Section of Litigation Criminal Litigation

Grand Jury Subpoenas That Reach Around the World

By Stanley A. Twardy Jr. and Doreen Klein – October 12, 2011

Technology has erased global boundaries, and so has the federal judiciary. Recent decisions by the Fourth and Ninth Circuit Courts of Appeals have upheld federal prosecutors' use of criminal grand jury subpoenas to obtain foreign documents brought into the United States under the compulsion of civil discovery and governed by civil protective orders. These decisions enhance prosecutors' ability to conduct international investigations at a time when the Department of Justice (DOJ) is aggressively targeting international antitrust and Foreign Corrupt Practices Act (FCPA) violations. *See* News Release, Dep't of Justice, Assistant Attorney General Lanny A. Breuer Speaks at the 24th National Conference on the Foreign Corrupt Practices Act (Nov. 16, 2010), *see also* Dep't of Justice, Antitrust Division Update Spring 2011.

Prosecutors may thus, in certain cases, be able to sidestep the lengthy international methods for obtaining foreign discovery, which not only require notice to the foreign sovereign but also a determination from the sovereign, regarding whether the material should be produced at all. *See* Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters, Mar. 18, 1970, 23 U.S.T. 2555, T.I.A.S. No. 7444, 847 U.N.T.S. 231, art. 12 (signatory may refuse request to the extent it "considers that its sovereignty or security would be prejudiced thereby"); art. 23 (permitting signatory to declare at time of ratification that it will not execute Letters of Request issued for the purposes of obtaining pretrial discovery of documents); *see also* U.S. Department of State Judicial Assistance Circular, Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters (State Department cautions that "[s]ome countries require case-by-case permission from the foreign central authority before a voluntary deposition can be taken.").

The circuit courts have long been divided on the interplay between grand jury subpoenas and civil protective orders with respect to documents maintained by domestic companies. The Fourth, Ninth, and

Eleventh Circuit Courts adhere to the rule that grand jury subpoenas trump civil protective orders. *In re Grand Jury Subpoena* (*Under Seal*), 836 F.2d 1468 (4th Cir. 1988); *United States v. Janet Greeson's A Place For Us* (*In re Grand Jury Subpoena Served on Meserve, Mumper & Hughes*), 62 F.3d 1222 (9th Cir. 1995); *In re Grand Jury Proceedings* (*Williams*), 995 F.2d 1013 (11th Cir. 1993). The Second Circuit holds the view that grand jury subpoenas yield to civil protective orders "absent a showing of improvidence in the grant of a . . . protective order or some extraordinary circumstance or compelling need." *Martindell v. ITT*, 594 F.2d 291, 296 (2d Cir. 1979). Each of these stands in contrast to the middle ground taken by the First and Third Circuits, where there is a rebuttable presumption that grand jury subpoenas take priority over civil protective orders. *In re Grand Jury Subpoena* (*Roach*), 138 F.3d 442 (1st Cir. 1998); *In re Grand Jury*, 286 F.3d 153 (3d Cir. 2002).

With two circuits now taking the position that foreign documents are no different than domestic, and with the U.S. Supreme Court declining to weigh in on the issue, *White & Case LLP v. United States*, 79 U.S.L.W. 3728 (June 27, 2011), the specter of government involvement surrounds every decision a party—domestic, multinational, or foreign—makes regarding how to respond to civil discovery demands. A party facing parallel civil and criminal proceedings must consider throughout every step of the civil discovery process whether and to what degree the government might be a partner with a civil adversary.

