

**JOSE MENCHAVEZ, JUAN MENCHAVEZ JR., SIMEON MENCHAVEZ,
RODOLFO MENCHAVEZ, CESAR MENCHAVEZ, REYNALDO,
MENCHAVEZ, ALMA MENCHAVEZ, ELMA MENCHAVEZ, CHARITO M.
MAGA, FE M. POTOT, THEL...**

G.R. NO. 153201. January 26, 2005

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

Avoid contract is deemed legally nonexistent. It produces no legal effect. As a general rule, courts leave parties to such a contract as they are, because they are in *pari delicto* or equally at fault. Neither party is entitled to legal protection.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, assailing the February 28, 2001 Decision[2] and the April 16, 2002 Resolution[3] of the Court of Appeals (CA) in CA-GR CV No. 51144. The challenged Decision disposed as follows:

“WHEREFORE, the assailed decision is hereby MODIFIED, as follows:

“1. Ordering [petitioners] to jointly and severally pay the [respondent] the amount of P128,074.40 as actual damages, and P50,000.00 as liquidated damages;

“2. Dismissing the third party complaint against the third party defendants;

“3. Upholding the counterclaims of the third party defendants against the [petitioners. Petitioners] are hereby required to pay [the] third party defendants the sum of P30,000.00 as moral damages for the clearly unfounded suit;

“4. Requiring the [petitioners] to reimburse the third party defendants the sum of P10,000.00 in the concept of attorney’s fees and appearance fees of P300.00 per appearance;

“5. Requiring the [petitioners] to reimburse the third party defendants the sum of P10,000.00 as exemplary damages pro bono publico and litigation expenses including costs, in the sum of P5,000.00.”[4]

The assailed Resolution denied petitioners’ Motion for Reconsideration.

The Facts

On February 28, 1986, a “Contract of Lease” was executed by Jose S. Menchavez, Juan S. Menchavez Sr., Juan S. Menchavez Jr., Rodolfo Menchavez, Simeon Menchavez, Reynaldo Menchavez, Cesar Menchavez, Charito M. Maga, Fe M. Potot, Thelma R. Reroma, Myrna Ybañez, Sonia S. Menchavez, Sarah Villaver, Alma S. Menchavez, and Elma S. Menchavez, as lessors; and Florentino Teves Jr. as lessee. The pertinent portions of the Contract are herein reproduced as follows:

“WHEREAS, the LESSORS are the absolute and lawful co-owners of that area covered by FISHPOND APPLICATION No. VI-1076 of Juan Menchavez, Sr., filed on September 20, 1972, at Fisheries Regional Office No. VII, Cebu City covering an area of 10.0 hectares more or less located at Tabuelan, Cebu;

x x x x x x x x

“NOW, THEREFORE, for and in consideration of the mutual covenant and stipulations hereinafter set forth, the LESSORS and the LESSEE have agreed and hereby agree as follows:

“1. The TERM of this LEASE is FIVE (5) YEARS, from and after the execution of this Contract of Lease, renewable at the OPTION of the LESSORS;

“2. The LESSEE agrees to pay the LESSORS at the residence of JUAN MENCHAVEZ SR., one of the LESSORS herein, the sum of FORTY THOUSAND PESOS (P40,000.00) Philippine Currency, annually x x x;

“3. The LESSORS hereby warrant that the above-described parcel of land is fit and good for the intended use as FISHPOND;

“4. The LESSORS hereby warrant and assure to maintain the LESSEE in the peaceful and adequate enjoyment of the lease for the entire duration of the contract;

“5. The LESSORS hereby further warrant that the LESSEE can and shall enjoy the intended use of the leased premises as FISHPOND FOR THE ENTIRE DURATION OF THE CONTRACT;

“6. The LESSORS hereby warrant that the above-premises is free from all liens and encumbrances, and shall protect the LESSEE of his right of lease over the said premises from any and all claims whatsoever;

“7. Any violation of the terms and conditions herein provided, more particularly the warranties above-mentioned, the parties of this Contract responsible thereof shall pay liquidated damages in the amount of not less than P50,000.00 to the offended party of this Contract; in case the LESSORS violated therefor, they bound themselves jointly and severally liable to the LESSEE;”

x x x x x x x x.[5]

