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THIRD DIVISION

[G.R. No. 177232, October 11, 2012]

RCJ BUS LINES, INCORPORATED, PETITIONER, VS. MASTER TOURS AND TRAVEL CORPORATION, RESPONDENT.

D E C I S I O N

ABAD, J.:

This case is about a prior agreement for the lease of four buses, claimed to have been novated by a subsequent agreement for their storage in the former lessee's garage for a fee.

The Facts and the Case

On February 9, 1993 respondent Master Tours and Travel Corporation (Master Tours) entered into a five-year lease agreement from February 15, 1993 to February 15, 1998 with petitioner RCJ Bus Lines, Incorporated (RCJ) covering four Daewoo air-conditioned buses, described as "presently junked and not operational" for the lease amount of P600,000.00, with P400,000.00 payable upon the signing of the agreement and P200,000.00 "payable upon completion of rehabilitation of the four buses by the lessee."[1] The agreement was signed by Marciano T. Tan as Master Tours' Executive Vice-President and Rolando Abadilla as RCJ's President and Chairman.

More than four years into the lease or on June 16, 1997 Master Tours wrote RCJ a letter, demanding the return of the four buses "brought to your garage at E. Rodriguez Avenue for safekeeping"[2] so Master Tours could settle its obligation with creditors who wanted to foreclose on the buses. RCJ did not, however, heed the demand.

On January 16, 1998 Master Tours wrote RCJ a letter, demanding the return of the buses to it and the payment of the lease fee of P600,000.00 that had remained unpaid since 1993. On February 2, 1998 RCJ wrote back through counsel that it had no obligation to pay the lease fee and that it would return the buses only after Master Tours shall have paid RCJ the storage fees due on them. This prompted Master Tours to file a collection suit against RCJ before the Regional Trial Court (RTC) of Manila, Branch 49.

For its defense, RCJ alleged that it had no use for the buses, they being non-operational, and that the lease agreement had been modified into a contract of deposit of the buses for which Master Tours agreed to pay RCJ storage fees of P4,000.00 a month. To prove the new agreement, RCJ cited Master Tours' letter of June 16, 1997 which acknowledged that the buses were brought to RCJ's garage for "safekeeping."

On November 5, 2001 the RTC rendered judgment, ordering RCJ to pay Master Tours P600,000.00 as lease fee with 6% interest *per annum* from the date of the filing of the suit and attorney's fees of P50,000.00 plus costs. The lower court rejected RCJ's defense of novation from a contract of lease to a contract of deposit, given the absence of proof that Master Tours gave its consent to such a novation.

On appeal, the Court of Appeals (CA) rendered judgment dated October 26, 2006,[3] entirely affirming the RTC Decision. The CA also denied petitioner's motion for reconsideration in a Resolution dated March 27, 2007, hence, the present petition for review.

The Issues Presented

The case presents the following issues:

1. Whether or not the CA erred in holding that there had been no novation in the agreement of the parties from one of lease of the buses to one of deposit of the same;

2. Assuming absence of novation, whether or not the CA erred in ruling that RCJ can be held liable for rental fee notwithstanding that the buses never became operational; and

3. Whether or not the CA erred in affirming the RTC's award of P50,000.00 in attorney's fees plus cost of suit against RCJ.

The Court's Rulings

One. Article 1292 of the Civil Code provides that in novation, "it is imperative that it be so declared in unequivocal terms, or that the old and the new obligations be on every point incompatible with each other." And the obligations are incompatible if they cannot stand together. In such a case, the subsequent obligation supersedes or novates the first.[4]

To begin with, the cause in a contract of lease is the enjoyment of the thing;[5] in a contract of deposit, it is the safekeeping of the thing.[6] They thus create essentially distinct obligations that would result in a novation only if the parties entered into one after the other concerning the same subject matter. The turning point in this case, therefore, is whether or not the parties subsequently entered into an agreement for the storage of the buses that superseded their prior lease agreement involving the same buses.

Although the buses were described in the lease agreement as "junked and not operational," it is clear from the prescribed manner of payment of the rental fee (P400,000.00 down and P200,000.00 upon completion of their rehabilitation) that RCJ would rehabilitate such buses and use them for its transport business. Now, RCJ's theory is that the parties subsequently changed their minds and terminated the lease but, rather than have Master Tours get back its junked buses, RCJ agreed to store them in its garage as a service to Master Tours subject to payment of storage fees.

Two things militate against RCJ's theory.

First, RCJ failed to present any clear proof that it agreed with Master Tours to abandon the lease of the buses and in its place constitute RCJ as depositary of the same, providing storage service to Master Tours for a fee. The only evidence RCJ relied on is Master Tours' letter of June 16, 1997 in which it demanded the return of the four buses which were placed in RCJ's garage for "safekeeping." The pertinent portion of the letter reads:

> This is to follow up our previous discussion with you with regards to the Five (5) units of Daewoo Airconditioned Motorcoaches, which we brought to your garage at E. Rodriguez Avenue for safekeeping. Since we have outstanding loan with BancAsia Finance & Investment Corporation and BancAsia Capital Corporation that we are unable to service payment, they have made final demand to us and are in the process of foreclosing these units. We urgently request from you a meeting to thresh out matters concerning the pulling of these units by the financing firms.[7]

For one thing, the letter does not on its face constitute an agreement. It contains no contractual stipulations respecting some warehousing arrangement between the parties concerning the buses. At best, the letter acknowledges that five Master Tours' buses were "brought to your [RCJ's] garage…for safekeeping." But the idea of RCJ safekeeping the buses for Master Tours is consistent with their lease agreement. The lessee of a movable property has an obligation to "return the thing leased, upon the termination of the lease, just as he received it."[8] This means that RCJ must, as an incident of the lease, keep the buses safe from injury or harm while these were in its possession.

For another, it is evident from the tenor of Master Tours' letter that RCJ's "safekeeping" was to begin from the time the buses were delivered at its garage. There is no allegation or evidence that Master Tours pulled out the buses at some point, signifying the pre-termination of the lease agreement, then brought them back to RCJ's garage, this time for safekeeping. This circumstance rules out any notion that an agreement for RCJ to hold the buses for safekeeping had overtaken the lease agreement.

Second, it did not make sense for Master Tours to pre-terminate its lease of the junked buses to RCJ, which would earn Master Tours P600,000.00, in exchange for having to pay RCJ storage fees for keeping those buses just the same. As pointed out above, the lease already implied an obligation on RCJ's part to safekeep the buses while they were being rented.

Two. RCJ claims that it cannot be held liable to Master Tours for rental fee on the buses considering that these never became operational. The pertinent portions of the lease agreement provide:

> Section 1. Lease of AIRCON BUSES – The LESSOR hereby agrees and shall deliver unto the LESSEE the AIRCON BUSES by way of a long term lease of said buses.