

LAW 101

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ARBITRATION AS AN ALTERNATIVE MODE OF DISPUTE RESOLUTION

SL Inc. and M Lines Inc., both carriers of cargo in containerships as well as common carriers, entered into a vessel sharing agreement whereby they mutually agreed to purchase, share and exchange needed space for cargo in their respective containerships. Said agreement contained a provision on arbitration in the event that a dispute or claim should arise out of the agreement.

Flowers, Inc. subsequently engaged the services of M Lines Inc. for the delivery of cargo consisting of various foodstuffs to its consignee in San Francisco, California, U.S.A. M Lines Inc. issued the corresponding Bill of Lading to Flowers Inc. and loaded the cargo on the MV Pacer, a vessel owned by SL, Inc. Under this arrangement and pursuant to their vessel sharing agreement, therefore, M Lines Inc. was the principal carrier while SL, Inc was the containership operator.

The delivery of the cargo was delayed and the consignee refused to pay Flowers, Inc. prompting the latter to file a complaint against M Lines Inc. for reimbursement of the value of the cargo and other charges. M Lines Inc. filed an Answer alleging that even on the assumption that Flowers, Inc was entitled to reimbursement, it should be SL, Inc. as the containership operator who should be liable in damages to the plaintiff. Accordingly, M Lines Inc. filed a Third Party Complaint against SL Inc. since it was the party that undertook the actual transporting of Flowers Inc.'s cargo. SL Inc. filed a Motion for Dismissal or Suspension of the Third Party Complaint on the ground that there existed an arbitration agreement between it and M Lines Inc.

The Regional Trial Court denied the Motion. SL, Inc. went up on certiorari to the Court of Appeals. The Court of Appeals denied the petition for certiorari ruling that the terms of the vessel sharing agreement between SL, Inc. and M Lines Inc. explicitly required that the principal carrier's claim against the containership operator first be finally determined by among others, a court judgment, before the right of arbitration accrues.

On further appeal to the Supreme Court, the High Court reversed the decision of the Court of Appeals holding that the Court of Appeals failed to consider that precisely arbitration is the mode by which the liability of the containership operator may be finally determined. Accordingly, it is only after a final judgment is rendered against M Lines Inc. under the complaint filed by Flowers Inc. that M Lines may seek to recover indemnity from SL Inc. – and thru arbitration. The Supreme Court observed that arbitration is now one of the alternative methods of dispute resolution that is now rightfully vaunted as the “waive of future” in international relations and is recognized worldwide.

Notably, the Supreme Court directed the lower court to DISMISS – not merely suspend – the hearing of the Third Party Complaint. (Sea-Land Service Inc. vs. Court of Appeals, et al. GR No. 126212, March 2, 2000, 327 SCRA 135).