# Amendment of Chinese Civil Procedure Law Concerning Foreign Affairs

**by Du Tao*/Xie Keshi**

On September 1, 2023, the fifth session of the Standing Committee of the 14th National People's Congress deliberated and adopted the Decision of the Standing Committee of the National People's Congress on Amending the Civil Procedure Law of the People's Republic of China, which will come into force on January 1, 2024. This amendment to the Civil Litigation Law implements the Party Central Committee's decision and deployment on coordinating domestic rule of law and foreign-related rule of law, strengthening foreign-related rule of law construction, and among the 26 amendments involved, the fourth part of the Special Provisions on Foreign-related civil Procedure is exclusive to 19, which is the first substantive amendment to the foreign-related civil procedure since 1991.

**Expand the jurisdiction of Chinese courts over foreign-related civil cases**

The type of cases the court has jurisdiction over has been revised from "disputes due to contract or other property rights" to "foreign-related civil disputes other than personal status." Besides, other appropriate connections have been added as the basis of jurisdiction, from the original enumeration to the combination of enumeration and generalization. In addition to providing jurisdiction based on choice-of-court agreements, this revision also adds two categories of exclusive jurisdiction which are the establishment, dissolution, and liquidation of legal persons or other organizations established in the territory of the People's Republic of China and proceedings brought in connection with disputes relating to the examination of the validity of intellectual property rights granted in the territory of the People's Republic of China.

The above amendments have further expanded the jurisdiction of Chinese courts over foreign-related civil litigation cases, which makes it more convenient for Chinese citizens to sue and respond to lawsuits in Chinese courts and better safeguard the legitimate rights and interests of Chinese citizens and enterprises.

**Add provisions on parallel litigation**

First, this revision adds a general provision for parallel litigation and a mechanism for coordinating jurisdictional conflicts. Where the parties are involved in the same dispute, one party institutes an action in a foreign court, while the other party institutes an action in a people's court, or one party institutes an action in both a foreign court and a people's court, the people's court which has jurisdiction in accordance with this law may accept the action. If the parties enter into an exclusive jurisdiction agreement and choose a foreign court to exercise jurisdiction, which does not violate the provisions of this law on exclusive jurisdiction and does not involve the sovereignty, security, or public interest of the People's Republic of China, the people's court may rule not to accept.

Second, this revision adds a new suspension and restoration mechanism for civil and commercial cases accepted by foreign courts after being accepted by Chinese courts. After a people's court accepts a case in accordance with the provisions of the preceding article, if a party applies to the people's court in writing for suspending the proceedings on the ground that the foreign court has accepted the case before the people's court, the people's court may render a ruling to suspend the proceedings, except under any of the following circumstances: (1) The parties, by an agreement, choose a people's court to exercise jurisdiction, or the dispute is subject to the exclusive jurisdiction of a people's court. (2) It is evidently more convenient for a people's court to try the case. If a foreign court fails to take necessary measures to try the case or fails to conclude the case within a reasonable time limit, the people's court shall resume proceedings upon the written application of the party. If an effective judgment or ruling rendered by a foreign court has been recognized, in whole or in part, by a people's court, and

the party institutes an action against the recognized part in the people's court, the people's court shall rule not to accept the action, or render a ruling to dismiss the action if the action has been accepted.

Third, this revision adds a new jurisdiction objection mechanism in the principle of inconvenient court. Where the defendant raises any objection to jurisdiction concerning a foreign-related civil case accepted by a people's court under all the following circumstances, the people's court may rule to dismiss the action and inform the plaintiff to institute an action in a more convenient foreign court: (1) It is evidently inconvenient for a people's court to try the case and for a party to participate in legal proceedings since basic facts of disputes in the case do not occur within the territory of the People's Republic of China. (2) The parties do not have an agreement choosing a people's court to exercise jurisdiction. (3) The case does not fall under the exclusive jurisdiction of a people's court. (4) The case does not involve the sovereignty, security, or public interest of the People's Republic of China. (5) It is more convenient for a foreign court to try the case. If a party institutes a new action in a people's court since the foreign court refuses to exercise jurisdiction over the dispute, fails to take necessary measures to try the case, or fails to conclude the case within a reasonable period after a people's court renders a ruling to dismiss the action, the people's court shall accept the action.

The amendments above conform to the international trend, integrate and optimize and further improve the mechanism for handling jurisdictional conflicts, and provide a clearer and more authoritative normative guidance for the people's courts to coordinate handling jurisdictional conflicts in foreign-related civil and commercial cases in the future.

**Revise relevant regulations on service of foreign-related documents**

First, the limitation that an agent ad litem must have the right to accept service on his behalf in the original Civil Procedure Law is deleted, and it is clear that as long as the agent ad litem entrusted by the person served in this case, they should

accept service, so as to curb the phenomenon of parties evading service.

Second, this revision adds the provision of "Documents are served on a wholly-owned enterprise, a representative office, or a branch office formed by the recipient within the territory of the People's Republic of China or a business agent authorized to receive the service of documents".

Third, this revision adds the provision of "[i]f the recipient who is a foreign natural person or a stateless person serves as the legal representative or principal person in charge of a legal person or any other organization formed within the territory of the People's Republic of China and is a co-defendant with such a legal person or other organization, documents are served on the legal person or other organization".

Fourthly, this revision adds the provision of "[i]f the recipient is a foreign legal person or any other organization, and its legal representative or principal person in charge is within the territory of the People's Republic of China, documents are served on its legal representative or principal person in charge".

Fifthly, this revision adds the provision of "documents are served in any other manner agreed upon by the recipient unless it is prohibited by the law of the country where the recipient is located".

Last but not least, the time for the completion of service of a foreign-related announcement is shortened from three months after the date of announcement in the original Civil Procedure Law to 60 days after the date of issuance of the announcement, so that the starting point of service of a foreign-related announcement is more clear and the period of the announcement is shorter.

The above amendments moderately penetrate the veil of a legal person or an unincorporated organization and provide for alternative service between the relevant natural person and the legal person or unincorporated organization, helping enhance the possibility of successful service and the coping of difficult service in foreign-related cases.

**Add provisions on extraterritorial investigation and evidence collection**

On one hand, amended China's Civil Procedure Law continues the requirement that Chinese courts conduct extraterritorial investigation and evidence collection in accordance with international treaties or diplomatic channels. On the other hand, it adds other alternative ways for Chinese courts to conduct extraterritorial investigation and evidence collection, that is, if the laws of the host country do not prohibit it, Chinese courts can adopt the following methods for investigation and evidence collection: (1) If a party or witness has the nationality of the People's Republic of China, the diplomatic or consular missions of the People's Republic of China in the country where the party or witness is located may be entrusted to take evidence on his behalf; (2) Obtaining evidence through instant messaging tools with the consent of both parties; (3) Obtaining evidence in other ways agreed by both parties.

This revision enriches the methods of extraterritorial investigation and evidence collection of Chinese courts and brings more convenience to the judicial practice of extraterritorial evidence collection in foreign-related civil litigation, thus raising the enthusiasm of judicial personnel for extraterritorial evidence collection and improving the trial efficiency and quality of foreign-related civil cases.

**Improve the basic rules on the recognition and enforcement of extraterritorial judgments, rulings, and arbitral awards**

Amended Chinese Civil Procedure Law provides the circumstances under which a judgment or order with extraterritorial effect is not recognized or enforced and the suspension and restoration mechanism of litigation involving disputes of foreign effective judgments and rulings applied for recognition and enforcement that have been accepted by Chinese courts. Furthermore, it revises the expression of extraterritorial arbitration award determination and expands the scope of Chinese courts to apply for recognition and enforcement of extraterritorial effective arbitration award.

**Conclusion**

This revision of China's Civil Procedure Law focuses on improving the foreign-related civil procedure system. On one hand, the mature provisions in previous judicial interpretations, court meeting minutes, and other documents have been elevated to law, providing a more solid legal basis for the court's jurisdiction and service of foreign-related cases. On the other hand, it gives a positive response to conflicts in judicial practice and differences in interpretation of existing rules, introduces consensus in practice into legislation, reduces various obstacles for courts to exercise jurisdiction over foreign-related cases, conforms to the trend of international treaties and practices, and clarifies the specific scope of application of various rules. It will better protect the litigation rights and legitimate rights and interests of Chinese parties, better safeguard China's national sovereignty, security and development interests, and better create a market-oriented, law-based, and internationalized first-class business environment.

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# The Inter-American Court of Human Rights: first judgment on international child abduction

*Guest post by Janaína Albuquerque, International Lawyer and Mediator*

The Inter-American Court of Human Rights (IACtHR) has just published their first ever judgment on an international child abduction case in *Córdoba v. Paraguay*, which concerns the illicit removal of a child who was habitually resident in Argentina. The applicant and left-behind parent, Mr. Arnaldo Javier Córdoba, claimed that Paraguay violated his human rights by failing to enforce the return order and ensuring the maintenance of contact with his son. At the time of the abduction, the child was about to reach 2 years of age and the taking parent relocated, without the father's consent, to Paraguay.

Both Argentina and Paraguay are Contracting States to the American Convention on Human Rights (or Pact of San José) and the American Declaration of the Rights and Duties of Man, which are the main instruments assessed by the Inter-American Court and Commission. Paraguay has also accepted the Court's jurisdiction in 1993. Differently from the European Court of Human Rights (ECtHR), applicants cannot present a request directly to the Inter-American Court. The petition must be firstly examined by the Inter-American Commission on Human Rights (IACHR), which will, then, issue recommendations or refer the case to the Court.

Apart from the abovementioned human rights instruments, the Inter-American framework also comprises the 1989 Convention on the International Return of Children. In accordance with Article 34, the referred treaty prevails over the 1980 Hague Convention on the Civil Aspects of International Child Abduction where the States involved are both Members of the Organisation of American States (OAS), unless otherwise stipulated by a bilateral agreement.

Although similar in content, the Inter-American Convention differs substantially from the Hague mechanism, particularly regarding jurisdiction. For instance, Article 6 states that it is the Contracting State in which the child was habitually

resident before the removal or retention that has jurisdiction to consider a petition for the child's return, indicating that the Contracting State in whose territory the abducted child is or is thought to be only has jurisdiction if the left-behind parent choses so and in urgent cases. Another core change is found in Article 10, which prescribes that, if a voluntary return does not take place, the judicial or administrative authorities shall forthwith meet with the child and take measures to provide for his or her temporary custody or care. The exceptions to the return are in a different order than the Hague Convention, but remain relatively the same in practice, with minor changes to the wording of the provisions.

