

### Title:

Gonzalo vs. Tarnate, Jr.: A Case of Unjust Enrichment and the Inapplicability of the In Pari Delicto Doctrine

### Facts:

The case revolves around a dispute between Domingo Gonzalo, owner of Gonzalo Construction, and John Tarnate, Jr., proprietor of JNT Aggregates. On July 22, 1997, Gonzalo Construction was awarded a contract by the Department of Public Works and Highways (DPWH) for the improvement of the Sadsadan-Maba-ay Section of the Mountain Province-Benguet Road, totaling P7,014,963.33. Subsequently, Gonzalo subcontracted Tarnate on October 15, 1997, for the supply of materials and labor, agreeing to pay Tarnate certain percentages of the contract price upon his first and second billings.

On April 6, 1999, a deed of assignment was executed by Gonzalo, assigning Tarnate a 10% retention fee from the total collection of the DPWH project as rent for Tarnate's equipment utilization. Gonzalo later rescinded the deed of assignment unilaterally and secured the retention fee for himself, leading Tarnate to file a lawsuit for recovery of the said fee plus damages.

The case went through various legal battles starting from the Regional Trial Court (RTC) in Mountain Province, which ruled in favor of Tarnate, ordering Gonzalo to pay the retention fee and additional damages. Gonzalo appealed the decision to the Court of Appeals (CA), which also sided with Tarnate, leading Gonzalo to take the case to the Supreme Court of the Philippines.

### Issues:

1. Whether both parties were in pari delicto due to the subcontracting agreement's violation of Presidential Decree No. 1594.
2. If the deed of assignment is void due to its basis on the illegal subcontract.
3. Whether Gonzalo's refusal to comply with the arbitration clause in the subcontract merits dismissal of Tarnate's suit.

### Court's Decision:

The Supreme Court denied Gonzalo's petition for review but deleted the RTC's awards for moral damages, attorney's fees, and litigation expenses. It affirmed that the subcontract and the resulting deed of assignment were illegal and unenforceable due to non-compliance with legal requirements for subcontracting under DPWH contracts. However, it ruled that the

doctrine of in pari delicto does not apply rigidly and an exception exists when its application contravenes public policy against unjust enrichment. The Court found Gonzalo unjustly enriched at Tarnate's expense and therefore held Gonzalo liable to pay the retention fee.

### Doctrine:

This case reiterates the doctrine that an illegal contract cannot produce a valid one, and parties in equal fault cannot seek affirmative relief from one another under the in pari delicto principle. Nonetheless, it makes a significant departure by recognizing an exception to this principle in cases where adherence would result in unjust enrichment.

### Class Notes:

1. In pari delicto principle: Parties to an illegal agreement cannot seek relief from each other if they are in equal fault.
2. Exception to in pari delicto: When applying the principle would contravene public policy, such as preventing unjust enrichment.
3. Unjust Enrichment: Retaining a benefit unjustly at the expense of another is against the Civil Code's principles of justice, equity, and good conscience (Article 22, Civil Code).

### Historical Background:

This case underlines the complexities involved in subcontracting government contracts within the Philippine legal framework, specifically referencing the legal constraints under Presidential Decree No. 1594. It showcases the judiciary's role in balancing statutory compliance against the principles of equity and justice, particularly in situations where a strict application of the law might result in unfair advantage or enrichment.