

# Electronic Discovery: Overview and Challenges the Court Faces and Benefits to the Court

## Introduction

In his address on February 2<sup>nd</sup>, at the Opening of Law Term Dinner, Chief Justice Spigelman emphasised the need, especially in the current economic climate, for the legal profession to control costs, stating that the profession 'is in danger of killing the goose.'<sup>1</sup> The Chief Justice stressed that the judiciary and the profession must 'co-operate to ensure that all of the areas in which costs can escalate unreasonably ...are controlled even more strictly than we have come to do in the past.'<sup>2</sup> In describing the areas where co-operation is required the Chief Justice included the following:

- Focussing the issues so that extensive discovery is not required and recognising that the faint hope that a smoking gun may exist to revive a weak case is simply not worth the costs involved;
- Applying with renewed vigor the test of proportionality, expressed in s60 of the *Civil Procedure Act* 2005, to the effect that costs to the parties of dispute resolution must be proportionate to the importance and complexity of the subject matter in dispute.<sup>3</sup>

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<sup>1</sup> Chief Justice Spigelman, 'Opening of Law Term Dinner Address' (Speech delivered at the Law Society of NSW Opening of Law Term Dinner, Sydney, 2 February 2009).

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

In light of this ever present need to make litigation affordable and accessible, the profession and the judiciary must turn its attention to the issue of escalating costs of discovery in this electronic age.

Discovery has frequently been signalled out as one of the most costly procedures associated with litigation.<sup>4</sup> It has been said that '[d]iscovery ... commonly comprises half the total expense of a case',<sup>5</sup> and has been described by Chief Justice Doyle of the South Australian Supreme Court as a scourge for preventing the average person access to substantial civil litigation.<sup>6</sup> Chief Justice Spigelman has also expressed his dissatisfaction with the costs associated with discovery on another occasion when he said:

When senior partners of a law firm tell me, as they have, that for any significant commercial dispute the flag-fall for discovery is often \$2 million, the position is simply not sustainable.<sup>7</sup>

## **Electronically Stored Information**

It has been estimated that over 90% of information stored by companies is only stored in electronic format.<sup>8</sup> Technological developments, such as email, voicemail, instant messaging, software programs, PDA's and mobile phones mean, as a e-litigation partner at a large firm recently commented, that 'the volume of potentially

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<sup>4</sup> Australian Law Reform Commission, *Managing Justice: A Review of the Federal Civil Justice System*, Report No 89 (2000), [6.67].

<sup>5</sup> Elisabeth Sexton, 'High costs of justice for companies', *Sydney Morning Herald* (Sydney), 2 June 2007, 28.

<sup>6</sup> See, Brad Crouch, 'Judge "gives up" on civil system', *The Adelaide Sunday Mail* (Adelaide), 2 June 2007.

<sup>7</sup> Chief Justice Spigelman, 'Access to Justice and Access to Lawyers' (2007) 29 *Australian Bar Review* 136.

<sup>8</sup> Clare Buttner, 'A new discovery' (2007) 333 *Lawyers Weekly* 28.

discoverable information is huge'.<sup>9</sup> The enormity of electronically stored information (**ESI**) that a corporation possesses is illustrated by looking for example at Microsoft Corporation. Microsoft receives up to 300 million external emails a month, and 90 million internal emails.<sup>10</sup> Further it generates 150-200 backup tapes a day, each holding 15 tetrabytes of data (with a tetrabyte having the capacity to hold up to 500 billion typed pages).<sup>11</sup>

### **Problems Posed by Electronic Discovery**

The problems that this scale of ESI poses to the process of discovery was seen in the C7 litigation. In the summary of his decision Justice Sackville commented:

Electronic trials have many advantages, but reducing the amount of documentation produced or relied on by the parties is not one of them. The outcome of the processes of discovery and production of documents in this case was an electronic database containing 85,653 documents, comprising 589,392 pages. Ultimately, 12,849 'documents', comprising 115,586 pages, were admitted into evidence.<sup>12</sup>

Interestingly the proportion of admitted to discovered material at 15%, in this case, is quite high.

Clearly though discovery of this huge and apparently ever increasing amount of ESI poses a number of problems.

Firstly, due to the scale of documents that are electronically stored by corporations, lawyers involved in litigation involving large corporate clients face a huge job in

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<sup>9</sup> See, *Ibid.*

<sup>10</sup> See, Georgene Vario, 'Developments in the Law Electronic Discovery' (2005) 38 *Loyola of Los Angeles Law Review* 1529, 1530-1531.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Seven Network Limited v News Limited* [2007] FCA 1062, SUMMARY [4].

sorting through such massive amounts of information. Such a process can only increase the cost to the client. The potential costs associated with such a process are so great that there have been suggestions that some US law firms see electronic discovery as 'an opportunity to create "another profit centre"'.<sup>13</sup> In Australia, litigation service providers believe that the introduction of the Federal Court Practice Note 17, dealing with the use of technology in the management of discovery, will lead to an increase in business.<sup>14</sup> Some analysts believe that globally the spending on electronic discovery will reach \$4.8 billion by 2011.<sup>15</sup>