In *Córdoba v. Paraguay*, the applicant filed the petition on 30 January 2009. During the time that the merits were being assessed by the Commission, the applicant presented two requests for precautionary measures and only the second one was adopted by the *Resolución nº 29/19* on 10 May 2019. The case was finally referred to the Court 13 years after it was initiated, on 7 January 2022. Public hearings were held on 28 April 2023 and Reunite (United Kingdom), as well as the legal clinics of the Catholic University Andrés Bello (Venezuela) and the University of La Sabana (Colombia) participated in the proceedings as Amicus Curiae.

*Restitution efforts in Paraguay*

As regards the restitution efforts, the left-behind parent seized the Argentinian Central Authority on 25 January 2006, 4 days after the abduction took place. The dossier was received by the Paraguayan counterpart on 8 February 2006. Thereafter, judicial cases were brought both to the Juvenile Courts of Buenos Aires, in Argentina, and of Caacupé, in Paraguay. The return proceedings were carried out in the latter.

The taking parent argued the grave risk exception due to a history of physical and psychological domestic violence. Nevertheless, the Caacupé court ordered the return of the child. The taking parent appealed, claiming, furthermore, that the child suffered from a permanent mental condition. The Court of Appeal and the Supreme Court of Paraguay confirmed the first judgment. A 'restitution hearing' was scheduled to take place on 28 September 2006, but the taking parent did not attend.

Paraguayan authorities conducted searches for the taking parent and the child between the remainder of 2006 and 2009, which were unsuccessful. The child was eventually located by INTERPOL on 22 May 2015, still in Paraguay, at the city of Atyrá. The taking parent was preventively detained and custody was granted to the maternal aunt. The Juvenile court also ordered a protective measure in order to establish a supervised and progressive contact arrangement with the father and the paternal family. The child refused to go near the left-behind parent, and the psychological team of the court concluded that it would be impossible to enforce the return order.

On 7 March 2017, the Public Defender's Office filed a request to establish the child's residence in Paraguay, which was accepted by the Juvenile court under the argument that 11 years had passed since the return order was issued and that other rights had originated in the meantime. Additionally, it was decided that, given the outcomes of the previous attempts, no contact would be established between the left-behind parent and the child. The Paraguayan Central Authority appealed and reverted the decision in regard to visitation, where it was stipulated that the left-behind parent should come to Paraguay to meet with the child. This arrangement was, then, confirmed by the Court of Appeal and, subsequently, by the Supreme Court.

In 2019, the Ministry of Childhood and Adolescence of Paraguay asked for an evaluation of the situation of the child. It was informed that the child had been receiving monthly psychological treatment; that he was living with his aunt and her husband; and that the mother visited him daily. Contrastingly, between 2015 and 2018, 4 visits had been organised with the father, in which 3 were accompanied by the paternal grandmother. A hearing was finally held on 23 May 2019, where the child expressed to the court that he did not want to be 'molested' by his father nor did he desire to maintain a bond with him.

*Merits*

On the merits, the IACtHR (hereinafter, 'the Court') noted that it would assess potential violations to Articles 5 (Right to Humane Treatment), 8 (Right to a Fair Trial), 11 (Right to Privacy), 17 (Rights of the Family), 19 (Rights of the Child) and 25 (Right to Judicial Protection) of the Pact of San José ('the Pact') in light of the application of the 1989 Inter-American Convention. References were also made to the complementary incidence of the United Nations Convention on the Rights of

the Child, the 1980 Hague Child Abduction Convention and the 1996 Hague Child Protection Convention, as well as the General Comments nº 12 and 14 of the Committee on the Rights of the Child.

Initially, the Court remarked that, at the time of the case's referral by the Commission, the child was about to turn 18 and that both the Inter-American and Hague Conventions were only applicable until the child reached the age of 16. It was noted, with concern, that the child had not been heard during most of the proceedings and that Article 12 of the UNCRC had been disregarded. As the child manifested that he did not feel like a victim and had no interest in pursuing his father's claim, the Court decided to only assess the human rights violations suffered by Mr. Córdoba.

Regarding the violations of judicial guarantees and protection, the Court analysed the right to a reasonable timeframe and the State's obligation to enforce judgments issued by competent authorities, accentuated by the particular condition of urgency required in proceedings involving children. An explicit reference was made to *Maumousseau and Washington v. France* inasmuch as the ECtHR concluded that, in international child abduction cases, the *status quo ante* must be re-established as quickly as possible to prevent the consolidation of illegal situations.

As the judicial proceedings for the return were concluded within 8 months, the Court did not find that there had been a violation of Article 8.1 of the Pact. However, Article 25.2.c prescribed that the State's responsibility did not end when a judgment had been reached and that public authorities may not obstruct the meaning nor the scope of judicial decisions or unduly delay their enforcement (*Mejía Idrovo v. Ecuador* and *Federación Nacional de Trabajadores Marítimos y Portuarios v. Perú*). References to *Maire v. Portugal* and *Ignaccolo-Zenive v. Romania* from the ECtHR were also made to reinforce that such delays brought irreparable consequences to parent-child relationships. It had not been reasonable that the State of Paraguay, for 9 years, was not able to locate a child that regularly attended school and received care from the public health services. After the child was found, custody was immediately granted to the maternal aunt and contact with the father was hindered throughout the subsequent proceedings. Furthermore, the precautionary measures awarded by the Commission to instate a detailed visitation plan had not been enforced as a result of the COVID-19 pandemic, which contributed to the permanent deterioration of paternal bonds.

Hence, the lack of diligence and morosity of the Paraguayan authorities resulted in a violation of Article 25.2.c of the Pact of San José.

In relation to the personal integrity, private and family life, and family protection, the Court focused on the assessment of Articles 11.2 and 17.1. It was firstly stated that arbitrary or abusive interferences to family life from third parties or the State are strictly forbidden, and that the latter must take positive and negative actions to protect all persons from this kind of conduct, especially if they affect families (*Ramírez Escobar y otros v. Guatemala* and *Tabares Toro y otros v. Colombia*). Secondly, it was asserted that the separation of children from their families should be exceptional and, preferably, temporary (*Opinión Consultiva OC-17/02*, *Opinión Consultiva OC-21/14*, *Fornerón e hija v. Argentina* and *López y otros v. Argentina*), emphasizing that the child must remain in their family nucleus as parental contact constitutes a fundamental element of family life (*Dial et al. v. Trinidad y Tobago* and *Personas dominicanas y haitianas expulsadas v. República Dominicana*). The Court clarified that effective family protection measures favour the development and strengthening of the family nucleus and that, in contexts of parental separation, the State must guarantee family reunification to prevent unduly estrangement (*K. and T. v. Finland*, *Jansen v. Norway* and *Strand Lobben and Others v. Norway*).

The Court concluded that the lack of diligence and exceptional promptness required by the circumstances resulted in a rupture of paternal bonds. Moreover, the reconnection efforts were excessively delayed without providing significant advances or conditions to enable the improvement of the family relationship on the paternal side. Therefore, Paraguay had not only breached Articles 11.2 and 17, but also Article 5 for putting the applicant in a permanent state of anguish that resulted in a violation of his personal integrity.

Lastly, the Court stated that States are encouraged to adopt all necessary provisions in their legal systems to ensure the adequate implementation of international treaties and improve their operation. Even though it was observed that Paraguay had enacted internal regulations, they had not yet entered into force when the facts of the case unravelled. Consequently, Articles 1.1 and 2 of the Pact of San José had also been violated.

*Reparations*

One of the keys aspects of the Inter-American Court's judgments is that they thoroughly establish resolution points that must be individually satisfied. The State will send periodic reports to the Court specifying what measures have been taken to fulfil the decision, for as long as it takes, until the case is considered to be fully resolved.

In *Córdoba v. Paraguay*, the Court determined:

1. The payment of psychological and/or psychiatric treatment to Mr Córdoba;
2. The publication of the summary of the judgment in the officialgazette and in a media outlet with wide national circulation;
3. The adaptation of the domestic framework through the adoption of legislation that incorporates the standards set out in the judgment;
4. The establishment of a database to cross-reference information on internationally abducted children, which comprises all public systems that record data on people, such as social security, education, health and reception centres;
5. The creation of a communication network to process entries of internationally abducted children whose whereabouts are unknown and send search alerts for institutions involved in their care;
6. The accreditation of a training aimed at public servants of the judicial system and officials of the Ministry of Childhood and Adolescence on the issues appertaining to internationally abducted children and the need to safeguard their right to family life. The State must also indicate to which officials such training was addressed, the number of persons who effectively participated, and whether it was instituted as a permanent programme; and
7. The payment of the amounts set out in the judgement in terms of material and moral damages, costs and expenses, and reinstatement of the costs to the Court's victims' legal aid fund.

*Final observations*

International child abduction has been a long-awaited addition to the Inter-American portfolio in its intersection between international human rights law and

international family law. The fact that *Córdoba* is the first decision to reach the Court does not mean that human rights violations seldom happen within American States in such cases, but it undoubtedly reveals that the pathway to reach an international judgment is long. Because the Commission must refer the cases to the Court, it will take time before extensive case-law is developed on the topic. Nonetheless, the decision represents an advance in many aspects, especially for establishing a set of standards amongst Caribbean and Latin American countries, which are the ones who majorly ratified the Pact of San José and accepted the Court's jurisdiction.

It must also be noted that, despite there being allegations by the taking parent against the left-behind parent of domestic violence, little was mentioned in regard to the evaluation of grave risk of harm to the physical and psychological well-being of the child by the Paraguayan authorities and if this interfered in any way with the applicant's rights. Many references were made to the Guide of Good Practice of the 1980 Hague Conventions and the ECtHR case-law, yet this assessment seems to have been ignored by the IACtHR. As remarked in *X. v. Latvia*, "*the [ECtHR] reiterates that while Article 11 of the [1980] Hague Convention does indeed provide that the judicial authorities must act expeditiously, this does not exonerate them from the duty to undertake an effective examination of allegations made by a party on the basis of one of the exceptions expressly provided for, namely Article 13 (b) in this case*". Additionally, the HCCH Guide to Good Practice on Article 13 (1) (b) states in paragraph 37 that "(…) *past incidents of domestic or family violence may, depending on the particular circumstances, be probative on the issue of whether such a grave risk exists*". The exceptions displayed on Article 13 (1) (b) and (2) of the 1980 Hague Convention are both reflected on Article 11 of the 1989 Inter-American Convention, which arguably means that more attention could have been granted to the analysis of potential situations of danger and the vehement refusal of the child to maintain any sort of contact with the father.

