THE *RES JUDICATA* EFFECT OF C.A.R.-APPROVED AGREEMENTS

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The restlessness and mass discontent among our tenantry that only yesterday threatened to involve the country in a revolution, easily produced its repercussions in our legislation. These repercussions, in turn, accentuated awareness of the rights and responsibilities of both landholder and tenant, even as the tenant had merited a more marked solicitousness on the part of the State. The lawmaker dared to delineate particularly the *sine qua non* for harmonious landholder-tenant relationships. Yet, more significantly, it constituted an agency—the Court of Agrarian Relations—to earnestly arbitrate or otherwise dispense justice between parties to agricultural tenancy relationships. There could be no more vivid demonstration of the idea of bringing law to the grassroots: where litigiousness is far more preferable to bloodshed. It is in this sense that the law can, purely and truly, live up to its socio-economic function.

But the setting-up of a pattern or patterns of behavior that must only inevitably come of all law would, logically, entail delimitations —the marking off of the legal from that which is not legal. Ergo, principles are evolved as frequently as cases are decided, so much so that their application always poses a fundamental problem that becomes one for the judge or lawyer to analyze and solve.

This discussion aims to clarify one such problem as, in any little way, may render it more amenable to solution.

THE PROBLEM

Under the law now governing agricultural tenancy,[1] the landholder and the tenant are free to enter into any or all kinds of tenancy contracts, as long as they are not contrary to law, morals, or public policy.[2] The freedom to enter into tenancy contracts finds its justification in the nature of the agricultural tenancy relationship itself—which is essentially a partnership for agricultural production in the mutual interest of the tenant and the landholder, the parties needing therefore to agree on the terms and conditions that should govern the relations. The sharing basis or the rental, the contributions of the parties, the expenses for seedlings, fertilizers, pest and weed control, and other operations should be agreed upon.[3]

Very recently, however, a landholder came to the Court of Agrarian Relations seeking its opinion as to the propriety of certain stipulations with his tenants.[4] The Court effected a conference of

* LL.B. (U.P., 1958), B.S.Jur. (U.P., 1958); Vice-Chairman, Student Editorial Board, *Philippine Law Journal*, 1957-1958.

[1] Rep. Act No. 1199 (Aug. 30, 1954), known as the "Agricultural Tenancy Act of the Philippines."

[2] *Id.*, sec. 11, par. 1

[3] SANTOS, THE LAW ON AGRICULTURAL TENANCY IN THE PHILIPPINES 36 (1957).

[4] The cases herein referred to, and which are the subject of the discussion in the text, are commonly titled—In Re: Petition for the Approval of Agricultural Tenancy Agreement on Sharing of Crops and Irrigation Expenses, CAR Cases Nos. 31, 32, 33 (Rizal), March 6, 1958, and CAR

the landholder and his tenants, in which conference a compromise agreement between the parties was struck. The compromise agreement, containing stipulations on the minutiae of the sharing of the crops and irrigation expenses, was submitted by the parties to the Court for its approval.

The Court, invoking the virtual *carte blanche* granted by its constitutive statute[5] as well as by the Agricultural Tenancy Act itself,[6] and going as far as declaring its authority in the premises to be independent of any formal petition and therefore capable of being exercised *motu proprio*,[7] aproved the compromise agreements *in toto* (in the March case) and with a slight modification (in the April case).

The problem now presents itself: What is the effect of approval by the Court of Agrarian Relations of the compromise agreements between the landholder and the tenant concerning their agricultural tenancy relaionship?

THE C.A.R.'S SOLUTION: ARTICLE 2037, CIVIL CODE

The C.A.R. had a ready, uncomplicated solution. It decided to treat the amicable settlements as judicial compromises in the sense conveyed, or understood as being conveyed, in Article 2037 of the Civil Code. This provision,[8] being the pivotal point in the Court's decision, deserves to be quoted in full:

> "Art. 2037. A compromise has upon the parties the effect and authority of *res judicata;* but there shall be no execution except in compliance with a judicial compromise. (1816)"

Before discussing the rationale of the Court's decisions, it should at this point be opportune and relevant to present the Court's solution as rendered in capsule in the dispositive part of the decisions:

Case No. 38 (Rizal), April 12, 1958, both *per* Executive Judge Guillermo S. Santos.

Hereafter, the said two cases shall be referred to as the March case and the April case, respectively. Also hereafter, "C.A.R." and 'the Court" shall be understood to refer to the Court of Agrarian Relations.

