Landgericht
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GÖRG

Turning the Tables on Discovery: Using U.S. and German Proceedings to Your Advantage

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1. General Considerations

If and to what extent German courts will accept evidence obtained abroad following document requests etc. under 28 U.S.C. § 1782 has apparently not been decided yet by the German Federal Supreme Court or other higher German courts.[1] However, in a 1992 decision the German Federal Supreme Court has held that obtaining evidence in the U.S. under local discovery rules does not prevent a German court to permit the recognition of a U.S. judgment in Germany.[2] In the absence of explicit rules on the recognition of evidence gathered abroad in German court proceedings, the general test will be whether the "public order" has been violated.[3] The mere fact that evidence is obtained in a proceeding different from the German proceeding does not necessarily result in a prohibition against recognition, rather the specific way the evidence is obtained in each single case needs to be considered.

A part of this "public order" is the prohibition of "fishing expeditions", however, even this does not necessarily result in a prohibition of the use of evidence in German court proceedings obtained in the U.S. under U.S. discovery rules.[4]

A German author[5] has raised another point: The recent amendment of the German Code of Civil Procedure, particularly Sec. 142, permitting the judge to request some document production from the parties or a third person, may be regarded as an argument in favor of the general possibility to allow certain discovery-like proceedings. Thus, the German public order is not automatically violated by using evidence obtained abroad pursuant to 28 U.S.C. § 1782.

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[1] See also Eschenfelder, Verwertbarkeit von Discovery-Ergebnissen im deutschen Zivilverfahren, RIW 2006, at 447.
[2] German Federal Supreme Court [BGH], Judgment of June 4, 1992, NJW 1992, pages 3096–3106 [even permitting the – partial – recognition of a US judgment granting punitive damages].
[3] See Eschenfelder, infra, note 26, at 444.
[4] See Eschenfelder, infra, note 26, at 445, but see for the opposing opinion the authors and court decision cited in footnotes 27 and 29 of this article.
[5] See Eschenfelder, infra, note 26, at 446.

2. How to introduce Evidence obtained pursuant to 28 U.S.C. § 1782 in German Court Proceedings

Nevertheless, the way evidence obtained abroad can be introduced in German court proceedings remains subject to the German rules: Documents obtained under a 28 U.S.C. § 1782 **document request** may be copied and filed in German proceedings in the same way as other documents introduced in German court proceedings.

Transcripts of **depositions** may be either filed as a document (but not replacing the hearing of the witness by the German court) or the witness deposed in the U.S. may be "offered" as a witness in the German court (and heard in the German proceedings in the "normal" way, i.e. heard only if the court holds that hearing the witness is essential for the outcome of the case). The transcript of the deposition may also be used as documentary evidence during the hearing of the witness in order to rebut possible contradictory statements. As always, the weighing of the (written as opposed to oral) statements of the witness is very much in the discretion of the (German) court.

The challenge for German practitioners will be to convince not only German clients, but also German judges (and opposing counsel) of such further means of obtaining evidence abroad. Those not experienced or knowledgeable enough in this particular area of law may – on the basis of "traditional" German law - hesitate to accept such new possibilities of gathering facts and evidence. This applies both to the new provisions under German law (Sec. 142 German Code of Civil Procedure) as well as the possibility to use evidence obtained in the U.S. via 28 U.S.C. § 1782 in German court proceedings.

3. The SDNY 2006 Schottdorf Case

One may say that the situation of documents to be used in German court proceedings and in possession of a person residing in the United States is rare and may help in very few cases. But even with regard to documents located outside the United States, recent developments by U.S. courts have resulted in a broader application, and the *Schottdorf* case may be the leading case:

A New York district court rendered an interesting decision on December 29, 2006 upon application of a German partnership[6]. Gemeinschaftspraxis Dr. med. Bernard Schottdorf & Partners ("Schottdorf") is a German partnership. It operates a laboratory that analyzes human samples at a substantial volume. Schottdorf is ultimately paid from monies collected from public health insurance companies upon a fee schedule negotiated with a federal association of physicians (*Kassenärztliche Bundesvereinigung*). In 1999 the fees to

[6] In re Application of Gemeinschaftspraxis Dr. med. Schottdorf, 2006 BL 3844464 (S.D.N.Y. 2006).

be paid to Schottdorf were reduced by 20 %, allegedly because of a report rendered by McKinsey in Germany, a global consulting firm headquartered in New York.