The Ninth Circuit case is noteworthy in part for the innocuous manner in which the issue arose. After the DOJ began a criminal investigation into price fixing in the sale of thin film transistor liquid crystal display (LCD) panels, private litigants filed civil actions against the manufacturers, which were consolidated in the Northern District of California. *In re: TFT-LCD* (*Flat Panel*) *Antitrust Litig.*, No. 3:07-md-01827 (SI). The DOJ intervened in the civil proceeding, citing its concern about preventing the broad civil discovery rules from circumventing the limited discovery available to unindicted defendants in the criminal case. In response to the DOJ's concerns, the court ordered restrictions on the scope of discovery that were designed to protect the secrecy of the criminal investigation. To ensure that the parties adhered to those restrictions, the court permitted the DOJ to review, but not copy, discovery produced by the defendants pursuant to a stipulated protective order entered in the case. The DOJ apparently liked what it saw, which included documents from the manufacturers' foreign home offices and deposition transcripts of foreign employees—materials the defendants' counsel had in their possession solely because of the civil proceedings. In May 2009, the DOJ moved to modify the court order to permit it to receive photocopies of discovery, rather than merely review the material. However, the special master recommended that the DOJ be limited to reviewing access only, reasoning that the discovery was brought into the United States under court order and that the defendants did not "'choose to avail themselves'" of the courts or voluntarily bring evidence from overseas. Rather, "they were hauled, kicking and screaming, into our courts and have vociferously argued against producing either their documents or their employees into this country during this entire litigation." Report & Recommendation Re: Toshiba Entities Motion for Modifications to the Discovery Schedule and Plan, *In re: TFT-LCD (Flat Panel) Antitrust Litig.*, No. 3:07-md-01827 (N.D. Cal. Aug. 24, 2009). The court adopted that recommendation. Order Denying United States' Objections to Special Master's August 24, 2009 Report and Recommendation; Adopting Report and Recommendation, *In re: TFT-LCD (Flat Panel) Antitrust Litig.*, No. 3:07-md-01827 (Oct. 20, 2009).

Grand jury subpoenas were then issued to the four law firms holding the discovery material, including White & Case LLP. After the district court quashed the subpoenas, the DOJ appealed to the Ninth Circuit, which reversed in a two-paragraph opinion issued in December 2010. *In re Grand Jury Subpoenas*, 627 F.3d 1143 (9th Cir. 2010) (*White & Case*), *cert. denied*, 79 U.S.L.W. 3728 (2011). The Ninth Circuit simply applied its per se rule that "a grand jury subpoena takes precedence over a civil protective order." *Id.* at 1144; *see United States v. Janet Greeson's A Place For Us* (*In re Grand Jury Subpoena Served on Meserve, Mumper & Hughes*), 62 F.3d 1222 (9th Cir. 1995). Noting that no collusion between the civil suitors and the DOJ was established or even suggested, the court reasoned that "[b]y chance of litigation, the documents have been moved from outside the grasp of the grand jury to within its grasp. No authority forbids the government from closing its grip on what lies within the jurisdiction of the grand jury." *In re Grand Jury Subpoenas*, 627 F.3d at 1144.

The brevity of the decision belied its import. It resurrected the controversy over whether criminal process trumps civil, and it expanded the controversy to foreign documents brought into this country under compulsion of the more generous dimensions of civil discovery. In so doing, it effectively granted the DOJ permission to bypass established international agreements for procuring foreign materials. A prompt petition for certiorari to the United States Supreme Court filed by White & Case captured the issue: "[w]hether a grand jury subpoena trumps a civil protective order regardless of any countervailing considerations, thus permitting federal prosecutors to obtain discovery produced in a parallel civil action

under all circumstances." Petition for Writ of Certiorari at 2, *White & Case LLP v. United States*, No. 10-1147 (Feb. 25, 2011). Despite six amici curiae briefs filed in support of the petition by diverse entities, including the National Association of Criminal Defense Lawyers and the Japan Competition Law Forum, the Supreme Court denied the application in June 2011. *White & Case LLP v. United States*, 79 U.S.L.W. 3728 (2011).

The irony is apparent. The DOJ initially entered the civil case to prevent unindicted civil litigants from obtaining information about the criminal case through civil discovery provisions. Ultimately, however, the DOJ used those same broad provisions to access material for its criminal case that it could otherwise obtain only through cumbersome international procedures.

