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SOUTHERN DISTRICT CIVIL PRACTICE ROUNDUP

Expert Analysis

Obtaining Discovery From Foreign Litigants: Competing Views on Comity

Foreign litigants in U.S. courts can find themselves caught between discovery orders formulated under the broad disclosure principles animating the Federal Rules of Civil Procedure and far more restrictive privacy-driven laws of other countries in which they are located, forbidding the very disclosures required by U.S. court order. Hoping to spare these litigants the dilemma of having to choose between violating foreign law or a U.S. discovery order, the American Bar Association adopted a resolution in February 2012 calling for U.S. courts to be more receptive to foreign data protection and privacy laws when considering discovery requests in civil litigation.[1]

That resolution left Southern District Judge Richard J. Sullivan unmoved when recently proffered as partial support for a motion brought by Bank of China for relief from an earlier discovery order in *Gucci America v. Weixing Li*.[2] That case, and *Tiffany (NJ) v. Qi Andrew*,[3] both discussed below, illustrate contrasting approaches to how judges in the U.S. District Court for the Southern District of New York, faced with almost identical facts, balance the competing domestic and international concerns implicated by these discovery demands.

'Tiffany' and Initial 'Gucci'

Gucci and *Tiffany* are both trademark infringement cases brought by high-end retail manufacturers against alleged counterfeiters who "knocked off" and sold unlicensed copies of their products over the Internet. In both cases the courts entered preliminary injunctions ordering discovery from financial institutions concerning account information for the defendants, including information held by Bank of China to which proceeds from the alleged illegal Internet sales had been transferred.

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In opposing the subpoenas to the extent they sought information located in China, Bank of China argued in both cases that Chinese bank secrecy laws prohibited disclosure of customer account information without the customer's consent. Sullivan in *Gucci*, and Southern District Magistrate Judge Henry Pitman in *Tiffany* each applied the well-accepted five-factor test set forth in the Restatement (Third) of Foreign Relations Law §442(1)(c) for determining whether to order discovery of foreign documents which requires consideration of: (i) the importance to the investigation or litigation of the documents or other information requested; (ii) the degree of specificity of the request; (iii) whether the information originated in the United States; (iv) the availability of alternative means of securing the information; and (v) the extent to which noncompliance with the request would undermine important interests of the United States, or compliance with the request would undermine important interests of the state where the information is located.

> Should U.S. courts be more receptive to foreign data protection and privacy laws when considering discovery requests in civil litigation?

Both judges also noted the additional factor recognized by courts in the U.S. Court of Appeals for the Second Circuit of "the hardship of compliance on the party or witness from whom discovery is sought [and] the good faith of the party resisting discovery."[4]

Sullivan and Pitman gave similar weight to the first three factors. They agreed with the plaintiffs that the information sought was important to the respective cases before them because, among other things, it could reveal the identities of those involved in the counterfeiting operations and that the requests—directed at information regarding specific accounts—were sufficiently discrete and narrowly tailored to weigh in favor of ordering production. Both judges also agreed that under the third factor, the overseas location of the documents weighed in favor of the bank resisting disclosure.

The courts' reasoning diverged on the fourth factor—the availability of alternative means for securing the information sought. In each instance, Bank of China argued that the Hague Convention provided an effective alternative means for obtaining discovery of the information located in China, and the plaintiffs argued that China's record of compliance with Hague Convention requests rendered that option ineffective. Each party supported its position with similar expert evidence and made similar arguments about the significance of the fact that the U.S. State Department had recently removed from its website an admonition that Hague Convention requests directed to China had been fraught with delays and "not particularly successful in the past."

In *Tiffany*, Pitman concluded that the deletion of this language, particularly in light of evidence that China had taken concrete steps to improve processing of Hague Convention requests, "implies that the conditions described by the omitted language no longer exist," observing that "[t]here would be no reason for the State Department to withdraw the language if it were still accurate."[5] He concluded that despite the "dearth of information as to the current efficiency of [the Chinese Hague] procedure[s]" evidence of increased execution of these requests meant that he could not "conclude that this avenue is futile," and that the availability of an alternative means weighed in favor of the bank.[6]

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Sullivan, who issued his initial decision in *Gucci I* less than a month later, came to the opposite conclusion, expressly disagreeing with Pitman as to the implications of the State Department's "unexplained revision" of its website. More importantly, Sullivan framed the question not in terms of "futility," as Pitman had, but in terms of whether the Hague Convention presented an "easily obtainable" alternative for the plaintiffs to secure the documents they sought. Against that standard, he concluded, based on substantially similar evidence to that presented in *Tiffany*, that "[w]ithout concrete evidence suggesting that China's compliance with Hague Convention requests has, in fact, dramatically improved," the Hague Convention was not "a viable alternative method of securing the information Plaintiffs seek."[7]

Sullivan also reached a different conclusion than Pitman on the weight to be accorded China's interests in its bank secrecy laws in applying the fifth Restatement factor—the balancing of competing national interests. Where Pitman found that China had a significant interest in its bank secrecy laws as a means to foster confidence in its relatively new banking system,[8] Sullivan found that China had only a "limited national interest," in part because those laws were subject to waiver and had various exceptions, and in part because the Chinese government had not voiced objections to the specific disclosure sought in that case.[9]

Acknowledging the Supreme Court's directive in *Societe Nationale Industrielle Aerospatiale v. U.S. District Court for the Southern District of Iowa*,[10] that "American courts should…take care to demonstrate due respect for any special problem confronted by the foreign litigant on account of its nationality or the location of its operations, and for any sovereign interest expressed by a foreign state," he noted that in the same opinion the court observed that "American courts are not required to adhere blindly" to foreign directives.[11] Applying that framework, Sullivan expressly disagreed with Pitman's conclusion that the U.S. interest in enforcing domestic trademark laws was outweighed by China's interest in its bank secrecy laws—particularly when those laws were susceptible to exploitation by international counterfeiters.[12]

Finally, Pitman was persuaded by evidence of China's past enforcement of its bank secrecy regulations—albeit under different circumstances—that the potentially harsh sanctions for the bank and its personnel posed a potential hardship to the bank, weighing against the requested disclosure. By contrast, Sullivan found the risk of consequences to the bank too speculative to demonstrate hardship of compliance.

