

Title:

Teja Marketing and/or Angel Jaucian vs. Honorable Intermediate Appellate Court and Pedro N. Nale: The Doctrine of “Pari Delicto” in the “Kabit System”

Facts:

This case revolves around a motorcycle sale entangled in the “kabit system,” an arrangement where a person with a transportation franchise allows others to operate under this franchise for a fee. On May 9, 1975, Pedro N. Nale purchased a motorcycle with accessories and a sidecar for P8,000.00 from Teja Marketing, managed by Angel Jaucian. Nale made a P1,700.00 down payment, promising to settle the balance within 60 days. Unable to meet this promise, Nale’s payment period was extended to one year in monthly installments, which ceased in January 1976. Despite demands, Nale failed to complete payment, leading Teja Marketing to initiate a lawsuit for the sum of money with damages in the City Court of Naga City.

Teja Marketing failed to fulfill its promise to register the motorcycle annually, a critical service since the motorcycle was used in a transport business under Jaucian’s franchise. This failure led to Nale incurring damages, including the inability to claim insurance indemnity for accidents involving the motorcycle. Both parties navigated through the City Court of Naga City to the Court of First Instance of Camarines Sur, and eventually to the Intermediate Appellate Court (IAC), which dismissed both the complaint and the counterclaim based on the parties being in *pari delicto* under the “kabit system.”

Issues:

1. Whether the “kabit system” arrangement between the petitioner and the private respondent constitutes a legal basis for the claims.
2. Application and implications of the doctrine of “*pari delicto*” in resolving the dispute.

Court’s Decision:

The Supreme Court dismissed the petition, affirming the IAC’s decision that neither party could seek court relief due to their involvement in the illegal “kabit system.” The Court underlined that a certificate of public convenience is a special privilege that must not be abused, highlighting the “kabit system” as detrimental to public policy. Hence, based on Articles 1409 and 1412 of the Civil Code, the Court ruled that contracts stemming from illicit agreements are void and the parties must bear the consequences of their actions without legal recourse.

Doctrine:

The decision reaffirmed that engagements in the “kabit system” are void being contrary to public policy. It underscored the application of the principle that the law will not aid either party in enforcing an illegal contract, leaving them to bear the outcomes of their actions, as per Article 1412 of the Civil Code.

Class Notes:

- **“Kabit System”**: An arrangement where a person with a transportation franchise permits others to use this franchise for a fee, recognized as contrary to public policy.
- **Doctrine of “Pari Delicto”**: Embedded in Article 1412 of the Civil Code, it specifies that when both parties are at fault in an illegal contract, neither can seek the aid of the law to enforce it.
- **Article 1409 of the Civil Code**: Declares contracts whose cause, object, or purpose is contrary to law, morals, good customs, public order, or public policy are void and inexistent.
- **Critical Statutory Provisions**:
 - Article 1412 (Civil Code): In cases where the illegal contract does not constitute a criminal offense, and both parties are at fault, neither can claim what has been given or demand performance from the other.

Historical Background:

The case highlights the judiciary’s stance against the “kabit system,” a prevalent issue in the Philippine transport sector, identified as a source of corruption and regulatory abuse. This decision is part of the legal efforts to cleanse the transportation industry of practices detrimental to the integrity of public service and public policy.