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IRAN - UNITED STATES CLAIMS TRIBUNAL

دادگاه داوری دعاوی ایران - ایالات متحده

ORIGINAL DOCUMENTS IN SAFE

Case No. 57 Date of filing 25 May 1983

✓ AWARD. Date of Award 25 May 1983

20 pages in English. 15 pages in Farsi.

[redacted]

_____ DECISION. Date of Decision _____

_____ pages in English. _____ pages in Farsi.

_____ ORDER. Date of Order _____

_____ pages in English. _____ pages in Farsi.

_____ CONCURRING OPINION of _____

Date _____ _____ pages in English. _____pages in Farsi.

_____ DISSENTING OPINION of _____

Date _____ _____pages in English. _____pages in Farsi.

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Date _____ _____pages in English. _____pages in Farsi.

IRAN-UNITED STATES CLAIMS TRIBUNAL

دیوان داوری دعاوی ایران - ایالات متحده

DUPLICATE ORIGINAL

«نسخه برابر اصل»

CASE NO. 57

CHAMBER TWO

AWARD NO. 46-57-2

KIMBERLY-CLARK CORP.,

Claimant,

and,

BANK MARKAZI IRAN,
NOVZOHOUR PAPER INDUSTRIES,
GOVERNMENT OF THE ISLAMIC
REPUBLIC OF IRAN,

Respondents.

IRAN UNITED STATES CLAIMS TRIBUNAL
دادگاه دایری دعاوی ایران - ایالات متحده
FILED - ثبت شد
Date ۱۳۶۲/۲/۴
25 MAY 1983
File 57 ۵۷

AWARD

Appearances

For Claimant: [redacted]

Bradford L. Bates
Catherine H. Gordon
Kimberly-Clark Corp.
Attorneys for
Claimant

For Respondents:

Mr. M.K. Eshragh
Deputy Agent of the
Islamic Republic of
Iran
Dr. A. Shirazi
Legal Adviser to the
Agent of the Islamic
Republic of Iran
Mr. H.A. Farzad
Respresentative of
Bank Markazi
Mr. M. Golrokhi
Adviser to Rep. of
Bank Markazi

Also present:

Ms. Jamison M. Selby
Deputy Agent of the
United States of
America

I. The Proceedings

The Claimant filed its Statement of Claim on 17 November 1981, naming as respondents "Bank Markazi Iran, the Central Bank of Iran, and the Government of the Islamic Republic of Iran." On 12 March 1982 Statements of Defense were filed by the Government of the Islamic Republic of Iran "(representing Novzohour Paper Industries Co.)", including a counterclaim, and by Bank Markazi, which is the central bank of Iran. A pre-hearing conference was held on 27 April 1982, at which a representative of Novzohour was also present. On 4 May 1982 the Tribunal requested the parties to respond to certain questions. On 21 May 1982 the Tribunal received an amendment to the Statement of Claim adding Novzohour Paper Industries as a respondent, and that amendment was filed on 4 June 1982 when it was accepted by the Tribunal. The Claimant filed a Reply to the Counterclaim and Comments on the Statements of Defense on 9 June 1982. Replies to the questions posed by the Tribunal were filed by the Claimant on 11 June 1982, by Bank Markazi on 24 June 1982 and by the Government of the Islamic Republic of Iran on 3 September 1982. On 9 November 1982 Novzohour filed an objection to being named as a respondent. The Claimant filed evidence on 12 November 1982 and presented additional evidence during the Hearing, which was held on 15 December 1982. On 3 January 1983 the Tribunal requested additional

documents from both the Claimant and the Respondents and invited post-hearing memorials. Pursuant to that request and invitation, Bank Markazi filed certain documents on 17 January 1983 and its replies to the questions raised by the Tribunal on 14 March 1983. Also on 14 March 1983 Novzohour filed its replies, including evidence, and the Claimant filed a post-hearing memorial, including additional documents. Bank Markazi filed a reply to the Claimant's post-hearing memorial on 18 April 1983.

II. The Facts

The Claimant, a Delaware Corporation, has since 1928 been engaged both in manufacturing and licensing others to manufacture a wide range of fiber products. It has submitted evidence indicating that it was during the relevant time from 1978 to 19 January 1981 a national of the United States as defined in Article VII, paragraph 1 of the Claims Settlement Declaration.