Further, many practitioners feel that to deal with electronic discovery law firms will either have to acquire document management software, or use external service providers. As a result it is thought that the costs of discovery will increase and not decrease if electronic discovery is required by the courts. Larger firms appear to be more comfortable with electronic discovery, mainly as they have IT specialists, and legal staff who are experienced with the protocols and programs that are used in electronic discoveries. However, smaller firms that do not have the resources and software to manage electronic discovery, are more resistant to the process. This is mainly due to the costs associated with engaging an external service provider or acquiring the software and training to deal with electronic discovery internally.

There are also risks associated with searching through such a huge number of documents. Partners at large Australian law firms have expressed concerns with the difficulties 'in wading through the masses of data' to find the 'relevant content, and not miss that "smoking gun"'.<sup>16</sup> Some may suggest that keyword searching, a main

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<sup>13</sup> See, Kate Gibbs, 'Needle in a data haystack' (2008) 404 *Lawyers Weekly* 24.

<sup>14</sup> Angela Priestley, 'eDiscovery means business, big business' (2008) 396 *Lawyers Weekly* 22.

<sup>15</sup> See, *Ibid.*

<sup>16</sup> See, Gibbs, above n 13.

advantage of having documents in electronic form, would help to solve such a problem. However, such searches are seen by many merely as tools which only 'scratch the surface' and not as a guarantee that all relevant documents will be found.<sup>17</sup> Practitioners are also concerned that loss of privilege is more likely to occur where electronic discovery is involved.

A further difficulty encountered with ESI is that to extract the relevant information often requires special computer forensic techniques. Electronically stored information is changeable, and can easily be altered. This means that often discovery will involve taking a copy of a computer's hard disc, and 'every single piece of information on it'.<sup>18</sup> This allows computer forensics expert to reconstruct deleted material, allowing for the discovery of altered, 'destroyed' or forged material.<sup>19</sup> Again this is a process that can only lead to increased costs to clients.

Such forensic examination leads to IT experts playing an even greater role in the discovery process. Practitioners have expressed concerns at contracting such work out to third parties, as lawyers owe a non delegable duty to ensure that 'all relevant documents to the dispute have been produced.'<sup>20</sup> There are doubts that experts will have a sufficient understanding of the law to ensure that all the relevant information has been extracted.<sup>21</sup> Again, this issue poses a greater problem for smaller firms, who unlike the large firms will not have the resources to manage electronic discovery internally, and thus will be forced to outsource the work. The failure to properly

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<sup>17</sup> Ibid.

<sup>18</sup> Craig Macaulay, Blare Sutton and David Wishart, 'Email age strains the law' (2006) 3 *Australian Law Management Journal* 12, 12.

<sup>19</sup> Ibid.

<sup>20</sup> See Gibbs, above n 13.

<sup>21</sup> Ibid.

exercise this obligation can have adverse affects on the lawyer as the result in the case of *Qualcomm v Broadcom*<sup>22</sup> shows.

A recent decision in the NSW Supreme Court, *NAK Australia Pty Ltd v Starkey Consulting Pty Ltd*,<sup>23</sup> illustrates how the changeable nature of ESI can lead to dispute. In this case, the plaintiff relied on an email sent by the defendant to make out its case. The defendant disputed the authenticity of the copy of the email that the plaintiff relied upon and alleged that it had been tampered with. The plaintiff also wished to put into evidence a CD-ROM that was said to contain a “snapshot” of the computer the defendant had used, as at 27 June 2007. The defendant contended that the “snapshot” was incomplete and did not reflect the whole of the contents of his computer.

The defendant thus sought an order that the plaintiff provide them with access to the computer, to verify that the “snapshot” was accurate, and to obtain information and evidence from the computer. Justice Brereton found that discovery should be extended to the contents of the computer. The defendant was thus granted access to the computer for the purpose of accessing the email account to attempt to establish whether the email was authentic, and to verify that the “snapshot” was accurate. This perhaps illustrates the use that can be made of the available technology when a real issue emerges. This is in contrast to the usual problem, which is the large ambit claim for discovery.

Another problem that lawyers feel they are confronted with is that they will need to familiarise themselves with their client’s information retention policies and

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<sup>22</sup> *Qualcomm Incorporated v Broadcom Corporation*, (U.S.D.C, 05cv1958-B (BLM)).

