SUPREME COURT
FIRST DIVISION

SAN MIGUEL CORPORATION and BERNARDO NOEL in his capacity as Industrial Relations Manager,
***Petitioners*,**

-versus-

G.R. No. 127639
December 3, 1999

ALFREDO ETCUBAN, BERNABE ETCUBAN, NORBERTO LABUCA, FELIPE ECHAVEZ, BERNARDINO ENJAMBRE, ROGELIO ABELLANOSA, ROMULO CATALAN, PEDRO EBOT, ANATOLIO GERALDIZO, JOSE ALFANTA, EDUARDO LOFRANCO, LECERIO PARBA, RAFAEL AGUILAR, RICARDO LACUAREN, BENJAMIN ALESNA, ANTONIO BACUS, PRIMO SOTEROL, JESUS JADORMEO, MANUEL MANKIKIS, APRONIANO ANG, RENATO VILLALON, SAMUEL OUANO, JOSE DELA, JESUS BASILGO, CATALINO COLE, SR., ALFREDO GONZALES, RAMON FLORES, MARCOS VITO CRUZ, JACINTO DIVINAGRACIA, ALAN ALINSUGAY and CLAUDIO AGAN,
***Respondents*.**
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D E C I S I O N

KAPUNAN, *J.*:

Before the Court is a Petition for Review on Certiorari of the Decision, dated 16 May 1996 of the Court of Appeals in CA-G.R. CV No. 46554 and of its Resolution, dated November 1996 denying petitioners' motion for reconsideration of said decision. The Court of Appeals' decision reversed and set aside the resolution of the Regional Trial Court of Cebu, Branch 19, in Civil Case No. CEB-15310, dismissing for lack of jurisdiction respondents' complaint for damages against petitioners for terminating their employment by fraudulently inducing them to accept petitioners' "retrenchment program."

The antecedents of this case are as follows:

In 1981, San Miguel Corporation (SMC) informed its Mandaue City Brewery employees that it was suffering from heavy losses and financial distress which could eventually lead to its total closure. In several meetings convened by SMC with its employees, it was explained to them that the distressed state of SMC was caused by its poor sales performance which, in order to survive, called for a cutback in production and a corresponding reduction in the work force. Because of this, SMC offered its "Retrenchment to Prevent Loss Program" to its employees. The offering of the retrenchment program was coupled with an unsolicited advise from SMC that it would be in the best interest of the affected employees to avail of the said program since, by doing so, they would be able to obtain their retrenchment benefits and privileges with ease. SMC admonished its employees that their failure to avail of the retrenchment program might lead to difficulty in following-up and obtaining their separation pay from SMC's main office in Manila.

Convinced by the representations and importunings of SMC, respondents, who had been employees of SMC since the 1960s, availed of the retrenchment program at various times in 1981, 1982 and 1983. After their inclusion in the retrenchment program,

respondents were given their termination letters and separation pay. In return, respondents executed "receipt and release" documents in favor of SMC.

Sometime in May of 1986, respondents got hold of an SMC publication allegedly revealing that SMC was never in financial distress during the time when they were being retrenched but was, in fact, enjoying a growth in sales. Respondents also learned that, during their retrenchment, SMC was engaged in hiring new employees. Thus, respondents concluded that SMC's financial distress story and retrenchment program were merely schemes to rid itself of regular employees and, thus, avoid the payment of their actual benefits.

On 17 October 1988, respondents filed a complaint before the Regional Arbitration Branch No. VII of the National Labor Relations Commission (NLRC) for the declaration of nullity of the retrenchment program. In their complaint, respondents alleged that they were former regular employees of SMC who were deceived into severing their employment due to SMC's concocted financial distress story and fraudulent retrenchment program. Respondents prayed for reinstatement, backwages and damages. On 25 July 1989, the Labor Arbiter dismissed the complaint on the ground of prescription, stating:

> What is apparent from their allegations, however, is that complainants are contesting their respective terminations pursuant to the Retrenchment Program effected by San Miguel Corporation in 1981, 1982, and 1983. These then are claims for illegal dismissal which fall within the ambit of Article 291 of the New Labor Code. It provides:
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> > ARTICLE 291. Money claims. — All money claims arising from employer-employee relations accruing during the effectivity of this Code, shall be filed within three (3) years from the time the cause of action accrued; otherwise they shall be forever barred.

