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ARTICLES

Commercial Litigation in the United Kingdom

By Gavin Foggo and Caroline Benham - December 22, 2011

While the United States and the United Kingdom (this article focuses on just England and Wales) both have common-law civil justice systems, their respective procedural rules, practice conventions, and public policy pressures (whether current or historical) give their litigation landscapes important differences.

The U.K. Civil Litigation Process

The Civil Procedure Rules 1998 (as amended) set out the procedure for civil litigation in the United Kingdom. Their cornerstone is the overriding objective that all cases must be dealt with justly and proportionately to the amount of money at stake, the claim's importance, the complexity of the issues to be decided, and the relative financial positions of the parties.

There is a strong impetus on the early identification of the issues in dispute through pre-action correspondence, and the parties are encouraged to resolve their grievances at an early stage without the need for trial. A party may be penalized in costs for unreasonably refusing to engage in settlement discussions, and, at certain stages of the litigation, the parties are required to inform the court if any settlement discussions have taken place or are pending, although the content of any discussions remains confidential between the parties.

While the court generally cannot compel the parties to mediate, mediation is commonplace. Court-arranged mediation is available in some low-level disputes, and there is an ongoing debate as to whether mediation should be made a compulsory step in all claims.

Arbitration is also used widely, and London is a leading global center. Just as the United Kingdom's judges have a reputation for their high quality and independence, so do its arbitrators who have the ability to deal with the most complex of commercial disputes.

Regardless of the type of case, all litigation involves the same main procedural stages.

Statements of Case (Pleadings)

The claimant serves written particulars of claim, setting out the facts and law upon which it relies, along with the remedies sought. The defendant serves a defense and counterclaim if it has one. The claimant can serve a reply to the defense and a defence to the counterclaim. In contrast to notice-pleading jurisdictions in the United States, the claimant in England is expected to set out its case in reasonable detail in its pleadings, with reasonable grounds and evidence to plead fraud, before the discovery phase.

Disclosure (Discovery) of Documents

Litigants' disclosure rights and obligations are not as extensive in the United Kingdom as they

are in the United States, where the parties are obliged to make substantial oral and documentary disclosure at the outset of a matter.

The U.K. court will make an initial order for the standard disclosure of documents. A party must carry out a reasonable search for and disclose all documents that are or have been in its control, documents on which it intends to rely, documents that adversely affect its case or that of another party, and documents that support another party's case. Unlike in the United States, background or "train of enquiry" documents are not disclosable except in exceptional circumstances. A party may make an application for the specific disclosure of documents or classes of documents if necessary. A party may also seek the disclosure of particular documents by a third party, where it can show that it is in the interests of justice to do so.

Recent procedural changes for larger cases have sought to eliminate some of the excesses of the disclosure of electronic documents by expecting the parties to collaborate at an early stage to agree to limitations on the searches that will be carried out for electronic material.

Documents may be withheld from disclosure because they are privileged. The United Kingdom's and United States' approach to legal professional privilege protection is broadly similar, but there are some differences, particularly in relation to the advice of in-house lawyers, which does not attract the same degree of protection from disclosure in certain circumstances in the United Kingdom as it would in the United States.

A more important difference between the two nations' systems is in respect of oral discovery: In U.K. proceedings, there are no depositions.

The United Kingdom's more limited disclosure and the requirement to plead its case in greater detail from the beginning reduce the opportunity for a claimant with little evidence to initiate proceedings and then go on a "fishing" expedition to evidence its claim.

Exchange of Witness Statements

A witness's evidence in chief must be set out in a written statement, signed by the witness, and exchanged with all other parties well before trial. The witness may later be cross-examined on his statement at trial. There is no property in a witness, and, unless there are pre-existing legal obligations, such as those conferred by an employment or partnership relationship between the witness and the party who seeks its evidence, a potential witness cannot be compelled to give a statement. As there are no depositions, there is no opportunity to cross-examine a witness on his or her evidence until trial. However, his or her attendance at trial to give evidence verbally can be compelled by way of witness summons. In these circumstances, the witness will be subject to both direct examination to give his evidence in chief and subsequent cross-examination.

Exchange of Expert-Witness Evidence (Where Relevant)

Where expert opinion evidence is required, it is given by written reports signed by the experts and examined before trial. The experts are then cross-examined on each other's reports at trial.

Trial

As in the United States, English litigation is determined at an oral trial. The process is adversarial and not inquisitorial, so it relies heavily on the parties to investigate, produce the evidence, and present their cases, including making submissions as to the law. One of the big differences is that there are no jury trials in U.K. civil cases, except in defamation cases, and a judge alone determines questions of both liability and remedies, including quantum.

The court will use its case-management powers to adapt this framework of basic steps, through the making of directions either of its own volition or, more commonly, in response to an application from one of the parties. In this respect, the parties have a number of tools available to them. They may apply to the court at any time, seeking an order to compel the opposition to comply with a provision of the rules; they may seek early determination of the claim by application for default judgment, summary judgment, or strike out of all or part of their opposition's case; they may apply for interim injunctions; or they may make applications for security for costs.

Remedies

In commercial disputes, the main remedies available to parties are an award of financial compensation (either damages or an account of profits or equitable tracing), an injunction (prohibitory or mandatory), or a declaration concerning a party's legal rights. By far the most common remedy is damages.

The major difference between the United Kingdom and the United States is that in the United Kingdom, the damages awarded are purely compensatory in nature, whereas the United States has a regime of both compensatory and exemplary or punitive damages. While the U.K. courts theoretically have the power to award exemplary or punitive damages, the power is exercised so rarely and in such limited circumstances that the practical effect is that they are not available, no matter how outrageous the behavior complained of may be.

Loser Pays Costs/Attorney Fees

One major difference between the U.S. and U.K. systems is that the United Kingdom has a "loser pays" regime. In the United Kingdom, the term "costs" includes attorney fees as well as court administration fees. While the U.K. court has wide discretion in relation to costs awards, the general rule is that the loser pays the winner's costs, including attorney fees, but the order made by the court can take into account how the party conducted the litigation and the level of success achieved in the matter. This contrasts with the United States, where the parties normally have to pay their own costs and not those of the other side.

A party cannot expect to recover 100 percent of its costs even when it has been successful on all issues, and, to the extent that generalizations can be made, the winning party in commercial litigation can usually only expect to recover around two thirds of its costs. There will, therefore, always be a cost to litigation, even when a claim has been successfully brought or defended. If the amount of the winner's costs cannot be agreed between the parties, an application may be

made for costs to be assessed by the court. The recovery of costs by a successful party is subject to the indemnity principle, and a successful party can never recover more than the costs it has paid.

Funding of Litigation

English lawyers generally charge their clients by the hour, and the clients are responsible for paying the attorney fees. This is still by far the most common way that business litigation is funded in the United Kingdom.

"Legal aid" (government funding) is now rare in civil cases, and it's hardly ever available in commercial cases.

At present, English litigation lawyers are prohibited from entering into contingency-fee arrangements with their clients, whereby the lawyer charges a percentage of the damages awarded if he or she wins and nothing if he or she loses. This is a major difference from the U.S. regime, in which many plaintiffs and some defense attorneys work on full or partial contingency.

However, U.K. lawyers are entitled to enter into conditional-fee arrangements (CFAs) with their clients, whereby they charge nothing if they lose, but, in the event of success, they will be entitled to recover a success fee calculated as a percentage of time costs incurred—capped at a maximum uplift of 100 percent of the lawyer's normal hourly rates—not of the damages. Success fees are currently recoverable from the losing party in the same way as normal hourly rates. Nearly all personal injury litigation in the United Kingdom is funded by means of CFAs.

Before-the-event (BTE) insurance and after-the-event (ATE) insurance protect a litigant against future liability for the opposing party's costs and sometimes the party's own barrister's fees and court fees. For ATE insurance, the premium is often deferred until the end of the claim and only payable in the event of success when it can be recovered from the losing party. ATE insurance is often used alongside a CFA arrangement protecting a litigant against liability for its own costs.

Historical barriers in the United Kingdom to third-party funding have recently been removed, and a market in commercial third-party funding has developed. Funders without an interest in the claim provide financial support for it, and, in return, they recover a percentage of the sums awarded (a contingency fee) if it is successful. Few cases in the United Kingdom have so far been funded in this way because funders are very particular as to the type of cases they are willing to fund; however, the market is growing.

Third-party funding, ATE insurance, and CFAs enable good claims to be pursued where litigation might otherwise have been unaffordable. While increasing access to justice, they can also have the advantage of strengthening the funded party's negotiating position. A funded party must disclose to its opponent the fact of its funding, and, in doing so, its opponent is put on notice that an independent third party (such as the insurance company, third-party funder, or even its own lawyer) has assessed the merits of the claim and considers there to be sufficient

chances for success that it is prepared to risk its own money or fees in enabling the claim to be pursued.

Class Actions

While the United Kingdom does have a procedural mechanism for collective redress in the form of group litigation orders (GLOs), mass litigation is much rarer in the United Kingdom than it is in the United States. Whereas U.S. classes work on an "opt-out" basis with all members of the class entitled to recover unless they have withdrawn from the group, GLOs require group claimants to be on a group register to benefit from a judgment, placing the onus on lawyers to identify the full class of claimants and obtain their permission to be entered on the register.