<sup>23</sup> *NAK Australia Pty Ltd v Starkey Consulting Pty Ltd* [2008] NSWSC 1142.

procedures to prevent the destruction of discoverable information. Again this would seem to be a costly task. One practitioner commented on the scope of the obligation, '[c]orporate lawyers need to proactively manage their electronic information. They need to have appropriate information management systems in place...They need to be able to quickly suspend the deletion of all relevant information, however stored.'<sup>24</sup>

### **Destruction of Evidence as a Criminal Offence**

Recently enacted Victorian legislation highlights a final problem facing lawyers and their clients with electronic discovery. In response to *McCabe v British American Tobacco Australia Services Ltd*,<sup>25</sup> the Victorian Parliament passed the *Crimes (Document Destruction) Act 2005 (Vic)* and the *Crimes (Document Destruction) Act 2006 (Vic)*.<sup>26</sup> This legislation introduces a new division dealing with the destruction of evidence into the *Crimes Act 1958 (Vic)* (**the Act**). The Commonwealth and most States and Territories have legislative provision making it a crime to suppress, conceal destroy, or alter evidence where there is either, an intent to mislead or influence judicial proceedings,<sup>27</sup> or an intent to stop such evidence from being used.<sup>28</sup> However, the Victorian legislation is the most detailed and strict of any jurisdiction.

Section 254 of the Act makes it an offence, punishable by up to 5 years imprisonment, for a person who knows that a document or other thing of any kind is or is reasonably likely to be required in evidence in a legal proceeding, to either:

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<sup>24</sup> See, Buttner, above n 8.

<sup>25</sup> *McCabe v British American Tobacco Australia Services Ltd* [2002] VSC 73.

<sup>26</sup> See, Suzanne Le Mire, 'Document destruction and corporate culture: A Victorian initiative' (2006) 19 *Australian Journal of Corporate Law* 304, 308.

<sup>27</sup> See, s 317 *Crimes Act 1900 (NSW)*, s 243 *Criminal Law Consolidation Act 1935 (SA)*, s 268.104 *Commonwealth Criminal Code*, and s 99 *Criminal Code Act 1924 (Tas)*.

<sup>28</sup> See, s 129 *Criminal Code 1899 (Qld)*, s 132 *Criminal Code Act 1913 (WA)*, s 102 *Criminal Code (NT)*, and s 39 *Crimes Act 1914 (Cth)*.

- (a) destroy such a thing; or
- (b) authorise or permit another person to destroy such a thing, with the intention of preventing the document being used in legal proceedings.

The section applies to legal proceedings that are in progress, or those that are to be, or may be commenced in the future.<sup>29</sup> Further, section 255 deals specifically with corporate criminal responsibility for an offence under s 254.

Some argue that this poses a particular problem in terms of electronic discovery, due to the ease with which electronic documents can be unintentionally altered, and the need for the routine deletion of some ESI. One litigation service provided put the problem as follows:

[I]n stark contrast to the traditional tactile paper-based world, where once a document is created it remains in essentially the same state until it is intentionally destroyed, in the electronic data realm data and documents are dynamic.<sup>30</sup>

It appears though that only the Victorian legislation will pose a problem for the inadvertent destruction or alteration of electronically stored documents. This is because where an individual actually 'destroys, conceals or renders illegible, undecipherable or incapable of identification' evidence, as long as they have knowledge that the document is of a kind that will, or is reasonably likely to be required as evidence in legal proceedings, they will be guilty of an offence. However, offences relating to the destruction of documents in other parts of Australia all

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<sup>29</sup> s254(2) *Crimes Act 1958 (Vic)*

<sup>30</sup> Craig Macaulay and Blare Sutton, 'Laying down the data law' (2007) 3 *Australian Law Management Journal* 28.

require that in altering or destroying evidence, there is an intention to mislead a judicial tribunal, or stop the evidence being used in proceedings. Such a requirement of intention would not appear to be satisfied where ESI is inadvertently altered (by for example simply opening the document) or destroyed by routine operations.

### **Managing Electronic Discovery**

The problems associated with electronic discovery will not disappear, as ESI is likely only to increase in magnitude. Thus the profession and the judiciary should look to ways to most effectively manage the issues that arise with electronic discovery.

In the remainder of this speech I will briefly look at some suggestions that practitioners have made as to how electronic discovery should be dealt with. I will then discuss with how the US Federal Court has attempted to deal with some of the problems associated with electronic discovery mentioned above. Finally I will look measures that the NSW Supreme Court has taken, and some of the Australian case law that surrounds the issue.

### **Practitioner's Views**

The Victorian Law Reform Commission's Civil Justice Review<sup>31</sup> offers some guidance as to the attitude of the legal profession towards the way in which electronic discovery issues should be dealt with. One submissions made to the Commission suggested that large-scale discovery would be aided by 'the establishment of specialist management lists, and that practitioners in that list be accredited in electronic discovery.'<sup>32</sup> However, Telstra, and the Australian Corporate Lawyers Association, objected to a requirement of accreditation, suggesting that

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<sup>31</sup> Victorian Law Reform Commission, *Civil Justice Review*, Report No 14(2008).

