

## Extraterritorial jurisdiction vis-à-vis sovereignty in tackling transnational counterfeits: between a rock and a hard place

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# **Extraterritorial Jurisdiction *vis-à-vis* Sovereignty In Tackling Transnational Counterfeits: Between a Rock and a Hard Place?**

## **Abstract**

Transnational counterfeiting has grown tremendously with the increasing interdependence of global economy. The process of illicit financial flow has outpaced the growth of mechanisms for global governance, and the resultant deficiency produces regulation vacuum where the cross-border crime can thrive. It is very necessary to consider the effect of service process of foreign defendants getting evidence. As illustrated in Gucci's case, the U.S. court face great challenges to address extraterritorial jurisdiction. In the context of extraterritorial discovery, it remains unresolved how to prioritise competing jurisdictional claims. Remediation is compromised due largely to sensitivities over national sovereignty. The broad interpretation of sovereignty makes Bank of China (BoC) operate behind a firewall that keeps it immune from the jurisdiction of U.S. courts, leaving the brand owners vulnerable. A deadlock arises between proper exercise of extraterritoriality and critical response to the current increasingly complex cross-border counterfeiting. At stake are fundamental questions of conflict of laws. A valid nexus is indispensable to justify a U.S. court in applying the Federal Rules of Civil Procedure (FRCP) 45. Given the unviable course of action via the Hague Conventions, it is argued that greater legal protections for U.S. entities via subpoenas are a more feasible solution. In response to the global challenge, more multipronged approaches should be adopted to combat the transnational counterfeiting crime.

## **Introduction**

Counterfeiting undermines international values to the detriment of international order.<sup>1</sup> The cross-border infringement erodes brand holders' credibility. Banks are often abused by counterfeiters to launder their illicit profits into legitimate funds. Access to their banking information plays a key role at the stage of pretrial discovery.<sup>2</sup> The combat against counterfeiting has to be conducted on an international scale. A valid nexus turns out to be the prerequisite for a U.S. court to assert jurisdiction with due process. The scenario becomes more complicated when Bank of China (BoC) only operates through its New York branches. Banks are often required to submit to the jurisdiction of U.S. courts as nonparties. In reality, a U.S. plaintiff in cross-border counterfeiting litigation faces an insurmountable hurdle when attempting to gather discovery from China. In the case of *Gucci*, the Bank of China (BoC) has been involved in concealing illicit operations from counterfeiting. Gucci has been struggling to enforce its rights against counterfeiters because they exploit China's sophisticated legal fire walls. This obstacle is reinforced by China's sensitivity over sovereignty.<sup>3</sup> The use of Hague Convention to pursue counterfeiters in China results always in unviability due to the

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<sup>1</sup> Neil Boister, 'Transnational Criminal Law?' (2003) 14 *European Journal of International Law* 953, 976

<sup>2</sup> Aaron Simowitz, 'Transactional Enforcement Discovery' (2015) 83 (6) *Fordham Law Review* 3293, 3342 at 3304

<sup>3</sup> Phil Williams, 'Transnational Organized Crime, Illicit Markets, and Money Laundering' in P. J Simmons and Chantel Ouderen, *Challenges in International Governance* (Washington, Carnegie Endowment, 2001) 106-150 at 144

institutional void. The BoC has tested the local legal system's extraterritorial reach, specifically how far judges can go in demanding Chinese bank account records.<sup>4</sup> Given the ostensible futility, brand holders have to resort to U.S. subpoenas for discovery. The *Gucci* case reflects the challenges those plaintiffs faced while they sought legal redress against alleged Chinese counterfeiters, which gets them stuck in legal limbo.<sup>5</sup>

This paper examines avenues to extraterritorial discovery in such a rapidly changing landscape of transnational litigation and whether brand owners could gain relief under the Federal Rules of Civil Procedure 45 (FRCP 45). It seeks to fill the gap in the significant but underdeveloped area. The paper proceeds in six parts. Part I examines that whether jurisdiction can be exerted on BoC depends upon not only the scope of the New York's jurisdictional statutes, but also safeguards provided by the due process clauses of the U.S. Constitution.<sup>6</sup> It starts with jurisdictional analysis in the *Daimler* case which suggests limits on plaintiffs' ability to invoke the FRCP 45 discovery. In addition, the classical doctrine of separate legal entity amplified in *Motorola* appears to shield foreign financial institutions from exposure to U.S. jurisdictions. The BoC in *Gucci* took tactically advantage of a multinational corporate structure and the shroud of Chinese State Secrecy Law. This part paves the way for addressing extraterritorial jurisdiction, which conflicts with the Chinese law restricting discovery. Part II moves to the reasonableness prong of the personal jurisdiction to explore avenues where a plaintiff could pursue legal recourse against counterfeiters. This part ascertains which avenue is more reasonably attainable and which state's interests prevail to entail its law applicable. The approach must be compatible with the due diligence consideration. Part III examines the Second Circuit's decision that a general jurisdiction does not exist due to insufficient contact. It then looks into circumstances where nexus is sufficient to permit extraterritorial discovery for the sake of expediting the pretrial procedures. Part IV analyses the doctrine of comity as the governing standard in resolving the extraterritorial recovery cases. It further adopts a multifactor balancing test to ascertain when a court may assert jurisdiction. Part V analyses the classical issue of sovereignty that is particularly sensitive in China. In respect of obstacles to secure discovery, the crux is how judges exercise their discretion and how to alleviate inconsistent decisions among U.S. courts. To alleviate inconsistent decisions, the court's discretion is at stake when foreign law forbids the discovery. This part examines whether a real situation exists between a rock and hard place, which plausibly represents a weighty excuse for nonproduction. Part VI proposes to address the current uncertainties by placing these challenges in a context of global governance. The theory of consent via registration represents one of the most controversial debates. It then seeks to mitigate the deadlock risk in order to avoid the exposure to subpoenas for extraterritorial discovery. The resulting legal landscape should be the law which can provide more certainty and predictability. The concluding part follows in the final part of this study.

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<sup>4</sup> Nicole Hong and Lingling Wei, 'China's Banks Test U.S. Legal System' *The Wall Street Journal* (8 November 2015)

<sup>5</sup> Kim Ross, 'Gucci, Tiffany Up Against China's Great Legal Firewall' *The Style of the Case* (12 May 2015)

<sup>6</sup> Lea Brilmayer and Charles Norchi, 'Federal Extraterritoriality and Fifth Amendment Due Process' (1992) 105 *Harvard Law Review* 1217, 1263

## A. The Jurisdictional Reach

The concept of jurisdiction plays a key role in the legal scenario of extraterritorial discovery.<sup>7</sup> In the first instance, a U.S. court normally consider whether the due process clause entails jurisdiction under the U.S. Constitution.<sup>8</sup> Another basis to justify the assertion of jurisdiction rests with a valid nexus.<sup>9</sup> The power of U.S. courts to order compliance with subpoenas has remained hotly-debated since the case of *Daimler*,<sup>10</sup> which restricts jurisdiction over foreign corporations. The decision in *Motorola* further impedes the plaintiff from foreign discovery based on the seminal doctrine of separate legal entity.<sup>11</sup> A general trend has been the narrowing of U.S. personal jurisdiction standards.<sup>12</sup>

### 1. *Daimler AG v. Bauman*: “At Home” Test

Plaintiffs face increased barrier when seeking to sue foreign financial institutions on the ground of extraterritoriality. The law governing the assertion of personal jurisdiction has been changing dramatically. The Supreme Court in *Daimler* invoked the Due Process clause of the U.S. Constitution to dismiss the case due to the lack of personal jurisdiction over Daimler.<sup>13</sup> Previously, general jurisdiction could be established if a defendant was engaged in continuous, permanent and substantial activity in New York.<sup>14</sup> The Supreme Court in *Daimler* has substantially altered the analytic landscape for general jurisdiction,<sup>15</sup> which has simplified the test and set forth a strict standard. It held that a forum State may not exercise general jurisdiction unless the foreign entity is “at home”.<sup>16</sup> As redefined, an entity to be “at home” refers usually to the defendant’s place of incorporation or principle place of operation.<sup>17</sup> It follows that the foreign entities’ “affiliations with the State must engage in ‘a substantial, continuous and systematic’ course of business as to render it essentially at home in the forum State”.<sup>18</sup> The “essentially at home” test provides a level of certinty previously unavailable to foreign defendants. For the first time the *Daimler* case addressed the question whether, “a foreign corporation may be subjected to a court's general jurisdiction based on the contacts of

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<sup>7</sup>Anthony Colangelo, ‘Constitutional Limits on Extraterritorial Jurisdiction: Terrorism and the Intersection of National and International Law’ (2007) 48 Harvard International Law Journal 121, 201 at 126

<sup>8</sup> The Due Process clauses of the U.S. Constitution's Fifth Amendment (applicable to the federal Government) and Fourteenth Amendment (applicable to the States) each prohibit the deprivation of "life, liberty, or property" without "due process of law."

<sup>9</sup> Restatement (Third) of the Foreign Relations Law of the United States (1987) s402 (1) -(2)

<sup>10</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746 (2014)

<sup>11</sup> *Motorola Credit Corporation v Standard Chartered Bank*, No. 162 (N.Y. Oct. 23, 2014)

<sup>12</sup> Ray Worthy Campbell and Ellen Claar Campbell, ‘Clash of Systems: Discovery in U.S. Litigation Involving Chinese Defendants’ (2016) 4 (2) Peking University Transnational Law Review 129, 175

<sup>13</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746 (2014) at 751

<sup>14</sup> *Wiwa v. Royal Dutch Petroleum Co.*, 226 F.3d 88, 95 (2d Cir. 2000)

<sup>15</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746, 760-761 (2014)

<sup>16</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746 (2014)

<sup>17</sup> 28 U.S.C. § 1332(c)(1) (2013) “A corporation shall be deemed to be a citizen of every State and foreign state by which it has been incorporated and of the State or foreign state where it has its principal place of business.”; *Daimler AG v. Bauman*, 134 S. Ct. 746 (2014)

<sup>18</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746, 760-761 (2014); *Goodyear Dunlop Tires Operations, S.A. v. Brown*, 131 S.Ct. 2846, 2851 (2011); General jurisdiction, under which a company or person may be sued for any claim, even one unrelated to its activities in the forum state, is distinguished from specific jurisdiction, under which a company or person only may be sued for claims that arise from purposeful contacts with the forum state; Council Regulation 44/2001, art. 60(1), 2001 O.J. (L 12) 1, 13 (EC) defines similarly to the concept of “at home”, which denotes a place where a legal entity has its “(i) statutory seat, or (ii) central administration, or (iii) principal place of business”.

its in-state subsidiary”.<sup>19</sup> However, it is ostensibly hard to reconcile the reasoning that general jurisdiction should be construed narrowly. The presence of a branch in the U.S. *per se* is not sufficient to establish personal jurisdiction over an entity which involved conduct that has taken place abroad. As Flitter commented, New York branches cannot be used as conduits to export U.S. law.<sup>20</sup> The precedent limits the ability of plaintiffs to obtain foreign discovery for documents located abroad. Notwithstanding the decision, the *Daimler* case leaves it open regarding a plaintiff’s ability to assert jurisdiction over a corporate parent on the basis of an agency theory and its subsidiaries’ contacts with a state.<sup>21</sup>

## 2. Does the separate legal entity rule impede discovery?

The doctrine of the separate legal entity may be used to bar extraterritorial discovery sought by U.S. litigants. A foreign bank’s New York branch could hide behind complex corporate structures. It is at stake whether the "separate entity" doctrine bars the court from compelling a bank's New York branch to produce information pertaining to its overseas entities. The Court of Appeals in *Koehler* ordered a foreign bank to turn over in New York assets held abroad, which seems to have abrogated the doctrine of separate entity.<sup>22</sup> Nevertheless, it was held differently in another court that the doctrine impedes extraterritorial discovery concerning assets located overseas.<sup>23</sup> As a critical part of New York law, the *Motorola* case unambiguously reaffirms the continued validity of the doctrine.<sup>24</sup> On 23 October 2014, the court held that a “judgment creditor’s service of a restraining notice on a bank’s New York branch is ineffective to freeze assets located in the bank’s foreign branches.”<sup>25</sup> It meant that the bank’s other branches shall be deemed separate entities. The freezing order served on the bank’s New York branch does not reach accounts held in another country.

The decision significantly weakens the ability of plaintiffs to establish jurisdiction over a parent corporation through the operations of its subsidiary. In consequence, a U.S. plaintiff will have to gain recognition of a freezing order in the jurisdiction where the account is located. The *Motorola* decision represents a blow to those attempting to use New York Court for subpoenas. It raises an issue as to whether the decision blocks litigants from serving discovery on a firm’s New York branch seeking documents in the possession, custody or control of its overseas branch.<sup>26</sup> The application of the doctrine in the context of discovery would be consistent with the goal of promoting comity between legal systems, which was not only articulated by the *Motorola* Court but also supported in other Supreme Court decisions.<sup>27</sup> A presumption is often invoked against extraterritoriality by the court, that is, absent a congressional intent to the contrary, statutes are to be construed as having no extraterritorial effect.<sup>28</sup> These precedents highlight the ever-increasing declination of U.S. courts to allow the extraterritorial reach of its domestic laws. This limits the extent to which foreign banks that maintain offices in a forum state are subjected to routine requests for extraterritorial discovery. The parties will be required

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<sup>19</sup> *Daimler AG v. Bauman*, 134 S. Ct. 759 (2014)

<sup>20</sup> Emily Flitter, ‘Gucci, Tiffany Target Chinese Banks’ *Reuters* (4 October 2011)

<sup>21</sup> *Daimler AG v. Bauman*, 134 S. Ct. 763 (2014)

<sup>22</sup> *Koehler v. Bank of Bermuda Ltd.*, 12 N.Y.3d 533 (2009)

<sup>23</sup> *Ayyash v. Kolelat*, No. 151471/2012 (1st Dept. March 11, 2014)

<sup>24</sup> *Motorola Credit Corporation v Standard Chartered Bank*, No. 162 (N.Y. Oct. 23, 2014)

<sup>25</sup> *Motorola Credit Corporation v Standard Chartered Bank*, No. 162 (N.Y. Oct. 23, 2014)

<sup>26</sup> FRCP 45(a)(1)(A)(iii)

<sup>27</sup> *Bauman v. Daimler*, U.S., 134 S. Ct. 746 (2014); *Kiobel v. Royal Dutch Petroleum*, U.S., 133 S. Ct. 1659 (2013); *Morrison v. National Australia Bank*, 561 U.S. 247 (2010)

<sup>28</sup> *Morrison v. National Australia Bank*, 561 U.S. 247 (2010); William Dodge, ‘Understanding the Presumption against Extraterritoriality’ (1998) 16 *Berkley Journal of International Law* 85, 125

more likely to resort to the Hague Convention when seeking discovery about accounts maintained abroad. In this scenario, foreign defendants will have a strong basis to challenge the court's assertion of jurisdiction, and resist such information discovery accordingly.