The current lack of contingency-fee agreements in the United Kingdom means that there is less incentive for lawyers to be entrepreneurial and seek out high-risk, high-value group litigation and, with no exemplary damages, less incentive for potential group claimants and their lawyers to seek to be included in the class. While there are examples of large-scale GLOs being used, in cases of wide-scale detriment, the government has often chosen to intervene to compensate victims, rather than require them to resort to litigation to recover their losses. In recent years, we have, for example, seen schemes established to compensate the victims of mis-sold pensions and endowment mortgages.

Conclusion

The U.K. litigation system is not perfect, but it is highly regarded internationally as providing a genuinely neutral, independent, and quality system of justice. Procedural controls, particularly relating to funding and disclosure, along with a more cautious approach toward group litigation and damages awards, create what is widely regarded as a more defendant-friendly litigation arena than exists in the United States.

It will be interesting to see how this is affected by the U.K. government's recently proposed changes, which are expected to become law within the next couple of years. They include permitting contingency fees for English lawyers, abolishing the recoverability of ATE premiums from the losing party, and changing the costs regime for personal injury so that a claimant will not have to pay the defendant's costs if the claimant loses.

Keywords: litigation, commercial, business, United Kingdom, class actions, attorney fees, remedies

<u>Gavin Foggo</u> is head of litigation and <u>Caroline Benham</u> is an associate at Fox Williams, LLP, London, England. Foggo is a chair of the International Litigation Subcommittee of the Commercial & Business Litigation Committee.

Obtaining Evidence in Canada for Use in Foreign Proceedings

By Brett Harrison and Richard McCluskey - December 22, 2011

The symbiotic relationship between Canada and the United States is apparent by the fact that they are each other's largest trading partner. However, as a result of these long-standing commercial ties, cross-border disputes involving witnesses and documents on both sides of the 49th parallel are inevitable. To effectively litigate these disputes south of the border, U.S. attorneys need to familiarize themselves with the steps necessary to compel evidence from a witness residing in Canada.

In the event that a witness in Canada will not voluntarily provide the sought-after information, the assistance of a Canadian court will become necessary. This assistance is requested through a letter of request (also known as a letter rogatory). A letter of request is a formal request made by a U.S. (or other domestic) court of a Canadian (or other foreign) court to secure its assistance in gaining access to evidence outside of its jurisdiction. Surprisingly, there is no treaty governing the collection of evidence located in Canada for use in U.S. proceedings. As a result, letters of request are enforced solely based on the principles of international comity, mutual deference, and judicial respect and courtesy.

Therefore, successfully obtaining evidence in Canada for use in a U.S. proceeding is a two-step process. First, the letters of request must be issued by the U.S. court before which the litigation is pending. Second, the letters of request must be enforced by the Canadian court in the jurisdiction where the evidence is located.

Step One: Obtaining Letters of Request in the United States

A letter of request is obtained by bringing an interlocutory motion or application before the U.S. court in which the litigation is pending. The letter of request is a written document issued by the U.S. court that formally requests the assistance of the Canadian court to compel the nonparty witness in Canada, whether an individual or a corporation, to produce documents or submit themselves to examination.

While the content of a letter of request will be highly dependent on the nature of the underlying litigation, it is important to keep in mind that the Canadian court will not make an order granting anything more than what is explicitly requested of it in the letter—although, as noted below, it may grant less. As such, the letter of request should specify, in as much detail as possible, the information sought and the party from whom the information is sought.

A letter of request must also conform to the factors that a Canadian court will consider when determining whether or not to enforce the request. A failure to satisfy the Canadian requirements may ultimately result in an unsuccessful Canadian enforcement. In light of these concerns, Canadian counsel licensed in the province where the evidence is located should be involved from

the outset. A coordinated effort between the U.S. and Canadian attorneys will ensure compliance with Canadian requirements.

Finally, all parties should be put on notice of the U.S. motion to obtain the letters of request, including the person from whom the evidence is sought in Canada. Canadian courts have expressed concern over the enforcement of letters of request if all parties were not given the opportunity to oppose their issuance in the United States. *See Lantheus Medical Imaging, Inc. v. Atomic Energy of Canada Limited* (27 July 2011), Toronto CV-11-00427161 (Ont S.C.J.).

Step Two: Enforcing Letters of Request in Canada

The second step in the process is bringing an application in the Canadian jurisdiction where the evidence is located to have the letters of request enforced. While judges will show deference to the U.S. court's request for assistance, it is clear that Canadian courts will not enforce these as a matter of routine, and they will not merely act as a rubber stamp for the U.S. court's request. *See Advance/Newhouse Partnership v. Brighthouse Inc.* (2005), 38 C.P.R. (4th) 559 (Ont. S.C.J.) at para. 6; *W.R. Grace Co. v. Brookfield Development Corp.* (1995), 41 C.P.C. (3d) 130 (Ont. Ct. J.) at para. 7.

Given this scrutiny, it is critical that the Canadian application be supported by affidavit evidence that establishes the nature of the U.S. proceeding and the relevance, necessity, and purpose of the evidence sought. The affidavit used in support of the Canadian application will usually be sworn by U.S. counsel and must include an attached copy of the letters of request issued by the U.S. court. Any other relevant documents, such as the foreign pleadings and relevant correspondence, should also be attached.

Letters of request may be enforced through the federal Canadian Evidence Act, R.S.C., 1985, c. C-5., or the analogous provincial evidence statutes. In practice, it is typical to apply concurrently under both the federal statute and the relevant provincial legislation. These evidence statutes specify the statutory requirements—often considered threshold factors—that must be met prior to the enforcement of a letter of request. However, even if the statutory threshold factors are met, the court still has discretion in deciding whether to enforce the request, and it will consider additional factors that have been developed in the case law.

Statutory Requirements

While the federal and provincial evidence statutes differ slightly in their phrasing of the specific statutory requirements, they each establish basic threshold factors that must be met to ensure that a Canadian court will enforce a letter of request. Where possible, these requirements should be explicitly set out on the face of the letters of request. The following requirements represent the relevant statutory thresholds pursuant to Ontario law:

• The letter of request must be duly authorized by the U.S. court. To meet this requirement, it is usually sufficient to provide a copy of the letter of request signed by the judge of the requesting court.

- The evidence sought must be within the jurisdiction of the enforcing court. The enforcing court has no power to compel the production of documents or order the examination of a witness that is not within its jurisdiction. As such, it must be made apparent to the enforcing Canadian court that the evidence sought is within its jurisdictional competence. This should be expressed in the letter of request and supported with affidavit evidence.
- The letter of request must be for use in relation to a proceeding pending before the U.S. court. In other words, the U.S. litigation must have already been commenced, and the evidence sought cannot be obtained in the interests of anticipated litigation. The letter of request issued by the U.S. court should explicitly state that the litigation is currently pending.
- The issuing court must be a court or tribunal of competent jurisdiction. The letter of request must emanate from a judicial body with all the powers of a court of law to enforce its own orders. The court must be competent to hear the litigation currently pending before it, and it must be competent to make requests for foreign assistance. In the interests of reciprocity, the letter of request should explicitly state that the issuing court has the reciprocal power to enforce corresponding requests issued by the Canadian court.

Evidence Act, R.S.O. 1990, c. E.23, s. 60(1).

Discretionary Factors

Even where the statutory requirements have been met, the enforcing court still has inherent discretion to decline the request. The relevant case law has established the following six factors that a court will consider when determining whether to use its discretion to enforce a letter of request:

- Is the evidence sought relevant? Letters of request will not be enforced unless it is plain and obvious that the evidence sought is relevant to the foreign litigation. In making this determination, the Canadian court will consider whether the requested evidence is squarely related to the allegations set out in the U.S. pleadings. Actual relevance must be demonstrated, and potential relevance is insufficient.
- Is the evidence sought necessary for use at trial or for pretrial discovery in the foreign action? A Canadian court will consider whether the evidence is necessary in the foreign proceeding, and it should be made clear that the success of the U.S. action hinges on the enforcement of the request. To the extent possible, a letter of request should explicitly state that justice cannot be served between the parties without the Canadian evidence.
- Is the evidence sought otherwise obtainable? A letter of request is unlikely to be enforced if the information sought is available in the jurisdiction in which the litigation is pending. Similarly, the request is also unlikely to be enforced if the requesting party has not first attempted to obtain the documents voluntarily from the Canadian witness. Previous attempts to obtain the documents should be demonstrated to the enforcing court, as it will require more than a bare assertion that the evidence is otherwise unobtainable.
- Is the evidence sought identified with reasonable specificity? The enforcing court will consider whether the information sought has been clearly identified in the letter of

request. Vague requests to produce all documents relating to the matters in dispute are too broad, and Canadian courts have consistently refused requests that amount to fishing expeditions. *See Presbyterian Church of Sudan v. Rybiak*, (2006) 215 O.A.C. 140 (C.A.) at para. 31; *See also Global Communications, Inc. v. C.(B.)*, 2010 ONSC 760 at paras. 19–24. To increase the odds of successful enforcement, the letter of request should list the documents sought in as much detail as possible. The Canadian court may also choose to enforce a more restricted form of an overbroad request.

