

**WALTER E. OLSEN & CO., INC., PLAINTIFF AND APPELLEE, VS.
LEON J. LAMBERT, DOING BUSINESS UNDER THE NAME AND STYLE
OF LAMBERT SALES COMPANY, DEFENDANT AND
APPELLANT.**

G. R. No. 15745. January 11, 1922

Ponente: STREET, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-15745-2/>

STREET, J.:

The house of L. Lacroix Fils, of Paris, France, is the manufacturer of a cigarette paper extensively sold throughout the world under the trade name and mark of Riz Lacroix; and prior to the year 1911, Leon J. Lambert, under the style of Lambert Sales Company, had been buying this paper through the firm of Markt & Co., of Paris, and selling it to users of tobacco in the Philippine Islands. In February of the year 1912, however, a contract became effective between L. Lacroix Fils and the American Tobacco Company, whereby the latter acquired—so far as the former could confer—the exclusive right of selling and distributing Riz Lacroix cigarette paper in the Philippine Islands. Soon thereafter the American Tobacco Co. made Walter E. Olsen & Co., Inc., of Manila, its exclusive customer for its products in the Philippine Islands, including the Riz Lacroix cigarette paper. The effect of this arrangement was that L. Lacroix Fils ceased to sell their cigarette paper to distributors, other than the American Tobacco Co., for exportation to the Philippine Islands; and the defendant Lambert in order to continue supplying the demands of his customers for the Riz Lacroix paper was compelled to resort to the expedient of buying from the domestic stock carried by dealers in France and importing the paper to the Philippine Islands without the knowledge or consent of L. Lacroix Fils. There is, however, nothing in the record to show that L. Lacroix Fils, upon selling their paper to the dealer, or dealers, in France from whom Lambert bought, had by contract imposed any restriction upon said dealer, or dealers, with regard to the sales to be made by them. It must therefore be assumed that in selling Riz Lacroix paper to Lambert in France, the persons from whom he bought were not acting in violation of any actual agreement existing between them and L. Lacroix Fils, although it was well-known both to them and to Lambert that L. Lacroix Fils had conferred upon the American Tobacco Co. the sole right of selling its products in the Philippine Islands and for that reason had refused to sell directly or indirectly to Lambert.

In this connection it appears that L. Lacroix Fils are accustomed to put up the cigarette paper which is intended by them for the export trade, in packages somewhat different in appearance from those that are used to contain the paper sold to the French trade for domestic consumption. By this means it came about that two competing lines of genuine Riz Lacroix paper, differing only slightly in the external appearance of the packages, came upon the Philippine market, namely, that imported by the Olsen Company, by reason of its relation with the American Tobacco Co., and that imported by Lambert, obtained in the manner already stated from dealers in France.

The result of this competition was that on June 28, 1916, Walter E. Olsen & Co., Inc., instituted the present action in the Court of First Instance of Manila against the Lambert Sales Co., to enjoin the latter from importing and selling Riz Lacroix paper in the Philippines Islands. At the hearing the trial judge competition with the plaintiff,

and he accordingly granted a perpetual injunction, restraining the defendant from selling the Riz Lacroix paper in the Philippine Islands. From the judgment the defendant appealed.

An examination of the decisions of the Supreme Court of the United States pertinent to the case in the hand is in our opinion convincing that the action cannot be sustained, although it must be admitted that, in the course of the development of the prevailing doctrine, dissenting opinions have been registered by several Justices of that Court distinguished for their learning and sagacity. We shall begin the discussion by reference to certain decisions in which that Tribunal had occasion to consider the limits of the monopolistic right derived from letters patent; and it must not be supposed that these cases are made irrelevant to the case in hand by reason of the fact that they arose under the provisions of law relative to patent rights. The most exclusive monopoly known to the law, with reference to the making, vending, and using of articles of commerce, is that conferred by letters patent; and where the United States courts have defined a certain limit to the monopolistic right thus created, this is conclusive that no more extensive monopoly can exist with regard to manufactured articles not protected by patent right.

In *Adams vs. Burks* (17 Wall. [U. S.] 453; 21 L. ed., 700), it appeared that the owners of the patent right covering a certain form of coffin lid concerned upon a Boston house, named Lockhart & Seelye, the exclusive right to manufacture and sell said coffin lid in the city of Boston and its environs. The defendant Burks was an undertaker, with an establishment in Boston, but doing business also in the adjacent town of Natick; and it appears that he was accustomed to buy these patented coffin lids in Boston and after transporting them to Natick, to use them there in the interment of the dead. As Natick was beyond the territorial limits covered by the assignment of the patent right to the Boston firm, the plaintiff, as assignee of the patent right, considered that his monopoly had been infringed; and he accordingly instituted an action to restrain the defendant Burks from using in Natick the coffin lids which he had legitimately purchased in Boston. It was held in the Supreme Court of the United States that the action could not be maintained. From this decision three of the nine Justices dissented. Said Mr. Justice Miller, speaking for the court:

