

****Title:**** Bisaya Land Transportation Co., Inc., et al. v. Marciano C. Sanchez and The Hon. Intermediate Appellate Court

****Facts:**** Bisaya Land Transportation Company, Inc. (BISTRANCO) engaged in the shipping business, appointed Marciano Sanchez as a shipping agent in Butuan City in 1975 and later formalized this relationship through contracts in 1976. Despite the contract's requirement for court approval due to BISTRANCO's receivership status, such approval was not secured. Sanchez made significant investments, including leasing land and building a wharf, to fulfill his duties under the contract. In December 1979, BISTRANCO informed Sanchez of its intention to directly operate in Butuan City, which Sanchez viewed as a breach of contract. He sued for specific performance, preliminary injunction, and damages. The Regional Trial Court ruled in favor of Sanchez, a decision upheld by the Intermediate Appellate Court. BISTRANCO sought certiorari from the Supreme Court, raising issues pertaining to the validity and enforceability of contracts entered by a receiver without court approval, violation of the contract by BISTRANCO, effects of subsequent agreements, and the award for unearned commissions and damages.

****Issues:****

1. Can a contract entered by a court-appointed receiver without court approval be valid?
2. Did BISTRANCO's act of opening a branch office in Butuan City breach the existing agent contract?
3. Did the subsequent working agreements novate the initial contracts?
4. Is the award for unearned commissions and damages to Sanchez justified?

****Court's Decision:****

1. The court held that contracts entered into by a receiver without court approval are unenforceable, not void. However, such contracts can be ratified and enforced if the principal party later affirms them.
2. BISTRANCO's decision to open a branch office directly in Butuan City was found to breach the existent contract with Sanchez, as it contradicted the purpose of appointing him as an exclusive agent in the area, thus damaging his business.
3. The subsequent agreements did not novate the original contracts but rather temporarily modified certain terms. The principal agreement remained in force, as there was no explicit intention to novate.
4. The award for unearned commissions and damages was justified due to BISTRANCO's breach of contract, which caused significant loss to Sanchez.

****Doctrine:****

This case reaffirmed the doctrine that unenforceable contracts entered into without proper authorization can be ratified by subsequent actions of the principal party. It also delineated the parameters for contract novation, emphasizing the necessity for explicit intent or utter incompatibility between old and new obligations.

****Class Notes:****

- Unenforceable Contracts: Contracts entered by persons who lack the authority are unenforceable unless ratified (Article 1403, Civil Code).
- Ratification: An unenforceable contract can become valid if the party with the right to do so acknowledges and ratifies the agreement.
- Novation: Requires an explicit declaration or absolute incompatibility between the old and new contracts (Article 1292, Civil Code).
- Breach of Contract: Opening a branch office that competes directly with the contracted agent constitutes a breach, particularly if it undermines the contract's intent (Article 1315, Civil Code).

****Historical Background:****

The context of this case highlights the challenges in commercial agency relationships, especially in scenarios involving receivership and subsequent corporate decisions. It underscores the importance of court approval in actions taken by receivers and the significance of maintaining the integrity of contractual agreements in business operations.