On June 2, 1988, Cebu RTC Sheriffs Gumersindo Gimenez and Arturo Cabigon demolished the fishpond dikes constructed by respondent and delivered possession of the subject property to other parties.[6] As a result, he filed a Complaint for damages with application for preliminary attachment against petitioners. In his Complaint, he alleged that the lessors had violated their Contract of Lease, specifically the peaceful and adequate enjoyment of the property for the entire duration of the Contract. He claimed P157,184.40 as consequential damages for the demolition of the fishpond dikes, P395,390.00 as unearned income, and an amount not less than P100,000.00 for rentals paid.[7]

Respondent further asserted that the lessors had withheld from him the findings of the trial court in Civil Case No. 510-T, entitled “Eufracia Colongan and Paulino Pamplona v. Juan Menchavez Sr. and Sevillana S. Menchavez.” In that case involving the same property, subject of the lease, the Menchavez spouses were ordered to remove the dikes illegally constructed and to pay damages and attorney’s fees.[8]

Petitioners filed a Third Party Complaint against Benny and Elizabeth Allego, Albino Laput, Adrinico Che and Charlemagne Arendain Jr., as agents of Eufracia Colongan and Paulino Pamplona. The third-party defendants maintained that the Complaint filed against them was unfounded. As agents of their elderly parents, they could not be sued in their personal capacity. Thus, they asserted their own counterclaims.[9]

After trial on the merits, the RTC ruled thus:

“[The court must resolve the issues one by one.] As to the question of whether the contract of lease between Teves and the [petitioners] is valid, we must look into the present law on the matter of fishponds. And this is Pres. Decree No. 704 which provides in Sec. 24:

‘Lease of fishponds-Public lands available for fishpond development including those earmarked for family-size fishponds and not yet leased prior to November 9, 1972 shall be leased only to qualified persons, associations, cooperatives or corporations, subject to the following conditions.

‘1. The lease shall be for a period of twenty five years (25), renewable for another twenty five years;

‘2. Fifty percent of the area leased shall be developed and be producing in commercial scale within three years and the remaining portion shall be developed and be producing in commercial scale within five years; both periods begin from the execution of the lease contract;

‘3. All areas not fully developed within five years from the date of the execution of the lease contract shall automatically revert to the public domain for disposition of the bureau; provided that a lessee who failed to develop the area or any portion thereof shall not be permitted to reapply for said area or any portion thereof or any public land under this decree; and/or any portion thereof or any public land under this decree;

‘4. No portion of the leased area shall be subleased.’

The Constitution, (Sec. 2 & 3, Art. XII of the 1987 Constitution) states:

‘Sec. 2 - All lands of the public domain, waters, minerals, coal, petroleum and other mineral oils, all forces of potential energy, fisheries, forests, or timber, wild life, flora and fauna and other natural resources are owned by the state.

‘Sec. 3 - Lands of the public domain are classified into agricultural, forest or timber, mineral lands and national parks. Agricultural lands of the public domain may be further classified by law according to the uses to which they may be devoted. Alienable lands of the public domain shall be limited to agricultural lands x x x.’

“As a consequence of these provisions, and the declared public policy of the State under the Regalian Doctrine, the lease contract between Florentino Teves, Jr. and Juan Menchavez Sr. and his family is a patent nullity. Being a patent nullity, [petitioners] could not give any rights to Florentino Teves, Jr. under the principle: ‘NEMO DAT QUOD NON HABET’ - meaning ONE CANNOT GIVE WHAT HE DOES NOT HAVE, considering that this property in litigation belongs to the State and not to [petitioners]. Therefore, the first issue is resolved in the negative, as the court declares the contract of lease as invalid and void ab-initio.

“On the issue of whether [respondent] and [petitioners] are guilty of mutual fraud, the court rules that the [respondent] and [petitioners] are in pari-delicto. As a consequence of this, the court must leave them where they are found. x x x.

x x x x x x x x

“x x x. Why? Because the defendants ought to have known that they cannot lease what does not belong to them for as a matter of fact, they themselves are still applying for a lease of the same property under litigation from the government.