<sup>32</sup> *Ibid*, 479.

practitioners would develop an expertise in the area through experience.<sup>33</sup> <e.law> Australia suggested in its submission to the Commission that a standard for the preparation and exchange of electronic material for discovery be developed.<sup>34</sup>

The call for a standard is reminiscent of the effort that went into producing the suggested guidelines for the use of technology by Courts by the AIJA in 1999<sup>35</sup> and 2001.<sup>36</sup> Those guidelines were an attempt to suggest a national model to be adopted throughout Australia by the state courts. Although some states did adopt them in their practice notes which were issued, the practice notes started to vary over the years as individual Courts addressed problems which they saw occurring in that state. Hence the variety of different approaches now taken in the various jurisdictions.

It also appears from comments made by legal practitioners to this court on why electronic discovery is not more widely used, that large firms with Legal Technology teams, who have the resources and expertise to manage electronic discovery internally are comfortable with the process. One such practitioner has said in discussing the matter with the Court, 'we use electronic discovery wherever possible...I am surprised that others are not doing so'. It was also clear from such discussions that smaller firms were not as comfortable with e-discovery.

### **The US Approach to Regulating Electronic Discovery**

The US Federal Rules of Civil Procedure (**FRCP**) were significantly amended in 2006 to deal with some of the issues and difficulties that discovery of ESI had

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<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> The Australian Institute of Judicial Administration, *Technology for Justice Report*, Report No 53 (1999).

<sup>36</sup> The Australian Institute of Judicial Administration, *Technology for Justice 2000 Report*, Report No 59 (2001).

presented. The *Zubulake v USB Warburg LLC*<sup>37</sup> proceedings, which concerned the recovery of emails from backup tapes, and the permanent deletion of emails relevant to the proceedings by USB, is an example of a case where a number of difficulties concerning the discovery of ESI were encountered. In these proceedings, issues arose as to who was required to pay the costs of restoring backup data to be discovered, and the obligations on both litigants and their legal representatives to ensure that ESI has been preserved.<sup>38</sup>

Firstly, in respect of who should bear the costs of restoring backup data it was held that the costs of discovery should only be shifted from the producing party to the requesting party where the data requested was inaccessible. Where data is considered inaccessible the court will apply a seven-factor test to determine whether costs should be shifted. These factors are:

1. the extent to which the request is to discover relevant information;
2. the availability of information from other sources;
3. the cost of production compared with the sum in dispute;
4. the cost of production compared with the resources of the parties;
5. the ability and incentives for each party to control costs;
6. the importance of the issues at stake in the litigation; and
7. the benefits in obtaining the information.<sup>39</sup>

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<sup>37</sup> *Zubulake v USB Warburg LLC* 217 F.R.D. 309 (S.D.N.Y. 2003), *Zubulake v USB Warburg LLC* 216 F.R.D 280 (S.D.N.Y. 2003), *Zubulake v USB Warburg LLC* 220 F.D.R. 212 (S.D.N.Y. 2003), *Zubulake v USB Warburg LLC* 229 F.R.D 422 (S.D.N.Y July 20, 2004).

<sup>38</sup> See, Michael Legg and Jennifer Thomas, 'New discovery rules in the US for electronically stored information' (2006) 44(7) *Law Society Journal* 79.

<sup>39</sup> See, Jessica Lynn Repa, 'Adjudicating beyond the scope of ordinary business: Why the inaccessibility test in *Zubulake* unduly stifles cost-shifting during electronic discovery' (2004) 54 *American University Law Review* 257, 274; *Zubulake v USB Warburg LLC* 217 F.R.D. 309 (S.D.N.Y. 2003).

In this case USB was ordered to bear most of the costs of restoring the information on backup tapes, as Zubulake was able to demonstrate that the tapes were likely to contain relevant information, and USB had failed to maintain all relevant information in its active files.<sup>40</sup>

Secondly, it was held in respect of a litigant's duty to preserve ESI, that:

[o]nce a party reasonably anticipates litigation, it must suspend its routine document retention/destruction policy and put in place a "litigation hold" to ensure the preservation of relevant documents. As a general rule, that litigation hold does not apply to inaccessible backup tapes, which may continue to be recycled (e.g. those typically maintained solely for the purpose of disaster recovery). On the other hand, if backup tapes are accessible (i.e. actively used for information retrieval), then such tapes would likely be the subject to the litigation hold.<sup>41</sup>

Finally, it was held that there are a number of duties on a litigant's counsel in relation to the retention of ESI. It was held that a party's counsel have a duty to:

1. oversee the "litigation hold" and monitor their client's efforts to retain relevant information;<sup>42</sup>
2. become 'fully familiar with her client's document retention policies, as well as the client retention architecture';<sup>43</sup> and
3. retain all information identified as relevant, and produce it in response to an opposing party's request.<sup>44</sup>

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<sup>40</sup> See, *Zubulake v USB Warburg LLC* 216 F.R.D 280 (S.D.N.Y. 2003).

<sup>41</sup> *Zubulake v USB Warburg LLC* 220 F.D.R. 212 (S.D.N.Y. 2003), 218.