While the Supreme Court was considering White & Case's petition, the Fourth Circuit issued a decision in June 2011 arising from the DOJ's use of grand jury subpoenas in comparable circumstances. In *United States v. Under Seal* (*In re Grand Jury Subpoena*), No. 10-4815, 2011 U.S. App. LEXIS 12043 (4th Cir. June 15, 2011), the Fourth Circuit relied on *White & Case* in similarly ruling that grand jury subpoenas could reach foreign documents governed by a protective order. In contrast to the *White & Case* decision, the Fourth Circuit wrote a lengthy decision in which it made clear that the issue of collusion, mentioned only in passing by the Ninth Circuit, would be central to the controversy.

The case arose from a lawsuit initiated by E.I. DuPont de Nemours against Kolon Industries, a Korean company, for the alleged theft of trade secrets relating to synthetic fiber manufactured by DuPont. *E.I. DuPont de Nemours & Co. v. Kolon Indus.*, Case No. 3:09CV58- REP (E.D. Va. 2011). (In its decision, the Fourth Circuit identified Kolon only as Company 1 and DuPont as Company 2). The DOJ had begun an investigation of Kolon prior to the civil proceeding, but, as of January 2009, the government indicated that its investigation was "'dead.'" *United States v. Under Seal* (*In re Grand Jury Subpoena*), 2011 U.S. App. LEXIS 12043, at *4. Subsequently, with the DOJ's blessing and after the DOJ had reviewed DuPont's complaint, DuPont initiated the civil proceeding. In August 2009, a grand jury subpoena was issued to DuPont, seeking documents that Kolon had produced to DuPont and employing language drafted for the government by DuPont. In 2010, Kolon produced additional documents to DuPont, designated as "Confidential" and/or "Confidential - Attorneys' Eyes Only" pursuant to a protective order entered in the civil proceeding. Shortly thereafter, the DOJ obtained a second grand jury subpoena, again directed to DuPont, specifically requesting the Kolon documents designated "Confidential" and/or "Confidential - Attorneys' Eyes Only."

Kolon sought to quash the subpoenas, contending that they unreasonably circumvented restrictions on foreign discovery and arguing that there was collusion between the government and DuPont. The Fourth Circuit upheld the district court's denial of Kolon's motion to quash the subpoenas. Relying on *White & Case*, the court rejected Kolon's contention that the subpoenas circumvented restrictions on foreign discovery.

The court also rejected Kolon's contention that the DOJ had colluded with DuPont. The court acknowledged that the government sought DuPont's "assistance and advice in the government's investigation"; the two parties met to discuss the ongoing proceedings; and DuPont updated the government on its civil discovery progress, including advising the government that it had received a specific email about which the government had inquired. *Id.* at *4–7. However, the court held that DuPont's "substantial interaction with the government" did not establish that the government was "directing [DuPont's] civil discovery" despite what the DOJ knew or could have predicted about DuPont's conduct of the civil litigation. *Id.* at *19–20. The court also rejected Kolon's contention that it should have been granted an evidentiary hearing to determine the existence of collusion, noting that Kolon had failed to demonstrate collusion in the district court and rejecting Kolon's contention that it should be permitted to obtain communications between DuPont and the DOJ that the district court had held were work product. Because the district court's decision was filed under seal, there was no indication of the factors that led the court to hold that communications between a private party and the government were work-product materials or how, if at all, DuPont had avoided waiving the work-product protection by revealing the material to the government.

These cases raise issues as significant as they are varied. Standing alone, a criminal grand jury subpoena is a powerful tool for the government. The Supreme Court's denial of certiorari in *White &*

Case leaves intact rulings in three circuits that add significant muscle to the subpoena, by according it per se priority over civil protective orders. A party facing parallel civil and criminal proceedings in those circuits has little choice but to produce the material and face potential criminal exposure from their content, or settle the civil case to avoid involuntarily supplying the government with additional material for its criminal case. The division among the circuits, in turn, raises concerns about forum shopping, because prosecutors have incentive to convene grand juries in per se districts if they have jurisdiction over potential targets.

