

In the Matter of

**CERTAIN INTERNAL MIXING
DEVICES AND COMPONENTS
THEREOF**

Investigation No. 337-TA-317
(Commission Decision of
November 2, 1990)

USITC PUBLICATION 2414

AUGUST 1991

United States International Trade Commission
Washington, DC 20436



UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Anne E. Brunsdale, Acting Chairman

Seeley G. Lodwick

David B. Rohr

Don E. Newquist

**Address all communications to
Kenneth R. Mason, Secretary to the Commission
United States International Trade Commission
Washington, DC 20436**

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

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)
CERTAIN INTERNAL MIXING)
DEVICES AND COMPONENTS THEREOF)

Investigation No. 337-TA-317

NOTICE OF COMMISSION TO REVIEW AN INITIAL DETERMINATION
OF NO VIOLATION AND ISSUANCE OF COMMISSION OPINION

AGENCY: U.S. International Trade Commission

ACTION: Notice

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined to review in its entirety an initial determination (ID) issued by the presiding administrative law judge (ALJ) terminating the investigation in the above-captioned investigation. The Commission has determined to issue its own opinion affirming the holding of the ALJ terminating the investigation. The Commission has also determined not to request further briefing at the present time.

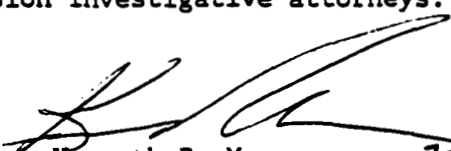
ADDRESSES: Copies of the ID and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, S.W., Washington D.C. 20436, telephone 202-252-1000.

FOR FURTHER INFORMATION CONTACT: Scott Andersen, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, S.W., Washington D.C. 20436, telephone 202-2521092.

Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-252-1810

SUPPLEMENTARY INFORMATION: On October 3, 1990, the presiding ALJ issued an ID terminating the investigation on the basis, *inter alia*, of arbitration clauses in licensing agreements entered into by the parties. Petitions for review of the ID were filed by the complainant Farrel Corporation, respondents Pomini S.p.A. and Pomini Inc., and the Commission investigative attorneys.

By order of the Commission.


Kenneth R. Mason
Secretary

Issued: November 2, 1990

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U.S. INTL. TRADE COMMISSION

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

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Inv. No. 337-TA-317

COMMISSION OPINION

This matter is before the Commission by virtue of an initial determination (ID) issued by the presiding administrative law judge (ALJ) holding that the above-captioned investigation should be terminated. The Commission has determined to review the ID on its own motion, affirm the holding of the ALJ, and issue a Commission opinion.¹ For the reasons set forth below, the Commission determines that this investigation should be terminated in order to give effect to the arbitration provisions of the licensing agreements entered into by the parties.

Procedural Background

On June 29, 1988, complainant Farrel Corporation (Farrel or complainant) filed a complaint in the United States District Court for the Northern District of Ohio (District Court) against respondents alleging (1) trademark infringement, (2) false representation, (3) unfair competition, (4) violation of the Ohio Deceptive Trade Practices Act, O.R.C. §4165.01, (5) breach of contract, and (6) patent infringement. Respondents Pomini S.p.A. and Pomini, Inc. (respondents) did not answer the complaint, but rather moved to stay the proceedings and to compel arbitration. The District Court stayed discovery on the case in chief, but permitted discovery solely on the issue of the arbitrability of the claims

¹ Acting Chairman Anne E. Brunsdale, Commissioner Seeley G. Lodwick, and Commissioner Don E. Newquist join in the Commission Opinion. Commissioner David Rohr dissents for the reasons set forth in his dissent.

before the court.

On July 24, 1990, Farrel filed a complaint with the Commission, alleging a violation of section 337 by respondents in the importation and sale of certain internal mixing devices and components thereof by reason of misappropriation of trade secrets, infringement of U.S. registered trademark No. 551,425, and false representation of source. Institution of an investigation was objected to by respondents on the basis of arbitration clauses contained in licensing agreements between the parties. The Commission voted to institute an investigation of Farrel's complaint on August 21, 1990.

On September 6, 1990, respondents filed a motion for summary determination and for a stay of discovery asserting, inter alia, that the investigation should be terminated because of the parties' agreements to arbitrate all disputes arising out of their licensing agreements.

On September 11, 1990, the District Court granted respondents' August 3, 1988, motion to stay the district court proceedings and to compel arbitration. The District Court examined the various licensing agreements entered into between the parties and found that they contained arbitration clauses which applied after the termination of the business relationship in 1986. In addition, the District Court held that the parties were bound by the International Chamber of Commerce (ICC) arbitration rules pursuant to the arbitration clauses in the licensing agreements. The District Court noted that these rules require the arbitrator to hear jurisdictional challenges and make a prima facie determination of the validity of an agreement to arbitrate prior to hearing the merits.² The District

² Regarding the arbitrability of Farrel's various claims, the District Court held first that Farrel's trademark infringement claims were covered by the 1972 trademark agreement which imposed a continuing obligations on respondents not to use or adopt Farrel's trademark after termination of the agreement.

(continued...)

Court held that the ICC arbitrator must determine which of Farrel's claims are arbitrable, and dismissed the case.

On October 3, 1990, the presiding ALJ issued the ID terminating the investigation, based on the existence of arbitration clauses in the parties' licensing agreements, the Commission's previous decision in Fluidized Beds, and the preclusive effect of the District Court decision.

On October 15, 1990, Farrel petitioned for review of the ID. In its petition, Farrel dropped a number of the arguments it made before the ALJ in response to respondents' motion to terminate the investigation.³ The alleged misappropriation of trade secrets is the only claim which Farrel continued to press. On October 22, 1990, respondents and the IAs filed responses in opposition to Farrel's petition for review.

