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In-House Counsel and Corporate Client Communications: Can EU Law after *Akzo Nobel* and U.S. Law after *Gucci* be Harmonized? Critiques and a Proposal

JOHN GERGACZ*

Abstract

Whether in-house counsel may conduct privileged communications with their corporate employers is evaluated differently under European Union (EU) law than in the United States. The EU's Akzo Nobel decision, applying legal professional privilege, precluded in-house counsel's participation. This is so even if in-house counsel had been admitted to a Member State's bar.

The United States, under attorney-client privilege, makes no such exclusion. In fact, the recent Gucci decision held that an in-house counsel who was not authorized to practice law could still conduct privileged communications.

This article critiques both approaches. Each was found wanting and proposals are made, specific to each jurisdiction, that balance the purpose of the privilege with the realities of the in-house counsel-corporate employer relationship. For the European Union, a statutory solution is suggested and for the United States a narrow reading of Gucci is offered.

In addition, this article proposes a harmonization of the current EU and U.S. approaches. Irrespective of whether EU or U.S. law may be later applicable, at the time of the communication a corporation should be able to predict which of its lawyers will be privilege-eligible. Thus, in-house counsel's participation should be construed the same in both jurisdictions.

I. Introduction

"The magical mystery tour is coming to take you away" is not merely a lyric from a Beatles song.¹ It also aptly describes the journey taken by courts in the United States and European Union when evaluating privileged corporate communications with in-house

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1. THE BEATLES, MAGICAL MYSTERY TOUR (Capitol Records 1967).

counsel. But unlike the Beatles' mystery tour, the courts' sojourns produced dissonance and disharmony. This article, like a Baedeker guidebook, will try to harmonize the courts' paths. Doing so will focus on one question at the heart of in-house counsel and corporation communications. Does in-house counsel qualify as a "privilege-lawyer?"

For a short answer, the EU says "no" while the United States says "yes."² But neither jurisdiction adequately accommodates in-house counsel's relationships with their corporate client-employers and the role of attorney-client privilege in the system of justice.

The EU treats in-house counsel communications no different than any others that occur between corporate employees.³ Only those that take place with private outside counsel are eligible for privilege protection.⁴ The United States makes no such distinction.⁵ In fact, a recent case eased up on in-house legal departments when construing "privilege-lawyer" status.⁶

Although in-house counsel's role in privileged communications is clear and predictable within each jurisdiction, the discord between them can create problems.⁷ Corporations whose activities may be subject to both EU and U.S. laws—say, EU competition law and U.S. antitrust law—could not reliably have confidential communications with in-house counsel.⁸ If EU law was later applied, no privilege would arise.⁹ Under U.S. law, these same communications would be privilege-eligible.¹⁰ Yet for the privilege to encourage client candor, the corporate client needs to predict its application when the communication takes place, not at a later time when a claim arises or after choice of law issues are resolved.¹¹ At the outset, the client must know whether the lawyer providing legal advice will be considered a "privilege-lawyer."¹²

This article will focus on this "privilege-lawyer" issue. Both the EU and the U.S. in-house counsel rules will be discussed, critiqued, and their shortcomings noted. Suggestions will be made for remedying them. Thereafter, a proposal will be made to harmonize the EU and U.S. approaches. The proposed harmonization will enable corporations to choose freely whether to receive advice from either in-house or private practice lawyers without risking that the in-house source may later be deemed privilege-ineligible.

But as a prelude, a brief discussion of the attorney-client privilege will be offered. Although it will be general in scope, the discussion will put the in-house counsel issue in context.

2. See, e.g., *Lang v. Intrado, Inc.*, No. 07-cv-00589, 2007 WL 4570558, at *2 (D. Colo. Dec. 26, 2007); Case C-550/07, *Akzo Nobel Chems. Ltd. v. European Comm'n*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055 (Sept. 14, 2010) [hereinafter *Akzo Nobel II*].

3. See, e.g., *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, at ¶¶ 57–62.

4. *Id.*

5. See *Lang*, 2007 WL 4570558, at *2 ("The mere fact that Ms. Jenkins is an in-house attorney does not negate the attorney-client privilege nor does it render her communications business advice."). See generally JOHN GERGACZ, ATTORNEY-CORPORATE CLIENT PRIVILEGE 3d, §§ 3:18-3:21 (2011).

6. *Gucci America, Inc. v. Guess?, Inc.*, No. 09 Civ. 4373, 2011 WL 9375, at *6 (S.D.N.Y. Jan. 3, 2011).

7. John Gergacz, *Privileged Communications with In-House Counsel under United States and European Community Law: A Proposed Re-Evaluation of the Akzo Nobel Decision*, 42 CREIGHTON L. REV. 323, 323–24 (2009).

8. See *id.* at 337.

9. See *id.*

10. See *id.*

11. See *id.* at 336.

12. See *id.*

II. A Brief Discussion of Attorney-Client Privilege¹³

The attorney-client privilege preserves the confidentiality of a client's communications with counsel.¹⁴ Information that passes between them is shielded from discovery.¹⁵ Thus, the privilege provides a refuge where clients may seek legal advice without worrying that what was disclosed may be obtained later by an adversary.¹⁶ Nonetheless, the facts that were communicated remain discoverable.¹⁷ The privilege simply makes the attorney-client source off-limits.¹⁸

The privilege's evidentiary shield houses a paradox: finding the truth is facilitated both by promoting disclosure and protecting confidentiality.¹⁹ Too much of one or the other will create distortions. But when the factors are in sync, determining the truth is enhanced, and the adversary system can best render just results.²⁰ Here, the "truth" is not merely an abstract concept. It takes into account the needs of the system that was designed to find it.²¹

Consequently, the justification for an attorney-client privilege derives from the adversary system.²² The argument can be sketched out as follows: law is complex and expert navigation is needed when dealing with it.²³ Without proper guidance, an individual may run aground—not because the individual's cause was unjust but because legal advice was lacking.²⁴

13. For a more thorough discussion, see GERGACZ, *supra* note 5.

14. *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981); *Crosby v. Berger*, 11 Paige Ch. 377, 378 (N.Y. Ch. 1844) ("The object of the rule, protecting privileged communications from being disclosed by attorney or counsel, is to secure to parties who have confided the facts of their cases to their professional advisors, as such, the benefit of secrecy in relation to such communications; so that the client may disclose the whole of his case to his professional advisor, without any danger that the facts thus communicated to his attorney or counsel will be used in evidence against him, without his own consent.").

15. *Upjohn*, 449 U.S. at 396.

16. *See id.* at 398.

17. *Id.* at 395; *Yankee Atomic Elec. Co. v. United States*, 54 Fed. Cl. 306, 314 (2002); *see generally* GERGACZ, *supra* note 5.

18. *See Upjohn*, 449 U.S. at 396; Gergacz, *supra* note 7, at 325.

19. *See Gergacz*, *supra* note 7, at 325.

20. *See id.* at 326.

21. *See Barton v. U.S. Dist. Ct. for Cent. Dist. of Cal.*, 410 F.3d 1104, 1112 (9th Cir. 2005) ("fundamental importance of the attorney-client privilege to our adversarial system of justice.").