The Claimant has raised four claims. The first, and by far the larger, arises out of a License and Assistance Agreement ("License") concluded on 21 March 1976 between the Claimant and Novzohour Paper Industries, a corporation existing under the laws of Iran. This License is the most recent in a continuous series of such licenses between the two companies beginning in 1961. Pursuant to the License, Novzohour was entitled to manufacture and distribute within

the licensed territory of Iran facial tissues, paper napkins, disposable diapers, and various other of the Claimant's, products utilizing its patents and technology, as well as its trademarks. The Claimant required of Novzohour certain quality standards and, in order to assure compliance with those standards, promised to provide Novzohour with technical counsel, advice, and assistance. The Claimant also promised to -- and on a number of occasions did -- institute trademark infringement suits to prevent other persons from benefitting from trademarks licensed to Novzohour. For its part, the Claimant was entitled to receive a 2% royalty on Novzohour's total net sales of licensed products within the licensed territory, calculated and payable on a quarterly basis. The license had a projected term of 10 years, through 20 March 1986.

The Claimant received royalty payments covering the period 21 March 1976 through 21 June 1978. For the quarters ending 21 September 1978, 21 December 1978, 21 March 1979, 21 June 1979, 21 September 1979, 21 December 1979, and 21 March 1980, Novzohour submitted Royalty and Fee Calculation reports showing a total (net of taxes) of $260,707 owing under the License. No quarterly royalty payments, however, were ever made to the Claimant on the sales during that period since, according to a series of letters from Novzohour, it had been unable to obtain authorization from Bank Markazi for the transfer of these funds to the Claimant.

On 2 September 1980 the Director of the National Industries Organization of Iran, who was also Deputy Minister of Industries and Mines, appointed a new managing director of Novzohour and, at about the same time, other directors. From that time, the Claimant has requested, but has never received, information concerning Novzohour's net sales after 21 March 1980, nor has it received any royalty payments thereon.

At the Hearing the Claimant introduced in evidence a Kleenex box produced by Novzohour subsequent to the Iranian revolution that showed continuing use of Claimant's trademarks. The word Kleenex had a cross through it but was clearly visible, and the trademarked box design was still used. Moreover, a printed text said that the name Novzohour would be used instead of Kleenex in order to avoid payment of royalties to the Claimant. In its post-hearing submissions Novzohour submitted a Novzohour tissue box which it asserts is presently used in Iran and has been in use since shortly after the revolution. While the name Kleenex nowhere appears and the text concerning avoidance of royalties has been deleted, the same box design is used.

The Claimant's second claim is unrelated to the first and is against Bank Markazi for damages resulting from the alleged failure of the Bank to permit payment to be made under a contract concluded in September 1979 for disposable diapers. The contract was between the Claimant and

Sha-Peyk, a New York company allegedly acting as agent for an Iranian company, Iran Hydrophile Co. Pursuant to the Contract, the Claimant alleges it produced the material ordered but was not paid because Bank Markazi refused to permit payment to be made to Sha-Peyk, which, as a result, first delayed and then cancelled the order. However, the evidence introduced by the Claimant indicates that shipment was prevented because of unspecified "self-explanatory" problems in shipment of any cargo to Iran and leaves unclear whether the order was ever cancelled. In any event, the Claimant eventually sold, or recycled those items for which there was a market and alleges a net unrecoverable loss on perishable raw materials and freight costs of $48,564.

III. Contentions of the Parties

On the basis of the above facts, the Claimant requests an award of:

1) U.S. $260,707 as royalties due but unpaid for the period 22 June 1978 through 21 March 1980;

2) U.S. $31,819 for each quarter from 22 March 1980 to the date of the award (that being the average quarterly royalty under the 1976 License for the period when sales data were provided by Novzohour);

3) U.S. $31,819 for each quarter from the date of the award through the end of the License, that is, 20 March 1986, discounted to present value;

4) Interest on the above amounts at 17 percent per year from the dates due; and

5) U.S. $48,564 as damages under its second claim, plus interest at 17 percent from 17 December 1979.

During most of the proceedings in this case, the Claimant characterized its claim as one for unpaid royalties, or as one for refusal to permit payment of royalties and treated each quarterly royalty payment, in effect, as a new claim arising on the date payment for that quarter was due. In its post-hearing memorial, however, the Claimant asserted that the entire License was breached as of 22 October 1978, that its patents and trademarks have since been infringed by Novzohour, and that it was therefore entitled to damages that could best be calculated on the basis of the discounted present value of the royalty payments presumably due until 1986.

