In-house Corporate Counsel and Retained Attorneys: Should the Courts and Administrative Agencies Distinguish Them?

I. Introduction

An ever-growing trend finds corporations, both large and small, bringing the job of legal representation in house.[1] Several factors account for the growing number of corporate legal staffs. One of the primary reasons is the soaring cost of legal fees.

Litigation involving the business sector is ballooning at an enormous rate. Many companies find themselves paying hundreds of thousands of dollars annually in legal fees.[2] In an effort to reduce expenses, corporate legal advice has been brought under internal service departments, and the annual savings have been significant for many larger companies. Another impetus to internalize legal counsel is the beneficial specialization of attorneys both in the broad scope of the particular industry and, more specifically, in the individual company. Specialization is particularly attractive to corporations in high technology fields like electronics and computers, as well as to other highly specialized companies which deal in pharmaceuticals, biological research, aerospace, automobiles, and other unique products. Internal legal departments also enable the different groups of attorneys, such as patent and business lawyers, to commingle for a combined and improved sensitivity to the unique needs of the individual company.

The changing character of the legal community that was once dominated by the law firm has produced many previously unanswered questions. These issues range from the professional responsibility questions surrounding the "one-client" attorney to the practical aspects of a more competitive market. One of the most important questions to be resolved involves differential treatment by the courts of two classes of attorneys, namely in-house and retained counsel.

A recent case focused on an important question of first impression that courts and administrative agencies will likely face with increasing regularity in the future. This case, *United States Steel Corp. v. United States*,[3] highlights the current need to establish sound precedents to ease the metamorphosis of the legal community.

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[1]Allaux, *A New Corporate Powerhouse; The Legal Department*, Bus. Wk., April 9, 1984, at 66-71; Popper, *Xerox's Legal "Revolutionary" Tightens His Grip*, Bus. Wk., April 9, 1984, at 67; Allaux, *Can An In-House Lawyer Say "No" To His Boss?*, Bus. Wk., April 9, 1984, at 70.

[2]Legal Times, July 21, 1983, at 2, col. 1.

[3]730 F.2d 1465 (D.C. Cir. 1984).

In *U.S. Steel*,[4] the Court of International Trade (C.I.T.) established a polarized situation when it distinguished between "in-house" corporate counsel and "retained" attorneys. Discovery of confidential information under a protective order was sought by both classes of attorneys but was granted only to the outside lawyers. The C.I.T. acknowledged the need for discovery, but found in-house corporate attorneys more likely to disclose "inadvertently" secret information to their client because of their general status as employees.

Three principal solutions to this dilemma are available. This Note examines the distinctions *U.S. Steel* draws between in-house and retained counsel and addresses the three primary solutions to the dilemma. First, the courts could establish a per se rule denying corporate counsel access to sensitive information. Second, they could embark on a time-consuming case-by-case analysis each time the conflict arises. Lastly, the courts could reject any distinction among practicing attorneys and continue to treat all lawyers equally before the bench. An analysis of existing case law and statutes, along with a concern for judicial efficiency in light of increasing dockets, points toward the latter approach—maintaining equality in the treatment of all attorneys.

II. Status of the Law Prior to *U.S. Steel*

The Federal Rules of Civil Procedure govern civil cases in federal courts. Administrative agencies, however, apply their own rules which sometimes conflict with the rules of civil procedure. *U.S. Steel* is a prime example of what happens when two opposing rules are used at different stages of the proceeding. Careful reasoning will show that the particular administrative discovery rules applied in *U.S. Steel* are inapplicable and should capitulate to the Federal Rules of Civil Procedure on discovery.

A. Federal Rules of Civil Procedure

A party's right to discovery in civil proceedings has long been a basic tenet of the law, upheld by the Federal Rules of Civil Procedure.[5] Since the inception of the Federal Rules, discovery of information has been permitted to provide a party with a more thorough base of factual information upon which to base his case. Historically, interpretation of the rules has been rather liberal, allowing a party to prepare more effectively by drawing upon the information possessed by his adversary. In *Hickman v. Taylor*,[6] the Supreme Court stated, "Mutual knowledge of all the relevant facts gathered by both parties is essential to proper litigation."[7] Only in cases where one party could claim privilege or show

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[4]United States Steel Corp. v. United States, 569 F. Supp. 870 (Ct. Int'l. Trade 1983).

[5]Fed. R. Civ. P. 26(c).

[6]329 U.S. 495 (1947).

[7]*Id.* at 507.

potential harm to his client would discovery be refused. Even when damaging information was involved, a weighing of interests was performed by the courts to make sure that denial of discovery would not prevent the party seeking discovery from preparing an adequate claim or defense.[8]

One provision of rule 26 allows the court to "[m]ake any order which justice requires"[9] to protect a party from the harmful results of the dissemination of confidential information through discovery. The rule, however, requires that the party seeking the protective order show good cause for the ruling,[10] thus placing the burden on the moving party.[11] These protective orders were governed by rule 30(b) prior to

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[8]*See generally* Centurion Industries, Inc. v. Warren Steurer, 665 F.2d 323 (10th Cir. 1981); Covey Oil Co. v. Continental Oil Co., 340 F.2d 993 (10th Cir. 1965); Julius M. Ames Co. v. Bostich, Inc., 235 F. Supp. 856 (S.D.N.Y. 1964). Johnson Foils, Inc. v. Huyck Corp., 61 F.R.D. 405 (D.C.N.Y. 1973).

[9]FED. R. CIV. P. 26(c). Rule 26(c) states:

TITLE V—DEPOSITIONS AND DISCOVERY

Rule 26. General Provisions Governing Discovery

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(c) Protective Orders. Upon its own initiative, or upon motion by a party or by the person from whom discovery is sought, and *for good cause shown*, the court may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden, delay or expense, including one or more of the following:

(1) that the discovery not be had; (2) that the discovery may be had only on specified terms and conditions, including a designation of the time or place; (3) that the discovery may be had only by a method of discovery other than that selected by the party seeking discovery; (4) that certain matters not be inquired into, or that the scope of the discovery be limited to certain matters; (5) that discovery be conducted with no one present except persons designated by the court; (6) that a deposition after being sealed be opened only by order of the court; (7) that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way; (8) that the parties simultaneously file specified documents or information enclosed in sealed envelopes to be opened as directed by the court. If the motion for a protective order is denied in whole or in part, the court may on such terms and conditions as are just, order that any party or person provide or permit discovery.

(emphasis added).

[10]United States v. Purdome, 30 F.R.D. 338, 341 (W.D. Mo. 1962). *See also* Velasquez v. South Atl. S.S. Line, Inc., 11 F.R.D. 196 (S.D.N.Y. 1951); Glick v. McKesson & Robbins, Inc., 10 F.R.D. 477 (W.D.N.Y. 1943).

[11]F.C.C. v. Schrieber, 329 F.2d 517, 537 (9th Cir. 1964) (Browning, J. dissenting), *modified*, 381 U.S. 279 (1965); *see also* Pennwalt Corp. v. Plough, Inc., 85 F.R.D. 257, 259 (D.C. Del. 1979) (In regard to the party moving for discovery, the court stated, "If a movant can demonstrate that an inspection of such information is relevant and necessary to prepare his case for trial, or that denial of inspection would prejudice the movant, result in hardship or work an injustice, disclosure with proper safeguards is appropriate."); Reliance Ins. Co. v. Barron's, 428 F. Supp. 200, 202 (S.D.N.Y. 1977) (citing Davis v. Romney, 55 F.R.D. 337 (E.D. Pa. 1972)); United States v. International Business Mach. Corp., 67 F.R.D. 40, 46 (S.D.N.Y. 1975) (The court held that parties before that court which move to deny discovery of confidential information must show a "*clearly defined and very serious injury* to [their] business.") (emphasis added); Hunter v. International Sys. and Controls Corp., 51 F.R.D. 251 (W.D. Mo. 1970); Essex Wire Corp. v. Eastern Sales Co., Inc., 48 F.R.D. 308 (E.D. Pa. 1969); Apco-Oil Corp. v. Certified Transp. Inc., 46 F.R.D. 428 (W.D. Mo. 1969).