## **B. The Hague Convention vs. FRCP 45**

There are two legal avenues by which the courts can compel compliance with discovery, i.e. the Federal Rules of Civil Procedure 45 (FRCP 45) and the Hague Convention. The latter allows discovery that involves documents in extraterritorial actions, while the former governs the discovery process in actions brought before the U.S. federal courts. Given the plausible burden to disclose business records maintained abroad, the international community has developed mechanisms for obtaining overseas evidence. The standard international protocols are the Hague Convention on the Service Abroad of Judicial and Extra-Judicial Documents (Hague Service Convention)<sup>29</sup> and the Hague Convention on the Taking of Evidence Abroad (Hague Evidence Convention). The Convention is the governing process by which transnational discovery requests are made,<sup>30</sup> providing a legal framework for serving papers and obtaining evidence in cross-border disputes. The domestic law provides that a subpoena may “command each person to whom it is directed to produce designated documents, electronically stored information, or tangible things in that person’s possession, custody, or control.” Courts may hold in contempt any person who fails to respond to a subpoena without adequate excuse.<sup>31</sup> With China’s growing presence in the global marketplace for luxury goods, there will be a long-reaching repercussion on the application of the FRCP45. A valid nexus is indispensable to justify a U.S. court in applying the FRCP45. A debate arises which course is more viable between the Hague Convention and the FRCP 45. This study is to examine circumstances where the U.S. court can exercise extraterritorial jurisdiction to use subpoenas to compel a nonparty to provide documents located abroad.

### **1. Viability of Course of Action: Procedural Justice *vis-à-vis* Substantive Justice**

In theory, the Hague Service Convention serves as the standard method for international service of process for U.S. litigants against China-based entities.<sup>32</sup> Both China and the U.S. have signed the Hague Conventions.<sup>33</sup> Integrating the Convention into the Chinese domestic legal system, its Civil Procedure Law makes it mandatory for foreign parties to collect evidence via the Hague Convention.<sup>34</sup> In addition, the *Supreme People’s Court Interpretation on Judicial Assistance (SPC Interpretation 2013)* explicitly provides that the Hague Evidence Convention

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<sup>29</sup> Hague Conference on Private International Law, “Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters,” November 1965.

<sup>30</sup> Hague Conference on Private International Law, *Convention on the Taking of Evidence Abroad in Civil or Commercial Matters* (March 1970)

<sup>31</sup> Federal Rules of Civil Procedure 45(g)

<sup>32</sup> Hague Conference on Private International Law, ‘Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters’ (November 1965)

<sup>33</sup> Status Table, Hague Conference on Private International Law; The U.S. became a party to the Hague Convention in 1972, 23 U.S.T. 2555, T.I.A.S No. 7444; China signed the Hague Convention in 1991, which entered into force in 1992.

<[http://www.hcch.net/index\\_en.php?act=conventions.status&cid=82](http://www.hcch.net/index_en.php?act=conventions.status&cid=82)>; The Hague Evidence Convention was signed by the United States in 1970 and ratified by the Senate in 1972. China acceded to the Hague Evidence Convention on 8 December 1997, which came into effect on 6 February 1998.

<sup>34</sup> Article 261 of the Civil Procedure Law of the PRC 2013 provides that ‘in requesting or offering judicial assistance, the procedures spelled out in the international treaties signed or joined by the PRC shall be followed’.

is the method by which China will conduct evidence disclosure in foreign countries.<sup>35</sup> Arguably, it is not viable to obtain information pursuant to a Hague Convention request in China. It is problematic that there has been no concrete evidence of China's compliance with Hague Evidence Convention requests. On the contrary, the previous efforts have proved to be futile, despite the Convention's mission to provide a transnational legal framework. In this regard, the procedural safeguard does not offer a viable avenue to discovery, since China interprets its obligations under the Convention in a way that effectively protects Chinese firms from U.S. litigation.<sup>36</sup> This has resulted in many service of process and discovery requests being either delayed or denied. The futility of enforcement is a significant factor in contributing to an environment that is conducive to counterfeiting.

## 2. A Rule of First Resort?

The Hague Conference requires that first priority should be given to the Convention procedures regardless of whether a state regards such procedures as exclusive.<sup>37</sup> However, the Court in *Aerospatiale* held that the slow and unreliable Hague Evidence Convention is neither the required first resort nor the exclusive method to obtain evidence located outside of the U.S.<sup>38</sup> The decision does not reduce but exacerbate current conflicts.<sup>39</sup> Bermann argued that the court in *Aerospatiale* had failed to follow a rule of first resort to the Hague Convention for the sake of international comity.<sup>40</sup> Even so, the Ninth Circuit endorsed the *Aerospatiale* decision that so long as the documents could not "easily be obtained" through alternative means, this factor should weigh in favour of the party seeking discovery.<sup>41</sup> Paradoxically, the Hague Convention also expressly states that it is not the exclusive means to get evidence abroad.<sup>42</sup> China's weak enforcement record of Hague Convention further complicates the combat against cross-border counterfeiting, which compromises the legitimacy of the Convention. Southern District of New York has once rejected the Hague Evidence Convention as a viable means of obtaining documents from China.<sup>43</sup> Given the poor compliance, the resorting to Hague Conventions process would be "unduly time consuming and expensive, as well as less certain to produce the needed evidence than direct use of FRCP 45".<sup>44</sup> As such, subpoenas could be a possible solution to this dilemma of jurisdiction, since Hague Conventions request does not serve as a

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<sup>35</sup> The Supreme People's Court (SPC) Interpretation of on Handling Requests for Judicial Assistance in Service of Judicial Documents, Investigation and Taking of Evidence in Civil and Commercial Cases in Accordance with International Conventions and Bilateral Treaties on Judicial Assistance] (promulgated by Supreme People's Court on 7 April 2013 and effective on 2 May 2013)

<sup>36</sup> Kevin Rosier, 'China's Great Legal Firewall: Extraterritoriality of Chinese Firms in the United States' (U.S.-China Economic and Security Review Commission, 5 May 2015)

<[http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms\\_Research%20Report\\_0.pdf](http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms_Research%20Report_0.pdf)> 3

<sup>37</sup> Special Commission Report on the Operation of the Hague Service Convention and the Hague Evidence Convention, (20 April 1989, 28 I.L.M. 1564)

<sup>38</sup> *Societe Nationale Industrielle Aerospatiale v. United States Dist. Court for S. Dist. of Iowa*, 476 U.S. 1168 (1986) at 543-544

<sup>39</sup> David Gerber, 'International Discovery after *Aerospatiale*: The Quest for an Analytical Framework' (1988) 82 *American Journal of International Law* 521, 530 at 522

<sup>40</sup> George Bermann, 'The Hague Evidence Convention in the Supreme Court: A Critique of the *Aerospatiale* Decision' (1989) 63 *Tulane Law Review* 525 at 536

<sup>41</sup> *Richmark Corp. v. Timber Falling Consultants*, 937 F.2d 1444, 1449 (9th Cir. 1991)

<sup>42</sup> Hague Evidence Convention Article 27: "...b. permitting, by internal law or practice, any act provided for in this Convention to be performed upon less restrictive conditions; c. permitting, by internal law or practice, methods of taking evidence other than those provided for in this Convention."

<sup>43</sup> *Milliken & Co. v. Bank of China* 758 F. Supp. 2d 238 (S.D.N.Y. 2010)

<sup>44</sup> *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Court for S. Dist. of Iowa*, 482 U.S. 522, 544 (1987) at 542

realistic or meaningful option. In consequence, the discretionary nature in the execution of Hague Convention requests creates a loophole for counterfeiters to avoid liability.<sup>45</sup> This leaves U.S. courts in a state of uncertainty, which leads to cases being unpredictable.

### C. Uncertainty Remains-The *Gucci* Case

An uncertain issue before the U.S. Court is to address whether the Hague Convention or the FRCP 45 should be used to order evidence disclosure from nonparties. Brand holders often seek to use New York courts as a forum to enforce judgments against those foreign entities aiding and abetting counterfeiting crime. Tiffany and Gucci have launched trademark infringement lawsuits respectively in the Southern District of New York (SDNY) against multiple individuals.<sup>46</sup> The two brand holders served the Bank of China (BoC) with subpoenas under the FRCP 45, attempting presumably to seek evidence concerning the counterfeiting proceeds. The two cases illustrate contrasting decisions despite nearly the identical facts. Judge Pitman in *Tiffany* denied a motion to compel the non-party BoC to produce records from China. Nevertheless, Judge Sullivan in *Gucci* issued a different ruling requiring the bank to comply with a subpoena, and subsequently held the bank in contempt. The Second Circuit remanded the *Gucci* case so that the district court can address in the first instance whether there is any basis to exercise specific jurisdiction over the bank.

#### 1. *Gucci Am., Inc. v. Weixing Li 2011*

In June 2010, Gucci launched a trademark counterfeiting claim against owners and operators of a Chinese website selling counterfeit goods and transferring the illicit proceeds to accounts in China *via* the BoC.<sup>47</sup> The plaintiff moved to compel the nonparty BoC to comply with subpoenas requesting the foreign discovery. The question for the court to decide is whether the Hague Evidence Convention is a viable alternative to a FRCP 45 subpoena. The findings would determine whether a New York court can order the BoC to turn over bank accounts located in China.

##### (a) *Similar Facts, Similar Arguments, Inconsistent Decisions*

In *Tiffany (NJ) LLC v. Qi Andrew*, the plaintiff claimed that the defendants' customers had made payments through PayPal in U.S. dollars and that the illicit profits were transferred to the Bank of China (BoC).<sup>48</sup> The bank asserted two arguments resisting discovery:

“(i) the New York branches of the Bank “had no access to or control over any customer accounts or information located outside the U.S.”; and

(ii) complying with the subpoena would put the bank in legal limbo in China.”<sup>49</sup>

After conducting a comity analysis, Judge Pitman held that the defendants have had insufficient contact with the state forum. He then held that discovery should proceed through the Hague Convention rather than the FRCP 45.<sup>50</sup> The decision in favour of the BoC is on a plausible basis of the sanctions the BoC would face if it were to “disclose the requested information in contravention of Chinese law”.<sup>51</sup> The plaintiff was required to bear the burden of proof to

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<sup>45</sup> Minning Yu, ‘Benefit of the Doubt: Obstacles to Discovery in Claims Against Chinese Counterfeiters’ (2013) 81 (5) Fordham Law Review 2987, 3026 at 3023

<sup>46</sup> *Tiffany (NJ) LLC v. Qi*, 276 F.R.D. 143 (S.D.N.Y. 2011); *Gucci Am., Inc. v. Weixing Li*, No. 10 Civ. 4974(RJS), 2011 WL 6156936 (S.D.N.Y. Aug. 23, 2011)

<sup>47</sup> *Gucci Am., Inc. v. Weixing Li*, No 10 Civ. 4974, 2011 WL 6156936 (S.D.N.Y. Aug. 23, 2011)

<sup>48</sup> *Tiffany (NJ) LLC v. Qi Andrew*, 276 F.R.D. 143 (S.D.N.Y. 2011) at 145

<sup>49</sup> *Tiffany (NJ) LLC v. Qi Andrew*, 276 F.R.D. 143 (S.D.N.Y. 2011) at 146, 151

<sup>50</sup> *Tiffany (NJ) LLC v. Qi Andrew*, 276 F.R.D. 143 (S.D.N.Y. 2011) at 160-161

<sup>51</sup> *Tiffany (NJ) LLC v. Qi Andrew*, 276 F.R.D. 143 (S.D.N.Y. 2011) at 160



indicate otherwise.<sup>52</sup> It is apparent that Judge Pitman’s reasoning focuses on defendants’ interests far more than that of the plaintiff. He placed greater weight on the perceived sanctions notwithstanding the Restatement’s view that the factor alone is not sufficient for forgoing the ability to apply the FRCP45.<sup>53</sup> Despite the dearth of evidence about the efficiency, Judge Pitman still refused to admit the futility of the Hague Convention. His decision is reflective of the *Daimler*’s reasoning that the BoC is neither incorporated nor a principal place in New York, no matter what contact it has had with the state forum. The approach goes even further than what international law requires in contracting the long arm of U.S. procedural statutes.<sup>54</sup>

Similarly, Gucci America, Inc. (Gucci) filed a suit in August 2011 against multiple Chinese defendants who have sold counterfeited handbags online. The brand holder sought evidence from BoC’s records in relation to the transactions. The defendant asserted nearly the same arguments as those in *Tiffany* that:

- “(i) it did not have “possession, custody, or control” over the documents located in China; and
- (ii) compliance with the subpoena would violate Chinese law, and thus any request must be made under the Hague Convention.”<sup>55</sup>

Despite the same evidence and arguments presented in *Tiffany*, Judge Sullivan reached an opposite conclusion in striking difference. Given concerns about the delay via the Hague Convention, he did not think the avenue as a feasible alternative to secure discovery. As Campbell commented:

“the likelihood of successfully acquiring information through the Hague Evidence Convention is low and the process is protracted... the transmissions usually take at least a year. The Hague Evidence Convention is often considered practically useless as a way to get timely evidence discovery from China.”<sup>56</sup>

The unsurmountable delay has been exploited by counterfeiters to get a strategic advantage in transnational litigation. Apparently, judicial efficiency serves apparently as rationale behind Judge Sullivan’s reasoning, without which the goal to secure the just, speedy and inexpensive discovery may become an empty promise.<sup>57</sup> The judge then held that BoC was subject to general jurisdiction in New York, and granted Gucci’s motion to compel discovery under the FRCP 45 subpoena.<sup>58</sup> The decision is made due to lack of transparency regarding how China has handled Hague Convention requests. The *Gucci* decision differs from that in *Tiffany* in only two respects, i.e. different judge and diffident plaintiff, while the reasoning diverged on the venues to secure the documents located in China. BoC appealed, challenging the ability of the District Court to assert jurisdiction.

