

IV and V each allege that Respondent manufactured a mixture consisting of Chemical B and another chemical substance prior to submitting a PMN for Chemical B, in violation of 40 C.F.R. Part 270 and sections 5 and 15 of TSCA. Those provisions are also allegedly violated as charged in Counts VII and X, where Respondent is claimed to have manufactured a mixture of Chemical C and another chemical substance, and a mixture of Chemical D and another chemical substance, prior to submitting PMNs for Chemicals C and D. Count XI charges Respondent with using for commercial purposes Chemical E prior to submitting a PMN. Finally, Count XIII alleges that Respondent failed to submit a timely Notice of Commencement of manufacture or import of a Chemical F, in violation of 40 C.F.R. Part 720 and sections 15(1)(C) and 15(3)(B) of TSCA. For these alleged violations, Complainant proposed to assess Respondent a penalty of \$22,702,300.

Respondent answered the complaint, denied all allegations of violation and requested a hearing.

By motion dated December 15, 1993, Respondent requested a dismissal of the complaint (Motion to Dismiss) on the ground that Complainant has not and cannot establish a prima facie case against Respondent. Respondent asserts that its subsidiary, Chevron Chemical Corporation,^{2/} a totally separate legal entity, is the proper party to the case, and not Chevron Corporation. Complainant

^{2/} The principal place of business of Chevron Chemical Company is in San Ramon, California.

opposed the motion, and Respondent filed a reply on February 2, 1994.

Under date of February 15, 1994, Complainant filed a motion for leave to amend the complaint (Motion to Amend) so that the caption would read, "Chevron Chemical Company, a Subsidiary of Chevron Corporation." Respondent filed an opposition to the motion, to which Complainant responded.

Thereafter, Complainant moved to strike all of the defenses set forth in Respondent's answer to the complaint (Motion to Strike) on grounds that they are immaterial, impertinent and/or frivolous, and significantly confuse the issues in the case.

Complainant filed a concurrent motion for accelerated decision with respect to liability, on the basis that Respondent voluntarily disclosed to Complainant that there were violations of TSCA as alleged in the complaint. Respondent opposed both of the motions in a memorandum dated July 21, 1994, pointing out that Chevron Chemical Company has not been named and served as a party to this proceeding, and that the only answer on file is on behalf of Chevron Corporation.

DISCUSSION

I. Motion to Dismiss and Motion to Amend

The parties agree that Chevron Chemical Company is the entity to which the complaint should be addressed. However, the parties disagree on the method by which the party respondent should be

changed from the parent corporation, Chevron Corporation, to the subsidiary, Chevron Chemical Company.^{3/} Respondent insists on a dismissal of the complaint against the parent corporation. Complainant deems such dismissal unnecessary and maintains that the complaint can merely be amended to substitute Chevron Chemical Company for Chevron Corporation.

The latter position is appropriate only if an amendment of the complaint will not unduly prejudice Chevron Corporation or Chevron Chemical Company and if it is consistent with relevant legal authorities. It is concluded that an amendment to the complaint as directed herein below is consistent with federal court practice and procedure and will not result in undue prejudice.

Respondent submitted statements certified under penalty of perjury ("certificates") to support its defense that Chevron Corporation is not responsible for the facts alleged in the complaint. Respondent asserts that Chevron Chemical Company has been in business long before TSCA was enacted and has ample capitalization, that there is no intermingling of properties or accounts, and that there was no control by Chevron Corporation over the details involved in this proceeding. The Vice Chairman of the Board of Directors of Chevron Corporation, James N. Sullivan, and

^{3/} Chevron Corporation timely notified Complainant that it had sued the wrong party and that the proper entity is Chevron Chemical Company, suggesting that Complainant file an amended complaint naming that entity as respondent, together with a dismissal of Chevron Corporation. (Respondent's Opposition, exhibit A, letter dated October 11, 1993.) The parties failed to agree on a stipulation to substitute Chevron Chemical Company as the Respondent. (Respondent's Status Report, dated February 24, 1994.)

the Chief Executive Officer of Chevron Chemical Company, John E. Peppercorn, support those assertions in their certificates. The latter also states that Chevron Corporation did not file the PMNs referred to in the complaint.