The Respondents allege that Novzohour is not a proper respondent, because it was added by amendment subsequent to the close of the period when claims could be brought under the Algiers Declaration, that is 19 January 1982, and because Novzohour is not controlled by the Government. The

Respondents also contend that the License does not bind Novzohour, because it was signed by only one person, the Managing Director, who was not authorized to commit the company under its articles of association and did not bear the company seal. Consistent with that argument Novzohour filed a counterclaim to recover all royalties paid to the Claimant from 1976 to 1978 under the License. The Respondents also contend that neither Novzohour nor the Claimant obtained the authorizations required by the Law on the Attraction and Protection of Foreign Investment for transfer of "capital", that under the terms of a 14 November 1978 circular (No. NA/11600), Bank Markazi was not obliged to grant approval for royalty payments in this case, and that the Tribunal has no jurisdiction over claims for royalties not due until after 19 January 1981, as such claims were not "outstanding" on that date as required by Article II, paragraph 1 of the Claims Settlement Declaration.

With respect to the second claim, the Respondents contend that the Tribunal has no jurisdiction as it is in essence a claim by one American national against another.

IV. Jurisdiction

With respect to the argument that Novzohour could not be named a respondent after 19 January 1982 because Article III, paragraph 4 of the Claims Settlement Declaration said that no claim may be filed after that date, the Tribunal

notes that it decided to accept that amendment on 4 June 1982. In explanation, we point out that the original Statement of Claim identified Novzohour as the other party to the License and asserted that the Government of the Islamic Republic of Iran "has nationalized Novzohour and is responsible for the contract and debt obligations of Novzohour." In its Statement of Defense filed on 12 March 1982 the Government, which said it was representing Novzohour, presented a counterclaim on Novzohour's behalf. In these circumstances, the Tribunal concluded that acceptance of the amendment pursuant to Article 20 of our Provisional Rules of Procedure would violate neither that Article nor the Claims Settlement Declaration.

With respect to control over Novzohour, the evidence demonstrated that the Government in September 1980 appointed certain persons as directors and managing director of Novzohour, and that Novzohour has since that time been administered by such persons, rather than the directors elected by the shareholders. Thus, Novzohour was controlled by the Government on 19 January 1981, and a claim against Novzohour is a claim against "Iran" within the meaning of Article VII(3) of the Claims Settlement Declaration.

As to the Respondents' argument that the Tribunal has no jurisdiction over a claim for royalty installments due after 19 January 1981, we agree. There is a question, however, whether the claim in this case is for each separate installment, or for breach of the License and continuing

infringement thereon. To the extent the claim, whether styled as a claim for actual or anticipatory breach of the License, can be shown to have arisen prior to 19 January 1981, it is within our jurisdiction. To the extent it arose after that date, it is outside our jurisdiction.

With respect to the second claim, that against Bank Markazi arising out of an agreement with Sha-Peyk, the Claimant has failed to demonstrate that we have jurisdiction. While the Claimant contends that the Bank prevented Sha-Peyk from making payments due, it has presented no persuasive evidence that Sha-Peyk was the agent of an Iranian principal, rather than a broker.* The Tribunal therefore finds that the claim against Bank Markazi arising out of the Sha-Peyk transaction is outside of our jurisdiction.

V. Reasons for Award

There was never any dispute as to the accuracy of the Novzohour reports showing that royalties amounting to $260,707 (net of taxes) were due Kimberly-Clark on sales of licensed products in Iran during the quarter ending 21 September 1978 through the quarter ending 21 March 1980. Nor was there any dispute that these amounts remain unpaid.

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*The Tribunal notes that even had such an agency relationship been proved, Claimant presented no evidence that the problems were caused by respondent Bank Markazi, rather than shipping difficulties or United States economic sanctions.

Novzohour's defence that the License was invalid for failure to obtain proper signatures is without merit. Not only did the evidence demonstrate that the License was signed by a proper representative of Novzohour, but further, that the parties operated under it without dispute until the events began which allegedly prevented payment. Such performance of its obligations under the agreement by the Respondent for over two years would, in any event, have constituted an unequivocal ratification of the agreement, even if it had lacked the proper signatures. The counterclaim must of necessity fail for the same reasons.