Schottdorf initiated proceedings with German social courts and requested in such proceedings that a copy of the report rendered by the German McKinsey office (in German) should be forwarded to him in order to allow a proper presentation of his case in German courts. The German court refused, but the U.S. district court granted Schottdorf's application based on 28 U.S.C. § 1782. In its decision the court discussed Sec. 142 German Code of Civil Procedure and applied the following factors to the case:

(1) McKinsey is not a party to the foreign litigation for which discovery is sought.

(2) McKinsey has failed to demonstrate that this court's assistance would offend Germany or its courts.

(3) Schottdorf does not appear to be impermissibly circumventing foreign proof-gathering restrictions or other German policies.

(4) The subpoena (towards McKinsey) is neither unduly intrusive nor burdensome.

Since factors (1), (2) and (4) weigh in favor of permitting the requested discovery and factor (3) is at least a neutral consideration, the U.S. district court granted the application and ordered McKinsey New York to instruct McKinsey Germany to forward the report in question to Schottdorf. It was of no significance that the document sought was not to be found in the US, rather it was sufficient that the party (McKinsey) was residing in the US.
This case may be criticized for not sufficiently investigating the corporate relationship between McKinsey New York and McKinsey Germany, however, following a general trend in U.S. litigation, it narrows the prerequisites for an application of 28 U.S.C. § 1782 to even less contacts to the United States. In other words: if a German company is somehow connected (within a group of companies) to a company residing in the U.S., an application under 28 U.S.C. § 1782 may be taken into account.

4. Cases involving 28 U.S.C. § 1782 – and German Courts

Since no decision of a major German court has apparently been published yet, a few cases involving German courts, but reported by US courts, can be used to illustrate the actual handling between Germany and the US:

4.1 In re Application for an order permitting Metallgesellschaft AG to take discovery. Metallgesellschaft AG v. Hodapp[7]

Facts: MG applied for discovery in a U.S. District Court from Hodapp, former president of MG's subsidiary in the United States. Hodapp is suing MG in the Frankfurt Labor Court for breach of his employment contract with MG alleging that MG failed to pay severance remuneration during an 18 months' period following his dismissal by the company.

Held: The Court of Appeals reversed and remanded, and the court held that District Court abused its discretion by denying discovery on the grounds that evidence would not be discoverable under German law.

4.2 In the Matter of the Application of FEDERATION INTERNATIONAL DE BASKETBALL for a subpoena[8]

Facts: American basketball player sued foreign basketball league in Munich High Court challenging two year suspension based upon expulsion for drug abuse violations. FIBA sought subpoena compelling NBA to disclose information regarding expulsion.

Held: FIBA's motion is granted and NBA is directed to produce the documents.

[7] 121 F.3d 77 – August 12, 1997
[8] 117 F.Supp.2d. 403 – October 24, 2000

4.3 In the Matter of the Application of The Proctor & Gamble Company, the Petitioner, for an order to take discovery of Respondents Kimberly-Clark Corporation[9]

Facts: P&G brings this action for the purpose of obtaining discovery from KC and others for use in patent infringement suits that KC has commenced in the UK, France, The Netherlands, Germany and Japan. In Europe, KC alleges that P&G's product, Pampers EASY UP pants, infringes upon KC's European patent, which describes a disposable absorbent garment suitable for use as child's training pants.

Held: Petition granted.

4.4 INFINEON TECHNOLOGIES v. GREEN POWER TECHNOLOGIES LTD.[10]

Facts: GPT sued Infineon in Germany for alleged unlawful use of GPT business information and Infineon reciprocated with this declaratory judgment action. The U.S. District court entered a protective order. During discovery Infineon produced documents that GPT found relevant for the German litigation and moved to modify the protective order.

Held: Motion to modify is granted and ordered that submission of any documents to the German court by the parties shall be done utilizing all applicable local procedures for ensuring the confidentiality of documents.

[9] 334 F.Supp.2d 1112 – September 1, 2004
[10] 247 F.R.D. 1 – June 17, 2005

4.5 Cyrolife, Inc. v. Tenaxis Medical, Inc.[11]

Facts: Cyrolife filed a patent infringement action with the Düsseldorf High Court against Tenaxis, alleging Tenaxis infringed 512 patents by offering and selling the ArterX Vascular, which reportedly is used to seal suture and staple holes in blood vessels. Cryolife then petitions the U.S. District Court for an order directing Tenaxis to produce documents and one or more persons to testify.