“On the other hand, Florentino Teves, being fully aware that [petitioners were] not yet the owner[s], had assumed the risks and under the principle of VOLENTI NON FIT INJURIA NEQUES DOLUS - He who voluntarily assumes a risk, does not suffer damage[s] thereby. As a consequence, when Teves leased the fishpond area from [petitioners]- who were mere holders or possessors thereof, he took the risk that it may turn out later that his application for lease may not be approved.

“Unfortunately however, even granting that the lease of [petitioners] and [their] application in 1972 were to be approved, still [they] could not sublease the same. In view therefore of these, the parties must be left in the same situation in which the court finds them, under the principle IN PARI DELICTO NON ORITOR ACTIO, meaning[:] Where both are at fault, no one can found a claim.

“On the third issue of whether the third party defendants are liable for demolishing the dikes pursuant to a writ of execution issued by the lower court[, t]his must be resolved in the negative, that the third party defendants are not liable. First, because the third party defendants are mere agents of Eufracia Colongan and Eufenio Pamplona, who are the ones who should be made liable if at all, and considering that the demolition was pursuant to an order of the court to restore the prevailing party in that Civil Case 510-T, entitled: Eufracia Colongan v. Menchavez.

“After the court has ruled that the contract of lease is null and void ab-initio, there is no right of the [respondent] to protect and therefore[,] there is no basis for questioning the Sheriff’s authority to demolish the dikes in order to restore the prevailing party, under the principle VIDETUR NEMO QUISQUAM ID CAPERE QUOD EI NECESSE EST ALII RESTITUERE - He will not be considered as using force who exercise his rights and proceeds by the force of law.

“WHEREFORE, in view of all foregoing [evidence] and considerations, this court hereby renders judgment as follows:

- “1. Dismissing the x x x complaint by the [respondent] against the [petitioners];
- “2. Dismissing the third party complaint against the third party defendants;
- “3. Upholding the counterclaims of the third party defendants against the [petitioners. The petitioners] are hereby required to pay third party defendants the sum of P30,000.00 as moral damages for this clearly unfounded suit;
- “4. Requiring the [petitioners] to reimburse the third party defendants the sum of P10,000.00 in the concept of attorney’s fees and appearance fees of P300.00 per appearance;
- “5. Requiring the [petitioners] to pay to the third party defendants the sum of P10,000.00 as exemplary damages probono publico and litigation expenses including costs, in the sum of P5,000.00.”[10] (Underscoring in the original)

Respondent elevated the case to the Court of Appeals, where it was docketed as CA-GR CV No. 51144.

Ruling of the Court of Appeals

The CA disagreed with the RTC’s finding that petitioners and respondent were in pari delicto. It contended that while there was negligence on the part of respondent for failing to verify the ownership of the subject property, there was no evidence that he had knowledge of petitioners’ lack of ownership.[11] It held as follows:

“x x x. Contrary to the findings of the lower court, it was not duly proven and established that Teves had actual knowledge of the fact that [petitioners] merely usurped the property they leased to him. What Teves admitted was that he did not ask for any additional document other than those shown to him, one of which was the fishpond application. In fact, [Teves] consistently claimed that he did not bother to ask the latter for their title to the property because he relied on their representation that they are the lawful owners of the fishpond they are holding for lease. (TSN, July 11, 1991, pp. 8-11)”[12]

The CA ruled that respondent could recover actual damages in the amount of P128,074.40. Citing Article 1356[13] of the Civil Code, it further awarded liquidated damages in the amount of P50,000, notwithstanding the nullity of the Contract.[14]

Hence, this Petition.[15]

The Issues

Petitioners raise the following issues for our consideration:

“1. The Court of Appeals disregarded the evidence, the law and jurisprudence when it modified the trial court’s decision when it ruled in effect that the trial court erred in holding that the respondent and petitioners are in *pari delicto*, and the courts must leave them where they are found;

“2. The Court of Appeals disregarded the evidence, the law and jurisprudence in modifying the decision of the trial court and ruled in effect that the Regional Trial Court erred in dismissing the respondent’s Complaint.”[16]

The Court’s Ruling

The Petition has merit.