22. *See Hatton v. Robinson*, 31 Mass. (14 Pick.) 416, 422 (1833) ("This principle we take to be this: that so numerous and complex are the laws by which the rights and duties of citizens are governed, so important is it that they should be permitted to avail themselves of the superior skill and learning of those who are sanctioned by the law as its ministers and expounders, both in ascertaining their rights in the country, and maintaining them most safely in the courts, without publishing those facts, which they have a right to keep secret, but which must be disclosed to a legal adviser, and advocate, to enable him successfully to perform the duties of his office, that the law has considered it the wisest policy to encourage and sanction this confidence, by requiring that on such facts the mouth of the attorney shall forever be sealed.").

23. *See United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 358 (D. Mass. 1950) ("In a society as complicated in structure as ours and governed by laws as complex and detailed as those imposed upon us, expert legal advice is essential.").

24. *See generally* Gergacz, *supra* note 7.

Because the legal system is not self-executing, lawyers are required to guide a client through it.²⁵ A lawyer's advice, however, "is only as good as the information on which it is based," and the best source is the client.²⁶

But candor, openness, and full disclosure—as vital as they may be—are elusive client traits. By cloaking certain communications with confidentiality, the attorney-client privilege removes a major disincentive for client candor.²⁷ After all, if the information provided to a lawyer may later be used against the client, one would expect the client's disclosures to be guarded.²⁸ In this setting, the lawyer's advice would be inaccurate because it was derived from faulty, incomplete information.²⁹ When applying the law, inaccurate legal advice is not better than no advice at all.

The attorney-client privilege counteracts this source of injustice.³⁰ By facilitating a client's receipt of legal advice, the privilege promotes the effective working of the legal system.³¹ Its contribution to justice arises from this relationship.³²

But not every lawyer-client communication qualifies as privileged.³³ A mid-twentieth century case, *United States v. United Shoe Machinery*, sets out a number of elements that must be established before the confidentiality protection attaches.³⁴ These elements may be distributed among three categories.³⁵

First, the communication must be confidential, both when it takes place and then kept confidential thereafter.³⁶ The privilege does not bestow confidentiality on communications that were not meant to be private when they occurred.³⁷ The protection does not override the parties' confidentiality intention, but only formalizes it.³⁸ Further, the confidentiality must be maintained.³⁹ Privilege does not transform disclosed communications

25. *Id.* at 326.

26. *Id.*

27. *Id.*

28. *See id.*

29. *See id.*

30. *Id.*

31. *Id.*

32. *Id.*

33. *Id.*

34. *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 358-59 (D. Mass. 1950) ("The privilege applies only if (1) the asserted holder of the privilege is or sought to become a client; (2) the person to whom the communication was made (a) is a member of the bar of a court or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion of law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client.").

35. *Id.*

36. *Upjohn Co. v. United States*, 449 U.S. 383, 385 (1981); *see generally* GERGACZ, *supra* note 5.

37. *See* Gergacz, *supra* note 7.

38. *See id.*

39. *Id.*

back into confidential ones.⁴⁰ Once the seal of confidentiality has been broken, the protection is lost. This latter aspect of confidentiality is called a waiver.⁴¹

The second *United Shoe* category focuses on the communication's topic.⁴² Only those concerning legal advice pass muster.⁴³ Although distinguishing legal advice from other topics is not always a simple task, this factor emphasizes the relationship between the attorney-client privilege and the legal system.⁴⁴ Communications that do not concern the law do not augment the legal system's search for truth.⁴⁵ Thus, they do not carry forward the purpose behind the privilege, and are unworthy of its protection.⁴⁶

The third and final *United Shoe* category concerns the communication's participants.⁴⁷ One must be a client and the other an attorney.⁴⁸ Communicators occupying other roles, such as accountant and client, business executive and corporate officer, or professor and student are not exchanging information as legal system participants.⁴⁹ Thus, there is no link between their communications and the legal system's pursuit of justice.⁵⁰ Consequently, there is no need to encourage their communications by cloaking them with confidentiality.⁵¹

This article will focus on one aspect of this third *United Shoe* category: the requirement that an attorney participate in the communication.⁵² Whether the client is an individual or a corporation, the privilege requires attorney involvement.⁵³

40. *See id.*

41. *In re Penn Cent. Commercial Paper Litig.*, 61 F.R.D. 453, 463 (S.D.N.Y. 1973) ("It is hornbook law that the voluntary disclosure or consent to the disclosure of a communication, otherwise subject to a claim of privilege, effectively waives the privilege.").

42. *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 358 (D. Mass. 1950).

43. *In re Bekins Record Storage Co., Inc.*, 465 N.E.2d 345, 346 (N.Y. 1984) ("The mere circumstance that the documents were revealed in confidence to a lawyer does not of itself transform the papers into privileged communications."); *see generally* GERGACZ, *supra* note 5.

44. *See* Gergacz, *supra* note 7.

45. *Id.* at 327.

46. *Id.*

47. *United Shoe Mach. Corp.*, 89 F. Supp. at 358–59.

48. *E.g.*, *Lawrence E. Jaffe Pension Plan v. Household Int'l, Inc.*, 244 F.R.D. 412, 427–28 (N.D. Ill. 2006) (client was the corporation even though counsel was retained by the corporate audit committee); *Great Plains Mut. Ins. Co. v. Mut. Reinsurance Bureau*, 150 F.R.D. 193, 197 (D. Kan. 1993) (corporate board of directors member found to acting in the role of attorney); *see generally* GERGACZ, *supra* note 5.

49. Gergacz, *supra* note 7, at 327–28.

50. *Id.*

51. *Id.*

52. *See United Shoe Mach. Corp.*, 89 F. Supp. at 358–59.

53. *Id.*

III. In-House Counsel and Privileged Corporate Communications

A. THE EU APPROACH: IN-HOUSE COUNSEL IS NOT A PRIVILEGE-ELIGIBLE ATTORNEY

A 1982 case, *AM&S Europe v. Commission of the European Communities* limited privileged communications to those conducted with independent lawyers.⁵⁴ Thereafter, the EU's legal professional privilege could best be applied by using a two-step process: first, determine whether the attorney qualified as independent; and, if so, then turn to the privilege factors, such as whether the communications concerned legal advice and related to the client's right of defense.⁵⁵

AM&S Europe defined an independent lawyer in negative terms, as one who was not bound to his client by reason of employment.⁵⁶ Lawyers who were "bound," on the other hand, were not privilege-qualified, irrespective of their other qualifications.⁵⁷ The court justified this restriction based on a lawyer's dual roles: an adviser to his client and a joint participant with the courts in the administration of justice.⁵⁸ An independent lawyer owes duties simultaneously to both as exemplified in the professional standards that govern the lawyer's conduct.⁵⁹ Thus, an independent lawyer not only serves his client's interests but serves those of the legal system as well.⁶⁰ He is neither merely a legal adviser nor a servant of the legal system.⁶¹ Like a tightrope walker, the independent lawyer maintains a balance between them.

This unique, two-faceted role distinguishes the independent lawyer from other corporate advisers, such as an accountant or financial analyst.⁶² The latter may advise a client about areas of law (e.g., the tax code), but do not participate in the administration of justice.⁶³

Although the *AM&S Europe* formulation readily brings to mind the distinction between in-house and private counsel, the term "in-house counsel" does not appear in the decision.⁶⁴ The court's "independent lawyer" formulation was based on more general language.⁶⁵ Consequently, whether an in-house counsel, under the right circumstances, could be deemed independent remained an open question.