Arbitration Clauses in Licensing Agreements

Respondent Pomini S.p.A. and Farrel were involved in a business relationship for almost 30 years, from 1957 to 1986. During their relationship, these parties executed several technology and trademark licensing agreements with

²(...continued)

Thus, the arbitration clause in that agreement was found by the District Court to require the ICC arbitrator to decide whether the trademark issues were within the scope of the ICC jurisdiction. Similarly, the District Court determined that Farrel's claims of false representation and unfair competition claims should also be arbitrated because the trademark agreement imposed continuing duties on respondents not to compete in the United States or Canada. In addition, the District Court found that Farrel's deceptive trade practices under Ohio law, patent infringement, and breach of the 1961 agreement (not involved in the Commission's investigation) appear to be arbitrable.

³ Farrel no longer contests termination of the investigation as to the trademark infringement and false representation of source claims on the grounds of res judicata. Those claims were found by the District Court to be subject to arbitration. Farrel also does not contest the ALJ's decision to terminate the investigation as to the respondent, Pomini, Inc. even though Pomini, Inc. was not party to the arbitration agreements. Finally, Farrel no longer claims that the Commission's decision to institute the investigation should have prevented the ALJ from terminating the investigation.

provisions requiring the parties to arbitrate all disputes that arise in connection with the agreements.⁴

In 1963, Farrel and Pomini S.p.A., then named S.p.A. Luigi Pomini, entered into an agreement wherein Farrel licensed S.p.A. Luigi Pomini to manufacture and sell all of Farrel's line of plastics and rubber processing equipment for ten years. The agreement provided that all designs, specifications, drawings, blueprints, photographs, reproductions, and other material furnished to Pomini S.p.A. were to remain the property of Farrel and were to be returned at the termination of the agreement. The agreement also provided that "any dispute" arising out of the licensing agreement "which may at any time arise between the parties hereto during the continuance of [the] agreement, concerning [the] agreement" was subject to arbitration.

In 1973, Farrel and Pomini S.p.A. entered into another agreement to extend Pomini S.p.A.'s right to manufacture and sell the equipment referenced in the 1963 agreement with continued technical assistance from Farrel. The agreement gave Pomini S.p.A. the exclusive right to manufacture the Farrel equipment in Italy, and provided Pomini S.p.A. with the non-exclusive right to sell the subject equipment throughout the world except in the United States, the United Kingdom, and Japan. The agreement contained the following provision for the arbitration of disputes:

All disputes arising in connection with the present Agreement shall be finally settled by arbitration. Arbitration shall be conducted in Geneva,

⁴ The parties' relationship began in 1957 when Farrel's predecessor, Farrel-Birmingham Company, licensed a predecessor of Pomini S.p.A., Soc. Acc. Luigi Pomini, an Italian partnership, to manufacture and sell a variety of rubber and plastic processing machinery that Farrel had designed and developed. The licensing agreement provided for the arbitration of "any dispute which may at any time arise between the parties hereto during the continuance of [the] agreement, concerning [the] agreement, and which dispute the parties fail to adjust between themselves...."

Switzerland, in accordance with the rules of arbitration of the International Chamber of Commerce.

A trademark license agreement executed at the same time provided Pomini S.p.A. with permission to use the Farrel trademark to identify the subject equipment in "all countries of the world except North America." The trademark agreement contained an arbitration clause similar to the clause in the technology license agreement.⁵ It also provided that the agreement was to continue in force "no longer than the said License and Technical Assistance Agreement between the parties." In 1976, the technology license agreement was amended, extending the period of the agreement for ten years from January 1, 1976, i.e., until January 1, 1986. The 1973 technology license and trademark license agreements, as amended, expired on January 1, 1986.⁶

DISCUSSION

1. **Applicability of the Commission's holding in Fluidized Beds and the Supreme Court's decision in Mitsubishi Motors to the termination of the investigation**

The applicable precedent which compels termination of the investigation in this case is the Commission's 1985 decision in Certain Fluidized Bed Combustion Systems, Inv. No. 337-TA-213, Commission Memorandum Opinion (1985) (Fluidized Beds), and the Supreme Court's holding in Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985).

In Fluidized Beds, the Commission was confronted an arbitration clause much like that contained in the licensing agreements entered into by the parties

⁵ The arbitration clause states as follows:

All disputes arising in connection with this Agreement shall be finally settled in Geneva, Switzerland under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with its Rules.

⁶ In March of 1986, Pomini, Inc. was incorporated in Delaware as a wholly-owned subsidiary of Pomini S.p.A. to act as a marketing agent for Pomini S.p.A. in the United States and Canada.

in this case.⁷ The Commission determined to terminate the investigation and give effect to the arbitration clause contained in the international contractual agreement entered into by the parties. The policy rationale at the core of the holding in Fluidized Beds is derived from the Supreme Court's decision in Mitsubishi Motors, viz., that a party to an international transaction will be required to honor its agreement to arbitrate disputes involving statutory claims under U.S. law when the arbitration agreement reaches the statutory issues and when there are no legal constraints external to the agreement which foreclose arbitration of such claims. Mitsubishi Motors, 473 U.S. at 628. In so holding, the Supreme Court reaffirmed not only the "liberal federal policy favoring arbitration agreements," but also the importance of enforcing arbitration agreements made in the course of international commerce. Id.