Main Issue: Were the Parties in *Pari Delicto*?

The Court shall discuss the two issues simultaneously.

In *Pari Delicto* Rule on Void Contracts

The parties do not dispute the finding of the trial and the appellate courts that the Contract of Lease was void.[17] Indeed, the RTC correctly held that it was the State, not petitioners, that owned the fishpond. The 1987 Constitution specifically declares that all lands of the public domain, waters, fisheries and other natural resources belong to the State.[18] Included here are fishponds, which may not be alienated but only leased.[19] Possession thereof, no matter how long, cannot ripen into ownership.[20]

Being merely applicants for the lease of the fishponds, petitioners had no transferable right over them. And even if the State were to grant their application, the law expressly disallowed sublease of the fishponds to respondent.[21] Void are all contracts in which the cause, object or purpose is contrary to law, public order or public policy.[22]

A void contract is equivalent to nothing; it produces no civil effect.[23] It does not create, modify or extinguish a juridical relation.[24] Parties to a void agreement cannot expect the aid of the law; the courts leave them as they are, because they are deemed in *pari delicto* or “in equal fault.”[25] To this rule, however, there are exceptions that permit the return of that which may have been given under a void contract.[26] One of the exceptions is found in Article 1412 of the Civil Code, which states:

“Art. 1412. If the act in which the unlawful or forbidden cause consists does not constitute a criminal offense, the following rules shall be observed:

“(1) When the fault is on the part of both contracting parties, neither may recover what he has given by virtue of the contract, or demand the performance of the other’s undertaking;

“(2) When only one of the contracting parties is at fault, he cannot recover what he has given by reason of the contract, or ask for the fulfillment of what has been promised him. The other, who is not at fault, may demand the return of what he has given without any obligation to comply with his promise.”

On this premise, respondent contends that he can recover from petitioners, because he is an innocent party to the Contract of Lease.[27] Petitioners allegedly induced him to enter into it through serious misrepresentation.[28]

Finding of In *Pari Delicto*: A Question of Fact

The issue of whether respondent was at fault or whether the parties were in *pari delicto* is a question of fact not

normally taken up in a petition for review on certiorari under Rule 45 of the Rules of Court.[29] The present case, however, falls under two recognized exceptions to this rule.[30] This Court is compelled to review the facts, since the CA's factual findings are (1) contrary to those of the trial court;[31] and (2) premised on an absence of evidence, a presumption that is contradicted by the evidence on record.[32]

Unquestionably, petitioners leased out a property that did not belong to them, one that they had no authority to sublease. The trial court correctly observed that petitioners still had a pending lease application with the State at the time they entered into the Contract with respondent.[33]

Respondent, on the other hand, claims that petitioners misled him into executing the Contract.[34] He insists that he relied on their assertions regarding their ownership of the property. His own evidence, however, rebuts his contention that he did not know that they lacked ownership. At the very least, he had notice of their doubtful ownership of the fishpond.

Respondent himself admitted that he was aware that the petitioners' lease application for the fishpond had not yet been approved.[35] Thus, he knowingly entered into the Contract with the risk that the application might be disapproved. Noteworthy is the fact that the existence of a fishpond lease application necessarily contradicts a claim of ownership. That respondent did not know of petitioners' lack of ownership is therefore incredible.

The evidence of respondent himself shows that he negotiated the lease of the fishpond with both Juan Menchavez Sr. and Juan Menchavez Jr. in the office of his lawyer, Atty. Jorge Esparagoza.[36] His counsel's presence during the negotiations, prior to the parties' meeting of minds, further debunks his claim of lack of knowledge. Lawyers are expected to know that fishponds belong to the State and are inalienable. It was reasonably expected of the counsel herein to advise his client regarding the matter of ownership.

Indeed, the evidence presented by respondent demonstrates the contradictory claims of petitioners regarding their alleged ownership of the fishpond. On the one hand, they claimed ownership and, on the other, they assured him that their fishpond lease application would be approved.[37] This circumstance should have been sufficient to place him on notice. It should have compelled him to determine their right over the fishpond, including their right to lease it.

