

Follow the money

– chasing international counterfeiters through the US legal system

US trademark law contains robust remedies for brand owners looking to bring offshore infringers to justice. Although the process requires diligence, it is possible to use it to identify counterfeiters and even freeze and ultimately recover funds held in foreign accounts

Most brand owners are all too familiar with the elusive, yet pervasive nature of international counterfeiters, who take advantage of the Internet to violate IP rights with apparent impunity. These highly sophisticated traffickers in infringing goods register hundreds or even thousands of domain names, which they use for websites that sell counterfeit goods to consumers throughout the United States and Europe. These websites can operate only to the extent that they accept payment. Without some form of payment processing mechanism, they would simply cease to exist.

Typically, these websites accept credit card payments as compensation for their counterfeit products. These transactions are processed either by unscrupulous payment processors operating in China or Europe or, in some cases, by legitimate payment processors which have been deceived about the nature of the goods sold. For example, the counterfeiters may use a dummy website which offers non-branded goods to fool financial

AUTHORS
 ANNE COYLE,
 HOWARD S
 HOGAN AND
 ROBERT WEIGEL

institutions into accepting them into a credit card processing system. The proceeds from the sale of the counterfeits are then transferred from the account that the payment processor maintains for the counterfeiter back to a bank in the counterfeiter’s home country.

Using these international institutions, a counterfeiting ring selling goods from China online to consumers in the West may make use of Indian and Malaysian web hosts, Latvian payment processors and bank accounts in multiple countries. Each of these service providers and financial institutions will possess valuable information about the counterfeiting enterprise. Critically, the bank at the end of the line of an intricate web of wire transfers – which is often located in China – will end up with the illicit proceeds from the sale of counterfeits. The reason for this is simple: the money must end up back where the goods were manufactured in order to pay for the counterfeiters’ inventory.

Although it is straightforward enough for a brand owner to obtain a court order shutting down websites that blatantly infringe IP rights, the counterfeiters will simply move their websites to new domain names, forcing the brand owner to start again. Counterfeiters will usually not even bother to defend the case or to comply with a plaintiff’s discovery requests, believing themselves to be insulated from the enforcement of any judgment issued by a US or European court. This is especially true of counterfeiters in China, which does not recognise the judgments of US courts.



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Yet the counterfeiters are not as safe as they assume. US trademark law provides robust remedies for brand owners to bring offshore infringers to justice. Although the process requires diligence, it is possible to use lawful court process to learn the true identities of the counterfeiters, obtain information about their bank accounts and freeze and ultimately recover funds held in foreign accounts. If the brand owner can demonstrate that a foreign bank is subject to the personal jurisdiction of a US court – and most foreign banks that accept dollar-denominated wire transfers have operations in New York designed to effect such transfers – then the court can order the bank to turn over the counterfeiters’ funds held in foreign accounts.

Freezing illicit profits

There is no question that under US federal law, a brand owner has the right to obtain an injunction freezing funds held by counterfeiters to support an equitable accounting of the profits of the counterfeiting scheme. This right was affirmed by the Second Circuit – the intermediate federal appellate court based in New York, which is one rung below the US Supreme Court – in *Gucci America Inc v Bank of China* (768 F 3d 122 (2014)). In that case, the Second Circuit also expressly affirmed the trial court’s authority to freeze funds held by counterfeiters outside the United States, so long as the court has personal jurisdiction over the counterfeiters. Personal jurisdiction is easily obtained on the basis of a counterfeiter’s intentional infringing acts directed to a state, such as:

- operating an interactive website selling counterfeits to consumers within the state;
- selling and shipping the counterfeit goods to the state; and
- infringing the intellectual property of an entity with significant ties to the state.

Thus, a court sitting in New York has the power to freeze the assets of individuals operating in China, including funds in their Chinese bank accounts. Whether a foreign bank will actually refrain from allowing counterfeiters to move their funds is another question; but the Second Circuit’s *Gucci America Inc* decision confirms that, subject to a balancing test set forth in the Restatement (Third) of Foreign Relations Law, a court may hold a foreign bank responsible for acting in concert with a defendant to violate the terms of an asset freeze if the bank receives notice of the order and has contacts with the United States sufficient to subject it to personal jurisdiction there. Certain courts have held that acting in concert with a party to violate a known court order is by itself a sufficient basis to confer personal jurisdiction upon the court that issued the order.