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<sup>52</sup> *Tiffany (NJ) LLC v. Qi Andrew*, 276 F.R.D. 143 (S.D.N.Y. 2011) at 158

<sup>53</sup> Megan Chang and Terry Chang, ‘Brand Name Replicas and Bank Secrecy: Exploring Attitudes and Anxieties Towards Chinese Banks in the Tiffany and Gucci Cases’ (2013) 7 (2) Brooklyn Journal of Corporate, Financial & Commercial Law 425, 441

<sup>54</sup> Restatement (Third) of the Foreign Relations Law of the United States §§402-403 (1987); Gary Born and Peter Rutledge, *International Civil Litigation in United States Courts* (5<sup>th</sup> ed., Aspen, 2011) 595-598

<sup>55</sup> *Gucci Am., Inc. v. Weixing Li*, No. 10 Civ. 4974, 2011 WL 6156936, at \*2 (S.D.N.Y. Aug. 23, 2011)

<sup>56</sup> Ray Worthy Campbell and Ellen Claar Campbell, ‘Clash of Systems: Discovery in U.S. Litigation Involving Chinese Defendants’ (2016) 4 (2) Peking University Transnational Law Review 129, 175

<sup>57</sup> Aaron Simowitz, ‘Transactional Enforcement Discovery’ (2015) 83 (6) Fordham Law Review 3293, 3342 at 3318

<sup>58</sup> *Gucci Am., Inc. v. Weixing Li*, No 10 Civ. 4974, 2011 WL 6156936 at 12 (S.D.N.Y. Aug. 23, 2011)

## 2. *Gucci v. Bank of China*, No. 11-3934 (2d Cir. 2014)

The Second Circuit considered whether the District Court has jurisdiction over BoC according to protections afforded by the Due Process Clause of the U.S. Constitution.<sup>59</sup> Personal jurisdiction doctrine requires a sufficient nexus between the defendant and the forum.<sup>60</sup> It depends partly on the nature of BoC's contact with New York.<sup>61</sup> The court held that BoC's mere presence of branch offices in New York does not confer jurisdiction, which is, otherwise, not consistent with due process constitutionally.<sup>62</sup> The decision echoed the line of reasoning in the landmark case of *Daimler*.<sup>63</sup> The Second Circuit has cemented the "essentially at home" test into New York's jurisdictional jurisprudence.<sup>64</sup> The Court found that BoC's contacts were not "so continuous and systematic as to render it essentially at home in the forum".<sup>65</sup> The finding narrows the circumstances in which New York courts may exercise general jurisdiction over foreign financial institutions. The court still left open the possibility that specific personal jurisdiction could permit the district court to apply FRCP 45, but the Second Circuit did not provide clear guidance on it. It remanded the case to the district court to consider whether specific jurisdiction can be established. It is likely to affect a plaintiff's ability to use the New York courts to gain extraterritorial discovery.

## 3. The District Court's Decision upon Remand

The specific jurisdiction requires a sufficient nexus between a foreign nonparty's U.S. activities and the discovery. There has been little precedent in this scenario. Judge Sullivan took a broad approach to exercise his jurisdictional evaluation according to New York's long-arm statute.<sup>66</sup> A statutory basis lies in FRCP 45 that allows service of a subpoena at "any place within the U.S." <sup>67</sup> It is constitutionally proper to assert jurisdiction because the BoC has repetitively effectuated wire transfers for the counterfeiters in the name of its 'Head Office in New York'.<sup>68</sup> The Judge concluded that his discretion comported with due process because the selection and repeated use of New York's banking system constitutes "purposeful availment of the privilege of doing business in New York".<sup>69</sup> In addition, the court's exercise of jurisdiction echoes the *International Shoe* standards for due process, which articulates a "minimum contacts" test.<sup>70</sup> Furthermore, the decision is reflective of the reasoning embodied in *Vera* that foreign banks operating branches within the U.S. should not receive treatment different from their domestic counterparts, given both the foreign and domestic banks are receiving the same regulatory benefits.<sup>71</sup> BoC's New York branches should generally be subject to jurisdiction to the same extent as a U.S. bank. In December 2014, Gucci filed a new motion to compel production of BoC account information, arguing that the BoC's New York branch has sufficient contact with

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<sup>59</sup> The Due Process clauses of the U.S. Constitution's Fifth Amendment and Fourteenth Amendment prohibit the deprivation of "life, liberty, or property" without "due process of law."

<sup>60</sup> *J. McIntyre Mach., Ltd. v. Nicastro*, 131 S. Ct. 2798 (2011)

<sup>61</sup> *Gucci Am. v. Bank of China*, 768 F.3d 122 (2d Cir. 2014) at 137-38

<sup>62</sup> *Gucci Am., Inc. v. Li*, 768 F.3d 122 (2d Cir. 2014) at 135

<sup>63</sup> *Gucci Am., Inc. v. Li*, 768 F.3d 122 (2d Cir. 2014), remanded to No. 10-CV-4974 (RJS), 2015 WL 5707135 \*1 (Sept. 29, 2015); *Daimler AG v. Bauman* 134 S. Ct. 746 (2014)

<sup>64</sup> *Daimler AG v. Bauman*, 571 U.S., 134 S. Ct. 746 (2014)

<sup>65</sup> *Gucci Am., Inc. v. Li*, 768 F.3d 122, 125-26, 145 (2d Cir. 2014) at 135

<sup>66</sup> New York Civil Practice Law and Rules (CPLR) §302(a)(1)

<sup>67</sup> FRCP 45(b)(2)

<sup>68</sup> *Gucci America Inc. v. Weixing Li*, Case No. 10-CV-4974 (RJS), 2015 WL 5707135 \*3-6 (Sept. 29, 2015)

<sup>69</sup> *Licci ex rel. Licci v. Lebanese Canadian Bank, SAL*, 732 F.3d 161, 171 (2d Cir. 2013)

<sup>70</sup> New York Civil Practice Law and Rules (CPLR) § 302(a)(1); *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945)

<sup>71</sup> *Vera v. Republic of Cuba* 91 F. Supp.3d 561 (S.D.N.Y. 2015) at 571

its China parent for the sake of jurisdiction. Judge Sullivan imposed a fine of \$75,000 plus \$10,000 a day until the records were produced. The order would have forced the BoC's New York branches to turn over information about counterfeiters' accounts held at their headquarter offices in China. Accordingly, Judge Sullivan ordered the Bank to comply with the subpoenas on 29 September 2015, and then held BoC in contempt on 1 December 2015 for failure to comply. The judge imposed a daily civil contempt sanctions of \$50,000 intended to coerce compliance. The coercive fine started on 8 December 2015, unless the BoC complied with subpoena requests for the records. On 20 January 2016, the BoC submitted ostensibly the requested documents, but dodged discovery passively. Judge Sullivan has been forced to take a more active role in overseeing discovery. The judicial involvement represents a promising sign for other brand owners seeking to enforce their IPRs against overseas counterfeiters.

The decision could fill the gap left open by restricting general jurisdiction in a case where the U.S. has a legitimate sovereign interest.<sup>72</sup> The court's initiative in *Gucci* could park "a global asset hunt" in the New York court system.<sup>73</sup> Underlying Judge Sullivan's decision represented an obvious disregard of China's secrecy law and the Hague Convention for cross-border discovery. Despite of the Supreme Court's decision in *Daimler*, a non-U.S. entity may be subject to informational subpoenas served on its New York-based branch. The cases indicate the brand holders' new tactic to tackle Chinese counterfeiters, which renders non-parties exposed to the full range of U.S. legal risks. It seems likely that a branch operating in New York may satisfy the Constitutional due process standard of "minimum contacts" and reasonableness.<sup>74</sup> The inconsistent decisions between *Tiffany* and *Gucci* leave open the issue of whether the U.S. court can achieve its intended goal of recalibrating the scales on which U.S. courts balance foreign privacy laws with U.S. discovery requests.<sup>75</sup> It also remains uncertain as to what contacts courts will deem sufficient to exercise personal jurisdiction.<sup>76</sup>

#### **4. Uncertainties in jurisdiction still remain!**

The cases of *Tiffany* and *Gucci* highlight the continuing challenges of holding foreign financial institutions accountable under U.S. law.<sup>77</sup> The inconsistency of decisions between two cases for how to reach Chinese nonparty banks depends largely upon the judge's attitude towards China's noncompliance record. The Second Circuit's decision reflects the ramifications of *Daimler* in limiting general jurisdiction over foreign entities. The decision has far-reaching impact on the ability of U.S. courts to extract such information from Chinese banks, which serve as safe havens for counterfeiters in substance.<sup>78</sup> On the one hand, the jurisdictional limitations impose a serious challenge for plaintiffs to rely merely on the operation of BoC's New York branches for the purpose of alleging general jurisdiction.<sup>79</sup> Greater emphasis will

<sup>72</sup> Mary Twitchell, 'The Myth of General Jurisdiction' (1988) 101 Harvard Law Review 610, 676

<sup>73</sup> *Samsun Logix Corp. v Bank of China* 740 F Supp 2d 484 (SD NY 2010)

<sup>74</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746, 763 (2014); It put forth a higher threshold that a defendant's contacts with a forum must be sufficiently "continuous and systematic" to render it subject to the forum's jurisdiction, and assertion of jurisdiction must be reasonable.

<sup>75</sup> Edward Spiro and Judith Mogul, 'Obtaining Discovery from Foreign Litigants Competing Views on Comity' *New York Law Journal* (19 June 2012)

<sup>76</sup> *Gucci Am., INC. v Bank of China* 768 F.3d 122 (2d Cir. 2014)

<sup>77</sup> Kevin Rosier, 'China's Great Legal Firewall: Extraterritoriality of Chinese Firms in the United States' (U.S.-China Economic and Security Review Commission, 5 May 2015)

<[http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms\\_Research%20Report\\_0.pdf](http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms_Research%20Report_0.pdf)> 12

<sup>78</sup> Erika Kinetz, 'Bank of China ordered to release counterfeiters' records Business Insider' (7 October 2015)

<sup>79</sup> Linda J. Silberman, 'Jurisdictional Imputation in *DaimlerChrysler AG v. Bauman*: A Bridge Too Far' (2013) 66 Vanderbilt Law Review En Banc 123, 134

fall on the analysis of specific jurisdiction to determine whether the defendant's contacts are sufficiently related to the forum.<sup>80</sup> On the other hand, the decision on remand to the district court in *Gucci* appears to endorse *Vera*'s conclusion.<sup>81</sup> However, Judge Sullivan's subsequent finding of specific personal jurisdiction underscores the potential for jurisdiction over foreign defendants. This holds particularly true when the cause of action is tied with purposeful availment and rendering it fair to assert jurisdiction.<sup>82</sup> It is also notable that the Second Circuit directed the district court to consider, upon remand, whether the exercise of jurisdiction over the BoC would comport with principles of international comity.

#### **D. The Comity Analysis in *Gucci***

The use of the doctrine to limit the extraterritorial reach of statutes is firmly established in the jurisprudence of transnational litigation.<sup>83</sup> It means that the judicial system of one country tries to avoid exercising jurisdiction that infringes on the laws and interests of another country.<sup>84</sup> As a tenet of international law, it is "not an imperative obligation" but rather a "discretionary rule of practice, convenience and expediency".<sup>85</sup> Courts normally resort to the doctrine justifying how they exercise discretion on transnational cases.<sup>86</sup> An assertion of jurisdiction should be reasonable in line with a general principle of competing national interests.<sup>87</sup> Various interests at stake are to be balanced, including the sovereign interests and hardship of compliance, prior to an issuance of a subpoena over a foreign non-party. The doctrine of comity permits a court to decline to exercise jurisdiction out of deference to the paramount interests of another sovereign.<sup>88</sup> Nevertheless, transnational litigation may sometimes endanger international comity by offending foreign nations.<sup>89</sup> The divergence between the two judges' decisions in *Gucci* and *Tiffany* rests with the weight to be accorded China's interests *vis-à-vis* the FRCP 45's judicial merits.

##### **1. The Impact of Divergent Interpretations of Comity on the Avenue's Viability**

In view of a conflict of laws, the court conducted a comity analysis pursuant to Restatement (Third) of Foreign Relations Law section 442(1)(c) to determine whether the Chinese banks must comply with the subpoena. The variables are briefed as seven comity factors for U.S. courts to consider:

- "(i) the importance to the investigation or litigation of the documents or other information requested;
- (ii) the degree of specificity of the request;
- (iii) whether the information originated in the United States;

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<sup>80</sup> New York's long-arm or specific jurisdiction principle is codified in Section 302 of the New York Civil Procedure Law and Rules. See N.Y. C.P.L.R. §302.