Much of the Commission's analysis in Fluidized Beds involved application of the two factors set forth by the Supreme Court's decision in Mitsubishi Motors for determining whether to give effect to an arbitration clause.⁸ The Commission applied the first Mitsubishi Motors factor (whether the parties' agreement to arbitrate reach the cause of action) and held that the arbitration agreement covered the cause of action at issue. It noted that the underlying claims of patent infringement, misappropriation of trade secrets, and fraudulent

⁷ The Fluidized Beds arbitration agreement provided as follows:

All disputes and controversies arising in connection with this Agreement which the parties are unable to adjust between themselves shall be finally settled by arbitration conducted in English under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed according to said Rules in force at the time.

⁸ These two factors are as follows:

First: does the parties' agreement to arbitrate reach the cause of action with any doubts to be resolved in favor of arbitrability?
Second: are there any legal constraints external to the parties' agreement which foreclose arbitration?

inducement are "inextricably connected to the license agreement." Fluidized Beds at 5. In addition, the Commission found that the agreement provides for only one type of proceeding, viz., arbitration, and for only one forum, viz., the ICC. (Id. at 5).

The second Mitsubishi Motors factor involves the determination of whether there are considerations external to the arbitration agreement that could forestall arbitration. The Commission noted that the Supreme Court had stressed that this factor was satisfied "so long as the prospective litigant effectively may vindicate its statutory cause of action in the arbitral forum." Mitsubishi Motors, at 5076. We indicated that the public interest in section 337 investigations was protected where private parties can vindicate their section 337 claim in the arbitral forum. We noted that "the [ICC] arbitration panel can issue a cease and desist order precluding importation," which was viewed as "the functional equivalent of a limited exclusion order obtained from the Commission." Id. at 8. Finally, the Commission stated that "public policy considerations with regard to any award of relief from the arbitration panel can be raised in any enforcement proceedings before a Federal district court." Id.⁹

The Commission in Fluidized Beds declined to initiate an independent section 337 action as requested by complainant. It noted that although it "has discretion" to initiate such a proceeding, it was declining to do so because of "policy considerations," i.e., the fact that complainant had entered into the

⁹ The Commission also noted in Fluidized Beds that another important policy consideration favoring arbitration was enhancing the validity and effect of a private international business transaction. Fluidized Beds at 7. The Commission recognized that the "concerns for international comity, respect for the capacities of foreign and transnational tribunals, and sensitivity to the need of the international commercial system for predictability in the resolution of disputes" weighed heavily in favor of giving effect to the arbitration agreement. Id. 6-7.

arbitration agreement, and had chosen a forum from which reasonably expeditious relief was available.

We reaffirm the holding in Fluidized Beds which requires the termination of the present investigation. The policy concerns enunciated in Fluidized Beds remain applicable today: concern for international comity, respect for capacities of foreign and transnational tribunals, and sensitivity to the need of the international commercial system for the predictability in the resolution of disputes.

Nor is there any factual distinction between this case and Fluidized Beds which would justify ignoring those policy considerations. As in Fluidized Beds, the arbitration clause in this case is mandatory, covers all disputes, and involves an international agreement. In addition, Farrel's claim of trade secret misappropriation is "inextricably connected to the license agreement." Fluidized Beds at 5. Thus, under the first Mitsubishi Motors test there is little doubt that the licensing agreement applies to Farrel's trade secret claim.

Under the second Mitsubishi Motors test, Farrel has not been able to demonstrate any legal constraints external to the parties' agreement which foreclose arbitration. As in Fluidized Beds, complainant here has the opportunity to vindicate its section 337 rights in an arbitration, including the right to bring an action in federal district court for preliminary injunctive relief upon initiating an arbitration proceeding. Similarly, Farrel, like the complainant in Fluidized Beds, can enforce any arbitration judgment against the respondents in federal district court at the conclusion of the arbitration proceedings.

Farrel has raised several arguments which it claims provide "legal constraints" which foreclose arbitration. We discuss these arguments below.

a. Farrel's arguments regarding expeditious relief

Farrel argues that the facts of this investigation create different legal constraints than existed in Fluidized Beds because here it cannot vindicate its section 337 rights through an arbitrator as "there are no assurances that relief expeditious enough to be effective would be available," and respondents are currently importing competing goods into the United States. (Farrel Memorandum at 38-39).

The sense of urgency arising from the alleged importation of respondents' products as presented in Farrel's petition is belied by Farrel's failure to move the Commission for temporary relief.¹⁰ Moreover, were Farrel to initiate arbitration proceedings immediately, it would have the right under ICC rules to petition a federal district court for preliminary relief to stop respondents' imports.¹¹ Indeed, if everything Farrel alleges proves to be true, it may receive broader permanent injunctive relief from an arbitrator than it could from the Commission, viz., a bar on the manufacture of the goods in Italy and their sale in any market. In Fluidized Beds, the Commission stressed that the ability to obtain injunctive relief under ICC rules provided considerable protection to the complainant and a strong policy basis for terminating the investigation in favor of an arbitral forum. Fluidized Beds at 6-7. These same considerations apply in this case.

¹⁰ 19 CFR § 210.24(e).

¹¹ Article 8, ¶ 5 of the ICC Rules of Conciliation and Arbitration. There is no evidence that Farrel has taken any steps to initiate ICC arbitration proceedings pursuant to the decision of the District Court or to seek any preliminary injunctive relief regarding the "preliminary discovery" evidence it alleges it has obtained in discovery in the Commission investigation.

b. Farrel's arguments concerning the alleged waiver by respondents of their right to arbitrate the trade secret claim

Farrel also seeks to distinguish Fluidized Beds by asserting that respondents' alleged waiver of their arbitration rights eliminates the policy considerations favoring arbitration in Fluidized Beds. Farrel's argument is not persuasive. First, as discussed in greater detail below, the District Court held that Farrel did not establish that a waiver of respondents' right to arbitrate had taken place. Moreover, the District Court held that even if a waiver did occur in Italy, Farrel had failed to establish that such a waiver was legally binding on United States courts.