Obtaining discovery from counterfeiters’ service providers and banks

A counterfeiting victim may also ask a court in the United States to order expedited disclosures from third parties as part of preliminary relief available to address an ongoing counterfeiting operation. US discovery is broad and courts will generally allow a plaintiff to obtain all information that is reasonably related to its claims. The plaintiff may serve third-party service

providers and financial institutions with subpoenas seeking information about the defendants and their bank accounts. Although the names used to register domain names for the purposes of selling counterfeits on the Internet are usually either false or hidden behind yet more international proxy companies, a rights holder can often learn the true names and banking information of the counterfeiters by subpoenaing payment processors. This is because, even if a counterfeiter is using a fake website to gain access to a payment processor and credit card networks, it must reveal its actual bank account information in order to receive the payments that are processed. A payment processor will therefore possess the critical information that leads to the bank accounts.



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Payments made by credit cards may involve multiple levels of payment processors, but are ultimately tied to a merchant bank account or acquiring bank account, which receives the funds taken in by the merchant. These are then usually transferred to other bank accounts maintained by the counterfeiters. The plaintiff can serve subpoenas on these banks (simultaneously serving a copy of the court’s asset restraining injunction) to obtain a record of the money derived from the sale of counterfeits and identifying information about the accounts to which the proceeds are distributed, such as suppliers, creditors and other participants in the counterfeiting ring. Thus, these bank records will often not only reveal the true identity of the counterfeiters and the amount of illicit profits taken in, but also show transfers to other individuals responsible for the counterfeit products.

Many banks, including banks in China and some European countries, take the position that their home country’s bank secrecy laws preclude the provision of bank account records called for by a subpoena or an order of the court. They will argue that the plaintiff should be required to seek discovery through the processes established by the Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters. However, the Hague process is likely to take many months or even years, depending on the country involved, which can give counterfeiters plenty of time to hide their assets. In fact, a foreign ministry of justice may also deny requested information without explanation, as few countries have as liberal a discovery standard as the United States. The Hague Convention is therefore a poor substitute for discovery pursuant to the US federal rules of civil procedure, particularly where time is of the essence. The US Supreme Court held in *Société Nationale Industrielle Aérospatiale v US District Court for the Southern District of Iowa* (482 US 522 (1987)) that a district court need not require discovery from a foreign entity to be taken pursuant to the Hague Convention; rather,

the court must undertake a specific factual analysis to determine whether discovery should proceed pursuant to US law.

One further wrinkle is that although many foreign banks operate branch offices in New York, there may be a developing trend of banks challenging the jurisdiction of a New York court to enforce a subpoena against a bank that does not have its principal place of business in New York. The Supreme Court's decision in *Daimler AG v Bauman* (134 S Ct 746 (2014)) held that a corporation will generally be subject to general personal jurisdiction (meaning that it can be brought before the court for any purpose) only if it has its principal place of business or is incorporated in that jurisdiction. However, courts may nevertheless be able to establish specific personal jurisdiction over a foreign bank if there are in-state contacts which have a relationship to the litigation. The law in this area is still evolving, but at least one court recently exercised specific personal jurisdiction to enforce a subpoena against a Chinese bank based on the bank's deliberate and repeated use of its New York correspondent accounts to transfer the defendants' US dollars to accounts in China.

Comity issues: analysing a conflict of laws

A foreign bank opposing the enforcement of a US subpoena based on another country's bank secrecy law will often argue that a US court should refrain from enforcing a court order on the basis of comity – the principle that foreign sovereigns should respect one another's laws within their respective sovereign territories. Globalisation has tested the limits of this principle, as acts undertaken in one country increasingly affect the legal rights of individuals and entities in another country. When confronted with an asserted conflict between the laws of the United States and a foreign jurisdiction, a US court will analyse the following factors set forth in the Restatement (Third) of Foreign Relations Law:

- the importance of the documents or information requested to the litigation;
- how specific the request is;

- whether the information originated in the United States;
- the availability of alternative means of retrieving the information; and
- the extent to which non-compliance with the request would undermine important interests of the United States or compliance would undermine the important interests of the state where the information is located.

In addition to these five factors, courts may consider the hardship of compliance on the party or witness from which discovery is sought and the good faith of the party resisting discovery.

The analysis is highly fact specific, but most courts will consider the United States' interest in enforcing its laws – especially the trademark laws, which protect the public interest – to be significant. By contrast, an asserted foreign bank secrecy law may be waivable by the customer and, as one US court judge has found, should not be permitted to shield defendants which have committed serious violations of US law. In addition, foreign banks will face difficulties if they cannot show that they are likely to face sanctions in their home jurisdiction.