1970. In addition to orders which justice requires, the existing rule encompassing protective orders lists eight types of protective orders that may be implemented. Part (5) of rule 26(c) provides the alternative "that discovery be conducted with no one present except persons designated by the court."[12] The corresponding portion of former rule 30(b) stated "that the examination shall be held with no one present except the parties to the action and their officers or counsel."[13] When interpreting former rule 30(b), the "or" in the statement above must be taken to mean "and." The court in *Dunlap v. Reading Company*[14] concluded that "'or,' of course, must here be read as 'and.'"[15] It would not make sense to allow the party to discover information and yet exclude his attorney who must argue the case. Thus, the statute was read as preventing the exclusion of the party's counsel.[16] Nothing indicates that the Advisory Committee intended to change the meaning of this section when this rule was incorporated under rule 26(c) in the 1970 Amendments and reorganization of the rules.[17] Nor was there any attempt by the legislature to distinguish between "in-house" and "retained" counsel. The primary reason for recodifying this provision in rule 26(c) was to allow rule 26 to apply to discovery in general rather than to depositions only.

Part (7) of rule 26(c) states that "a trade secret or other confidential research, development, or commercial information [shall] not be disclosed

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[12]FED. R. CIV. P. 26(c)(5).

[13]FED. R. CIV. P. 30(b) (1969 (superseded)).

Rule 30. Depositions Upon Oral Examination

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(b) Orders for the Protection of Parties and Deponents. After notice is served for taking a deposition by oral examination, upon motion seasonably made by any party or by the person to be examined and upon notice and for good cause shown, the court in which the action is pending may make an order that the deposition shall not be taken, or that it may be taken only at some designated place other than that stated in the notice, or that it may be taken only on written interrogatories, or that certain matters shall not be inquired into, or that the scope of the examination shall be held with no one present except the parties to the action and their officers or counsel, or that after being sealed the deposition shall be opened only by order of the court, or that secret processes, developments, or research need not be disclosed, or that the parties shall simultaneously file specified documents or information enclosed in sealed envelopes to be opened as directed by the court; or the court may make any other order which justice requires to protect the party or witness from annoyance, embarrassment, or oppression.

[14]Dunlap v. Reading Co., 30 F.R.D. 129 (E.D. Pa. 1962).

[15]*Id.* at 131 n.6. *See also* United States v. Fisk, 70 U.S. 445, 447 (1866). The court stated, "In the construction of statutes, it is the duty of the court to ascertain the clear intention of the legislature. In order to do this, courts are often compelled to construe 'or' as meaning 'and,' and again 'and' as meaning 'or.' " *See also* Peacock v. Lubbock Compress Co., 252 F.2d 892 (5th Cir. 1958); Perfect Photo, Inc. v. Grabb, 205 F. Supp. 569, 571 (E.D. Pa. 1962); Pennsylvania Labor Relations Bd. v. Martha Co., 359 Pa. 347, 59 A.2d 166 (1948); Burgis v. County of Philadelphia, 169 Pa. Super. 23, 25, 82 A.2d 561, 563 (1952).

[16]8 C. WRIGHT & A. MILLER, FEDERAL PRACTICE AND PROCEDURE § 2041 (1970) (hereinafter cited as WRIGHT & MILLER). *See also* Queen City Brewing Co. v. Duncan, 42 F.R.D. 32 (D.C. Md. 1966).

[17]8 WRIGHT & MILLER, *supra* note 16, at § 2041.

or be disclosed only in a designated way." Although this might apply when confidential information is desired for discovery, it cannot supersede the intent of part (5), which mandates the presence of the party's attorney if any discovery is to be had.

In *Textured Yarn Co. v. Burkart-Schier Chemical Co.*,[18] the court, following former rule 30(b), granted a protective order allowing the parties and their attorneys access to the information in question.[19] Guided by current rule 26(c)(5), the court in *United States v. International Business Machines Corp.*[20] allowed discovery of confidential documents to the "attorneys" for I.B.M. without distinguishing between "in-house" and "retained" attorneys. With a corporate legal staff of approximately 146 lawyers,[21] it is a fair assumption that some members of the corporate staff were involved with this case. I.B.M.'s motion to restrict discovery by Xerox Corporation to their "outside counsel" only was denied in *Xerox Corp. v. International Business Machines Corp.*[22] Consequently, Xerox's in-house attorneys were permitted to discover documents held by I.B.M. for purposes of this case. It can be seen then, that historically, attorneys have been included in the discovery process.

B. Customs Duties—Administrative Rules

In sharp contrast to the long established interpretation of the rules of civil procedure are the administrative rules found under Customs Duties, 19 U.S.C. section 1516a.[23] The language of the customs statute

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[18]41 F.R.D. 158 (D.C. Tenn. 1966).

[19]*Id. See also* Turmenne v. White Consol. Indus., Inc., 266 F. Supp. 35 (D.C. Mass. 1967) (only defendant's counsel, active in the case, and those appointed by him, entitled to discovery of plaintiff 's information); United States v. Lever Bros. Co., 193 F. Supp. 254 (S.D.N.Y. 1961), *cert. denied*, 371 U.S. 932 (1962) (information held by third party given to attorneys for Lever Brothers through discovery); American Oil Co. v. Pennsylvania Petroleum Prod. Co., 23 F.R.D. 680 (D.R.I. 1959) (court allowed discovery by plaintiff 's attorney but not their employees). These cases are typical of pre-1970 cases governed by superseded FED. R. CIV. P. 30(b).

[20]461 F. Supp. 732 (S.D.N.Y. 1978).

[21]LAW AND BUSINESS DIRECTORY OF CORPORATE COUNSEL 621 (M. Flores ed. 1983).

[22]75 F.R.D. 668, 672 (S.D.N.Y. 1977). *See also* Centurion Indus., Inc. v. Warren Steurer and Assoc., 665 F.2d 323 (10th Cir. 1981), where only the attorneys involved in the litigation were allowed discovery of certain information.

[23]19 U.S.C. § 1516a(b)(2)(B) (1982), which provides:

> §1516a. Judicial review in countervailing duty and antidumping duty proceedings.
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> b. Standards of review.-
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> (2) Record for review.-
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> (B) Confidential or privileged material. — The confidential or privileged status accorded to any documents, comments, or information shall be preserved in any action under this section. Notwithstanding the preceding sentence, the court may examine, in camera, the confidential or privileged material, and may disclose such material under such terms and conditions as it may order.

is very broad, leaving a great deal of discretion to the court. This statute is used in international trade cases involving countervailing duty or anti-dumping duty proceedings. The "discovery" of confidential documents in administrative hearings by the International Trade Commission is governed by this statute. The Court of International Trade (C.I.T.)[24] also relies on 19 U.S.C. section 1516a(b)(2)(B) for guidance in rulings on discovery of confidential data. International trade litigation involves much more discovery of confidential data than do most areas of the law. Divulgence of trade secrets, customer lists, and financial data to a competitor can have a great impact on a company. Therefore, protective orders based on these statutes are commonplace.

A court's discretionary powers, inherent in 19 U.S.C. section 1516a(b)(2)(B), were taken to a new zenith in 1980 when the C.I.T., in *Atlantic Sugar Ltd. v. United States*,[25] held that "[i]n no event shall disclosure of confidential information be made to in-house counsel or other representatives, or employees of plaintiffs or the interested parties."[26] The court, however, allowed the plaintiff 's outside lawyers access to the confidential information. Nothing in the language of Public Law 96-39 (Trade Agreements Act of 1979)[27] nor in the legislative history of that act[28] indicates that the legislature intended to distinguish between in-house attorneys and any other class of lawyers. Indeed, Congress' silence on the matter indicates that it never anticipated a distinction between classes of attorneys. Nevertheless, in 1983 the C.I.T. and the same presiding justice again distinguished between in-house and retained counsel in *United States Steel v. United States*.[29]

C. Title 19 C.F.R. Section 207.7—Direct Conflict With F.R.C.P. 26(c)

With this express distinction between in-house and other attorneys, the stage was set for far-reaching, discretionary decisions in discovery of confidential information. The most significant erosion of historically liberal discovery, however, came in 1979 when the Code of Federal Regulations explicitly denied access of confidential information to corporate counsel under the administrative regulations for the United States International Trade Commission.[30] The trade regulation states, "[T]he Secretary may make such confidential information available to an attorney

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[24]The Court of International Trade is a federal court with all the power of a United States district court. It has jurisdiction over trade-related cases. Appeals from the C.I.T. go to the United States Court of Appeals for the Federal Circuit, and then to the United States Supreme Court.

