders were sufficient to support the claim that the subject vehicle was defective;³⁰ and (4) TSI fell under the definition of supplier, and thus, it was jointly liable with the manufacturer and distributor in the payment of damages in favor of Carolina.³¹

Aggrieved, TSI filed a petition for *certiorari* with the CA.

Ruling of the CA

On March 27, 2019, the CA affirmed with modification the DTI

²⁵ *Id.*

²⁶ *Id.* at 63.

²⁷ See Decision dated May 28, 2018 of the DTI, *id.* at 101-104.

²⁸ *Id.* at 103.

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.* at 103-104.

Decision.³² The dispositive portion of the CA decision reads:

FOR THESE REASONS, the petition is PARTLY GRANTED. The May 28, 2018 Decision of the Department of Trade and Industry is AFFIRMED with MODIFICATION in that the penalty of Php240,000.00 against Toyota Shaw, Inc. is deleted. The case is REMANDED to the Department of Trade and Industry for a detailed computation of the amount to be refunded to Carolina Valdecanas based on Republic Act No. 7394 and the applicable administrative orders of the Department of Trade and Industry.

SO ORDERED.³³

The CA stated that TSI actively participated in the mediation proceedings. When the mediation failed, the FTEB issued a notice of adjudication requiring the parties to submit their respective position papers. The CA deemed the failure of TSI to file its position paper as a waiver of the right to submit one.³⁴

The CA similarly found that the Repair Orders established that the subject vehicle was brought for repair because there was a rattling sound at its center console and the seatbelt indicators would flash on and emit sound even if the seatbelt was unused. It emphasized that the defects of the vehicle became evident just shortly after its delivery. Apart from this, TSI examined the car four times with a fifth attempt by TMP to repair it but to no avail. Hence, the CA decreed that the vehicle was an imperfect product.³⁵

However, the CA disagreed that the refund in favor of Carolina should be solely based on the purchase price of the vehicle. It found that Carolina was obligated to pay interest arising from the car loan she obtained for buying the car.³⁶ For this reason, it held that the bank interest should be included in computing the amount of the refund. The CA added that the administrative fine of ₱240,000.00 must be deleted, there being no explanation given by the DTI for its imposition.³⁷

Lastly, the CA held that TSI, as supplier of the subject vehicle,

³² See Decision dated March 27, 2019 of the Court of Appeals, *id.* at 160-168.

³³ *Id.* at 168.

³⁴ *Id.* at 164.

³⁵ *Id.* at 165.

³⁶ *Id.* at 166-167.

³⁷ *Id.* at 167-168.

and TMP, as the manufacturer, were jointly liable to pay Carolina.³⁸

In its Resolution³⁹ dated October 2, 2019, the CA denied the parties' corresponding partial motions for reconsideration. Undaunted, they filed their respective Petitions for Review on *Certiorari* with the Court.

Issues

In the Petition, DTI raises a sole issue:

THE COURT OF APPEALS ERRED IN DELETING THE ADMINISTRATIVE FINE, DESPITE THE FACT THAT IT FOUND [TSI] LIABLE FOR PRODUCT IMPERFECTION.⁴⁰

For its part, TSI raises the following issues:

- I. WHETHER THE HONORABLE PUBLIC RESPONDENT SECRETARY OF THE DEPARTMENT OF TRADE AND INDUSTRY ACTED IN EXCESS OF JURISDICTION OR WITH GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION IN AFFIRMING THE DECISION OF THE ADJUDICATING DIVISION.
- II. PRIVATE RESPONDENT IS NOT ENTITLED TO THE RELIEFS PRAYED FOR.⁴¹

Our Ruling

Essentially, DTI contends that the CA erred in deleting the administrative fine imposed against TSI. On the other hand, TSI argues that it was denied due process; and that Carolina failed to prove that the subject vehicle was defective, and therefore, she was not entitled to the relief provided for under RA 7394.

The Court rules for Carolina.

³⁸ *Id.* at 167.

³⁹ *Id.* at 178-182.

⁴⁰ *Rollo* (G.R. No. 249714), pp. 41-42.

⁴¹ *Rollo* (G.R. No. 249660), p. 17.

Specifically, the Court finds that TSI was afforded due process of law; and that it is liable to pay Carolina the amount she paid for the subject vehicle, as well as the administrative fine imposed by the FTEB.

First, TSI was duly informed of the subject matter of the case. It actively participated in the mediation proceedings before the FTEB. Moreover, the FTEB issued a notice of arbitration directing the parties to simultaneously file their respective positions papers but TSI failed to comply. Consequently, TSI's failure to submit a position paper within the reglementary period was deemed a waiver of its right to submit one, and thus, the case was submitted for decision without its position paper.⁴²

It is evident that TSI was afforded a fair and reasonable opportunity to explain its side of the controversy. It was given notice and opportunity to be heard. For this reason, it cannot satisfactorily invoke that it was deprived due process of law. After all, “‘to be heard’ does not mean only verbal arguments in court; one may be heard also thru pleadings. Where opportunity to be heard, either through oral arguments or pleadings, is accorded, there is no denial of procedural due process,”⁴³ as in this case.