Even though the Court decided to respect the child's wishes and refrained from examining the human rights violations that affected him, it must not be disregarded that the *Córdoba* judgment lacks a best interests assessment and that it might take some time before another international child abduction case gets a Commission referral. Apart from the grave risk analysis, it would have been enlightening to better understand how the Court perceived a potential violation of

the child's right to be heard, including an assessment of *how* the child was heard, as well as the other children related rights safeguarded by the Inter-American normative instruments, including the protection of private and family life, that were afflicted.

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# Moroccan Supreme Court on the HCCH 1996 Child Protection Convention

Among all Arab and Muslim-majority countries, Morocco stands out as the only State to have ratified seven (7) HCCH Conventions. This number of ratifications, comparable to that of other prominent countries such as United States or Japan, speaks volumes about Morocco's commitment to being an integral part of the global network of jurisdictions benefiting from the work of the HCCH on the harmonisation of private international and fostering mutual legal cooperation. The decisions of the Moroccan Supreme Court also reflect these efforts as the Court has shown its willingness to oversight the proper application of the HCCH Conventions (on the application of the 1980 HCCH Convention, see here). The Supreme Court Ruling No. 71 of 7 February 2023 briefly commented on here is another notable example related to the application of the 1996 HCCH Child Protection Convention. The case is also particularly interesting because it concerns the establishment of a *kafala* under Moroccan law for the purpose of relocating the child in another Contracting State (France *in casu*).

### The case

The petitioner, a single woman living and working in France (seemingly Moroccan but it is not clear whether she has dual citizenship status), submitted a petition on 31 January 2020 to the Family Division of the First Instance Court (hereafter 'FIC') of Taroudant, in which she expressed her intention to undertake guardianship of an abandoned child (A) – born on 13 May 2019 – by means of

*kafala*. The FIC approved the petition by a decree issued on 12 March 2020. Subsequently, the Public Prosecutor filed an appeal against the FIC's decree with the Court of Appeal of Agadir. On 20 January 2021, the Court of Appeal decided to overturn the FIC's decree with remand on the ground that the FIC had failed to comply with the rules laid down in article 33 of the 1996 HCCH Child Protection Convention, in particular the obligatory consultation in case of cross-border placement of the child.

The petitioner appealed to the Supreme Court arguing that:

1) The petitioner satisfied all the stipulated requirements under Moroccan law for the *kafala* of an abandoned child (notably the Law No. 15.01 of 13 June 2002 on the *kafala* of abandoned children, in particular article 9);

2) The Public Prosecutor failed to invoke the 1996 HCCH Convention during the proceedings before the FIC;

3) While article 33 might be applicable to countries such as Belgium and Germany, where *kafala* is not recognized, the situation differs in France, making the application of article 33 irrelevant in this context;

4) the Moroccan legislature, through the Law of 2002, has established the procedure for monitoring the well-being of children placed under *kafala* abroad, along with the ensuring the fulfilment of the caregiver's o obligations. Additionally, the 2002 Law on *kafala* was adopted within an international context dedicated to the protection of children, as reflected in the ratification by Morocco in 1993 of UN Child Convention of 1989.

**The Ruling**

The Supreme Court dismissed the appeal by ruling as follows:

"Pursuant to article 33 of the HCCH 1996 Child Protection Convention – ratified by Morocco on 22 January 2003 […]:

(1) If an authority having jurisdiction under Articles 5 to 10 contemplates the placement of the child in a foster family or institutional care, or the provision of care by *kafala* or an analogous institution, and if such placement or such provision

of care is to take place in another Contracting State, it shall first consult with the Central Authority or other competent authority of the latter State. To that effect it shall transmit a report on the child together with the reasons for the proposed placement or provision of care.

(2) The decision on the placement or provision of care may be made in the requesting State only if the Central Authority or other competent authority of the requested State has consented to the placement or provision of care, taking into account the child's best interests.

Therefore, since, according to the Constitution, the provisions of the [HCCH] Convention take precedence over the provisions of domestic law, including Law No. 15. 01 […], the Court of Appeal provided a sound justification for its decision when it relied on [Article 33] [which] mandates prior consultation with the central authority or other competent authority in France where the appellant resides and works, and considered that the failure of the FIC's decree to comply with the requirements of [Article 33] constituted a violation of the law leading to its decision to overturn the *kafala* decree".

**Comment**

The case is particularly important because, to the author's knowledge, it is the first Supreme Court's decision to apply the 1996 HCCH Child Protection Convention since its ratification by Morocco in 2002 (Royal Decree [Dhahir] of 22 January 2003 published in the Official Gazette of 15 May 2003). The Convention is often given as an example of successful accommodation of religious law in cross-border situations, since it not only specifically mentions *kafala* as a measure of protection of children, but also it "makes it possible for children from countries within the Islamic tradition to be placed in family care in Europe, for example, under controlled circumstances. (H van Loon, "The Accommodation of Religious Laws in Cross-Border Situations: The Contribution of the Hague Conference on Private International Law", *Cuadernos de Derecho Transnacional* (2010) Vol. 2(1) p. 264).

In this regard, article 33 of the Convention plays a central role as it establishes a

specific procedure for an obligatory prior consultation between the authorities of the State of origin and the authorities of the receiving State, the failure of which is sanctioned by refusal to recognise the *kafala* decree (Explanatory Report, para. 143, p. 593). The Practical Handbook on the Operation of the HCCH 1996 Child Protection Convention qualifies the rules under article 33 as "*strict* rules which *must be complied* with before th[e] placement [of the child in a foster family or institutional care, or the provision of care by *kafala* or an analogous institution] can be put into effect" (para. 13.33, p. 151. Emphasis added).

In the case commented here, the Supreme Court meticulously adhered to the aforementioned guidelines. Firstly, the Court stood by its case law underscoring the primacy of international conventions, and in particular the HCCH Conventions, over domestic law (see e.g., Ruling No. 283 of 2 June 2015 (Case No. 443/2/1/2014), Ruling No. 303 of 28 July 2020 (Case No. 629/2/2/2018), both dealing with the HCCH 1980 Child Abduction Convention. On these cases, see here). Secondly, the Supreme Court upheld the Court of Appeal's decision, asserting that the failure to use the procedure under article 33 of the 1996 HCCH Child Protection Convention warranted the overturning of the FIC's *kafala* decree.

This aspect of the ruling holds particular significance as lower courts have not always consistently demonstrated sufficient awareness of Morocco's obligations under the1996 HCCH Conventions. Indeed, some lower court decisions show that, sometimes, *kafala* decrees involving cross-border relocation of the child have been issued without mentioning or referring to the 1996 HCCH Convention (see *e.g.* Meknes Court of Appeal, Ruling No. 87 of 14 January 2013 granting *kafala* of a child to a Franco-Moroccan couple and allowing the couple to take the child out of Morocco. See also, the decision of Antwerp Court of Appeal of 16 May 2016 recognizing and declaring enforceable under Belgian domestic law a Moroccan *kafala* decree despite the fact that the procedure mandated by article 33 was not used in the State of origin). Moreover, Moroccan lower court decisions further indicate that the courts' main concern has often centred around whether the child's Islamic education and belief would be affected by the relocation of the child abroad (e.g. Meknes Court of Appeal, Ruling No. 87 of 14 January 2013 (*ibid*); *idem*, Ruling No. 19 of 7 January 2013 granting *kafala* of a Moroccan child to an American couple of Pakistani origins. On this issue in general, see Katherine E. Hoffman, "Morocco" *in* N. Yassari et al. (eds.), *Filiation and Protection of Parentless Children* (T.M.C. Asser, 2019) pp. 245ff).

Therefore, in deciding as it did, the Supreme Court emphasises the importance of respecting the procedure prescribed by article 33 before issuing a *kafala* decree involving cross-border placement. Compliance with this procedure ensures the recognition and enforcement of *kafala* decrees in all other Contracting States, thereby safeguarding the best interests of the child (The Practical Handbook, para. 13.33, p. 151).

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# The New Zealand Court of Appeal on the cross-border application of New Zealand consumer and fair trading legislation

The New Zealand Court of Appeal has just released a judgment on the cross-border application of New Zealand consumer and fair trading legislation (*Body Corporate Number DPS 91535 v 3A Composites GmbH* [2023] NZCA 647). The Court held that local consumer legislation – in the form of the Consumer Guarantees Act 1993 (CGA) – applies to foreign manufacturers. It also clarified that fair trading legislation – in the form of the Fair Trading Act 1986 (FTA) – applies to representations made to recipients in New Zealand. The decision is of particular interest to New Zealand consumers and manufacturers of goods that are supplied in New Zealand, as well as traders advertising their products to New Zealanders. More generally, the judgment provides a useful analysis of the interrelationship between statutory interpretation and choice of law, and lends weight to the proposition that product liability is properly governed by the law of the place of supply (or injury).

*Facts*

The defendant, 3A Composites GmbH (3AC), was a German manufacturer of a cladding product installed on the plaintiffs' buildings. The plaintiffs alleged that

the product was highly flammable because it contained aluminium composite panels with a polyethylene core. Panels of this kind were the main reason why the fire at Grenfell Tower in London had spread so rapidly. The plaintiffs brought proceedings against 3AC, as well as the importers and distributors of the cladding in New Zealand. They alleged negligence, breach of s 6 of the CGA and breaches of the FTA. In response, 3AC protested the New Zealand court's jurisdiction.

*The High Court*

The High Court upheld 3AC's protest in relation to the CGA and FTA causes of action, on the basis that they fell outside of the territorial scope of the Acts: *Body Corporate Number DP 91535 v 3A Composites GmbH* [2022] NZHC 985, [2022] NZCCLR 4.

In relation to the CGA, the plaintiffs claimed that 3AC's cladding was not of acceptable quality in accordance with the statutory guarantees in the CGA. Section 6 of the CGA provides for a right of redress against a manufacturer where goods supplied to a consumer are not of acceptable quality. The Court held that the Act did not apply to 3AC because it was a foreign manufacturer.