Under the aforequoted provision therefore, complainants' causes of action have already prescribed.

Even if this Office were to apply the more liberal interpretation of the above provisions enunciated by the Honorable Supreme Court in the case of Callanta vs. Carnation Phils., Inc., G.R. No. 70615, Nov. 3, 1986, an interpretation that views illegal dismissal as an inquiry upon the rights of a person, hence, under Article 1146 of the Civil Code prescribes in 4 years, those who were retrenched in 1983, at the very latest, had only until 1987 to institute a complaint against SMC.

The records will show that all the above captioned cases were filed in 1988.

Clearly, therefore, complainants' causes of action have already prescribed.[1]

Respondents then appealed to the NLRC which, on 20 December 1990, dismissed the appeal and affirmed the decision of the labor arbiter.

On 14 December 1993, respondents, who were thirty-one (31) in number, again filed a complaint[2] against SMC, but this time before the Regional Trial Court of Cebu City, Branch 19. Although their complaint was captioned as an action for damages, respondents sought the declaration of nullity of their so-called collective "contract of termination" with SMC. Respondents theorized that SMC's offer of retrenchment and their acceptance of the same resulted in the consummation of a collective "contract of termination" between themselves and SMC. Respondents asserted that since the cause of their "contract of termination" was non-existent, i.e., the claim of SMC that it was under financial distress, the said contract is null and void. In this regard, respondents claimed that they were entitled to damages because of the deception employed upon them by SMC which led to their separation from the company. They further asseverated that their separation from employment resulted in the loss of earnings and other benefits. Hence, they prayed that petitioners jointly and severally be ordered, among others, to pay each of them the sum of P650,000.00 as actual and compensatory damages, P100,000.00 as moral damages, P50,000.00 as exemplary damages, and 25% of whatever may awarded to them as attorney's fees.

Instead of filing an answer, SMC filed a motion to dismiss on the bases of lack of jurisdiction, res judicata, payment, prescription and failure to state a cause of action. On 21 June 1994, the RTC issued a resolution granting SMC's motion to dismiss on the grounds of lack of jurisdiction and prescription. The pertinent portion of the resolution reads:

> Although plaintiffs, among others, pray for the declaration of nullity of the contract of termination, their main cause is for damages, actual, compensatory and moral damages in the "aggregate amount of P650,000.00 each and P1,200,000.00 each" for plaintiffs Bernabe Etcuban and Jose Dela. The alleged acts leading to their signing of the contract of termination are acts constituting labor disputes. It is a case for damages resulting from illegal termination. Under Article 217 of the Labor Code, such cases fall within the exclusive original jurisdiction of the Labor Arbiter and the National Labor Relations Commission. In fact, in 1988, plaintiffs instituted the same case for "Implementation of Art. 217, par. 5, now (sic) Labor Code and Declaration of Nullity of 'Retrenchment' Program, and Damages" (see annex "A" to motion to Dismiss) with the National Labor Relations Commission. Their cases were dismissed, not because of lack of jurisdiction, but because their cause of action already prescribed, the cases having been filed after the three-year prescriptive period. Plaintiffs have already submitted to the jurisdiction of the NLRC when they filed their cases with that agency. And they prayed for the declaration of nullity of the retrenchment program of defendant corporation. It was only after the dismissal of those cases that they instituted this present suit.
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> x x x

Moreover, the contract of termination which plaintiffs were allegedly induced to sign is not void from the beginning. At most, such contract is voidable, plaintiffs' consent thereto being allegedly vitiated by fraud and deceit.