[5] Rep. Act No. 1267, as amended by Rep. Act No. 1409. Sec. 7 of this law reads:

"SECTION 7. *Jurisdiction of the Court.*—The Court shall have original jurisdiction over the entire Philippines, to consider, investigate, decide, and settle all questions, matters, controversies or disputes involving all varying rights of persons in the cultivation and use of agricultural land where one of the parties works the land: *Provided*, however, that cases pending in the Court of Industrial Relations upon approval of this Act which are within the jurisdiction of the Court of Agrarian Relations, shall be transferred to, and the proceedings therein continued in the latter Court. (As amended by Sec. 5, R.A. 1409).

[6] Rep. Act No. 1199, Sec. 21 reads:

"SEC. 21. *Ejectment; Violation; Jurisdiction.*—All cases involving the dispossession of a tenant by the landholder or by a third party and/or the settlement and disposition of disputes arising from the relationship of landholder and tenant, as well as the violation of any of the provisions of this Act, shall be under the original and exclusive jurisdiction of such court as may now or hereafter be authorized by law to take cognizance of tenancy relations and disputes."

[7] "xx xx even without formal petition having been filed, and on the request of a party (landholder in these cases) who has indicated that some questions or matters, controversial in character, have arisen in their relationship which prevent from laying down the terms of their future relations, this Court could and should take appropriate action."

"xx xx Its (the Court's) sphere of action is extensive. For this Court to take cognizance of the case, there need not be an actual dispute between the parties. It has the power not only to decide and settle actual disputes but also to *consider and investigate all questions and matters* arising from the relationship of landholder and tenant over which it has exclusive jurisdiction. xx xx"

[8] Art. 1816 of the old civil Code reads: "A compromise has, with regard to the parties, the same authority as *res adjudicata;* but summary proceedings shall not be proper except when the fulfillment of a judicial compromise is in question."

> "WHEREFORE, finding the terms of the afore-quoted agreement, with respect to crop sharing, to be in conformity with law, morals or public policy, the same is hereby approved and shall, as between the parties, have the same effect as, and be deemed to be, a decision in this case."

Now, to the Court's reasoning: In view of the Court's having conducted the mediation proceedings and the conference wherein the parties settled their differences and consequently formulated a compromise settlement which they submitted to the Court for approval, and which was accordingly approved, the amicable agreement can therefore be said to have been made in and with the intervention of the Court. That being the case, the said amicable agreement is a judicial compromise within the purview of Article 2037 of the Civil Code, "although it is one entered into not to terminate a case already filed, but to avoid litigation." The Court explained the latter qualification, which was apparently inconsistent with a preliminary statement to the effect that a judicial compromise is one entered into to put an end to a suit already commenced, extrajudicial compromise being the one entered to avoid a litigation,[9] by arguing that "the positive nature and functions of this Court and its broad jurisdiction should be distinguished from that of the ordinary courts of justice which ordinarily take cognizance only of justiciable cases or actual controversies." Then the Court went on to conclude that the compromise being, as it held it to be, a judicial one, it could be approved and converted into a judicial decision which, as such, may be enforced by execution in accordance with Rule 39 of the Rules of Court. To buttress this conclusion, the Court cited a Supreme Court decision [10] which ruled that stipulations in a compromise approved by the court become orders of the court contained in the judgment rendered in accordance with the compromise. It is interesting to note that the Court was not satisfied with disposing of the case upon such reasoning, but it unhesitatingly extended its view to cover all other compromises of the same content, "although made out of and without its intervention," the reason given being that the Court merely would be achieving "the purposes for which it was created—to maintain the harmonious relations between the parties and/or prevent future disputes between them, more effectively."

The Court, moreover, indulged itself a brief discussion of the nature and effect of a judicial and of an extrajudicial compromise. The effect of C.A.R.-approved agreements having been equated with that of judicial compromises under Article 2037 of the Civil Code, the following portion of the Court's decision may well constitute the crux of the two cases:

> "* * * There is a substantial difference in nature and effect between an extrajudicial compromise, *which is a mere contract*, and a judicial one, *which has the nature and effect of a judgment*. Extrajudicial agreements have the force of an adjudication, i.e., they have, with

[9] Citing the majority opinion in Salazar *et al.* v. Jarabe, 48 O.G. 7, 2708 (1952).
[10] Marquez v. Marquez, 73 Phil. 74 (1941).

respect to the parties, the authority of *res adjudicata;* but they cannot be carried into effect in the manner provided for the enforcement of a judicial agreement—execution. (Article 1816, Old Civil Code, now Art. 2037, New Civil Code.) An extrajudicial compromise may be set up as a defense, but not as a bar to another action. Only a compromise made in court, a judicial one, may be enforced by execution or set up as a bar to another action for the same cause between the same parties. (See dissenting opinion, *Salazar, et al. vs. Jarabe, supra.*)" (*Emphasis supplied*).

