

Title:

RCJ Bus Lines, Inc. vs. Master Tours and Travel Corporation: A Case of Alleged Novation from Lease to Deposit

Facts:

On February 9, 1993, Master Tours and Travel Corporation entered into a five-year lease agreement with RCJ Bus Lines, Incorporated for four Daewoo buses, described as “junked and not operational” for a lease amount of P600,000 - with P400,000 payable upon agreement signing and P200,000 upon completion of the buses’ rehabilitation by the lessee. The buses were subsequently brought to RCJ’s garage for what was claimed to be “safekeeping.”

More than four years into the lease, Master Tours, facing creditor pressure, requested the return of the buses. When RCJ did not comply, Master Tours sent a demand letter for the return of the buses and the unpaid lease fee. RCJ, through counsel, contended it owed no lease fee and demanded payment for storage fees before bus return. This correspondence sparked a legal battle, leading Master Tours to file a collection suit against RCJ in the Regional Trial Court (RTC) of Manila, Branch 49.

The RTC, and subsequently the Court of Appeals (CA), ruled against RCJ, rejecting the claim of novation from a lease agreement to a contract of deposit based on the absence of mutual consent. RCJ then propelled the case to the Supreme Court on petition for review.

Issues:

1. Whether the Court of Appeals erred in determining no novation from a lease to a deposit agreement occurred.
2. If no novation occurred, whether RCJ can be held liable for the lease fee despite the buses remaining non-operational.
3. Whether the award of attorney’s fees and cost of suit against RCJ was justified.

Court’s Decision:

1. The Supreme Court upheld the CA’s decision, stating that for novation to occur, it must be explicitly declared or the obligations must be entirely incompatible. The Court found no substantial evidence of mutual consent to a novation.
2. On the second issue, the Court clarified that RCJ’s obligation to pay the lease fee was independent of the buses’ operational status. However, since Master Tours demanded the buses’ return before the lease’s expiration, it was equitable to relieve RCJ from paying the

remaining P200,000, as they were deprived of the opportunity to rehabilitate the buses.

3. Regarding attorney's fees, the Supreme Court found the award by the RTC baseless due to the lack of stated justification, thus deleting it. However, the cost of suit against RCJ was deemed appropriate as costs generally follow the suit's result.

Doctrine:

This case emphasized the principle of novation and its requirements under Article 1292 of the Civil Code. A clear and unequivocal declaration of the parties or incompatibility of old and new obligations is fundamental for novation to be recognized.

Class Notes:

- ****Novation Concept****: Requires explicit declaration or complete incompatibility of obligations. (Article 1292, Civil Code)
- ****Lease Obligations****: Independent of the condition or usefulness of the leased property. Payment method does not equate to a condition for the existence of an obligation.
- ****Attorney's Fees Award****: Requires factual, legal, and equitable justification as per Article 2208 of the Civil Code.
- Essential to provide justification for awards of attorney's fees to have a legal basis.

Historical Background:

This case illustrates the complexities of contractual agreements and the strict requirements for claiming novation under Philippine law. It provides a clear precedent for future disputes involving similar claims of contractual modification or substitution, particularly in lease agreements transitioning to other forms of contracts.