

LITA ENTERPRISES, INC., PETITIONER, VS. SECOND CIVIL CASES DIVISION, INTERMEDIATE APPELLATE COURT, NICASIO M. OCAMPO AND FRANCISCA P. GARCIA, RESPONDENTS.*G.R. No. 64693. April 27, 1984*

Ponente: ESCOLIN, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-64693/>**ESCOLIN, J.:**

"Ex pacto illicito non oritur actio" [No action arises out of an illicit bargain] is the time-honored maxim that must be applied to the parties in the case at bar. Having entered into an illegal contract, neither can seek relief from the courts, and each must bear the consequences of his acts.

The factual background of this case is undisputed.

Sometime in 1966, the spouses Nicasio M. Ocampo and Francisca Garcia, herein private respondents, purchased in installment from the Delta Motor Sales Corporation five (5) Toyota Corona Standard cars to be used as taxicabs. Since they had no franchise to operate taxicabs, they contracted with petitioner Lita Enterprises, Inc., through its representative, Manuel Concordia, for the use of the latter's certificate of public convenience in consideration of an initial payment of P1,000.00 and a monthly rental of P200.00 per taxicab unit. To effectuate said agreement, the aforesaid cars were registered in the name of petitioner Lita Enterprises, Inc. Possession, however, remained with the spouses Ocampo who operated and maintained the same under the name Acme Taxi, petitioner's trade name.

About a year later, on March 18, 1967, one of said taxicabs driven by their employee, Emeterio Martin, collided with a motorcycle whose driver, one Florante Galvez, died from the head injuries sustained therefrom. A criminal case was eventually filed against the driver Emeterio Martin, while a civil case for damages was instituted by Rosita Sebastian Vda. de Galvez, heir of the victim, against Lita Enterprises, Inc., as registered owner of the taxicab. In the latter case, Civil Case No. 72067 of the Court of First Instance of Manila, petitioner Lita Enterprises, Inc. was adjudged liable for damages in the amount of P25,000.00 and P7,000.00 for attorney's fees.

This decision having become final, a writ of execution was issued. One of the vehicles of respondent spouses with Engine No. 2R-914472 was levied upon and sold at public auction for P2,150.00 to one Sonnie Cortez, the highest bidder. Another car with Engine No. 2R-915036 was likewise levied upon and sold at public auction for P8,000.00 to a certain Mr. Lopez.

Thereafter, in March 1973, respondent Nicasio Ocampo decided to register his taxicabs in his name. He requested the manager of petitioner Lita Enterprises, Inc. to turn over the registration papers to him, but the latter allegedly refused. Hence, he and his wife filed a complaint against Lita Enterprises, Inc., Rosita Sebastian Vda. de Galvez, Visayan Surety & Insurance Co. and the Sheriff of Manila for reconveyance of motor vehicles with damages, docketed as Civil Case No. 90988 of the Court of First Instance of Manila. Trial on the merits ensued and on July 22, 1975, the said court rendered a decision, the dispositive portion of which reads:

"WHEREFORE, the complaint is hereby dismissed as far as defendants Rosita Sebastian vda. de Galvez, Visayan Surety & Insurance Company and the Sheriff of Manila are concerned.

"Defendant Lita Enterprises, Inc., is ordered to transfer the registration certificate of the three Toyota cars not levied upon with Engine Nos. 2R-230026, 2R-688740 and 2R-585884 [Exhs. A, B, C and D] by executing a deed of conveyance in favor of the plaintiff.

"Plaintiff is, however, ordered to pay Lita Enterprises, Inc., the rentals in arrears for the certificate of convenience from March 1973 up to May 1973 at the rate of P200 a month per unit for the three cars." [Annex A, Record on Appeal, p. 102-103, Rollo]

Petitioner Lita Enterprises, Inc. moved for reconsideration of the decision, but the same was denied by the court a quo on October 27, 1975. (p. 121, Ibid.)