In response, Complainant reiterates its acknowledgment of the existence of the separate entities, and asserts that a dismissal deprives Complainant of its day in court. Rule 22.20 of the Consolidated Rules of Practice, 40 C.F.R. § Part 22, is not the authority for the relief sought by Respondent, Complainant believes; the real issue is whether Chevron Chemical Company is an indispensable party to this proceeding. However, a decision against or in favor of Chevron Corporation will necessarily bind Chevron Chemical Company because it is a subsidiary which is wholly owned by the parent. Complainant refers to Rule 21 of the Federal Rules of Civil Procedure (FRCP), which states that dismissal is not a remedy for misjoinder of parties.

Respondent replies that the motion to dismiss has nothing to do with misjoinder or indispensability of a party. No triable issues of fact exist, as Respondent's uncontroverted affidavits establish that Chevron Corporation "with minor, unimportant exception [presumably owning all the stock of Chevron Chemical Company], did none of the things alleged in the complaint." (Closing Memorandum in Support of Motion to Dismiss, dated February 2, 1994.) The ambiguous allegation that the parent corporation "operates" the subsidiary is insufficient to impose liability on the parent for the acts of the subsidiary.

In its Motion to Amend, Complainant argues that such motion renders a dismissal of the complaint unwarranted. Complainant asserts that all references in the original complaint to "respondent" will be understood to refer to the subsidiary, Chevron Chemical Corporation, upon amendment, upon which that entity would have twenty days to submit an answer. Complainant urges the adoption of the sense of FRCP 21, governing misjoinder and nonjoinder of parties, to amend the complaint. Rule 21 states that "Misjoinder of parties is not ground for dismissal of an action," that parties may be dropped or added by order of the court "on such terms as are just."

Respondent opposes the Motion to Amend on grounds that no support for Complainant's position has been submitted, and that for the sake of clarity, there should be a complaint which forms the issues without ambiguity. It characterizes the Motion to Amend as an attempt to circumvent the Motion to Dismiss, and thus unacceptable. A letter to Complainant, dated February 9, 1994, is referenced, wherein concerns are expressed that the dismissal of Chevron Corporation be made without ambiguity, otherwise two answers will be on file which both refer to "respondent," and that false inference may result from the irrelevant recital in the caption of this proceeding that Chevron Chemical Company is a wholly owned subsidiary of Chevron Corporation. (Respondent's Status Report, dated February 23, 1994, exhibit C.)

Complainant's Motion to Amend is not well supported, and its proposal to change the caption, and establish that the term

"respondent" in the original complaint will be understood as referring to Chevron Chemical Company, is inadequate. No necessity has been shown to describe the latter in the caption as a wholly owned subsidiary of Chevron Corporation.

Nor has any compelling reason been presented not to dismiss the complaint against Chevron Corporation, pursuant to 40 C.F.R. § 22.20. This is not a case of misjoinder; there is only one respondent named, which is not the appropriate party, and one distinct entity which is the proper party respondent to this proceeding. Complainant has failed to establish a prima facie case against Chevron Corporation, which is a basis for dismissing an action under 40 C.F.R. § 22.20(a). Respondent has presented sworn statements setting forth facts that Chevron Corporation is a separate entity from Chevron Chemical Company, and that it is the latter's conduct and not the former's conduct which is at issue in the complaint. (Certificates of John E. Peppercorn and James N. Sullivan, attached to Motion to Dismiss.) The Chief Executive Officer of Chevron Chemical Company states that "Respondent Chevron Corporation . . . did not file those [six] PMNs [referenced in the complaint] and did not import, manufacture or sell the chemical substances." (Certificate of John E. Peppercorn, attached to Motion to Dismiss.) Complainant has not disputed these facts.

Therefore, the complaint against Chevron Corporation should be dismissed and a complaint naming Chevron Chemical Company as respondent should be filed either de novo, or as an amended complaint in this proceeding, which in effect would be a

substitution of parties. Where no prejudice will result, in the interest of expediency, the latter solution is preferable. It is also consistent with federal case law.

Amendment of the complaint is governed by 40 C.F.R. § 22.14(d), which provides that after the answer is filed, the complaint may be amended only upon motion granted by the Presiding Officer (Administrative Law Judge or ALJ). The issue of substituting a respondent named in the complaint is not addressed in the 40 C.F.R. Part 22 rules.