- Is the order sought contrary to Canadian public policy? In determining whether or not to enforce the request, the Canadian court will balance the necessity of the evidence in the U.S. proceeding with the impact of the proposed order on Canadian sovereignty. A letter of request will not be enforced where it is manifestly unjust, immoral, or shocking to the conscience of the Canadian court.
- Is the request unduly burdensome? A letter of request should minimize the inconvenience placed on the nonparty from whom the evidence is sought. The Canadian court will balance the burden being placed on the nonparty with the value of the evidence to the pending litigation. If the request is onerous and the evidence is of little value, the letters are unlikely to be enforced.

Final Tips

The timing, cost, and ease with which letters of request can be enforced in Canada will be determined in large part by the level of cooperation received from the nonparty witness. In many cases, a consent order can be worked out with the witness, and the costs can be minimized. However, even where all parties consent to the enforcement of the request, the court will still require a minimum evidentiary record to satisfy the requirements discussed above. Further, the timing of the process will still be dependent on court availability, and the order may take six to eight weeks to obtain.

However, the nonparty from whom evidence is sought is entitled to resist the enforcement of the request and may choose to file its own responding evidence. In the event of an opposed application to enforce, the costs will be dependent on the complexity of the proceedings, the number of objections raised, and the extensiveness of any cross-examinations that may be required. It is sufficient to say that the costs can be significant. Further, objections to the enforcement of the request may delay the hearing of the application by a matter of months. The requesting party should also be aware that, in the event the enforcement is successfully opposed, they may be liable for the resisting party's costs.

Given these variables, U.S. counsel should determine as soon as possible whether evidence located in Canada will be required for use in pending litigation. The earlier this procedure is commenced, the better the chance that the evidence will be available in advance of court-ordered deadlines in the U.S. proceeding. Finally, involving Canadian counsel at the outset will increase the likelihood that the letter of request will be enforced and that there are no unexpected delays in obtaining the necessary evidence.

Keywords: litigation, commercial, business, letters rogatory, Canada, evidence

<u>Brett Harrison</u> is a partner at McMillan, LLP, in Toronto, Ontario, Canada. He is a chair of the ABA's Section of Litigation's Bankruptcy & Insolvency Litigation Committee. <u>Richard McCluskey</u> is an associate at McMillan in Toronto.

Friendly yet Foreign: Litigating in Ontario, Canada

By Douglas Harrison - December 22, 2011

Sitting on the north side of the Great Lakes, Ontario is Canada's largest province by population. Its capital, Toronto, is the country's largest city, and the center of its financial and business communities. As with most of Canada, Ontario's legal system is based on the common law, passed down from when the province was an outpost within the British Empire. (Quebec, the only exception, is a civil-law jurisdiction.) In many ways, U.S. attorneys would find practice in the courts of Ontario comfortably familiar. The current Ontario Rules of Civil Procedure were modeled after the U.S. federal court rules. However, there are a number of significant distinctions, principally due to constitutional or other historical differences. Canada has had a constitutional Charter of Rights and Freedoms only since 1982, and courts have been reluctant to use it to overturn long-standing common-law principles. And, as Canada is a member of the Commonwealth, courts frequently consider and adopt legal principles developed in jurisdictions such as England, Australia, and New Zealand.

The Courts

In Canada, the provincial superior courts have inherent jurisdiction in matters of law and equity and are the superior level of trial courts. In Ontario, the court is called the Superior Court of Justice. In contrast to the status of the U.S. federal courts, the Federal Court of Canada is a statutory court whose jurisdiction is limited by the empowering statute, primarily to matters involving the federal government, appeals from various federal administrative tribunals, admiralty matters, appeals from the Tax Court of Canada, and intellectual property disputes.

There is very little overlap in the jurisdiction between the provincial superior trial courts and the Federal Court of Canada, and there is no concept of "removal" of cases from provincial courts to the Federal Court.

Toronto has a well-respected and efficient Commercial Court that operates as a division of the Superior Court of Justice, adjudicating matters involving insolvency, corporate governance, creditors' priorities, windings-up, and so on. *See* Practice Direction Concerning the Commercial List, Toronto, Ontario Courts. Commercial Court cases tend to proceed on a fairly strict time schedule, and it is not unknown for a case to go to trial within a year of the commencement of the proceeding. This contrasts with the usual two- to three-year wait in the regular court.

In addition, Ontario has modern arbitration and mediation laws, as well as a tradition of strong judicial deference to arbitration agreements. Canada is a signatory to the New York Convention of 1958, and Ontario has adopted the United Nations Commission on International Trade Law "UNCITRAL" Model Laws on international commercial arbitration and conciliation.

Contingency Fees

While contingency fees have been a mainstay in U.S. civil litigation since the 19th century, they are a relatively recent phenomenon in Ontario. Historically, Ontario lawyers were not permitted to make contingency-fee arrangements with clients, except in class actions (introduced in 1992), and then only with the permission of the court. In September 2002, however, the Court of Appeal for Ontario held that contingency-fee arrangements were neither illegal nor unenforceable, even though such fees are still subject to court review. Despite the availability of contingency fees and without caps to the rates that a lawyer can charge, the risks of negative costs awards, discussed below, deter spurious litigation in Ontario.

Discovery

After pleadings are completed in an action in the Ontario Superior Court (generally, pleadings consist of a statement of claim, a statement of defence, and a reply), the parties are required to prepare a written discovery plan that sets out the scope of documentary discovery, the discovery schedule, and the names of discovery witnesses. The Ontario Rules of Civil Procedure state that parties must apply the Sedona Canada Principles Addressing Electronic Discovery to ensure that the discovery plan is proportionate to the dispute.

The usual first step in a discovery plan is the exchange of affidavits of documents. The affiant swears that he or she has made a diligent search of his or her own records, or the records of the affiant's corporation, and has listed in the affidavit all documents that are in the party's possession, control, or power that are relevant to the matters in issue and producible for inspection. Documents that were once in the possession of the party but no longer are, must also be listed. In addition, documents for which privilege is claimed must be listed, although copies of those documents do not have to be produced. Documents are defined very broadly under the rules to include things such as tape recordings, video tapes, film, and any data recorded or stored on a computer.

There is an ongoing obligation of production. Any documents that come into a party's possession, control, or power after delivering the affidavit of documents must be disclosed. There is also the ability to obtain, in certain circumstances, an order compelling the production of documents from non-parties.

The Ontario rules also provide for oral examinations for discovery, known as depositions in the United States. A party adverse in interest to another party must submit to an oral examination prior to trial upon request. When a party is a corporation, the examining party may examine any officer, director, or employee on behalf of the corporation, but, in any event, only one individual on behalf of the corporation. The individual being examined on behalf of the corporation is

obliged to inform himself or herself of all of the relevant evidence in the corporation's possession prior to the examination by reviewing the documents, talking to others in the company, and so on. An examining party may seek leave of the court to examine additional witnesses, but such leave is rarely given. Answers given by a corporate witness at an examination for discovery are binding on the corporation.

Where a witness being examined does not know the answer to a particular question or advises that there may be other relevant documents, the practice is to provide an undertaking to make inquiries and to provide the answer or to produce the document at a subsequent date. Provision exists for a party to refuse to answer a question or produce additional documents on the basis that the request is irrelevant or improper (being designed to elicit privileged information, for example). Following the conclusion of the examination, the examining party may bring a motion to seek a court order that the question was proper and must be answered. The rules impose a requirement of proportionality in discovery and direct the court to consider a number of factors in that regard when deciding whether a particular document should be produced or a particular question should be answered. Typically, answers to undertakings and questions ordered to be answered are given in writing, and the witness may be called again to be asked questions that arise from those written answers or from any additional documents that may have been produced.

Answers given on an examination for discovery may be corrected by a party after the examination and before trial, provided the correction does not amount to the withdrawal of an admission.

The Ontario rules provide for written interrogatories, but one cannot request them and also conduct an examination for discovery. When the rules were enacted, this provision was included to avoid the U.S. practice of two waves of discovery. Accordingly, written interrogatories are rarely made in Ontario.

Expert witnesses are not examined for discovery in Ontario. However, an examining party may obtain disclosure of an expert's findings and opinion unless the party being examined undertakes not to call that expert as a witness at trial. Expert reports must be delivered no later than 90 days prior to the pretrial conference, and any responding expert report must be delivered no later than 60 days prior to the pretrial.

Importantly, the Ontario rules state that information disclosed in the course of discovery may not be used by the party receiving the information for any purpose other than the prosecution of the proceeding in which the evidence was obtained. This rule is known as the implied undertaking, and it obviates the need for protective orders. A breach of the implied undertaking rule may amount to contempt of court, resulting in fines or imprisonment.