54. Case 155/79, *AM&S Europe Ltd. v. Comm'n European Cmty.*, 1982 E.C.R. 1575, ¶. 21, 27 (for legal professional privilege to apply, the communications must "emanate from independent lawyers, that is to say, lawyers who are not bound to the client by a relationship of employment.").

55. *Id.* ¶¶ 21–22.

56. *Id.* ¶ 21.

57. *Id.*

58. *Id.* ¶ 24.

59. *Id.*

60. Gergacz, *supra* note 7, at 332.

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

1. *The Akzo Nobel Decision: In-House Counsel Cannot be an Independent Lawyer*

a. Factual Background and Court of First Instance Decision (2003)⁶⁶

In 2003, the Commission of the European Communities (the Commission) was investigating whether Akzo Nobel Chemicals, Akcros Chemicals, and their subsidiaries (collectively, “Akzo Nobel”) had engaged in anti-competitive activities in violation of EU law.⁶⁷

While examining records at an Akzo Nobel facility in Great Britain, the Commission’s investigators were denied access to five documents on the grounds that they were protected by the legal professional privilege.⁶⁸ The Commission disagreed with this assessment.⁶⁹

To facilitate a resolution, these documents were divided into two groups: Set A and Set B.⁷⁰ Although none of the documents were ultimately found to be privileged, only two of them were deemed discoverable because the lawyer who communicated was not found to be independent under the *AM&S Europe* formulation.⁷¹

These two documents were e-mails between Akzo Nobel’s general manager and its competition law coordinator.⁷² The competition law coordinator was a lawyer within Akzo Nobel’s legal department.⁷³ In addition, the in-house lawyer was a member of the Netherlands bar and was thus subject to its professional standards of conduct, including disciplinary measures upon violation.⁷⁴ Furthermore, Netherlands law conferred a special primacy on its bar members, and the in-house lawyer’s employment contract reflected this.⁷⁵ Consequently, if a conflict arose between the lawyer’s duty to Akzo Nobel and his professional obligations, the professional obligations would prevail.⁷⁶ This special status of the bar-admitted, in-house counsel formed the basis of Akzo Nobel’s primary arguments supporting its privilege claim.⁷⁷ The first one advocated a flexible, policy-based reading of *AM&S Europe*’s independent lawyer formation, while the second maintained that this formulation was out-of-date and should be modified to reflect current trends.⁷⁸

In 2007, the EU’s Court of First Instance rejected Akzo Nobel’s privilege claim.⁷⁹ *AM&S Europe* was construed as excluding in-house counsel from conducting privileged communications, rather than setting forth a benchmark for independence that either in-

66. For a discussion of the Court of First Instance’s decision, see *id.* at 232–34.

67. The factual background of the *Akzo Nobel* decision by the Court of First Instance was derived from Joined Cases T-125/03 & T-253/03, *Akzo Nobel Chems. Ltd., v. Comm’n*, 2007 E.C.R. II-03523, EUR-Lex CELEX 62003TJ0125 (Sept. 17, 2007) [hereinafter *Akzo Nobel I*].

68. *Id.* ¶¶ 2–3.

69. See *id.* ¶ 5.

70. *Id.* ¶¶ 7, 9.

71. *Id.* ¶ 168 (“The court in its judgment in the *AM & S* case defined the concept of independent lawyer in negative terms in that it stipulated that such a lawyer should not be bound to his client by a relationship of employment rather than positively, on the basis of membership of a Bar or Law Society or being subject to professional discipline and ethics.”).

72. *Id.* ¶ 165.

73. *Id.*

74. *Id.* ¶ 149.

75. *Id.*

76. *Id.*

77. *Id.* ¶ 144.

78. *Id.* ¶¶ 142, 152, 156.

79. *Id.* ¶ 169.

house or outside counsel could meet.⁸⁰ Thus, even though Akzo Nobel's in-house, Netherlands-bar-admitted attorney enjoyed a unique status, he was still bound to Akzo Nobel as an employee.⁸¹ The employee relationship placed him outside of *AM&S Europe's* independence standard.⁸²

The Court of First Instance also disagreed with Akzo Nobel's trend-based argument.⁸³ The court found that *AM&S Europe's* formulation had not been so undercut by EU or Member State developments regarding in-house counsel and privileged communications that it required revision.⁸⁴ Akzo Nobel appealed.

b. Decision of the Court of Justice, Grand Chamber (2010) and an Appraisal

The Court of Justice Grand Chamber affirmed the decision of the Court of First Instance.⁸⁵ The *AM&S Europe's* formulation, "not bound to the client by a relationship of employment,"⁸⁶ was read literally. Thus, because in-house counsels are employed by their clients, they are not independent lawyers;⁸⁷ they were "bound" instead.⁸⁸ No matter how much distance existed between in-house counsel and the corporation, in-house counsel's status as an employee was the deciding factor.⁸⁹ Consequently, their client communications could not qualify as privileged.⁹⁰

Lawyer independence, the court asserted, has two elements.⁹¹ The first one focuses on professional independence and derives from the lawyer's bar-imposed obligations.⁹² Akzo Nobel's in-house counsel, at least in theory, satisfied this element.⁹³

The second element requires personal independence.⁹⁴ Here was where in-house counsel, in general, fell short.⁹⁵ Their financial ties to their corporations, as well as their identities as part of their clients' organizations, belied true independence.⁹⁶

These bonds, however, were not offered as factors to assess whether any particular in-house counsel should be deemed "independent."⁹⁷ If that were the case, then, for example, an independently wealthy in-house counsel could be deemed more "independent" than an outside counsel could whose revenue largely came from one client. The Court of

80. *Id.* ¶¶ 168–69.

81. *Id.* ¶ 168.

82. *Id.* ¶ 177.

83. *Id.*

84. *Id.* ¶¶ 170–71.

85. See *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055.

86. *Id.* ¶ 41.

87. *Id.*

88. *Id.*

89. *Id.* ¶¶ 41, 47.

90. *Id.* ¶ 44.

91. *Id.* ¶ 45.

92. *Id.* ¶¶ 46, 56–57.

93. Case C-550/07, Op. of Advocate General Kokott in *Akzo Nobel Chems. Ltd. v. Comm'n.*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CC0550, ¶¶ 63–65 (Apr. 29, 2010) [hereinafter *Akzo Nobel Advocate General Op.*].

94. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶¶ 47–49.

95. See *id.*

96. See *id.*

97. See *id.*

Justice did not cite personal financial data about Akzo Nobel's in-house counsel when mentioning this connection.⁹⁸

In fact, the court's inquiry was not at all empirical.⁹⁹ The practicalities of Akzo Nobel's in-house counsel's financial or personal relationship with Akzo Nobel were not evaluated and placed on an independence scale.¹⁰⁰ An "independent" lawyer was not construed as the opposite of one who was dependent.¹⁰¹ Instead, the "independence" analysis was derived from the state that the lawyer occupied—in-house versus outside counsel.¹⁰² It was not based on a relationship's factual underpinnings but instead from the existence of a particular relationship itself—corporate employment or private law practice.¹⁰³

By way of analogy, consider marriage. Two couples may share identical factual attributes: live together, have children. But only one couple may be married. Marriage is a state that can be achieved and exists independent of particular factual characteristics. After all, a married couple may be childless and not live together. These factors alone, however, neither negate nor affirm their married state.