However, federal court procedure is often used as guidance where the Part 22 rules do not specifically address an issue. In federal court, a party may be dropped from an action, and one party may be substituted for another, by amending the complaint, under Rule 15 of the FRCP.^{4/} Campbell v. Hoffman, 682 F.R.D. 682, 684 (D. Kan. 1993); Barrett v. Qual-Med, Inc, 153 F.R.D. 653, 655 (D. Colo. 1994). Where only one defendant was named in the complaint, both motions, to dismiss the complaint and to amend the complaint to name the new defendant, may be granted. Franklin v. Norfolk & Western Railway Co., 694 F.Supp. 196 (S.D. W.Va. 1988).

Amending a complaint to substitute a different party may raise difficulties, and may not be permitted, if it arguably constitutes the commencement of a new action. 3 Moore's Federal Practice (2d ed.), ¶ 15.08[5], pp. 15-85 to 15-86. However, such problems are avoided if the criteria of Rule 15(c) of the FRCP are met.

^{4/} Rule 15(a) provides that leave of court to amend a complaint "shall be freely given when justice so requires."

Paragraph (c) of Rule 15 addresses the relation back of amendments, and specifically refers to amendments to change the party against whom the claim is asserted. While not directly pertinent to this case, the principle behind paragraph (c) is to avoid use of the statute of limitations to prevent adjudication of claims "where a real party in interest was sufficiently alerted to the proceedings, or was involved in them in a practical sense from an early stage." Hampton v. Hanrahan, 522 F. Supp. 140, 145 (E.D. Ill. 1981).

Consequently, when a new defendant is sought to be added or substituted, the courts have looked to such factors as the relationship between the defendant named in the complaint and the new one, and whether the latter was on notice of the suit. 3 Moore's Federal Practice, ¶ 15.08[5] pp. 15-89 to 15-90.

Under Rule 15(c), if the amendment is properly made, the amended complaint should relate back to the date that the original complaint was filed. That paragraph sets forth the following criteria:

An Amendment of a pleading relates back to the date of the original pleading when

(1) relation back is permitted by the law that provides the statute of limitations applicable to the action, or
(2) the claim or defense asserted in the amended pleading arose out of the conduct, transaction, or occurrence set forth or attempted to be set forth in the original pleading, or

(3) the amendment changes the party or the naming of the party against whom a claim is asserted if the foregoing provision (2) is satisfied and, within the period provided by Rule 4(m) for service of the complaint, the party brought in by amendment (A) has received such notice of the institution of the action that the party will not be prejudiced in maintaining a defense on the merits, and (B) knew or should have known that, but for a mistake concerning the identity of the proper party, the action would have been brought against the party.

FRCP 15(c), as amended April 22, 1993, effective December 1, 1993.

Courts have recognized that "it is well settled that the Federal Rules of Civil Procedure are to be liberally construed to effectuate the general purpose of seeing that cases are tried on the merits. * * * To this end, amendments pursuant to Rule 15(c) should be freely allowed." Staren v. American National Bank & Trust Company, 529 F.2d 1257 (7th Cir. 1976), quoted in Hill v. Shelander, 924 F.2d 1370, 1375 (7th Cir. 1991). A mistake of failing to sue the proper party does not itself constitute the kind of circumstance indicating that leave to amend should be denied. Ynclan v. Department of the Air Force, 943 F.2d 1388, 1391 (5th Cir. 1991); Chancery Clerk of Chickasaw County v. Wallace, 646 F.2d 151, 160 (5th Cir. Unit A 1981) ("To regard the plaintiff's selection of the wrong government officials as in mounting this suit as anything more than a remedial pleading defect . . . would be to elevate form over substance").

The Supreme Court held that the circumstances for denying leave to amend are when there is "undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party by virtue of allowance of the amendment, [or] futility of the amendment." Foman v. Davis, 371 U.S. 178, 182 (1962).

The alleged attempt by Complainant to circumvent the motion to dismiss does not rise to the level of bad faith or dilatory motive. In the case at hand, the only circumstance of those listed above

that has been raised by Respondent is that of prejudice. Rule 15(c) indicates that the issue of prejudice is associated with notice to the proposed defendant of the institution of the action.