[25]85 Cust. Ct. 114 (1980).

[26]*Id.* at 116.

[27]Trade Agreements Act of 1979, Pub. L. 96-39, § 1582, 93 Stat. 144 (1979).

[28]1979 U.S. CODE CONG. & AD. NEWS 381.

[29]730 F.2d 1465 (D.C. Cir. 1984).

[30]Customs Duties, 19 C.F.R. § 207.7(a) & (b) (1983).

of such an interested party, *excepting corporate counsel*, under a protective order. . . ."[31] In yet another part of the same section, the regulations state that an attorney will: "(1) Not divulge any of the information . . . to any person other than . . . (iii) An attorney, *excepting in-house counsel*. . . ."[32]

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[31]Customs Duties, 19 C.F.R. § 207.7(a) (1983), which provides:

§ 207.7 Limited disclosure of certain confidential information under a protective order.

(a) upon request of an attorney for an interested party to the investigation, excepting corporate counsel which (1) describes with particularity the information requested, (2) sets forth the reasons for the request, (3) demonstrates a substantial need for the information in the preparation of his case, and (4) demonstrates that he is unable without undue hardship to obtain the substantial equivalent of the information by other means, the Secretary will make available confidential information concerning the domestic price and cost of production of the like product submitted by the petitioner or by an interested party in support of the petitioner to such attorney under a protective order described in paragraph (b) of this section. Upon filing with the Secretary of an agreement among all interested parties who are parties to the order of confidential information submitted by such interested parties, other than domestic price cost of production data, the Secretary may make such confidential information available to an attorney of such an interested party, *excepting corporate counsel*, under a protective order described in paragraph (b) of this section. The Secretary may adopt, from time to time, forms for submitting requests for disclosure pursuant to a protective order incorporating the terms of this rule. The Secretary shall determine whether the requirements for release of information under this rule have been satisfied. The Secretary's determination shall be final for purposes of review by the Customs Court under section 777(c)(2) of the Act.

(emphasis added).

[32]Customs Duties, 19 C.F.R. § 207.7(b) (1983), which provides:

* * *

(b) Protective Order. The protective order under which information is made available to the attorney of an interested party shall require him to submit to the Secretary in a form prescribed by the Secretary a personal sworn statement that, in addition to such other conditions as the Secretary may require, he will:

(1) Not divulge any of the information so obtained and not otherwise available to him, to any person other than,

(i) Personnel of the Commission concerned with the proceeding,

(ii) The person or agency from whom the information was obtained,

(iii) An attorney, *excepting in-house counsel* employed on behalf of the party requesting the disclosure, and who has furnished a similar statement, or,

(iv) Those persons independently contracted with, or employed or supervised by, the attorney having a need thereof in connection with the proceeding and who have furnished a similar statement;

(2) Use such information solely for the purposes of the Commission proceeding then in progress or for judicial or Commission review thereof;

(3) Not consult with any person not described in paragraph (b)(1)(iii) or (iv) concerning such confidential information without first having received the written consent of the Secretary and the attorney of the party from whom such confidential information was obtained;

(4) Not copy or otherwise reproduce any confidential material obtained under protective order except in accordance with procedures to be established by the Secretary; and,

(5) Report promptly to the Secretary any breach of the protective order.

(emphasis added).

These trade regulations guide the conduct of the United States International Trade Commission and, although administrative in nature, are in direct conflict with the Federal Rules of Civil Procedure. The effect of this regulation can be seen in the C.I.T.'s ruling in *Atlantic Sugar*[33] discussed above.[34] The direct conflict between the federal rules and the administrative rules is embodied in *U.S. Steel* and is examined in more detail below.

III. *U.S. Steel Corp. v. United States*

A. Facts

The dilemma in the important *U.S. Steel*[35] decision comes into focus when reviewing the statutory evolution involved. When *U.S. Steel* reached the United States Court of Appeals, the Federal Rules of Civil Procedure finally clashed with the statutory regulations used in administrative hearings by the International Trade Commission and in cases heard by the C.I.T. Analysis of the factual backgroud and procedural history of the case is beneficial to an understanding of the issues.

U.S. Steel first filed its case with five co-plaintiffs,[36] domestic steel producers, against foreign competitors for trade violations. The defendants were steel companies from Brazil, Korea, and Spain. The plaintiffs sought discovery of confidential business information from the administrative records of the International Trade Commission. The European Community settled with the plaintiffs, and the discovery issue arose again in the suit with the remaining defendants.[37] After an *in camera* examination of the information sought by the plaintiffs, the court determined that the documents contained important financial, production, and sales data. On a motion by the defendants and the Commission, the court granted a protective order. Access to some of the documents was denied to all parties because of privilege considerations. Nevertheless, some of the information termed by the court as "ineradicabl[y] important"[38] and "extremely potent"[39] was opened for discovery under the protective order to all involved counsel except the in-house attorneys who had represented U.S. Steel from the outset. In other words, once the court determined that some information was important enough to merit discovery despite its confidential nature, discovery was granted only to those plaintiffs

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[33]*Atlantic Sugar, Ltd.*, 85 Cust. Ct. at 114, 133.

[34]*See supra* text accompanying note 25.

[35]730 F.2d 1465.

[36]Co-plaintiffs in the suit were Republic Steel Corporation, Inland Steel Corporation, and Cyclops Corporation.

[37]U.S. Steel Corp. v. United States, 569 F. Supp. 870 (Ct. Int'l. Trade 1983).

[38]*Id.* at 871.

[39]*Id.*

represented by "retained" lawyers, which included all parties except U.S. Steel.[40]

The only non-C.I.T. case cited by the C.I.T. in *U.S. Steel* was *F.T.C. v. Exxon Corp.*[41] This case can be distinguished from *U.S. Steel* because it was an antitrust case and involved a parent and subsidiary corporation. In an effort to keep the companies separate, at least until adjudication of the case, the district court prohibited both in-house and retained counsel for Exxon from maintaining an attorney/client relationship with its subsidiary. Of the four cases cited in the *Exxon* decision, one was an unpublished district court opinion and none of the other three cases definitively restricted in-house counsels' right to discovery.[42]

U.S. Steel then asked the C.I.T. for certification of the question for immediate appeal.[43] Upon certification of the question for interlocutory review, the case was heard by the United States Court of Appeals for the Federal Circuit.[44]

One procedural issue in *U.S. Steel* is of particular importance to future cases in which a court distinguishes between corporate in-house attorneys and retained law firms. The question involves the time at which a litigant may appeal a lower court decision preventing discovery by his in-house counsel or in any other way prohibiting the in-house staff from effectively representing the client. In a recent analogous case, the Seventh Circuit Court of Appeals examined this question.

In *Freeman v. Chicago Musical Instrument Co.*,[45] the defendant's co-counsel was disqualified because a member of his law firm had previously worked for the firm that represented the plaintiff.[46] The defendant appealed the district court's decision. Before the court of appeals addressed the case on its merits, it first had to determine whether a court order disqualifying counsel could be appealed prior to a final judgment.[47]

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[40]*Id.* at 873.

[41]636 F.2d 1336 (D.C. Cir. 1980).

[42]*Id.* at 1350 (citing SCM v. Xerox Corp., Civil No. 15,807 (D. Conn. May 25, 1977) (Pre-Trial Ruling No. 44) (A. 996-1000), *aff'd sub nom. In re* Xerox Corp., 573 F.2d 1300 (2d Cir. 1977); *In re* Westinghouse Electric Corp. Uranium Contracts Litigation, 76 F.R.D. 47, 57 n.6 (W.D. Pa. 1977); Chesa Int'l., Ltd. v. Fashion Assoc., Inc., 425 F. Supp. 234 (S.D.N.Y.), *aff'd mem.*, 573 F.2d 1288 (2d Cir. 1977); FTC v. United States Pipe and Foundry Co., 304 F. Supp. 1254 (D.D.C. 1969).

[43]Republic Steel Corp. v. United States, 572 F. Supp. 275, 277 (Ct. Int'l. Trade 1983).