The Court of Justice's construction of *AM&S Europe*'s formulation worked much the same way. By occupying the status of in-house counsel, a lawyer could not conduct privileged communications because that lawyer was not independent.¹⁰⁴ Independence, here, turned on whether the lawyer was a member of the corporate client's organization.¹⁰⁵ If so, the lawyer lacked independence.¹⁰⁶ Thus, for privilege purposes, lawyer independence was incompatible with corporate organization membership.¹⁰⁷

In addition, the Court of Justice affirmed the Court of First Instance's holding that the *AM&S Europe* formulation should not be changed to include bar-admitted, in-house counsel.¹⁰⁸ This decision highlighted the tension between lawmaking through legislation and the extent a court should go to lay down new law via judicial decision.

Two aspects of the court's reasoning illustrate. The first assessed whether legal developments subsequent to *AM&S Europe* rendered its formulation out-of-date.¹⁰⁹ If that were the case, revisiting the in-house counsel issue could be justified. Twenty years had passed since *AM&S Europe* was decided, and—like a bluff overlooking the sea—its foundations may have been undermined by intervening events. But a review over this time span of both the Member States' national laws and the law of the EU uncovered no trend favoring in-house counsel.¹¹⁰ Only a few Member States provided privilege protection for

98. *See id.*

99. *See id.*

100. *Id.*

101. *See id.*

102. *See id.*

103. *See id.*

104. *See id.*

105. *Id.* ¶ 44.

106. *Id.*

107. *Id.*

108. *Id.* ¶ 76.

109. *Id.* ¶¶ 69–76.

110. *Id.* ¶¶ 75–76.

in-house counsel communications.¹¹¹ Thus, *AM&S Europe*'s formulation had not been eroded.¹¹²

Nonetheless, EU law is not derived merely by counting up the legal principles adopted by Member States.¹¹³ If a legal principle is of particular significance to the EU's institutions or its aims, the court would be justified in adopting it as EU law notwithstanding that the principle was recognized by only a few Member States.¹¹⁴

As an example, the Advocate General's opinion noted that the Court had found that prohibiting age discrimination was a general principle of EU law even though no clear trend existed within the Member States.¹¹⁵ Prohibiting age discrimination was consistent with the EU's policy of protecting fundamental human rights.¹¹⁶

Extending the privilege to in-house counsel communications was not deemed that important.¹¹⁷ No special characteristics surrounding the activities of the European Commission or the conduct of its investigations justified the extension.¹¹⁸ Thus, modifying the *AM&S Europe* formulation could not be based on an overriding EU-grounded rationale.¹¹⁹

On a broader level, the Court of Justice's *Akzo Nobel* decision may be read simply as one that valued long-standing case precedent. Construing the decision this way rather than focusing on its in-house counsel privilege language can be useful in evaluating how corporations, like *Akzo Nobel*, may adjust to its holding.

Consider that parties rely on established cases, like *AM&S Europe*, in planning their activities and in assessing the law's contours. Judicial decisions that reinforce this reliance strengthen the practice of using precedent to size up current disputes. Predictability is, therefore, enhanced.

In addition, the court's literal reading of the *AM&S Europe* formulation signals to parties that more flexible constructions of precedent case language will not arise unless general system or justice-based circumstances call for it.¹²⁰ Consequently, parties can more confidently apply precedent because the extent the words will be interpreted is also predictable.

On the other hand, the Court of Justice did not cement case precedent in place.¹²¹ Touchstones were provided that could justify flexible interpretations, such as changes in law in the EU or Member States that made the precedent holding outdated or the existence of overriding, inconsistent EU policies.¹²² These flexibility touchstones also enhance predictability. Parties can assess these external events and take them into account when evaluating past cases like *AM&S Europe*. Analysis would be derived from the touch-

111. *Akzo Nobel I*, 2007 E.C.R. II-03523, ¶ 155.

112. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶¶ 75–76.

113. *Id.* ¶¶ 77–87.

114. *Akzo Nobel Advocate General Op.*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CC0550, ¶ 95.

115. *Id.* ¶¶ 63–65, 92–97.

116. *Id.* ¶ 96.

117. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶¶ 77–87, 90–108.

118. *Akzo Nobel Advocate General Op.*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CC0550, ¶ 98.

119. *Id.*

120. *Id.* ¶¶ 95–96.

121. *Id.*

122. *Id.*

stone factors rather than on how a court would have decided the case if the slate were blank.

Consequently, a broad, precedent-predictability reading of *Akzo Nobel* suggests that further augmenting the professional independence of in-house counsel will not suffice to meet privilege standards. After all, *Akzo Nobel*'s in-house counsel seemed to have sufficient independence to meet the *AM&S Europe* formulation had the Court of Justice construed the case flexibly. That the court refused to do so, suggests a systematic approach, through legislation, will be required to overcome the *AM&S Europe* precedent.¹²³

c. In-House Counsel and Privileged Communications: A Proposed Legislative Solution

The *Akzo Nobel* decision and the *AM&S Europe* formulation that it applied, should be scrapped. Distinguishing between in-house and outside counsel undermines individual Member States' regulations about who may practice law, adversely affects a corporation's choice of counsel, and creates unnecessary inconsistencies between EU law and certain Member States' national laws, as well as the law of the United States.

By limiting privileged corporate communications to those conducted by outside counsel, the Court of Justice, in a sense, created a pecking-order for European lawyers. First-class, full-fledged lawyers are those admitted to the bar and in private practice. They are "privilege-eligible" under EU law. Then, there are the second-class lawyers, bar-admitted of course, but employed by a corporation. Conducting privileged communications is denied to them.

Thus, *Akzo Nobel* had the effect of devaluing certain Member States' laws concerning who may practice law while inadvertently favoring others. As the Court of Justice noted, the twenty-seven Member States' laws are not uniform concerning in-house counsel and the privilege.¹²⁴ But states like Great Britain or the Netherlands who make no distinction between in-house and outside counsel found their regulation of lawyers impaired because those employed by corporations are deemed second-rate under EU law.¹²⁵ Ironically, Member States whose national laws exclude in-house counsel from having privileged communications found their policy choice in place for the EU as a whole.

The above occurs because the privilege is only effective if its application is predictable at the time the communication takes place.¹²⁶ In *Akzo Nobel*, for example, had British authorities conducted the investigation in Manchester, the in-house counsel e-mails would have been subject to Britain's legal professional privilege.¹²⁷ Merely because EU law was involved instead, those communications were unprotected.

Consequently, British corporations will be discouraged from using in-house counsel because one cannot know which jurisdiction will investigate in the future. Even though British law leaves the choice of using in-house or outside counsel up to the client, the *Akzo Nobel* decision predisposes the corporation to select outside counsel. Only a foolhardy

123. *Id.* ¶ 134.

124. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶¶ 69–74.

125. *Id.* ¶ 57; *United States v. Philip Morris, Inc.*, [2003] EWHC (Comm.) 3028, ¶ 64 (Eng.).

126. *E.g.*, *Barton v. U.S. Dist. Ct. for Cent. Dist. of Cal.*, 410 F.3d 1104, 1112 (9th Cir. 2005) ("Potential clients must be able to tell their lawyers their private business without fear of disclosure.").