The attorney for Chevron Corporation stated that he knew that Complainant had sued the wrong party and if this situation were remedied as he suggested, he would appear on the merits and file an answer on behalf of Chevron Chemical Company. (Certificate of Anthony P. Brown attached to Motion to Dismiss, and letter dated October 11, 1993 attached thereto) If this attorney has conducted the case all along the same as if Chevron Chemical Company had been named as respondent, then no prejudice would be apparent. Darby v. Pasadena Police Department, 939 F.2d 311 (5th Cir. 1991) (party had actual notice where the police department, a nonexistent jural entity, rather than the city, was mistakenly sued and the city's attorney, believing the case was properly filed against the department, conducted the case all along exactly as he would have had the proper entity been sued. Therefore, no prejudice would result and amendment of the complaint was proper.)

Neither party has made specific assertions as to the issue of actual notice of the institution of this proceeding to Chevron Chemical Corporation. However, the record shows that it had notice within three months of the filing of the complaint, as evidenced by the statement of the Chief Executive Officer of Chevron Chemical Company, dated December 17, 1993, that he had reviewed the complaint. (Certificate of John E. Peppercorn, attached to Motion to Dismiss) The facts that this case is in a very early stage of

the proceeding, and that there is no issue of the expiration of any statute of limitations, decreases the likelihood of finding prejudice. United States v. Thomas Howell Kiewit, 149 F.R.D. 125, 126 (E.D. Va. 1993); Ayala Serrano v. Collazo Torres, 650 F.Supp. 722, 727 (D. Puerto Rico 1986); Hill V. Equitable Bank, N.A., 109 F.R.D. 109, 112 (D. Del. 1985) (party sought to be named must show that it was unfairly disadvantaged or deprived of the opportunity to present evidence which it could have offered had the amendment been timely).

It is likely that Chevron Chemical Company had notice of the complaint immediately after it was served, due to the facts that it is a wholly owned subsidiary of the named respondent, that they share an attorney, and that the complaint recites the name and principal place of business of Chevron Chemical Company. (Complaint ¶ 1) Furthermore, it is undisputed that Chevron Chemical Company submitted to EPA the records and documents, including Premanufacture Notices (PMNs), referenced in the complaint. (Certificate of John E. Peppercorn, attached to Motion to Dismiss) The Chief Executive Officer stated that "EPA has simply named the wrong party respondent." (Id.)

These facts indicate that Chevron Chemical Company knew or should have known that it was the proper party to the action, and that it received such notice of the complaint in this proceeding that it will not be prejudiced in maintaining a defense on the merits. Such a conclusion is consistent with federal case law addressing amendments to the complaint to substitute a defendant

under FRCP 15(c). Lockett v. General Finance Loan Company of Downtown, 623 F.2d 1128, 1131 (5th Cir. 1980) (amendment should have been granted and no prejudice was found where parent corporation knew of or should have known from the original complaint against subsidiaries that it was being named a party defendant or potential defendant, where the complaint specifically reserved the right to amend the complaint to add the parent, whose name was unknown at the time the complaint was filed); Bush v. Sumitomo Bank and Trust Co., Ltd., 513 F.Supp. 1051, 1054 (E. D. Texas 1981) (no prejudice found, and claim related back under FRCP 15(c), where the proposed defendant had notice of the suit one month after it commenced, the named and the proposed defendant had the same attorney, and the facts alleged in the complaint should have alerted the potential defendant that it was the intended defendant); Meredith v. United Airlines, 41 F.R.D. 34, 38 (S.D. Calif. 1966) (complaint related back, notice of the complaint was assumed, party was not prejudiced in maintaining its defense, and knew or should have known that it was a potential defendant, where it fully investigated and reported the events upon which the complaint was based and participated in an inquiry within a few weeks after such events occurred); Ayala Serrano v. Collazo Torres, 650 F.Supp. 722, 726 (D. Puerto Rico 1986) (Rule 15(c) criteria were met because the new defendant had constructive notice of the suit, by virtue of the same attorney representing both the named and the proposed defendants, who knew that the plaintiff erred in failing to name the proposed defendant); Davis v. NMU

Pension & Welfare Plan, 810 F.Supp. 532, 538 (S.D. N.Y. 1992) (the sharing of counsel "can constitute proper notice upon 'some showing that the attorney(s) knew that the additional defendants would be added to the existing suit'"); Franklin v. Norfolk & Western Railway Company, 694 F.Supp. 196, 198 (S.D. W. Va. 1988) (motion to amend granted, to substitute the subsidiary for the parent corporation, and notice under Rule 15(c) was met, where they were represented by the same attorneys who were fully aware of the confusion with regard to the proper party.)

