

Title: Avon Cosmetics, Inc. v. Luna, G.R. No. 152245, June 1, 2004

Facts:

1. **1972**: Leticia H. Luna started as a franchise dealer at Beautifont, Inc., later becoming a Supervisor.
2. **1978**: Avon Cosmetics, Inc. took over Beautifont, Inc., retaining Luna.
3. **1985**: Lyn and Avon entered a Supervisor's Agreement where Luna would buy Avon's products for resale and agreed not to sell any other products.
4. **Late 1988**: Luna, while retaining her role with Avon, began working for Sandré Philippines, Inc., a direct seller of vitamins, overlapping her role. She sought legal advice and was told the agreement was against public policy.
5. **September 23, 1988**: Luna shared the legal counsel's opinion with Avon colleagues, causing friction.
6. **October 11, 1988**: Avon terminated Luna's Supervisor's Agreement, citing her breach of the exclusivity clause.
7. **December 1, 1988**: Luna filed a damages complaint against Avon in the RTC Makati.
8. **January 26, 1996**: RTC ruled in Luna's favor, awarding P100,000 in moral damages and P20,000 in attorney's fees.
9. **February 8, 1996**: Avon appealed to the Court of Appeals (CA-G.R. CV No. 52550).
10. **May 20, 2002**: The Court of Appeals affirmed the RTC decision.
11. **Rule 45, Supreme Court**: Avon sought further review by the Supreme Court.

Issues:

1. **Validity of the Supervisor's Agreement**: Is the exclusivity clause in the Supervisor's Agreement valid?
2. **Right to Terminate**: Did Avon lawfully terminate the Supervisor's Agreement based on the agreement's termination clause?
3. **Damages**: Was the award of moral damages and attorney's fees to Luna justified or was she entitled to any compensatory relief?
4. **Attorney's Fees for Avon**: Should Avon be awarded attorney's fees and litigation expenses?

Court's Decision:

1. **Validity of Exclusivity Clause**: The Supreme Court held that the exclusivity clause in the Supervisor's Agreement was valid and not against public policy. The intention was to protect Avon's business model and investments, not to foreclose competitors or harm public interest.

2. **Right to Terminate**: The Court upheld Avon's right to unilaterally terminate the agreement based on its clear and explicit terms, stating that Avon fulfilled the termination clause's requirement by notifying Luna appropriately.
3. **Damages**: The Supreme Court found no basis for moral damages or attorney's fees to Luna since the termination was done in good faith under a valid agreement. Therefore, the award by the RTC, affirmed by the Court of Appeals, was reversed.
4. **Attorney's Fees for Avon**: The Supreme Court did not grant Avon attorney's fees, as usual when the appellant wins primarily to offset lower court judgments.

Doctrine:

- **Validity of Exclusivity Clauses**: The Court reiterated that exclusivity clauses are not per se invalid. They are valid if they do not lead to an unreasonable restraint of trade or harm public policy.
- **Contract Termination at Will**: A termination clause allowing either party to end the agreement at any time, with or without cause, is legitimate when executed in good faith and with due notice to the other party.

Class Notes:

Key Elements:

1. **Exclusivity Clause** - may be validated if protecting legitimate business interests without unreasonably restraining trade.
2. **Termination Clauses** - enforceable when contracts allow unilateral termination with appropriate notice, and not used maliciously.

Statutes & Principles:

- **Article XII, Section 19 of the 1987 Philippine Constitution** - Prohibits monopolies and combinations in restraint of trade.
- **Contract of Adhesion** - Not invalid per se; enforceable unless proven to exploit weaker party unduly.

Historical Background:

In the late 1980s, Avon's business model involved direct selling through a network of dealers exclusive to its products, aiming to prevent competitors from leveraging its trainee resources. Luna's case tested the contractual bounds between protecting a business's proprietary methods and an individual's right to pursue other economic opportunities without unreasonable restrictions. This case reflects transitions in trade restraint jurisprudence within Philippine business operations and employment law.