[44]U.S. Steel Corp. v. United States, 730 F.2d 1465.

[45]689 F.2d 715 (7th Cir. 1982).

[46]The firm of Fitch, Evan, Tabin, Flannery & Welsh (hereinafter referred to as Fitch) was hired by C.M.I. to work as co-counsel with Hill, Van Santen, Chiara and Simpson. (hereinafter referred to as Hill). An associate at Fitch had worked for the attorneys representing Freeman when earlier litigation between Freeman and C.M.I. was carried out. Consequently, upon a motion by Freeman's attorneys, Fitch was disqualified.

[47]689 F.2d at 717.

Although the factual circumstances differ between *Freeman* and *U.S. Steel*, there are similarities in the consequences of the courts' actions. By a disqualification of counsel, the client is estranged from the representation of his choice. Likewise, when in-house counsel are denied discovery, adequate representation of the client is precluded. In both situations, the court is essentially informing the litigants that other attorneys may fully protect their clients' rights, but that their present counsel will not be permitted to do so.

Because the United States Court of Appeals has jurisdiction over "all final decisions of the district courts of the United States,"[48] it must be determined what constitutes a final decision. Usually, this language has been interpreted as a decision by the district court that "ends the litigation on the merits and leaves nothing for the court to do but execute the judgment."[49] The Supreme Court, however, in *Cohen v. Beneficial Industrial Loan Corp.*,[50] acknowledged that certain collateral orders that do not terminate the litigation on the merits are still considered appealable "final decisions" under section 1291.[51]

In 1981, the Supreme Court held that the *denial* of a motion to disqualify a party's attorney was not appealable under the *Cohen* test.[52] The Seventh Circuit Court of Appeals had not previously distinguished between orders granting and orders denying a motion to disqualify the opposing party's counsel, but had held that both were appealable decisions.[53] In *Freeman*, however, the Seventh Circuit did differentiate between them and held that orders *granting* disqualification motions are immediately appealable.[54]

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[48]28 U.S.C. § 1291 (1982).

[49]Catlin v. United States, 324 U.S. 229, 223 (1945), *quoted at* 689 F.2d at 717. This interpretation of the code was also cited with approval in Randle v. Victor Welding Supply Co., 664 F.2d 1064, 1065 (7th Cir. 1981).

[50]In Cohen v. Beneficial Indus. Loan Corp., 337 U.S. 541 (1949), the Court enunciated a three-part test for an order to fall within the exception to the "final judgment" rule:

(1) The order must conclusively determine the disputed question; (2) It must resolve an important issue completely separate from the merits of the action; (3) The order must be effectively unreviewable on appeal from a final judgment.

[51]28 U.S.C. § 1291 (1982).

[52]Firestone Tire & Rubber Co. v. Risjord, 449 U.S. 368 (1981).

[53]Schloetter v. Railoc of Indiana, Inc., 546 F.2d 706, 709 (7th Cir. 1976) (citing Silver Chrysler Plymouth, Inc. v. Chrysler Motors Corp., 496 F.2d 800, 805 (2d Cir. 1974)).

[54]689 F.2d at 718. The court noted the consistency of this holding with other circuits that had considered the same question since *Firestone*. *See, e.g.*, Grietzer & Locks v. Johns-Manville Corp., No. 81-1379 (4th Cir. 1982); United States v. Hobson, 672 F.2d 825, 826 (11th Cir. 1982); Ah Ju Steel Co., Ltd. v. Armco, Inc., 680 F.2d 751, 753 (C.C.P.A. 1982); United States v. Caggiano, 660 F.2d 184, 189 (6th Cir. 1981), *cert. denied*, 455 U.S. 945 (1982); *In re* Coordinated Pretrial Proceedings, 658 F.2d 1355, 1356-57 (9th Cir. 1981), *cert. denied*, 455 U.S. 990 (1982); Glueck v. Jonathan Logan, Inc., 653 F.2d 746, 748 n.2 (2d Cir. 1981); Duncan v. Merrill, Lynch, Pierce, Fenner & Smith, Inc., 646 F.2d 1020, 1024-27 (5th Cir.), *cert. denied*, 454 U.S. 895 (1981).

Consequently, any court action that deprives in-house counsel of necessary discovery or hampers their efforts to represent clients strictly because of their status as "in-house" essentially disqualifies the attorney for that portion of the proceeding. Therefore, such actions satisfy the *Cohen* requirements[55] and should therefore be immediately appealable findings.[56] Although the C.I.T. in *U.S. Steel*[57] certified the question for interlocutory appeal, the appealable nature of such an order will nevertheless be of importance in future cases which differentiate between retained counsel and corporate lawyers.

B. Issues and Holding

The sole issue in *U.S. Steel* was whether the C.I.T. erred when it distinguished between in-house and retained counsel and denied discovery of confidential material to in-house counsel strictly on the basis of their employment.[58] The court of appeals was quick to point out that the authority of the C.I.T. to control access to confidential materials was not in dispute.[59] In overturning the decision by the C.I.T., however, the court of appeals held that while the lower court could have prevented all parties and counsel from gaining access to the confidential documents, once it decided that discovery was proper, "it was error to deny access solely because of inhouse counsel's 'general position.' "[60] The appellate court went on to hold that "status as in-house counsel cannot alone create that probability of serious risk to confidentiality"[61] and thus cannot be the only reason for denying access to confidential information. In conclusion, the court of appeals promulgated a new test which based discovery of confidential material on the relationship between the individual attorneys and their clients, regardless of the attorney's status as retained or in-house.[62]

C. Questions Left Unanswered by U.S. Steel

The appellate court did not specifically address several questions facing it because it was able to adjudicate the case without treatment

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[55]*See supra* note 50.

[56]*See supra* note 50 and accompanying text. Denial of discovery to in-house attorneys because of their position as corporate lawyers (1) conclusively determines the disputed question, (2) resolves an issue separate from the merits of the case, and (3) is effectively unreviewable after a final judgment of the case because of the "[i]mmediate, severe, and often irreparable . . . consequences upon both the individual [client] . . . as well as . . . the disqualified counsel." 689 F.2d at 719.

[57]Republic Steel Corp. v. United States, 572 F. Supp. 275, 277 (Ct. Int'l. Trade 1983).

[58]*U.S. Steel Corp.*, 730 F.2d at 1467. *See* the text accompanying *supra* notes 41-42 and *infra* notes 68-134 for a more detailed discussion of the sub-issues involved in the determination of this case.

[59]*U.S. Steel Corp.*, 730 F.2d at 1467 (citing 19 U.S.C. § 1516(a)(b)(2)(B) (1982)).

[60]730 F.2d at 1467.

[61]*Id.* at 1469.

[62]*Id.*

of these questions. Three of the questions, however, could bear significantly on future cases and, because of the possible impact of *U.S. Steel*, should have been examined by the court when it had the opportunity.

The first question was whether the C.I.T. had created a per se rule requiring denial to all in-house attorneys of confidential discovery in all future cases.[63] Because the factual aspects of future cases will differ from those in *U.S. Steel*, it would be helpful to examine whether the arbitrary per se ban would withstand judicial scrutiny.[64] The second question raised constitutional issues relating to U.S. Steel's right to its choice of counsel and the disenfranchisement of counsel without due process.[65]

The third question was whether Rule 26 of the Federal Rules of Civil Procedure or 19 U.S.C. section 1516a(b)(2)(B) should have governed in this trade case.[66] As enunicated by the dissent in the court of appeals, the failure to rule on this question creates an anomaly if the court and the International Trade Commission enforce inconsistent rules regarding the same documents.[67] The failure to decide this third question may cause the issue to remain in dispute or may result in conflicting orders between administrative agencies and the courts until Congress corrects 19 U.S.C. section 1516a(b)(2)(B) to make it consistent with both historical precedent and the current rules of civil procedure. The failure to act upon these questions may have a deleterious effect on future cases by creating further uncertainties about the broad scope of the main issue at hand. The results of such uncertainties as well as the decision by the C.I.T. in *U.S. Steel* are investigated below.

