

**Title:** Alfonso del Castillo vs. Shannon Richmond, G.R. No. L-21127

**Facts:**

1. **Contract Formation:** On July 20, 1915, Alfonso del Castillo (Plaintiff) and Shannon Richmond (Defendant) executed a contract wherein del Castillo agreed to work as a pharmacist for Richmond's Botica Americana in Legaspi, Albay, with a monthly salary of P125.
2. **Agreement Terms:** The contract contained various provisions, most notably:
  - A non-compete clause prohibiting del Castillo from opening, owning, or working in any other drugstore within a radius of four miles from Legaspi while Richmond or his heirs owned a drugstore in that area.
  - A clause allowing either party to terminate the employment relationship upon thirty days' notice, with all other terms remaining intact.
  - A confidentiality clause preventing del Castillo from divulging or using any of Richmond's business secrets or private formulas.
3. **Legal Action:** On October 18, 1922, del Castillo filed a case in the Court of First Instance of Albay seeking to annul the contract, specifically paragraph 3, the non-compete clause, arguing it was an unreasonable restriction on his liberty to contract and contrary to public policy.
4. **Defendant's Response:** Richmond countered with two defenses:
  - The non-compete clause was essential to protect his business interests, as del Castillo had gained knowledge of trade secrets and customers.
  - The action had prescribed as it was filed more than four years after the execution of the contract.
5. **Lower Court Ruling:** The trial court found no need to address the prescription issue and held that the non-compete clause was neither oppressive nor unnecessarily restrictive to protect Richmond's business. The court ruled in favor of Richmond.
6. **Appeal:** Dissatisfied, del Castillo appealed to the Supreme Court, maintaining the clause was illegal, unreasonable, and against public policy.

**Issues:**

1. **Legality of the Non-Compete Clause:** Whether the non-compete provision in

paragraph 3 of the employment contract constituted an illegal restraint of trade contrary to public policy and an unreasonable restriction on the plaintiff's liberty to contract.

2. **Reasonableness and Necessity for Business Protection**: Whether the non-compete clause was reasonably necessary to protect Richmond's business interests, considering the nature and scope of the restriction in terms of time and place.

3. **Prescription of the Action**: Whether the action had prescribed under the applicable statute of limitations.

**Court's Decision**:

1. **Legality of the Non-Compete Clause**:

- The Court cited that historical legal doctrines on restraint of trade had evolved to allow such clauses as long as they were limited in time and place and were reasonably necessary to protect business interests.
- The Court held that the restriction was valid, given its clear limitation to a specific geographical area (within four miles of Legaspi) and duration (as long as Richmond or his heirs owned a drugstore in that area).

2. **Reasonable and Necessary Protection**:

- The Court evaluated the necessity of the clause to protect Richmond's business, considering del Castillo's knowledge of trade secrets and customer relationships.
- It upheld the clause as reasonably necessary for Richmond's business protection, noting that the restriction on del Castillo was not greater than required for protection.

3. **Prescription Issue**:

- The Court found it unnecessary to address the prescription argument, focusing instead on the substantive merits of the contractual provisions.

The Supreme Court affirmed the lower court's judgment, concluding that the non-compete clause was legal, reasonable, and not contrary to public policy. Therefore, the plaintiff's action to annul the contract was dismissed.

**Doctrine**:

The case reiterates that contracts imposing restraints on trade or employment are not per se invalid; they are upheld if such restraints are limited in time and place and are reasonably necessary for business protection, not being contrary to public policy.

**\*\*Class Notes:\*\***

1. **\*\*Key Legal Concepts\*\*:**

- **\*\*Non-Compete Clauses\*\*:** Valid if reasonably limited in time and place.
- **\*\*Public Policy\*\*:** Clauses must not be contrary to public welfare.
- **\*\*Reasonableness\*\*:** Courts will uphold restraints that are not excessively restrictive beyond what the employer's protection requires.

2. **\*\*Statutory Principles\*\*:**

- Under Philippine law, restraint of trade is permissible if it is not greater than necessary to protect legitimate business interests.
- Article 1306 of the Civil Code permits contracting parties to establish such stipulations, clauses, terms, and conditions as they may deem convenient, as long as they are not contrary to law, morals, good customs, public order, or public policy.

3. **\*\*Application in Context\*\*:**

- The court considered the specific context of the drugstore business, illustrating that reasonableness in restraint will vary depending on the nature of the business involved.

**\*\*Historical Background:\*\***

The case occurred during a period where Philippine jurisprudence was solidifying principles on the validity of non-compete agreements. The decision reflects the judiciary's adaptation of evolving global standards regarding restraint of trade, balancing individual contractual freedom with legitimate business safeguards.