Juries

While juries are seemingly the norm in U.S. civil cases, in Ontario they are rare. The only areas

where civil juries are still seen with any frequency are defamation and personal injury cases. Moreover, the Ontario Courts of Justice Act specifically prohibits juries in cases involving an injunction, the sale of real property, mortgage foreclosures, liens, trusts, rectification of an agreement, specific performance of a contract, declaratory relief, and any claim made against a municipality or the Ontario provincial government. In any trial, the trial judge can order that the case proceed without a jury. This is generally the case where the judge feels that the case involves matters of fact too complex for a jury to deal with, such as medical malpractice. There is no constitutional right to a jury trial in Canada.

Damages

As a general observation, damage awards in Canada are considerably more modest compared to those in the United States. For example, in a Canadian tort action, compensatory damages for loss of income, pain and suffering, and cost of future care would commonly form an award of damages but rarely move into the hundreds of thousands or millions of dollars except in cases of catastrophic injury or other exceptional circumstances. An individual's expenses for cost of care are considerably less in Canada than in the U.S. because of Canada's socialized healthcare system, which absorbs a lot of those costs. However, plaintiffs in tort actions are obliged to pursue recovery on behalf of and to reimburse the provincial health insurer for the cost of the plaintiff's care.

To succeed in a claim for punitive damages in Canada, the plaintiff needs to show that the defendant acted with "high-handed, malicious, arbitrary or highly reprehensible misconduct," according to the Supreme Court of Canada in *Whiten v. Pilot Insurance Co.* [PDF], File 27229, 2002 S.C.C. 018 (Feb. 22, 2002). Punitive damages are seen as exceptional, and even a modest award of punitive damages is viewed judicially to carry sufficient stigma to reach its objective of deterrence.

Where punitive damages are awarded, there are no established rules to guide Canadian courts in quantifying them. However, courts have indicated that the amount of an award should be in relation to the gravity of the defendant's misconduct. In contrast to U.S. courts, the trend in Canada has been to award modest punitive damage claims. The largest awards, in the rare cases that award punitive damages at all, rarely exceed C\$1 million.

Costs

In most U.S. jurisdictions, litigants are expected to pay their own way, and losing parties are not generally required to pay more than a nominal amount of the winning party's legal costs. In Ontario, the general rule is that the loser pays the winner's costs. In the United States, this is often referred to as the "English rule" on costs. This does not mean that the winning party will receive a complete indemnification from the losing party. In a normal case, the court will order the losing party to reimburse the winning party for between 30 percent and 60 percent of the winning party's attorney fees plus a substantial portion of the winning party's disbursements (for expert reports, court filing fees, photocopying, and so on)—this is called "costs on a partial indemnity basis." In certain instances, the court will award costs on a substantial indemnity

basis, which requires the losing party to pay a large majority of the winning party's legal costs. Substantial indemnity costs can be awarded in situations where the losing party's position is considered to have been frivolous or vexatious or the losing party has instructed its lawyer to engage in behaviour that the court is not prepared to condone, such as using sharp tactics or acting abusively. In extreme cases, the losing party's lawyer is required to pay costs personally.

There is also provision in the Ontario rules to shift the burden of costs depending on pretrial settlement offers and trial outcomes; the same applies to interlocutory motions. If, for instance, a plaintiff wins at trial but achieves a result that is not as good as the offer the defendant made prior to trial, the court can order the winning plaintiff to pay the losing defendant's legal costs incurred after the date of the offer on a partial indemnity basis. Similarly, if the winning plaintiff achieves a result in excess of its final settlement offer, the losing defendant may be ordered to pay the plaintiff's legal costs incurred after the date of the offer on a substantial indemnity basis. In all instances, the decision to award costs is a matter of discretion for the judge.

Keywords: litigation, commercial, business, civil procedure, Canada, Ontario, contingency fees, discovery, damages

<u>Douglas Harrison</u> is with Stikeman Elliott, LLP, in Toronto, Ontario, Canada.

Questions to Ask Before Starting International Arbitration

By B. Ted Howes – December 22, 2011

No one can deny the increasing importance of international arbitration in today's connected business world. Because arbitration awards are much easier to enforce abroad than domestic court judgments are, and due to the perceived neutrality of international arbitration compared to home-court lawsuits, arbitration has significant advantages over litigation in resolving international commercial disputes. For most sophisticated corporations, arbitration has become the default dispute-resolution mechanism for international transactions. As a result, international arbitration has grown in tandem with the explosive growth of international trade.

Despite the rapid growth and the acceptance of international arbitration, some U.S. litigators and in-house counsel are not prepared for the special demands of this unique dispute-resolution mechanism. What many U.S. practitioners fail to appreciate is that international arbitration is ahybrid form of dispute resolution that combines characteristics of both the common-law and civil-law legal systems. International arbitration is also, by definition, complicated by transnational legal issues and competing legal jurisdictions and cultures. As a result, those attorneys who are not accustomed to the unique procedures, rules, and customs of international arbitration may encounter unpleasant surprises if they rush into a case without adequate forethought.

To effectively plan for and manage an international arbitration, attorneys are advised to ask six strategic questions at the beginning of the arbitral process—which, for a plaintiff/claimant, means before the commencement of the arbitration, if possible, and, for a defendant/respondent, means on receipt of the claimant's arbitration threat. Answering these questions (or, for in-house counsel, demanding answers to these questions from outside counsel) should not be a rote exercise; doing it right takes time and mental energy. That said, a thorough and realistic evaluation of these six inquiries will likely save legal fees in the long run and significantly increase the chances of victory in the arbitration.

If You Win an Award, Can You Enforce or Collect It?

An arbitration award that cannot be collected is not worth the paper it's written on. It is therefore crucial that a party considering international arbitration determine, as an initial matter, whether it can enforce and collect a future arbitral award in its favor. As outside counsel, the last thing you want to tell your client is that you won the arbitration but cannot collect the award.

Needless to say, an arbitral tribunal does not have the power of the state at its disposal and, accordingly, cannot force a recalcitrant losing party to pay the winning party. Thus, when a losing party refuses to voluntarily pay an arbitration award, it becomes necessary for the winning party to enforce the award in a court located in the jurisdiction where the losing party resides and/or where the losing party's assets are situated. While the same holds true for a purely domestic arbitration, enforcement takes on added complications in international arbitration because the losing party's assets are normally located abroad, requiring the intervention of foreign courts and the analysis of foreign laws.

To determine whether a future international arbitration award is collectible, a party considering the commencement of arbitration should make two fundamental inquiries. First, the party should inquire whether its adversary has sufficient assets to satisfy the best estimated dollar value of a future award and, if so, in which countries those assets are located. Because the answer to this inquiry is not always obvious, it may be necessary to delegate the inquiry to a private investigator with expertise in the area of tracing foreign assets. Moreover, even if it is determined that the adverse party has sufficient assets in a particular country, other foreign law questions may still need to be answered. For example, if the adverse party owns assets only indirectly, such as through a subsidiary or other affiliate, do the country's laws recognize that subsidiaries may be treated as "alter egos" of their parent corporations, such that a subsidiary's assets can be attached to support an arbitration award against the parent? Also, in the event that the adverse party attempts to transfer the assets to a third party after the commencement of the arbitration, can the transfer be nullified or enjoined as a fraudulent conveyance under the foreign country's laws?

Second, a party contemplating international arbitration should always determine whether the country in which the adverse party's assets are located is a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards. The New York Convention is the highly successful multinational treaty that forms the backbone of the

international arbitration regime. Under this treaty, signatory nation states agree to prohibit their citizens from litigating disputes that are subject to a foreign arbitration agreement and to require their courts to recognize and enforce foreign arbitration awards. As of November 2011, 146 countries have ratified the New York Convention. <u>U.N. Commission on International Trade Law</u> (last visited Nov. 28, 2011). This includes almost all of the industrialized nations and most of the developing world.

That said, if the adverse party and its assets are located in one of the few countries that is not a signatory to the New York Convention, the country's courts will not be treaty-bound to enforce a future arbitration award. Moreover, even if the adverse party resides in a country that is a signatory to the New York Convention, it is advisable to investigate how faithfully the country's courts actually honor the treaty's obligations. Under article 5(2)(b) of the treaty, most signatories have reserved the right not to enforce foreign arbitration awards that violate "public policy." While most countries have interpreted this public-policy exception narrowly and are therefore consistent at enforcing foreign arbitration awards without second guessing, the courts of some signatory states, particularly in the developing world, have been known to refuse to enforce foreign arbitral awards based on a broad interpretation of the public-policy exception. See, e.g., Alan Redfern & Martin Hunter, Law and Practice of International Commercial Arbitration § 9-30 (3d ed. 1999) ("The fact that different states have different concepts of their own public policy means that there is a risk that one state may set aside an award that others would regard as valid."); Obinna Ozumba, Enforcement of Arbitral Awards: Does the Public Policy Create Inconsistency? [PDF], University of Dundee Centre for Energy, Petroleum, and Mineral Law and Policy (last visited Nov. 28, 2011). One should therefore consult with local counsel in the country at issue to obtain a realistic assessment of the risks involved in enforcing a future arbitral award.

Do You Need Preliminary Injunctive Relief from the Courts?