The ABA Resolution

Against the backdrop provided by these and similar cases, the ABA adopted its resolution in February urging that "where possible in the context of the proceedings before them," all courts in the United States "consider and respect, as appropriate, the data protection and privacy laws of any applicable foreign sovereign, and the interests of any person who is subject to or benefits from such laws, with regard to data sought in discovery in civil litigation."[13] That resolution, proposed in similar form by the Section of International Law,[14] was accompanied by a report premised on the notion that *Aerospatiale* provides a clear and workable standard for accommodating the competing concerns of U.S. discovery and foreign privacy laws and blocking statutes, but that U.S. courts have often misapplied that standard, ruling that "the needs of the proceeding before them inevitably must take precedence over the privacy and data protection concerns of other nations."[15] The report cautions that the failure to heed the true balancing function of *Aerospatiale* "may impede the orderly flow of electronic commerce between nations…."[16]

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'Gucci' Revisited

Bank of China sought unsuccessfully to have Sullivan revisit his decision ordering disclosure of its Chinese account records in *Gucci I*, relying in part on the ABA resolution, and in part on a letter from its Chinese regulators. That letter reiterates that Chinese law would prohibit the disclosure of customer information outside China without customer consent and states that China is committed to ensuring that Hague Convention requests are dealt with in a reasonable period of time; that China has a material interest in strictly enforcing its bank secrecy laws; and that the regulators have already issued a "severe warning" to Bank of China concerning its disclosures to date and are evaluating the "severity of the infraction and determine the appropriate sanctions."[17]

Sullivan found Bank of China's application under Federal Rule of Civil Procedure 60(b) to be procedurally deficient because the order from which it sought relief was not a final judgment, and the evidence it presented was not "newly discovered" and would not have changed the outcome of his earlier decision. On the latter point, he stressed that the only evidence in the letter that could be considered non-cumulative was the indication from the Chinese regulators that they had issued a warning to Bank of China and were considering additional sanctions. Sullivan concluded that because no sanctions had actually been imposed, "nothing changes the Court's conclusion that [Bank of China's] 'representation of the liability that it faces…[is] unduly speculative.'"[18]

Sullivan also rejected the argument that the ABA resolution should alter his analysis, noting that the resolution recommends consideration of foreign privacy laws only "where possible" and "appropriate" in the context of the particular proceeding. Relying again on language from *Aerospatiale* calling for "scrutiny in each case of the particular facts, sovereign interests, and likelihood that resort to [the Hague Convention] will prove effective," Sullivan explained that his decision in *Gucci I* had clearly considered and balanced those interests. He concluded that even if Bank of China's motion was properly before him, nothing presented in that motion would have changed the outcome of his earlier decision.

Conclusion

Sullivan's response to the ABA resolution leaves open the question of whether it will achieve its intended goal of recalibrating the scales on which U.S. courts balance foreign privacy laws with U.S. discovery requests. So long as domestic litigants are successful in obtaining discovery orders from U.S. courts, they will be understandably reluctant to proceed under the Hague Convention, which may reinforce rather than interrupt the current trend the ABA resolution seeks to reverse.

1. ABA Resolution 103, http://www.abanow.org/2012/01/2012mm103/ (February 2012).
2. 2011 WL 6156936 (S.D.N.Y. Aug. 23, 2011) (*Gucci I*), reconsideration denied, 2012 WL 1883352 (S.D.N.Y. May 18, 2012) (*Gucci II*).
3. 276 F.R.D. 143 (S.D.N.Y. 2011), aff'd, unpublished order (S.D.N.Y. Nov. 14, 2011) (Pauley, J.).
4. 2011 WL 6156936, at *5 (quoting *Minpeco v. Conticommodity Servs.*, 116 F.R.D. 517, 523 (S.D.N.Y. 1987)); *Tiffany*, 276 F.R.D. at 151 (same).
5. 276 F.R.D. at 153.
6. Id. at 156.
7. 2011 WL 6156936, at *9.
8. 276 F.R.D. at 156.
9. 2011 WL 6156939, at *9-11.
10. 482 U.S. 522 (1987).
11. Id. at 544 n.29, 546.
12. 2011 WL 6156939, at *11 n.8.
13. ABA Resolution 103.
14. The resolution, as adopted by the ABA House of Delegates, contained more qualifying language than the version proposed by the International Law Section, adding the phrases "where possible in the context of the proceedings before them" and "as appropriate," and eliminating references to data preservation.
15. ABA Resolution 103 "Proposed Resolution and Report" at p. 2. http://www.abanow.org/2012/01/2012mm103/ (February 2012).
16. Id. at p. 10.
17. 2012 WL 1883352, at *4 (S.D.N.Y. May 18, 2012).
18. Id. (quoting 2011 WL 6156936, at *11).