IV. Ramifications of *U.S. Steel*

The *U.S. Steel* decision will have far-reaching ramifications because the development of in-house counsel is changing the traditional ways in which the legal community has operated. *U.S. Steel* offers a prime example of the types of questions with which courts will have to grapple. The court's approach to these novel issues will be crucial to the formation of tomorrow's legal environment. The import of the *U.S. Steel* decision must, therefore, be closely analyzed.

The *U.S. Steel* decision has an impact on the propriety of establishing arbitrary per se rules, the constitutional right to choose effective counsel, the due process implications of divesting a litigant of his representation by counsel, and the professional responsibility of both corporate and outside lawyers. The following sections address each area separately.

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[63] *Id.*

[64] *See infra* text accompanying notes 68-92.

[65] 730 F.2d at 1469; *see also* text accompanying *infra* notes 93-114.

[66] 730 F.2d at 1469.

[67] 730 F.2d at 1469 (Nichols, J., dissenting).

A. Justice Department Opposition to the Per Se Rule

Traditionally, discovery has been granted on the basis of need. Judge Watson issued an opinion that found need on the part of U.S. Steel but still denied it access to the record.[68] Although the court noted that 19 U.S.C. section 1516a(b)(2)(B) requires a balancing of the need for access to information against the need for maintaining confidentiality, the court stated that discovery by in-house counsel complicated the test. The C.I.T., without balancing any factual information, proceeded to analogize *U.S. Steel*[69] to its earlier decisioin in *Atlantic Sugar*,[70] which denied corporate counsel the right to discovery because of their status as in-house counsel. Yet in a case decided the week before *Atlantic Sugar*, the C.I.T. stated that while discovery might cause incalculable harm to a competitor, the court also recognized "the necessity of allowing a party to fully prepare and present its legally authorized challenge to an administrative determination and to do so based on all available relevant material."[71] Further, the court stated that it considered lawyers to be independent officers of the court, and not alter egos of the plaintiff.[72] In another more recent case, the C.I.T. stated that it could not envision how the plaintiffs could effectively challenge the findings of the government without the needed discovery.[73] The inconsistency in the C.I.T. rulings weakens its argument for distinction among attorneys.

The court's distinction in *U.S. Steel* between in-house corporate counsel and retained counsel was based solely on the court's perceptions and not on a factual basis. The court found that the volume of information placed it "beyond the capacity of anyone to retain in a consciously separate category."[74] This was the same information, however, that the court released to the retained counsel of U.S. Steel's co-plaintiffs. The C.I.T. then stated, "Obviously, this judgment can also apply to retained counsel. . . . It is impossible, however, to extend this reasoning to its logical conclusion. . . ."[75] Indeed, this is so because the logical conclusion to the court's reasoning results in finding no difference between the likelihood of disclosure by in-house versus retained counsel. This fact substantiates the per se characterization of the rule adopted by the C.I.T.

The court attempted further to support the distinction by stating that in-house counsel "[have] a closer and more sustained relationship . . . as an outgrowth of the employer-employee relationship."[76] The

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[68]*U.S. Steel Corp.*, 572 F. Supp. 275 (Ct. Int'l. Trade 1983).

[69]*Id.*

[70]85 Cust. Ct. at 133.

[71]Connors Steel Co. v. United States, 85 Cust. Ct. 112, C.R.D. 80-9 (1980).

[72]*Id.*

[73]American Spring Wire Corp. v. United States, No. 83-54, slip op. (Ct. Int'l Trade June 10, 1983).

[74]*U.S. Steel Corp.*, 569 F. Supp. at 872.

[75]*Id.*

[76]*Id.*

C.I.T. also stated that the court's concerns were with the "counsel's general position in the corporate environment. . . ."[77] The court also assumed that in-house counsel will move into other roles within their company, making it even more difficult to keep discovered information confidential.[78] Therefore, the lower court saw greater chances of "inadvertent disclosure" by lawyers employed by a single company.[79] It is interesting to note, however, with regard to the court's concern for the changing roles assumed by in-house counsel, that the same fungibility of retained attorneys is illustrated by the fact that Bethlehem Steel Corporation's legal department employs at least three former associates of Cravath, Swaine, and Moore.[80] This is the same firm that represented the other plaintiffs in *U.S. Steel*[81] and gained access to the information denied the in-house staff of U.S. Steel. The per se nature of the C.I.T.'s ruling is further demonstrated by the court's failure to outline any measures that in-house counsel could take to gain access in the future.

The per se categorization of the rule enunciated by the court in *U.S. Steel*[82] is clear. In a brief submitted on behalf of U.S. Steel by the Justice Department, the Assistant Attorney General stated, "It is our position that any rule which distinguishes between attorneys solely on the basis of whether they are salaried or retained is incorrect as a matter of law."[83] Earlier, the Justice Department issued a statement in regard to the International Trade Commission's promulgation of section 207.7[84] saying, "We believe this rule is inappropriate because it arbitrarily distinguishes between attorneys solely on the basis of whether they are salaried or retained."[85] The Antitrust Division of the Department of Justice also voiced its disagreement with section 207.7 because of "the anticompetitive and potentially inflationary impact of [C.F.R. section 207.7 which] discriminates against in-house counsel,"[86] noting that "competition in the market for legal services is diminished."[87] Thus, the Justice Department has clearly denounced any per se rule.

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[77]*Id.*

[78]*Id.*

[79]*Id.*

[80]LAW AND BUSINESS DIRECTORY OF CORPORATE COUNSEL 163-64 (M. Flores 1982).

[81]730 F.2d 1465.

[82]569 F. Supp. 870.

[83]Appendix for Appellant at 185, U.S. Steel Corp. v. United States, 730 F.2d 1465 (Fed. Cir. 1984).

[84]*See supra* notes 30-34 and accompanying text.

[85]Brief for Appellant at 10, U.S. Steel Corp. v. United States, 730 F.2d 1465 (Fed. Cir. 1984).

[86]Comments of Department of Justice addressed to The International Trade Commission, p.1 (July 17, 1981). The letter stated in part:

> We note particularly the anticompetitive and potentially inflationary impact of a rule that discriminates against in-house counsel. Many businesses, in an effort to reduce the costs of the legal services they need, choose to rely in whole or part for those services on a salaried legal staff. The availability of that choice provides incentives for outside firms to make their services more attractive in terms of cost, quality, efficiency, and other competitive factors. To the extent that inhouse counsel are arbitrarily handicapped in their ability to perform comparable services, competition in the market for legal services is diminished.

[87]*Id.* at p.2.

The Supreme Court, in consideration of the validity of per se exclusionary rules, has condemned all per se rules with economic consequences that were not clearly supported by undisputed facts and the experience of the ruling court. A judicially created rule must be supported by sufficient investigation of the facts so that there will not be room for a difference of opinion. These strict guidelines are needed because a per se rule makes no allowances for rebuttal or evidence regarding extenuating circumstances.[88] The Court in *United States v. Topco*[89] stated that per se rules cannot be based simply on the courts' perceptions.[90]

From the record,[91] it appears the C.I.T. elicited no testimony from in-house attorneys, corporate executives, or behavioral scientists to verify the court's presumption[92] that staff attorneys are subject to different pressures or are more likely to divulge inadvertently confidential data than are their outside lawyer counterparts. Thus, any per se rule established by the C.I.T. in *U.S. Steel* should not be allowed to stand under the standards established by the Supreme Court. Although the apellate court found it unnecessary to review this issue, the significant impact of any per se ruling demands close scrutiny.

B. A Corporation Has a Right to Choose Its Own Lawyer

The right of a corporation or any client to be represented by counsel of its choice has always been a part of the American legal system. Although many of the major cases articulating this precept are criminal, they can all be compared to civil actions in general, and *U.S. Steel* in particular, given the Supreme Court's interpretation of the constitutional right.

In a Supreme Court case, a criminal conviction was overturned because the defendant did not have opportunity to choose counsel and the court failed to appoint an attorney in a timely fashion.[93] The Court stated that any hearing "[h]istorically and in practice . . . has always included the right to the aid of counsel when desired and provided by the party asserting the right."[94] The Court further stated, "If in any case, *civil* or criminal, a state or federal court . . . refuse[s] to hear a party by counsel . . . such a refusal would be a denial . . . of due

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[88]Catalano v. Target Sales, Inc., 446 U.S. 643 (1980).

[89]405 U.S. 596 (1972).