Courts have reached differing conclusions with respect to the comity analysis, but a strong case can be made that the bank should be forced to comply with the US court's order to produce documents (even in the face of a true conflict of law) because the bank is reaping the benefits of doing business in the United States. A bank that fails to comply with a court order may face steep sanctions for contempt. One New York federal court recently imposed a \$50,000 per day fine against a Chinese bank which defied its order to comply with a plaintiff's subpoena.

Recovering illicit profits from counterfeiters' banks

Of course, the ultimate goal of a brand owner is not only to gain information about the defendants and their counterfeiting operations, but also to recover the damages suffered as a result of the infringement. As noted, it is straightforward to obtain an asset restraint against counterfeiters. The restraint may be imposed pre-judgment through a preliminary injunction and may be continued post-judgment until the plaintiff can execute its judgment against the accounts. In a series of recent cases brought by Tiffany & Co in New York, courts continued the pre-judgment asset restraints entered at the beginning of the cases in the final judgments, over the objection of several Chinese banks which claimed that the judgments would expose them to charges of contempt if they allowed the counterfeiters to withdraw funds from the accounts.

Actually obtaining the funds is another matter. New York adheres to the separate entity rule, which provides that service of an asset restraining notice on a foreign bank's branch in the state is insufficient to reach the funds in an offshore account (*Motorola Credit Corp v Standard Chartered Bank*, 24 NY 3d 149 (2014)). However, the separate entity rule does not preclude asserting personal jurisdiction over a bank's foreign head office based on other grounds. It is well-established law in New York that a court with personal jurisdiction over a bank

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may order it to turn over funds regardless of where they are held. For example, in *Kohler v Bank of Bermuda Ltd* (12 NY 3d 533, 541 (2009)), New York's highest appellate court held that a Bermuda bank could be required to bring the debtors' stock certificates from Bermuda to New York to satisfy a judgment.

More recently, New York's highest court held that a bank's deliberate and repeated use of New York correspondent accounts to transfer US dollars was sufficient to justify the exercise of jurisdiction over a foreign bank, even one lacking a New York branch. In *Licci v Lebanese Canadian Bank, SAL* (20 NY 3d 327 (2012)), plaintiffs asserted that a Lebanese bank repeatedly transferred funds on behalf of its terrorist clients using a correspondent account in New York. The court held that: "a foreign bank's repeated use of a correspondent account in New York on behalf of a client – in effect, a 'course of dealing' – show[s] purposeful availment of New York's dependable and transparent banking system, the dollar as stable and fungible currency, and the predictable jurisdictional and commercial law of New York and the United States." The Lebanese bank could therefore be subject to suit in New York.

A correspondent account is one of the primary means that banks use to make US dollar-denominated transfers to offshore accounts. Counterfeiters selling goods into the United States (and often to European countries as well) necessarily receive US dollar payments and must have some means of transferring these to their accounts in their home country. Following *Licci*, a recent district court opinion held that a Chinese bank's use of a New York-based correspondent account to make repeated transfers to defendants' accounts in China was sufficient to establish personal jurisdiction for the purposes of ordering the bank to comply with plaintiffs' subpoenas (see *Gucci Am, Inc v Li*, 10 Civ 4974 (RJS), 2015 WL 5707135 (SDNY September 29 2015)). Following this logic, there is certainly a good argument that a foreign bank's use of New York's dependable banking system to transfer

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defendants' illicit profits to banks' offshore accounts should also be sufficient to justify an order turning over funds which are proven to result from unlawful counterfeiting.

In summary, a brand owner in pursuit of international counterfeiters has powerful tools at its disposal, including:

- obtaining an asset freeze against the counterfeiters' funds;
- obtaining third-party discovery from the counterfeiters' service providers;
- following that trail to discover the counterfeiters' offshore bank accounts;
- obtaining discovery from the banks;
- obtaining post-judgment asset restraint of the counterfeiters' accounts; and
- obtaining an order requiring the bank to turn over the funds held in the foreign accounts.

The primary obstacles that the brand owner can expect to encounter (beyond the general intransigence of the counterfeiters and their propensity to hide assets) are foreign banks' assertions of bank secrecy laws and the argument that the court lacks personal jurisdiction to make the bank comply with the courts' orders. However, there is a developing body of case law in the United States finding that a brand owner can prevail on a comity analysis and succeed in obtaining discovery from a foreign bank. These cases also create a path forward to recovering illicit funds. Brand owners that are willing to pursue this path may be able to finally take an important incentive out of the counterfeiting industry. **WTR**



Howard S Hogan and Robert Weigel are partners, and Anne Coyle is an associate, at Gibson Dunn
HHogan@gibsondunn.com
RWeigel@gibsondunn.com
ACoyle@gibsondunn.com