On appeal by petitioner, docketed as CA-G.R. No. 59157-R, the Intermediate Appellate Court modified the decision by including as part of its dispositive portion another paragraph, to wit:

"In the event the condition of the three Toyota cars will no longer serve the purpose of the deed of conveyance because of their deterioration, or because they are no longer serviceable, or because they are no longer available, then Lita Enterprises, Inc. is ordered to pay the plaintiffs their fair market value as of July 22, 1975." (Annex "D", p. 167, Rollo.)

Its first and second motions for reconsideration having been denied, petitioner came to Us, praying that:

"1. x x x

"2. x x x after legal proceedings, decision be rendered or resolution be issued, reversing, annulling or amending the decision of public respondent so that:

"(a) the additional paragraph added by the public respondent to the DECISION of the lower court (CFI) be deleted;

"(b) that private respondents be declared liable to petitioner for whatever amount the latter has paid or was declared liable (in Civil Case No. 72067) of the Court of First Instance of Manila to Rosita Sebastian Vda. de Galvez, as heir of the victim Florante Galvez, who died as a result of the gross negligence of private respondents' driver while driving one private respondents' taxicabs." (p. 39, Rollo.)

Unquestionably, the parties herein operated under an arrangement, commonly known as the "kabit system", whereby a person who has been granted a certificate of convenience allows another person who owns motor vehicles to operate under such franchise for a fee. A certificate of public convenience is a special privilege conferred by the government. Abuse of this privilege by the grantees thereof cannot be countenanced. The "kabit system" has been identified as one of the root causes of the prevalence of graft and corruption in the government transportation offices. In the words of Chief Justice Makalintal,[1] "this is a pernicious system that cannot be too severely condemned. It constitutes an imposition upon the good faith of the government."

Although not outrightly penalized as a criminal offense, the "kabit system" is invariably recognized as being contrary to public policy and, therefore, void and inexistent under Article 1409 of the Civil Code. It is a fundamental principle that the court will not aid either party to enforce an illegal contract, but will leave them both where it finds them. Upon this premise, it was flagrant error on the part of both the trial and appellate courts to have accorded the parties relief from their predicament. Article 1412 of the Civil Code denies them such aid. It provides:

"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."

The defect of inexistence of a contract is permanent and incurable, and cannot be cured by ratification or by prescription. As this Court said in *Eugenio v. Perdido*,^[2] "the mere lapse of time cannot give efficacy to contracts that are null and void."

The principle of *in pari delicto* is well known not only in this jurisdiction but also in the United States where common law prevails. Under American jurisdiction, the doctrine is stated thus: "The proposition is universal 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 damages for its violation. The rule has sometimes been laid down as though it was equally universal, that where the parties are *in pari delicto*, no affirmative relief of any kind will be given to one against the other."^[3] Although certain exceptions to the rule are provided by law, We see no cogent reason why the full force of the rule should not be applied in the instant case.

WHEREFORE, all proceedings had in Civil Case No. 90988 entitled "*Nicasio Ocampo and Francisca P. Garcia, Plaintiffs, versus Lita Enterprises, Inc., et al., Defendants*" of the Court of First Instance of Manila and CA-G.R. No. 59157-R entitled "*Nicasio Ocampo and Francisca P. Garcia, Plaintiffs-Appellees, versus Lita Enterprises, Inc., Defendant-Appellant*," of the Intermediate Appellate Court, as well as the decisions rendered therein are hereby annulled and set aside. No costs.

SO ORDERED.

Fernando, C.J., Teehankee, Makasiar, Concepcion, Jr., Guerrero, Abad Santos, De Castro, Melencio-Herrera, Plana, Relova, Gutierrez, Jr., and De la Fuente, JJ., concur.

Aquino, J., no part.

[1] *Dizon v. Octavio*, 51 O.G. 4059.

[2] 97 Phil. 41.

[3] *Pomeroy's Equity Jurisprudence*, Vol. 3, 5th ed., p. 728.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.