[90]*Id.* at 607. The Court stated that in regard to trade violations of the Sherman Act, any classification as a per se violation must come "[o]nly after considerable experience with certain business relationship. . . ." *Id.*

[91]Brief for Appellant at 25, *U.S. Steel Corp.*, 730 F.2d 1465.

[92]*See* Klinkhammer v. Richardson, 359 F. Supp. 67 (D. Minn. 1973). The district court held that lack of empirical evidence for a per se rule may, under a rational basis test, render it unconstitutional. *Id.*

[93]Powell v. State of Alabama, 287 U.S. 45 (1932); *see also* Smith v. United States, 288 F. 259, 260 (D.C. Cir. 1923).

[94]287 U.S. at 68-67.

process in the constitutional sense."[95] The court in *United States v. Bergamo*[96] stated that while the sixth amendment provides that a criminal defendant has a right to counsel, the Supreme Court has furthered that principle by interpreting it as a right to the counsel of defendant's choice.[97] In *Backer v. Commissioner of Internal Revenue*,[98] a case addressing the rights of parties called before administrative bodies, the appellate court held that the guaranteed rights to counsel under the Administrative Procedure Act[99] are even broader than constitutional rights to an attorney.[100] The *Backer* court upheld the plaintiff's statutory rights, and noted that the right to counsel has "always been construed to mean counsel of one's choice."[101] Consequently, hearings by the International Trade Commission would fall within the ambit of the statute.

The C.I.T., in deciding *U.S Steel*,[102] concluded that requiring U.S. Steel to retain outside counsel to represent its interests in the discovery of critical information remained a viable and reasonable solution.[103] This decision effectively denied the litigant its choice of effective, knowledgeable, and economic counsel. The C.I.T. further stated that the court had "difficulty conceiving of the right of a particular lawyer to participate in a case, or the right of a person to choose a particular lawyer. . . ."[104] The holdings in *Bergamo*[105] and *Powell*[106] are in contrast to the *U.S. Steel* decision. "There is no question but that the right to the assistance of counsel . . . means *effective* assistance."[107] U.S. Steel had been represented solely by its in-house counsel throughout the entire litigation of its case, which had spanned a number of years. At the time when U.S. Steel was denied discovery, it would have been very difficult to acquaint outside counsel adequately with the case in order to ensure effective representation of U.S. Steel. The appellate court described the case as "extremely complex and at an advanced stage,"[108] and found the C.I.T.'s decision an "extreme and unnecessary hardship"[109] on U.S. Steel. The *Bergamo* court's holding that "[a]ssistance is not effective

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[95] *Id.* at 69 (emphasis added).

[96] 154 F.2d 31 (3rd Cir. 1946).

[97] *Id.* at 34. (citing Glasser v. United States, 315 U.S. 60, 70 (1942)); Powell v. State of Alabama, 287 U.S. 45 (1932).

[98] 275 F.2d 141 (5th Cir. 1960).

[99] 5 U.S.C. §§ 1001-1005 (1982).

[100] *Backer*, 275 F.2d at 143; U.S. CONST. amend. V.

[101] 275 F.2d at 144. *See, e.g., Powell*, 287 U.S. 45; *Chandler*, 348 U.S. 3; Smith v. United States, 288 F. 259 (D.D.C. 1923); *Bergamo*, 154 F.2d 31.

[102] 569 F. Supp. 870.

[103] *Id.* at 871.

[104] *Id.* at 873.

[105] *Bergamo*, 154 F.2d 31.

[106] *Powell*, 287 U.S. 45.

[107] 154 F.2d at 34. (citing *Powell*, 287 U.S. at 68-71) (emphasis added).

[108] 730 F.2d at 1468.

[109] *Id.*

when counsel has insufficient time to prepare his [case]"[110] buttresses this conclusion. In *United States v. Lever Bros. Co.*,[111] the court specifically granted discovery of confidential competitive information to in-house counsel for Lever Brothers. The district court found the decision necessary because the nature of the material required review by expert personnel "intimately familiar" with the industry.[112] The Ninth Circuit Court of Appeals stated that "familiarity with a complicated corporate background would appear to be a prerequisite for effective representation."[113] In a more recent decision, the Seventh Circuit Court of Appeals overturned a disqualification motion granted by a lower court and stated that it would be difficult, if not impossible, for a new attorney to master the "nuances" of the litigation in the latter stages of a complex case.[114] The same result would occur when in-house counsel are summarily denied access to necessary information, thus requiring a party to retain new counsel.

The courts have established that a party's right to counsel is not limited to the elementary constitutional right to choose one's own attorneys, but also includes the right to effective representation. Therefore, any arbitrary denial to in-house counsel of the opportunity to uphold effectively and efficiently the interests of their corporate clients in matters in which only they may have the breadth of knowledge necessary is unsupportable.

In addition to an unconstitutional deprivation of effective counsel, the distinction between classes of attorneys based solely on their status of employment arguably denies those attorneys due process of law as guaranteed by the fifth[115] and fourteenth[116] amendments. Although the court of appeals in *U.S. Steel* found it unnecessary to address these

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[110]154 F.2d at 34-35 (citing Walleck v. Hudspeth, 128 F.2d 343 (10th Cir. 1942); Rice v. State, 220 Ind. 523, 44 N.E.2d 829 (1942); People v. McLaughlin, 291 N.Y. 480, 53 N.E.2d 356 (1944); Commonwealth v. O'Keefe, 148 A. 73 (Pa. 1929)).

[111]United States v. Lever Bros. Co., 193 F. Supp. 254, 257 (S.D.N.Y.), *cert. denied*, 371 U.S. 932 (1961).

[112]*Id.* In a currently pending antitrust case, Chrysler Corp. v. General Motors Corp., No. 84-0115 (D.D.C. 1984), the plaintiff 's retained counsel faces the same problem addressed in *Lever Brothers*. If the input from Chrysler's in-house co-counsel is denied for discovered information, retained counsel will be greatly disadvantaged. Chief outside counsel said, " 'If I were to see in their [G.M. and Toyota's] papers that the joint venture cars were going to have electronic dashboards it wouldn't mean anything to me, but the [in-house counsel] would know it had been three years on the drawing board, and thus could be evidence of antitrust problems arising from . . . the G.M.-Toyota agreement.'" Legal Times of Washington, July 9, 1984, at 4, col. 1.

[113]Securities and Exch. Comm. v. Higashi, 359 F.2d 550, 553, n.5 (9th Cir. 1966).

[114]Freeman v. C.M.I., 689 F.2d 715, 720 (7th Cir. 1982).

[115]U.S. CONST. amend. V, which states in part: "nor be deprived of life, liberty or property, without *due process of law*. . . ." (emphasis added).

[116]U.S. CONST. amend. XIV, § 1, which states in part: "nor shall any State deprive any person of life, liberty, or property, without *due process of law*; nor deny any person within its jurisdiction the *equal protection of the laws*." (emphasis added).

questions, the C.I.T. denied U.S. Steel its fundamental constitutional rights. The C.I.T.'s creation of two separate classes of attorneys, which essentially prohibits the practice of one group before the court, violates the fifth amendment.[117] In a very early case, the Supreme Court struck down arbitrary restrictions on the practice of law, invalidating a federal statute that prohibited Confederate sympathizers from litigating in the federal courts.[118] Additionally, California and New Mexico were found to have violated the due process clause of the fourteenth amendment when they indiscriminately announced a rule denying former Communist party members admission to the bar.[119] The Court expounded further that except for valid reasons, a person cannot be kept from practicing law.[120] Through reliance only upon perceptions unfounded in fact, the C.I.T. likewise denied due process to in-house counsel by summarily denying them access to confidential information and effectively prohibiting them from practicing before the court. Although the court of appeals did not address the due process questions in *U.S. Steel*,[121] the arbitrary distinction between classes of lawyers does not pass constitutional muster and provides a sound basis for invalidating the artificial distinction.

C. Professional Responsibility

Although the C.I.T. in *U.S. Steel*[122] went out of its way to state that inadvertent, as opposed to intentional, disclosure of sensitive documents was its main concern, one of the issues brought to light by this case involved professional responsibility. Corporate attorneys do not face different ethical questions than do retained counsel, for careful analysis shows that ethical considerations are generally the same for all lawyers.