Even if actual notice is not shown, courts have allowed addition and substitution of parties, and imputed to the proposed defendant notice of the action shortly after commencement, where there is an extremely close corporate or other relationship between the original and added defendant, and no prejudice accrues to the new party. 3 Moore's Federal Practice ¶ 15.08[5] at p. 85-91. The identity of interest doctrine, a judicially made exception to the notice requirement of Rule 15(c), has been frequently used by courts to allow amendment and relation back where no prejudice would result to the party sought to be added, although the doctrine has not been expressly accepted or rejected by the Supreme Court. Schiavone v. Fortune, 477 U.S. 21 (1986).

The concept "is often applied where the original and added parties are a parent corporation and its wholly owned subsidiary, two related corporations whose officers, directors, or shareholders are substantially identical and who have similar names or share office space, past and present forms of the same enterprise, or co-

executors of an estate." Hernandez Jimenez v. Calero Toledo, 604 F.2d 99, 103 (1st Cir. 1979), citing, 6 Wright & Miller, Federal Practice & Procedure § 1499 at 518-19 (1971); 3 Moore's Federal Practice, ¶ 15.15[4.-2] at 15-231 n. 15 (2d ed. 1978); accord, Franklin v. Norfolk & Western Railway Company, supra (identity of interest test met by the parent-subsidary relationship).

However, where prejudice to the prospective defendant is shown, such as the expiration of a statute of limitations, the parent and subsidiary relationship has been found insufficient to impute notice. Jacobs v. McCloskey and Company, 40 F.R.D. 486, 489 (E.D. Penn. 1966) (request to substitute for the parent corporation its wholly owned subsidiary denied on grounds that the subsidiary is a distinct and separate entity and service upon the parent did not operate to bring it into court, and the subsidiary would be deprived of its defense of the statute of limitations), questioned in 6A C. Wright, A. Miller, M. Kane, Federal Practice & Procedure, Civil 2d § 1498 (1990) (describes Jacobs as "particularly harsh," defeating a claim on a technical basis when it should have been decided on the merits). One court has stated, "the parent-subsidary relationship standing alone is simply not enough -- as Professors Wright and Miller perhaps too optimistically state [referring to 6 C. Wright & A. Miller at § 1499, p. 518 (1971)] -- to establish the identity of interest exception to the relation back rule." In re Allbrand Appliance & Television Company, Inc., 875 F.2d 1021, 1025-1026 (2d Cir. 1989) (where statute of limitations had run, motion to add parent corporation as defendant

in action against the wholly owned subsidiary was denied because of insufficient notice, even where they shared an attorney, because they did not organize or conduct their activities "in a manner that strongly suggests a close linkage," and did not share organizers, officers, directors and offices). In re Integrated Resources Real Estate Limited Partnerships Securities Litigation, 815 F.Supp. 620, 647 (S.D.N.Y. 1993) (agreeing with Allbrand that more is needed for notice than a parent-subsidiary relationship and representation by the same attorney, the court stated that "notice has to be such that the new defendant must be able to anticipate and therefore prepare for his role as defendant"); In re Convertible Rower Exerciser Patent Litigation, 817 F.Supp 434, 441-2 (D. Del. 1993) (motion to substitute a corporation for its unincorporated division denied for insufficient notice, where the entities had different management structures, headquarters, support staff, and attorneys representing them, and the corporation would be prejudiced by being substituted as a party at a late stage in the litigation.)

In the instant proceeding, as noted above, there is no factor of delay or the expiration of any statute of limitations. While the Motion to Amend could have been filed sooner, the time elapsed between the answer and that motion, October 20, 1993 until February 15, 1994, during which time Complainant attempted to stipulate to the changes to the complaint, does not constitute

undue delay and has not been shown to result in prejudice to Chevron Chemical Company.^{5/}

If the complaint is amended to name Chevron Chemical Company as the sole respondent, and Chevron Corporation is dismissed as a party respondent in this proceeding, then the argument that the pleadings may be ambiguous or give rise to false inference become moot. Such an amendment to the complaint is appropriate in the circumstances of this case.