<sup>81</sup> *Vera v. Republic of Cuba* 91 F. Supp.3d 561 (S.D.N.Y. 2015)

<sup>82</sup> Flavio Roset, 'Related Contacts and Personal Jurisdiction: The But for Test' (1994) 82 (6) California Law Review 1545, 1594

<sup>83</sup> *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 818 (1993), whereby a 'true conflict' approach to comity analysis was adopted.

<sup>84</sup> Joel Paul, 'Comity in International Law' (1991) 32 Harvard International Law Journal 1, 3-6

<sup>85</sup> *P Morgan Chase Bank v. Altos Hornos de Mexico, S.A. de C.V.*, 412 F.3d 418, 423 (2d Cir. 2005)

<sup>86</sup> William Dodge, 'International Comity in American Law' (2015) 115 (8) Columbia Law Review 2071-2141

<sup>87</sup> Restatement (Third) of the Foreign Relations Law of the United States (1987) s403(2); 'Constructing the State Extraterritorially: Jurisdictional Discourse, the National Interest, and Transnational Norms' (1990) 103 (6) Harvard Law Review 1273, 1305

<sup>88</sup> Pamela Bookman, 'Litigation Isolationism' (2015) 67 Stanford Law Review 1081, 1144 at 1097

<sup>89</sup> Pamela Bookman, 'Litigation Isolationism' (2015) 67 Stanford Law Review 1081, 1144

- (iv) the availability of alternative means of securing the information, such as the Hague Convention;
- (v) the extent to which noncompliance with the request would undermine important interests of the United States, or compliance would undermine important interests of the state where the information is located;
- (vi) the hardship of compliance on the party or witness from whom discovery is sought; and
- (vii) the good faith of the party resisting discovery.”<sup>90</sup>

The primary variable is whether the alternative avenue is viable or not. The use of the comity analysis has led to inconsistent outcomes regardless of similar circumstances. According to the above fourth factor, both courts focus critically on whether the Chinese government would respect a request for discovery made under the Hague Convention.<sup>91</sup> Judge Pitman held that the “availability of alternative means of retrieving the information” under factor four of the comity analysis favoured the Banks... Hague Convention request was not an “avenue [that] is futile.”<sup>92</sup> He preserved Tiffany’s right to renew its application to enforce the subpoenas, if the Hague Convention proved futile. In contrast, Judge Sullivan rejected the international comity defence in the extraterritorial discovery after weighing the factors. He found that a comity analysis “strongly weighed” in favour of compelling compliance with the informational subpoena against BoC.<sup>93</sup>

More significantly, the *Gucci* court found that the fourth factor favoured the plaintiffs, reasoning that a Hague Convention request would not be a “viable alternative method... and would leave Gucci “empty-handed” because the letters of request have “little likelihood of success”.<sup>94</sup> Judge Sullivan was concerned with the potential for abuse should the court continue to defer to the Hague Evidence Convention and thereby impede the enforcement of IPRs.<sup>95</sup> He then held that:

“the Hague Convention would be unduly time consuming and expensive, as well as less certain to produce needed evidence than direct use of the Federal Rules...Hague Convention requests in circumstances similar to those presented [in this case] are not a viable alternative method of securing the information plaintiffs seek.”<sup>96</sup>

Finally, Judge Sullivan held that such requests were prone to indefinite delays to be executed.<sup>97</sup> He justified his decision with the other three factors taken into consideration, which relied upon the extent to which compliance would subvert sovereign interests of the U.S or China. It is China’s noncompliance record that has played a negative role in the judge’s exercise of his discretion. The fourth to the seventh factors constituted the integral parts of the comity analysis. The BoC was ordered to turn over the documents sought by plaintiffs under FRCP 45. This

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<sup>90</sup> *Gucci Am., Inc. v. Weixing Li*, No. 10 Civ. 4974, 2011 WL 6156936, at \*5–12 (S.D.N.Y. Aug. 23, 2011); *Tiffany v. Qi*, 276 F.R.D. at 151–60; *Wultz v. Bank of China*, No. 11-CV-1266, 298 F.R.D. 91, 96 (S.D.N.Y. Feb. 13, 2014)

<sup>91</sup> Megan Chang and Terry Chang, ‘Brand Name Replicas and Bank Secrecy: Exploring Attitudes and Anxieties Towards Chinese Banks in the Tiffany and Gucci Cases’ (2013) 7 (2) Brooklyn Journal of Corporate, Financial & Commercial Law 425, 441 at 439

<sup>92</sup> *Tiffany (NJ) LLC v. Qi Andrew*, 276 F.R.D. 143, 151, 156 (S.D.N.Y. 2011)

<sup>93</sup> *Gucci America Inc. v. Weixing Li*, Case No. 10-CV-4974 (RJS), 2015 WL 5707135 \*1 (Sept. 29, 2015)

<sup>94</sup> *Gucci Am., Inc. v. Weixing Li*, No. 10 Civ. 4974, 2011 WL 6156936, at \*8-9 (S.D.N.Y. Aug. 23, 2011)

<sup>95</sup> Minning Yu, ‘Benefit of the Doubt: Obstacles to Discovery in Claims Against Chinese Counterfeiters’ (2013) 81 (5) Fordham Law Review 2987, 3026 at 3023

<sup>96</sup> *Gucci Am., Inc. v. Weixing Li*, 768 F.3d 122 (2014); *Gucci Am., Inc. v. Weixing Li*, No 10 Civ. 4974, 2011 WL 6156936 at 8 (S.D.N.Y. Aug. 23, 2011)

<sup>97</sup> *Gucci Am., Inc. v. Weixing Li*, No. 10 Civ. 4974, 2011 WL 6156936, at \*23-26 (S.D.N.Y. Aug. 23, 2011)

demonstrates a different interpretation of “the availability of alternative means”, against which Judge Sullivan did not read it to be actually viable or likely to succeed.<sup>98</sup>

## 2. The Balancing Test of Competing National Interests

The balancing test attempts to avoid an inevitable overlap of multiple sovereignty claiming jurisdiction over litigation parties.<sup>99</sup> Each state has an obligation to evaluate its own as well as the other state’s interest in exercising jurisdiction and should defer to another state with greater interest.<sup>100</sup> China’s interests stand at cross-purposes to U.S. sovereign interests in ensuring its substantive law to apply.<sup>101</sup> Weighing which nation has more “important interests” on the judiciary, there has been an alleged conflict of law between Chinese banking laws and an FRCP 45. It all comes down to a ‘Hobson’s choice’, that is, the prioritisation of one sovereign to the detriment of the legal system of another one.<sup>102</sup> As a commentator observed:

“the *Tiffany v. Qi* court deferred to Chinese sovereignty over U.S. sovereignty, while *Gucci*’s deference to U.S. discovery rules infringed China’s sovereign interests in protecting its depositors’ confidential information.”<sup>103</sup>

The court attempts to respect more significant interest and accordingly defer to another sovereign law. The *Gucci* court’s disregard for Chinese State Secrecy law in favour of U.S. discovery rules, whereas Judge Pitman did not intend to infringe on Chinese sovereignty unless the process via a Hague Convention request proved to be futile.<sup>104</sup> Spiro and Mogul pointed out an inherent flaw in interest-balancing framework due to excessive discretion in nature.<sup>105</sup> The requirement that the conduct prejudices the state’s most vital interests makes this basis of jurisdiction narrow.<sup>106</sup> It remains controversial whether it will produce a meaningful result through the lens of the national interest. Arguably, a proclamation by judicial fiat that one interest is less important than the other will not erase a real conflict.<sup>107</sup>

Merely avoiding extraterritorial discovery *per se* does not necessarily preserve the U.S. sovereign interests.<sup>108</sup> A refusal to actively tackle transnational counterfeiting may seriously damage the credibility of the U.S. commitment to protect the Intellectual Property Rights (IPRs)

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<sup>98</sup> Megan Chang and Terry Chang, ‘Brand Name Replicas and Bank Secrecy: Exploring Attitudes and Anxieties towards Chinese Banks in the *Tiffany* and *Gucci* Cases’ (2013) 7 (2) Brooklyn Journal of Corporate, Financial & Commercial Law 425, 441 at 435

<sup>99</sup> David Noll, ‘The New Conflicts Law’ (2014) 2 (1) Stanford Journal of Complex Litigation 40, 96

<sup>100</sup> Restatement (Third) of the Foreign Relations Law of the United States s 402 (1987) s 403(3)

<sup>101</sup> Pamela Bookman, ‘Litigation Isolationism’ (2015) 67 Stanford Law Review 1081, 1144 at 1135

<sup>102</sup> American Bar Association Resolution 103 (2012); Debra Cassens Weiss, ‘ABA Seeks to Avoid ‘Hobson’s Choice’ in International Discovery’ *ABA Journal* (6 February 2012)

<sup>103</sup> Megan Chang and Terry Chang, ‘Brand Name Replicas and Bank Secrecy: Exploring Attitudes and Anxieties Towards Chinese Banks in the *Tiffany* and *Gucci* Cases’ (2013) 7 (2) Brooklyn Journal of Corporate, Financial & Commercial Law 425, 441 at 436

<sup>104</sup> Megan Chang and Terry Chang, ‘Brand Name Replicas and Bank Secrecy: Exploring Attitudes and Anxieties Towards Chinese Banks in the *Tiffany* and *Gucci* Cases’ (2013) 7 (2) Brooklyn Journal of Corporate, Financial & Commercial Law 425, 441 at 435

<sup>105</sup> Edward Spiro and Judith Mogul, ‘Obtaining Discovery from Foreign Litigants Competing Views on Comity’ *New York Law Journal* (19 June 2012)

<sup>106</sup> ‘Report of the Task Force on Extraterritorial Jurisdiction’ <<http://documents.law.yale.edu/sites/default/files/Task%20Force%20on%20Extraterritorial%20Jurisdiction%20-%20Report%20.pdf> 111> 14

<sup>107</sup> *Laker Airways Ltd. v. Sabena, Belgian World Airlines*, 731 F.2d 909, 949 (D.C. Cir. 1984)

<sup>108</sup> Hannah Buxbaum, ‘Assessing Sovereign Interests in Cross-Border Discovery Disputes: Lessons from *Aerospatiale*’ (2003) 38 Texas International Law Journal 87, 101

at a macro level, which has negative ramifications for the U.S. interests.<sup>109</sup> The *Tiffany* case serves as a perfect example, whereas China's interest was decided seemingly to outweigh the U.S.'s interest in enforcing IPRs. However, the Chinese secrecy laws' prohibition does not necessarily justify noncompliance with a U.S. court subpoena.<sup>110</sup> After all, judicial efficiency represents another vital prong embodied in a court's discretion. With such a goal compromised, the value that the international community purports to advance would be undermined. In this vein, Judge Pitman's decision is inconsistent with the overriding interest in the 'just, speedy, and inexpensive determination' of litigation in the court,<sup>111</sup> whereas it represents the exact primary goal in respect of New York's interests in adjudicating the transnational counterfeiting dispute. The Supreme Court in *Daimler* emphasised the interests of the forum State in narrowing jurisdiction.<sup>112</sup> However, it is not required to adhere blindly to foreign directives,<sup>113</sup> provided that the U.S. court demonstrates due respect to foreign sovereign interest. In addition, the BoC did resort to plausible civil and criminal liability it could face unless the request was enforced through the Hague Convention. The threat of sanctions *per se* does not constitute a valid basis to withhold discovery.

### E. China's Legal Firewall: Sovereignty and State Secrecy Law

Extraterritorial jurisdiction is inherently linked to notions of national sovereignty.<sup>114</sup> However, a conventional sovereignty-based approach is no longer effective against transnational counterfeiting. It is further complicated with the predominantly conventional doctrine of sovereignty in the way to securing overseas discovery. The BoC contemplates to use China's State Secrecy Law to shield it from the U.S. jurisdiction, while the U.S. litigants resort to the extraterritorial application of domestic law. China has built a legal firewall to shield its financial services firms from the jurisdiction of U.S. courts. Ostensibly, complying with the U.S. subpoenas means to violate Chinese Secrecy Law and subject them to sanctions. It is wrongly conceived that the need to comply with State Secrecy Laws plausibly makes the BoC immune to U.S. jurisdiction.<sup>115</sup> However, the aggravate sovereign tensions result in China's secrecy laws being far narrower than the discovery systems of the U.S.<sup>116</sup> The brand holders suffer from both institutional void and insufficient international cooperation due to the sensible sovereign concerns. As such, bank secrecy within the intelligence sharing for tackling counterfeiting will require delicate balancing to ensure the maintaining of sovereignty on the one hand and to avoid the abuse by the transnational counterfeiters on the other.<sup>117</sup> In response

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<sup>109</sup> Paul Scott, 'Extraterritorial Discovery and the Hague Evidence Convention after *Societe Nationale Industrielle Aerospatiale*: An American Interests Approach to Comity' (1988) 13 *Yale Journal of International Law* 366, 387

<sup>110</sup> Geoffrey San, 'Court-Ordered Law Breaking: U.S. Courts Increasingly Order the Violation of Foreign Law' (2015) 81 (1) *Brooklyn Law Review* 181, 238

<sup>111</sup> FRCP s1.; *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Court for S. Dist. of Iowa*, 482 U.S. 522, 544 (1987) at 542-43; *Wultz v. Bank of China Ltd.*, 910 F. Supp. 2d 548 (S.D.N.Y. Oct. 29, 2012); Trevor Hartley, *International Commercial Litigation: Text, Cases and Materials on Private International Law* § 5 (Cambridge, Cambridge University Press, 2015) 554

<sup>112</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746, 765 (2014)

<sup>113</sup> *Societe Nationale Industrielle Aerospatiale v. U.S. District Court for the Southern District of Iowa* 482 U.S. 522 (1987) at 544

<sup>114</sup> 'Constructing the State Extraterritorially: Jurisdictional Discourse, the National Interest, and Transnational Norms' (1990) 103 (6) *Harvard Law Review* 1273, 1305 at 1278

<sup>115</sup> The Law of the People's Republic of China on Guarding State Secrets (State Secrecy Law) was revised on 29 April 2010 and came into effect on 1 October 2010.