127. *Philip Morris, Inc.*, [2003] EWHC 3028, ¶ 64 (in-house counsel communications within scope of Britain's legal professional privilege).

corporation would use in-house counsel instead and risk that confidential communications would be discoverable if an EU rather than a British investigation was later undertaken.

But this *Akzo Nobel* effect does not arise in Member States that do not recognize in-house counsel as privilege communicators.¹²⁸ There, a corporation can predict that either under national or EU law, in-house counsel communications would be discoverable. Thus, use of outside counsel would be preferred. Had the *Akzo Nobel* decision supported in-house counsel communications instead, outside counsel would still be preferred in these Member States because if their law were applied, rather than the EU's, discovery would occur. A cautious corporation would prefer predictable confidentiality at the time the communication takes place because Member State, rather than EU, law may apply in the future.

For these reasons, a legislative solution is needed. The *Akzo Nobel* decision should be replaced by an arrangement that does two things: first, it should not affect a Member States' regulations governing who may practice law; and, second, it should treat in-house and outside counsel no different than a given Member State does.

The proposed statute should read as follows: To conduct communications subject to the legal professional privilege, a lawyer must be a member of a Member State's bar which permits, regulates, and controls that lawyer's ability to practice law within that Member State and whose bar membership includes the ability to conduct those privileged communications.

Three attributes of this proposal may be noted: first, it retains the concept of an independent lawyer, conceived in *AM&S Europe*. But the proposal replaces *Akzo Nobel*'s literal reading of *AM&S Europe* with a more conventional view of independence by severing the lawyer's professional duties from the contractual ones owed to a client. An attorney acting under bar regulations and oversight is not bound to his corporate client. He is professionally dependent on a third party, the bar, instead. His ability to practice law is thus granted independently from any contract entered into with a client.

The proposal's second attribute is that it harmonizes privilege-qualified lawyers under both EU law and that of each Member State. Thus, if a Member State makes no distinction between in-house and outside counsel, both categories of lawyer will be treated the same. On the other hand, in Member States where in-house counsel are not privilege-eligible, they would not change status if EU law was applied instead.

Finally, the proposal's third attribute is that the harmonization, as proposed above, strengthens the privilege. Parties can more readily predict its application at the time of the communication. Consequently, the aim of encouraging client candor is enhanced. Discovery will not turn, as it did in *Akzo Nobel*, on which jurisdiction's law is applied sometime after the communication takes place.¹²⁹ Corporations who communicate with in-house counsel can be confident that the lawyer's privilege status will be deemed the same if either the Member State's or EU law later applies.

128. See generally *Akzo Nobel I*, 2007 E.C.R. II-03523, EUR-Lex CELEX 62003TJ0125; Lista M. Cannon, *Comparative Approaches to the Attorney-Client Privilege in the U.S., Canada, U.K. and E.U.*, 8 SEDONA CONF. J. 125 (2007).

129. See *supra* text accompanying notes 40-42.

B. THE UNITED STATES APPROACH: IN-HOUSE COUNSEL AND PRIVILEGED COMMUNICATIONS¹³⁰

Both in-house and outside counsel are considered privilege-eligible attorneys in the United States.¹³¹ Neither state nor federal law distinguishes between them when assessing whether a corporation's communications are privileged. Unlike the EU's *Akzo Nobel* decision, a lawyer's independence from his corporate employer is not a feature of U.S. law.

This equivalence of in-house and outside counsel is a long-standing supposition. Note the discussion from *United States v. United Shoe Machinery*, a leading corporate privilege case from the mid-twentieth century:¹³²

On the record as it now stands, the apparent factual differences between these house counsel and outside counsel are that the former are paid annual salaries, occupy offices in the corporation's buildings and are employees rather than independent contractors. These are not sufficient differences to distinguish the two types of counsel for purposes of the attorney-client privilege. And this is apparent when attention is paid to the realities of modern corporate law practice. The type of service performed by house counsel is substantially like that performed by many members of the large urban law firms. This distinction is chiefly that the house counsel gives advice to one regular client, the outside counsel to several regular clients.¹³³

Nonetheless, operational differences between in-house and outside counsel affect the application of privilege law. First, merely because a lawyer is employed by a corporation does not make his communications privilege-eligible.¹³⁴ A lawyer-employee may work in a number of corporate capacities, *e.g.*, regional manager or personnel director that do not involve providing the company with legal advice. In this event, the lawyer would be considered as a business executive for privilege purposes because that is the reality of his corporate role. His communications would be treated the same as any other executive's.

But even lawyer-legal adviser communications (those of in-house counsel) are more strictly scrutinized than outside counsel's.¹³⁵ The concern is that, in practice, in-house counsel may communicate about a number of activities, even though his formal corporate position is to provide legal advice.

130. For a more thorough discussion, see GERGACZ, *supra* note 5, § 3:18-3:21.

131. *In re Echostar Comm'n Corp.*, 448 F.3d 1294, 1229 (Fed. Cir. 2006) (merely because in-house counsel conducted the investigation did not make the opinions less legal than if the investigation had been conducted by outside counsel); *Allstate Ins. Co. v. Herron*, 393 F. Supp.2d 948, 956 (D. Alaska 2005) (privilege applies with equal force for both in-house and outside counsel); *Premiere Digital Access, Inc. v. Cent. Tel. Co.*, 360 F. Supp. 2d 1168 (D. Nev. 2005) (in-house counsel is an attorney under the attorney-client privilege); *Ferko v. Nat'l Ass'n for Stock Car Auto Racing, Inc.*, 218 F.R.D. 125, 139 n.13 (E.D. Tex. 2003) ("An attorney's status as in-house counsel neither dilutes nor waives the privilege.").

132. *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 358-59 (D. Mass. 1950).

133. *Id.* at 360.

134. *Springfield v. Rexnord Corp.*, 196 F.R.D. 7, 9 (D. Mass. 2000) ("However, an in-house lawyer may wear several hats (*e.g.* business advisor, financial consultant) and because the distinctions are often hard to draw, the invocation of the attorney-client privilege may be questionable in many instances."); see generally GERGACZ, *supra* note 5, § 3:19-3:20.

135. *Lugosch v. Congel*, Civ. 1:00-CV-0784, 2006 WL 931687 (N.D.N.Y. Mar. 7, 2006) (Mag. Op.) (nature of in-house counsel role may blur business and legal functions, thus complicating privilege evaluations); see generally GERGACZ, *supra* note 5, § 3:19.

Courts are wary of inadvertently extending privilege confidentiality too far and, thus, protect business-oriented communications in which in-house counsel participates.¹³⁶ Consequently, all other things equal, a corporation's communications with outside counsel are somewhat more likely to be found privileged than those held with in-house counsel.

Rossi v. Blue Cross outlined the reasons for this heightened scrutiny of in-house counsel communications:¹³⁷

Unlike the situation where a client individually engages a lawyer in a particular matter, staff attorneys may serve as company officers, with mixed business-legal responsibility; whether or not officers, their day-to-day involvement in their employers' affairs may blur the line between legal and non-legal communications; and their advice may originate not in response to the client's consultation about a particular problem but with them, as part of an ongoing, permanent relationship with the organization. In that the privilege obstructs the truth-finding process and its scope is limited to that which is necessary to achieve its purpose, the need to apply it cautiously and narrowly is heightened in the case of corporate staff counsel, lest the mere participation of an attorney be used to seal off disclosure.¹³⁸

But even with the heightened scrutiny, in-house counsels are still considered lawyers for privilege purposes to the same extent as outside counsel. The difference in the privilege's application focuses on categorizing the topic of the communication—legal advice or business—rather than the status of the communicator.