Presence of the corporate general counsel on the board of directors of his own company presents critical ethical questions.[123] The fears expressed by the C.I.T. in its recent decisions reflect the fact that confidential information held by the general counsel may be difficult to separate from his general knowledge when he attends directors' meetings that address the most intimate strategies of the company. Normally, however, a corporation wants to utilize its in-house counsel as effectively as possible, including his input at all stages of planning corporate

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[117]Schneider v. Rusk, 377 U.S. 163 (1964); *see also* Brief for Appellant at 15, n.1, U.S. Steel Corp. v. United States, 730 F.2d 1465. *See supra* text accompanying note 95.

[118]*Ex parte* Garland, 4 Wall. 333 (1866).

[119]Koenigsberg v. State Bar, 353 U.S. 252 (1957); Schware v. Bd. of Bar Examiners, 353 U.S. 232 (1957).

[120]353 U.S. at 235.

[121]730 F.2d 1465.

[122]569 F. Supp. 870.

[123]*See generally, Business Judgment and Legal Advise—What is a Business Lawyer?*, 31 BUS. LAW. 457 (1975); Note, *Should Counsel to Corporations be Barred From Serving as a Director?*, 1 CORP. L. REV. 14 (1978); Note, *The Role of Corporate Counsel*, 32 RUTGERS L. REV. 237 (1979).

strategies. Consequently, chief counsel is usually present during most confidential meetings at which trade secrets, product pricing, customer lists, marketing, and long range corporate goals are discussed. While any lawyer may occasionally face a conflict of interest when acting both as legal counsel and as business manager acting on behalf of the corporation in board meetings, a wholly different issue faced the court in *U.S. Steel.*[124] The question in *U.S. Steel* was whether those problems were any different from those faced by outside counsel entrusted with the same protected information. The answer is quite clearly no, as illustrated by a recent article in Legal Times.[125] The article lists over one hundred law firms with attorneys sitting on the boards of directors of over three hundred corporations. All the firms listed received legal fees for services rendered to those companies. In 1982, the Securities and Exchange Commission listed one law firm that received almost seven million dollars in fees from one client whose board of directors included a partner of the firm.[126] More than thirty firms received fees in excess of one million dollars from similarly situated corporate clients.[127] Therefore, any presumption by the courts or administrative agencies that in-house lawyers would face different problems from outside lawyers trying to keep confidential data separate from their day-to-day business is unsubstantiated.

Any fear that unscrupulous businesses may exert pressure on in-house counsel to reveal protected information may be genuine, but that would also be true even if outside counsel represented the company. No retained firm wants to lose a valuable client any more than a corporate lawyer would want to risk his position within his company. These dilemmas confront all attorneys equally. In such a case, the court has clear authority to deny discovery to all, but, as illustrated, would have no greater reason to deny in-house counsel alone.[128]

Finally, all attorneys face the same sanctions for violations of the code of professional responsibility or for breaching a protective order. Quoting from the ABA Code of Professional Responsibility, the court in *Upjohn Co. v. United States*[129] stated, "The observance of the ethical obligation of a lawyer to hold inviolate the confidences and secrets of his client . . . facilitates the full development of facts essential to proper representation of the client . . . ."[130] An issue involving professional responsibility raised often in foreign trade cases is that foreign businessmen are skeptical of the effectiveness of protective orders and the enforcement

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[124]*See supra* note 123.

[125]Legal Times, July 25, 1983, at 7, col. 1.

[126]New York Times, Aug. 24, 1982, at 32, col. 1.

[127]Legal Times, July 25, 1983, at 7, col. 1.

[128]*See generally* Note, *Corporate Accountability and the Lawyer's Role*, 34 BUS. LAW 159 (1980); *Higher Duty: A New Look at the Ethics of the Corporate Lawyer*, 26 CLEV. ST. L. REV. 337 (1977).

[129]449 U.S. 383 (1981).

[130]*Id.* at 391.

of the code of professional ethics in this country.[131] The dissent for the court of appeals in *U.S. Steel* suggested that foreign businesses which feel they are not treated fairly by the courts may withdraw from trade or ask their governments to retaliate against United States trade.[132] While these policy considerations are beyond the scope of this paper, it should be noted that the C.I.T., in denying access to corporate counsel in *U.S. Steel*, stated that the court "does not rely on the fears of [foreign business] . . . that their confidential information may be used improperly, . . ."[133] thus tending to refute the dissenting argument in the court of appeals. All lawyers are "officers of the court,"[134] and our legal system can only operate on the presumption that all attorneys will uphold this office with integrity. Speculation cannot govern the course of action taken by the courts.

V. Alternative Approaches to the Problems Presented by *U.S. Steel*

Three principal alternatives may provide a solution to the issue of differentiation between classes of attorneys. First, the courts can make a categorical distinction between in-house and retained lawyers. Second, each case can be analyzed independently, based on the unique facts and the attorney/client relationship, to determine whether an attorney can gain access to confidential documents. Finally, the courts can reject any preemptory discrimination between retained and in-house attorneys. The following section addresses each possibility and proposes the most appropriate solution to the problem.

A. Complete Distinction Between In-house Counsel and Retained Firms

The concerns for maintaining the confidentiality of highly sensitive information and an efficient system for litigation are well noted. Throughout the development of the American legal system, the need for discovery, in order to litigate cases from a common framework of facts, has been both recognized and facilitated.[135] History shows, however, that a balancing of needs is necessary to effectuate a fair trial for all litigants. When the needs of both parties are great, the court must weigh the factors to decide if the case can proceed without the desired discovery. Historically, the burden has always been placed on the party opposing discovery to show cause why discovery should be denied. Once the court has determined that access to information is needed, it may fashion a protective order to safeguard the needs of both sides.

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[131]Legal Times, July 9, 1984, at 4, col. 1.

[132]730 F.2d at 1470 (Nichols, J., dissenting).

[133]569 F. Supp. at 873.

[134]*See supra* text accompanying note 72.

[135]Fed. R. Civ. P. 26.

Any protective order that categorically preempts one class of attorneys poses several problems. The statutes governing civil procedure do not distinguish between in-house and outside counsel and, therefore, do not support a blanket distinction.[136] Substantive proof must be established in order to arrive at a per se rule that would meet the federal requirements necessary to create such a rule.[137] Denial of discovery to an arbitrarily established class of attorneys based only on the intuition of the court must yield to constitutional mandates and a plethora of cases upholding a party's right to effective counsel of his choice. The International Trade Commission admitted: "If the Department of Justice position [denouncing any per se rules] prevails and this Court's opinion is expressed in general terms, it is possible that the Commission's rule will fall as well."[138] These factors show that indiscriminate classifications of lawyers cannot align with any accepted legal theory. Thus, any rule which establishes a per se distinction between in-house and retained attorneys is unacceptable.

B. Case-by-Case Analysis

The second possible approach to the issue presented in *U.S. Steel*[139] is the independent analysis of each case in which the need for discovery clashes with the need for confidentiality of sensitive documents. In vacating the C.I.T.'s decision in *U.S Steel*, the court of appeals outlined a procedure designed to solve the problem.[140] This procedure, however, has several weaknesses.

The test set forth by the appellate court based accessibility to confidential material on the relationship between the clients and their counsel, as well as on the actual services performed by counsel. Many outside counsel advise their clients on a continuing basis about day-to-day business decisions, as well as representing them in isolated litigation. In doing so, many firms have developed longstanding relations with clients. Such firms are generally quite knowledgeable about business matters which might relate to the sensitive information in question. On the other hand, some corporations with large in-house staffs specializing in areas like litigation, tax, patents, and labor utilize their legal departments almost as if they were outside firms. In-house counsel might even be located in different cities and have no involvement with trade secrets or in developing corporate strategies. Therefore, any counsel who has extremely close interaction with his client might be denied discovery based on the

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[136]*See supra* text accompanying notes 27-29.

[137]*See supra* text accompanying notes 88-92.

[138]Brief for International Trade Commission, United States Steel Corp. v. United States, 569 F. Supp. 870, *quoted in* Brief for Appellant at 1, United States Steel Corp. v. United States, 569 F. Supp. 870.

[139]730 F.2d 1465.

[140]*Id.*

particular facts and not simply on his label as retained or in-house counsel.