Second, strong policy considerations require that all disputed issues be resolved in one arbitration. The District Court ordered that the arbitrability of Farrel's claims of patent and trademark infringement, unfair competition, and misrepresentation should be determined by an ICC arbitrator. In its petition for review of the ID, Farrel contends only that the investigation should continue as to trade secrets, dropping its arguments that the trademark infringement and false representation claims should be continued. However, there is no question that the trade secret claim is inextricably connected to the other claims now subject to arbitration pursuant to the District Court's order. Nor is there any doubt that all of the underlying claims (patent and trademark infringement, false representation, and misappropriation of trade secrets) "are inextricably connected to the license agreement." Fluidized Beds at 5. Under these circumstances, it is certainly more efficient for the parties to resolve all of the disputed claims in one arbitration. Piecemeal litigation is not to be encouraged. These factors, in addition to the strong policy favoring arbitration outlined in Fluidized Beds and Mitsubishi Motors, lead us to conclude that the investigation should be terminated.

2. The collateral estoppel effect of the District Court decision on Farrel's claim of trade secret violation¹²

As discussed previously, the District Court explicitly decided that the licensing agreements containing the arbitration clauses compelled dismissal of the court case so that the parties' dispute could be heard by an ICC arbitrator. Moreover, the District Court, as noted, rejected Farrel's arguments that respondents had waived their rights to arbitrate the claims because of respondents' participation in litigation in Scotland and Italy.

The doctrine of res judicata is based on the notion that there must be limitations on a party's opportunities to litigate in a second action those claims or issues litigated, or which could have been litigated, in a prior action. Thus, the doctrine encompasses two rules -- claim preclusion, or "true" res judicata, and issue preclusion, or collateral estoppel. Claim preclusion prevents parties from relitigating claims that were raised, or could have been raised, in a previous court proceeding. If a valid and final judgment has been entered on a claim, a second action based on the transactional facts involved in the first action is precluded.¹³ Collateral estoppel, or "issue preclusion," requires that if an issue of fact or law was actually litigated and determined by a valid and final judgment, the determination of that issue is conclusive in

¹² Our holding with respect to the collateral estoppel effect of the District Court decision is an independent and separate basis to terminate the investigation apart from our holding under the principles of Fluidized Beds and Mitsubishi Motors.

¹³ Generally, this principle rests on the assumption that all forms of relief could have been requested in the first action:

In general, a final judgment on the merits of a claim (i.e., cause of action) precludes the same plaintiff from bringing against the same defendant a subsequent action on the same claim, or any part of the claim that was, or reasonably could have been, brought in the initial action.

Alyeska Pipeline Service Co. v. United States, 688 F.2d 765, 769 (Ct.Cl. 1982).

a subsequent action between the parties, whether on the same or a different claim. See Young Engineers, Inc. v. U.S.I.T.C., 721 F.2d 1305, 1315 (Fed Cir. 1983).

Farrel argues that because the District Court's decision was not on the merits of the trademark or patent infringement claims, but instead determined only that the ICC should determine the arbitrability of those issues, that res judicata and collateral estoppel do not apply. Farrel also asserts that res judicata and collateral estoppel do not apply because the misappropriation of trade secrets claim was not before the District Court. Finally, Farrel argues that the District Court decision was based on the court's obligation under the Federal Arbitration Act, a federal statute which Farrel claims applies only to "courts," not to the Commission. None of these arguments are persuasive.

a. Farrel's argument that collateral estoppel is not applicable because of the preliminary nature of District Court decision

Farrel's argument that the District Court's opinion does not operate as collateral estoppel on the Commission's investigation because it dealt only with a "preliminary" matter is without merit. Courts have held that a decision by one court on a preliminary matter such as jurisdiction or the arbitrability of particular issues precludes relitigation of those matters before a second court. Manes Organization Inc. v. Standard Dyeing and Finishing Co., 472 F. Supp. 687, 692 (S.D.N.Y. 1979) (prior state court order compelling arbitration was res judicata in federal court action). See also Todd Shipyards Corp. v. Marine Vessel Leasing Corp., 456 F. Supp. 1384 (C.D. Calif. 1978); Wright, The Law of Federal Courts, 4th ed. 682 (1983).¹⁴

¹⁴ Farrel is reported to have filed a notice of appeal of the District Court decision to the U.S. Court of Appeals for the Federal Circuit. See Respondents' Memorandum at 34. Thus, it would appear that the District

(continued...)

In addition, the Federal Circuit has held that the doctrine of res judicata applies to a section 337 action when the subject matter giving rise to the section 337 claim has been previously litigated in federal court. Young Engineers, 721 F.2d at 1315. The Federal Circuit in Young Engineers rejected the argument, raised by Farrel in this case, that the unique remedy provided for in section 337 actions prevents application of the res judicata doctrine. The Federal Circuit took a more pragmatic approach and ruled that res judicata applies to Commission proceedings, noting that "the evils of vexacious [sic] litigation and waste of resources are no less serious because the second proceeding is before an administrative tribunal."¹⁵ 721 F.2d at 1315.

b. The applicability of collateral estoppel or issue preclusion to Farrel's arguments regarding the arbitrability of the trade secrets claim

Farrel also argues that collateral estoppel does not apply to the issue of the arbitrability of its trade secret claim because that claim was not before the District Court. However, we find that continuation of Farrel's trade secret misappropriation claim before the Commission is barred by the doctrine of "issue preclusion" or collateral estoppel.

