

CARLOS GSELL., PLAINTIFF AND APPELLANT, VS. PEDRO KOCH, DEFENDANT AND APPELLEE.

G.R. No. 4907. March 22, 1910

Ponente: MAPA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-4907/>

MAPA, J.:

On January 11, 1902, the plaintiff and the defendant entered into a contract with the following stipulations:

"First. Pedro Koch binds himself to render his services as an employee of the commercial firm of Carlos Gsell, established in this city, and to devote all his practical and technical knowledge exclusively to the business of the said Gsell. He binds himself, furthermore, not to do business, for account of himself, for another person, or for his own account, and to keep the most absolute reserve with regard to the business commended to him;

"Second. The term or duration of this contract shall be two and one-half years, counting from the first of the present month of January, 1902, to which the effect of this document shall be retroactive; and the said Pedro Koch shall receive as salary and for board and lodging the sum of two hundred pesos, Mexican currency, per month;

"Third. The said Pedro Koch binds himself to pay in cash to Mr. Gsell the sum of ten thousand pesos if, after leaving the firm of C. Gsell, and against the latter's will, he shall engage directly or indirectly in carrying on any business in which the said Carlos Gsell is at present engaged, or within the two and one-half years fixed for the duration of the present contract in these Islands, either as an employee or member of a firm or company, or on his own account; and he furthermore binds himself to pay in cash to Mr. Gsell an equal sum of ten thousand pesos for each violation of any secret of the business entrusted to him;

"Fourth. This contract shall subsist in each and all of its parts during the period of time above mentioned, even though Mr. Gsell should organize a company or transfer his business to another person, for in these cases the present contract shall be understood also to be transferred either to the company or to the person or persons who acquire the business referred to; and

"Fifth. Under the preceding conditions, the contracting parties have executed the present contract which they bind themselves to observe and comply with well and faithfully in each and all of its parts, in the most solemn manner conformable to law, and by common consent they designate this city of Manila as the place where all the acts and proceedings, judicial and extrajudicial, that originate there from shall be performed."

On June 30, 1904, the same plaintiff and defendant executed the following instrument:

"The contract between Mr. Carlos Gsell and Mr. Pedro Koch, made in Manila on January 11, 1902, before the notary Mr. Enrique Barrera, having expired, the first named this day delivers to Mr. Pedro Koch a ticket for passage on the steamer Rubi to Hongkong and another ticket for passage from that port on the German mail steamer to Genoa. Moreover, he delivers to him the sum of \$200 Mexican currency as traveling expenses and for the purchase of railroad tickets from Genoa to Switzerland.

"By the foregoing the contract before mentioned, of hire of personal services, is fulfilled, with the exception of its third paragraph, which shall subsist in all its parts and with all the penalties stipulated for its violation.

"Finally, Mr. Pedro Koch declares that he will not make any subsequent claim against the firm of Mr. Carlos Gsell."

It is alleged in the complaint that, during the last ten years, the plaintiff has engaged solely and exclusively in the manufacture of umbrellas, matches, and hats in the city of Manila, and at the present time continues to engage in the manufacture of the aforementioned articles, and among them the manufacture of straw hats; that the contracts above mentioned were executed in consequence of and under the following circumstances: The defendant, while a young laborer without experience or technical knowledge, a native and resident of Switzerland, was, by recommendation and at the expense of the plaintiff, employed as an apprentice in an important hat manufactory in Switzerland, under the agreement that, after he should have acquired some experience, he should come to Manila at the expense of the plaintiff, to work in the latter's hat manufactory, as in fact he did, after an apprenticeship of one year and a half in the aforesaid manufactory in Switzerland. That on February 11, 1900, the defendant arrived at this port, at the expense of the plaintiff, on which date a contract of lease of services was executed between both parties which contained nearly the same clauses as that mentioned in the complaint, which latter contract was executed after the expiration of the term of that first contract; that in the manufacture of hats in his manufactory in Manila, the plaintiff uses various recipes, formulas, and procedure, the acquisition and knowledge of which have cost him more than P20,000; that the defendant, during his stay in plaintiff's manufactories in Manila finally became familiar with the said procedure, formulas, and recipes employed by the plaintiff; that since the month of November, 1907, and after having left the service of the plaintiff, the said defendant engaged and continues to engage in the manufacture of straw hats in the city of Manila, against the will of the plaintiff, thereby violating, to the serious detriment of the latter, the stipulations of the aforementioned contracts of January 11, 1902, and June 30, 1904, and that he is therefore obliged to pay the plaintiff the sum of P10,000.

On the basis of the foregoing facts, the plaintiff requests: (1) that judgment be entered against the defendant and in favor of the said plaintiff for the sum of P10,000 and the costs of the trial; and (2) that, in default of such payment, the defendant be prohibited from engaging in the manufacture of hats in the Philippine Islands.

The defendant filed a demurrer to the complaint on the ground that it did not set forth facts sufficient to constitute a cause for action, which, demurrer was admitted by the court and the plaintiff was allowed a term of five days to amend the complaint, should he deem proper to do so. The plaintiff stated that he did not desire to amend it and requested that the case be decided on its merits, whereupon the court issued an order of dismissal, to which exception was taken in due form by the plaintiff.

