

TEJA MARKETING AND/OR ANGEL JAUCIAN, PETITIONER, VS. HONORABLE INTERMEDIATE APPELLATE COURT AND PEDRO N. NALE, RESPONDENTS.

G.R. No. 65510, March 09, 1987

Ponente: PARAS, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-65510/>

PARAS, J.:

"'Ex pacto illicito' non oritur actio' (No action arises out of 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." (*Lita Enterprises vs. IAC*, 129 SCRA 81.)

The factual background of this case is undisputed. The same is narrated by the respondent court in its now assailed decision, as follows:

"On May 9, 1975, the defendant bought from the plaintiff a motorcycle with complete accessories and a sidecar in the total consideration of P8,000.00 as shown by Invoice No. 144 (Exh. "A"). Out of the total purchase price the defendant gave a downpayment of P1,700.00 with a promise that he would pay plaintiff the balance within sixty days. The defendant, however, failed to comply with his promise and so upon his own request, the period of paying the balance was extended to one year in monthly installments until January 1976 when he stopped paying anymore. The plaintiff made demands but just the same the defendant failed to comply with the same thus forcing the plaintiff to consult a lawyer and file this action for his damage in the amount of P546.21 for attorney's fees and P100.00 for expenses of litigation. The plaintiff also claims that as of February 20, 1978, the total account of the defendant was already P2,731.05 as shown in a statement of account (Exhibit "B"). This amount includes not only the balance of P1,700.00 but an additional 12% interest per annum on the said balance from January 26, 1976 to February 27, 1978; a 2% service charge; and P546.21 representing attorney's fees.

"In this particular transaction a chattel mortgage (Exhibit 1) was constituted as a security for the payment of the balance of the purchase price. It has been the practice of financing firms that whenever there is a balance of the purchase price the registration papers of the motor vehicle subject of the sale are not given to the buyer. The records of the LTC show that the motorcycle sold to the defendant was first mortgaged to the Teja Marketing by Angel Jaucian though the Teja Marketing and Angel Jaucian are one and the same, because it was made to appear that way only as the defendant had no franchise of his own and he attached the unit to the plaintiff's MCH Line. The agreement also of the parties here was for the plaintiff to undertake the yearly registration of the motorcycle with the Land Transportation Commission. Pursuant to this agreement the defendant on February 22, 1976 gave the plaintiff P90.00, the P8.00 would be for the mortgage fee and the P82.00 for the registration fee of the motorcycle. The plaintiff, however failed to register the motorcycle on that year on the ground that the defendant failed to comply with some requirements such as the payment of the insurance premiums and the bringing of the motorcycle to the LTC for stenciling, the plaintiff saying that the defendant was hiding the motorcycle from him. Lastly, the plaintiff explained also that though the ownership of the motorcycle was already transferred to the defendant the vehicle was still mortgaged with the consent of the defendant to the Rural Bank of Camaligan for the reason that all motorcycle purchased from the plaintiff on

credit was rediscounted with the bank.

"On his part the defendant did not dispute the sale and the outstanding balance of P1,700.00 still payable to the plaintiff. The defendant was persuaded to buy from the plaintiff the motorcycle with the side car because of the condition that the plaintiff would be the one to register every year the motorcycle with the Land Transportation Commission. In 1976, however, the plaintiff failed to register both the chattel mortgage and the motorcycle with the LTC notwithstanding the fact that the defendant gave him P90.00 for mortgage fee and registration fee and had the motorcycle insured with La Perla Compana de Seguros (Exhibit "6") as shown also by the Certificate of cover (Exhibit "3"). Because of this failure of the plaintiff to comply with his obligation to register the motorcycle the defendant suffered damages when he failed to claim any insurance indemnity which would amount to no less than P15,000.00 for the more than two times that the motorcycle figured in accidents aside from the loss of the daily income of P15.00 as boundary fee beginning October 1976 when the motorcycle was impounded by the LTC for not being registered.