This approach to the problem would eliminate many of the problems inherent in strict segregation of corporate and outside attorneys. Deciding the issue on a case-by-case basis obviously eliminates any appearance of discriminatory per se rules. This solution would also avoid many of the previously discussed professional responsibility issues concerning potential conflicts of interest.[141] Certainly, no claims could be made that decisions were based merely on assumptions or connotations associated with the term in-house counsel. Due process rights under the Constitution might also be safeguarded if the courts based decisions to deny discovery solely on the discretion permitted them under Rule 26(c)(1) of the Federal Rules of Civil Procedure.[142]

The constitutional right and the overwhelming case law, however, which allow a party to choose *effective* counsel would still be violated.[143] In addition, the magnitude of the pretrial investigations necessary to establish the scope of the attorney/client "relationship" may be a large burden on the overcrowded court system. Judicial economy is also a necessary consideration when establishing rules with such long-range ramifications.

The most compelling argument against this procedure is the lack of uniformity in application of this highly discretionary test. No standards could be established. Our legal system has a duty to define those areas it governs. Without a definitive standard upon which clients can base their acts and decisions, they will be left in a state of uncertainty and may encounter unknown risks in choosing counsel. A complex case could be in its advanced stages, as was *U.S. Steel*,[144] when a client finds that the effectiveness of his representation is severely limited.

This ill-defined case-by-case method can be analogized to the test for attorney/client privilege, addressed by the Court in *Upjohn Co. v. United States*.[145] In *Upjohn*, the Supreme Court stated, "An uncertain [test to determine] privilege, or one which purports to be certain but results in widely varying applications by the courts, is little better than no privilege at all."[146] Chief Justice Burger, concurring in the judgment for Upjohn, stated, " '[T]he attorney and client must be able to predict with some degree of certainty whether [their rights] will be protected.' For this very reason, I believe that we should articulate a standard that will govern similar cases and afford guidance to corporations, counsel advising them, and federal courts."[147]

An illustration of the breadth of variations that may result if the design of protective orders is not guided by definite standards was

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[141] *See supra* text accompanying notes 35-38.

[142] *See supra* note 9.

[143] *See supra* text accompanying notes 102-14.

[144] 730 F.2d 1465.

[145] 449 U.S. 383, 391 (1981).

[146] *Id.*

[147] *Id.* at 402 (Burger, C.J., dissenting) (quoting majority opinion at 393).

presented in an antitrust case involving Chrysler, General Motors, and Toyota.[148] Chrysler sought discovery of trade-related documents held by G.M. and Toyota. After deciding that discovery was necessary to proceed with the case, the court fashioned a novel protective order which allowed only one of Chrysler's staff attorneys access to the information, in addition to Chrysler's outside co-counsel. The court order specifically excluded any other counsel. A further stipulation prohibited the in-house attorney for one year from attending any business meetings concerning product development marketing, finance, and long-term planning.[149] This order exemplifies the unpredictable and haphazard results of a lack of definite standards to guide the court.

The dissent in *U.S. Steel* discredited the case-by-case approach to the problem for similar reasons, but offered a potential solution.[150] An impartial court-appointed expert, agreed on by all parties, might gather the needed information while restricting confidential, but non-essential, information before disseminating his findings. This solution appears to be a viable alternative, but by allowing all attorneys access to the same information, this solution acutally results in discovery that is either for all or for none. Therefore, while the holding of the court of appeals in *U.S. Steel* is certainly supportable, the desired results of the test enunciated by the court would be better served by permitting no distinction between in-house and retained attorneys.

C. No Distinction Between Retained Firms and In-house Counsel

The final and most attractive alternative is the equal treatment of all attorneys with no distinctions between classes of lawyers regarding access to confidential material. It must be remembered that the court always has the discretion to prevent any discovery.[151] This approach results in the fewest potential conflicts between competing interests.

The chance of inadvertent disclosure of secret information is no greater with one class of attorneys than another.[152] A corporate lawyer is no more likely to have daily involvement in business planning decisions than is a lawyer on retainer. In many cases, a corporate legal department may be a separate entity available to the corporation as a whole when needed, much like law firms with corporate clients.

All attorneys are officers of the court[153] and thus are bound by the same rules and face identical sanctions for any professional misconduct.

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[148]Chrysler Corp. v. General Motors Corp., No. 84-0115, slip op. (D.D.C. July 24, 1984).

[149]Chrysler Corporation did not appeal the lower court decision infringing on corporate counsel's right to discovery, because the nature of the case required an expeditious determination on the merits. Legal Times, July 9, 1984, at 4, col. 1.

[150]730 F.2d at 1470 (Nichols, J., dissenting).

[151]*See supra* note 9.

[152]*See supra* text accompanying notes 123-24.

[153]Appendix for Appellant at 63, U.S. Steel Corp. v. United States, 730 F.2d 1465 (Fed. Cir. 1984). The former United States Attorney General, commenting on behalf of U.S. Steel before C.I.T. Judge Watson, stated that an attorney's first obligation is to the court.

No factual basis exists for presuming that one class of lawyers faces any different temptations or pressures.

A consistent and systematic approach by the courts enable the practicing attorney to know with greater certainty what to expect from a court. Thus, discretionary decisions ungoverned by standards or precedent can be avoided. Uniform disposal of cases also prevents the business community and the public at large from viewing this distinction between attorneys as an act by the profession to inhibit competition and prevent companies from utilizing the most cost-effective legal services available. The constitutional due process right is not breached by this method, and the long history of cases supporting one's right to effective counsel of his choosing is not contravened.

Perhaps over time, as with many "rules" of law, exceptions may be discovered for which allowances must be made. However, at this embryonic stage of development of this conflict, a more rigid approach should be followed by the courts and administrative agencies. Policy considerations and the weight of the law require an unwavering refusal to discriminate between classes of attorneys.

The *U.S. Steel* decision will create long-range ramifications if this alternative, which prevents discrimination between classes of attorneys, is not adopted. The important decision by the appellate court to overturn the arbitrary per se classification of in-house counsel should have great impact as precedent, but may be interpreted too narrowly. By failing to address several questions,[154] the court left the door open to future unwarranted discrimination by the International Trade Commission. Until the legislature eliminates section 207.7 of the Customs Duties Act,[155] or the courts rule that prohibiting the C.I.T.'s arbitrary distinction between classes of attorneys requires the invalidation of section 207.7, inconsistent treatment of parties by administrative and regulatory agencies will continue. Case-by-case analysis of lawyer/client relations could eventually confound the courts with inconsistent rulings and overtax the courts' valuable time.

This distinction between attorneys arose in the context of a very specific issue, namely confidential discovery under protective orders. Over time, however, the differences might be extrapolated to create broadly sweeping distinctions with unpredictable consequences. Any disenfranchisement of corporate lawyers as a class, even if only in administrative hearings, may in time render in-house legal service ineffective.

VII. Conclusion

It is evident from a review of the statutory background pertinent to the issue of discovery that a party's legal representative historically has

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[154] *See supra* text accompanying notes 58-62.

[155] *See supra* notes 30-32.

not been barred from discovery on the basis of his employment status.[156] The amendments to the rules have not altered the legislative intent behind the rules.[157]

Per se exclusionary rules have generally been disfavored by the Supreme Court, and the Justice Department's clear position is against any rules such as those used by the International Trade Commission and the C.I.T. Under the tests established by the Supreme Court, the C.I.T. ruling in *U.S. Steel* was unsupportable. No factual basis exists for distinguishing between classes of lawyers. The overwhelming number of cases which uphold a person's right to effective counsel support the appellate court decision in *U.S. Steel.*

The case-by-case test enunciated by *U.S. Steel* still faces major obstacles presented by the due process provisions of the Constitution, and may require very time-consuming, decision-delaying, pretrial investigation. The approach which categorically distinguishes between in-house and retained attorneys is contrary to common law, fails the test for an acceptable and legal per se rule, and does not meet constitutional muster. This Note, therefore, proposes that the federal courts adopt a posture which treats all lawyers equally in the consideration of discretionary discovery orders, as well as in other instances where the inconsistent treatment of attorneys might arise.

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[156]*See supra* notes 3, 6-20 and accompanying text.

[157]*See supra* note 13 and accompanying text.