<sup>116</sup> Aaron Simowitz, 'Transactional Enforcement Discovery' (2015) 83 (6) *Fordham Law Review* 3293, 3342 at 3322

<sup>117</sup> Maggie Gardner, 'Channeling Unilateralism' (2015) 56 (2) *Harvard International Law Journal* 297, 351

to the growing transgressions, some nominal sacrifices of sovereignty may help to make transnational anti-counterfeiting laws more effective.<sup>118</sup>

## 1. Sovereignty and State Secrecy Law *vis-à-vis* the FRCP 45

Sovereignty is the *sine qua non* of statehood, affirming the state's exclusive procession of jurisdiction within its border.<sup>119</sup> The territoriality principle is the most common basis of jurisdictional jurisprudence and is widely regarded as a manifestation of the classical sovereignty.<sup>120</sup> A recourse is normally made to the notion of state sovereignty to address jurisdictional concerns. One state should not encroach upon the sovereignty of any other state.<sup>121</sup> The Chinese government regards discovery within China as a violation of its sovereignty because it is conceived that fact gathering is the responsibility of Chinese judges. The BoC argued that to maintain client privacy is considered as a matter of national sovereignty. Such a plausible explanation of sovereignty provides sanctuary to those counterfeiting makers.<sup>122</sup> The current prevailing paradox impedes the international community to countenance extraterritoriality, even at the price of sacrificing legitimacy of sovereignty to retain ostensible sovereignty.<sup>123</sup> The conventional sovereign jurisdiction seems unable to provide meaningful avenue to control transnational counterfeiting. As such, the crux of an argument is which law prevails over another between the FRCP 45 and China's Secrecy Law.

### (a) *New Challenges on Sovereignty in the New Era*

There are high national interests to protect IPRs as China steers toward an innovation-oriented economy. The prevalent counterfeiting is harmful to China's indigenous innovation, which is harmful for the country's long-term strategy of global competitiveness. China is particularly sensitive to any plausible disrespect for its sovereignty, even though the cross-border counterfeiting crime breaches its own statutes. Under such a judicial and political context, the BoC used sovereignty as a defensive measure and argued that the discovery would be an affront to China's sovereignty. Paradoxically, the sovereign immunity could prohibit courts in the U.S. from exercising personal jurisdiction over a foreign defendant that commits a tort outside the U.S.<sup>124</sup> However, the U.S. extraterritorial discovery requests does not necessarily offend foreign judicial sovereignty,<sup>125</sup> not to mention that the new cyberspace leads to the increasing erosion of sovereignty.<sup>126</sup>

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<sup>118</sup> Ernesto Savona and Phil Williams (eds.) *The United Nations and Transnational Organized Crime* (Routledge, 2012) 80-107

<sup>119</sup> John Jackson, 'Sovereignty - Modern: A New Approach to an Outdated Concept' (2003) 97 *American Journal of International Law* 782, 802; Harold Maier, 'Resolving Extraterritorial Conflicts or "There and Back Again"' (1984) 25 *Virginia Journal of International Law* 7, 18

<sup>120</sup> Alejandro Chehtman, *The Philosophical Foundations of Extraterritorial Punishment* (Oxford, Oxford University Press, 2010) 56

<sup>121</sup> Restatement (Third) of the Foreign Relations Law of the United States (1987) s402(3)

<sup>122</sup> The United Nations Office on Drugs and Crime (UNODC), *The Threat of Transnational Organized Crime* <<https://www.unodc.org/documents/data-and-analysis/tocta/1.The-threat-transnational-organized-crime.pdf>>

<sup>123</sup> Phil Williams, 'Transnational Organized Crime, Illicit Markets, and Money Laundering' in P. J Simmons and Chantal Ouderen, *Challenges in International Governance* (Washington, Carnegie Endowment, 2001) 106-150 at 144

<sup>124</sup> 'Report of the Task Force on Extraterritorial Jurisdiction' <<http://documents.law.yale.edu/sites/default/files/Task%20Force%20on%20Extraterritorial%20Jurisdiction%20-%20Report%20.pdf>> 111

<sup>125</sup> *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Court for S. Dist. of Iowa*, 482 U.S. 522, 544 (1987) at 557-558

<sup>126</sup> Eric Ip, 'Globalization and the Future of the Law of the Sovereign State' (2010) 8 (3) *International Journal of Constitution Law* 636, 655.



The transnational counterfeiting crime has taken a new shape, being more invisible in an unconventional manner. Counterfeiters have appropriated new cyber technologies that makes it difficult for their crime to be traced. The cybercrime not only complicates the sovereignty issue, but also enables counterfeiters to exploit national sovereignty. The internet-based counterfeiting demands timely enforcement responses. However, jurisprudence lags considerably behind the meteoric growth of the online counterfeiting. There is strong rationale to go beyond conventional notions of sovereignty when they only benefit counterfeiters. Since new intelligent-style crimes cross borders, the solutions to these global challenges are to be addressed beyond sovereignty.<sup>127</sup> In certain circumstances, the concept of secrecy should diminish accordingly. The challenge would be resolved if the Chinese government could entail procedural flexibility to combat transnational counterfeiting. As to a commentator, states may fill the void of this inaction by taking positive action to prevent further crime where other sovereigns does not act appropriately.<sup>128</sup>

The extraterritorial discovery may have the effect of limiting sovereignty, behind which one of the rationales is manifested in the futility of seeking discovery *via* the Hague Convention. Another one rests with China's undue protection of its sovereignty, which is not compatible with its Hague Conventions obligations. BoC may resort to the authority endorsed in *Daimler* that shares many aspects in common with that of the *Gucci* case.<sup>129</sup> However, the decision should not be read so broadly as to eliminate the necessary regulatory oversight into BoC's operation of its New York branches.<sup>130</sup> The BoC has virtually lost its legitimacy when hiding accounting information of those counterfeiters. The essence of sovereignty is thus systematically undermined by the cross-border crime. As Guymon pointed out dialectically, what is given up in achieving the cooperation will be potentially regained if the threat is mitigated, since sovereignty is being eroded by transnational counterfeiting.<sup>131</sup> In this vein, sovereigns need limitation in certain circumstances. The traditional sovereign methods are inadequate to deal with the international dimension of the threats. It is advocated that a sovereign state be committed to prioritise extraterritorial discovery response over sovereignty concern under the framework of the UN Convention against Transnational Organized Crime (UNTOC).<sup>132</sup> In response to the new challenges, it is essential to reconceptualise the traditional approaches. Foreign sovereignty should evolve attitude toward the increasingly complicated cross-border counterfeiting. The novelty via relinquishing certain rigid sovereign formalities is conducive to nullifying the advantage that counterfeiters have derived from the loopholes of insufficient anti-counterfeiting systems.

*(b) The Defence based on Banking and State Secrecy Laws*

State secrets are matters that have a vital bearing on national interests. Among other things, the recourse to the Chinese State Secrecy Law could exempt the bank from turning over evidence. The Law of the PRC on Guarding State Secrets (State Secrecy Law) restricts transfer of certain

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<sup>127</sup> UNODC, 'The Globalization of Crime a Transnational Organized Crime Threat Assessment' (2010) <[https://www.unodc.org/documents/data-and-analysis/tocta/TOCTA\\_Report\\_2010\\_low\\_res.pdf](https://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf)>

<sup>128</sup> Dan Stigall, 'Ungoverned Spaces, Transnational Crime, and the Prohibition on Extraterritorial Enforcement Jurisdiction in International Law' (2013) 3 (1) *Notre Dame Journal of International & Comparative Law* 1, 50 at 8

<sup>129</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746 (2014)

<sup>130</sup> *Vera v. Republic of Cuba* 91 F. Supp.3d 561 (S.D.N.Y. 2015) at 571

<sup>131</sup> CarrieLyn Donigan Guymon, 'International Legal Mechanisms for Combating Transnational Organized Crime: The Need for a Multilateral Convention' (2000) 18 (1) *Berkeley Journal of International Law* 53, 101

<sup>132</sup> UNODC, *United Nations Convention against Transnational Organized Crime and the Protocols Thereto* (2004) <<https://www.unodc.org/documents/treaties/UNTOC/Publications/TOC%20Convention/TOCebook-e.pdf>>

data that includes those state-owned banks, like the BoC.<sup>133</sup> State Secrecy Law prevents data from being disclosed from China to any foreign institutions if it is deemed to contain a state secret.<sup>134</sup> It is defined ranging from:

“(1) secrets concerning major policy decisions on State affairs to the potentially all-encompassing;

.....

(4) secrets in national economic and social development.”<sup>135</sup>

The law does not define what constitutes a state secret, so the Chinese government interprets it broadly. Almost all of financial information was classified as a state secret and could not be disclosed.<sup>136</sup> Article 26 provides that cross-border transfer of any document considered a state secret is not permitted without approval of competent departments.<sup>137</sup> The penalty for violating this provision can be severe. In financial institutions, a person shall be sentenced up to three years for disclosing an account holder’s information.<sup>138</sup> Under Article 111 of the PRC Criminal Law, illegally providing state secrets to an organisation outside of China is punishable by five years to even life in prison.<sup>139</sup> With regard to the *Gucci* case, State Secrecy Law shields the BoC from producing account information and freezing counterfeiters’ accounts in China. Furthermore, bank secrecy laws prohibit the disclosure of customer account information without consent. In 2011, the People’s Bank of China (PBoC) issued a *Notice to Urge Banking Financial Institutions to Protect Personal Financial Information*, under which Chinese banks are prohibited from providing personal financial information to an offshore entity.<sup>140</sup> In 2013, the Chinese government issued the *Provisions on Protecting the Personal Information of Telecommunications and Internet Users* (MIIT Provisions 2013).<sup>141</sup> The ministerial regulation prohibits the transfer of personal data abroad without express consent of the data subject or explicit regulatory approval.<sup>142</sup> Despite being a voluntary guidance in nature, the *MIIT Provisions 2013* serves as a regulatory baseline for Chinese judicial authorities.

Foreign restrictions on discovery does embody many policy values. There is no doubt that China has a material interest for the sake of fostering its banking system.<sup>143</sup> As a double-edge sword, potential counterfeiters can exploit the sophisticated safeguarding mechanism, who engage in infringement of IPRs but escape from liabilities. The laws have been virtually susceptible to exploitation by international counterfeiters. In this sense, the legal firewall has made Chinese banks serve as safe havens for counterfeiters, who use them illegally to complete their illicit capital flow online s as well as transactions. There is no wonder why the BoC is frequently

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<sup>133</sup> Law of the People’s Republic of China on Guarding State Secrets, (promulgated by Standing Comm. Nat’l People’s Cong, Sept. 5, 1998, effective as of May 1, 1989) Article 1; The Regulation on the Implementation of the Law of the People’s Republic of China on Guarding State Secrets took effect on 1 March 2014

<sup>134</sup> State Secrecy Law 2010 Article 25

<sup>135</sup> State Secrecy Law Article 9 (1), (4)

<sup>136</sup> *Richmark Corp. v Timber Falling Consultants*, 959 F.2d 1468, 1471 (9th Cir. 1992)

<sup>137</sup> State Secrecy Law Article 26

<sup>138</sup> PRC Criminal Law Article 253 (A)

<sup>139</sup> The Amendment (VIII) to the Criminal Law of the People’s Republic of China, as adopted at the 19<sup>th</sup> Meeting of the Standing Committee of the 11<sup>th</sup> National People’s Congress of the People’s Republic of China on 25 February 2011, is hereby promulgated, and came into force on 1 May 2011.

<sup>140</sup> PBOC, ‘Notice to Urge Banking Financial Institutions to Protect Personal Financial Information’ (21 January 2011) <<http://www.lawinfochina.com/display.aspx?lib=law&id=8837&CGid=>>

<sup>141</sup> On 16 July 2013, China’s Ministry of Industry and Information Technology (MIIT) promulgated the Provisions on Protecting the Personal Information of Telecommunication and Internet Users (the Provisions), which went into effect on 1 September 2013.

<sup>142</sup> *MIIT Provisions* Article 5.4.5

<sup>143</sup> Michael Martin, ‘China’s Banking System: Issues for Congress’ (CRS Report for Congress R42380, 20 February 2012) <<https://www.fas.org/sgp/crs/row/R42380.pdf>>

exploited by counterfeiters to move their ill-gotten gains beyond the reach of the U.S. law enforcement.<sup>144</sup> It renders great challenges for investigators to trace the flow of illicit profits in the sophisticated Chinese legal system. In response, the U.S. Supreme Court held that:

“a foreign law which purports to prohibit disclosure does not “deprive an American court of the power to order a party subject to its jurisdiction to produce evidence even though the act of production may violate that statute.”<sup>145</sup>

By a narrow margin, however, the decision split five to four. As Slaughter observed, this paves the way to balancing the merits of resort to the Hague Convention on a case-by-case basis, unless an overriding interest dictates otherwise.<sup>146</sup> The approach is consistent with the above proposition that to assert jurisdiction be through a critical comity analysis.

In *Gucci* case, Judge Sullivan was concerned with the BoC exploiting Chinese secrecy laws as a “shield against the subpoenas and the possibility of counterfeiters utilising foreign secrecy laws to “facilitate global infringement schemes”.<sup>147</sup> The BoC’s refusal to comply with the subpoena could deprive plaintiffs of their judicial remedy in litigation. The BoC’s litigation strategy is to use the legal firewall to avoid disclosure upon requests from the U.S. courts. This renders it vulnerable for plaintiffs when they file grievances against counterfeiters. Even if *Gucci* ultimately secured discovery from the BoC, it is likely to hit a legal firewall when it tried to collect damages. In this regard, allowing foreign banks to evade discovery would, in substance, authorise them to be in facilitation of counterfeiting.