1. *In-House Counsel and Bar Membership: Different Approaches and an Evaluation*

Bar membership distinguishes a lawyer from a person who is merely legally trained. It is a prerequisite for practicing law and is also an element required for establishing attorney-client privilege.¹³⁹ Thus, one would expect that corporate communications with an in-house counsel who lacks bar membership would be discoverable.

But the analysis is not so straightforward. Although the precedent is thin, two approaches may be noted.¹⁴⁰ One uses bar membership as a threshold requirement for attorney status under the privilege. The other provides a more flexible approach.

a. Bar Membership as a Threshold Requirement

Consider *Financial Technologies v. Smith* in which a corporation's privilege claim was rejected.¹⁴¹ A corporation's general counsel was a law school graduate who had passed the bar exam.¹⁴² But he had never submitted the paperwork for bar membership.¹⁴³ The court considered it of no consequence that the attorney had the attributes of a "lawyer" or

136. See generally GERGACZ, *supra* note 5 § 3:19; *Rossi v. Blue Cross*, 540 N.E.2d 703 (N.Y. 1989).

137. *Rossi*, 540 N.E.2d at 705.

138. *Id.* at 706.

139. *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 358-59 (D. Mass. 1950).

140. See generally GERGACZ, *supra* note 5, § 3:21.

141. *Fin. Techns. Int'l., Inc. v. Smith*, No. 99 Civ. 9351, 2000 WL 1855131, at *1 (S.D.N.Y. 2000).

142. *Id.* at *3.

143. *Id.* at *6.

that the corporation hired him to do legal work.¹⁴⁴ Bar membership was deemed an essential element of the attorney-client privilege.¹⁴⁵ Attorneys who were not admitted to a bar were thus not privilege-eligible ones.¹⁴⁶ Almost-a-bar-member was not enough.¹⁴⁷

Further, the corporation's reliance argument was also rejected. The corporation asserted that it assumed the general counsel had been admitted to the bar.¹⁴⁸ Nothing suggested otherwise and, thus, it argued, the privilege should not be denied merely because of the attorney's oversight. In response, the court noted that the corporation never conducted a credentials check.¹⁴⁹ The check would not have been arduous.¹⁵⁰ Background checks are routinely conducted by corporations. Failure to do one here undermined any reliance argument.¹⁵¹

b. Bar Membership as a Flexible Standard

By way of contrast, *Gucci v. Guess, Inc.* used a less exacting approach.¹⁵² In-house counsel bar membership was neither deemed a prerequisite for privileged attorney-client communications nor were corporations who failed to perform a credentials check denied reasonable reliance.¹⁵³ Instead, reasonable reliance could be established based on any number of factors.¹⁵⁴ Hence, the privilege bar membership element was not considered a condition that an attorney must fulfill. Instead, it was construed as client-oriented, focusing on a corporation's faith in its in-house counsel's credentials.¹⁵⁵

In *Gucci*, the in-house counsel had been admitted to a state bar, but at the time of the communication, was on inactive status.¹⁵⁶ Consequently, he was not authorized to practice law. In addition, the corporation never did a credentials check.¹⁵⁷ Nonetheless, the court noted several factors supporting Gucci's reasonable reliance.¹⁵⁸

First, the attorney had been admitted to the bar.¹⁵⁹ It was his status as "inactive" rather than "active" that was the concern. Such a distinction was considered too fine a one to make. It would impose a burdensome documentation requirement on corporations who would need to affirm "active" status before each in-house counsel contact in order to preserve the privilege.¹⁶⁰ Second, Gucci's in-house counsel had the attributes of a lawyer: law school graduate, hired as in-house counsel.¹⁶¹ He provided only legal services to the

144. *See id.* at *5.

145. *Id.* at *6.

146. *Id.* at *5.

147. *Id.* at *3.

148. *Id.* at *3, *6.

149. *Id.* at *6.

150. *Id.*

151. *Id.* at *6-*7.

152. *See generally* *Gucci America, Inc. v. Guess?, Inc.*, No. 09 Civ. 4373, 2011 WL 9375, at *6 (S.D.N.Y. Jan. 3, 2011); *see also* *Freeman v. Indian Spring Land Co.*, 2007 WL 127699 (Conn. Super. Ct. 2007).

153. *Gucci*, 2011 WL 9375, at *5-*6.

154. *See id.*

155. *Id.* at *5-*6.

156. *Id.* at *2.

157. *Id.*

158. *Id.* at *5-*6.

159. *Id.* at *4.

160. *Id.* at *6.

161. *Id.*

corporation.¹⁶² Thus, their day-to-day interactions were as corporate client and lawyer. Third, the corporation paid the attorney's bar membership fees in past years.¹⁶³ Thus, the corporation had confirmation of its counsel's bar admission. Fourth, the corporation should not lose its privilege merely because its in-house counsel neglected to retain active bar membership status, even though that meant he was not authorized to practice law.¹⁶⁴ Protecting confidential corporate communications was a more important interest than validating the attorney's credentials.

c. Reconciling the Strict and Flexible Approaches of In-House Counsel Bar Membership

Although the *Gucci* court rejected the approach taken in *Financial Technologies*, the cases may be reconciled.¹⁶⁵ In *Financial Technologies*, the attorney was never admitted to a bar,¹⁶⁶ while in *Gucci*, in-house counsel had crossed that threshold.¹⁶⁷ Therein lays the distinction between their approaches.

Financial Technologies's strict approach may be described as a first level test, arising only if the attorney had never been admitted to a bar. Such a communicator provided information as a layman. Neither his corporate-defined job, as in-house counsel, nor the contents of the communication is determinative. "Attorney" is a status conveyed by a third party, the bar.¹⁶⁸ Thus, bar admission is not a mere formality but instead is a straightforward, inextricable attribute of "attorney." After all, an accountant may be assigned to a corporation's legal department and may provide expert tax law advice.¹⁶⁹ But the accountant will not be considered an "attorney" as a result.

This analysis readily explains the court's rejection of the corporation's reasonable reliance argument. There are no factual equivalents to bar admission that can transform a person into an attorney. Such was the case with *Financial Technologies*'s in-house counsel.

To reconcile the *Gucci* approach, consider it as a second level test. In-house counsel there had been admitted to the bar. Thus, the situation was not, as in *Financial Technologies*, a distinction between a lawyer and a layman. Instead, it was an evaluation of whether a lower-grade bar membership, "inactive" rather than "active" status, would alter in-house counsel's privilege-eligibility.

The *Gucci* opinion, in essence, deemed admission to the bar as a lasting transformation.¹⁷⁰ The lawyer is indelibly marked by it. He is no longer a layman. Note that the strict and flexible approaches agree here. *Gucci* merely takes the concept a step further.

162. *Id.*

163. *Id.*

164. *Id.* at *4.

165. *Id.* at *5 ("[I]t [*Financial Technologies* case] is, in my view, wrongly decided.").