Referring to the Supreme Court's decision in *Poynter v Commerce Commission* [2010] NZSC 38, [2010] 3 NZLR 300, the Court concluded that there was "neither express language nor any necessary implication which would lead the Court to interpret the CGA as being intended to have extraterritorial reach" (at [45]). The CGA therefore did not apply to an overseas manufacturer like 3AC that did not have a presence in New Zealand (see [38]-[47]). The Court pointed to the definition of the term "manufacturer" in s 2 of the Act, which includes "a person that imports or distributes" goods that are manufactured outside New Zealand where the foreign manufacturer does not have an ordinary place of business in New Zealand. According to the Court, the clear inference to be drawn from this definition was that the Act did not have extraterritorial effect, because otherwise there would be no need to impose the obligations of the manufacturer's statutory guarantee upon a New Zealand-based importer of goods (at [42]-[44]).

In relation to the FTA, the plaintiffs argued that 3AC had engaged in misleading or deceptive conduct by making available promotional material on their website that was intended to have global reach and that specifically contemplated New

Zealand consumers (at [107]), and by authorising publication of promotional and technical information through their exclusive distributor in New Zealand (at [108]).

The Court held that the Act did not apply to 3AC's allegedly misleading or deceptive conduct. It referred to s 3(1), headed "application of Act to conduct outside New Zealand". The section extends the Act to conduct outside New Zealand by any person carrying on business in New Zealand to the extent that such conduct relates to the supply of goods in New Zealand. It was clear that 3AC had never engaged in carrying on business in New Zealand (at [117]). Moreover, there was no evidence to show that 3AC had made any representations to the plaintiffs relating to supply of their product in New Zealand (at [120]).

*The Court of Appeal*

The Court of Appeal, in a judgment by Goddard J, disagreed with the High Court's conclusion that the claims fell outside of the territorial scope of the Acts. In relation to the CGA, it held that the Act applies "to an overseas manufacturer of goods that are supplied in New Zealand" (at [61]). This interpretation was "consistent with [the] text and purpose [of the Act]", with "broader principles of private international law" and "with the approach adopted by the Australian courts to corresponding legislation" (at [61]). The relevant "territorial connecting factor", or "hinge", was the supply of goods in New Zealand (at [64], [65]).

As a matter of statutory interpretation, the Court of Appeal considered that "[o]n its face the Act applies, and there is no good reason to read it more narrowly" (at [76]). The concept of extraterritoriality was irrelevant in this context (at [70]). In particular, it was inaccurate "to describe the availability of relief in respect of a supply of goods to a consumer in New Zealand against a person outside New Zealand as an 'extraterritorial' application of the Act" (at [64]). The Act imposed strict liability, in relation to the products supplied in New Zealand to New Zealand consumers, and did not depend on the conduct of the supplier or manufacturer in New Zealand (at [71]).

In relation to the definition of "manufacturer", the Court accepted that its purpose was to provide a New Zealand consumer with the option of seeking redress against an importer or distributor of goods manufactured outside New

Zealand, in light of the potential difficulties faced by a consumer when suing an overseas manufacturer (at [66]). However, this did not mean that the manufacturer should be excused from liability (at [67]). The Act essentially provided for concurrent liability on the part of the overseas manufacturer and the New Zealand-based importer or distributor (at [69]), which was consistent "with the focus of the legislation on providing meaningful remedies to consumers of goods supplied in New Zealand" (at [69]). This approach was consistent with Australian authority (at [72]).

The application of "established private international law choice of law principles" led to the same result (at [77]). For claims in tort in relation to goods that have caused personal injury, the relevant choice of law rules favoured application of the law of the place of injury. Applying the law of the place of manufacture "would produce the unsatisfactory result of different products on the same shelf" being governed by different liability regimes (at [77], referring to *McGougan v DePuy International Ltd* [2018] NZCA 91, [2018] 2 NZLR 916 at [59]). There was "broad support for a similar approach to product liability claims (at [77]). Thus, there was "a strong argument that the applicable law, where a consumer brings a product liability claim in respect of goods supplied in New Zealand, is New Zealand law" (at [78]), which included the Consumer Guarantees Act.

The Court left open the question whether a different approach might apply where an overseas manufacturer did not know its products were being sold in New Zealand, or where it had consciously chosen not to sell its products here. These concerns did not arise on the facts of the case, so the Court did not need to determine "whether such a result would go beyond the purpose of the Act, or whether private international law principles provide a solution to any apparent injustice in such a case" (at [80]).

In relation to the FTA, the Court accepted that the relevant issue was whether 3AC engaged in conduct in New Zealand that breached the Act, so the fact that s 3 (on the extraterritorial application of the Act) did not apply was not decisive (at [103]). The Act applied to false and misleading conduct in New Zealand, "regardless of where the defendant is incorporated and where it carries on business" (at [102], referring to *Wing Hung Printing Co Ltd v Saito Offshore Pty Ltd* [2010] NZCA 502, [2011] 1 NZLR 754). This included communications made from outside New Zealand to recipients in New Zealand.

*Comment*

The Court of Appeal's judgment is to be welcomed. The principle of extraterritoriality has been responsible for causing considerable confusion in the past (see Maria Hook "Does New Zealand consumer legislation apply to a claim against a foreign manufacturer?" [2022] NZLJ 201). In treating the principle as irrelevant to this case, the Court laid the path for a clear and nuanced analysis of the issues. Not only did the Court refuse to adopt the lens of extraterritoriality, it was also prepared to rely on general choice of law rules, in addition to statutory interpretation, and treated both as relevant.

Courts often approach statutory interpretation and choice of law as exclusive methodologies. At the outset of the case, they identify whether the issue is one of statutory interpretation or choice of law, and then proceed with their analysis accordingly. Here, in relation to the CGA, the Court of Appeal applied both methodologies and found that the relevant connecting factor was the place of supply, regardless of which methodology applied. The implication seemed to be that there was a shared rationale for the place of supply as the most appropriate connecting factor and that, if the two methodologies had pointed in different directions, this *might* have been evidence that things had gone awry.

In this way, the judgment lends support to the proposition that statutory interpretation and choice of law are not engaged in any kind of "competition". There is a reason why product liability is typically governed by the law of the place of injury (or the place of supply, where liability is for pure economic loss). Why should this reason not also be determinative for claims under the CGA specifically? The more difficult question would be whether a statute should be given a wider scope of application than it would receive under bilateral choice of law. But here, too, it would be unhelpful to think of the conflict of laws as a kind of jilted discipline. The goal should be to identify the cross-border considerations that bear upon the scope of the particular statute, when compared to the rationale underpinning the choice of law rule that would otherwise be applicable. How else can a court decide whether a statute is intended to fall outside of general rules of choice of law? Statutory interpretation, and characterisation, are necessarily intertwined. It remains to be seen whether future courts will build on the Court of Appeal's judgment to engage more explicitly with the

interrelationship between statutory interpretation and choice of law.

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# China's New Foreign State Immunity Law: Some Foreign Relations Aspects

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On September 1, 2023, the Standing Committee of China's National People's Congress (NPC Standing Committee) passed the Law of the People's Republic of China on Foreign State Immunity (FSIL) (English translation here). The FSIL will enter into force on January 1, 2024.

This law heralds a fundamental shift of China's attitude towards foreign state immunity, from strict adherence to the absolute theory to adoption of the restrictive theory. According to Article 1 of the law, the FSIL aims to "to protect the lawful rights and interests of litigants, to safeguard the equality of state sovereignty, and to promote friendly exchanges with foreign countries." A report on the draft law also suggests that it is intended to build China's foreign-related legal system and to promote China's Belt and Road Initiative.

The FSIL borrowed from the foreign state immunity laws of other countries and from the UN Convention on Jurisdictional Immunities of States and Their Properties. In a prior post on Transnational Litigation Blog (TLB), one of us discussed some significant provisions of the FSIL, comparing them to the relevant provisions of the UN Convention. In this post, we examine some foreign relations

aspects of the new law, including the role of the Ministry of Foreign Affairs, the principle of reciprocity, and whether the FSIL extends to Hong Kong and Macau.

## The Prominent Role of Foreign Ministry

Several provisions of the FSIL reflect the important role of China's Ministry of Foreign Affairs (MFA). The most notable is Article 19.

Article 19 provides in its first paragraph that Chinese courts "shall accept" documents issued by the MFA on certain factual questions. These include whether the state concerned qualifies as a "foreign sovereign state" for purposes of the FSIL, whether and when a state has been served by diplomatic note, and other factual issues relating to the acts of the state concerned. This last provision vests the MFA with authority to decide factual questions regarding the foreign state's conduct.

The second paragraph of Article 19 empowers the MFA to issue opinions to Chinese courts on other issues "that concern foreign affairs and other such major state interests." The distinction between the first and second paragraphs suggests that opinions on other issues are not necessarily binding on Chinese courts. On the other hand, it seems unlikely that Chinese courts will ignore opinions that the MFA decides to express.

Article 19 is somewhat similar to Article 21 of the UK State Immunity Act (SIA). The SIA grants the UK Secretary of State authority to determine conclusively whether a foreign state is covered by the Act and whether service has been made through diplomatic channels. By contrast, the US Foreign Sovereign Immunities Act (FSIA) does not give the US government authority to decide such issues. The US Supreme Court has suggested that the executive branch's views on questions of foreign relations might be entitled to some deference, but the issue remains unresolved in US law.

Articles 4 and 17 of the FSIL also give China's MFA roles to play. Article 4 provides that a foreign state shall not enjoy immunity from jurisdiction if the foreign state has expressly consented to the jurisdiction of Chinese courts. Article 4(4) allows a foreign state to consent, among other means, by submitting a document through diplomatic channels. Article 17 permits service of process

through diplomatic channels if the foreign state cannot be served pursuant to an international agreement or other means acceptable to the foreign state.

The UN Convention's provision on consent to jurisdiction (Article 7) does not mention diplomatic channels. Article 2(7) of the UK's SIA, on the other hand, does allow the head of foreign state's diplomatic mission in the United Kingdom to submit to the jurisdiction of UK courts. The US FSIA makes no express mention of diplomatic channels in its provision on waiving immunity. The UN Convention's provision on service of process (Article 22) does allow service through diplomatic channels, as does Article 12 of the UK's SIA. The US FSIA also permits use of diplomatic channels to serve a foreign state but only if three other means of service listed in § 1608 are not available.