As noted previously, collateral estoppel prevents the relitigation of issues actually litigated and decided in an earlier proceeding, whether on the

¹⁴(...continued)

Court's judgment is "final" at least for appeal purposes. Moreover, as we note in note 19 infra, the Restatement (Second) of Judgments indicates that a judgment is final for the purposes of "issue" preclusion if it is based on a decision that the court lacked jurisdiction or some other preliminary matter which does not reach the merits.

¹⁵ In Young Engineers, the court found res judicata principles generally applicable to section 337 proceedings. Although the court was dealing with "claim preclusion" in Young Engineers, there is no reason not to apply the same reasoning to collateral estoppel or "issue preclusion" as well.

same or a different claim.¹⁶ The Restatement (Second) of Judgments § 27 provides the general rule:

When an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.

In determining whether an issue raised in an earlier proceeding is precluded from being raised in a second proceeding, the Restatement (Second) of Judgments states that the following questions are appropriate:

Is there a substantial overlap between the evidence or argument to be advanced in the second proceeding and that advanced in the first? Does the new evidence or argument involve application of the same rule of law as that involved in the prior proceeding? Could pretrial preparation and discovery relating to the matter presented in the first action reasonably be expected to have embraced the matter sought to be presented in the second? How closely related are the claims involved in the two proceedings?¹⁷

Application of these principles demonstrates that the District Court decision on issues of arbitrability has a collateral estoppel effect on the same issues involving Farrel's trade secret claim before the Commission.

The District Court conducted a detailed analysis of the issues of arbitrability of Farrel's claims. In determining that Farrel and Pomini should arbitrate their dispute, the District Court first held that the agreements to arbitrate disputes arising out of the parties' licensing agreements survived the termination of the licensing arrangement. In the District Court's view, a contrary decision "would render arbitration agreements virtually meaningless, and would defeat the parties' intent that their disputes be resolved according to an agreed procedure." District Court Opinion at 21, citing Hilti, Inc. v.

¹⁶ Restatement (Second) of Judgments § 27 (emphasis supplied). The Restatement definition of collateral estoppel is substantially similar in language and identical in effect to that adopted by the Supreme Court. See Allen v. McCurry, 449 U.S. 90, 94 (1980)

¹⁷ Restatement (Second) of Judgments §27, comment c (1982)

Oldach, 392 F.2d 368 (1st Cir. 1968). With respect to all of the claims before it -- patent and trademark infringement, false representation, breach of contract, and unfair competition -- the District Court held that the various licensing agreements imposed a continuing obligation on respondents to refrain from taking certain actions. An essential part of the District Court's decision to compel arbitration for each of the claims was based on these "continuing obligations."

We find a "substantial overlap" between the evidence and argument advanced by Farrel before the District Court and that presented before the Commission regarding Farrel's trade secret claims. This overlap is demonstrated by the District Court's treatment of the issue of the arbitrability of the patent infringement claims. Patents and trade secrets are covered in the same paragraphs of the parties' agreements -- the same geographic and time restrictions and arbitration provisions apply to both the patents and the trade secrets.¹⁸ Moreover, both claims involve similar factual circumstances, licensing agreements, products, machinery, construction, and design issues, among others. In short, they are "closely related" claims. Restatement (Second) of Judgments § 27, comment c. In determining that the patent infringement claims should be sent to arbitration, the District Court relied on a portion of the Farrel Pomini license agreement that provided:

(a)ll designs, specifications, drawings, photographs, reproductions, and other material furnished to Pomini hereunder, and under the Agreement of March 22, 1963, shall remain the property of Farrel and shall be returned at the termination of this Agreement. Pomini

¹⁸ The misappropriation of trade secrets claim in this action involves a claim that Respondents have wrongfully retained and utilized trade secrets initially received by them in a confidential relationship. Specifically, Farrel's trade secret allegations are based on the failure of Pomini to return the designs, specifications, drawings, photographs, reproductions and other material furnished to Pomini.

shall not at any time in any way or manner whatsoever make known, divulge or communicate any of the drawings, specifications, designs and other data in particular, supplied to them by Farrel or acquired by Pomini from any sources whatsoever relating to the manufacture of the machinery covered by this agreement or any part thereof of any person, firm or company except as hereinafter mentioned, and Pomini will take all proper precautions to prevent any information concerning the same being acquired by any unauthorized person, firm or company.

District court opinion at 29-30. The District Court held that Farrel's patent claims against respondent Pomini amount to "an assertion that Pomini has violated the geographical, durational and 'return' provisions of the agreement", and that such a dispute is one that arises in connection with the agreement and is therefore arbitrable. Id.

Precisely the same analysis is applicable to Farrel's trade secret claims. Farrel relies on the same paragraph of the 1973 licensing agreement quoted above in alleging trade secret misappropriation in its complaint before the Commission. Farrel's complaint also alleges that respondents failed to comply with their continuing obligations under the termination provisions of the licensing agreements, including to "cease using Farrel's patents, trademarks or technical information."¹⁹ The District Court's findings regarding the issues of interpretation of the licensing agreements (including its "continuing obligation" discussion), and its finding that the arbitration agreement survived the termination of the parties relationship, encompass "all disputes"²⁰ of the parties. The District Court did not have occasion to apply this analysis to Farrel's trade secret claims simply because Farrel chose not to include that

¹⁹ Complaint ¶ 26.