<sup>42</sup> *Zubulake v USB Warburg LLC* 229 F.R.D 422 (S.D.N.Y July 20, 2004), 432.

<sup>43</sup> *Ibid.*

<sup>44</sup> *Ibid.*

A number of provisions were introduced into the FRCP to require parties to investigate and address issues regarding electronic discovery early in the proceedings. Firstly, scheduling orders issued by a Federal Court may now 'provide for the disclosure or discovery of electronic stored information' and 'include any agreements the parties reach for asserting claims of privilege or of protection as trial preparation material after information is produced.'<sup>45</sup> Further, a party's initial disclosures must 'include a copy, or a description ...of all ... electronically stored information, ... that the disclosing party has in its possession...that support its claims or defenses'.<sup>46</sup> Finally, during the initial conference the parties must attempt to agree on a discovery plan, which must state any 'issues about disclosure or discovery of electronically stored information, including the form or forms in which it should be produced'.<sup>47</sup>

Further amendments provide that a party need not provide discovery of ESI from sources that are not reasonably accessible due to undue burden or cost, unless the requesting party can show good cause.<sup>48</sup> In a case where a party shows good cause for the discovery of such information the court may specify conditions for the discovery.<sup>49</sup> Information that may not be reasonably accessible includes, 'legacy data that remains from obsolete systems which is unintelligible on the successor systems, and data that was deleted but remains in fragmented form, requiring a modern version of forensics to restore and retrieve it'.<sup>50</sup>

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<sup>45</sup> See, rule 16(b)(3)(B) of the FRCP.

<sup>46</sup> Rule 26(a)(1)(A)(ii) of the FRCP.

<sup>47</sup> Rule 26(f)(2) of the FRCP.

<sup>48</sup> Rule 26(b)(2)(B) of the FRCP.

<sup>49</sup> Ibid.

<sup>50</sup> See, Legg, above n 38.

The new provisions also provide protection of privilege of inadvertently produced privileged documents. The rules provide that if information produced in discovery is subject to a claim of privilege or of protection as trial-preparation material, such material must be returned, sequestered or destroyed.<sup>51</sup> Alternatively, the party who has received the information may present the information to the court for determination of the privilege claim.<sup>52</sup> This revision attempts to deal with the difficulty of reviewing the huge amounts of ESI for privilege, and the costs that can be associated with such a process. The rules as introduced do not deal with the question of waiver of privilege. As this is governed by the general law there is a real prospect that in the case of inadvertent disclosure privilege will be lost. The provisions have been described as:

It is a nod to the pressures of litigating with the amount and nature of electronically stored information available in the present age, a procedural device for addressing the increasingly costly and time-consuming efforts to reduce the number of inevitable blunders.<sup>53</sup>

The problem of the inadvertent production of privileged ESI has arisen in the Australian context, and was dealt with in *GT Corporation Pty Ltd v Amare Safety Pty Ltd*,<sup>54</sup> which I will discuss later.

The FCPR now also specifically provide that a party may serve on any other party a request to produce any ESI,<sup>55</sup> and regulate the form in which such information should be provided. A request for ESI may specify the form or forms in which the ESI

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<sup>51</sup> Rule 26(b)(5)(B) of the FRCP.

<sup>52</sup> *Ibid.*

<sup>53</sup> See, Legg, above n 38, quoting the Judicial Conference Committee.

<sup>54</sup> *GT Corporation Pty Ltd v Amare Safety Pty Ltd* [2007] VSC 123.

<sup>55</sup> Rule 34(a)(1)(A) of the FRCP.

is to be produced.<sup>56</sup> In responding to such a request a party may object to the form for producing the ESI, and specify the form which it intends to use.<sup>57</sup> Where no form is specified the ESI must be produced in a form in which it is ordinarily maintained, or in a reasonably usable form.<sup>58</sup> Such provisions clearly attempt to ensure that parties exchange ESI in a form that is usable.

Finally the FRCP set out sanctions for failure to make disclosures or cooperate in discovery.<sup>59</sup> Under the rules, where there is a failure to comply with an order for discovery the court may impose a number of sanctions.<sup>60</sup> However, absent exceptional circumstances, where there is a failure to provide ESI lost as a result of routine good-faith operation of an electronic information system, a court may not impose sanctions.<sup>61</sup> This, in part, helps deal with problems that lawyers face in regulating clients document retention policies.

### **The NSW Supreme Court and Electronic Discovery**

Electronic discovery in the NSW Supreme Court is regulated primarily through two practice notes; 'Practice Note SC Gen 7 – Use of Technology' (**Practice Note 7**), and 'Practice Note No. Eq 3 – Supreme Court Equity Division – Commercial List and Technology and Construction List' (**Commercial List Practice Note**).

Practice Note 7 sets out a protocol for the use of technology in relation to civil litigation.<sup>62</sup> It sets out that where parties have discoverable ESI, discovery and production of this information be given electronically to avoid the need to convert it to

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<sup>56</sup> Rule 34 (b)(1)(C) of the FRCP.