ART. 2037, CIVIL CODE—ANALYZED AND APPLIED TO C.A.R.-APPROVED AGREEMENTS

First, the definition of a compromise. According to Article 2028 of the Civil Code,[11] "A compromise is a contract whereby the parties, by making reciprocal concessions, avoid a litigation or put an end to one already commenced." From this statutory definition may be inferred that a compromise may either be judicial or extrajudicial, depending upon whether its purpose be to terminate a suit already instituted or to avoid the provocation thereof. In the former case, the compromise is deemed judicial while in the latter extrajudicial.[12] Thus, it would seem that the C.A.R.'s view extending the compromise concept to embrace those agreements made out of and without its intervention, is here impliedly sanctioned—the essential element, i.e., in order to constitute at least an extrajudicial compromise, being that the purpose be to avoid litigation.

Now, to the effect of a compromise. What does Article 2037 mean when it ordains that "A compromise has upon the parties the effect and authority of *res judicata*"? Does it refer to both or either judicial and/or extrajudicial compromise? It has been held that whether it be judicial or extrajudicial, a compromise has, with respect to the parties, the same authority as *res judicata* with the sole difference that only a compromise made in court may be enforced by execution, in accordance with the latter clause of Article 2037.[13]

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[11] The equivalent article in the old Civil Code is art. 1809 which reads: "A compromise is a contract by which each of the parties in interest, by giving, promising, or retaining something, avoids the provocation of a suit, or terminates one that has already been instituted."
The applicability of Civil Code provisions to tenancy cases is proper by reason of Rep. Act No. 1199, Sec. 55 and Rep. Act No. 1267, Sec. 19.
Judicial compromise, or judgment by compromise, is easily distinguished from judgment by default which may be rendered under Rule 7, Sec. 3 of the Rules of Court, or from judgment on the pleadings (Rule 35, Sec. 10), or from summary judgment (Rule 36), in that these latter judgments are really judgments rendered in an action in court commenced by the filing of a complaint. While this may also be true with a judicial compromise, yet it is not to be overlooked that a judicial compromise is preeminently an agreement between the parties which is approved by the court. It has the peculiarity of combining the consensual aspect of a contract (Art. 2028, Civil Code) with the binding effect of a judgment (Art. 2037). A judicial compromise would be more akin to a judgment on an agreed statement of facts (Rule 33, Sec. 2), except for the obvious distinction in that the latter is a mere statement of the facts involved in the litigation and which statement is presented to the court for its judgment "*upon the questions of law* arising from the facts agreed upon," whereas a judicial compromise is submitted to the court solely to acquire the binding effect (*res judicata*) of a judgment by the stamp of judicial approval or fiat—the compromise being really a contract between the parties in the sense of *being the law* applicable to their specific case (See Arts. 1159, 1306, 1315, 19, Civil Code). Thus, in judicial compromise the parties not only agree upon the facts of their controversy but on the law applicable thereto—the court's approval being merely for the purpose of facilating its conclusiveness and manner of enforcement.

[12] Yboleon v. Sison, 59 Phil. 281 (1933). *See also* Dissenting Opinion, *per* Montemayor, J., Saminiada v. Mata, 49 O.G. 1, 77 (1953), and Dissenting Opinion, Feria, J., Salazar *et al.* v. Jarabe, *supra* note 9.

[13] Yboleon v. Sison, *supra; See also* Meneses v. De la Rosa, 77 Phil. 34 (1946).

Still, and more fundamentally, what is "the effect and authority of *res judicata*"? Here is where the decisions are so indefinite and confusing that they virtually say nothing; they are either so vague and general as to be naturally uninstructive, or so equivocal as there is apparently never a *thoroughgoing* attempt to draw a clear line between the effect of an extrajudicial compromise and that of a judicial compromise.