Contrary to common wisdom, international arbitrators are empowered to issue preliminary injunctive relief. For instance, article 23 of the International Chamber of Commerce (ICC) Rules of Arbitration provides that "[u]nless the parties have otherwise agreed, as soon as the file has been transmitted to it, the Arbitration Tribunal may, at the request of a party, order any interim or conservatory measure it deems appropriate." The same holds true with most of the other major international arbitration rules, including article 25 of the London Court of International Arbitration (LCIA) Rules and article 21 of the International Centre for Dispute Resolution (ICDR) International Arbitration Rules.

However, there is a significant limitation on obtaining preliminary injunctive relief from an arbitration panel: An arbitral panel cannot issue injunctive relief until it is constituted. Because it normally takes two to three months from the time an arbitration demand is filed to select and constitute an arbitration panel, there is a window of time at the beginning of a dispute when there is no arbitration panel in place to issue a preliminary injunction. Unfortunately, this is the time when parties frequently need to obtain emergency injunctive relief.

Thus, if a party contemplating the commencement of international arbitration knows that it will need injunctive relief on an expedited basis, it is important to evaluate—before filing the arbitration demand, if possible—whether such relief can be obtained from the courts that have jurisdiction over the adverse party. Like the United States, most countries have judicial rules in place that allow courts to issue injunctive relief "in aid of arbitration" (such as pending the composition of the arbitration tribunal). Determining whether such injunctive relief can be obtained from a foreign court, however, can be a time-consuming process. First, it is necessary to decide where such preliminary injunctive relief should be sought—in the courts where the adverse party resides, in the courts where the adverse party's assets are located, or some combination of the two? Next, it is necessary to research the laws of the relevant countries to confirm the availability of preliminary injunctive relief over the adversary or its assets and then, assuming such relief is available, to determine what procedural hurdles must be overcome to obtain the relief and how quickly the relief can be obtained. All of this will require the early retention of foreign counsel.

Obtaining a preliminary injunction is never easy. It takes on added difficulty and time in the context of an international arbitration. Planning ahead is key to a successful injunction strategy.

It should be noted that some international arbitration organizations have recently amended their rules to provide for the appointment of an "emergency arbitrator" to hear applications for injunctive relief pending the constitution to the arbitration tribunal. If this procedure is available, it should be considered as an alternative to seeking injunctive relief in the courts.

What Should You Look For in an Arbitrator?

Choosing an arbitrator is necessarily a subjective process—an art rather than a science. However, it is also one of the most important decisions, if not the most important decision, that a party will make in an international arbitration. One should never rush an arbitrator choice or just accept the first candidate presented. On the contrary, it is advisable to slow down and consider which arbitrator candidates have the personal traits best suited for international arbitration. Certain guidelines will help in this regard.

First, it is always advisable to choose an arbitrator with the intellectual heft necessary to understand and adjudicate complex international legal issues. The circle of reputable international arbitrators is rather small, and a neophyte without any experience in international law could be rolled over by the other two arbitrators. After all, decisions on a three-person arbitration panel only require a majority vote.

Second, it is never advisable to choose a friend or colleague who is "in your corner." An arbitrator who openly advocates for the party that appointed him or her will quickly turn off the other two arbitrators and lose the respect of the panel. Integrity is critical. Sensitivity to other cultural and legal traditions is likewise important, as the other two arbitrators on the panel will usually not be American citizens.

Third, one should always take the time necessary to conduct due diligence on arbitrator candidates. This includes something as obvious as checking the arbitrator's background to ensure that he or she has no disciplinary violations or a criminal record. It also includes reviewing the arbitrator's published writings to try to gauge how he or she may view the case at hand. Most contractual disputes come down to a "contract" side versus an "equity" side; the published writings of an arbitrator candidate may give a clue as to which side he or she would favor.

Finally, while there are certain limited circumstances in which it may be advisable to appoint a nonlawyer as an arbitrator, this is usually not a good idea. International arbitrators, like judges, apply and decide the law. If technical expertise is needed, expert witnesses can always be retained to teach the arbitrators.

Should You Try to Seek Early Resolution on Any Claims?

International arbitration rules do not expressly include procedural devices for the expedited resolution of claims, such as motions to dismiss and motions for summary judgment. On the contrary, many international arbitration rules appear to require evidentiary hearings. *See*, *e.g.*, ICC Article 20(2) ("After studying the written submissions of the parties and all documents relied upon, the Arbitration Tribunal shall hear the parties together in person if any of them so requests . . ."). Consistent with its civil-law roots, there has also been a long tradition in international arbitration for arbitrators to defer the resolution on all claims until the end of the arbitration.

Despite this tradition, it is becoming more common for parties to seek the expedited resolution of claims in international arbitration. The basis for seeking early claim resolution comes from two complementary rules that exist in most international arbitration rules. First, almost all international arbitration rules provide arbitrators with wide discretion in how they wish to conduct the arbitration. Article 20(1) of the ICC rules, for example, gives arbitrators the authority to establish the facts "by all appropriate means." To take another example, article 14.2 of the LCIA rules provides that "[t]he Arbitration Tribunal shall have *the widest discretion* to discharge its duties" (emphasis added).

Second, most international arbitration rules give arbitrators the authority to bifurcate the arbitral proceeding. Article 26.7 of the LCIA rules illustrates this point: "The Arbitral may make separate awards on different issues at different times. Such awards shall have the same status and effect as any other award made by the Arbitral Tribunal."Similarly, article 16(3) of the ICDR rules provides that the "tribunal may in its discretion . . . bifurcate proceedings . . . and direct the parties to focus their presentations on issues the decision of which could dispose of all or part of the case."

Together, these two rules lead to a pathway for creative advocacy. By appealing to the broad authority of the arbitrators, including their authority to bifurcate issues, it is indeed possible to score an early knockout of a frivolous claim asserted by the adverse party. It is even possible,

though more difficult, to obtain an early decision on a claim asserted against the adverse party. However, like all good things, this takes advanced planning.

To seek expedited dismissal of a claim in international arbitration, it is, of course, necessary to first determine whether any claims are susceptible to dismissal as a matter of law or undisputed fact. For example, claims barred by the statute of limitations or claims that are contrary to the unambiguous language of the contract fall in this category. If it is determined that such claims exist, it is recommended that the moving party make a written application to the arbitration tribunal, seeking a bifurcated decision on the deficient claims, as early as possible. The sooner the tribunal is alerted to the existence of a frivolous claim, the more likely it is that it will entertain an early disposition of the claim without waiting for the final hearing.

Obtaining an expedited decision (or an "interim award") on an affirmative claim for relief is more difficult and may require showing the threat of irreparable injury if the claim is not decided quickly. Like any decision-makers, arbitrators do not want to make a decision after it is too late for the decision to provide adequate relief. Arbitrators want their decisions to have meaning. At the same time, a party seeking the early disposition of an expedited claim should be prepared to consent to an evidentiary hearing on the claim if the tribunal so requires.

The lesson here is simple: Tradition should not stand in the way of a good application for the expedited resolution of a claim in international arbitration. There is little to lose in trying. If the arbitration tribunal permits a party to move forward with such an application, it could result in the early disposal of the adverse party's most frivolous (and often largest dollar) claims and, in turn, possibly induce the adverse party to settle. If the application is denied on technical or traditional grounds, it will still serve to highlight the weaknesses of the adverse party's claims to the tribunal at an early stage in the proceeding. This early painting of the dispute will hopefully color the tribunal's perspective when it has to decide the claim later on in the arbitration.

What Documents Do You Need to Prove Your Claims/Defenses?

It is well known that the scope of document discovery in U.S. litigation is extremely broad. Under both U.S. federal and state-court procedural rules, parties are generally allowed to request "any and all" documents concerning a wide variety of subject categories, even if the documents may not be admissible at trial. Indeed, Federal Rule of Civil Procedure 26(b)(1) provides that parties may make any document request so long as the request "appears reasonably calculated to lead to the discovery of admissible evidence." The result is that U.S. litigators are relieved of the pressure, at least early in litigation, of identifying the specific documents that they need to prove their case. U.S. litigators have the luxury to cast a wide net and see what interesting documents they may catch. The same holds true, though to a lesser extent, in domestic U.S. arbitration.

This is not the case in international arbitration. In international arbitration, parties are normally expected to propound their requests with "reasonable specificity." *See* W. Laurence Craig, William W. Park & Jan Paulsson, *International Chamber of Commerce Arbitration*, § 26.01 (3d ed. 2000). Generally speaking, this means identifying specific documents (such as a copy of a

particular contract) or relatively narrow categories of documents. As *International Chamber of Commerce Arbitration* notes, international arbitration does not countenance "fishing expeditions."

As any seasoned arbitration attorney will attest, identifying the specific documents that attorneys need to prove their claims and defenses is not an easy task. It takes careful strategic forethought, and it takes time. And, for the most part, international arbitration does not afford parties a lot of time to prepare their document requests. Parties are usually expected to explain what discovery they intend to seek at the initial conference with the arbitrators and, then, to exchange their document requests shortly thereafter. Moreover, unlike U.S. rules of civil procedure, most international arbitration rules do not permit parties to serve supplemental document requests as a matter of right. There is no guarantee of a do-over.