As to the alleged non-compliance of the agreement with the procedures set forth by the Law for Attraction and Protection of Foreign Investments in Iran (1955), the Tribunal notes that the purpose of this Law is to grant special protection in favor of investments approved by Iranian Public Authorities, but none of its provisions precludes foreign investors from making investments in Iran without seeking such a privileged position. Such investments would not be unlawful, they would only not enjoy the privileges provided for in the law, including the guaranteed right to repatriation of any profits derived from the investment. Moreover, it appears from the Regulations implementing the Law for Attraction and Protection of Foreign Investments in Iran that this law was not applicable to the instant license agreement. Article 2(d) of these Regulations deems patent rights as foreign capital capable of falling within the scope of the law only to the extent the patent rights "are related to and part of the

productive operation for which the application for the import of foreign capital has been made". Such is not the instant case, since the patent rights were not collateral to any main investment made in Iran by Kimberly, Therefore, no cause for nullity of the license agreement can be derived in the instant case from the provisions of the Law on Attraction and Protection of Foreign Investment in Iran.

With respect to the royalties owing to March 1980, there is no basis on which Novzohour can escape liability. First, Novzohour is bound by its statements of the amounts owing. Second, the amounts were payable in U.S. dollars at the Claimant's bank in the United States. See License, Article 9. Assuming that the license agreement between Kimberly and Novzohour did not comply with Iranian foreign exchange regualtions in so far as it provided for payments in U.S. dollars, the Respondent has not proven that such a countractual provision was legally prohibited at the date when the contract was signed. Nor has it proven that the new foreign exchange regulations, when they were enacted, caused the contract to be null and void. Although Novzohour might have been prevented from transfering to Kimberly the payment of its debt in U.S. dollars, the existence and the amount of the debt cannot seriously be disputed. As a result of the Declarations of Algiers and of the establishment of a Security Account in U.S. dollars, the delayed payments can and must be paid out of the Security Account.

It is unnecessary in this case to determine the question of the legality under international law of the Iranian exchange controls, as the Claims Settlement Declaration provides for payment in dollars from the Security Account of awards for debts owed by entities controlled by the Government. Under these circumstances, it is also unnecessary to consider further any claim against the Bank Markazi.

The more difficult issues in this case arise out of Novzohour's failure to provide sales data and pay any royalties for the periods following 22 March 1980, and by its continued use of the Claimant's patents and trademarks. As noted above, throughout the proceedings until its post-hearing memorial the Claimant clearly considered the License as continuing in force and its claim as limited to seeking unpaid royalties and interest thereon. In the post-hearing memorial, however, the Claimant asserts that failure to pay royalties constituted a fundamental breach of the contract and that the royalties are merely a measure of damage. The Claimant seeks as damages for breach $31,819 for each quarter from 22 March 1980 through the date of this Award, plus $31,819 for each quarter thereafter through 20 March 1986, discounted to present value as of the date of the Award, based on the average royalties during the period June 1978 to March 1980. The Claimant selected an average rate, due to the unavailability -- despite repeated requests -- of actual sales figures to date, and the impossibility of knowing such figures in the future.

The license provides for quarterly royalty payments so long as it remains in effect. In the absence of actual sales figures, the use of an average rate is not unreasonable. Nevertheless, as discussed above in the Section on jurisdiction, this Tribunal cannot make an award for non-payment of royalties which became due only after 19 January 1981. Thus, unless the Claimant can show anticipatory breach of the License as a whole prior to that date, he can recover here only for the quarters prior to and including the one ending 21 December 1980. In view of the position taken by the claimant before and during these proceedings with respect to the status of the License, we do not believe it has made such a showing.

Certainly it is true that the License was breached on 22 October 1978, when a quarterly royalty payment was not made. An additional breach arose each quarter thereafter. Other provisions were breached beginning in mid-1980 when the flow of information ceased. Despite these breaches, the Claimant considered the License as continuing in force.