"It seems to us that, although the right of Lockhart & Seelye to manufacture, to sell and to use these coffin lids was limited to the circle of ten miles around Boston, a purchaser from them of a single coffin acquired the right to use that coffin for the purpose for which all coffins are used. That so far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent. It would be to engraft a limitation upon the right of use not contemplated by the statute nor within the reason of the contract to say that it could only be used within the ten-mile circle. Whatever, therefore, may be the rule when patentees subdivided territorially their patents, as to the exclusive right to make or to sell within a limited territory, we hold that in the class of machines or implements we have described, when they are once lawfully made and sold, there is no restriction on their use to be implied for the benefit of the patentee or his assignees or licensees."

In *Hobbie vs. Jennison* (149 U. S., 355 37 L. ed., 766), the Supreme Court, applying the doctrine of *Adams vs. Burks*, supra, again held that the sale of a patented article by the assignee of the patent right to convey the article to any place and to use it anywhere, notwithstanding both parties may be aware that the article is intended to be used beyond the territory pertaining to the seller.

In *Keeler vs. Standard Folding Bed Co.* (157 U. S., 659; 39 L. ed., 848), it appeared that the owners of the patent right for a folding-bed had assigned to a certain firm the right to manufacture and sell said bed in the State of Michigan and to another firm the right to manufacture and sell the same bed in the State of Massachusetts. Under these circumstances one Keeler purchased a carload of the beds in Michigan, transported them to Massachusetts, and proceeded to dispose of them in that State in competition with the local assignee of the patent right. Thereupon the latter instituted an action to enjoin the sale of the beds. The Supreme Court of the United States, reversing the action of the United States Circuit Court for Massachusetts, held that the action was not

maintainable. As stated in the syllabus, the doctrine of this case is to the effect that one who buys patented articles of manufacture from one authorized to sell them within the territory of the purchase becomes possessed of an absolute property in such articles, unrestricted in time or place, and may sell them in other territory of other assignees of the patent, although he purchased them for the purpose of selling them in such other territory. Again, as in the earlier case of *Adams vs. Burks*, supra, there was a vigorous dissenting opinion in which three of the Justices concurred.

Although, as already stated, each of the three cases above-mentioned turned upon the question of patent right, no suggestion is to be found therein to the effect that the same exclusive right which was there attempted to be established was derivable from the principles of general jurisprudence; and the inference is irresistible that if the assignee of a patent right for a particular territory cannot suppress the competition of a person who has bought the patented article in other territory, it must be impossible for any manufacturer, or assignee of such, not protected by patent right, to assert a similar monopoly against one who has bought the manufactured product in one country and who seeks to sell it in another.

In other words, applying the doctrine of those cases to the situation now before us, it is evident that when the Lambert Sales Co. resort to the French market and there buy genuine Riz Lacroix cigarette paper, for the purpose of bringing it to the Philippine Islands to be here sold in competition with the article sold by Olsen & Co. the former company is acting strictly within its rights. It needs no argument to show that the rights of Olsen & Co., derived by contract from L. Lacroix Fils, through the American Tobacco Co., cannot be higher than they would have been if the commodity sold had been a patented article and Olsen & Co. were the owners of the exclusive rights for these Islands.

There is another way of looking at the matter which to our mind affords conclusive proof that the plaintiff in this case is not entitled to the relief sought. In this connection let it be supposed that the firm of L. Lacroix Fils, instead of assigning the exclusive right to sell Riz Lacroix paper in the Philippine Islands to the American Tobacco Co., had itself established a branch house in Manila and notified dealers here that thereafter Riz Lacroix paper could be bought only from this branch. In such event, can it be imagined for a moment that L. Lacroix Fils could restrain the Lambert Sales Co. from selling the paper which the latter had bought in France under the conditions already stated? Or let it be imagined that L. Lacroix Fils, without letting rights of sale for the Philippine Islands through the American Tobacco Co., or establishing a branch house of its own here, had merely notified the trade at large from its Paris house that the right of exporting Riz Lacroix paper for sale in the Philippine Islands was reserved to itself. In this case also could it be supposed that L. Lacroix Fils could restrain the Lambert Sales Co. from doing what it has here done?

To suppose an affirmative answer to these questions is to imagine the impossible; and it stands to reason that L. Lacroix Fils, by their contract with the American Tobacco Co., could not vest in the latter any effective right, good as against the Lambert Sales Co. which L. Lacroix Fils itself could not assert.

