

****Title: Rallos v. Yangco, 20 Phil. 269 (1911)****

****Facts:****

On November 27, 1907, Teodoro R. Yangco sent a letter known as “Circular No. 1” to Florentino Rallos, among others, announcing that he had opened a shipping and commission department in Manila dedicated to buying and selling leaf tobacco and other native products under certain conditions. The circular outlined twelve specific conditions concerning the consignment and sale of goods, including interest rates, commissions, and the responsibilities of the consignor and consignee. Mr. Florentino Collantes was introduced as an agent with public power of attorney to act on behalf of Yangco.

Rallos and co-plaintiffs engaged in significant business with Yangco through Collantes, sending various products to be sold on commission. In February 1909, Rallos sent 218 bundles of leaf tobacco to Collantes for sale on commission. Collantes sold the tobacco for P1,744, with sale charges amounting to P206.96, leaving P1,537.08 due to Rallos. However, it emerged that Collantes had converted this sum to his use.

Prior to the tobacco consignment, Yangco had severed his relationship with Collantes. This information was not communicated to Rallos and thus, he had no knowledge of the change in agency status. When Rallos demanded payment, Yangco refused, claiming that Collantes was no longer his agent at the time of the transaction. Rallos filed a suit to recover the said sum.

The Court of First Instance of Cebu ruled in favor of Rallos, awarding him P1,537.08 plus interest. Yangco appealed the decision to the Supreme Court.

****Issues:****

1. Whether the principal (Yangco) is liable for the actions of his former agent (Collantes) after the principal-agent relationship has been terminated without notice to the third party (Rallos).
2. Whether the plaintiff, Rallos, acted in good faith and without negligence in sending the goods to the former agent.

****Court’s Decision:****

The Supreme Court ruled in favor of the plaintiffs, affirming the judgment of the lower court. The Court addressed the following issues:

1. ****Liability of Principal Post-Termination****: The Court held Yangco liable for the actions of

Collantes. Yangco had advertised and communicated to Rallos and others that Collantes was his agent and had invited them to transact business with him. Yangco failed to notify Rallos of the termination of this agency relationship. The Court emphasized that once a principal-agent relationship and its termination are known to third parties, the principal has a duty to inform those parties of the change. Without such notice, the third party is entitled to assume that the agency relationship continues.

2. **Good Faith and Lack of Negligence by Plaintiff**: The Court found that Rallos and co-plaintiffs acted in good faith and without negligence. They sent goods to Collantes based on the information provided by Yangco and were unaware of the termination of the agency relationship.

Doctrine:

The principal is liable for the actions of their agent after the agency relationship has been terminated if they fail to notify third parties who have been dealing with the agent. It reiterates the duty of the principal to provide timely and adequate notice of termination of the agent's authority to avoid liability for the agent's subsequent actions.

Class Notes:

- **Principal-Agent Relationship**: Establishes that the principal must notify third parties upon termination of an agent's authority.
- **Good Faith and Reliance**: Third parties who act in good faith based on the principal's representations can hold the principal liable for the agent's actions until notice of termination is given.
- **Legal Citation**: "A principal who has given the public, or third parties, reason to believe that another is his agent will be bound by the acts of that other in the course of such agency until due and timely notice of the revocation of such agency has been given." (Rallos v. Yangco, 20 Phil. 269, [1911])

Historical Background:

This case arose in the early years of American colonial rule in the Philippines, a period when commercial laws and business practices were being reshaped by both local customs and American legal principles. The decision reflects an adherence to principles of fairness and commercial reliability, ensuring that unsuspecting third parties are protected when changes in agency relationships occur. This case demonstrates the Supreme Court's role in stabilizing merchant and commercial practices during this transformative era in Philippine legal history.