In paragraph 18 of the License, we find the following rights of termination, inter alia:

> This Agreement may be terminated:
>
> . . .
>
> 18.3 By either party for substantial breach of the terms hereof by the other party if the breach is not corrected within thirty (30) days after the giving of written notice to the defaulting party calling for remedy of the breach; or

18.4 By Owner forthwith, upon written notice to Licensee, in the event governmental action renders it impossible for Licensee to make payments due hereunder, in the places, in the amounts, and in the currencies designated in Sections 6 and 9 hereof, or in such other place and in such other currency as shall be acceptable to Owner; or

. . .

18.7 By Owner forthwith, upon notice to Licensee, in the event that for any reason,

. . .

(2) the management or control, or both, of all or any part of Licensee's business subject to the terms of this Agreement, by law, decree, ordinance or other governmental action, is vested in, or is made subject to, the control or direction of any governmental agent, officer, appointee, or designee, or any other person, firm or company not a party to this Agreement.

These provisions show that the Claimant could have justified termination of the License at any time after 22 October 1978 on various grounds. If it had done so and Novzohour had continued to use rights granted by the License, separate actions for patent and trademark infringement would have been possible. That the Claimant thus far has chosen not to exercise its termination rights, when coupled with the position taken by the Claimant in its dealings with Novzohour and in the pleadings and Hearing in this case, demonstrates that until March of 1983 it has preferred to consider the License as continuing in force and not irrevocably breached as it now belatedly argues. In these circumstances, the Tribunal is not convinced that there was anticipatory breach of the License as a whole prior to 19 January 1981 and concludes that it has jurisdiction to award compensation only for royalties due prior to 19 January 1981.

VI. Interest

In order to compensate the Claimant for the damages it has suffered due to delayed payments, the Tribunal considers it fair to award Claimant interest at the rate of 12% on each unpaid royalty payment due for the quarters ending 21 September 1978 through 21 December 1980, calculated as from 30 days after the close of the quarter.

VII. Costs

Each party shall be left to bear its own costs of arbitration.

AWARD

The Tribunal awards as follows:

The Respondent, Novzohour Paper Industries, is obligated to pay the Claimant, Kimberly-Clark Corporation U.S. $356,164, plus interest at the rate of 12 percent per year,

calculated as from the dates indicated below, to the date on which the Escrow Agent instructs the Depositary Bank to effect payment out of the Security Account:

a) on U.S. $37,614 from 22 October 1978;

b) on U.S. $31,606 from 21 January 1979;

c) on U.S. $20,397 from 21 April 1979;

d) on U.S. $40,613 from 22 July 1979;

e) on U.S. $37,316 from 22 October 1979;

f) on U.S. $43,610 from 21 January 1980;

g) on U.S. $49,551 from 21 April 1980;

h) on U.S. $31,819 from 22 July 1980;

i) on U.S. $31,819 from 22 October 1980; and

j) on U.S. $31,819 from 21 January 1981.

These obligations shall be satisfied by payment out of the Security Account established by paragraph 7 of the Declaration of the Government of the Democratic and Popular Republic of Algeria of 19 January 1981.

The remainder of the claim is dismissed for lack of jurisdiction; the counter-claim is dismissed on the merits.

Each of the parties shall bear its own costs of arbitrating this claim.

This Award is hereby submitted to the President of the Tribunal for the purpose of notification to the Escrow Agent.

The Hague
25 May 1983

Pierre Bellet
Chairman
Chamber Two

Shafie Shafeiei

George H. Aldrich

IRAN-UNITED STATES CLAIMS TRIBUNAL

دیوان داوری دعاوی ایران - ایالات متحده

25 may 1983

Mr. Shafeiei did not appear to sign the Award, though invited to come by the attached letter of 16 May 1983. Several hours before the signature, Mr. Shafeiei gave me a written request to postpone the signature.

Pierre Bellet
Chairman
Chamber Two

G.H. Aldrich

IRAN - UNITED STATES CLAIMS TRIBUNAL

دادگاه داوری دعاوی ایران - ایالات متحده

16 Mai 1983

To: Mr. Shafeiei

Cher Monsieur et ami,

Vous avez demandé quelques jours de plus avant que la sentence Kimberly Clark soit soumise à la signature des arbitres. Très exceptionellement j'accepte cette proposition, bien qu'il était entendu que cette sentence aurait dû être signée aujourd'hui, treize mai 1983. Mais il est bien entendu que le 26 mai 1983 prochain sera la dernière limite et je vous invite à venir le 25 mei à 17.00 heures dans mon bureau.

Fidèlement

Pierre Bellet