For instance, the C.A.R. decision as afore-quoted conveys the impression that it means to distinguish the effects of the two kinds of compromises on three bases, *viz.:* (1) that while an extrajudicial compromise is a mere contract, a judicial compromise has the nature and effect of a judgment, (2) that an extrajudicial compromise may be set up as a defense, but not as a bar to another action for the same cause between the parties, and (3) that only a judicial compromise may be enforced by execution. There can not be much dispute anent the 2nd and 3rd propostions; as to the 2nd, it is self-evident that an extrajudicial compromise cannot constitute a bar to another action, as *res judicata*, in the sense of Rule 39, sec. 44 of the Rules of Court, presupposes a pre-existing judgment; as to the 3rd, the express qualification made by the last clause of Article 2037 speaks for itself.It is easy to see, therefore, how ill-advisedly the term *res judicata* is used with reference to the binding effect of an extrajudicial compromise.[13a]

The first proposition alleged as basis assumes a dichotomy of effects, but whether this is correct or not would be better appreciated by considering first the grounds of impugning both judicial and extrajudicial compromises. Article 2038 of the Civil Code mentions as the grounds for annulling a compromise: mistake, fraud, violence, undue influence, or falsity of documents. It is difficult to challenge the applicability of the said provision to both judicial and extrajudicial compromises.[14] Hence, thus far, there is no difference as to the effects. Yet it has been said that a judicial compromise, or a judgment by consent—as it is known in American law, is more than a mere contract *in pais;* having the sanction of the court and entered as its determination of the controversy, it has all the force and effect of any other judgment, being conclusive as an estoppel upon the parties and their privies.[15] There is great moment in the proposition that a judicial compromise has the effect of a judgment, while an extrajudicial compromise does not have such effect, for it is precisely in the implications of the term *judgment* that the world

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[13a] *See* Dissenting Opinion, Feria, J., Salazar et al. v. Jarabe, *supra* note 12.

[14] Art. 2038 modifies the entire Art. 2037, so that the *res judicata* effect of a compromise is always susceptible of being impugned for the causes mentioned in said Art. 2038. *See* Hernandez v. Barcelon, 23 Phil. 599, at 607-8 (1912).

A compromise, whether judicial or extrajudicial, can be nullified only with the consent of the parties thereto or on the grounds mentioned in Art. 2038. Yboleon v. Sison, *supra* note 12. *See* Rep. Act No. 1199, Secs. 10-12.

It should be noted that Art. 2039 adds another ground for nullifying a compromise, be it judicial or extrajudicial.

[15] Manila Railroad Co. v. Arzadon, 20 Phil. 452 (1911). Lim de Planas v. Castelo, G.R. No. L-9709, Nov. 27, 1956.

Contra: Saminiada v. Mata, *supra* note 12, which, citing numerous United States authorities, rules that "when a litigation is adjusted between the parties and said adjustment sanctioned by the decree of a court, the agreement or settlement does not have the effect of a final judgment or the character of *res judicata*, the court's approval being considered merely as an administrative recording of what has been agreed to between the parties." Obviously, this holding ignores or nullifies Art. 2037 altogether. It is not true, however, that Art. 2038 completely destroys the *res judicata* effect of compromise. See discussion in the text.

of difference as to effect between them is spelled. This much difference should at least be conceded, otherwise the rendering of judgment would be merely a pointless ceremony.[16] And these are the important implications of the term *judgment* that radically distinguish a judicial compromise from an extrajudicial one: (1) where such judgment is one requiring the performance of an act other than the payment of money, or the sale or delivery of real or personal property, it is considered as a special judgment enforceable by proceedings as for contempt;[17] (2) a judicial compromise not only gives rise to remedies based on Articles 2038-2039 of the Civil Code, but a petition for relief under Rule 38 of the Rules of Court is also available;[18] and, (3) of course, again, only a judicial compromise may be enforced by execution by express mandate of Article 2037, because an extrajudicial compromise must be enforced—like any other contract—by action for specific performance. These therefore, constitute the *res judicata* effect of C.A.R.-approved agreements, and jealous regard for them would serve well to emphasize the advantages that C.A.R. approval bestows.

As to the 3rd, as it regards the manner of enforcement of a compromise, one more observation should be made. There is a curious provision in Article 2041 of the Civil Code to the effect that "If one of the parties fails or refuses to abide by the compromise, the other party may either enforce it or regard it as rescinded and insist upon his original demand." This is a new article formulated by the Code Commission from American jurisprudence.[19] This article therefore adds another ground for setting aside the compromise, without distinction as to whether judicial or extrajudicial, and must furthermore be applicable to C.A.R.-approved tenancy agreements.