The prominent role of China's MFA under the FSIL is noteworthy, particularly in comparison to the more limited roles played by the governments of the United Kingdom and the United States. The Legislative Affairs Commission of the NPC Standing Committee has stated that the FSIL should "ensure that the policy of foreign affairs of the State is accurately captured in the case." The provisions discussed above—particularly Article 19—seem designed to do this. On the other hand, active involvement by the MFA in cases under the FSIL may raise concerns about lack of predictability and interference with the administration of justice.

## The Principle of Reciprocity

The foreign relations aspects of the FSIL are also reflected in its reciprocity provision. Article 21 provides: "Where foreign states accord the PRC and its property narrower immunity than is provided by this Law, the PRC will apply the principle of reciprocity." In Chinese, the term translated here as "reciprocity" is duideng, which connotes equal treatment for unwanted or unfriendly foreign actions. In the context of foreign state immunity, duideng means that, if foreign states grant less immunity to China, China will respond by granting less immunity to those foreign states.

Under the prior Law of the People's Republic of China on Immunity of the Property of Foreign Central Banks from Compulsory Judicial Measures, the same principle of reciprocity (duideng) was applied in Article 3 to foreign states that granted less immunity to central bank assets of the People's Republic of China.

Article 20 of the FSIL extends this principle to issues of foreign state immunity more generally. This principle of reciprocity (duideng) also appears in Article 5(2) of China's Civil Procedure Law (CPL) and Article 99(2) of China's Administrative Litigation Law to address restrictions on the litigation rights of Chinese parties imposed by foreign countries.

The principle of reciprocity (duideng) found in the FSIL is distinct from another principle of reciprocity (huhui) used in the context of judicial assistance between China and foreign countries. The CPL generally provides that reciprocity (huhui) may be relied upon to provide judicial assistance in service of process, investigation and collection of evidence, and other litigation activities (Article 293). Above all, reciprocity (huhui) provides the basis for recognizing and enforcing foreign judgments (Article 298). Although Chinese courts used to interpret this principle narrowly by requiring foreign courts to recognize Chinese judgments first, it has recently liberalized its position.

Because "huhui" serves to encourage or promote, whereas "duideng" serves to respond and punish, it is potentially misleading to translate both principles as "reciprocity." It might be better to reserve "reciprocity" for the principle "huhui." which underlies the recognition of foreign judgments for example. "Duiding," as used in the FSIL and other Chinese laws mentioned above, might be translated instead as "equal treatment."

## Hong Kong and Macau

Another foreign relations aspect of the FSIL is its territorial scope of application. Hong Kong and Macau are part of the People's Republic of China, but they have separate legal systems. Does the FSIL apply not only in Mainland China but also in Hong Kong and Macau?

The text of the FSIL does not address this question explicitly. However, the FSIL's reference to "Courts of the People's Republic of China" stands in sharp contrast to the references in the CPL and other Chinese laws to "People's Courts of the People's Republic of China" or "People's Courts." By using a different—and potentially broader—term, the NPC Standing Committee has certainly not restricted the FSIL's application to courts in Mainland China.

However, Article 18(2) of Hong Kong's Basic Law states that "National laws shall not be applied in the Hong Kong Special Administrative Region [HKSAR] except for those listed in Annex III to this Law." Under this provision, only when the FSIL is added to Annex III will the FSIL formally apply in Hong Kong courts.

But even if the FSIL is not added to Annex III, Hong Kong courts can be expected to follow it. In *Democratic Republic of the Congo v. FG Hemisphere Associates LLC* (2011), the Hong Kong Court of Final Appeal held that "[t]he HKSAR cannot, as a matter of legal and constitutional principle, adhere to a doctrine of state immunity which differs from that adopted by the PRC" (¶ 183(a)). In that case, the court held that Hong Kong courts had to follow the doctrine of absolute state immunity, which was then China's official position, even though Hong Kong courts had previously adopted the doctrine of restrictive immunity. Now that China has adopted the restrictive theory, the decision in *FG Hemisphere Associates* requires Hong Kong courts to follow China's new approach. Although the details with respect to Macau are different, courts in Macau can similarly be expected to follow China's new policy on foreign state immunity as reflected in the FSIL.

## Conclusion

China has adopted a new approach to foreign state immunity by enacting the FSIL. Applying the FSIL will be primarily a task for China's courts, including courts in Hong Kong and Macau, which will have to follow the new policy. Among other things, Chinese courts must apply the FSIL's reciprocity provision, which requires them to accord "equal treatment" if foreign states grant China less immunity than the law provides. However, the leading role that courts will play under the FSIL must not cause one to ignore the significant role of China's MFA under the new law, particularly in determining when foreign states are covered by the FSIL and in determining factual issues relating to the conduct of foreign states.

# Australia's statutist orthodoxy: High Court confirms the extraterritorial scope of the Australian Consumer Law in the Ruby Princess COVID-cruise case

The *Ruby Princess* will be remembered by many Australians with disdain as the floating petri dish that kicked off the spread of COVID-19 in Australia. The ship departed Sydney on 8 March 2020, then returned early on 19 March 2020 after an outbreak. Many passengers became sick. Some died. According to the BBC, the ship was ultimately linked to at least 900 infections and 28 deaths.

Ms Susan Karpik was a passenger on that voyage. She and her husband became very sick; he ended up ventilated, intubated and unconscious in hospital for about four weeks.

Ms Karpik commenced representative proceedings—a class action—in the Federal Court of Australia. She asserted claims in tort and under the Australian Consumer Law (**ACL**) in schedule 2 to the *Competition and Consumer Act 2010* (Cth) (**CCA**) against companies behind the ship: Carnival plc and its subsidiary, Princess Cruise Lines Ltd (together, **Princess**). She sought damages for loss and damage allegedly suffered by either passengers of the ship or their relatives.

The case has an obvious cross-border flavour. The respondents are foreign companies: Princess Cruise Lines Ltd is incorporated in Bermuda and headquartered in California; Carnival plc is a UK company which functions together with a Panama-incorporated US-headquartered company, and is dual listed on the New York Stock Exchange and the London Stock Exchange. The ship is registered in Bermuda. The ~2,600 passengers on the diseased voyage included many Australians but also passengers from overseas. They contracted to travel on the cruise in different parts of the world, and according to Princess, were subject to different terms and conditions subject to different systems of law. The cruise itself departed and returned to Sydney but included time outside of

Australia, including in New Zealand.

It is unsurprising then that Princess sought to defend the proceedings at a preliminary stage through litigation over where to litigate.

Princess brought an interlocutory application to stay the proceedings as they related to a Canadian passenger, Mr Patrick Ho, who entered the contract with Princess when he was not in Australia. Princess argued that Mr Ho's contract was subject to different terms and conditions to those that governed the contracts of other Aussie passengers. These 'US Terms and Conditions' included a class action waiver clause, a choice of law clause selecting US maritime law, and an exclusive jurisdiction clause selecting US courts. Mr Ho was identified by Ms Karpik as a sub-group representative of those members of the class action that Princess argued were subject to the US Terms and Conditions.

In contesting the stay application, Ms Karpik relied on section 23 of the ACL, which provides among other things that a term of a consumer contract is void if the term is unfair and the contract is a standard form contract. Princess argued that s 23 did not apply to Mr Ho's contract, given it was made outside Australia.

The primary judge refused the stay application, which was then reversed by the Full Court of the Federal Court of Australia.

On further appeal, the High Court held that ACL s 23 does apply to Mr Ho's contract, with the result that the class action waiver clause was void: *Karpik v Carnival plc* [2023] HCA 39. The Court held that there were strong reasons not to give effect to the exclusive foreign jurisdiction clause. Ms Karpik succeeded, meaning that the case may now continue in Australia, even as regards those members of the class action who are not Australian and contracted overseas.

The decision is significant not just for the litigants. It will be commercially significant for foreign businesses that contract with consumers in respect of services that have connections to Australia. For example, it may have serious implications for travel operators, including those who run cruises that stop in Australia. The decision is significant too for private international law nerds like myself, contemplating how to resolve choice of law questions in our age of statutes.

## Procedural history

Princess applied to stay the proceedings relying on terms of Mr Ho's contract with Princess. A Calgary resident, he booked his ticked on the *Ruby Princess* via a Canadian travel agent in September 2018. By the time the matter came to the High Court, it was not disputed that when he did so, he became a party to a contract subject to the US Terms and Conditions, which contained three clauses of particular relevance.

First, it included a choice of law clause (cl 1):

> *'[A]ny and all disputes between Carrier and any Guest shall be governed exclusively and in every respect by the general maritime law of the United States without regard to its choice of law principles … To the extent such maritime law is not applicable, the laws of the State of California (U.S.A.) shall govern the contract, as well as any other claims or disputes arising out of that relationship. You agree this choice of law provision replaces, supersedes and preempts any provision of law of any state or nation to the contrary.'*

Second, it included an exclusive foreign jurisdiction clause (cl 15B(i)):

> *'Claims for Injury, Illness or Death: All claims or disputes involving Emotional Harm, bodily injury, illness to or death of any Guest whatsoever, including without limitation those arising out of or relating to this Passage Contract or Your Cruise, shall be litigated in and before the United States District Courts for the Central District of California in Los Angeles … to the exclusion of the courts of any other country, state, city, municipality, county or locale. You consent to jurisdiction and waive any objection that may be available to any such action being brought in such courts.'*

Third, it included a class action waiver clause (cl 15C):

> *'WAIVER OF CLASS ACTION: THIS PASSAGE CONTRACT PROVIDES FOR THE EXCLUSIVE RESOLUTION OF DISPUTES THROUGH INDIVIDUAL LEGAL ACTION ON YOUR OWN BEHALF INSTEAD OF THROUGH ANY CLASS OR REPRESENTATIVE ACTION. EVEN IF THE APPLICABLE LAW PROVIDES OTHERWISE, YOU AGREE THAT ANY ARBITRATION OR LAWSUIT AGAINST*

> *CARRIER WHATSOEVER SHALL BE LITIGATED BY YOU INDIVIDUALLY AND NOT AS A MEMBER OF ANY CLASS OR AS PART OF A CLASS OR REPRESENTATIVE ACTION, AND YOU EXPRESSLY AGREE TO WAIVE ANY LAW ENTITLING YOU TO PARTICIPATE IN A CLASS ACTION …'*

By its interlocutory application, Princess sought an order that certain questions be heard and determined separately. The questions included whether Mr Ho was bound by the exclusive foreign jurisdiction clause.