"The defendant disputed the claim of the plaintiff that he was hiding from the plaintiff the motorcycle resulting in its not being registered. The truth being that the motorcycle was being used for transporting passengers and it kept on travelling from one place to another. The motor vehicle sold to him was mortgaged by the plaintiff with the Rural Bank of Camaligan without his consent and knowledge and the defendant was not even given a copy of the mortgage deed. The defendant claims that it is not true that the motorcycle was mortgaged because of re-discounting for re-discounting is only true with Rural Banks and the Central Bank. The defendant puts the blame on the plaintiff for not registering the motorcycle with the LTC and for not giving him the registration papers inspite of demands made. Finally, the evidence of the defendant shows that because of the filing of this case he was forced to retain the services of a lawyer for a fee on not less than P1,000.00.

xxx

xxx

xxx

"x x x it also appears and the Court so finds that defendant purchased the motorcycle in question, particularly for the purpose of engaging and using the same in the transportation business and for this purpose said trimobile unit was attached to the plaintiff's transportation line who had the franchise, so much so that in the registration certificate, the plaintiff appears to be the owner of the unit. Furthermore, it appears to have been agreed, further between the plaintiff and the defendant, that plaintiff would undertake the yearly registration of the unit in question with the LTC. Thus, for the registration of the unit for the year 1976, per agreement, the defendant gave to the plaintiff the amount of P82.00 for its registration, as well as the insurance coverage of the unit."

Eventually, petitioner Teja Marketing and/or Angel Jaucian filed an action for "Sum of Money with Damages" against private respondent Pedro N. Nale in the City Court of Naga City. The City Court rendered judgment in favor of petitioner, the dispositive portion of which reads:

"WHEREFORE, decision is hereby rendered dismissing the counterclaim and ordering the defendant to pay plaintiff the sum of P1,700.00 representing the unpaid balance of the purchase price with legal rate of interest from the date of the filing of the complaint until the same is fully paid; to pay plaintiff the sum of P546.21 as attorney's fees; to pay plaintiff the sum of P200.00 as expenses of litigation; and to pay the costs.

"SO ORDERED."

On appeal to the Court of First Instance of Camarines Sur, the decision was affirmed in toto. Private respondent filed a petition for review with the Intermediate Appellate Court and on July 18, 1983, the said Court promulgated its decision, the pertinent portion of which reads —

"However, as the purchase of the motorcycle for operation as a trimobile under the franchise of the private respondent Jaucian, pursuant to what is commonly known as the 'kabit system,' without the prior approval of the Board of Transportation (formerly the Public Service Commission) was an illegal transaction involving the fictitious registration of the motor vehicle in the name of the private respondent so that he may traffic with the privileges of his franchise, or certificate of public convenience, to operate a tricycle service, the parties being in pari delicto, neither of them may bring an action against the other to enforce their illegal contract [Art. 1412 (a), Civil Code]."

xxx

xxx

xxx

"WHEREFORE, the decision under review is hereby set aside. The complaint of respondent Teja Marketing and/or Angel Jaucian, as well as the counterclaim of petitioner Pedro Nale in Civil Case No. 1153 of the Court of First Instance of Camarines Sur (formerly Civil Case No. 5856 of the City Court of Naga City) are dismissed. No pronouncement as to costs.

"SO ORDERED."

The decision is now before Us on a petition for review, petitioner Teja Marketing and/or Angel Jaucian presenting a lone assignment of error — whether or not respondent court erred in applying the doctrine of "pari delicto."

We find the petition devoid of merit.

Unquestionably, the parties herein operated under an arrangement, commonly known as the "kabit system" whereby 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. 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.

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 would be error to accord 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 that 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 cannot be cured by ratification or by prescription. The mere lapse of time cannot give efficacy to contracts that are null and void.

WHEREFORE, the petition is hereby dismissed for lack of merit. The assailed decision of the Intermediate Appellate Court (now the Court of Appeals) is AFFIRMED. No costs.

SO ORDERED.

Fernan, (Chairman), Gutierrez, Jr., Padilla, Bidin, and Cortes, JJ., concur.

Alampay, J., no part.

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.