²⁰ The District Court's Opinion was premised primarily on the 1973 arbitration clause which provided for the resolution of "all disputes arising in connection with the present Agreement. . . . District Court Opinion at 6.

claim in the Ohio proceedings.²¹ However, given the District Court's general findings and consistent application of these findings to all of the claims before it, as well as the "substantial overlap" of evidence and fact regarding the issue of the arbitrability, we find that the "issue" of trade secret arbitrability before the Commission is precluded under collateral estoppel.²²

c. Applicability of collateral estoppel to Farrel's assertion that respondents waived their right to arbitrate the trade secret claim

Farrel argues that respondents have "abandoned" their arbitration defense in the Italian litigation by agreeing to the appointment of an expert to receive evidence and issue a report concerning, inter alia, Farrel's trade secret claim. It asserts that the "issue" of waiver of arbitrability is not subject to any collateral estoppel effects from the District Court opinion because it alleges that the District Court did not have before it records from the foreign court cases demonstrating the similarity of issues and facts, and thus waiver. (Farrel Memorandum at 43-44).

²¹ Farrel has never contended that anything prevented it from bringing its trade secret claims before the District Court. This decision appears to have been merely tactical.

²² We decline to hold, as asserted by respondents and the Investigating Attorneys, that the District Court decision has a res judicata or "claim" preclusive effect on the trade secret claim. In our view, the decision of the District Court does not meet the requirement of "finality" for claim preclusion sufficient to meet the criteria set forth in Restatement (Second) of Judgments §§ 13, 19, and 24. However, the District Court decision is "final" for the purposes of "issue" preclusion. Section 13 of the Restatement states as follows:

A judgment may be final for purposes of res judicata although it embodies an adjudication that does not bar the plaintiff from maintaining another action against the defendant on the same claim. In such a case, there may be issue preclusion in another action between the parties on the same or a different claim as to issues that were decided as a basis for judgment. (citations omitted). Examples of judgments that do not bar another action on the same claim are those resulting from a decision that the court lacks jurisdiction over the subject matter of the action or over the defendant, or from certain voluntary or involuntary dismissals of an action. (emphasis supplied).

Applying the collateral estoppel rules discussed previously, we hold that the District Court decision has a collateral estoppel or "issue" preclusive effect on the issue of waiver of arbitrability again raised by Farrel in the instant proceeding.

Farrel argued before the District Court that respondents had waived their right to arbitrate the patent and trademark infringement and other claims before the District Court by allegedly contesting the merits of those claims in civil litigation in Italy and Scotland. The District Court found Farrel's waiver argument "unpersuasive" for the following reasons:

First, Farrel asserts that it has expended resources litigating in this forum. The law of this circuit is clear, however, that litigation concerning arbitrability is insufficient to establish waiver by the party seeking arbitration. More importantly, Farrel has not demonstrated the relevance of litigation in Scotland and Italy. Without the records of those cases, this Court has no basis for concluding that they involve the same contracts and similar disputes. Further, even if they do, Farrel cites no authority for the proposition that failure to assert arbitration rights in one lawsuit constitutes waiver of such rights in a different lawsuit, especially one taking place in a different country.

(District Court Opinion at 32-33.)

Thus, the District Court dealt directly with the main issue raised by Farrel here, i.e., whether respondents' actions in defending the Scottish and Italian actions amounted to a waiver of the right to compel arbitration. The District Court explicitly rejected this argument, applying legal principles equally applicable to this proceeding.²³ The District Court first held that Farrel had not demonstrated the "relevance" of the Italian and Scottish

²³ To the extent that Farrel's argument regarding waiver is premised upon the fact that trade secret claims were not before the District Court, it is baseless. By definition, collateral estoppel applies when an issue previously decided is raised in a second action on a different claim. Restatement §27, comment b. In addition, there is no doubt that the trade secret claim is "closely related" to the patent and trademark infringement claims involved in the District Court Opinion. Id. at comment c.

proceedings. It then held that "even if" the facts of the Italian action and the District Court action are the same, Farrel cited no cases holding that a failure to assert arbitration rights in one lawsuit constitutes waiver of such rights in a different lawsuit, especially one in a different country. Farrel has cited no such cases either to the ALJ or in its petition for review.²⁴ Moreover, the District Court held that the patent infringement claims directly litigated by respondents in the Scottish proceeding did not result in a waiver of the arbitration clause.

Nor does the alleged "new evidence" of waiver produced by Farrel avoid the collateral estoppel effect of the District Court's decision. Farrel had every opportunity to present to the District Court facts related to the Italian litigation that it now raises before the Commission. Respondents note that the parties to the District Court litigation continued to present new facts to the District Court up to the time it decided the issue in September 1990. Farrel cannot now be heard to complain that the District Court's findings on this issue are deficient - and justify a Commission investigation - because of Farrel's own failure to present a more complete defense to the court. In fact, the

²⁴ Farrel cites Hunt v. BP Exploration Co. (Libya) Ltd., 580 F. Supp. 304 (N.D.Tex. 1984) for the proposition that "where issues arise concerning enforcement of a purported international arbitration agreement, there will be multiple forums which otherwise may have jurisdiction to hear the claim." (Farrel Memorandum at 34). However, we find the facts of Hunt inapposite. In Hunt, the court held that Hunt had waived any right he may have had to arbitration by "engaging strenuously in the judicial resolution of this dispute [in English courts] over a seven-year period, during which Hunt failed to initiate arbitration or advance the arbitration clause as a defense." The court stressed the fact that the arbitration provision asserted by Hunt was optional, not mandatory as found by the District Court in this proceeding. Unlike in Hunt, Farrel concedes that the respondents raised the preliminary defense of arbitration at the outset of the Italian litigation. Furthermore, the District Court found that the arbitration provisions were mandatory, at least to the extent of requiring an ICC arbitrator to determine whether the claims are arbitrable.