The question of law here raised is whether the stipulation contained in the third clause of the contract alleged in the complaint is or is not valid in law. The trial court has decided it in the negative, basing its decision on article 1583 of the Civil Code, which declares the hire of services for life to be null and void, concluding that, by virtue of the said stipulation, the services of the defendant, in so far as they concern the conduct of any business or undertaking in which the defendant might engage, were pledged for life to the plaintiff, for in the said clause, it appears that the services are not confined to any specific business or undertaking the manufacture of straw hats to which the complaint refers being included therein, nor is there a limit to the time during which the defendant shall be obliged to render his services exclusively to the plaintiff in the business or undertaking in which the latter might engage.

It is unquestionable that were it a matter of the hire of services for life the contract would be null and void in accordance with the said provision of the Civil Code, which, moreover, is clear and specific. But, in our opinion, that is not the case. The third clause referred to contains no contract whatever for the hire of services of any kind for any period of time, either long or short, and still less during the whole of defendant's life; far from this, it refers distinctly to the cessation of the services stipulated, not indeed for life, but for only two years and a half, in

the first and second clauses of the contract; so that the agreement therein contained rests on the necessary supposition of the defendant's having left the service of the plaintiff. The hire of services covenanted between both parties was terminated at the expiration of that period of two years and a half agreed upon, so recognized and expressly declared in the instrument of June 30, 1904, and therefore there is no occasion to speak here of such a hiring.

Considering the question from another point of view, the court says in the order appealed from that by virtue of what was covenanted in the third clause of the contract, the defendant was bound not to engage, either as a member of a firm, as an employee, or on his own account, directly or indirectly, in carrying on any business in which the plaintiff Gsell might be engaged, and in case of failure to comply therewith he was bound to pay in cash to the said plaintiff the sum of P10,000, which stipulation, it may be said in addition, deprives the defendant of the liberty to use his abilities for his own benefit or that of any other person except the plaintiff; that it constitutes a restrictive obligation or a prohibition in absolute terms with respect to defendant's conducting one or various industries; it is also an infringement of the latter's liberty to remain in these Islands, because if he conducts the same industry or engages in the same business in which the plaintiff is engaged, he would find himself obliged to absent himself from the Islands in order not to pay the P10,000 specified in the aforesaid third clause of the contract.

We believe that this opinion is not well founded, considering the terms of the clause referred to. It does not prohibit the defendant from conducting any industry or business, even the kind of businesses in which the plaintiff is engaged. The defendant has not bound himself to abstain from such kinds of businesses or industries as are mentioned in the order appealed from. At least, no obligation whatever of that kind appears to have been assumed in the contract. On the contrary, the latter allows the presumption that the said defendant may engage in the same industries or businesses in which the plaintiff is engaged, and the sole obligation that he has contracted with regard to this feature is that he shall pay to the latter P10,000 in case he should engage in them. Consequently the question which arises is that as to whether a person can lawfully bind himself to pay a certain sum of money to another in case the former shall conduct a specified business or industry. And we certainly do not see why such an obligation should be considered null and void, supposing that it is a question of a lawful industry or business. Within the liberty to make contracts, sanctioned by our laws, everyone is free to execute the contracts he may consider suitable, provided they are not contrary to law, morality, and good customs, and, in our opinion, there is nothing in the obligation referred to that is opposed to any of these three conceptions. Apparently, the obligation essentially rests on a just desire on the part of the plaintiff to protect himself by means of an indemnity paid in advance against the effects of the competition which the defendant might make, after he had duly qualified the defendant to enable him to do so, by defraying the expenses of his industrial apprenticeship and initiating him into a knowledge of his own procedure and formulas, the acquisition of which, as he states, has cost him more than P20,000, and this is to be accepted as true under the demurrer to the written complaint.

But it is alleged that if the P10,000 stipulated are not paid to the plaintiff the defendant may not engage in the businesses in which the former is engaged, and in fact the plaintiff asks, in the second part of the complaint, that in default of payment of the said sum, claimed in the first part thereof, the defendant be prohibited from engaging in the manufacture of hats in the Philippine Islands. It is to be observed, however, that the contract does not so state. It is not an expression of its terms, but an interpretation, more or less direct, more or less debatable, of its purview and consequences, and it is very obvious that the validity of a contract is not to be judged by the consequences, perhaps unfounded, which the contracting parties with more or less correctness claim to deduce from it, but by its context. Speaking in general terms and without predetermining the question with regard to the true value of the said interpretation, from the fact of the defendant's binding himself to pay P10,000 to the plaintiff in the case provided for in the contract, it might perhaps not necessarily follow that, by not being able to pay the

said sum, he could not engage in the same kind of businesses in which the plaintiff is engaged, as would occur, for example, were it decided finally upon the merits that such a payment was not stipulated as a necessary condition in order that the defendant might undertake the class of businesses or industry referred to. In such a case it is evident that the defendant would not be in a worse situation than other debtors who can not pay their debts or comply with their obligations.

Be this as it may, this is not the proper time to discuss such an aspect of the question. It is certain that there is no obligation whatever resting upon the defendant, recorded in the contract, requiring him not to engage in the same enterprises in which the plaintiff is engaged, even though he might not be able to pay to the latter the P10,000 stipulated therein; and that the sole obligation that is found to be clearly and expressly contracted by the said defendant, with respect to that point, is that he shall pay to the plaintiff the aforementioned sum in the case provided for in the contract, an obligation which we declare to be valid and sufficient, together with the other facts alleged in the complaint, to constitute a cause of action.

The order appealed from is revoked, and the records shall be returned to the trial court so that it may proceed in accordance with law by ordering the defendant to answer the complaint within the regular period. No express finding is made as to the costs of this instance. So ordered.

Arellano, C. J., Torres and Carson, JJ., concur.

Johnson, J., dissents.

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.