Not strictly germane to the matter of the *res judicata* effect of C.A.R.-approved agreements, but very noteworthy in connection with the study of such effect, is the settled rule that a judgment on compromise is not appealable and is immediately executory unless a motion is filed to set aside the compromise either on the grounds

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[16] As Justice Montemayor remarked in his dissenting opinion in Saminiada v. Mata, *supra* note 12:
"xx xx xx The judicial sanction placed upon a formal agreement of the parties must mean something. A judgment so rendered is a solemn act of the court binding on the parties who asked for it. As a matter of fact, a consent judgment is even stronger than an ordinary judgment which decides the issues and points of difference, because while in the latter the court may make a mistake and the parties disagree as to the findings of the court, in a judicial compromise or consent judgment, the court is not supposed to make a mistake because it bases its judgment on the very agreement and consent of the parties, and the parties are presumed to know what they have agreed upon. If we are to place a consent judgment in the same category of an ordinary contract xx, xx xx then there would absolutely be no necessity or need for parties to come to court and have their agreement proved and converted into judgment, because they would gain nothing by such solemn judicial sanction. After said judgment, they would be no nearer to a definite and final solution of their controversy, because xx xx xx anyone of the parties may later denounce and avoid the consent judgment tho already final xx xx xx."
The C.A.R. said a similar thing in the April case.

[17] Rules of Court, Rule 39, Sec. 9; Marquez v. Marquez, *supra* note 10. Anent the C.A.R.'s power to punish for contempt of court, *see* Rep. Act No. 1267, as amended by Rep. Act No. 1409, Sec. 8; anent its power to execute its orders or decisions, *see Id.* Sec. 12.

[18] Saminiada v. Mata, *supra* note 12. But Mr. Justice Montemayor, in his dissenting opinion in this case, could be taken as having the mind that the actions based on the circumstances mentioned in Art. 2038 of the Civil Code must be brought within the periods prescribed by Rule 38 of the Rules of Court. He would then be supported by a ruling to the same effect in Meneses v. De la Rosa, *supra* note 13.

[19] 4 CAPISTRANO, CIVIL CODE OF THE PHILIPPINES, WITH COMMENTS AND ANNOTATIONS 414 (1951)
This article therefore revokes the rule in Morales v. Fontanos and Carlitos, 64 Phil. 19 (1937) that the only remedy of a party to a compromise in the case of refusal or failure to perform any stipulation therein on the part of the other party, is to demand the enforcement thereof.

mentioned in Article 2038 or in Rule 38, in which event an appeal may be taken from an order denying the motion.[20] The reason therefor was well phrased by Justice Perfecto thus:[21]

> "* * * When both parties enter into an agreement to end a pending litigation and request that decision be rendered approving said agreement, it is only natural to presume that such action constitutes an implicit, as undeniable as an express, waiver of the right to appeal against the decision. For a party to reserve, under the circumstances, the right to appeal against said decision, is to adopt an attitude of bad faith which courts cannot countenance. If the agreement was entered into with good faith and with honesty, there is no reason why a party to such agreement should reserve to himself the right to impugn said agreement by appealing against a decision approving the same."

THE VALUE OF C.A.R.-APPROVED AGREEMENTS

While the recent tenancy legislations have conduced to much contentiousness on the part of both landholder and tenant, which should be a healthy sign if undertaken in the spirit of just settlement of conflicting claims, the consequent evils of litigation, *e.g.*, expenses, time-waste, ignominy or scandal, the possibility of vexatious suits, etc., are not to be airily waived aside. That is why it is a much-stressed principle of the law that maximum efforts be exerted towards bringing about the amicable settlements of tenancy disputes.[22] The procedure therefore of having tenancy compromise agreements approved by the C.A.R. provides landholders and tenants an easy, inexpensive means of having their conflicting claims or interests settled by final judgment, together with the benefits concomitant thereto like the benefit of having simple execution of judgment under Rule 39, without having to suffer the penance of protracted and costly litigation. While the procedure in the C.A.R. is already peculiarly expeditious, the common tenant—the intended beneficiary of these tenancy legislations—stands to further profit by the simplification of his means of defining his rights and obligations.

The two decisions of the C.A.R. discussed herein, notwithstanding some indefinitiveness in the rationale, rest securely on correct legal principles [23] and good socio-economic policy.

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[20] Enriquez v. Padilla, 77 Phil. 373 (1946); De los Reyes v. De Ugarte, 75 Phil. 505 (1945).
[21] Concurring Opinion, De los Reyes v. De Ugarte, *id.*
[22] Rules of the Court of Agrarian Relations, Rule 8; Civil Code of the Philippines, Art. 2029; Rules of Court, Rule 25.
[23] Indeed, in Sicat et al. v. Reyes et al., G.R. No. L-11023, Dec. 14, 1956, the Supreme Court inferentially recognized the *res judicata* effect of an amicable tenancy agreement approved by the Court of Industrial Relations, by holding that said agreement does not bind one who is not a party thereto.

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