In deciding the case of *Keeler vs. Standard Folding Bed Co.*, supra, the Supreme Court of the United States expressed no opinion upon the question whether a patentee might protect himself and his assignee by special contracts with his immediate vendees brought home to the purchasers from them, which question was not presented in that case. Nor is that question presented in this case, because, as already noted, it does not appear in evidence that L. Lacroix Fils, upon selling their paper to the dealer, or dealers, in France from whom the defendant bought, had by contract imposed any restriction upon the sales to be made by them.

In order that competition in business should be unfair in the sense necessary to justify the granting of an injunction to restrain such competition it must appear that there has been, or is likely to be, a diversion of trade

from the business of the complainant to that of the wrongdoer, as a consequence of the adoption by the latter of means or methods generally recognized as unfair; and it is impossible to define, beforehand, exactly what means and methods are thus illegitimate. Each case must be decided upon its own peculiar facts, as is also generally true in manifestations of fraud and deceit. In most, if not all, of the cases in which relief has hitherto been granted against unfair competition the means and methods adopted by the wrongdoer in order to divert the coveted trade from his rival have been such as were calculated to deceive and mislead the public into thinking that the goods or business of the wrong- doer are the goods or business of the rival. Diversion of trade is really the fundamental thing here, and if diversion of trade be accomplished by any means which according to accepted legal canons are unfair, the aggrieved party is entitled to relief. But we know of no rule which would enable us to declare that the form of competition here adopted is in fact unfair. Certainly a form of competition which has been declared legitimate by the Supreme Court of the United States in patent cases can not be illegitimate as between persons circumstanced as are the parties to this litigation.

Among cases sustaining the view here adopted may be cited the decision in Apollinaris Co. vs. Scherer (27 Fed., 18), where it appeared that one Saxlehner, the owner of & spring of mineral water in Hungary, entered into a contract with complainant giving him the exclusive right to export and sell the water under its name of "Hunyadi Janos," which he had adopted as a trade-mark, in Great Britain and America. Defendant applied to the owner to purchase the bottled water, but was refused, and he purchased it from those to whom it had been sold in Germany, and sold it in the United States in bottles with the same label as that used by complainant, except that defendant's bottles, like those sold by the owner, were stamped with the words, "Caution. This bottle is not intended for export, and if exported for sale in * * * America * * * the public is cautioned against purchasing it," while complainant's bottles were stamped "Sole exporters." Upon this state of facts the application for an injunction to restrain the defendant from importing and selling the water in America was denied. It would in our opinion be exceedingly difficult to draw any intelligent distinction in principle between that case and the one now before us.

What seems to us to be the most plausible line of reasoning in support of the plaintiff's contention is that which is deduced from the cases in which injunctions have been granted to prevent a third person-not an actual party to a contract-from preventing the performance of such contract by the actual parties thereto; and with reference to the case before us it is urged for the plaintiff that the defendant, by importing and selling the Riz Lacroix paper in these Islands, without the assent of L. Lacroix Fils, is frustrating the lawful contract made by said house with the American Tobacco Co. for the distribution of its paper in the Philippine market.

The difficulty with this argument is that the defendant has had no relations whatever with L. Lacroix Fils and has not induced that firm to violate its contract with the American Tobacco Co. but has purchased in the open market from a party, or parties, whose right to sell is not questioned. There might possibly be something in the argument deduced from the idea of unlawful interference with contract, if it had appeared that L. Lacroix Fils upon selling its paper to the party, or parties, in France from whom the defendant has obtained its supplies, had placed proper restrictions upon the sale of the paper. As the case actually stands, it cannot be said that the defendant has illegitimately interfered with the performance of any contract whatever. If the plaintiff has suffered any damage it is merely the indirect result of legitimate competition in business, from which no right of action can arise.

Wells & Richardson Co. vs. Abraham (146 Fed., 190), is differentiated from the present case by the very circumstance that the defendant there was buying his supplies from a party who was under restrictive covenants, created by contract with the plaintiff therein. It was as if L. Lacroix Fils in this case had by contract with its customers in France exacted from them an agreement not to sell for exportation to the Philippine Islands.

Error is assigned by the appellant to the action of the trial court in admitting the depositions, taken at the instance of the plaintiff, of two witnesses living in New York City. In view of the disposition to be made of this case, it

becomes unnecessary to consider the question of practice presented by this assignment, and we pass it without discussion.

The judgment appealed from will be reversed; the injunction granted by the trial judge will be dissolved; and the defendant will be absolved from the complaint, without special pronouncement as to costs of either instance. So ordered.

Araullo, C. J., Malcolm, Avanceña, Villamor, Johns, and Romualdez, JJ., concur.

Johnson, J., did not take part. Judgment reversed.

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.