Second, contrary to the contention of TSI, Carolina fully established that the subject vehicle she purchased from TSI was defective. Thus, TSI must refund to her the amount she paid for it and pay the administrative fine imposed by the FTEB.

RA 7394 provides that among the duties of the State is “to assist the consumer in evaluating the quality, including safety, performance and comparative utility of consumer products.”⁴⁴ It also specifies the liability

⁴² Section 1, Rule XII, DTI Administrative Order No. 07-06, July 14, 2006 provides:

Section 1. *Submission of Position Paper and Supporting Evidence.*— (a) In lieu of a formal hearing, the Adjudication Officer shall direct the parties to simultaneously submit their respective position paper with supporting affidavits and other documentary evidence not later than fifteen (15) days from receipt of the Preliminary Conference Order.

x x x

(d) Upon the submission of the position papers, or upon the expiration of the fifteen (15)-day period mentioned in paragraph (a) of this section if no position paper has been filed, or upon termination of the hearing mentioned in the immediately following section, the case shall be deemed submitted for decision.

⁴³ *Vivo v. Philippine Amusement and Gaming Corp.*, 721 Phil. 34, 43 (2013), citing *Casimiro v. Tandog*, 498 Phil. 660, 666 (2005).

⁴⁴ Article 5(b), Republic Act No. (RA) 7394 provides:

ARTICLE 5. *Declaration of Policy.* — It shall be the duty of the State:

x x x

b) to assist the consumer in evaluating the quality, including safety, performance and

of the manufacturer, among other persons, for the damages caused to the consumers due to the defects of a product as a result of its manufacture, construction, assembly, and other acts enumerated under Article 97⁴⁵ thereof. The same law also defines “defective product” as that which does not extend the safety rightfully expected of it, taking into account relevant circumstances such as the presentation, use, and hazards expected reasonably of the product as well as the time it was placed in circulation.⁴⁶

In the case, the defects of the subject vehicle and the attempts to address them were well-documented. As indicated in the Repair Orders,⁴⁷ Carolina promptly communicated to TSI the issues she had with the vehicle, the details of which are as follows:

Description of the Complaint	Repair Attempts	Odometer Reading	Date of Delivery for Repair	Date of Completion of the supposed Repair
Rattling sound at the center console; seatbelt indicator issue	No. 1	331	August 30, 2016	August 30, 2016
	No. 2	490	September 6, 2016	September 7, 2016
	No. 3	650	September 15, 2016	September 16, 2016
	No. 4	745	September 28, 2016	October 1, 2016

Notably, Carolina's complaints about the rattling sound and defective seatbelt indicator arose only a month after the delivery of the

comparative utility of consumer products;

x x x

⁴⁵ Article 97, RA 7394 provides:

ARTICLE 97. *Liability for the Defective Products.* — Any Filipino or foreign manufacturer, producer, and any importer, shall be liable for redress, independently of fault, for damages caused to consumers by defects resulting from design, manufacture, construction, assembly and erection, formulas and handling and making up, presentation or packing of their products, as well as for the insufficient or inadequate information on the use and hazards thereof.

A product is defective when it does not offer the safety rightfully expected of it, taking relevant circumstances into consideration, including but not limited to:

- a) presentation of product;
- b) use and hazards reasonably expected of it;
- c) the time it was put into circulation.

⁴⁶ *Rollo* (G.R. No. 249660), p. 17.

⁴⁷ *Id.* at 113-114.

vehicle on July 25, 2016. The issues remained unresolved despite the four attempts to repair it made by TSI and another one conducted by TMP. Under the circumstances, it is evident that the subject vehicle was defective as it did not display the safety rightfully expected of it, taking into consideration its use and the time it was placed in circulation.

The determination that the subject vehicle was defective is in consonance with the uniform factual findings of the FTEB, the DTI, and the CA. The Court sustains such findings taking into account that the DTI has the expertise and special knowledge on matters falling within its jurisdiction, and that it is in a better position to resolve the issues before it. Hence, the Court accords respect and deems as final the findings of fact of the DTI especially so as they were duly affirmed by the CA.⁴⁸

Indeed, TMP, as a manufacturer, cannot evade liability because it failed to prove that the defects of the subject car were only due to ordinary wear and tear. In turn, pursuant to Article 100⁴⁹ of RA 7394, TSI is jointly liable with TMP for the imperfection in the quality of the subject vehicle. Considering that the imperfections were not corrected within the period of 30 days, Carolina has validly exercised her option for the refund of the amount she paid for the subject vehicle. On this score, the CA properly determined that the amount to be returned to Carolina should be based on the amount she actually paid for the purchase of the vehicle, not just its stated retail price.

However, contrary to the finding of the CA, the FTEB properly imposed administrative penalty against TSI pursuant to Article 164 of RA 7394 as follows:

Article 164. *Sanctions*. — After investigation, any of the following administrative penalties may be imposed even if not prayed

⁴⁸ *Aowa Electronic Philippines, Inc. v. Dep't. of Trade and Industry*, 664 Phil 233, 246 (2011).