It is therefore advisable that parties to an international arbitration ask themselves early in the process what specific documents they need to prove their claims and defenses. Taking the time to answer this question will not merely serve as preparation for document requests; it will also help crystallize what document discovery is actually achievable in the arbitration and give clients a better understanding of what they can, and cannot, get from the other side.

Do You Need Third-Party Discovery, and Can You Get It?

It is far more difficult to obtain third-party discovery in international arbitration than it is in U.S. litigation. Indeed, if the arbitration is taking place outside the United States, as most international arbitrations do, or if the potential third-party witness is located outside the United States, which is also routine in international arbitration, many countries do not allow arbitration tribunals to compel third-party discovery at all. At the very least, obtaining discovery from third parties located outside the United States will involve lengthy and time-consuming judicial procedures. It will also require the retention of foreign attorneys and the research of foreign laws. For this reason, it is bad practice to wait to investigate whether third-party discovery can be obtained abroad; it is good practice to investigate the question at the beginning of the international arbitration.

It is even difficult to obtain third-party discovery for international arbitrations taking place inside the United States. The authority of arbitration tribunals sitting inside the United States to compel third-party discovery derives from section 7 of the Federal Arbitration Act (FAA). This statute requires, among other things, that third parties must produce evidence before the arbitrators.

The arbitrators . . . may summon in writing any person to attend before them or any of them as a witness and in a proper case to bring with him or them any book, record, document, or paper which may be deemed material as evidence in the case . . . Said summons . . . shall be served in the same manner as subpoenas to appear and testify before the court; if any person or persons so summoned to testify shall refuse or neglect to obey said summons, upon petition the United States district court for the district in

which such arbitrators, or a majority of them, are sitting may compel the attendance of such person or persons

9 U.S.C. § 7 (West 2006)

As a result of this requirement, most U.S. courts have prohibited third-party depositions in arbitration because deposition testimony is not given "before the arbitrators." *See, e.g., Atmel v. LM Ericsson Telefon*, 371 F.Supp.2d 402 (S.D.N.Y. 2005); *In Matter of Integrity Insur. Co.*, 885 F.Supp. 69 (S.D.N.Y. 1995). Some U.S. courts have even forbidden third-party document production unless the production is presented by the third party at a hearing before the arbitrators. *See, e.g., Life Receivables Trust v. Syndicate*, 549 F.3d 210 (2d Cir. 2008); *Hay Group, Inc. v. E.B.S. Acquisition Corp.*, 360 F.3d 404 (3d Cir. 2004).

Section 7 of the FAA also prohibits parties from issuing subpoenas for third-party witnesses from any courts save "the United States district court for the district in which such arbitrators . . . are sitting" As a result of this restriction and the well-known rule that federal courts cannot subpoena witnesses who are located more than 100 miles from the courthouse, some U.S. courts have prohibited arbitrators from issuing discovery subpoenas to third-party witnesses located more than 100 miles from the place of arbitration. *See, e.g., Dynergy v. Trammochem*, 451 F.3d 89 (2d Cir. 2006). *But see In Matter of Security Life Co.*, 228 F.3d 865 (8th Cir. 2000).

The net result of these decisions is that a party to a U.S.-based arbitration should only safely expect discovery from third parties who are within 100 miles of the arbitral situs and will testify or produce documents at an actual hearing before the arbitrators. It may be possible to get more third-party discovery, depending on the circuit in which the arbitration is taking place. However, to date, the Supreme Court has not addressed the limitations under section 7 of the FAA, and, if anything, the trend has been toward allowing less, not more, third-party discovery in arbitration.

Given the above, a party contemplating the commencement of international arbitration should always consider, as early as possible, whether any third-party witnesses or documents are critical to proving its case. If the answer to that question is yes, the party should promptly investigate whether such third-party discovery is possible. The best way to obtain third-party discovery, of course, is to try to convince the third party to testify or produce documents voluntarily. If that is not possible, the party should promptly begin researching the laws of the applicable jurisdiction and take appropriate steps to compel disclosure.

There are no guarantees on obtaining third-party discovery in international arbitration, and, in truth, it is unwise to count on it. However, should third-party discovery be necessary or important to one's case, addressing the issue early on will maximize the chances of success.

Conclusion

Although thinking ahead is important in all forms of dispute resolution, it takes on added importance in international arbitration. Seriously considering and answering the six questions

posed in this article, either at or before the beginning of an international arbitration, is the best way to avoid unexpected pitfalls in the process. It is also the best way to achieve the goal of a realistic victory.

Keywords: litigation, commercial, business, international, arbitration

B. Ted Howes is a partner in McDermott, Will & Emery, LLP.

Service Abroad Under Fed. R. Civ. P. 4(f)(3)

By Aaron Weiss - December 22, 2011

Service of a U.S. complaint and summons on a defendant located outside the United States can sometimes be the most difficult aspect of pursuing a claim against an international adversary. Dozens of countries—including the United States—are parties to the Hague Convention of November 15, 1965, on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters. In addition, several Latin American countries are parties to the Inter-American Convention) and the <a href="Additional Protocol to the Inter-American Convention on Letters Rogatory. (The United States has a treaty relationship only with countries that are a party to both the Inter-American Convention and the Additional Protocol. There is authority suggesting that compliance with the Inter-American Convention may not be mandatory. See Kreimerman v. Casa Veerkamp, S.A. de C.V., 22 F.3d 634 (5th Cir. 1994), cert. denied, 513 U.S. 1016 (1994); Pizzabiocche v. Vinelli, 772 F. Supp. 1245 (M.D. Fla. 1991).) Collectively, the Hague Service Convention and the Inter-American Convention provide an established set of rules for effectuated service in more than 75 countries. However, there are more than 100 countries that are not party to either of those treaties and are not party to a separate bilateral service treaty with the United States.

Luckily, plaintiffs in U.S. federal court proceedings need not throw up their hands in frustration, trying to serve process on a defendant in one of these more than 100 nonsignatory countries. Rule 4(f)(3) of the Federal Rules of Civil Procedure allows for service on individuals located outside of the United States to be accomplished by "other means not prohibited by international agreement as may be directed by the court." Fed. R. Civ. P. 4(h)(2) applies the broadly worded Rule 4(f)(3) for service on foreign business entities. Many U.S. federal courts have been quite accommodating in authorizing sometimes novel methods of service.

Service under Fed. R. Civ. P. 4(f)(3) May Be Used in the First Resort

As an initial matter, it is widely agreed that service under Rule 4(f)(3) is equally acceptable to service under Rule 4(f)'s other subsections. Further, Rule 4(f)(3) includes "no qualifiers or limitations which indicate its availability only after attempting service of process by other means." *Brookshire Bros., Ltd. v. Chiquita Brands Int'l, Inc.*, 2007 WL 1577771, at *2 (S.D. Fla. May 31, 2007) (citing *Rio Props., Inc. v. Rio Int'l Interlink*, 284 F.3d 1007, 1015 (9th Cir. 2002);

see also Nuance Commc'ns, Inc. v. Abbyy Software House, 626 F.3d 1222, 1239 (Fed. Cir. 2010) ("Rule 4(f)(3) is not subsumed within or in any way dominated by Rule 4(f)'s other subsections; it stands independently, on equal footing.") (quoting *Rio Props.*, 284 F.3d at 1015).

Moreover, there is no requirement for a party to attempt service of process by way of any of the other methods enumerated in Rule 4(f)(1) or Rule 4(f)(2) before asking the court for alternative relief under Rule 4(f)(3). See Rio Props., 284 F.3d at 1014–15. In fact, "[c]ourt-directed service under Rule 4(f)(3) is as favored as service available under Rule 4(f)(1) or Rule 4(f)(2)." *Id.* at 1015; see also Ryan v. Brunswick Corp., 2002 WL 1628933, at *2 (W.D.N.Y. May 31, 2002) ("subsection (f)(3) is an independent basis for service of process and is neither 'extraordinary relief' nor a 'last resort' to be used only when parties are unable to effectuate service under subsections (f)(1) or (f)(2)."); Swarna v. Al-Awadi, 2007 WL 2815605, at *1–2 (S.D.N.Y. Sept. 20, 2007) ("[T]here is nothing in the text of the rule which contains a hierarchy of service methods as between Rule 4(f)(2) and Rule 4(f)(3).").

Courts Have Approved Several Manners of Service

Under Rule 4(f)(3), "courts have authorized a wide variety of methods of service including publication, ordinary mail, mail to the defendant's last known address, delivery to the defendant's attorney, telex, and most recently, email." *Rio Props.*, 284 F.3d at 1016. Specifically, in *Rio Properties*, the Ninth Circuit held that the district court properly found that alternative service via international courier and via email was constitutionally acceptable. *Id.* at 1016–17. The Ninth Circuit confirmed that the "Constitution does not require any particular means of service of process, only that the method selected be reasonably calculated to provide notice and an opportunity to respond." *Id.* at 1017; *see also Chanel, Inc. v. Lin*, 2009 WL 1034627, at *2 (S.D. Fla. April 16, 2009) (noting that a method of service under Rule 4(f)(3) should be calculated "to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections").

