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IRAN-UNITED STATES CLAIMS TRIBUNAL



and

MINISTRY OF ROADS AND TRANSPORT
OF THE ISLAMIC REPUBLIC OF IRAN
and THE ISLAMIC REPUBLIC OF IRAN,
Respondents.

دیوان داوری دعاوی ایران - ایالات متلی

CASE NO. 437 CHAMBER THREE AWARD NO. 212-437-3

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AWARD

Appearances

For the Claimant:

Ms. Eileen M. Malone,
Attorney

Mr. H. A. Spalding, Representative

For the Respondents:

Dr. Jafar Niaki,

Representative of the

Agent of the Islamic

Republic of Iran

Mr. Nozar Dabiran,

Legal Adviser to the

Agent of the Islamic

Republic of Iran

Mr. Hassan Gholami,

Assistant to the Agent of
the Islamic Republic of
Iran

Mr. Gholamreza Jafari,
Attorney for the Ministry
of Roads and Transport of
the Islamic Republic of
Iran

Also Present:

Mr. Daniel M. Price,

Deputy Agent of the

United States of America

Ms. Loretta Polk,

Office of the Agent of
the United States of
America

I. THE PROCEEDINGS

- 1. Claimant, H.A. SPALDING, INC. ("Spalding"), filed a Statement of Claim on 18 January 1982 against Respondents, the MINISTRY OF ROADS AND TRANSPORT OF THE ISLAMIC REPUBLIC OF IRAN ("MORT") and THE ISLAMIC REPUBLIC OF IRAN ("Iran"). The claim is based on alleged agreements and work performed in connection with certain road projects in Iran.
- 2. On 3 September 1982 MORT filed its Statement of Defense. On 10 December 1982 a Statement of Defense was filed by Iran.
- 3. Claimant's Memorial with supporting documentary and testimonial evidence was filed on 9 January 1985, and a Counter-Memorial with certain documentary evidence was filed by MORT on 8 March 1985.

4. The Hearing on all issues in this Case was held at the Tribunal on 15 March 1985. Thereafter, pursuant to an authorization by the Tribunal, Post-Hearing Memorials were filed by Claimant and MORT, on 10 September 1985 and 14 January 1986, respectively.

II. JURISDICTION

- 5. Claimant alleges that it is a corporation organized under the laws of a state in the United States and wholly owned by Mr. H.A. Spalding, a citizen of the United States, and that all other jurisdictional requirements are fulfilled as well. Respondents contend that Claimant has not submitted sufficient proof of its United States nationality. MORT also has argued that there was no claim outstanding on 19 January 1981.
- 6. As evidence of United States nationality Claimant has submitted to the Tribunal a Certificate issued by the Secretary of State of the Commonwealth of Kentucky attesting that it was duly established as a corporation under the laws of Kentucky on 4 November 1963 and that as of 26 October 1984 it continued to be in existence and in good standing. Claimant further has submitted an affidavit, dated 1 January 1985, by Mr. H. A. Spalding in which he states that he has been the owner of more than 50% of the shares of Claimant continuously since its establishment. At the Hearing Claimant produced an original stock certificate dated 14 November 1963 in the name of Mr. Spalding for nine shares of Claimant's stock. At the same time Claimant produced a certified copy of its Articles of Incorporation showing

¹ Claimant's Post-Hearing Memorial annexed a number of exhibits, all but one of which had been submitted previously.

authorized issuance by the Claimant of a total of ten shares of stock.

- 7. The aforesaid affidavit of Mr. Spalding states also that from the establishment of Claimant Mr. Spalding continuously has been a citizen of the United States of America. Attached to the affidavit is a copy of the United States passport of Henry Allison Spalding issued on 10 January 1975, valid to 9 January 1980, and cancelled as of 12 February 1980 due to "New Application". The passport records that Mr. Spalding was born in "Kentucky, U.S.A." on 20 March 1899.
- 8. Based on this evidence, and in the absence of any specific evidence to the contrary, the Tribunal finds that Claimant is a national of the United States and has been such continuously since 4 November 1963.²
- 9. It is evident that MORT is an agency, instrumentality or entity controlled by Iran, and therefore that the Tribunal also has jurisdiction in respect of both Respondents.
- 10. The claim asserted by Claimant is comprised of demands for reimbursement of $$1,222,187.07^3$ in expenditures allegedly made in providing services at the request of MORT

During the proceedings Claimant has on some occasions stated that it claims also on behalf of a "consortium" which would have been involved in the actual construction had the road projects in question ever reached that stage. The Tribunal notes, however, that Claimant has submitted proof only of its right to claim on its own behalf. In view of the findings on the merits any question of jurisdiction in respect of a consortium does not require further discussion.