At first instance, Ms Karpik argued that Mr Ho was not subject to the US Terms and Conditions, and so denied that the foreign exclusive jurisdiction clause and the class action waiver clause were incorporated into his contract. It was argued in the alternative that those clauses if incorporated were void or otherwise unenforceable.

In July 2021, Stewart J refused the application for a stay as regards Mr Ho on the basis that the US Terms and Conditions were not incorporated into his contract, and held further that if they were incorporated, the class action waiver was void and unenforceable under ACL s 23. Stewart J held there would be strong reasons for not enforcing the exclusive foreign jurisdiction clause even if it were incorporated and enforceable: *Karpik v Carnival plc (The Ruby Princess) (Stay Application)* [2021] FCA 1082; (2021) 157 ACSR 1, [331].

In September 2022, by majority, the Full Court of the Federal Court allowed the Princess appeal. The Full Court was comprised of judges who are, with respect, well known for their private international law and maritime law expertise: Allsop CJ, Rares J and Derrington J. All three agreed that the primary judge erred in holding that the exclusive foreign jurisdiction clause and the class action waiver clause were not terms of Mr Ho's contract. Allsop CJ and Derrington J agreed that the clauses were enforceable and not contrary to the policy of Part IVA of the *Federal Court of Australia Act 1976* (Cth) which regulates representative proceedings in the Federal Court. Rares J dissented in holding that it was contrary to public policy to permit contracting out of that class actions regime. The majority did not decide on the extraterritorial application of ACL s 23 but enforced the exclusive foreign jurisdiction clause by staying the proceeding as regards Mr Ho's claim: *Carnival plc v Karpik (The Ruby Princess)* [2022] FCAFC 149; (2022) 294 FCR 524.

Mrs Karpik obtained special leave. The Attorney-General of the Commonwealth and the Australian Competition and Consumer Commission intervened. The appeal was heard in August 2023.

The High Court was comprised of Gageler CJ, Gordon, Edelman, Gleeson and Jagot JJ. The Court unanimously allowed Ms Karpik's appeal and re-exercised the primary court's discretion by refusing to stay the proceedings. The decision may be distilled into three key propositions.

1. Section 23 of the ACL had extraterritorial application and applied to the contract between Mr Ho and Princess.
2. The class action waiver clause was void under ACL s 23 because it was unfair.
3. Although the exclusive foreign jurisdiction clause formed part of the contract, there were strong reasons for not enforcing the clause.

## The territorial scope of ACL s 23

The first proposition turned on resolution of difficult issues of private international law, or the conflict of laws.

Princess argued that the application of the ACL in a matter with a foreign element depended first on determining that the law of the forum (*lex fori*) was the applicable law (*lex causae*) in accordance with the forum's choice of law rules.

Where a contract selects a system of foreign law as the applicable law, as this contract did in cl 1, the relevant choice of law rule is that generally, the selected system of law supplies the proper law of the contract, which is the applicable law: see *Akai Pty Ltd v The People's Insurance Co Ltd* (1996) 188 CLR 418.

The High Court held that 'Princess' submissions incorrectly invert the inquiry': [22]. Rather, the application of ACL s 23 to Mr Ho's contract, a contract made outside Australia, was described as 'a question of statutory construction': [18]. So the Court construed the ACL as part of the CCA by holding as follows at [26], [34]ff:

- The ACL applies to the extent provided by CCA pt XI: ACL s 1.
- CCA s 131(1), within CCA pt XI, provides that the ACL applies to the conduct of corporations and in relation to contraventions of certain

chapters of the ACL by corporations.

- CCA s 5 extends the application of relevant parts of the ACL to conduct engaged in outside Australia, where the conduct outside Australia was by a corporation carrying on business within Australia.
- ACL s 23, as part of ACL pt 2-3, prescribes a norm of conduct. Section 23 in particular addresses adhesion contracts—that is, contracts in which one of the parties enters into a contract on a take-it-or-leave it basis. ACL s 23 protects consumer contracts and small business contracts but not others.

There was no dispute before the High Court that Princess was carrying on business in Australia. (On the role of that jurisdictional hook in Australian legislation, see Douglas, 'Long-Arm Jurisdiction over Foreign Tech Companies "Carrying on Business" Online: Facebook Inc v Australian Information Commissioner' (2023) 45(1) *Sydney Law Review* 109).

The High Court clarified that ACL s 23 should not be considered a generally worded statutory provision: [43]–[44]. Rather, the statute expressly provided for the territorial scope of the ACL via CCA s 5. The Court held that there was no justification to only apply s 23 to situations where the proper law of the contract is Australian law. The Court considered the CCA's policy objective of consumer protection (CCA s 2) as supporting a construction which would extend protection to Australian consumers with companies even where the contract was for services wholly or predominantly performed overseas: [47], [49].

## The class action waiver clause was an unfair term

The US Terms and Conditions were therefore subject to s 23 of the ACL. Was the class action waiver clause 'unfair' for the purposes of s 23(1)(a)? The Court applied the definition in ACL s 24(1), which provides:

> *'(1) A term of a consumer contract or small business contract is unfair if:*
>
> *(a) it would cause a significant imbalance in the parties' rights and obligations arising under the contract; and*
>
> *(b) it is not reasonably necessary in order to protect the legitimate interests of the party who would be advantaged by the term; and*

*(c) it would cause detriment (whether financial or otherwise) to a party if it were to be applied or relied on.'*

The Court considered that the clause had the effect of preventing or discouraging passengers from vindicating their legal rights where the cost to do so individually and not as part of a class action would be economical. The clause therefore caused a significant imbalance in the parties' rights and obligations: [54]. The Court held that Princess had not proved that the clause was reasonably necessary in order to protect their interests: [55]–[56]. Further, being denied access to the representative proceedings regime was considered a sufficient detriment: [58].

The Court recognised that courts in the United States have held differently, but considered that the class action waiver clause was unfair, and therefore void under ACL s 23: [60].

The Court further opined in *obiter* that the class action waiver clause would not be inconsistent with the Federal Court's representative proceedings regime: [61]–[64].

## Strong reasons not to enforce the exclusive foreign jurisdiction clause

Australian courts give effect to the norm of party autonomy by enforcing exclusive foreign jurisdiction clauses in the absence of strong reasons to not enforce such clauses. The primary judge held that there were strong reasons in this case to not enforce the party's exclusive choice of foreign fora. The High Court agreed.

The Court held that the following 'strong' reasons justified denying the application for the stay, as a matter of discretion: first, the class action waiver clause was an unfair term, which corresponded to Mr Ho's juridical advantage in litigating in Australia in circumstances where he could be denied participation in a class action in the US; and second, the enforcement of the exclusive jurisdiction clause would fracture the litigation: [67]–[69].

## Conclusion

The High Court's decision is significant for its consideration of the territorial scope of ACL s 23. It means that many companies outside of Australia that

operate in a way that touches on Australia will have difficulty in contracting out of Australia's consumer protection regime as regards standard contracts with consumers and small businesses. The decision will be a big deal for businesses like Princess, who operate travel services that involve Australia.

Theoretically, the Australian consumer protection regime could apply to regulate contracts between persons who are not Australian, with limited connection to Australia, and in respect of transactions with subject matter with a closer connection to places other than Australia. But as the High Court recognised at [50], the practical significance of this possibility should not be overstated. *Forum non conveniens* should operate to limit the prosecution of those kinds of claims.

On the other hand, Australia's parochial approach to that doctrine via the 'clearly inappropriate forum' test could mean that in some cases, it is worth it for foreigners to have a crack in an Australian forum over subject matter with a tenuous connection to Australia. Strong consumer protection may provide the 'legitimate juridical advantage' by reference to which a court may decline a stay application in a matter with a foreign element: see generally Garnett, 'Stay of Proceedings in Australia: A "Clearly Inappropriate" Test?' (1999) 23(1) *Melbourne University Law Review* 30.

The case is similarly significant for its treatment of class action waivers within the framework of the ACL. Contracts with consumers are the kind in which such clauses have the most work to do: these are contracting parties who may not sue at all unless they are part of representative proceedings. Australia's plaintiff-focused class action lawyers should be licking their lips.

For me, the case is most significant for its approach to choice of law. The High Court has now expressly endorsed an approach that has been applied in a number of cases and described by some as 'statutist'. I've previously argued that the statute-first approach to choice of law should be orthodox in the Australian legal system: Douglas, 'Does Choice of Law Matter?' (2021) 28 *Australian International Law Journal* 1; an approach which now appears right, if I do say so myself. Australian private international law may seem incoherent when viewed within the theoretical framework of multilateralism espoused by the likes of Savigny. But it makes sense when you approach matters with foreign elements with regard to our usual constitutional principles.

In Australian courts, all Australian statutes are ‘mandatory’, even in matters with a foreign element—there is no such thing as ‘mandatory law’. In every case where a forum statute is involved, the question is whether the statute applies. Statutory interpretation is the primary tool to resolve such questions.

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# The jurisdictional hurdles of s 26 of the Trans-Tasman Proceedings Act 2010 (Cth), in the context of interim anti-enforcement relief in aid of New Zealand proceedings

The New Zealand High Court recently granted a permanent anti-enforcement injunction in relation to a default judgment from Kentucky in *Kea Investments Ltd v Wikeley Family Trustee Limited* [2023] NZHC 3260. The plaintiff, a British Virgin Islands company, claimed that the defendants had committed a tortious conspiracy against it because the Kentucky default judgment was based on fabricated claims intended to defraud it. The defendants were a New Zealand company, Wikeley Family Trustee Ltd (WFTL), and persons associated with the company.

In an undefended judgment, the High Court granted the injunction, awarded damages for the costs incurred in the foreign proceedings (referring to cases such as *Union Discount Co Ltd v Zoller* [2001] EWCA Civ 1755, [2002] 1 WLR 1517 by analogy), and issued a declaration that the Kentucky judgment would not be recognised or enforceable in New Zealand. As noted previously on this blog (see here), the case is an interesting example of “the fraud exception to the principles of comity” (*Kea Investments Ltd v Wikeley (No 2)* [2023] QSC 215 at [192]).