(c) *The Equitable Interest for the U.S. Sovereign*

The court may resort to reasonableness prong of the *Restatement* and consider avoiding unreasonable interference with the sovereign authority of other nations.<sup>148</sup> Among the factors considered by a court assessing the reasonableness of asserting jurisdiction are:

- “(i) the burden that the exercise of jurisdiction will impose on the [entity]”;
- (ii) the interests of the forum state in adjudicating the case;
- (iii) the plaintiff’s interest in obtaining convenient and effective relief;
- (iv) the interstate judicial system’s interest in obtaining the most efficient resolution of the controversy; and
- (v) the shared interest of the states in furthering substantive social policies.”<sup>149</sup>

In accordance with the second factor, the U.S. substantive law applies to advance its significant sovereign interests, which includes having its courts resolve lawsuits involving U.S. sovereign interests. A U.S. court has a vital interest in not only providing a forum, but also enforcing the judgments.<sup>150</sup> With the Hague Convention a perceived nullity, a judge may need to respect another sovereign’s interests. This rationale justifies partly the decision in *Gucci* that the U.S.’s interest in protecting its IPRs trumped China’s interest in protecting bank secrets under an FRCP 45 subpoena.

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<sup>144</sup> Kwong Man-ki, ‘Gucci counterfeiting ring about to crack as US judge orders Bank of China to hand over details’ *South China Morning Post* (8 October 2015)

<sup>145</sup> *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Ct. for the Southern Dist. of Iowa*, 482 U.S. 522 (1987)

<sup>146</sup> Anne-Marie Slaughter, ‘Judicial Globalization’ (2000) 40 *Virginia Journal of International Law* 1103, 1124

<sup>147</sup> *Gucci Am., Inc. v. Weixing Li*, No. 10 Civ. 4974, 2011 WL 6156936, at \*10–11 (S.D.N.Y. Aug. 23, 2011)

<sup>148</sup> *Restatement (Third) of the Foreign Relations Law of the United States* (1987) s403(1); The court considers whether it is reasonable to exert jurisdiction; *F Hoffman-LaRoche Ltd v Empagran S*, 542 US 155 (2004) at 164; *Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102, 116 (1987)

<sup>149</sup> *Gucci Am., Inc. v. Weixing Li*, 2015 WL 5707135 at \*9; *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Court for S. Dist. of Iowa*, 482 U.S. 522, 544 (1987) at 546

<sup>150</sup> *Richmark Corp. v. Timber Falling Consultants*, 959 F.2d 1468, 1471 (9th Cir. 1992)

First, jurisdiction could be inferred under the New York Banking Law §200 with the vital sovereign interests balanced.<sup>151</sup> The U.S. has a substantial interest in vindicating the rights of the U.S. plaintiffs.<sup>152</sup> Hardly could China be justified to have a legitimate sovereign interest in impeding a discovery process of this kind. Resort to the Chinese State Secrecy Law makes little sense but nullify the application of the U.S.'s substantive laws.<sup>153</sup> The application of the Chinese Secrecy Law is too uncertain to equalise the status of U.S. domestic and Chinese financial institutions. Judge Pitman's reluctance to extraterritoriality could put U.S. plaintiffs in a more disadvantaged position than foreign defendants. Apparently, the U.S. discovery is generally broader than that permitted under the Chinese law.<sup>154</sup> The former may suffer from a gap resulting from its broader pretrial discovery.<sup>155</sup> It would give BoC preferential treatment to that afforded domestic banks.<sup>156</sup>

Second, U.S. domestic companies remain subject to personal jurisdiction, while foreign ones gain largely immunity. An uneven playing field has come into being, that is, a U.S. domestic company is subject to personal jurisdiction, whereas its Chinese counterpart need not be.<sup>157</sup> The resulting regime virtually discriminates against those domestic companies, since the narrowing scope of personal jurisdiction limits the U.S. plaintiffs' ability to access to the U.S. courts for extraterritorial discovery.<sup>158</sup> The BoC operates in New York, while shielding transnational counterfeiting crime by its China branches. It cannot be equitably justified to give advantage to the BoC with a branch in New York over a domestic bank.<sup>159</sup> The excessive endorsement to *Daimler* would result in the abuse by the counterfeiters against the U.S. financial system. In consequence, the Second Circuit's decision enables, in substance, the BoC to hide information concerning counterfeiters' accounting information. In general, laws of the state in which a court is located can provide the statutory basis for personal jurisdiction.<sup>160</sup> Foreign financial institutions should be, at least, bound by the same judicial constraints as domestic ones.<sup>161</sup> As such, an innovative response should be adjusted to address the new challenges caused by the transnational counterfeiting. Strategically, the BoC must consider how its operations are structured to minimise the risk of being subject to general jurisdiction in the U.S. Otherwise, it should be subject to jurisdiction to the same extent as a domestic bank based in New York from an equitable perspective.

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<sup>151</sup> N.Y. Banking Law §200(3) grants standing or subject matter jurisdiction, not personal jurisdiction.

<sup>152</sup> *Philips v. Ford Motor Co.*, Case No. 14-cv-02989 LHK (NC) (N.D. Cal. Jun. 10, 2016)

<sup>153</sup> Laura Donohue, 'The Shadow of State Secrets' (2010) 159 *University of Pennsylvania Law Review* 77, 216

<sup>154</sup> Keith Cohan, 'The Need for a Refined Balancing Approach When American Discovery Orders Demand the Violation of Foreign Law' (2009) 87 *Texas Law Review* 1009, 1044

<sup>155</sup> Aaron Simowitz, 'Transactional Enforcement Discovery' (2015) 83 (6) *Fordham Law Review* 3293, 3342 at 3333

<sup>156</sup> Marshall Fishman and David Livshiz, 'Limits of General Jurisdiction: Do Recent Decisions Undo 'Daimler'?' *New York Law Journal* (11 June 2015)

<sup>157</sup> Alan Trammell, 'Isolating Litigants' (2015) 68 *Stanford Law Review Online* 33, 41 at 38

<sup>158</sup> Pamela Bookman, 'Litigation Isolationism' (2015) 67 *Stanford Law Review* 1081, 1144 at 1129

<sup>159</sup> *Vera v. Republic of Cuba* 91 F. Supp.3d 561 (S.D.N.Y. 2015) at 571

<sup>160</sup> *Gucci America Inc. v. Weixing LI*, 768 F.3d 122, 135 (2d Cir. 2014), remanded to No. 10-CV-4974 (RJS), 2015 WL 5707135 \*3 (Sept. 29, 2015) (notice of appeal filed Dec. 1, 2015)

<sup>161</sup> *Vera v. Republic of Cuba* 91 F. Supp.3d 561 (S.D.N.Y. 2015) at 571

## 2. Between a Rock and a Hard Place?

A non-party bank cannot function effectively if it is subject to conflicting legal systems.<sup>162</sup> The claiming of jurisdiction by more than one state renders it seemingly a catch-22 situation.<sup>163</sup> The BoC remains plausibly at risk of a court finding jurisdiction in both the U.S. and China. The plaintiff's litigation strategy could make the bank find itself caught between the Chinese Secrecy Law and discovery subpoenas animating the FRCP 45. It faced a plausible dilemma between a rock and a hard place, that is, either violating the U.S. law on the one hand, or disregarding China's Secrecy Law on the other. Under such a conflicting legal scenario, a bank has to balance its competing legal obligations to more than one jurisdiction. Nevertheless, Judge Sullivan was not convinced that the BoC would suffer real sanctions in China. It is worth examining whether the *Gucci* case could fall genuinely within such a circle based on the arguments of public policy.

### (a) Intangible Privilege and Reciprocal Obligation to Comply

Weak legal governance makes the Chinese firms less competitive globally.<sup>164</sup> It is the rigorous enforcement of law and regulation that enhance regulatory standard race to the top. The invisible leverage adjusts the governance level to improve dramatically. Through exposure to the U.S. capital markets and legal standards, Chinese banks' increased presence in the U.S. has positive spillover effects on corporate governance and rule of law in China. Exposure to the U.S. regulators creates a positive feedback loop back into China, pushing the government to realise that its own legal system is diminishing the chances for Chinese multinational companies (MNCs) to successfully compete overseas.<sup>165</sup> It is a more established judicial system that provides their competitors a greater arsenal of legal options in the case of improper behaviour.<sup>166</sup> In this regard, the jurisdiction of U.S. courts over Chinese firms would indirectly improve the rule of law in China. This even serves as a form of regulatory competition to drive the Chinese government to enhance its own regulation.<sup>167</sup> Rosen and Hanemann are optimistic with the positive spillover effects on the behavior of Chinese firms and rule of law in China.<sup>168</sup> Such an effect has been well-manifested at both macro and micro levels. In respect of the legislative and institutional building, China has passed laws to guard against the international flow of counterfeit goods in 1995.<sup>169</sup> The Chinese Trademark Law was amended in 2013 and

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<sup>162</sup> Sarah Reid and Marietta Jo, 'The Second Circuit's Recent Comity Decision in Gucci: Help for Non-Party Banks Caught in the Argentina Bond Dispute?' (2015) 3 *The Banking Law Journal* 139, 146

<sup>163</sup> *Wultz v. Bank of China Ltd.*, 910 F. Supp. 2d 548 (S.D.N.Y. Oct. 29, 2012)

<sup>164</sup> Daniel Rosen and Thilo Hanemann, 'The Rise of Chinese Overseas Investment and What It Means for American Businesses' *China Business Review* (1 July 2012)

<sup>165</sup> Daniel Rosen and Thilo Hanemann, 'The Rise of Chinese Overseas Investment and What It Means for American Businesses' *China Business Review* (1 July 2012)

<sup>166</sup> Kevin Rosier, 'China's Great Legal Firewall: Extraterritoriality of Chinese Firms in the United States' (U.S.-China Economic and Security Review Commission, 5 May 2015)

<[http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms\\_Research%20Report\\_0.pdf](http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms_Research%20Report_0.pdf)> 3

<sup>167</sup> John Coffee, 'Racing towards the Top?: The Impact of Cross-Listings and Stock Market Competition on International Corporate Governance' (2002) 102 (7) *Columbia Law Review* 1757, 1831

<sup>168</sup> Kevin Rosier, 'China's Great Legal Firewall: Extraterritoriality of Chinese Firms in the United States' (U.S.-China Economic and Security Review Commission, 5 May 2015)

<[http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms\\_Research%20Report\\_0.pdf](http://origin.www.uscc.gov/sites/default/files/Research/Extraterritoriality%20of%20Chinese%20Firms_Research%20Report_0.pdf)>; Daniel Rosen and Thilo Hanemann, 'The Rise of Chinese Overseas Investment and What It Means for American Businesses' *China Business Review* (1 July 2012)

<sup>169</sup> David Volodzko, 'China's Addiction to Counterfeiting' *The Diplomat* (17 October 2015)

came into effect on 1 May 2014.<sup>170</sup> It introduced severe punishments for repeated infringements and raised the amount of statutory damages from ¥RMB500,000 (£51,501) to ¥RMB 3 million (£300,000).<sup>171</sup> Sophisticated institutions have also been established to ensure effective enforcement, including intellectual property courts and a State Intellectual Property Office (SIPO).<sup>172</sup>

Furthermore, the prestige and credibility in the New York capital market is perceived to increase a company's intangible value in the eyes of the public.<sup>173</sup> Operating in New York enables the BoC to gain substantial intangible value as well as the bonding effect.<sup>174</sup> The shocking therapy facilitates the BoC to become globally competitive partly because of the adjustment required to comply with U.S. governance principles. The bank is increasingly benefiting from U.S. financial markets, which presence in the more credible market crystallises the raising of capital. Within a more established legal and regulatory framework, the BoC is expected to mitigate its weak governance regime by bonding to the better disclosure and higher standards. It also signals to the market that the bank is in a position to comply with higher governance standards than those operating in China. Doty endorses the positive perspective in global governance that:

“The bonding effect- that is, the commitment to abide by the standards and laws ...rewards companies located in markets without developed investor protection regimes.”<sup>175</sup>

The BoC gains privileges from operating a branch in New York, which gives rise to commensurate and reciprocal obligations.<sup>176</sup> The BoC earns a documented “New York Branch” premium for bonding itself to U.S. institutions and committing to U.S. compliance. This ostensibly sends a message that the bank should abide by an international standard laws and governance regulations of its host state. The BoC availing itself of bonding effect in New York must abide by its laws, although, this approach will be resorted to only in those transnational crimes, such as the cross-border counterfeiting. Accordingly, the BoC has an obligation to provide assistance against the transnational counterfeiting crime.

*(b) Does the scenario of “between a rock and a hard place” genuinely exist?*

As analysed above, the bank argued that it would have faced legal and regulatory repercussions in China had it been forced to comply with the subpoena. Otherwise, the failure to comply could risk being held in contempt by the U.S. court. First, it remains highly controversial as to whether a foreign law prohibition on disclosure serves as an absolute bar to extraterritorial discovery. The Supreme Court in *Rogers* held that “the procedural laws of the U.S., as well as the substantive laws, may not be relaxed upon its courts because of difficulties a party may

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<sup>170</sup> Trademark Law of the People's Republic of China (as amended up to Decision of August 30, 2013, of the Standing Committee of National People's Congress on Amendments to the Trademark Law of the People's Republic of China) The Trademark Law of the People's Republic of China was amended by the Decision of August 30, 2013, and took effect on May 1, 2014.

<sup>171</sup> PRC Trademark Law Article 63

<sup>172</sup> The Chinese government recently established three new intellectual property courts – in Beijing, Shanghai and Guangzhou. These courts, which will have special jurisdiction and expertise, will further strengthen China's intellectual property regime and are another step in China's path towards having an advanced intellectual property legal system. Notably, China was ranked 55 of 128 in the International Property Rights Index 2016.