<sup>57</sup> Rule 34(b)(2)(D) of the FRCP.

<sup>58</sup> Rule 34(b)(2)(E) of the FRCP.

<sup>59</sup> Rule 37 of the FRCP.

<sup>60</sup> See rule 37(b) of the FRCP.

<sup>61</sup> Rule 37(e) of the FRCP.

<sup>62</sup> Practice Note No. SC Gen 7, para 4.

paper form.<sup>63</sup> Further, it sets out that where the parties have more than 500 documents that are not ESI, as a general rule the Court will expect the parties to consider the use of technology to discover and inspect such documents along with any ESI.<sup>64</sup> It also sets out that where there is a substantial amount of ESI the parties should consider producing the material in its searchable native form, rather than as document images.<sup>65</sup>

The Commercial List Practice Note, which applies only to proceedings in the Commercial List or the Technology and Construction List in the Equity Division,<sup>66</sup> was recently amended, with the changes commencing operation from 1 January 2009. The practice note at paragraph 28 previously read:

Subject to an order of the Court or unless otherwise agreed between the parties, discovery is to be made electronically

The effect of this paragraph was that where documents were in paper form, parties were scanning them into electronic databases, leading to double handling of the documents. One practitioner commented to the Court that the disadvantage of copying all discovered documents electronically is that it can be very expensive (particularly if the documents are copied so that they are “word searchable”) and time consuming.

The paragraph was amended to read as follows:

Subject to an order of the Court or unless otherwise agreed between the parties, discovery of electronically stored documents and information is to

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<sup>63</sup> Practice Note No. SC Gen 7, para 10.

<sup>64</sup> Practice Note No. SC Gen 7, para 11.

<sup>65</sup> Practice Note No. SC Gen 7, para 13.

<sup>66</sup> Practice Note No. SC Eq 3, para 2.

be made electronically. Discoverable documents and information that are not stored electronically should only be discovered electronically if it is more cost effective to do so.

In a similar way to the FRCP, both Practice Note 7 and the Commercial List Practice Note require that practitioners advise their opponents at an early stage of the proceedings of potentially discoverable ESI, and meet to agree upon a number of matters.<sup>67</sup> Such matters include the format of the electronic database for electronic discovery, the protocol to be used for the electronic discovery, and whether the information is discovered on an agreed or without prejudice basis.<sup>68</sup>

The Commercial List Practice Note provides that at any hearing relating to discovery the Court expects practitioners to have, given notice to their opponents of any problems reasonably expected to arise in connection with the discovery of ESI, including difficulty in the recovery of deleted or lost data.<sup>69</sup> It also sets out that the Court expects that practitioners have given consideration to and conferred in relation to the particular issues involved in the collection retention and protection of ESI, including whether particular software or other supporting resources are required to access the ESI, the manner in which the documents are to be electronically formatted so that the integrity of the documents is protected, and how privileged documents should be appropriately protected.<sup>70</sup> It is clear from this brief discussion of both practice notes that they aim to resolve many of the issues that may be encountered in electronic discovery by encouraging the parties to meet and agree upon way in which they will deal with the discovery of ESI.

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<sup>67</sup> Practice Note No. SC Eq 3, para 29; Practice Note No. SC Gen 7, para 12.

<sup>68</sup> Practice Note No. SC Eq 3, para 29; Practice Note No. SC Gen 7, para 12.

<sup>69</sup> Practice Note No. SC Eq 3, 30.3.

<sup>70</sup> Practice Note No. SC Eq 3, 30.4.

There is one area to which I will refer. That is the requirement under Practice Note 7<sup>71</sup> that the parties address the following:

Practitioners must advise their opponents at an early stage of the proceedings of potentially discoverable electronically stored information and meet to agree upon matters including:

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- whether electronically stored information is to be discovered on an agreed without prejudice basis
- without the need to go through the information in detail to categorise it into privileged and non-privileged information and
- without prejudice to an entitlement to subsequently claim privilege over any information that has been discovered and is claimed to be privileged under s 118 and/or s119 of the Evidence Act 1995 and/or at common law.<sup>72</sup>

As it plain from the terms of the practice note there was a deliberate decision to restrict this question of privilege to agreement having been reached between the parties. The reason for that is twofold.

In the existing state of law unless there is agreement between the parties any disclosure is likely to give rise to questions of a waiver, either under section 122 of the *Evidence Act* 1995 or at common law. Because of this, and the fact that the legislation did not support this procedure on a non consensual basis it has been expressly limited to a consensual basis under the practice notes.

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<sup>71</sup> Note paragraph 29 of the Commercial List Practice Note makes similar provisions.