Thus plaintiffs allege that "the brainwashing conducting on the affected employees through briefings and pulong-pulongs relative to

the actual economic condition of defendant corporation finally led plaintiffs to believe that indeed said defendant was incurring losses and has opted to reduce its production to arrest an immediate collapse of its operations. Thus, the corresponding need to cut down on its work force;" (par. 11, complaint); "This distressed state of affairs of the defendant corporation inculcated into their (sic) minds of defendants and the worry of non-recovery of their benefits in the event defendant corporation closes down, induced plaintiffs to accept the "offer of retrenchment". Thereupon, they were paid their so-called "separation pay". Hence, the contract of termination evidenced by individual termination letters and benefits paid to each plaintiff was consummated." (par. 12). But that "records, however, revealed that from 1973 up to 1983, inclusive, defendant corporation never suffered any business reverses or losses in its operation." (par. 13, complaint).

When the consent of one of the contracting parties is vitiated by fraud or deceit, the resulting contract is only voidable or annullable, not void or inexistent. The action to annul the same should be filed within four (4) years from discovery of the fraud or deceit. According to plaintiffs' complaint, they "acquired knowledge of the actual business condition of defendant corporation only in May 1986 when one of them got hold of a copy of the company's publication. That was the time they discovered that indeed, defendants deceived them. (par. 14, complaint.) From May 1986 to January 14, 1993, more than six (6) years have already elapsed. Clearly, the action, has already prescribed.

The rest of the grounds need not be discussed.

> WHEREFORE, for want of jurisdiction, and on the further ground of prescription, the above-entitled case is dismissed.
>
> SO ORDERED.[3]

Respondents seasonably appealed to the Court of Appeals (CA). In its Decision dated 16 May 1996, the CA reversed and set aside the lower court's order of dismissal and remanded the case to the RTC for further proceedings. The pertinent portion of the decision reads:

A scrutiny of the allegations of the present complaint reveals that plaintiffs' cause of action is not actually based on an employer-employee relationship between the plaintiffs and the defendants. It primarily involves a civil dispute arising from the claim of plaintiffs that the cause for the contract of termination of their services is inexistent rendering said contract as null an void from the beginning.

x x x

Guided thereby, we find that recourse by plaintiffs-appellants to the civil law on contracts by raising the issue [of] whether or not the contract of termination of services entered into by plaintiffs with defendants is void from the beginning due to inexistent cause of action under Article 1409 of the Civil Code, places the case within the jurisdiction of the civil courts.

As refined by the Supreme Court, where the resolution of the dispute requires expertise, not in labor management relations nor in wage structures and other terms and conditions of employment, but rather in the application of the general civil law, such claim falls outside the area of competence of expertise ordinarily ascribed to Labor Arbiters and the NLRC. Thus, the trial court erred in finding that it has no jurisdiction over the case.

Secondly, the trial court erred in ruling that the complaint of plaintiffs-appellants has prescribed. Article 1410 of the Civil Code, in relation to Article 1409 as herein before quoted, specifically provides that the action for the declaration of the inexistence of a contract on ground (3) above does not prescribe.

Thirdly, one of the requisites for the application of the principle of res judicata is that there must be a judgment on the merits in the earlier case involving the same parties and the same issues. Plaintiffs-appellants' complaint was dismissed by the NLRC on the ground that their cause of action had prescribed; no trial has been held on the first complaint. Thus, the dismissal of the

first complaint is not a judgment on the merits and therefore not applicable to the present case.

x x x

WHEREFORE, the order of dismissal is reversed and set aside. Let the original records of Civil Case No. CEB-15310, be remanded to the Regional Trial Court (Branch 19), Cebu City for further proceedings. Costs against defendants-appellees.