Restatement (Second) of Judgments §27, comment c suggests that new facts such as those proffered by Farrel do not provide it with protection from the preclusive effect of collateral estoppel:

Thus, for example, if the party against whom preclusion is sought did in fact litigate an issue of ultimate fact and suffered an adverse determination, new evidentiary facts may not be brought forward to obtain a different determination of that ultimate fact.²⁵

3. The 1973 arbitration agreement did not include an implied right to bring an independent section 337 action

Farrel argues that it retained the ability to bring a section 337 claim because the law which existed in 1973 at the time of execution of the licensing agreement did not enforce arbitration "of statutory claims when strong public policy interests were at stake." (Farrel Memorandum at 49-51). This argument is also without merit.

Farrel did not retain an implicit right to bring a section 337 action under any of the licensing agreements. Farrel's argument ignores the fact that nothing in the licensing agreements provides any exception for any dispute to be settled other than by arbitration. In fact, the 1973 arbitration agreement provides that Connecticut and U.S. law will govern. In 1973, federal substantive law controlled the enforceability of arbitration agreements, see, e.g., Prima Paint Corp. v. Flood & Conklin Mfg. Co., 388 U.S. 395, 400-404

²⁵ Similarly, if a party sought to obtain relief from a judgment or order under Rule 60(b), F.R.Civ.P, it would have to demonstrate, inter alia, that the "newly discovered evidence [was evidence] which by due diligence could not have been discovered in time to move for a new trial under Rule 59(b)." To permit relitigation of this issue before the Commission based on "new evidence" which Farrel had, but did not make available to the District Court, would violate the principles of Rule 60(b), as well as the doctrine of collateral estoppel. If Farrel's evidence was discovered after September 11, 1990 (the date of the District Court's opinion), then it should have moved the court for relief from the judgment based on this new evidence. For Farrel to come to the Commission claiming that the District Court's decision was erroneous because of such "new evidence" suggests forum shopping.

(1967), and required that the parties' contractual choice of forum be enforced in the context of international transactions. See The Bremen v. Zapata Off-Shore Co., 417 U.S. 1, 9-14 (1972).

More importantly, the Supreme Court's Mitsubishi Motors decision suggests that arbitration agreements should not be interpreted in light of the law which existed at the time the contract was entered. In Mitsubishi Motors, the Supreme Court found that the parties' 1979 agreement to arbitrate "[a]ll disputes, controversies or differences" required arbitration of one party's antitrust claim, notwithstanding [earlier precedent holding that arbitration was not required]." Mitsubishi Motors, 473 U.S. at 628-29. Thus, the Supreme Court determined that the parties must be held to the explicit terms of their bargain, without regard to the state of the law at the time they entered into the agreement. Id. at 640.

In addition, even if 1973 law is applied, as Farrel urges, none of the pre-1973 cases cited by Farrel provides that arbitration of unfair trade practices is precluded on public policy grounds. Farrel cites no case, statute, or regulation which requires such a result. Moreover, no Commission decision provides support for Farrel's argument that 1973 law and practice was to ignore the clear language of an arbitration clause requiring arbitration of "all disputes." Indeed, the Commission decision in Fluidized Beds suggests that the public policy interests in 1985 as well as in 1973 required arbitration of disputes in the face of an international agreement to arbitrate.²⁶

²⁶ Farrel's argument also contradicts the original intention of the parties as reflected in the unambiguous language of arbitration clause. Farrel's implied exception for section 337 cases would make the arbitration clause in the licensing agreement meaningless under certain circumstances. Connecticut law provides that "every provision [in an agreement] must be given effect if reasonably possible" because "parties generally do not insert meaningless

(continued...)

4. Farrel's argument that Fluidized Beds should be overruled

Farrel argues that Fluidized Beds should be reversed for several reasons. Citing the dissenting opinion of Commissioner Rohr, it asserts that the "in addition to any other provision of law" language of section 337(a)(1) means that complainants should be able to avail themselves of the unique remedies and procedures of section 337 regardless of the existence of court decisions concerning the same facts and issues. (Farrel Memorandum at 53). Farrel also asserts that the Mitsubishi Motors decision is not binding on the Commission because it did not hold that an agency investigation under section 337 should be referred to arbitration in international contexts. *Id.* at 55. Finally, Farrel states that Fluidized Beds should be overturned because section 337 rights cannot be effectively vindicated in arbitration proceedings. *Id.* at 56.

We believe that Fluidized Beds was correctly decided. Farrel has not demonstrated any new policy concerns not addressed in the Fluidized Beds decision that would suggest a need to overrule the decision. Nor has Farrel cited to any change in federal or state statutory or regulatory law or judicial decisions requiring that the Fluidized Bed rule be altered or discarded. The reasoning relied upon by the Commission in Fluidized Beds remains viable today, as its application to the instant investigation demonstrates. Accordingly, we find no valid basis to overturn Fluidized Beds.

²⁶(...continued)

provisions in their agreements." A. M. Larson Co. v. Lawlor Ins. Agency, Inc., 220 A.2d 32 (1966). See also Restatement(Second) of Contracts §203(a) ("an interpretation which gives a reasonable, lawful, and effective meaning to all the terms is preferred to an interpretation which leaves a part unreasonable, unlawful, or of no effect.").

5. Farrel's request that the Commission self-initiate an investigation into respondents' alleged violations of section 337

Farrel's final argument is a request that the Commission self-initiate an investigation relying on evidence of respondents' alleged violations of section 337. Farrel asserts that self-initiation is necessary because it is seriously and irreparably injured by respondents' violations of section 337. Farrel also argues that the public interests will be protected by the Commission's self-initiation.