<sup>72</sup> Practice Note No. SC Gen 7, para 12

The second reason is more fundamental and concerns the debate as to the propriety of having such a system. The philosophical basis of that opposition is of course that once something is disclosed it is almost impossible for the other side to put it out of the mind in terms of either the preparation or the running of the case. This problem emerged quite clearly in the case of *GT Corporation Pty Ltd v Amare Safety Pty Ltd*.<sup>73</sup>

The case concerned an inadvertent disclosure by the defendant in the process of discovery of electronic copies certain documents, over which they sought to claim legal professional privilege. The plaintiff lawyers subsequently looked at some of those documents, and referred to a number of them correspondence between solicitors. Her Honour dealt with the question of inadvertent disclosure of material and noted that in *Guinness Peat Ltd v Fitzroy Robinson*,<sup>74</sup> the Court of Appeal in the United Kingdom held that a mere plea of inadvertence does not by itself necessarily enable a party to litigation to avoid a loss of privilege. Privilege may be lost by inadvertence.

Her Honour then went on to consider the jurisdiction which can be exercised in cases where the receiving party realised on inspection he or she had been permitted to see a confidential document only because of an obvious mistake. Her Honour then considered the cases where the Court in the exercise of that jurisdiction can make orders preventing a lawyer from acting in order that justice not only be done but be seen to be done. The test in such a case is whether,

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<sup>73</sup> *GT Corporation Pty Ltd v Amare Safety Pty Ltd* [2007] VSC 123.

<sup>74</sup> *Guinness Peat Ltd v Fitzroy Robinson*, [1987] 2 All ER 716.

a fair-minded reasonably informed a member of the public would consider that the proper administration of justice required the lawyer be prevented from acting at all times giving due weight to the public interest that a litigant should not be deprived of his or her choice of lawyer without good cause.<sup>75</sup>

She also referred to the New South Wales case of *Kallinicos v Hunt*<sup>76</sup> where Brereton J undertook a comprehensive examination of the authorities concerning the courts supervisory jurisdiction over borders. She approved of his summary, which was in these terms:

(a) The test to be applied in this inherent jurisdiction is whether a fair-minded, reasonably informed member of the public would conclude that the proper administration of justice requires that a lawyer should be prevented from acting, in the interests of the protection of the integrity of the judicial process and the due administration of justice, including the appearance of justice.

(b) The jurisdiction is exceptional and is to be exercised with caution.

(c) Due weight should be given to the public interest in a litigant not being deprived of the lawyer of his or her choice without due cause.

(d) The timing of the application may be relevant, in that the cost, inconvenience and impracticality of requiring lawyers to cease to act may provide a reason for refusing to grant relief.<sup>77</sup>

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<sup>75</sup> *GT Corporation Pty Ltd v Amare Safety Pty Ltd* [2007] VSC 123, [91].

<sup>76</sup> *Kallinicos v Hunt* (2005) 64 NSWLR 561.

<sup>77</sup> *GT Corporation Pty Ltd v Amare Safety Pty Ltd* [2007] VSC 123, [19], quoting *Kallinicos v Hunt* (2005) 64 NSWLR 561, 582-3.

Her Honour also dealt with the dilemma faced by people who receive what is plainly inadvertently disclosed documents. In paragraph 23 she said that:

This case also raises the dilemma which confronts solicitors when confidential information is inadvertently disclosed to them. In 1993, the Law Institute of Victoria promulgated the current "Inadvertent Disclosure Guidelines", which set out solicitors' ethical duties in such a situation. Those duties include a duty to pass on to a client and use all information which is material to the client's interests regardless of its source, unless the solicitor knows it has been obtained unlawfully, improperly or surreptitiously. If privileged information inadvertently comes to the solicitor's knowledge, the solicitor is entitled and may have a duty to use the information for the client's benefit. If it is obvious that confidential documents have been mistakenly disclosed, the solicitor should consider whether to obtain instructions from the client to read or continue to read the material and should advise the client that the court may enjoin any overt use of any such information. In seeking those instructions, the solicitor should point out to the client the risk that a court may grant an injunction prohibiting a solicitor from continuing to act, and the possible costs of retaining new solicitors (citations omitted).

After considering all the facts in some detail she eventually decided that in respect of counsel they should be prevented from acting and in the case of the solicitors they should not be removed but be subject to orders restraining the further use of the privileged material.

The remedy was quite drastic. Importantly it was not a case where there was any improper conduct, simply one where in respect of the barristers her Honour said:

But, as the persons who would be cross-examining Amare's witnesses, there must be very real concerns about their capacity to put out of their mind everything they have seen in the folders of privileged documents. Mindful of the exceptional nature of the order, I have nevertheless come to the conclusion that a fair-minded, reasonably-informed member of the public would conclude that those counsel should be prevented from acting, in the interests of the protection of the integrity of the judicial process and the due administration of justice, including the appearance of justice.

This is the matter of principle in a nutshell. Even having an appropriate legislative amendment to prevent waiver there is still this matter of principle, which will allow the court to intervene. Do we also legislate to repeal the courts powers or just leave it to consensual arrangements between parties?