The Contract itself stated that the area was still covered by a fishpond application.[38] Nonetheless, although petitioners declared in the Contract that they co-owned the property, their erroneous declaration should not be used against them. A cursory examination of the Contract suggests that it was drafted to favor the lessee. It can readily be presumed that it was he or his counsel who prepared it -- a matter supported by petitioners' evidence.[39] The ambiguity should therefore be resolved against him, being the one who primarily caused it.[40]

The CA erred in finding that petitioners had failed to prove actual knowledge of respondent of the ownership status of the property that had been leased to him. On the contrary, as the party alleging the fact, it was he who had the burden of proving -- through a preponderance of evidence[41] -- that they misled him regarding the ownership of the fishpond. His evidence fails to support this contention. Instead, it reveals his fault in entering into a void Contract. As both parties are equally at fault, neither may recover against the other.[42]

Liquidated Damages Not Proper

The CA erred in awarding liquidated damages, notwithstanding its finding that the Contract of Lease was void. Even if it was assumed that respondent was entitled to reimbursement as provided under paragraph 1 of Article 1412 of the Civil Code, the award of liquidated damages was contrary to established legal principles.

Liquidated damages are those agreed upon by the parties to a contract, to be paid in case of a breach thereof.[43]

Liquidated damages are identical to penalty insofar as legal results are concerned.[44] Intended to ensure the performance of the principal obligation, such damages are accessory and subsidiary obligations.[45] In the present case, it was stipulated that the party responsible for the violation of the terms, conditions and warranties of the Contract would pay not less than P50,000 as liquidated damages. Since the principal obligation was void, there was no contract that could have been breached by petitioners; thus, the stipulation on liquidated damages was inexistent. The nullity of the principal obligation carried with it the nullity of the accessory obligation of liquidated damages.[46]

As explained earlier, the applicable law in the present factual milieu is Article 1412 of the Civil Code. This law merely allows innocent parties to recover what they have given without any obligation to comply with their prestation. No damages may be recovered on the basis of a void contract; being nonexistent, the agreement produces no juridical tie between the parties involved. Since there is no contract, the injured party may only recover through other sources of obligations such as a law or a quasi-contract.[47] A party recovering through these other sources of obligations may not claim liquidated damages, which is an obligation arising from a contract.

WHEREFORE, the Petition is GRANTED and the assailed Decision and Resolution SET ASIDE. The Decision of the trial court is hereby REINSTATED.

No pronouncement as to costs.

SO ORDERED.

Sandoval-Gutierrez, Corona, Carpio-Morales, and Garcia, JJ., concur.

[1] Rollo, pp. 6-14.

[2] Id., pp. 45-52. Tenth Division. Penned by Justice Eloy R. Bello Jr., with the concurrence of Justices Eugenio S. Labitoria (Division chairman) and Perlita J. Tria Tirona (member).

[3] Id., p. 53.

[4] Assailed Decision, p. 8; rollo, p. 51.

[5] Contract of Lease (rollo, pp. 15-17); Assailed Decision, p. 2 (rollo, p. 45-A).

[6] Assailed Decision, p. 2; rollo, p. 45-A.

[7] Ibid.

[8] Ibid.

[9] Id., pp. 3 & 46.

[10] RTC Decision, pp. 6-9; rollo, pp. 23-26.

[11] Assailed Decision, p. 7; rollo, p. 50.

[12] Ibid.

[13] “Art. 1356. Contracts shall be obligatory, in whatever form they may have been entered into, provided all the essential requisites for their validity are present. However, when the law requires that a contract be in some form in order that it may be valid or enforceable, or that a contract be proved in a certain way, that requirement is

absolute and indispensable. In such cases, the right of the parties stated in the following article cannot be exercised.”

[14] Assailed Decision, p. 8; rollo, p. 51.

[15] The case was deemed submitted for decision on March 1, 2004, upon this Court’s receipt of respondent’s Memorandum, signed by Atty. Jorge L. Esparagoza. Petitioners’ Memorandum, signed by Atty. Recto A. de Dios, was received by this Court on March 2, 2004.