<sup>173</sup> Qingxiu Bu, ‘The Chinese Reverse Merger Companies (RMCs) Reassessed: Promising but Challenging’ (2013) 12 (1) Journal of International Business and Law 17, 38

<sup>174</sup> John Coffee, ‘Law and the Market: The Impact of Enforcement’ (2007) 156 (2) University of Pennsylvania Law Review 229, 311

<sup>175</sup> James Doty, ‘Auditing in the Decade Ahead: Challenge and Change’ *Harvard Law School Forum on Corporate Governance and Financial Regulation* (8 January 2012)

<sup>176</sup> Richard Spehr and Daniel Fisher, ‘U.S. Subpoenas: The Limits of Extraterritoriality Revisited’ *Bloomberg BNA's Banking Report* (7 March 2016)

have with a different sovereign power.”<sup>177</sup> The Chinese State Secrecy Law aims solely to preclude evidence gathering, as opposed to protecting a specific type of information.<sup>178</sup> It appears to be bound by conflicting systems of law, which is seemingly hypothetical. The BoC operating in New York is required to comply with its financial laws and regulations. Prior to any cross-border registration, a bank normally weighs the costs and benefit of being subject to more sophisticated laws and regulations in a host state. Doing business in jurisdiction subjects one to its laws.<sup>179</sup> It is a cost for a firm to subject itself to higher-standard law and regulations, which inevitably renders it exposed more likely to liabilities. The bank has tactically used conflict of laws as a defence that it need to comply with Chinese secrecy laws, attempting to be immune to U.S. jurisdiction. BoC argued that it could not submit documents without running afoul of China’s strict privacy laws.<sup>180</sup> However, having availed itself of the privileges of doing business in New York, the bank could hardly hide behind Chinese Secrecy Laws as a shield. This is particularly true where the bank secrecy laws at issue have been used to facilitate serious violations of U.S. law.”<sup>181</sup>

Second, the relationship of the BoC with the Chinese government represents another key element in the court’s discretion.<sup>182</sup> Hardship is always taken into account when a court determines whether to issue discovery orders. One of the grounds to which the BoC referred and thereby resisted the subpoena is that extraterritorial discovery was at odds with the Chinese law, which may subject it to criminal sanctions. Hardly is the sanction credible when the Chinese government possesses major ownership interests, that is, around 67% of the A shares in BoC,<sup>183</sup> which renders the hardship of compliance unlikely. In respect of the plausible conflicting legal obligation, the court examines the existence of any real repercussion BoC would face for breaching Chinese secrecy laws. This finding has been supported given the absence of a single instance of sanctions against the BoC since the first time it raised the argument in 2011.<sup>184</sup> Thus, the risk of consequences to the bank seems too speculative to demonstrate hardship arising from the subpoena compliance.<sup>185</sup> It is unlikely that a U.S. court will recognise a credible threat of punishment to Chinese banks in future cases, unless the Chinese government begins to impose civil or criminal penalties for a breach of the secrecy laws.<sup>186</sup> In this scenario, Judge Sullivan’s decision to refute the BoC’s defence is justified properly.

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<sup>177</sup> *Societe Internationale Pour Participations Industrielles Et Commerciales, S. A. v. Rogers*, 357 U.S. 197 (1958).

<sup>178</sup> David Teitelbaum, ‘Strict Enforcement of Extraterritorial Discovery’ (1986) 38 (3) *Stanford Law Review* 841, 890 at 864

<sup>179</sup> William F. Cahill, ‘Jurisdiction over Foreign Corporations and Individuals Who Carry on Business within the Territory’ (1917) 30 (7) *Harvard Law Review* 676, 711

<sup>180</sup> Jacob Schindler, ‘China’s State-Owned Banks in the Spotlight as Fake Fighters Follow the Money’ *World Trademark Review* (4 February 2016)

<sup>181</sup> *Gucci Am. Inc. v. Li*, No. 10 Civ. 4974 (RJS), 2011 U.S. Dist. LEXIS 97814, at \*29 (Aug. 23, 2011)

<sup>182</sup> *Societe Internationale Pour Participations Industrielles Et Commerciales, S. A. v. Rogers*, 357 U.S. 197 (1958); Anne-Marie Slaughter, ‘Judicial Globalization’ (2000) 40 *Virginia Journal of International Law* 1103, 1124

<sup>183</sup> *Tiffany (NJ) LLC v. Forbse* No. 11 Civ. 4976 (S.D.N.Y. July 2, 2011)

<sup>184</sup> Minning Yu, ‘Benefit of the Doubt: Obstacles to Discovery in Claims Against Chinese Counterfeiters’ (2013) 81 (5) *Fordham Law Review* 2987, 3026 at 3022

<sup>185</sup> Edward Spiro and Judith Mogul, ‘Obtaining Discovery from Foreign Litigants Competing Views on Comity’ *New York Law Journal* (19 June 2012)

<sup>186</sup> Meg Utterback and Tara J. Plochocki, ‘Lessons from the *Gucci* Case: Chinese Banks Increasingly Subject to U.S. Jurisdiction’ *China Law Insight* (30 August 2016)

## F. Reassess the Extraterritorial Liability Risks in Global Governance

Some jurisdictions either lack the capability or the political will to combat the transnational crime due diligence. A lack of international integration allows counterfeiters to conduct counterfeiting across borders. The loopholes arising from a lack of legal cooperation enable counterfeiters to use BoC as financial shelters. The recent cases have significantly altered the landscape with respect to enforcement of U.S. subpoenas on branch offices of non-U.S. corporations. It is worth examining a variety of variables at stake in respect of the mitigating measures. The perceived discovery inefficiencies render it harder for litigants to secure extraterritorial discovery.<sup>187</sup> A most controversial debate is about the feasibility to institutionalise “consent via registration. It is also notable that the regulatory cooperation serves as an indispensable solution to issues related to the cross-border counterfeiting.

### 1. The Functional Jurisdictional Theory *vis-à-vis* The Executive Role

The unilateral judicial interfere with foreign affairs could result in some unintended repercussion, including international discord and even frictions.<sup>188</sup> A functionalist jurisdictional regime could work better in view of the severity of transnational counterfeiting crime.<sup>189</sup> The fact that transnational counterfeiters have deliberately utilised BoC to thwart the reach of the Lanham Act justifies the theoretic approach. Ostensibly, courts may not be well equipped to evaluate potential foreign relations inquiries, while executive authorities could involve in resolving the conflict, since they are better suited than judiciary at addressing foreign relations.<sup>190</sup>

#### (a) Ideological Gap and the Resultant Unilateralism

Traditional approaches generally tend to neglect the variability of ideological influence in addressing cross-border disputes between the U.S. and China. An inherent conflict in ideology is normally manifested at a macro level. The disputes in *Gucci* is part of a larger conflict between China's opaque, state-dominated economic system and the disclosure-based U.S. regulatory regime.<sup>191</sup> Accordingly, institutional conflicts are embodied in the two divergent primary systems, i.e. the U.S. free market and China's state capitalism, which gives rise to deep distrust between the two authorities.<sup>192</sup> The ideological differences limit the two jurisdictions to combat cross-border counterfeiting more efficiently. The lack of efficacy in applying the Hague Convention widens the perceived ideological gap. As a result, the unilateralism prevails over resolutions via constructive dialogues.<sup>193</sup> Ideologically, the Chinese government always envisages that regulatory cooperation could impinge upon China's national sovereignty and

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<sup>187</sup> Alan Trammell, 'Isolating Litigants' (2015) 68 Stanford Law Review Online 33, 41

<sup>188</sup> Anthony Colangelo, 'A Unified Approach to Extraterritoriality' (2011) 97 Virginia Law Review 1019, 1109

<sup>189</sup> Arthur von Mehren and Donald Trautman, 'Jurisdiction to Adjudicate: A Suggested Analysis' (1966) 79 (6) Harvard Law Review 1121, 1179 at 1144, 1164

<sup>190</sup> Jack Goldsmith, 'Federal Courts, Foreign Affairs, and Federalism' (1997) 83 (8) Virginia Law Review 1617, 1715 at 1623

<sup>191</sup> Nicholas Howson, 'Protecting the State from Itself? Regulatory Interventions in Corporate Governance and the Financing of China's "State Capitalism"' in Benjamin Liebman and Curtis Milhaupt (eds.) *Regulating the Visible Hand? The Institutional Implications of Chinese State Capitalism* (Oxford, Oxford University Press, 2015) 49-69

<sup>192</sup> Kenneth Lieberthal and Wang Jisi, 'Addressing U.S.-China Strategic Distrust' (2012) 4 John L. Thornton China Centre at Brookings <[https://www.brookings.edu/wp-content/uploads/2016/06/0330\\_china\\_lieberthal.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/0330_china_lieberthal.pdf)>

<sup>193</sup> William Dodge, 'Extraterritoriality and Conflict-of-Laws Theory: An Argument for Judicial Unilateralism' (1998) 39 Harvard International Law Journal 101



risk disclosure of state secrets.<sup>194</sup> There is a dubious concern that to submit the BoC's documents would open the way for the imperialistic imposition of the U.S. norms in China.<sup>195</sup> In a micro-operation mechanism, the Chinese government may need to be more compliant with the discovery under the Hague Convention. In striking a balance, China should comply with Hague Convention more effectively while maintaining authority in its State Secrecy Laws. The credit building of its performance reputation takes time. In the longer run, the compliance is conducive to simplifying such kind of clashes originating from the extraterritorial discovery.

(b) *Judicial Role vis-à-vis Executive Role*

Transnational litigation can impact foreign affairs and even trigger foreign relations concerns.<sup>196</sup> In accordance with the functional jurisdictional theory, Judge Sullivan's decision can likely stimulate the inefficient discovery system. It also provoked the Chinese government, which threatened the stability of bilateral relations with the U.S. because of discovery requests.<sup>197</sup> Notwithstanding, expansive concepts of general jurisdiction over foreigners can impose barriers to trade and foreign direct investment (FDI) that may conflict with executive branch policies.<sup>198</sup> The court's expansive assertion of jurisdiction may impede the executive branches' approaches in terms of reciprocal agreements. Arguably, cases that embroider sensitive foreign affairs could best be addressed by the executive branches. In the *Tiffany* case, the court seemed to prevent themselves from interfering with executive branch prerogatives.<sup>199</sup> In contrast, Judge Sullivan's decision in *Gucci* not to resort to the Hague Convention has led to the Chinese official concerns. Tension becomes even more acute when state owned entities (SOEs), like the BoC, are involved.<sup>200</sup> Given the executive branch's dominant role in foreign relations, the court may need to interfere minimally with the executive branches' foreign relations prerogatives.<sup>201</sup> It could be argued that courts are "generally not the proper bodies to weigh which sovereign's interests are more meritorious",<sup>202</sup> given potential profound repercussions on foreign relations. The Supreme Court has justified the anti-extraterritoriality presumption as a way of preventing judicial interference with the "delicate field of international relations."<sup>203</sup> The U.S. courts would accordingly exercise their jurisdiction in consistence with principle of comity. The approach is conducive to keeping courts from unnecessarily interfering foreign affairs.<sup>204</sup> The executive branches' involvement, particularly in dealing with China, could facilitate the efficacy of China's commitment to using the Hague Convention. The ideal outcome would alleviate the plausible sanctions imposed on BoC by reason of compliance with the Subpoena. Such a goal will not be achieved in the short term. By no means should the plaintiffs' legitimate interests be deferred until the paradoxical goal comes true.

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<sup>194</sup> Paul Gillis, 'Testimony before the U.S./China Security and Economic Commission China's Financial System, Transparency and Accountability Challenges' (7 March 2013)

<[http://www.uscc.gov/sites/default/files/3.7.13\\_Paul%20Gillis\\_Testimony.pdf](http://www.uscc.gov/sites/default/files/3.7.13_Paul%20Gillis_Testimony.pdf)>

<sup>195</sup> Restatement (Third) of the Foreign Relations Law of the United States (1987) s403(2); 'Constructing the State Extraterritorially: Jurisdictional Discourse, the National Interest, and Transnational Norms' (1990) 103 (6) Harvard Law Review 1273, 1305 at 1275

<sup>196</sup> Stephen Burbank, 'The World in Our Courts' (1991) 89 Michigan Law Review 1456, 1498

<sup>197</sup> Diego Zambrano, 'A Comity of Errors: The Rise, Fall, and Return of International Comity in Transnational Discovery' (2016) 34 (1) Berkley Journal of International Law 157, 215

<sup>198</sup> Harold Koh, *Transnational Litigation in United States Courts* (Foundation Press, 2008) 144-145

<sup>199</sup> David Noll, 'The New Conflicts Law' (2014) 2 (1) Stanford Journal of Complex Litigation 40, 96 at 44

<sup>200</sup> *Soci t  Nationale Industrielle A rospatiale v. U.S. Dist. Court*, 482 U.S. 522, 558 (1987)

<sup>201</sup> Pamela Bookman, 'Litigation Isolationism' (2015) 67 Stanford Law Review 1081, 1144 at 1135

<sup>202</sup> *SEC v. Stanford Int'l Bank Ltd.*, 776 F. Supp. 2d 323 (N.D. Tex. 2011) 336-337

<sup>203</sup> *Kiobel v. Royal Dutch Petrol. Co.*, 133 S. Ct. 1659, 1664 (2013)

<sup>204</sup> Pamela Bookman, 'Litigation Isolationism' (2015) 67 Stanford Law Review 1081, 1144 at 1136

## 2. The Paradoxical Notion of Consent by Registration

A consent-by-registration theory is based on a company's compliance with state registration statutes, which would potentially circumvent the minimum contacts test established by *International Shoe*.<sup>205</sup> It is uncertain as to whether the highly-split approaches of the consent-based registration is considered due diligence or not. Foreign banks may be required to comply with U.S. subpoenas as a prerequisite for doing business in the near future. They could be supposed to assign an agent for service of process in the U.S. consent to jurisdiction, given their home states cannot adequately implement the Hague Convention.<sup>206</sup> Such a notion was endorsed by Smith that if a party conducts business in a territory, that choice equates to consenting to be governed by the territory's laws.<sup>207</sup> It remains to be seen whether the U.S. authority could secure the discovery by requesting compliance consent of foreign financial institutions to accept the extraterritorial jurisdiction when creating their U.S. branches.