Held: Cryolife's petition for discovery is granted. The scope of documents to be submitted to Cyrolife about Tenaxis' sales and marketing-related activities shall be limited.

4.6 In the Matter of the Application of MINATEC FINANCES S.A.R.L. v. SI GROUP INC.[12]

Facts: SI Group sued Minatec in the Frankfurt High Court in the case entitled SI Group Inc. and Schenectady Luxembourg S.a.r.l. v. Minatec Finance S.a.r.l. seeking declaratory relief so that Minatec is not entitled to pecuniary relief under a share purchase agreement for possible losses that may result from the German tax audit and the alleged mislabeling. On March 13, 2008 the German court issued an order which initiated the service of the German complaint upon Minatec and gave Minatec more than a month to respond to the complaint. Minatec filed an application pursuant to 28 U.S.C. § 1782 for discovery.

Held: Discovery will be helpful for both the German action and the German tax audit and may encourage Germany to provide similar means of assistance. The court granted Minatec's petition.

5. Hypothetical

Applicant in a proceeding pursuant to 28 U.S.C. § 1782 is a German limited liability company which is in the business of logistics services, including packaging and transportation. Respondent in this proceeding is a Delaware corporation with a manufacturing plant located in Atlanta, Georgia. Respondent is a supplier of certain automotive parts.

[11] 2009 WL 88348 (N.D. Cal) – January 13, 2009
[12] 2008 WL 3884374 (N.D.N.Y.) – August 18, 2009

Background of the proceeding pursuant to 28 U.S.C. § 1782 is a German civil law proceeding. Therein, German Plaintiff is a German limited liability company which manufactures and sells machinery, mainly in the automotive industry. The defendant in the German litigation is the Applicant.

Respondent entered into a contract with German Plaintiff for the purchase of a production line to be used by Respondent at its Newton plant to manufacture certain automotive parts. The production line was to be shipped from Germany and assembled at Respondent's manufacturing plant in Atlanta, Georgia. German Plaintiff contracted with Applicant to build special wooden containers in which the components, various machine parts of the production line, were to be shipped. German Plaintiff also contracted with Applicant to package the parts for shipping.

Applicant produced the wooden containers, packaged the machine parts and arranged to ship them, via boat, from Germany to Savannah, Georgia. The parts were then transported to Respondent's manufacturing plant in Atlanta, Georgia. When the shipping containers were opened, several machine parts allegedly were corroded. The apparent cause was humidity released by the wooden containers.

German Plaintiff instituted a civil proceeding for breach of contract against Applicant in the Cologne High Court in Germany. German Plaintiff alleged that Applicant was liable for the corrosion to the machine parts due to improper packaging and sought to hold Applicant liable for the resulting losses. As is common in German civil lawsuits, the action was divided into a liability phase and a damages phase.

In the liability phase, the Cologne High Court found that the wooden containers were not built in accordance with the technical rules on packaging currently in force in Germany, and that Applicant was liable for the humidity in the containers and consequently for the corrosion to the machine parts. The court did not, however, determine the amount of damages.

During the liability phase in the Cologne High Court, German Plaintiff entered into a settlement with Respondent. The settlement purportedly cost German Plaintiff EUR 5 million.

The second phase of the proceedings concerning damages has begun in the Cologne High Court. German Plaintiff informed Applicant through its statement of claim during the liability phase that it seeks damages totaling EUR 7.5 million. German Plaintiff has asserted that the settlement was intended to compensate Respondent for losses due to the corrosion problem including, among others, lost profits resulting from the delay in putting the production line into operation and the diminished value of the production line. During a hearing the Cologne High Court stated that German

Plaintiff may recover the costs of the Settlement only if it can show the settlement was necessary to prevent Respondent from rejecting the production line and refusing to pay anything for it.

Information in the possession of Respondent is, in Applicant's opinion, crucial to the damages proceeding. Respondent, the purchaser of the production line, is the party that was most directly affected by the corrosion problem. In its application to the US Federal District Court Applicant argues that the requested discovery is needed to determine (1) whether, in fact, Respondent or German Plaintiff suffered losses due to the corrosion problems, much of which allegedly took place at Respondent's facility while putting the production line into operation; and (2) the amount of any losses. Discovery is also needed regarding the settlement, including whether the settlement was essential to prevent Respondent from rejecting the production line and refusing to pay anything.