References to dollars (\$) in this Case mean United States Dollars.

and for \$6,000,000 in profits that would have been realized on asserted contracts with Respondents as a result of transactions which started in 1975 and ended prior to 19 January 1981.

11. On the basis of the above the Tribunal concludes that it has jurisdiction over the claim and the Parties in accordance with the Claims Settlement Declaration. 4

III. MERITS

A. The Facts and Contentions of the Parties

- Claimant is a · company specializing in It appears that in January 1975 Mr. Spalding construction. discerned opportunities for road building contracts for his With this in mind he came into contact company in Iran. with Mr. Mir Kazem Kashani, an Iranian engineer living in California, who in January 1975 went to Tehran ostensibly to establish an office for Claimant. Mr. Spalding himself visited Tehran and Mr. Kashani was left there as authorized agent and representative" of Claimant to secure road building contracts at a salary which by October 1978, when Mr. Kashani left Tehran, had totalled \$324,000.
- 13. Claimant contends that negotiations with MORT and Iran led to a "basic agreement" whereby "Claimant was bound to design, construct and operate . . . highways . . . at such time as the Ministry and related entities of the Iranian government finally designated the sites of such

As a preliminary objection to Claimant's claim Respondents also have referred to the fact that no power of attorney was filed by those representing Claimant. The Tribunal notes that the submission of a power of attorney is not required by the Tribunal Rules.

construction." On this basis, Claimant further alleges, a series of transactions took place, with the result that Spalding and MORT concluded binding agreements relating to three different road building projects: First, an agreement concluded in June 1975 for the performance of engineering, design and architectural services concerning a Qom-Esfahan road project; second, an agreement reached in 1976 or 1977 on an Arak-Andimeshk (Zal Pass) road construction project; and third, a contract, executed on 15 January 1978 and anticipatorily breached by MORT, concerning the construction of a road between Bandar Abbas and Sirjan.

- 14. According to Claimant, many supporting documents concerning the projects had to be left in Tehran, with the consequence that Claimant has no access to them, whereas Respondents do have such access. Insofar as the available evidence may not be adequate to prove the existence of the alleged contracts in a strict sense, in Claimant's view such evidence shows in any case that MORT and Claimant entered into transactions on the basis of which Claimant performed services with the legitimate expectation of being compensated. Should no compensation be awarded, Claimant further argues, "Respondents will have been unjustly enriched by virtue of their receipt of the benefits of Claimant's services over a 4 year period."
- 15. As damages Claimant claims \$1,222,182.07 for its costs incurred and \$6,000,000 in lost profits. Apparently as a further specification of the latter amount, Claimant has stated in its Post-Hearing Memorial that at a minimum damages of \$500,000 are due under the Bandar Abbas Sirjan contract, which guaranteed to Claimant, in case of breach by MORT, 10 per cent of the amount (\$5,000,000, it is alleged) that would be due during the remainder of the contract.

⁵ Cf. <u>infra</u> note 6.

- 16. Respondent MORT denies that the alleged contracts ever were concluded, or that it owes Claimant anything on any other ground such as unjust enrichment. It also denies having access to the documents allegedly left by Claimant in Tehran. Respondent Iran does not consider the claim attributable to itself.
- 17. All Parties have claimed their costs of arbitration.

B. The Findings of the Tribunal

18. Claimant's contention that it concluded a "basic agreement" with MORT under which Spalding was selected as contractor for road construction projects even before the designation of sites for such projects is unusual. The evidence does not reflect any such commitment on the part of MORT. Whether MORT entered into agreements with Claimant concerning the three specific projects on which Claimant relies more specifically is discussed below separately with respect to each project.