Moreover, the rulings invite an unholy alliance between the DOJ and civil litigants, because they provide considerable ancillary benefit to both. The DOJ has incentive to monitor civil litigation in which private plaintiffs may ferret out facts that generate, strengthen, or even resurrect an investigation. Civil plaintiffs—who would welcome a parallel criminal investigation of their adversaries—not only have incentive to cooperate with the DOJ but may benefit by proactively reaching out to the government. If a party obtains documents through civil discovery that support a theory of criminal wrongdoing, the party can alert the DOJ to the claim and, thereafter, provide the documents to the DOJ pursuant to a "friendly" subpoena. For documents that originate abroad, the civil party is a source through which the DOJ can expeditiously access the materials. Thus, plaintiffs have an incentive to seek foreign documents from their adversaries, which they could then share with the DOJ pursuant to a grand jury subpoena. The "hot issues" of international antitrust and the FCPA provide irresistible opportunities for the DOJ to exploit this use of grand jury subpoenas.

Although there are no easy solutions for a company facing a criminal investigation in parallel with a civil proceeding, there are certain things to keep in mind. Civil attorneys must assume that prosecutors will piggyback on civil discovery demands when determining how aggressively to litigate over the scope of those demands. Although courts have considerable discretion in determining whether to grant a stay of civil proceedings in the face of a parallel criminal investigation, *see e.g.*, *Microfinancial, Inc. v. Premier Holidays Int'l, Inc.*, 385 F.3d 72, 77–78 (1st Cir. 2004) (analyzing several nonexclusive factors), it is nonetheless essential to consider whether such an application would be appropriate. Alternatively, measures short of a wholesale stay—such as a stay of deposition discovery only—might provide an acceptable compromise. Agreed-upon protective orders may ultimately be nothing but an academic exercise in the per se jurisdictions; nonetheless, thought must be given to their terms. For example, the parties may agree to maintain and review foreign documents only abroad.

Moreover, attorneys must be concerned that prosecutors may use the civil discovery process to gain access to discovery material. The focus on collusion as a means of attacking grand jury subpoenas in these circumstances becomes a paramount concern, and counsel must be vigilant to look for improper coordination of the civil case and any parallel criminal investigation. The wealth of case law that has developed involving parallel investigations by government agencies provides insight into how to approach this concern, beginning with the seminal case of *United States v. Kordel*, 397 U.S. 1 (1970), and including the much-publicized decisions in *United States v. Scrushy*, 366 F. Supp. 2d 1134 (N.D. Ala. 2005), and *United States v. Stringer*, 408 F. Supp. 2d 1083 (D. Or. 2006), *vacated, rev'd & remanded*, 521 F.3d 1189 (9th Cir. 2008), *amended*, 535 F.3d 929 (9th Cir. 2008). In broad strokes, these cases analyze whether the civil proceeding was improperly merged with the criminal investigation and whether the defendant was deceived regarding the existence of the criminal investigation. The paradigm is not precise, and there are no easy formulas—one might be loath to ask a private adversary pointed questions, for fear of giving him an unwelcome idea. However, where one suspects that a criminal investigation is afoot, it is imperative to try to determine the degree to which the criminal investigator is involved in decision making regarding the direction of the civil proceeding. Depending on the answers, or lack of them, it may be appropriate to serve formal discovery requests regarding the adversary's communications with the government.

In addition, even third parties wholly unconcerned with criminal exposure must be aware of the potential for mischief when the government comes calling, because the issues posed by the government's use of civil discovery in criminal proceedings do not end with the grand jury. If a third party is required to comply with a grand jury subpoena and the material that is produced to the government contains the producing party's confidential or proprietary information, the party must consider whether the government will ultimately be obligated to turn over the information to a defendant in satisfaction of its own discovery obligations. Accordingly, civil attorneys must monitor where their protected material ends up and take appropriate steps to safeguard these documents in the criminal proceeding.

These issues do not allow for easy answers. Civil discovery carries with it potential concerns entirely separate from the civil proceeding that prompts it. Counsel must be wary of government involvement and think strategically in anticipating where it might lead, including even criminal exposure for foreign subsidiaries or employees. What does seem clear is that the world has become incrementally smaller because of a two-paragraph opinion issued by the Ninth Circuit that promises to have a ripple effect across the ocean.

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