166. *Fin. Techns. Int'l, Inc. v. Smith*, No. 99 Civ. 9351, 2000 WL 1855131, at *1 (S.D.N.Y. 2000) ("Plaintiff now concedes that Smith in fact is not a licensed attorney in New York or any other state.").

167. *Gucci America, Inc. v. Guess?, Inc.*, No. 09 Civ. 4373, 2011 WL 9375, at *2 (S.D.N.Y. Jan. 3, 2011) ("Moss voluntarily changed his California bar status to inactive, but remained a member of the California bar . . .").

168. See *Fin. Techns. Int'l, Inc.*, 2000 WL 1855131, at *1.

169. See Gergacz, *supra* note 7, at 327–28.

170. See *Gucci*, 2011 WL 9375, at *5–*6.

By way of analogy, compare *Gucci*'s bar-admitted lawyer to a baseball player who made it to the big leagues. Whether the ballplayer's career lasts twenty years or only one game, forevermore he will be seen as a major leaguer, as one set apart from the ordinary.

Consequently, absent a suspicion that something was amiss, a corporation may rely on its bar-admitted in-house counsel's "lawyer" status for privilege purposes.¹⁷¹ After all, there are no outward appearances that differentiate various levels to bar membership. In addition, the court rejected any ongoing obligation to run credentials checks.¹⁷² So for *Gucci*'s in-house counsel, once a lawyer, always a lawyer.

Nonetheless, neither the *Financial Technologies* nor the *Gucci* approach nor their suggested reconciliation provides a satisfactory understanding of the relationship between in-house counsel, bar membership, and privileged corporate communications. In this regard, the *Akzo Nobel* decision, discussed earlier, also fell short.¹⁷³ Although the U.S. and EU judicial opinions provided helpful insight, each would have benefitted from a spoonful of wisdom from their overseas counterparts.

IV. A Proposed Harmonization Between the United States and EU: In-House Counsel, Bar Membership, and Privileged Corporate Communications

U.S. and EU laws are incompatible concerning the privilege eligibility of in-house counsel. The United States makes no distinction among in-house and outside counsel.¹⁷⁴ In fact, if the *Gucci* approach portends a trend, the link between an in-house counsel's bar membership and privilege eligibility may melt away.¹⁷⁵ Such a turn of events would expand the scope of corporate privilege to cover communications with legally-trained in-house employees rather than limiting them to those licensed to practice law. Even nudging the law in this direction, as *Gucci* does, is misguided.

By way of contrast, the EU only extends privilege-eligibility to outside counsel.¹⁷⁶ In-house counsels were deemed bound to their corporate employers, in part because of a personal identification with the organization, its policies, and strategies.¹⁷⁷ Ironically, this dependence was furthered by the *Akzo Nobel* decision.¹⁷⁸ By relegating in-house counsel to second-class lawyer status, *Akzo Nobel* strengthened their ties to the corporation for whom they work and diminished those they would have had with the profession they serve.¹⁷⁹ Evaluating bar-admitted counsel this way is inappropriate.

Nonetheless, aspects of both the U.S. and EU approaches are salutary. In the United States, the best feature is the equivalence of in-house and outside counsel. In the EU, the concept of counsel independence is noteworthy.

171. *Id.* at *5.

172. *Id.* at *6.

173. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007J0550, ¶¶ 69–74; see *supra* text accompanying notes 20–37.

174. See generally GERGACZ, *supra* note 5, § 3:18.

175. *Gucci*, 2011 WL 9375, at *5–6.

176. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 607J0550, ¶ 44.

177. *Id.* ¶ 53.

178. *Id.* ¶ 49.

179. *Id.* ¶ 53.

The proposed harmonization combines these two factors. In addition, it serves three objectives. First, the proposed harmonization is easy to apply. Second, it advances the policies underlying the attorney-client privilege. Third, it recognizes the unique relationship between in-house counsel and corporate client.

A. THE PROPOSAL: IN-HOUSE COUNSEL IS QUALIFIED TO CONDUCT PRIVILEGED COMMUNICATIONS WITH HIS CORPORATE CLIENT IF HE HAS BEEN ADMITTED TO THE BAR AND HAS A BAR MEMBERSHIP STATUS, AT THE TIME OF THE COMMUNICATION THAT PERMITS HIM TO PRACTICE LAW

1. *First Objective: The Proposal Is Easy to Apply*

Determining whether an in-house counsel's communications are subject to the attorney-client privilege should be an uncomplicated undertaking. Privilege is a rule of evidence.¹⁸⁰ Its basic elements should not be so refined as to require considerable judicial time to apply. Ideally, attorney-client privilege issues should not add complexity to the matter at hand—say, application of antitrust law—underlying the parties' dispute. Privilege should remain subordinate, even, at best, be self-executing.

Consequently, disputes over privilege law principles that require court intervention add cost and delay, which can impede justice by favoring the more well-heeled and patient party. This should be avoided. Further, when communications are first undertaken, clear, easy-to-understand privilege rules enhance the predictability that the in-house counsel-corporate client communications will remain confidential.

The proposal's active bar membership requirement meets this objective. Bar status can readily be checked. There is no need for judicial intervention. One is either listed on the bar roles or not. In addition, corporate clients can know with certainty whether their in-house counsel qualifies, thus enhancing predictability.

Interestingly enough, the EU's *Akzo Nobel* decision fulfills this objective too.¹⁸¹ Holding that in-house counsel are not privilege-qualified irrespective of bar membership is even easier and less costly to apply than the proposal's requirement.¹⁸² Although the EU's approach is not favored, it does make the evidentiary effect of corporate communications with in-house counsel clear.

On the other hand, the *Gucci* approach goes in the opposite direction.¹⁸³ The court was understandably concerned that the corporate client may suffer the consequences of its in-house counsel's lapse.

But the court's nuanced "reasonable reliance" holding invites more disputes and cost if similar situations emerge. For example, if unlike *Gucci*, XYZ, Inc. had never paid its in-house counsel's bar fees, could there be reasonable reliance? Or, perhaps, if in-house counsel had resigned from the bar rather than taken inactive status, could XYZ, Inc. still reasonably rely?

180. See, e.g., FED. R. EVID. 502.

181. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶ 44.

182. *Id.* ¶ 72.

183. *Gucci America, Inc. v. Guess?, Inc.*, No. 09 Civ. 4373, 2011 WL 9375, at *5-*6 (S.D.N.Y. Jan. 3, 2011).

The proposal's simpler approach makes the adversarial system work more efficiently and effectively. Justice is enhanced by reducing the friction that cost and delay imposes.

2. *Second Objective: The Proposal Furthers Privilege Policies*

The elements of attorney-client privilege should not be construed to frustrate the policies the rule was designed to foster. An overly narrow construction would undermine corporate client and attorney interaction. If too few exchanges are protected, client candor will diminish.¹⁸⁴ Consequently, the privilege's aim to further competent legal advice, thereby promoting justice, will be compromised.

On the other hand, if the privilege elements are interpreted too broadly, information that should be discoverable will instead remain confidential. Courts would, thus, render decisions based on an incomplete or skewed factual record. Justice will not be served here either.

A proper construction of the privilege elements threads the needle. It keeps enough attorney-client communications confidential to encourage candor. But it guards against expanding the confidentiality cloak to thwart just decisions from being rendered.