^{5/} Some federal courts have denied amendment under FRCP 15(c) where the failure to name the proper party was not due to a mistake in the identity of the party, but was done for strategic reasons. Wells v. HBO & Company, 813 F.Supp. 1561, 1567 (N.D. Ga. 1992) (Motion to amend denied where plaintiff deliberately did not sue a party whose identity plaintiff had known from the outset); Manildra Milling Corp. v. Ogilvie Mills, Inc., 746 F.Supp. 40, 43 (D. Kan 1990) (noting divergent lines of authority interpreting the mistaken identity requirement of Rule 15(c)). In such a situation, the proposed defendant could be prejudiced by insufficient notice because it could reasonably have inferred that the plaintiff's failure to originally sue that party was an intentional decision. However, no such argument has been made in this proceeding, and it is not clear from the record whether Complainant knew of the respective roles of the two entities.

Accordingly, Complainant is directed to serve, within fifteen days from the date of service of this Order, an amended complaint which names Chevron Chemical Company as the sole respondent, which has no reference in the caption to Chevron Corporation, which shall use the term "respondent" with reference only to Chevron Chemical Company, and which otherwise states the same allegations of fact and violation as the original complaint. Upon timely service of an amended complaint complying with these directives, Chevron Chemical Company will have twenty days within which to file an answer.

II. Motion to Strike Defenses and Motion for Accelerated Decision

Complainant's Motion to Strike seeks to strike all of the defenses in the answer filed by Chevron Corporation. However, the dismissal of Chevron Corporation as a party to this proceeding renders the answer filed by Chevron Corporation a nullity. Consequently, the Motion to Strike is moot. Similarly, the Motion for Accelerated Decision is moot on the same ground.

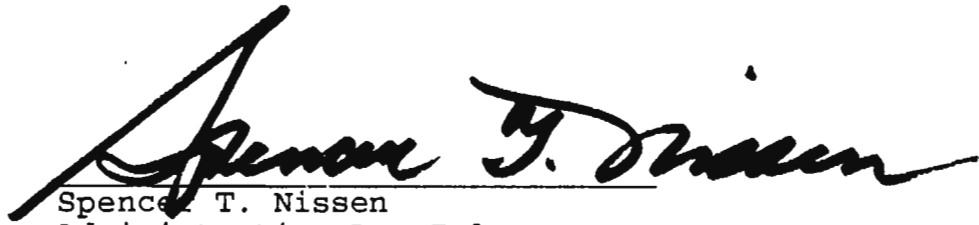
ORDER

1. Respondent's Motion to Dismiss is GRANTED.
2. Complainant's motion for leave to amend is GRANTED on condition that Complainant shall amend the complaint as directed herein above and shall serve such an amended complaint within fifteen (15) days of the date of service of this order. In all other respects, the motion for leave to amend is denied. Pursuant to 40 C.F.R. § 22.14(d), Chevron

Chemical Company shall have twenty (20) days from the date of service of such an amended complaint to file an answer.

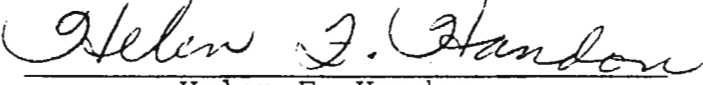
3. Complainant's Motion for Accelerated Decision is DENIED.
4. Complainant's Motion to Strike Defenses is DENIED.

Dated this 26th day of July 1995.


Spence T. Nissen
Administrative Law Judge

CERTIFICATE OF SERVICE

This is to certify that the original of this ORDER ON MOTIONS TO DISMISS, TO AMEND COMPLAINT, FOR ACCELERATED DECISION, AND TO STRIKE DEFENSES, dated July 26, 1995, in re: Chevron Corporation, Dkt. No. TSCA-09-93-0012, was mailed to the Regional Hearing Clerk, Reg. IX, and a copy was mailed to Respondent and Complainant (see list of addressees).



Helen F. Handon
Legal Staff Assistant

DATE: July 26, 1995

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