[16] Petitioners’ Memorandum, p. 5; rollo, p. 144.

[17] See Petitioners’ Memorandum, p. 7 (rollo, p. 146); respondent’s Brief filed with the CA, p. 7 (rollo, p. 33).

[18] §2, Article XII of the 1987 Constitution.

[19] The law in force at the time the Contract was executed was PD 704, “The Fisheries Decree of 1975,” approved on May 16, 1975. Under Sec. 23 of this decree, public lands suitable for fishpond purposes were not to be disposed of by sale.

On this matter, the applicable law now is RA 8550, “The Philippine Fisheries Code of 1998,” approved on February 25, 1998. Its pertinent provision reads:

“Section 45. Disposition of Public Lands for Fishery Purposes. — Public lands such as tidal swamps, mangroves, marshes, foreshore lands and ponds suitable for fishery operations shall not be disposed or alienated. Upon effectivity of this Code, [Fishpond Lease Agreements or] FLA may be issued for public lands that may be declared available for fishpond development primarily to qualified fisherfolk cooperatives/associations: Provided, however, That upon the expiration of existing FLAs the current lessees shall be given priority and be entitled to an extension of twenty-five (25) years in the utilization of their respective leased areas. Thereafter, such FLAs shall be granted to any Filipino citizen with preference, primarily to qualified fisherfolk cooperatives/associations as well as small and medium enterprises as defined under Republic Act No. 8289: Provided, further, That the Department shall declare as reservation, portions of available public lands certified as suitable for fishpond purposes for fish sanctuary, conservation, and ecological purposes: Provided, finally, That two (2) years after the approval of this Act, no fish pens or fish cages or fish traps shall be allowed in lakes.”

[20] See *Republic of the Philippines v. Court of Appeals*, 374 Phil. 209, 219, September 30, 1999.

[21] In PD 704, the prohibition on subleasing a fishpond was retained in RA 8550, from which we quote:

“Section 46. Lease of Fishponds. — Fishpond leased to qualified persons and fisherfolk organizations/cooperatives shall be subject to the following conditions:

“a. Areas leased for fishpond purposes shall be no more than 50 hectares for individuals and 250 hectares for corporations or fisherfolk organizations;

“b. The lease shall be for a period of twenty-five (25) years and renewable for another twenty-five (25) years: Provided, That in case of the death of the lessee, his spouse and/or children, as his heirs, shall have preemptive rights to the unexpired term of his Fishpond Lease Agreement subject to the same terms and conditions provided herein provided that the said heirs are qualified;

“c. Lease rates for fishpond areas shall be determined by the Department: Provided,

“d. The area leased shall be developed and producing on a commercial scale within three (3) years from the approval of the lease contract: Provided, however, That all areas not fully producing within five (5) years from the

date of approval of the lease contract shall automatically revert to the public domain for reforestation;

“e. The fishpond shall not be subleased, in whole or in part, and failure to comply with this provision shall mean cancellation of FLA;

“f. The transfer or assignment of rights to FLA shall be allowed only upon prior written approval of the Department;

“g. The lessee shall undertake reforestation for river banks, bays, streams, and seashore fronting the dike of his fishpond subject to the rules and regulations to be promulgated thereon; and

“h. The lessee shall provide facilities that will minimize environmental pollution, i.e., settling ponds, reservoirs, etc: Provided, That failure to comply with this provision shall mean cancellation of FLA.” (emphasis supplied)

That all fees collected shall be remitted to the National Fisheries Research and Development Institute and other qualified research institutions to be used for aquaculture research development;

[22] Art. 1409, Civil Code.

[23] Tolentino, Civil Code of the Philippines (1991), Vol. IV, p. 629; *Tongoy v. Court of Appeals*, 208 Phil. 95, 113, June 28, 1983.

[24] *Id.*, p. 632; *Tongoy v. Court of Appeals*, *supra*.

[25] Sodhi, *Latin Words and Phrases for Lawyers* (1980), p. 115.