SO ORDERED.[4]

SMC filed a motion for reconsideration but was denied in the CA's Resolution dated 14 November 1996.[5] Hence, this petition.
In this petition, SMC contends that the CA erred:

I

IN HOLDING THAT THE REGIONAL TRIAL COURT OF CEBU, BRANCH 19, HAS JURISDICTION OVER THE INSTANT CASE AND THE CAUSE OF ACTION OF THE RESPONDENTS ARE NOT ACTUALLY BASED ON AN EMPLOYER-EMPLOYEE RELATIONSHIP WHEN THE COMPLAINT SHOWS THAT THE RESPONDENTS ARE CLAIMING TO HAVE BEEN UNJUSTLY SEPARATED FROM THEIR REGULAR EMPLOYMENTS (sic) BY THE PETITIONERS AND ARE DEMANDING TO BE PAID ACTUAL AND COMPENSATORY DAMAGES CONSISTING OF "THEIR EXPECTED INCOME BY WAY OF SALARIES AND OTHER FRINGE BENEFITS DUE THEM UNDER THE LAW FROM THE TIME OF THEIR SEPARATION AND UNTIL THEIR RETIREMENT DUE TO AGE OR LENGTH OF SERVICE SOCIAL SECURITY SYSTEM BENEFITS RETIREMENT BENEFITS."

II

IN RULING THAT THE COMPLAINT OF THE RESPONDENTS HAVE NOT YET PRESCRIBED WHEN THE RESPONDENTS HAVE CLAIMED IN THEIR COMPLAINT

THAT THEY HAVE BEEN ALLEGEDLY BRAINWASHED BY THE PETITIONERS AND THEIR COMPAINT (sic) WAS FILED ONLY AFTER MORE THAN SIX (6) YEARS HAVE LAPSED FROM THE TIME THAT THE RESPONDENTS CLAIMED TO HAVE "DISCOVERED THAT INDEED, DEFENDANTS (Petitioners) DECEIVED THEM INTO BELIEVING THAT DEFENDANT CORPORATION WAS INCURRING LOSSES IN ITS OPERATION HENCE, THE NECESSITY TO TRIM DOWN ITS WORK FORCE TO INDUCE THEM TO ACCEPT THE "OFFER OF RETRENCHMENT (sic)."

III

IN RULING THAT "THE DISMISSAL OF THE FIRST COMPLAINT IS NOT A JUDGMENT ON THE MERITS AND THEREFORE NOT APPLICABLE TO THE PRESENT CASE" WHEN IT IS THE SAID DIVISION'S OWN FINDING THAT: "THE COMPLAINT FILED BY HEREIN PLAINTIFFS-APPELLANTS (Respondents) WITH THE REGIONAL ARBITRATION BRANCH PRAYED FOR THE DECLARATION OF THE TERMINATION SCHEME ALLEGEDLY DECEPTIVELY FORCED UPON THEM TO BE NULL AND VOID WITH THE SAME PRAYER THAT THEY BE REINSTATED TO THEIR REGULAR EMPLOYMENT WITHOUT ANY LOSS OF ANY RIGHTS (sic) AND BENEFITS (sic) AS WELL AS PAYMENT OF THEIR BACKWAGES AND DAMAGES."[6]

We find the petition impressed with merit.

The demarcation line between the jurisdiction of regular courts and labor courts over cases involving workers and their employers has always been the subject of dispute. We have recognized that not all claims involving such groups of litigants can be resolved solely by our labor courts.[7] However, we have also admonished that the present trend is to refer worker-employer controversies to labor courts, unless unmistakably provided by the law to be otherwise.[8] Because of this trend, jurisprudence has developed the "reasonable causal connection rule." Under this rule, if there is a reasonable causal connection between the claim asserted and the employer-employee relations,

then the case is within the jurisdiction of our labor courts.[9] In the absence of such nexus, it is the regular courts that have jurisdiction.[10]

The jurisdiction of labor courts is provided under Article 217 of the Labor Code, to wit:

> ARTICLE 217. Jurisdiction of Labor Arbiters and the Commission. — (a) Except as otherwise provided under this Code the Labor Arbiter shall have original and exclusive jurisdiction to hear and decide, within thirty (30) calendar days after the submission of the case by the parties for decision without extension, even in the absence of stenographic notes, the following cases involving all workers, whether agricultural or non-agricultural:
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> 1. Unfair labor practice cases;
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> 2. Termination disputes;
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> 3. If accompanied with a claim for reinstatement, those cases that workers may file involving wages, rates of pay, hours of work and other terms and conditions of employment;
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> 4. Claims for actual, moral, exemplary and other forms of damages arising from employer-employee relations;
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> 5. Cases arising from any violation of Article 264 of this Code including questions involving the legality of strikes and lockouts; and
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> 6. Except claims for Employees Compensation, Social Security, Medicare and maternity benefits, all other claims, arising from employer-employee relations, including those of persons in domestic or household service, involving an amount exceeding five thousand pesos (P5,000.00) regardless of whether accompanied with a claim for reinstatement.

> (b) The Commission shall have exclusive appellate jurisdiction over all cases decided by Labor Arbiters.
>
> (c) Cases arising from the interpretation or implementation of collective bargaining agreements and those arising from the interpretation or enforcement of company personnel policies shall be disposed of by the Labor Arbiter by referring the same to the grievance machinery and voluntary arbitration as may be provided in said agreements.[11]

With regard to claims for damages under paragraph 4 of the above article, this Court has observed that:

> Jurisprudence has evolved the rule that claims for damages under paragraph 4 of Article 217, to be cognizable by the Labor Arbiter, must have a reasonable causal connection with any of the claims provided for in that article. Only if there is such a connection with the other claims can the claim for the damages be considered as arising from employer-employee relations.[12]

In the present case, while respondents insist that their action is for the declaration of nullity of their "contract of termination," what is inescapable is the fact that it is, in reality, an action for damages emanating from employer-employee relations. First, their claim for damages is grounded on their having been deceived into serving their employment due to SMC's concocted financial distress and fraudulent retrenchment program — a clear case of illegal dismissal. Second, a comparison of respondents' complaint for the declaration of nullity of the retrenchment program before the labor arbiter and the complaint for the declaration of nullity of their "contract of termination" before the RTC reveals that the allegations and prayer of the former are almost identical with those of the latter except that the prayer for reinstatement was no longer included and the claim for backwages and other benefits was replaced with a claim for actual damages. These are telltale signs that respondents' claim for damages is intertwined with their having been separated from their employment without just cause and, consequently, has a reasonable causal connection with their employer-employee relations with SMC. Accordingly, it cannot be denied that respondents' claim falls under

the jurisdiction of the labor arbiter as provided in paragraph 4 of Article 217.

Respondent's assertion that their action is for the declaration of nullity of their "contract of termination" is merely an ingenious way of presenting their actual action, which is a claim for damages grounded on their having been illegal terminated. However, it would seem that respondents committed a Freudian slip when they captioned their claim against SMC as an action for damages.[13] Even the term used for designating the contract, i.e. "contract of termination," was formulated in a shrewd manner so as to avoid a semblance of employer-employee relations. This observation is bolstered by the fact that if respondents' designation for the contract were to be made complete and reflective of its nature, its proper designation would be a "contract of termination of employment."

The Court is aware that the Civil Code provisions on contracts and damages may be used as bases for addressing the claim of respondents. However, the fact remains that the present action primarily involves an employer-employee relationship. The damages incurred by respondents as a result of the alleged fraudulent retrenchment program and the allegedly defective "contract of termination" are merely the civil aspect of the injury brought about by their illegal dismissal.[14] The civil ramifications of their actual claim cannot alter the reality that it is primordially a labor matter and, as such, is cognizable by labor courts. In Associated Citizens Bank vs. Japson,[15] we held:

For the unlawful termination of employment, this Court in Primero vs. Intermediate Appellate Court, supra, ruled that the Labor Arbiter had the exclusive and original jurisdiction over claims for moral and other forms of damages, so that the employee in the proceedings before the Labor Arbiter should prosecute his claims not only for reliefs specified under the Labor Code but also for damages under the Civil Code. This is because an illegally dismissed employee has only a single cause of action although the act of dismissal may be a violation not only the Labor Code but also of the Civil Code. For a single cause of action, the dismissed employee cannot institute a separate action before the Labor Arbiter for backwages and reinstatement and another action before the regular court for the recovery of moral and

other forms of damages because splitting a single cause of action is procedurally unsound and obnoxious to the orderly administration of justice. (Primero vs. Intermediate Appellate Court, supra, citing Gonzales vs. Province of Iloilo, 38 SCRA 209; Cyphil Employees Association-Natu vs. Pharmaceutical Industries, 77 SCRA 135; Calderon vs. Court of Appeals, 100 SCRA 459, etc.)[16]

Even assuming arguendo that the RTC has jurisdiction, it is obvious from respondents' own pleadings that their action for the declaration of nullity of the "contract of termination" will not prosper. Respondents allege that they were deceived by SMC into believing that it was under financial distress which, thus, led them into concluding the "contract of termination" with the latter.[17] Respondents then posit that since the cause of the contract, SMC's alleged financial distress, was inexistent, the contract is null and void. The argument is flawed.

The fact that SMC was never in financial distress does not, in any way, affect the cause of their "contract of termination." Rather, the fraudulent representations of SMC only affected the consent of respondents in entering into the said contract.[18] If the consent of a contracting party is vitiated by fraud, the contract is not void but, merely, voidable.[19] In Abando vs. Lozada,[20] we ruled:

> As correctly pointed out by the appellate court, the stratagem (sic), the deceit, the misrepresentations employed by Cuevas and Pucan are facts constitutive of fraud which is defined in Article 1338 of the Civil Code as that (sic) insidious words or machinations of one of the contracting parties, by which the other is induced to enter into a contract which, without them, he would not have agreed to. When fraud is employed to obtain the consent of the other party to enter into a contract, the resulting contract is merely a voidable contract, that is, a valid and subsisting contract until annulled or set aside by a competent court.[21]

An action to annul a voidable contract based on fraud should be brought within four (4) years from the discovery of the same.[22] In the present case, respondents discovered SMC's fraud in May 1986. However, the action to question the validity of the contract was only

brought on 14 December 1993, or more than seven (7) years after the discovery of the fraud. Clearly, respondents' action has already prescribed.

The issue of jurisdiction and prescription having been resolved, it is no longer necessary to discuss the issue on res judicata raised in this petition.

WHEREFORE, premises considered, the Decision of the Court of Appeals dated 16 May 1996 and its Resolution dated 14 November 1996 are hereby **REVERSED** and **SET ASIDE** and the Resolution dated 21 June 1994 of the Regional Trial Court of Cebu, Branch 19, in CEB-15310, **REINSTATED**.

SO ORDERED.

Davide, Jr., *C.J.*, Puno, Pardo and Ynares-Santiago, *JJ.*, concur.

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[1] Rollo, pp. 49-50.
[2] Id., at 52-62.
[3] Id., at 26-28.
[4] Id., at 37-41.
[5] Id., at 42.
[6] Id., at 8-9.
[7] San Miguel Corporation vs. National Labor Relations Commission, 161 SCRA 719, 724 (1988).
[8] National Federation of Labor vs. Eisma, 127 SCRA 419, 428 (1984)
[9] Dai-ichi Electronics Manufacturing Corp. vs. Villarama, Jr., 238 SCRA 267, 271 (1994).
[10] Pepsi Cola Distributors of the Phils., Inc. vs. Gal-lang, 201 SCRA 695, 699 (1991).
[11] Emphasis supplied.
[12] Supra, note 9.
[13] Rollo, p. 52.
[14] National Union of Bank Employees vs. Lazaro, 157 SCRA 123, 127 (1988)
[15] 196 SCRA 404 (1991)
[16] Id., at 407-408.
[17] Rollo, p. 91.
[18] See Art. 1338, Civil Code.
[19] Art. 1330, Civil Code.
[20] 178 SCRA 509 (1989)

[21] Id., at 514.
[22] Art. 1391, Civil Code; Bael vs. Intermediate Appellate Court, 169 SCRA 617, 624 (1989).