1. The Qom-Esfahan Project

- 19. Agreement relating to the Qom-Esfahan road allegedly was reached first. Claimant relies on the following documents to establish its claim that it was contractually engaged by MORT to perform engineering, design and architectural work in respect of that road (although it was not hired for the construction of such road):
- a) A letter [Post-H. Mem. Ex. A] dated 6 April 1975 (which Claimant corrected at the Hearing to 22 April 1975) from MORT to Mr. Kashani acknowledging receipt of a "proposal" from Mr. Kashani; advising him that two of the proposed roads, <u>i.e.</u>, Tehran Qom and Tehran Gazvin, "are already under construction"; and concluding by asking that "he give

us your proposal" for a third, <u>i.e.</u>, "Gum - Espahan" road (or "Teheran to North") under stated conditions.

- b) A letter [Mem. Ex. H] dated 9 June 1975 from Mr. Kashani to MORT referring to the foregoing letter and "enclos[ing] a draft of a contract for design and construction of toll-road between Gum Esphahan [which] is submitted for study and approval."
- c) A letter [Post-H. Mem. Ex. B] dated 22 June 1975 from MORT to Mr. Kashani acknowledging receipt of the aforementioned proposal for "the Gum Esphahan toll road"; advising that for the building of a toll road MORT needs "a special permit which has been applied for already"; noting that in any event some drawings for the proposed road are already in hand; suggesting that supplementary design of that road would be desirable; and posing a question about potential financing.
- A letter [Mem. Ex. I and K] dated 23 June 1975 from Mr. d) Kashani to MORT referring to the foregoing letter of 22 June 1975; expressing thanks for that letter's approval, "with some exceptions, [of] our proposal to design, build, finance, by sale of supervise, manage and bond, Toll-Road between Gum-Sphahan"; requesting access to already existing plans; and asking authorization evaluate these plans and design the preliminary road maps and calculate the preliminary cost and trafic fllow [sic] and other factors in order to give you the cost of bond and its repay[m]ent plan . . ."
- 20. Thus there were preliminary discussions between Claimant and MORT on the project in question. Contrary to what is suggested by Mr. Kashani and contended by Claimant, however, neither MORT's 22 June 1975 letter nor any other evidence suggests that these discussions ever ripened into a

contract or constituted a request by MORT for the performance of any professional services for compensation.

2. The Arak-Andimeshk Project

- 21. Evidence regarding the second project, <u>i.e.</u>, that concerning the Zal Pass road between Arak and Andimeshk, indicates a more developed stage of negotiations than was ever reached with respect to the first alleged contract. This evidence consists of the following:
- a) A strictly internal letter [Post-H. Mem. Ex. C] from Mr. Kashani to Mr. Spalding dated 21 March 1976 stating that "[w]e shall have the egnineering [sic] of either Gum-Arak-Andimeshk-Bandar Shahpoor . . . or Gum-Espahan-Shraz Bandar Abbas [sic]" and that "[i]f we are awarded the contract on either one" certain results will follow; notifying him of a meeting in Tehran "to negotiate final terms" for which "we should be prepared completely . . ."; requesting that Mr. Spalding bring "all necessary documents for qualification as consulting engineers" and "to be approved as first class engineering firm", as well as other "documents [which] are needed for approval"; and noting the need for a certain authorization "to negotiate."
- b) A two-page "contract" [Post-H. Mem. Ex. D] (with a handwritten notation "July, 1976") pertaining to construction of the "Arak-Andimesh road". Although Claimant alleges that this contract was signed the copy submitted to the Tribunal is not executed. Moreover, the last paragraph of this document states that "[t]his agreement shall be binding after the approval of Ministry of Budget and Ministry of Economics affair [sic] has approved the same "