The issue of self-initiation in the context of a valid arbitration agreement was dealt with directly by the Commission in Fluidized Beds. There the Commission refused to exercise its authority to institute an investigation, holding as follows:

Although the Commission has the authority to institute an investigation on its own initiative, we decline to take that action in this investigation because of policy considerations. [Complainant] entered into an arbitration agreement and chose a forum. Reasonably expeditious relief is available from that forum. The Supreme Court has emphasized the importance of the public policy served by recognizing and enforcing such agreements. For the Commission to initiate an investigation would be to defeat that policy.

Fluidized Beds at 10-11. We adopt this reasoning as equally responsive to Farrel's request for self-initiation in this investigation.

Farrel seeks to distinguish the holding in Fluidized Beds, arguing that it is faced with serious injury due to respondents' unfair imports. Farrel asserts that preliminary discovery has produced (1) "unequivocal evidence" that respondents are unlawfully using Farrel's trade secret technology and importing articles embodying those trade secrets into the United States, and (2) evidence that Farrel is being "seriously and irreparable injured by the importation of respondents' internal mixing devices and components thereof." (Farrel's Memorandum at 58).

As we have discussed previously, Farrel has made no attempt to seek temporary relief from the Commission or a federal district court based on this preliminary discovery evidence. If this evidence is as strong as Farrel claims, then it should be able to obtain a preliminary injunction in federal district court pursuant to F.R.Civ.P. 65. Farrel can seek to obtain such an injunction in connection with arbitration proceedings. However, the record of the Commission investigation does not justify self-initiation of a Commission investigation given the arbitration clause and the decision of the District Court.

Conclusion

For all of the forgoing reasons, the above-captioned investigation is terminated.

DISSENTING VIEWS OF COMMISSIONER DAVID B. ROHR

The issue before the Commission in this review of the initial determination (ID) is whether to terminate its section 337 investigation involving certain internal mixing devices and components thereof in light of the District Court's order compelling arbitration between the named parties Farrel Corporation (complainant) and Pomini S.p.A. and Pomini, Inc. (respondents) to the Commission's investigation. The Commission majority in this investigation relies on the Commission's 1985 decision in Fluidized Beds. As I stated in my decision in Certain Fluidized Bed Combustion Systems, Inv. No. 337-TA-213, Dissenting Views of Commissioner Rohr, on this issue I must disagree with my colleagues both as a matter of law and of policy. I continue to believe that a correct analysis of the issue before the Commission compels continuation of this investigation.

I therefore determine that this investigation should not be terminated. In Fluidized Beds, the Commission majority erroneously lent greater deference to a arbitral tribunal than it would to a United States District Court. The Commission majority in Fluidized Beds adopted an unreasonably broad view of the U.S. Supreme Court's holding in Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985), which I find to be entirely inapplicable to proceedings under section 337. I continue to believe, as I did in Fluidized Beds, that the Commission does not have the authority to suspend or terminate this investigation. Finally, there is no overriding public policy reason for the Commission to terminate this investigation.

In my dissenting view in Fluidized Beds, I detailed my reasons for believing that Commission should continue its section 337 investigation despite concurrent arbitration proceedings. These views are equally applicable to the

circumstances of the present investigation. Rather than repeat them, I will summarize here.

The explicit language of section 337(a) and the Commission's longstanding interpretation of that language make it inappropriate for the Commission to terminate this investigation. The statute provides that its violation "shall be dealt with, in addition to any other provision of law..."¹ This "in addition to" language has been the basis for section 337 investigations proceeding concurrently with District Court Actions.² By terminating this investigation, the Commission majority is giving greater deference to an arbitral tribunal than it would to a U.S. District Court. I find this conclusion to be untenable.

The Commission majority's reliance on Mitsubishi Motors is clearly inappropriate in the present case. Mitsubishi Motors adopted a limited exception to the principle that antitrust claims are not capable of arbitration. The Court in Mitsubishi Motors was not dealing with a statute that authorized concurrent proceedings. Secondly, Mitsubishi Motors involved a private suit between two parties. In contrast, Section 337 does not involve a private cause of action and the Commission may fashion whatever relief is dictated by the paramount considerations of the public interest.³ Furthermore, deferring this action to arbitration will affect the substantive rights of complainant, especially its ability to obtain an exclusion order. By contrast, in granting arbitration in Mitsubishi Motors, the Supreme Court did not affect the substantive rights of the parties.

Furthermore, the Commission does not have authority to terminate a section

¹ Section 337(a) of the Tariff Act of 1930; 19 U.S.C. §1337(a) (1981).

² Diversified Products Corp. et al. v. Weslo Design Int'l. Inc. (IV Act 81-119 (D. De. 1985)).

³ "The Committee feels that the public interest must be paramount in the administration of this statute" S.Rep. 93-1298 (November 26, 1974) at 193.

337 proceeding absent a settlement or consent agreement by the parties.⁴ Neither of these circumstances is applicable to the current dispute.

Finally, there is no overriding public policy that compels the Commission to defer the case to arbitration. Arbitration cannot effectively vindicate the complainant's section 337 rights. The timing of relief to complainant through arbitration will likely only be available to complainant far beyond the strictly enforced time limitations of section 337.

I therefore determine that this investigation should not be terminated.

⁴ Commission rule 210.51.

CERTIFICATE OF SERVICE

I, Kenneth R. Mason, hereby certify that the attached NOTICE OF COMMISSION TO REVIEW AN INITIAL DETERMINATION OF NO VIOLATION AND ISSUANCE OF COMMISSION OPINION was served upon Linda C. Odom, Esq. and Kent R. Stevens, Esq. and the following parties via first class mail, and air mail where necessary on November 5, 1990.



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