

### Title: Lita Enterprises, Inc. vs. Second Civil Cases Division, Intermediate Appellate Court, Nicasio M. Ocampo, and Francisca P. Garcia

### Facts:

In 1966, spouses Nicasio M. Ocampo and Francisca Garcia wished to operate five Toyota Corona Standard cars as taxicabs but lacked the necessary franchise. They entered into an agreement with Lita Enterprises, Inc., represented by Manuel Concordia, to use Lita Enterprises' certificate of public convenience for a fee, an arrangement embodying the "kabit system" - an illicit practice where a person who has been granted a certificate of public convenience allows another person who owns motor vehicles to operate under such franchise for a fee. Despite the agreement, the vehicles were registered under Lita Enterprises but were possessed and operated by the Ocampos under the Acme Taxi brand.

On March 18, 1967, an accident involving one of these cabs resulted in a fatality. Subsequent legal actions for damages against Lita Enterprises, as the registered owner, led to a court decision mandating Lita Enterprises to pay damages and attorney's fees. Attempts to fulfill this decision through asset seizure affected only two of the five vehicles, as they were sold at public auctions.

In March 1973, aiming to legitimately register the vehicles under his name, Nicasio Ocampo sought the registration papers from Lita Enterprises, which allegedly refused. Thus, the Ocampos filed a complaint for reconveyance of motor vehicles with damages against Lita Enterprises and other parties. The trial court's decision in 1975 partially favored the Ocampos by instructing Lita Enterprises to transfer registration certificates of the three unrepossessed cars to them, notwithstanding their obligation to settle arrears.

### Issues:

1. Whether parties involved in an illegal contract, specifically embodying the "kabit system," are entitled to judicial relief.
2. Whether the principle of "in pari delicto" bars the courts from intervening in disputes arising from illegal contracts.

### Court's Decision:

The Supreme Court, applying the principle of "Ex pacto illicito non oritur actio" (no action arises out of an illicit bargain), ruled that parties involved in illegal contracts, such as the "kabit system", are not entitled to seek relief from the courts. The Court annulled and set aside all proceedings and decisions of the lower courts on the premise that the judiciary

should not assist in enforcing or recognizing benefits arising from an unlawful contract. The Supreme Court emphasized that the defect of inexistence of an illegal contract is permanent and cannot be rectified by ratification or prescription.

### ### Doctrine:

This case reiterates the doctrine that contracts involving illicit agreements, like the “kabit system,” are void ab initio and cannot give rise to a cause of action. In such cases, the courts will not aid parties to enforce the contract or recover what has been given under it, in line with Article 1409 and Article 1412 of the Civil Code.

### ### Class Notes:

- **Essential Concepts**:

- **Kabit System**: An arrangement where a franchise holder allows another individual to use the franchise in exchange for payment, without the approval of the granting authority. This system is deemed contrary to public policy and, therefore, illegal.

- **Principle of In Pari Delicto**: A legal principle which holds that if both parties are equally at fault in an illegal contract, neither can seek relief from the judiciary for the enforcement of the contract or recovery under it.

- **Legal Statutes Cited**:

- **Article 1409 of the Civil Code**: Declares certain contracts as void, including those whose cause or object did not exist at the time of the transaction, are impossible, or are against the law or public morals.

- **Article 1412 of the Civil Code**: Provides that when both contracting parties are at fault, neither may recover what has been given or demand the performance of the other’s undertaking if the act does not constitute a criminal offense.

- **Application**:

- The application of these principles led to the nullification of judicial relief to the parties involved in the “kabit system”, underlining the judiciary’s stance against recognizing or enforcing illegal agreements.

### ### Historical Background:

The “kabit system” has been a longstanding issue in the Philippine transportation industry, contributing to regulatory violations and corruption. This case is significant as it underscores the judiciary’s ongoing efforts to curb such practices by refusing to legitimize or support contractual arrangements that circumvent regulatory frameworks and public

policy.