- c) A letter [Post-H. Mem. Ex. E] dated 17 November 1976 from MORT to Claimant referring "to our negotiation with you about the contruction [sic] of a Toll-Road in Iran" (which is not identified); stating the conditions on which the Ministry would be willing to proceed; advising that the Iranian Government "will be pleased to award contract to you" if Claimant is willing to proceed under "the above conditions"; and concluding with a request that Claimant "notify us in writing for the negotiation of the contract."
- d) A letter [Post-H. Mem. Ex. F] dated 20 November 1976 from Claimant to MORT referring to the foregoing letter; stating that "we are prepared to conclude a contract" while reiterating the need for a specific Iranian Government guarantee; and requesting to be informed "about the time and place of a meeting which should be held with the officials for conclusion of a contract."
- e) A letter [Mem. Ex. V] dated 28 December 1976 from MORT to Claimant acknowledging receipt via correspondence dated 26 December 1976 of "a contract" which "we shall study . . . and approve" before sending it on to "the Plan Organization and Ministry of Finance and Economics for their approval also." It appears from a statement of Mr. Kashani that the contract enclosed was indeed a complete draft contract to finance, engineer, construct and maintain the "Arak-Andimeshk" motorway, and collect tolls on it [Post-H. Mem Ex. G]. Claimant expressly concedes, however, that such contract never was executed.
- f) A letter [Mem. Ex. W] dated 8 February 1977 from MORT to the "Minister of Economics and Finance" forwarding a further "proposal" of Claimant (apparently dated 7 February 1977 and presently unavailable to Claimant) relating to the "Arak-Andimeshk section," and asking that "[i]f the proposal is acceptable" MORT be informed "in order to proceed".

- g) A letter [Post-H. Mem. Ex. H] dated 15 February 1977 from Claimant to MORT referring also to its 7 February 1977 proposal; confirming that it has "submitted, for your study and approval, . . . [a] contract for . . . toll-road between Arak-Andimeshk"; discussing alternative proposals for financing such road; and concluding by "[t]rusting that one of our proposals . . . will meet with your approval . . . "
- h) A letter [Mem. Ex. U] dated 22 July 1977 from MORT to "Minister of Economics and Finance" enclosing a copy of a purported agreement "entered between" MORT and Claimant "which shall be binding after the approval of that Ministry and Plan Organization" and requesting the addressee to "ratify the same in order to conclude the final and detail agreement with regards to the construction of the super highway."
- evidence submitted to the Tribunal The sufficient to support a conclusion that any of the required approvals and "ratifications" ever were given. Mr. Kashani has testified in his affidavit that the "basic contract" on the Arak-Andimeshk project was signed "in July of 1976" and that at an unstated time he was informed by the Minister of Roads and Transport that the necessary approvals had been This is belied, however, by Claimant's evidence, set forth above, which shows that negotiations for a contract continued well into 1977. If, on the other hand, it is supposed that the contract was approved after the 22 July 1977 MORT letter, such supposition also lacks any support in the evidence. 6 The evidence, while suggesting

There seems to be some confusion as to whether the contract is alleged to have been executed in July of 1976 or a year later in 1977. In any case, the contract, referred to above under b), which according to Mr. Kashani was signed (Footnote Continued)

mutual willingness to collaborate, fails to establish any contract between MORT and Claimant or any other form of legal obligation towards Claimant on the part of MORT or Iran.

3. The Bandar Abbas - Sirjan (and Tehran-Chalus) Project(s)

The third basis of the claim, an alleged contract the Bandar Abbas-Sirjan road, relating to presents Here a signed contract dated 15 January different issue. 1978 has been produced [Post-H.Mem. Ex. I] but MORT denies the authenticity of the alleged signature of its Minister on the contract. MORT does not deny, however, the authenticity of the Minister's signature on a letter dated 16 December 1977 from that Respondent to Claimant [Post-H. Mem. Ex. H-1] which refers to this contract. Comparison of this signature with the one on the contract suggests that they are one and The Tribunal, however, need not decide this the same. issue, since it appears that Claimant thereafter surrendered whatever rights may have accrued to it under that contract.