The proposal's active bar membership requirement strikes the appropriate balance. The proposal incorporates the "attorney" status as granted by the state through its bar regulations, rather than constructs its own stratification among these attorneys: some privilege eligible, others not. Thus, privilege eligibility is considered an attribute of active bar membership. If a person possesses this formal attorney status, then privileged communications may be conducted.

In the United States, there are no bar membership strata for in-house versus outside counsel.¹⁸⁵ Consequently, either one holding active status will be privilege-eligible.¹⁸⁶ Those communicators without the credentials may neither practice law nor conduct privileged communications.

The proposal will work in the EU as well, even though not all Member States grant the same bar credentials to in-house and outside counsel. Where they are treated the same, privileged communications will arise no differently if the attorney is employed by a corporate client or if he has a private practice. But in Member States where in-house counsel is on a lesser grade than outside counsel, privilege will be limited to those authorized to practice law.¹⁸⁷ Under the proposal, corporate clients will have confidence that whoever the state licenses as an "attorney" will not be reduced in rank because of a separate analysis conducted under EU privilege law.

Without the proposal's fixed definition, corporate clients will be unsure whether the "attorney" they are communicating with will be deemed privilege-eligible. Candor will be adversely affected. This was the *Akzo Nobel* scenario where the European Court of Justice restricted corporate privilege to communications with outside counsel.¹⁸⁸ The bar licensing authority in the Netherlands had made no such distinction.¹⁸⁹

184. See *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 358-59 (D. Mass. 1950).

185. See, *supra* Part III.B.

186. See *id.*

187. See *supra* notes 38-42 and accompanying text.

188. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶ 44.

189. See *supra* note 39 and accompanying text.

In addition, privilege status conferred on those not licensed to practice law expands the confidentiality protection beyond what the rule contemplates. *Gucci*'s client-oriented reliance test for privilege eligible attorneys did just that.¹⁹⁰ Consequently, the trier-of-fact was denied information that perhaps could alter its final decision.

The *Gucci* and *Akzo Nobel* decisions, by creating "privilege attorneys" different from those a state had admitted to practice, altered the contours of the privilege doctrine. The policy balance was thereby changed. The proposal is preferable to either approach.

3. *Third Objective: Take Into Account the In-House Counsel-Corporation Relationship*

The relationship between in-house counsel and their corporate client-employers is not the same as outside counsel's with their corporate clients. Although either situated lawyer may provide a corporation with legal advice, in-house counsel has another role, too, that of an employee.

As a corporate employee, in-house counsel has the same attributes as any other employee. He is a salary-earner. The time of work and the place is set by the employer. Corporate protocol may be imposed to regulate how the work is processed. In addition, the in-house counsel-employee belongs to the corporate client's organization. He is part of the structure. His role merges with the other employees' to form the intangible corporate whole. Although the legal department may be located in a different suite than, say, marketing, everyone is on the same team.

Application of the privilege should take this in-house counsel duality into account, remaining mindful not to overemphasize either the employee or the lawyer roles. Magnifying in-house counsel's employee attributes, as occurred in *Akzo Nobel*, equates counsel with any other corporate employee.¹⁹¹ This is a mischaracterization and inappropriately limits the scope of privileged corporate communications.

On the other hand, losing sight of in-house counsel's employee role, as in *Gucci*, too readily qualifies in-house counsel as a privilege communicator.¹⁹² This, too, is a mischaracterization.

The proposal overcomes these problems by requiring the privilege-qualified, in-house counsel to be active status bar members. The proposal separates the in-house counsel/lawyer from an in-house counsel/employee for privilege purposes. Its foundation is the "independence" concept, applied in *Akzo Nobel*.¹⁹³ But the proposal provides a different take. Rather than independence from the corporate employer as in *Akzo Nobel*, here, the in-house counsel/lawyer must be independent of an in-house counsel/employee.¹⁹⁴

This independence occurs in two ways: through professional independence and through an expressive independence. Bar membership provides the professional independence. The in-house counsel/lawyer can only practice law by possessing this credential. He,

190. See *supra* Part III.B.1.b.

191. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶ 53.

192. *Gucci America, Inc. v. Guess?, Inc.*, No. 09 Civ. 4373, 2011 WL 9375, at *5-*6 (S.D.N.Y. Jan. 3, 2011).

193. The test, as discussed earlier, was derived from the *AM & S Europe* case. See *supra* text accompanying notes 16-19 (*AM & S Europe* formulation) and notes 20-37 (application of the "independence" test in *Akzo Nobel*). See also *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶ 44.

194. *Akzo Nobel II*, 2010 E.C.R. 00000, EUR-Lex CELEX 62007CJ055, ¶ 44.

thereby, owes duties to the legal system apart from any employee-duties owed to the corporate employer.

In addition, the in-house counsel/lawyer, by retaining active status within the bar proclaims himself as a lawyer rather than merely a legally-trained corporate employee. He casts himself as a member of the legal profession—something singular and apart from any employment relationship he may have.

These features of the proposal's active bar membership requirement align the privilege's lawyer-as-communicator element with the nature of the in-house counsel and corporation relationship. Thus, it provides a better tailored result than the *Gucci* or *Akzo Nobel* approaches.

V. Conclusion

Whether in-house counsel may conduct privileged communications with their corporate employers is evaluated differently under EU law than in the United States. The EU's *Akzo Nobel* decision, applying legal professional privilege, precluded in-house counsel's participation because they are not independent of their corporate employers.¹⁹⁵ The United States, under attorney-client privilege, makes no such exclusion.¹⁹⁶ In fact, the Southern District of New York's *Gucci* decision moved further by finding that in-house counsel who was not authorized to practice law was a "lawyer" under the privilege.¹⁹⁷

This article analyzed the EU and U.S. approaches and critiqued the *Akzo Nobel* and *Gucci* decisions. Both rulings were found wanting. Consequently, proposals were made—specific to each jurisdiction—that would remedy the adverse implications of *Akzo Nobel* in the EU and *Gucci* in the United States.

For the EU, a statutory solution was offered. If the proposal is enacted, certain in-house counsel would be as able to conduct privileged communications as their private practice counterparts. The suggested statute aims to limit the role of the privilege in defining lawyer status. Instead, the station of "lawyer" would be wholly determined by the laws of each Member State. Thus, if a Member State equates in-house and outside counsel as "lawyers," so should the EU, under its legal professional privilege.

In the United States, this article argued that the *Gucci* approach risked over-expanding the privilege. As a result, a circumscribed reading of the case was offered that reigned in its rather broad language on in-house counsel and bar membership. In so doing, the *Gucci* precedent would be limited to assessing in-house counsel's level of bar membership (*e.g.*, active versus inactive status) on the privilege rather than its absence.

In addition, this article could not restrain itself from a grander undertaking: the harmonization of the current EU and U.S. approaches. Irrespective of whether EU or U.S. law may be later applicable, at the time of the communication a corporation should be able to predict which of its lawyers will be deemed privilege-eligible.

This proposed harmonization drew from both EU and U.S. law. It provided that in-house counsel would be privilege-eligible if they are active status bar members at the time of the communication. The approach aimed to be clear-cut rather than flexible, support

195. *Id.*

196. See generally GERGACZ, *supra* note 5, § 3:18.

197. *Gucci*, 2011 WL 9375, at *4.

the policies underlying the protection of privileged communications and take note of the unique in-house counsel and corporate-employer relationship.