In *pari delicto* is “a universal doctrine which holds that no action arises, in equity or at law, from an illegal contract; no suit can be maintained for its specific performance, or to recover the property agreed to be sold or delivered, or the money agreed to be paid, or damages for its violation; and where the parties are in *pari delicto*, no affirmative relief of any kind will be given to one against the other.” Moreno, *Philippine Law Dictionary* (1988), p. 451 (citing *Rellosa v. Gaw*, 93 Phil. 827, 831, September 29, 1953).

[26] Justice Vitug cites some of these exceptions, under which recovery may be made by any of the following

“(a) The innocent party (Arts. 1411-1412, Civil Code);

“(b) The debtor who pays usurious interest (Art. 1413, Civil Code);

“(c) The party repudiating the void contract before the illegal purpose is accomplished or before damage is caused to a third person and if public interest is subserved by allowing recovery (Art. 1414, Civil Code);

“(d) The incapacitated party if the interest of justice so demands (Art. 1515, Civil Code);

“(e) The party for whose protection the prohibition by law is intended if the agreement is not illegal *per se* but merely prohibited and if public policy would be enhanced by permitting recovery (Art. 1416, Civil Code); and

“(f) The party for whose benefit the law has been intended such as in price ceiling laws (Art. 1417, Civil Code) and labor laws (Arts. 1418-1419, Civil Code).” Vitug, *Civil Law Annotated*, Vol. III (2003), pp. 159-160.

[27] Appellant’s Brief filed by herein respondent with the CA, p. 7; rollo, p. 33.

[28] *Ibid.*

[29] §1, Rule 45, Rules of Court.

[30] *Mighty Corporation v. E&J Gallo Winery*, GR No. 154342, July 14, 2004; *CIR v. Embroidery and Garments Industries (Phil.), Inc.*, 364 Phil. 541, 546, March 22, 1999; *Asia Brewery, Inc. v. Court of Appeals*, 224 SCRA

437, 443, July 5, 1993.

[31] Yobido v. Court of Appeals, 346 Phil. 1, 9, October 17, 1997; Co v. Court of Appeals, 317 Phil. 230, 238, August 11, 1995.

[32] Salazar v. Gutierrez, 144 Phil. 233, 239, May 29, 1970.

[33] RTC Decision, p. 7; rollo, p. 24.

[34] Respondent's Memorandum, p. 11; rollo, p. 132.

[35] RTC Decision, p. 3; rollo, p. 20.

[36] Id., pp. 2 & 19.

[37] Id., pp. 3 & 20.

[38] Whereas clause, Contract of Lease, p. 1; rollo, p. 15.

[39] Juan Menchavez Jr. gave his testimony -- as part of petitioners' defense -- that it was Florentino Teves who had brought the Contract to him and his father, Juan Menchavez Sr., for signature. RTC Decision, p. 4; rollo, p. 21.

[40] Art. 1377 of the Civil Code states that "[t]he interpretation of obscure words or stipulations in a contract shall not favor the party who caused the obscurity."

See Padilla v. Sps. Paredes, 385 Phil. 128, 139, March 17, 2000; Garcia v. Court of Appeals, 327 Phil. 1097, 1111, July 5, 1996; Villamil v. Court of Appeals, 208 SCRA 643, 650, May 8, 1992; De Borja v. Court of Agrarian Relations, 79 SCRA 557, 565, October 25, 1977.

[41] The burden of proof in civil cases is the preponderance of evidence or the superior weight of evidence for the issues involved. §1, Rule 133, Rules of Court.

[42] Art. 1412 of the Civil Code.

[43] Art. 2226 of the Civil Code.

[44] Tolentino, Civil Code of the Philippines, Vol. V (1992), p. 662.

[45] Tolentino, Civil Code of the Philippines, Vol. IV (1991), p. 264.

[46] Ibid. Under Article 1230 of the Civil Code, the nullity of the principal obligation carries with it that of the penal clause. See also SSS v. Moonwalk Development and Housing Corporation, 221 SCRA 119, April 7, 1993.

[47] Art. 1157 of the Civil Code states that obligations arise from law, contracts, quasi-contracts, delicts and quasi-delicts.

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