24. Claimant has stated that shortly after the claimed execution of the contract MORT simply informed Claimant that it "intended not to perform the contract". Instead, Claimant states it was offered participation in work on the Tehran-Chalus road north to the Caspian Sea, which project already had been awarded to the "Modjm Group", which Claimant in turn would be required to admit to participation in the Arak-Andimeshk project discussed above. Faced with MORT's repudiation of the contract, Spalding further argues, "Claimant agreed with MORT's suggested partnership with the

⁽Footnote Continued)

in July 1976, is the same one which is attached to the above-quoted letter of MORT dated 22 July of 1977.

Modjm Group form [sic] completion of the two projects". On the basis of this the Tribunal concludes that Claimant relinquished whatever rights it had under the Bandar Abbas - Sirjan contract in favor of the opportunity to participate in a Tehran-Chalus project.

- Apart from the fact that the Tribunal already has found that there was no Arak-Andimeshk contract entered into with Claimant (Modjm's participation in which was alleged to be an integral element of the substitution), Claimant fails to satisfy the Tribunal that any contract for the Tehran-Chalus project ever was concluded. Claimant offers a purported one and a half page undated "Translation Of The Priliminar [sic] Agreement with Modjm Corporation of Iran." Ex. J]. Even assuming that the two companies did reach some sort of joint venture agreement, the evidence produced by Claimant concerning the Tehran-Chalus contract is inadequate.
- inadequacy is virtually conceded by Claimant, its Post-Hearing states in Memorial that which "execution of a final contract" concerning the projects to be carried out by Spalding with Modjm "was prevented by the extingencies [sic] of the political climate in Iran towards the end of 1978" but argues that ongoing negotiations eventually "would have resulted in a favorable award of the project to the joint venture." The documents allegedly evidencing these negotiations [Post-H. Mem. Ex. K and L], only of indicate that the granting Spalding/Modjm was Tehran-Chalus contract to

 $^{^7}$ In view of this the Tribunal need not discuss Article 17(2) (d) of the contract providing, in certain cases of termination, that Claimant be paid "compensation equal to ten (10%) percent of the remuneration that would be due on the project remaining scope of the Contract at the time of termination."

contemplated by Iranian authorities; they fail to establish any legal basis for any award on that road project.

4. The Nature of Claimant's Evidence

- In addition to the discussion concerning the alleged projects some more general remarks insufficiency of the evidence submitted are appropriate. addition to Mr. Kashani's affidavit, which is endorsed only very generally by Mr. Spalding's affidavit, Claimant's evidence as to liability consists of a total of 34 documents Kashani's affidavit (attached to Mr. and Claimant's Post-Hearing Memorial). The fact that an average of less than a document a month is produced relating to a period of four years of allegedly intensive contractual with involvement the Iranian Government is itself noteworthy.
- 28. More tellingly, however, the lack of documentary support for the claim is underscored by the character of the documents produced. Half of them are either correspondence between Mr. Kashani and Mr. Spalding or correspondence from Claimant (i.e., Mr. Kashani) to MORT or other entities, generally reflecting solicitation and negotiation rather than actual contractual relations or the rendering of compensable services. Only six communications from MORT to Claimant have been submitted, supplemented by six internal Iranian Government communications. For some of these documents no Farsi original has been submitted.
- 29. It would stand to reason that if a substantial corporation with extensive experience in road building were engaged over a period of four years not just in soliciting contracts in Tehran but also in the actual performance of material engineering, design and architectural services, as alleged, it would have more extensive documentation at its

disposal. Both Mr. Kashani and Mr. Spalding allege that all of the records that were kept in Tehran are now in custody and control of the Iranian Government, Mr. Kashani having left them behind when he departed from Iran October 1978. Although it might be reasonable to assume Iranian custody and control of documents of a company of which Iran assumed control following the Iranian Revolution, is not a natural assumption in the case of individual operating apparently alone as to whom there is no allegation that his business was expropriated. Therefore even though Claimant's Tehran records are no longer available to Claimant it does not follow that they are available to Respondents and that inferences therefore may be drawn against them.