In this post, I want to focus on the trans-Tasman element of the case – and, in

particular, the interpretation of s 26(1)(b) of the Australian Trans-Tasman Proceedings Act 2010. One of the defendants was Mr Wikeley, a Queensland resident, who apparently sought to evade or contravene the New Zealand Court's interim orders by purporting to assign the Kentucky judgment from WTFL to a new (Kentucky) company. The New Zealand Court responded by placing WFTL under the control of a provisional liquidator. However, because Mr Wikeley was located in Queensland, the Court had limited powers to make its restraining orders effective against him.

Kea therefore applied to the Supreme Court of Queensland under s 25 of the Trans-Tasman Proceedings Act 2010. Under this section, a party to a New Zealand proceeding may apply to the Australian courts for interim relief in support of the New Zealand proceeding. More specifically, the Australian court may give interim relief if "the court considers it appropriate" to do so (s 26(1)(a)). The court must be satisfied that, "if a proceeding similar to the New Zealand proceeding had been commenced in the court", it would have had power to give – and would have given – the interim relief in that similar proceeding (s 26(1)(b)(i) and (ii)). The equivalent provisions in the New Zealand Act are ss 31 and 32.

Following an ex parte hearing, the Queensland Court granted the application and made an order restraining Mr Wikeley from leaving Australia (*Kea Investments Ltd v Wikeley* [2023] QSC 79). The Court accepted that the assistance sought was "consistent with the beneficial nature of the Act" (at [32]). It was also satisfied that it would have had power to grant the relief if Kea had commenced a similar proceeding in Queensland, and that it would have granted the relief, satisfying s 26(1)(b)(i) and (ii) (at [39]-[60]). This decision was largely confirmed in *Kea Investments Ltd v Wikeley (No 2)* [2023] QSC 215.

The case provides a good example of the value of ss 25 and 26 (and its New Zealand equivalents): the power to provide prompt and effective support of the other country's proceedings, in circumstances where the court asked to grant the support will not – and should not – be taking jurisdiction over the merits. However, the jurisdictional requirements for granting interim relief under these provisions appear to be causing some confusion.

- In its first decision, the Queensland Court noted that it had "reservations" about "transposing relevant facts, including the respondents' connections with the jurisdiction to a Queensland setting" when determining whether

it would have given relief in the hypothetical similar proceeding (at [43]-[44]). The Court's preference seemed to be to assess the question of jurisdiction on the basis of the facts as they were. Either way, it was clear that the Court would have had jurisdiction (at [44]). The Court "plainly" had jurisdiction over Mr Wikeley, due to his presence in Queensland. Moreover, Mr Wikeley's conduct to avoid or contravene the New Zealand orders took place in Queensland, with the result that Queensland would have been "an appropriate forum if a similar proceeding had been brought in this court" (at [45]).

- In its second decision, the Court considered that it also had to be satisfied that the Australian court would have been the clearly appropriate forum for the hypothetical similar proceeding (at [85]). It rejected a submission from Kea that the question of appropriate forum did not arise in the context of ss 25 and 26 (at [84]). The Court was satisfied that it had personal jurisdiction over Mr Wikeley, that it had subject-matter jurisdiction over the issues raised by Kea's proceeding by virtue of the steps taken by Mr Wikeley in Australia to obtain or enforce the Kentucky judgment, and that it was not – or would not have been – a clearly inappropriate forum.

It is not clear why the supporting court should ask itself whether it could – and would – have exercised jurisdiction over the substantive proceeding, especially where this question is determined without transposing the relevant geographical facts. The whole point of the power to provide interim relief in support of the foreign proceeding is that the supporting forum may not be the right place to determine the proceeding, albeit that it is a place where (interim) orders can be made effective.

This does not necessarily mean that the relevant geographical connections ought to be transposed. When followed strictly, this approach could render ss 25 and 26 unavailable in circumstances where they would be most useful because the original court does not have the jurisdiction to make the necessary orders. Here, the New Zealand Court did not have enforcement jurisdiction over Mr Wikeley, in the sense that it could not make an order preventing him from leaving Australia or an order for his arrest.

In most cases, a straightforward interpretation of s 26(1)(b) is that it is concerned with the court's jurisdiction in a hypothetical domestic case (see Reid Mortensen

"A trans-Tasman judicial area: civil jurisdiction and judgments in the single economic market" (2010) 16 Canterbury Law Review 61 at 71). In other words, the question of jurisdiction (in an international sense) is determined mainly on the basis whether the court considers "it appropriate to give the interim relief in support of the [substantive] proceeding" (s 26(1)(a)). But in the context of anti-suit or anti-enforcement injunctions, it is impossible to shoehorn the cross-border implications of the relief into a hypothetical proceeding that is purely domestic. The case is inherently international. This may explain the Queensland Court's decision to play it safe by asking, effectively, whether Kea could have brought the proceeding in Queensland. Ultimately, the Court thought that it would have been inappropriate for the Australian court "to simply replicate injunctive orders granted by a New Zealand court in order to secure compliance with the New Zealand orders" (at [260]).

It is likely that future courts will continue to grapple with this issue. The legislative history of s 26 suggests that the section was not intended to be weighed down by jurisdictional considerations, and that Cooper J's approach may have been unduly restrictive. The original version of the section provided, in subs (2), that an Australian court may refuse to give the interim relief if it considered that it had no jurisdiction, apart from s 26, in relation to the subject matter of the New Zealand proceeding and for that reason it would be inexpedient to give the interim relief (see [84]). The Explanatory Memorandum to the Trans-Tasman Proceedings Amendment and Other Measures Bill 2011 (Cth), which repealed subs (2), noted that "[a]n unintended consequence of subsection 26(2) may be to give greater significance to issues of jurisdiction and expediency than is necessary, resulting in applicants for interim relief facing an unintended additional hurdle" (at [21]). The proper place to consider "issues of jurisdiction and expediency" was when assessing whether it was appropriate to grant relief under s 26(1)(a). Section 26(2) was borrowed from s 25(2) of the Civil Jurisdiction and Judgments Act 1982 (UK), which apparently responded "to the jurisdictional conditions of the Brussels I Regulation" (see Mortensen, cited above, at 71).

In the context of freezing injunctions, an explicit rationale for granting interim relief in aid of foreign proceedings has been that the relief preserves the assisting court's ability to enforce the foreign court's final judgment (see *Broad Idea International Ltd v Convoy Collateral Ltd* [2021] UKPC 24, [2023] AC 389). This is consistent with the function of freezing injunctions more generally, which are

designed to facilitate the enforcement of a judgment for the payment of a sum of money by preventing the dissipation of assets against which the judgment could potentially be enforced. Interim anti-suit injunctions are not, of course, the same as freezing injunctions. But there may be value here, too, in looking ahead to the enforcement stage. Under the TPPA, any final judgment from the New Zealand court was likely to be registrable in Australia, including a judgment for a final injunction. In a way, it might be ironic, therefore, if the jurisdictional requirements of s 26 somehow prevented the Australian court from preserving its ability to give meaningful relief at the enforcement stage.

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# Second Act in Dutch TikTok class action on privacy violation: court assesses Third Party Funding Agreements

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**Introduction**

Third Party Litigation Funding (TPLF) has been one of the key topics of discussion in European civil litigation over the past years, and has been the topic of earlier posts on this forum. Especially in the international practice of collective actions, TPLF has gained popularity for its ability to provide the financial means needed for these typically complex and very costly procedures. The Netherlands is a jurisdiction generally considered one of the frontrunners in having a well-developed framework for collective actions and settlements, particularly since the

Mass Damage Settlement in Collective Actions Act (WAMCA) became applicable on 1 January 2020 (see also our earlier blogpost). A recent report commissioned by the Dutch Ministry of Justice and Security found that most collective actions seeking damages brought under the (WAMCA) have an international dimension, and that all of these claims for damages are brought with the help of TPLF.

This blogpost provides an update of the latest developments in the Dutch collective action field focusing on a recent interim judgment by the Amsterdam District Court in a collective action against *TikTok c.s* in which the Dutch court assessed the admissibility of the claimant organisations based, among other criteria, on their funding agreements. This is the second interim judgment in this case, following the first one year ago which dealt with the question of international jurisdiction (see here). After a brief recap of the case and an overview of the WAMCA rules on TPLF, we will discuss how the court assessed the question of compatibility of the TPLF agreements with such rules. Also in view of the EU Representative Action Directive for consumers, which became applicable on 25 June 2023, and ongoing discussions on TPLF in Europe, developments in one of the Member States in this area are of interest.

**Recap**

In the summer of 2021, three Dutch representative foundations – the Foundation for Market Information Research (*Stichting Onderzoek Marktinformatie*, SOMI), the Foundation Take Back Your Privacy (TBYP) and the Foundation on Mass Damage and Consumers (*Stichting Massaschade en Consument*, SMC) – initiated a collective action against, in total, seven TikTok entities, including parent company Bytedance Ltd. The claims concern the alleged infringement of privacy rights of children (all foundations) and adults and children (Foundation on Mass Damage and Consumers). The claims include, *inter alia,* the compensation of (im)material damages, the destruction of unlawfully obtained personal data, and the claimants request the court to order that an effective system is implemented for age registration, parental permission and control, and measures to ensure that TikTok complies with the Code of Conduct of the Dutch Media Act and the GDPR.

In a its second interim judgment in this case, rendered on 25 October 2023, the District Court of Amsterdam assessed the admissibility of the three representative organisations (DC Amsterdam, 25 October 2023, ECLI:NL:RBAMS:2023:6694; in

Dutch), and deemed SOMI admissible and conditioned the admissibility of TBYP and SMC on amendments to their TPLF agreements. This judgment follows the District Court's acceptance of international jurisdiction in this collective action in its first interim judgment, which we discussed on this blog in an earlier blogpost.

**TPLF under the WAMCA**

The idea of TPLF refers essentially to the practice of financing litigation in which the funder has no direct involvement with the underlying claim, as explained by Adrian Cordina in an earlier post on this blog. The basic TPLF contract entails the funder agreeing to bear the costs of litigation on a non-recourse basis in exchange for a share of the proceeds of the claim. Collective actions tend to attract this type of funding for two reasons. Firstly, these claims are expensive for several reasons such as the need for specialised legal expertise and complex evidence gathering, thereby creating a need for external financing through TPLF. Secondly, considering that these proceedings seek damages for mass harm, the potential return on investment for a funder can be substantial. This makes it an appealing prospect for funders who may be interested in investing with the possibility of sharing in these proceeds.