⁴⁹ Article 100, RA 7394 provides:

Article 100. *Liability for Product and Service Imperfection*. — The suppliers of durable or non-durable consumer products are jointly liable for imperfections in quality that render the products unfit or inadequate for consumption for which they are designed or decrease their value x x x.

If the imperfection is not corrected within thirty (30) days, the consumer may alternatively demand at his option:

- a) the replacement of the product by another of the same kind, in a perfect state of use;
 - b) the immediate reimbursement of *the amount paid*, with monetary updating, without prejudice to any losses and damages;
 - c) a proportionate price reduction.
- x x x x (Italics supplied.)

for in the complaint:

x x x

c) restitution or rescission of the contract without damages;

x x x

e) the imposition of administrative fines in such amount as *deemed reasonable* by the Secretary, which shall in no case be less than Five hundred pesos (P500.00) nor more than Three hundred thousand pesos (P300,000.00) depending on the gravity of the offense, and an additional fine of not more than One thousand pesos (P1,000.00) or each day of continuing violation.

In *Autozentrum Alabang, Inc. v. Sps. Bernardo, et al.*⁵⁰ (*Autozentrum*), the Court sustained the administrative fine imposed by the DTI underscoring that the DTI is tasked to protect the consumers against deceptive, *unfair*, and unconscionable sales practices. Echoing Article 164 of RA 7394, the Court ruled that the DTI can impose restitution or rescission of the contract without damages and payment of administrative fine, ranging from ₱500.00 to ₱300,000.00.

Additionally, the Court explained in *Autozentrum* that rescission “creates the obligation to return the things which were the object of the contract, together with their fruits, and the price with its interest; consequently, it can be carried out only when he [or she] who demands rescission can return whatever he [or she] may be obliged to restore. Rescission abrogates the contract from its inception and requires a mutual restitution of the benefits received.”⁵¹

In the case, the FTEB, as affirmed by the DTI, properly imposed administrative fine against TSI for having sold to Carolina the subject defective vehicle. The view of the CA that the DTI did not provide justification for the fine is without merit because the FTEB specified the reason for the imposition, stating that while it could not grant the collateral charges prayed for by Carolina, Article 164(c) above allows for the imposition of administrative penalties, even if not prayed for, in case of restitution or rescission of the contract without damages.⁵²

⁵⁰ 786 Phil. 851 (2016).

⁵¹ *Id.* at 865, citing Article 1385 of the Civil Code of the Philippines and *Supercars Mgt. & Dev't. Corp. v. Flores*, 487 Phil. 259, 269 (2004).

⁵² *Rollo* (G.R. No. 249660), pp. 65-66.

In this regard, the contract between Carolina and TSI may be rescinded in that Carolina is obligated to return the subject vehicle. In turn, TSI must return to Carolina what she had paid for the purchase of the car with payment of administrative fine, as imposed by the FTEB and affirmed on appeal by the DTI,⁵³ which, as stated, has the expertise and special knowledge on matters within its jurisdiction.

Let it be noted that in denying DTI's motion for reconsideration before it, the CA held that there was no proof of TSI's capitalization during the proceedings before the FTEB, but the latter still imposed an administrative fine against TSI. The CA added that the belated submission of TSI's General Information Sheet from which such fine was based was not allowed as a motion for reconsideration cannot put forward a new issue, present new evidence, or change the theory of the case.

However, the CA failed to consider that TSI did not submit a position paper before the FTEB such that the latter has no information at the outset of TSI's capitalization from which the administrative fine may be based. As a result, the ascertainment of the fine against TSI was pursuant to the *reasonable* assessment of the FTEB and the DTI, taking into account the gravity of the offense committed by TSI, as sanctioned by Article 164(e) of RA 7394. Verily, the Court cannot subscribe to the ruling of the CA deleting the imposition of an administrative fine against TSI.

Finally, the Court decrees that all the monetary awards shall earn interest at the rate of 6% *per annum* from the finality of this Decision until the amount is paid in full.⁵⁴

WHEREFORE, the Decision dated March 27, 2019 and the Resolution dated October 2, 2019 of the Court of Appeals in CA-G.R. SP No. 157257 are **AFFIRMED with MODIFICATION** in that the administrative fine of ₱240,000.00 imposed by the Department of Trade and Industry against Toyota Shaw, Inc. is reinstated. The monetary awards shall earn interest at the rate of 6% *per annum* from the finality of this Decision until the amount is fully paid.


⁵³ See *Autozentrum Alabang, Inc. v. Sps. Bernardo, et al.*, *supra* note 50 at 865.

⁵⁴ *Id.* at 866.

SO ORDERED.


HENRI JEAN PAUL B. INTING
Associate Justice

WE CONCUR:


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

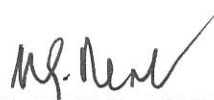

RAMON PAUL L. HERNANDO
Associate Justice


SAMUEL H. GAERLAN
Associate Justice


JAPAR B. DIMAAMPAO
Associate Justice

ATTESTATION

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


ESTELA M. PERLAS-BERNABE
Senior 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 cases were assigned to the writer of the opinion of the Court's Division.


ALEXANDER G. GESMUNDO
Chief Justice