### (a) *The Statutory Approach*

Hypothetically, BoC's registration with the New York Department of Financial Services is deemed to have consented to serve of a claim arising out of a transaction with its New York branches.<sup>208</sup> Following such a reasoning, does it mean that a court can require BoC, which has filed a registration in New York, to thereby consent to turn over documents even located in China? New York's consent-based general jurisdiction proposal has not been passed yet although it was introduced for a second time on 30 March 2015.<sup>209</sup> As Epstein observed: "a privilege cannot be granted subject to conditions that improperly 'coerce,' 'pressure,' or 'induce' the waiver of constitutional right."<sup>210</sup> Another commentator recently observed that the theory contradicts the due process criteria required for general jurisdiction, that is, ascertainability and uniqueness.<sup>211</sup> The analysis illustrates the constitutional inadequacy of consent-by-registration to general jurisdiction. Otherwise, a foreign company would forfeit its due process protection from all-purpose jurisdiction in advance.<sup>212</sup> Furthermore, neither the European Union (EU)'s Brussels Regulation,<sup>213</sup> nor the UK's law supports general jurisdiction based on the theory of implied consent by registration.<sup>214</sup> The discord between the procedural regimes of the U.S. and those of other jurisdictions would cause compliance asymmetry in terms of international comity.<sup>215</sup>

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<sup>205</sup> *International Shoe v. Washington* 326 U.S. 310 (1945)

<sup>206</sup> Eric Porterfield, 'A Domestic Proposal to Revive the Hague Judgments Convention: How to Stop Worrying about Streams, Trickle, Asymmetry, and a Lack of Reciprocity' (2014) 25 *Duke Journal of Comparative & International Law* 81, 123

<sup>207</sup> Matthew Smith, 'Resolving the Cross-Border Discovery Catch-22' (2014) 47 (2) *Suffolk University Law Review* 601, 625

<sup>208</sup> New York Banking Law §200; Kevin D. Benish, 'Pennoyer's Ghost: Consent, Registration Statutes, and General Jurisdiction after *Daimler AG v. Bauman*' (2015) 90 *New York University Law Review* 1609

<sup>209</sup> A. Doc. 6714 (State of New York, March 30, 2015)

<[http://assembly.state.ny.us/leg/?default\\_fld=&bn=A06714&term=2015&Summary=Y&Text=Y](http://assembly.state.ny.us/leg/?default_fld=&bn=A06714&term=2015&Summary=Y&Text=Y)>

<sup>210</sup> Richard Epstein, 'Unconstitutional Conditions, State Power, and the Limits of Consent' (1988) 102 *Harvard Law Review* 6, 7

<sup>211</sup> Kevin Benish, 'Pennoyer's Ghost: Consent, Registration Statutes, and General Jurisdiction after *Daimler AG v. Bauman*' (2015) 90 *New York University Law Review* 1609, 1661 at 1628

<sup>212</sup> *Home Insurance Co. v. Morse* 87 U.S. (20 Wall.) 445 (1874) at 451

<sup>213</sup> Regulation (EU) No 1215/2012 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters (Brussels I recast) came into effect on 10 January 2015.

<sup>214</sup> Geoffrey Morse, David McClean and Laurence Collins, *Dicey, Morris and Collins on the Conflict of Laws* (15th ed. Sweet & Maxwell, 2012) 425

<sup>215</sup> Diego Zambrano, 'A Comity of Errors: The Rise, Fall, and Return of International Comity in Transnational Discovery' (2016) 34 (1) *Berkley Journal of International Law* 157, 215

(b) *Challenges in Common Law Precedents*

The "registration" theory of general jurisdiction is embodied in the 1917 case of *Pennsylvania Fire*.<sup>216</sup> A foreign entity can incur consent to jurisdiction by operation of law, based on invoking the benefit and protection of the forum state's legal system.<sup>217</sup> The recent cases may hasten a new requirement that a party impliedly consents to obey U.S. law when opening business within the U.S. A plausible conflict between New York's statutory jurisdictions and "at home" test created by *Daimler* has yet to be resolved. The Supreme Court in *Daimler* seems to have invalidated the consent-by-registration theory. However, it did not address how its more stringent due process requirements affect jurisdiction by consent. It remains uncertain whether consent-by-jurisdiction satisfies due process in circumstances where foreign companies are not "at home" articulated by *Daimler*.<sup>218</sup>

The case law has not yet come fully to grips with potential limitations on general jurisdiction imposed by the U.S. Supreme Court's decision in the case of *Daimler*. There continues to be substantial divergences upon whether consent-by-registration is insufficient to establish general jurisdiction post-*Daimler*. Every assertion of jurisdiction must meet the requirements of constitutional due process.<sup>219</sup> Several courts have answered that general jurisdiction upon consent does not violate due process, holding that *Daimler* applies only to foreign entities that have not consented to suit in the forum.<sup>220</sup> Some courts have followed the *Daimler* precedent, holding that registering to do business *per se* is insufficient to establish jurisdiction post-*Daimler*. For instance, the *Vera* court addressed the scope of a foreign bank's consent to jurisdiction in an expansive manner.<sup>221</sup> Its 'consent' analysis has initiated the debate, but yet to clarify the issue.<sup>222</sup> The court just held that a foreign bank was subject to jurisdiction requiring it to comply with information subpoenas because it registered with and obtained a license from the Department of Financial Services, and appointed an agent for in-state service of process.<sup>223</sup> The U.S. Supreme Court in *BNSF Railway Co. v. Tyrrell* strongly reaffirmed the *Daimler* rule on 30 May 2017.<sup>224</sup> It still left open the question whether corporation's registration to do business in a state can constitute consent to general jurisdiction, which is bound to be the focus of vigorous debate in future cases.

The Second Circuit in *Gucci* held that compliance with state registration statutes is "insufficient to confer general jurisdiction in a state that is neither its state of incorporation nor its principal place of business".<sup>225</sup> It is worth noting that Justice Ginsburg's reference in *Daimler* provides invaluable insight into consent-by-registration as a theory of jurisdiction and suggests avenues of future research into how compliance with corporate registration statutes affects specific

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<sup>216</sup> *Pa. Fire Ins. Co. of Phila. v. Gold Issue Min. & Mill. Co.*, 243 U.S. 93 (1917)

<sup>217</sup> Robert Reznick, 'New Risks to Non-US Banks in American Courts' (3 August 2015) <<http://www.law360.com/articles/684820/new-risks-to-non-us-banks-in-american-courts>>

<sup>218</sup> Lee Scott Taylor, 'Registration Statutes, Personal Jurisdiction, and the Problem of Predictability' (2003) 103 *Columbia Law Review* 1163, 1192–93

<sup>219</sup> Richard Epstein, 'Unconstitutional Conditions, State Power, and the Limits of Consent' (1988) 102 *Harvard Law Review* 4, 6

<sup>220</sup> Linda Silberman, '*Daimler AG v. Bauman*: A New Era for Judicial Jurisdiction in the United States' (2015) 16 *Yearbook of Private International Law* 217, 235

<sup>221</sup> *Vera v. Republic of Cuba*, 12 Civ. 1596(AKH), 2015 U.S. Dist. LEXIS 32846 (S.D.N.Y. March 17, 2015)

<sup>222</sup> *Vera v. Republic of Cuba* 91 F. Supp.3d 561 (S.D.N.Y. 2015)

<sup>223</sup> *Vera v. Republic of Cuba*, 91 F. Supp. 3d 561, 570–71 (S.D.N.Y. 2015), appeal filed, No. 15-1147 (2d Cir. April 13, 2015).

<sup>224</sup> *BNSF Railway Co. v. Tyrrell* 137 S. Ct. 810 (2017)

<sup>225</sup> *Gucci Am., Inc. v. Li*, 768 F.3d 122, 135 (2d Cir. 2014)

jurisdiction.<sup>226</sup> It remains to be seen whether a mere regulatory filing in New York should constitute consent to jurisdiction for all purposes. It all comes down to a fundamental issue, that is, whether consent-by-registration satisfies due process based on a theory outside Daimler's "at home" test.

### 3. The Incentives of Cooperation and Potentials

Transnational counterfeiting presents the international community with particularly challenging task. Efficient combating of global crime can only be achieved through international cooperation. One country's success in limiting illicit production and flows often results in the displacement of the problem to another state, thereby signaling the need for a coordinated response. This has been recognised by the United Nations Report of the High-level Panel on Threats, Challenges and Change.<sup>227</sup> The common threat of organised crime has the power to overcome a lack of international integration. Law enforcement institutions are constructed to address the crime primarily within national boundaries. As such, a dearth of legal cooperation between the U.S. and China enables counterfeiters to exploit Chinese banks as financial shelters. A myriad of jurisdictional assertions prohibits cross-border data transfer. The U.S. does restrict access to financial information, but allows judges to order the disclosure for lawsuits anywhere in the world that can be used to combat transnational crime.<sup>228</sup> However, the mechanics of this obligation have not been made entirely clear.

The lack of cooperation on transnational counterfeiting undercuts China's policies set forth in its Trademark Law 2013, which provides that institutions in facilitation of infringements can be held liable along with their counterfeiting partners.<sup>229</sup> Notably, the law innovatively follows a plaintiffs-friendly approach that pre-trial evidence production regarding damages should be made available to plaintiffs.<sup>230</sup> The provisions represent an important move forward, at least, on a statutory basis. If enforced robustly, the current conflict would have been alleviated and BoC would not have been put in the conflicting legal obligations imposed by the U.S. and Chinese's laws. This significant move signalises China's incentive to enhance its reputation on IPR protection and willingness to cooperate on discovery procedures. Incrementally, it is toward fulfilling its Hague Convention in an expeditious manner. From a positive perspective, the conflict could be the indispensable precursor of cooperation. If optimistically interpreted, the conflict over the limits of extraterritorial jurisdiction could be a catalyst for the redefinition of legitimate sovereign interests in an era of globalisation.<sup>231</sup> As Slaughter wisely argued:

"to reach a new equilibrium, states must work together in a process of redefining legitimate interests that can in turn serve as a new or amended basis for extraterritorial jurisdiction."<sup>232</sup>

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<sup>226</sup> *Daimler AG v. Bauman*, 134 S. Ct. 746 (2014) at 755-756; Kevin Benish, 'Pennoyer's Ghost: Consent, Registration Statutes, and General Jurisdiction after *Daimler AG v. Bauman*' (2015) 90 *New York University Law Review* 1609, 1661 at 1646

<sup>227</sup> United Nations Report of the High-level Panel on Threats, Challenges and Change, 'A more secure world: Our shared responsibility' (2004)  
<[http://www.un.org/en/peacebuilding/pdf/historical/hlp\\_more\\_secure\\_world.pdf](http://www.un.org/en/peacebuilding/pdf/historical/hlp_more_secure_world.pdf)>

<sup>228</sup> Erika Kinetz, 'Chinese Banks Serve as Safe Haven for Booming Counterfeit Goods Trade' *US News Associated Press* (7 May 2015)

<sup>229</sup> Trademark Law 2013 Article 57

<sup>230</sup> Trademark Law 2013 Article 63

<sup>231</sup> Anne-Marie Slaughter, 'Judicial Globalization' (2000) 40 *Virginia Journal of International Law* 1103, 1124

<sup>232</sup> Anne-Marie Slaughter, 'Judicial Globalization' (2000) 40 *Virginia Journal of International Law* 1103, 1124

It is thus well-justified to enhance incentives for regulative cooperation in response to the transnational challenges.<sup>233</sup> The two jurisdictions can advance a constructive dialogue toward addressing the most challenging issue. Such an approach is likely to lead to a feasible solution in the long term. Since prevention is better than cure, it is imperative to create adequate compliance regimes in place to mitigate potential risks.

### Conclusion

Cross-border counterfeiting calls for global enforcement of intellectual property rights (IPRs). The U.S. legal system attempts to provide an efficient method for obtaining evidence located abroad to ensure that brand owners are able to attain final relief. The recent cases have substantially altered the landscape of extraterritorial discovery. It seems that the scope of the U.S. court's jurisdiction has been considerably restrained. As such, a comparative disadvantage compromises the U.S. domestic companies' position. Absent certain exceptional circumstances, a court can exercise general jurisdiction only when the defendant has sufficient contacts with the forum. Such a trend, combined with the reaffirmation of the doctrine of separate legal entity embodied in *Motorola*, is likely to impede the plaintiffs to resort to New York court against a foreign nonparty. However, Judge Sullivan still compelled the BoC for discovery upon remand by the Second Circuit. The common law approaches provide insights based on the court's comity analyses. Arguably, this issue will be addressed if China can show a track record of prompt compliance with Hague Conventions requests. The unpredictability enshrined in the cases highlights the incompatibility between the Chinese and U.S. legal systems and could have far-reaching implications for the ability of U.S. courts to extract information from Chinese banks operating in the U.S. Benefitting from access to U.S. capital markets, Chinese firms will have to comply with local laws and regulations and subject themselves to U.S. courts and litigation. By no means should it be allowed for BoC with a branch in New York to hide information concerning assets connected to counterfeiters, even though due process considerations should serve as a limit on such requests. Subjecting BoC's headquarters to U.S. law *via* their New York branches will not imperil, but enhance, the city's status as a global financial center. A more workable standard is highly demanded to accommodate the competing concerns of U.S. discovery and Chinese secrecy laws. Although the court might not be the best forum to address cross-border counterfeiting, for the sake of global governance, the jurisdiction with extraterritorial effect over Chinese banks in the U.S. should provide greater legal protections to consumers.

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<sup>233</sup> Council on Foreign Relations, 'The Global Regime for Transnational Crime' (25 June 2013) <http://www.cfr.org/transnational-crime/global-regime-transnational-crime/p28656>