Any Method of Service Not Prohibited by Destination Country Is OK

The Eleventh Circuit's decision in *Prewitt Enterprises, Inc. v. Organization of Petroleum Exporting Countries*, 353 F.3d 916, 921, 927 (11th Cir. 2003), also warrants special attention. As a note, other than the Ninth Circuit's decision in *Rio Properties*, the Eleventh Circuit's decision in *Prewitt* is the only federal appellate case that closely examines Rule 4(f)(3). In *Prewitt*, the Eleventh Circuit affirmed denial of service of process pursuant to Rule 4 on the Organization of Petroleum Exporting Countries (OPEC) at its headquarters in Vienna, Austria, where a specific Austrian law governed service on OPEC. At quick glance, *Prewitt* might entice a defendant contesting a Rule 4(f)(3) service order to make an argument that Rule 4(f)(3) requires strict adherence to the destination nation's methods of service. However, in the context of Rule 4(f) as a whole, Rule 4(f)(3) does not support this restrictive reading. Such a reading would necessarily render Rule 4(f)(3) superfluous and redundant of Rule 4(f)(2)(A), which permits service under the foreign country's service rules. A brief explanation of the facts before the court in *Prewitt* clarify the issues and explain why that case does notstand for the proposition that service

pursuant to Rule 4(f)(3) can *only* be ordered under a method expressly permitted under rules for service in the foreign country where service is being made.

The plaintiff in *Prewitt* sued OPEC for violations of U.S. antitrust laws and attempted to serve process on OPEC at its headquarters in Austria. *Prewitt Enter., Inc. v. Org. of Petrol. Exp'g Countries*, 353 F.3d at 919–20. As the Eleventh Circuit recounted, the plaintiff first attempted to serve OPEC pursuant to Rule 4(f)(2)(c)(ii) by "requesting that the trial court send a copy of the complaint to OPEC by international registered mail, return receipt requested." *Id.* at 920. OPEC signed for the package, but decided that it "would not take any action with regard to the summons and complaint." *Id.* at 921. After default was entered, OPEC moved to set aside the default and to dismiss the complaint for insufficient process pursuant to Fed. R. Civ. P. 12(b)(5). *Id.* at 920. OPEC argued that service was improper under Austrian law because the method of service—registered mail dispatched by the clerk of court—was specifically prohibited under Austrian law governing service on OPEC. *Id.* at 924–27. The plaintiff also argued that if service by registered mail pursuant to Rule 4(f)(2)(c)(ii) was found insufficient, it should be permitted to effect service on OPEC under Rule 4(f)(3), via "other means of giving actual notice, such as fax or email." *Id.* at 927.

The district court denied the plaintiff's request to uphold service via registered mail pursuant to Rule 4(f)(2)(c)(ii) or to permit service via fax or email pursuant to Rule 4(f)(3), and the Eleventh Circuit affirmed. *Id.* at 926–27. In affirming the district court's decision, the Eleventh Circuit explained that the plaintiff's proposed methods of service—under either subsection of Rule 4—were directly prohibited under Austrian law. Specifically, as the Eleventh Circuit noted, Article 5(2) of the Austrian/OPEC headquarters agreement states that "the service of legal process... shall not take place with the [OPEC] headquarters seat except with express consent of, and under conditions approved by, the Secretary General." *Id.* at 923 (ellipsis in original). The Eleventh Circuit further observed that article 5(2) was buttressed by article 9 of the headquarters agreement, which provides that "OPEC... shall enjoy *immunity from every form of legal process* except in so far as in any particular case OPEC shall have *expressly waived* its immunity..." *Id.* at 926 n.18. (emphasis added to headquarters agreement in opinion).

After discussing the relevant Austrian statute—which was specifically and only applicable to service of process on OPEC—the Eleventh Circuit noted that paragraph (3) of the Advisory Committee Notes to Rule 4(f)(3) authorizes the court to approve other alternative methods of service, but when so doing, "an earnest effort should be made to devise a method of communication that is consistent with due process and minimizes offense to foreign law." Id. at 927 (citing Advisory Committee Notes to Fed. R. Civ. P. 4(f)(3)). The Eleventh Circuit held that "[r]ather than minimizing offense to Austrian law, the failure to obtain OPEC's consent would constitute a substantial affront to Austrian law. We can find no support permitting such a consequence in the face of Austria's direct prohibition of service on OPEC without its consent." Id. at 927 (emphasis added).

The Eleventh's Circuit decision merely clarified that in complying with the Advisory Committee's admonition to "minimize[] offense to foreign law," the federal courts should refrain from directing a method of service that is expressly prohibited by the applicable law. The Eleventh Circuit did not hold that service under Rule 4(f)(3) must only be directed under the rules prescribed for service in the foreign country where service is to be made. In fact, the Eleventh Circuit noted that the facts in *Prewitt* were different from those before the Southern District of New York in *In re Ski Train Fire in Kaprun, Austria on Nov. 11, 2000*, 2003 WL 21659368 (S.D.N.Y. July 15, 2003), another 2003 case involving service of process in Austria pursuant to Rule 4(f)(3). The *In re Ski Train* court ordered alternative service of process pursuant to Rule 4(3) under a method that was not specifically permitted under Austrian law.

In *Prewitt*, the Eleventh Circuit distinguished the facts of these two cases and noted that *In re Ski Train Fire* was not applicable because "there was no Austrian law explicitly prohibiting service of process on the defendant, an Austrian corporation, without its consent." *Prewitt Enter., Inc. v. Org. of Petrol. Exp'g Countries*, 353 F.3d at 928 n.20. The Eleventh Circuit's discussion of *In re Ski Train Fire* thus makes clear that the court was limiting its holding to cases where there was a foreign law specifically prohibitingservice in the manner a plaintiff proposes. The Eleventh Circuit did not disagree with the court's decision in *In re Ski Train*, but rather held that the case was inapplicable because the *In re Ski Train* plaintiff's proposed method of service was not expressly prohibited under the applicable foreign law. *Id.* at 927 n.20.

In *TracFone Wireless, Inc. v. Distelec Distribuciones Electronicas, S.A. de DV*, 268 F.R.D. 687, 690–91 (S.D. Fla. 2010), the court closely examined *Prewitt* where a plaintiff sought to serve a Honduras-based defendant by FedEx to Honduras and by hand-delivery to the defendant's United States-based attorney. The court found that such service was permissible under Rule 4(f)(3) because the proposed methods were not expressly prohibited by Honduran law. The court observed that the case was "very much different from . . . *Prewitt*,"noting that the proposed manner of service was "expressly prohibited by Australian law" and that, in contrast, the Honduras-based defendant before the court did "not put forth any evidence that Honduran law prohibits the method of service that Plaintiff proposes; Defendant simply argues that such service is not expressly authorized under Honduran law." The court thus concluded that *Prewitt* was factually inapposite and relied on *Rio Properties* to allow the proposed alternative 4(f)(3) service.

Service by FedEx

Federal courts have commonly authorized service of process via FedEx or another international courier pursuant Rule 4(f)(3) on defendants located outside the United States. *See Ehrenfeld v. Salim a Bin Mahfouz*, 2005 WL 696769, at *3 (S.D.N.Y. March 23, 2005) (approving service by certified mail or FedEx); *Mainstream Media, EC v. Riven*, 2009 WL 2157641, at *3 (N.D. Cal. July 17, 2009) (noting that, previously, the "court granted [the plaintiff's] motion for alternative service on [the defendant] pursuant to Federal Rule of Civil Procedure 4(f)(3), directing that the prior delivery of service documents by [the plaintiff] to [the defendant] via . . . FedEx was

effective service of process."); *Marks v. Alfa Group*, 615 F. Supp. 2d 375, 380 (E.D. Pa. 2009) (authorizing service by FedEx under Fed. R. Civ. P. 4(f)(3)); *Securities and Exchange Commission v. Int'l Fiduciary Corp.*, *S.A.*, 2007 WL 7212109, at *2 (E.D. Va. March 29, 2007) (finding that the plaintiff had complied with the direction of the court by mailing the summons and complaint via FedEx overnight delivery where the court had previously authorized such method of service pursuant to Fed. R. Civ. P. 4(f)(3)); *Bank of Credit and Commerce Int'l (Overseas) Ltd. v. Tamraz*, 2006 WL 1643202, at *6 (S.D.N.Y. June 13, 2006) (ordering that "[p]ursuant to Federal Rule of Civil Procedure 4(f)(3), plaintiff shall serve [the defendant] by Federal Express addressed to him at [his address in Paris, France] with plaintiff to furnish evidence regarding the signature of the person who accepted the package."); *TracFone v. Distelec*,268 F.R.D. at 690–91 (authorizing service on the defendant in Honduras pursuant to Fed. R. Civ. P. 4(f)(3) via FedEx).

