

Reinstatement Pending Appeal within the Context of Corporate Rehabilitation: A Critique of *Garcia v. Philippine Airlines, Inc.*

Joy Stephanie C. Tajan

55 *ATENEO L.J.* 227 (2010)

SUBJECT(S): CORPORATION LAW

KEYWORD(S): CORPORATE REHABILITATION

A financial crisis, by its very nature, spells out business reverses and closures, insolvency, and rehabilitation. The adverse effects on business then reverberate in the labor market. As the country recovers from the 2008 global financial crisis, a rise in the entry of companies into corporate rehabilitation proceedings and labor litigation is expected.

Garcia v. Philippine Airlines, Inc. (PAL) laid down the doctrine on the entitlement to and collection of reinstatement pending appeal after a company has exited rehabilitation proceedings. The Supreme Court ruled that, reinstatement, and the payment of wages, pending appeal is obligatory on the part of the employer and is immediately executory. The employer must choose between actual or payroll reinstatement. The failure to exercise this option still binds the employer to payment the wages pending appeal.

The Court, however, found that, despite PAL's employees' entitlement to payroll reinstatement pending appeal, the employees were barred from collecting the accrued wages. Jurisprudence has required the enforcement of a reinstatement order, except when a restraining order exists. In *Garcia*, an Interim Rehabilitation Receiver was appointed prior to the reinstatement order. After promulgation of the reinstatement order, a Permanent Rehabilitation Receiver was appointed. The *ipso jure* suspension of "all actions for claims before any court, tribunal or board against the corporation" upon the appointment of the rehabilitation receiver partook "of the nature of a restraining order that constitutes a legal justification for [PAL]'s non-compliance with the reinstatement order." PAL's obligation to pay wages pending appeal did not attach as a result of its justified failure to choose between actual reinstatement and payroll reinstatement.

The manner in which *Garcia* has set the tone of how the High Court will resolve post-rehabilitation labor cases gives cause for concern. Despite finding the employees entitled to reinstatement pending appeal, the Court found collection of such amount barred by reason of corporate rehabilitation. On both aspects of the decision, the legal bases have been infirm or unduly expanded and the explanation lacking. Particularly problematic are the declarations that protection to labor prevails over unjust enrichment and that

corporate rehabilitation partakes of the nature of an injunction which will bar collection of reinstatement pending appeal.

The consequences are two-fold: (a) all the labor claims not involving reinstatement pending appeal may be decided to the undue prejudice of the company by simply invoking the primacy of protection to labor over unjust enrichment; and (b) all labor claims involving reinstatement pending appeal may be easily but unduly evaded by mere invocation of the corporate rehabilitation proceedings. Such far-reaching consequences may render nugatory both the legal mandate against unjust enrichment and the statutory relief of reinstatement pending appeal within the context of corporate rehabilitation.

It is opined that these sweeping pronouncements, especially considering the lack of explanation and the infirm legal bases, provide dangerous precedents that may unduly prejudice (a) capital, insofar as the labor aspect, and (b) labor, insofar as the corporate rehabilitation aspect. These may create avenues for the easy evasion of legal obligations. It is further opined that a return to fundamental legal precepts, and a departure from the dangerous statements brought on by complex discussion, is necessary to avoid inequity and further justice.