## **Conclusion**

To return to the purpose of the paper, which includes addressing issues regarding the costs and time effectiveness of electronic discovery, and the obstacles it poses for the judiciary, it is plain that the problem of increasing burden of discovery is with us to stay and will not go away.

It is the parties themselves when they make their application under part 21 of the UCPR who set the boundaries for the extent of discovery and consequently the costs involved in that exercise. It is for the Court in the exercise of its discretion to decide on the relevance of the discovery and whether in the circumstances discovery of that particular magnitude is justified.

Section 60 of the *Civil Procedure Act 2005* is in the following terms:

In any proceedings, the practice and procedure of the court should be implemented with the object of resolving the issues between the parties in such a way that the cost to the parties is proportionate to the importance and complexity of the subject-matter in dispute.

The complexity is easy to perceive. What is important will have to be assessed by the Court presumably having regard to, not only the subjective importance to the parties or the monetary value of the case, but also to other aspects such as the availability of court resources.

The Court has already been resorting to section 60 to limit costs in a number of areas. Two examples suffice:

### **1. *Wright v Public Trustee***

In *Wright v Public Trustee*<sup>78</sup> the plaintiff received a legacy of \$10,000 by the will of the deceased, and a by an order of the court received an additional \$50,000. The costs she was to incur in the proceedings were estimated to be \$57,000. The Court considered s 60 and 98 of the *Civil Procedure Act 2005*, and the decision of Palmer J in *Sherborne Estate (No 2) Vanvalen v Neaves*,<sup>79</sup> and stated,

the Court is required by the provisions of s 60 of the Act to recognise the principle of proportionality of costs. By any standards, in a case in which the original estimated length of hearing was one day and the costs for the

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<sup>78</sup> *Wright v Public Trustee* [2007] NSWSC 1069.

<sup>79</sup> *Sherborne Estate (No 2) Vanvalen v Neaves* [2005] NSWSC 1003.

plaintiff were estimated for that one day hearing to total in excess of \$57,000m and the plaintiff was awarded only \$50,000 as a result of the litigation, there seems to me to be a lack of proportionality between the amount of the plaintiff's costs and the outcome to the plaintiff.

It was then stated that this was an appropriate case where the plaintiff should not be entitled to receive out of the estate, costs in an amount which exceeded the amount awarded to the plaintiff by the Court. Thus an order was made of a nature sought by the defendant capping costs of the plaintiff at \$50,000.

## ***2. Re Maureen Michael Management Pty Ltd***

*Re Maureen Michael Management Pty Ltd*<sup>80</sup> related to whether a liquidator should be able to recover claimed costs and fees from a company's non-trading trust account. In this case the Court held that the liquidator should not be allowed to, in the absence of a scheme which reduced the amount of his costs.

As a general proposition, it was found that where a liquidator finds himself in charge of a trust fund and administers it, the court will usually exercise its discretion to allow the liquidator remuneration and expenses out of the fund. However, where there is non trading trust, the liquidator must show he acted reasonably in relation to the trust fund. Here as the fund was small, about \$50,000, the court could not see how the liquidator acted reasonably in accruing costs of approximately \$26,000, and lawyers costs of \$30,000. The court took into consideration s 60 *Civil Procedure Act 2005*, in coming to this conclusion. Young CJ in Eq stated:

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<sup>80</sup> *Re Maureen Michael Management Pty Ltd* [2005] NSWSC 1044.

A further relevant matter is the legislature's command in s 60 of the *Civil Procedure Act 2005* that the principle of proportionality applies to legal costs.

There are a course of provisions in the practice note for the costs of discovery to be advised to the Court and this is starting to happen. In a number of cases before the Court the costs of discovery sought are substantial and the Court is often left with the impression that what is sought might have marginal relevance. These are obvious cases where the Court should consider proportionality of the costs involved and the matters referred to in s 60. Sometimes in these situations the Court shifts the burden of the costs of discovery to the party seeking such extensive discovery. Strangely in many such cases thereafter discovery that is actually put in place is substantially less than that which was originally sought.

It is difficult matter for the Court given resources available to it to spend detailed time investigating the relevance of all the areas sought for discovery. However the court is also given a direction in s 60 which it cannot ignore all and practitioners should expect to be required to justify the amount of costs incurred in any discovery application. Proportionality must be seen in the context of the total amount of the costs involved in a case and where the burden of such costs should fall in cases of marginal relevance of the discovery sought.

Unless these steps are taken the Chief Justice's prediction of killing the golden goose may come true and a large proportion of the smaller commercial litigation which is available to the profession will be much reduced, perhaps in the context of mediation.

This is an area where a co-operative approach between the profession generally and the courts might help to advance sensible procedures. The Court is always open to suggestions and is anxious to hear of the difficulties which might be encountered by the profession in complying with its procedures. For this reason I would like to spend some time dealing with questions and answers, which I might have of you or you, may have of me in relation to the matters which I have discussed in this paper. I wish to acknowledge the assistance of the commercial list researcher Sarah Danos in preparing this paper.