Federal courts have also commonly granted leave to effectuate service pursuant to Rule 4(f)(3)via general "international courier" or other means of "express mail." Alu, Inc. v. Kupo Co., Inc., 2007 WL 177836, at *4 (M.D. Fla. Jan. 17, 2007) (noting that the plaintiff's service on the defendant via international private courier was proper where the "Plaintiffs obtained leave of court from [the court] pursuant to Rule 4(f)(3) to serve [the defendant] by alternative means"); Napp Techs., LLC v. Kiel Labs., Inc., 2008 WL 5233708, at *4 (D.N.J. Dec. 12, 2008) (noting that the court had previously entered an order "permit[ing] service on [the defendants] by express mail and e-mail" pursuant to Fed. R. Civ. P. 4(f)(3)); Export-Import Bank of U.S. v. Asia Pulp & Paper Co., Ltd., 2005 WL 1123755, at *4-6 (S.D.N.Y. May 11, 2005) (declaring that service via DHL international courier pursuant to Fed. R. Civ. P. 4(f)(3) was valid); Jenkins v. Pooke, WL 412987, at *2–3 (N.D. Cal. Feb, 17, 2009) (directing service to be effectuated, inter alia, via international courier); KPN B.V. v. Corcyra D.O.O., 2009 WL 690119, at *2 (S.D.N.Y. March 16, 2009) (ordering that service can be effectuated "by delivering process to . . . [the defendant's] last known address in Israel via international overnight courier."); Swarna, 2007 WL 2815605, at *2 (ordering that, pursuant to Fed. R. Civ. P. 4(f)(3), the plaintiff can effectuate "service of the summons and complaint by international courier to [the defendant's] residence in Paris, provided it is a courier service that maintains written or electronic records of delivery").

Service by Email or Fax

Email and fax are also manners of service that have frequently been approved to effectuate service pursuant to Rule 4(f)(3), particularly where the plaintiff can present evidence to the court that the email address or fax number is used by the defendant on whom service is sought. *See Liberty Media Holdings, LLC v. Vingay.com*, 2011 WL 810250 (D. Ariz. March 3, 2011) (approving email service); *Xcentric Ventures, LLC v. Karsen, Ltd.*, 2011 WL 3156966, at *2 (D. Ariz. July 26, 2011) (granting email service pursuant to Rule 4(f)(3)); *U.S. Commodity Futures Trading Com'n v. Aliaga*, 272 F.R.D. 617, 621 (S.D. Fla. 2011) (granting leave pursuant to Rule 4(f)(3) to serve the summons, complaint, and all subsequent pleadings and discovery on the defendant located in Honduras); *Philip Morris USA, Inc. v. Veles, Ltd*, 2007 WL 725412, at *2–3 (S.D.N.Y. Mar. 12, 2007) (authorizing service by email and facsimile pursuant to Rule 4(f)(3)).

Service on a Defendant's Attorney

Another common method of service pursuant to Rule 4(f)(3) is service on a defendant's United States-based attorney, when there is evidence of an attorney-client relationship. *See In re Potash Antitrust Litig.*, 667 F. Supp. 2d 907, 931 (N.D. Ill. 2009) (directing substituted service on U.S. attorneys retained by Russian defendants); *Brookshire Bros., Ltd. v. Chiquita Brands, Int'l*, 2007 WL 1577771, at *2 (S.D. Fla. May 31, 2007) (authorizing service on foreign defendants through local counsel); *U.S. Commodity Futures Trading Com'n v. Aliaga*, 272 F.R.D. at 621 (S.D. Fla. 2011) (authorizing service on an attorney in the United States); *RSM Prod. Corp. v. Fridman*, 2007 WL 2295907, at *6 (S.D.N.Y. Aug. 10, 2007) (authorizing service on the defendant's U.S. counsel); *LG Elecs, Inc. v. Asko Appliances, Inc.*, 2009 WL 1811098, at *4 (D. Del. June 23, 2009) (finding that, pursuant to Rule 4(f)(3), service on an attorney was permissible in light of the regularity of contact between the defendant and his attorney).

Prior Leave of Court May Be Required

It is important to consider whether court permission should be sought before trying to effectuate service abroad. Courts are divided as to whether service may be authorized retroactively under Rule 4(f)(3). Some cases have issued *nunc pro tunc* orders, retroactively approving service pursuant to Rule 4(f)(3). See Export-Import Bank of U.S. v. Asia Pulp & Paper Co., Ltd., 2005 WL 1123755, at *4–5 (S.D.N.Y. May 11, 2005) (allowing service under Rule 4(f)(3) nunc pro tunc); Marks v. Alfa Group, 615 F. Supp. 2d 375, 380 (E.D. Pa. 2009) (authorizing service nunc pro tunc by FedEx under Rule 4(f)(3) after the defendant returned a signed receipt acknowledging that it had received the summons); Igloo Prods. Corp. v. Thai Welltex Int'l. Co., Ltd., 379 F. Supp. 2d 18, 20 (D. Mass. 2005) (same).

However, the majority of courts that have reported decisions on the issue—including the only federal appellate court to address the issue—have declined to authorize *nunc pro tunc* service under Rule 4(f)(3). *See Brockmeyer v. May*, 383 F.3d 798, 805–06 (9th Cir. 2004) (refusing to allow service under Fed. R. Civ. P. 4(f)(3) on the grounds that the rule requires plaintiffs to obtain prior court approval for the alternative method of service); *see also MacLean-Fogg Co. v. Ningbo Fastlink Equip. Co., Ltd.*, 2008 WL 5100414, at *2 (N.D. Ill. Dec. 01, 2008) (holding that "an abundance of caution" was necessary in preserving the language of Fed. R. Civ. P. 4(f)(3), even if the means of service on Chinese defendants was effective); *U.S. v. Machat*, 2009 WL 3029303, at *4 (S.D.N.Y. Sept. 21, 2009) (declaring prior service effective *nunc pro tunc* was not appropriate because Rule 4(f)(3) requires the means of service to be ordered by the court); *Kaplan v. Hezbollah*, 715 F. Supp. 2d 165, 167 (D.D.C. 2010) (the plaintiffs would not be granted leave *nunc pro tunc* to achieve service on the party by serving the minister by international registered mail); *IntelliGender, LLC v. Soriano*, 2011 WL 903342, at *7 (E.D. Tex. March 15, 2011) (acknowledging contrary authority but declining to issue an order pursuant to Fed. R. Civ. P. 4(f)(3) *nunc pro tunc*).

Conclusion

Rule 4(f)(3) offers a method to save significant time and expense in serving defendants abroad. It

is critical to carefully review the treaty relationships between the United States and the country where service is sought. Also, while it is not necessary to become comprehensively familiar with the laws of the destination country, it is important to at least confirm that the manner of service is not explicitly prohibited. Finally, it is advisable to seek leave from the U.S. court before effectuating such service.

Keywords: litigation, commercial, business, service, Federal Rules of Civil Procedure, email, fax

Aaron Weiss is an associate with Carlton Fields, P.A., Miami, Florida.

NEWS & DEVELOPMENTS

Settlement Offer Before Certification Moots Class Action

In *Damasco v. Clearwire Corp.*,No. 10-3934, slip op. (7th Cir. November 18, 2011), the Seventh Circuit upheld the lower court's ruling that a proposed class action was mooted by a settlement offered by the defendant company to the lead plaintiff before he moved for certification.

This case is a good reminder to both plaintiffs and defendants about the avenues available to protect or defeat a class action before a motion for class certification is even pending.

Keywords: litigation, commercial, business, Seventh Circuit, class certification, mootness

—Tracy A. Hannan, Edwards, Wildman, Palmer, LLP, Chicago, Illinois

Narrow Ability to Vacate Arbitration Awards Reconfirmed

In Affymax, Inc. v. Ortho-McNeil-Janssen Pharmaceuticals, et al., No. 11-2070, slip op. (7th Cir. Oct. 3, 2011), the Seventh Circuit reversed the district court's decision overturning a portion of an arbitration award and directing the arbitrators to reconsider the issue.

Through this decision, the Seventh Circuit reconfirmed the narrow grounds on which an arbitration award can be disturbed on judicial review. It remains to be seen whether this decision will curb post-arbitration award attacks on grounds other than those expressly defined in the Federal Arbitration Act.

Keywords: litigation, commercial, business, arbitration, Federal Arbitration Act, Seventh Circuit

—Tracy A. Hannan, Edwards Wildman Palmer, LLP, Chicago, Illinois

State of Incorporation is Not Dispositive in Venue Analysis

In *In re Link_A_Media Devices Corp.*, 2011 U.S. App. LEXIS 23951 (Fed. Cir. 2011), the Federal Circuit granted a petition for writ of mandamus directing the U.S. District Court for the District of Delaware to vacate its order denying Link_A_Media Devices Corp.'s (LAMD) motion to transfer venue.

This decision is another in a line of similar decisions that should give plaintiff-patentees pause when selecting venue and defendant accused infringers pause when deciding whether or not to seek to transfer venue. Although this case dealt with substantive Third Circuit law on this issue in part, the Federal Circuit also made similar distinctions with regard to section 1404(a). Thus, it seems apparent then that the same result would likely occur in any other circuit that also does not include state of incorporation as a relevant venue transfer factor.

Keywords: litigation, commercial, business, Federal Circuit, writ of mandamus, state of incorporation, transfer of venue

—Andrew Crain, a partner at Thomas, Kayden, Horstemeyer & Risley, LLP

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