- 30. In any event, given the manner in which Mr. Kashani operated, apparently to the knowledge of Claimant, it is fair to assume that had MORT in fact contractually obligated itself to Claimant for material road construction business, or had Respondents induced Claimant to perform substantial services which Claimant then performed and Respondents accepted, there would be more documentation flowing between the Parties of which copies would have been acquired and retained by Claimant outside of Iran.
- 31. The viability of this claim is cast more in doubt when one considers what has not been profferred by Claimant. One would have thought that if, as Claimant alleges, substantial engineering, design and architectural work had been done by Claimant at the request of and for the benefit of MORT, whether pursuant to written contract or otherwise, Mr. Kashani would at least have been able to submit testimonial evidence describing the actual work done. One would assume, too, that expense records would support the claims. To the contrary, however, only the most conclusory allegations are set forth in his affidavit. In addition, no substantial proof is submitted of any professional services having

actually been rendered. It would have been natural, too, for Claimant to have started invoicing MORT for work done and to demand payment, which it never did. Finally, had material work been performed one would have expected some evidence of actual efforts to form "a consortium" to build the roads, as was frequently mentioned in the correspondence and in the pleadings. Yet there is none.

- 32. The above conclusions concerning the weak basis of the claim are corroborated also by the sparse evidence damages. Claimant alleges unreimbursed expenditures associated with the Iranian road building projects totalling \$1,198,561.01 (\$1,222,182.07 minus \$23,621.0 calculated as It is evident, however, that most of this represents funds provided to Mr. Kashani. His salary during the period in question, as confirmed by Mr. Kashani himself, was \$324,000. In addition, fully \$186,900 (more than half) of "Total Direct Cash Expenditures" claimed is described only as "M. K. Kashani (Cash Advances)". When the 90 per cent overhead component added by Claimant to certain direct cash expenditures is added to the amount of \$186,900, it becomes clear that the total of Mr. Kashani's salary and advances (including the related overhead) is some \$679,110.
- 33. As a part of the damages \$284,034.53 is claimed as "Expenditures of Hurst-Rosche Engineers, Inc. on behalf of H.A. Spalding, Inc." It is not explained what services relevant to this case that firm performed for Claimant. Out of the direct expenditures of \$159,292.54 listed under "Iran Expenses" on the letterhead of Hurst-Rosche Engineers, Inc., however, 19 entries (more than half) are designated "M. K. Kashani" and total \$95,106. Here, too, an "Average Overhead Rate" (of 78.31 per cent) is added, so that the total expenses include an additional \$74,477.50 accounted for by Mr. Kashani. Hence, Mr. Kashani directly or indirectly accounts for \$169,583.50 of the bill of Hurst-Rosche, Inc.

- 34. Thus it appears that of the \$1,198,561.01 claimed by Claimant for its expenses in Iran almost \$850,000 or some 70 per cent is for salary, advances or overhead in respect of Mr. Kashani. When the \$100,000 plus 90 per cent overhead claimed in respect of Mr. Spalding's services is added, the result is that more than 85 per cent of total expenditures claimed are accounted for by these two individuals. This cannot reasonably be regarded as consistent with Claimant having performed substantial engineering, design and architectural services for MORT, partly pursuant to contracts, over a period of nearly four years.
- 35. Consequently, the Tribunal concludes that Claimant has not carried its burden of proving its claim. To the extent the claim is based on alleged performance of services of which Respondents received the benefit Claimant has not satisfied the Tribunal either that such services were performed or, if any were rendered, requested by Respondents so as to create a justified expectation of compensation. Insofar as the claim is based on explicit contractual rights, the Tribunal notes that one contract may have been concluded but that there is no evidence proving damages resulting from any breach of the contract. Therefore Claimant's claim is dismissed.

IV. COSTS

36. Each Party shall bear its own costs of arbitration. 8

⁸ Judge Mangard would have preferred to award MORT a reasonable amount of costs for legal representation and assistance.

V. AWARD

For the foregoing reasons,

THE TRIBUNAL HEREBY AWARDS AS FOLLOWS:

- 1. The claim of Claimant H.A. SPALDING, INC. against Respondents is dismissed.
- 2. Each Party shall bear its own costs of arbitration.

Dated, The Hague 24 February 1986

Nils Mangard

Chairman

Chamber Three

In the Name of God

Charles N. Brower

Concurring Opinion

Parviz Ansari Moin Concurring Opinion