The WAMCA has put in place some rules on the practice of TPLF in the context of collective actions. These rules are inserted in the revised Article 3:305a Dutch Civil Code (DCC), which concerns the admissibility requirements for representative organisations to file such actions. Among other requirements, these rules stipulate that claimant organisations must provide evidence of their financial capacity to pursue the action while maintaining adequate control over the proceedings. This provision aims to ensure the enforceability of potential adverse cost orders and to prevent conflicts of interest between the funding entity and the claimant organisation (Tzankova and Kramer, 2021). This requirement can be waived if the collective action pursues an "idealistic" public interest and does not seek damages or only a very low amount, commonly referred to as the "light" WAMCA regime (Article 305a, paragraph 6, DCC). However, foll0wing the implementation of the Representative Actions Directive (Directive (EU) 2020/1828, or RAD) in the Netherlands, the stipulations related to financial capacity and procedural control persist when the collective action derives its legal basis from any of the EU legislative instruments enumerated in Annex I of the RAD, irrespectively of whether or not the collective action pursues an "idealistic" public interest.

Additionally, within the framework of the Dutch implementation of the RAD, it is stipulated that the financing for the collective action cannot come from a funder who is in competition with the defendant against whom the action is being pursued (Article 3:305a, paragraph 2, paragraph f, DCC).

Additional rules on TPLF can also be found in the Dutch Claim Code, a soft-law instrument governing the work of *ad hoc* foundations in collective proceedings. The latest version of the Claim Code (2019) mandates organisations to scrutinise both the capitalisation and reputation of the litigation funder. The Claim Code also stipulates that TPLF agreements should adopt Dutch contract law as the governing law and designate the Netherlands as the forum for resolving potential disputes. Most importantly, it emphasises that the control of the litigation should remain exclusively with the claimant organisation. Moreover, it prohibits the funder from withdrawing funding prior to the issuance of a first instance judgment. This Claim Code is non-binding, but plays an important role in Dutch practice.

**The District Court's assessment of the TPLF agreements**

In the most recent interim judgment, the District Court of Amsterdam assessed the admissibility requirements concerning financial capacity and control over the proceedings for each of the organisations separately. In its first interim judgment the court had determined that, with a view to assessing the admissibility of each of the claimants and also with a view to the appointment of an exclusive representative, the financing agreement the claimants had reached with their respective funders should be submitted to the court.

After the review of these agreements all three organisations were deemed to have sufficient resources and expertise to conduct the proceedings since they are all backed by TPLF agreements (SMC and TBYP) and donation endowments (SOMI). However, the court ordered amendments to the TPLF agreements of both SMC and TBYP due to concerns related to control over the proceedings. The District Court also acknowledged concerns about potential excessiveness in compensation, particularly if calculated as a fixed percentage irrespective of awarded amounts and the number of eligible class members. Notably, the court considered the proportionality of compensation to the invested amount and emphasised the need to align it with the potential risks faced by litigation funders.

In this sense, the court indicated that the acceptable percentage of compensation for litigation funders should be contingent on the awarded amount and the expected number of class members. While a maximum of 25% accepted in case law (for example, in the *Vattenfall* case, DC Amsterdam 25 October 2023) could play a role, the court indicates it will use a five-times-investment maximum as a more practical approach. The court stressed the importance of adjusting compensation rates based on damages to be assessed, ensuring appropriate remuneration for funders without exceeding the established maximum.

In light of these considerations, the District Court also outlined preconditions for future approval of settlement agreements, limiting the amount deducted from the compensation of the class members to a percentage that will be established by the court and capping litigation funder fees.

*Assessment of each organisation's control over the proceedings*

The three claimant organisations have entered into different financial agreements to pursue this collective action. SOMI is financed by donations from another organisation, which does not require repayment of the amount invested. The District Court assessed the independence of SOMI's decision-making, given that the sole shareholder of the donating organisation is also the director of SOMI. The court concluded that appropriate safeguards are in place, as the donation agreement contains clauses stipulating that this person should refrain from taking any decisions in case of a conflict of interest. It was also stressed that the donating organisation declared to be independent from SOMI's directors and lawyers, as well as from TikTok.

On the other hand, TBYP and SMC have entered into TPLF agreements. The District Court highlighted some provisions of TPLF agreement of TBYF that were deemed dubious under the WAMCA. One clause required that no actions could be taken that could potentially harm the funder's interests, with an exception made if such actions were legally necessary to protect the interests of the class members. The court decided that this clause compromised TBYP's independence in controlling the claim. Another clause stipulated that TBYP could not make, accept, or reject an offer of partial or full settlement in the proceedings without first receiving advice from the lawyers that such a step was reasonable. The court viewed this clause as further compromising TBYP's control over the proceedings.

Similarly, the District Court had reservations about some clauses in the TPLF agreement SMC had entered into. One clause stipulated that if the lawyers were dismissed, the funder could inform SMC of the replacing lawyers they would like to appoint, subject to SMC's approval. Also, if the funder wanted to dismiss the lawyers and SMC disagreed, the dispute should be resolved by arbitration. The court decided that this gave power to the funder to disproportionately influence the proceedings. Another clause stipulated that if the chance of winning significantly decreased, the parties would need to discuss whether to continue or terminate the agreement. The court rejected this clause, stressing that terminating the TPLF agreement prematurely is unacceptable. Finally, the agreement contained a clause allowing the funder to transfer its rights, benefits, and obligations under the agreement, even without SMC's consent. The court also rejected this clause, emphasising that SMC should not be involuntarily associated with another funder.

In view of all these considerations the District Court decided that these provisions in the TPLF agreements could compromise the independence of TBYP and SMC from their respective litigation funders. In principle, the presence of these contractual provisions should lead to TBYP and SMC being deemed inadmissible. However, considering the overall intent of the TPLF agreements and the novelty of such agreements being reviewed, the court has given TBYP and SMC the opportunity to amend their TPLF agreements to remove the contentious clauses.

**Outlook**

In its decision, the District Court repeatedly stressed that it was 'entering new territory' with this detailed assessment of the funding agreements. This is also reflected in the careful consideration the court has for the various, potentially problematic, aspects of TPLF in collective actions and the fact that it chooses to formulate a number of preconditions that it intends to apply when determining what will count as reasonable compensation in the event of future approval of a settlement agreement. It thereby forms the second act in this *TikTok* case, but also the firsts steps in clarifying some uncertainties in the practical implementation of the WAMCA.

The challenges collective actions and TPLF face are not unique to The Netherlands, as for instance also the *PACCAR* judgment by the UK Supreme Court 0f earlier this year showed (see also this recent blogpost by Demarco and

Olivares-Caminal on OBLB). In this ruling, the Supreme Court considered whether Litigation Funding Agreements (LFAs) should be regarded as Damages-Based Agreements (DBAs) within the context of 'claims management services'. The court concluded that the natural meaning of 'claims management services' in the Compensation Act 2006 (CA 2006) encompassed LFAs. The court dismissed arguments suggesting a narrower interpretation of 'claims management services', stating it would be contrary to the CA 2006's purpose. As a result of this ruling, these agreements could potentially be deemed unenforceable if they fail to adhere to the regulations applicable to DBAs.

This second interim judgment in the *TikTok* case is a novelty in the Dutch practice of collective actions in terms of the detailed review of funding agreements. While generally being a collective action-friendly jurisdiction, this judgment and other (interim) judgments under the WAMCA so far, show that bringing international collective actions for damages is a long road, or what some may consider to be an uphill battle. The rather stringent requirements of the WAMCA are subject to rigorous judicial review, which has also resulted in the inadmissibility of claimant organisations and their funding agreements in other cases (notably, in the *Airbus* case, DC The Hague 20 September 2023, ECLI:NL:RBDHA:2023:14036). Almost four years after the WAMCA became applicable no final judgment rewarding damage claims has been rendered yet. But in the *TikTok* case the claimant organisations got a second chance. This open trial-and-error approach is perhaps the only way to further shape the collective action practice both in The Neterlands and other European countries.

*To be continued.*

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# Is this a Conflicts Case?

In *Sharp v Autorité des marchés financiers*, 2023 SCC 29 (available here) the Supreme Court of Canada has held that a Quebec administrative tribunal, the Financial Markets Administrative Tribunal, can hear a proceeding brought by the

administrative agency that regulates Quebec's financial sector, the Autorité des marchés financiers, against four defendants who reside in British Columbia. The AMF alleged in the proceedings that the defendants had contravened the Quebec *Securities Act*.

The courts below, including a majority of the Quebec Court of Appeal, focused the analysis on s. 93 of the *Act respecting the Autorité des marchés financiers*, CQLR, c. A-33.2, which grants the FMAT jurisdiction to make determinations under the *Securities Act*. They interpreted and applied this provision in light of *Unifund Assurance Co. v Insurance Corp. of British Columbia*, 2003 SCC 40, a leading decision on the scope of application of provincial law, which held that a provincial regulatory scheme constitutionally applies to an out-of-province defendant when there is a "real and substantial connection", also described as a "sufficient connection", between the province and the defendant. This test was met on the facts [see para 22] and so the FMAT had jurisdiction. This analysis is not generally understood as being within the field of conflict of laws. Indeed, the majority of the Court of Appeal "saw no conflict of jurisdiction or any conflict of laws that would require the application of private international law rules to this case" [see para 29].

In separate concurring reasons at the Court of Appeal, Mainville JA found that the FMAT's jurisdiction was to be found in Title Three of Book Ten of the *Civil Code of Quebec*, which establishes rules for the "International Jurisdiction of Québec Authorities". These are Quebec's private international law rules for taking jurisdiction and so squarely this is a conflict of laws approach.

The majority of the Supreme Court of Canada observed [para 7] that "the character of the proceedings and the conclusions sought before the FMAT could suggest, at first blush, a regulatory matter that does not concern the C.C.Q. The dispute involves a public regulator seeking prohibitions and administrative penalties under a legislative scheme designed to protect the public interest in the securities markets. One might indeed expect jurisdiction over this regulatory scheme to stand outside the scope of Quebec's law of general application established by the C.C.Q." Roll credits! In fairness, that was the view of the courts below and it seems a very straightforward way of resolving the issue. Surprisingly, then, it does not end up being adopted by the court.

The court concludes that because securities regulation has a "hybrid character"

[para 7] the starting point for analysis has to be the general approach to taking jurisdiction under the conflict of laws, looking to the provisions in the CCQ. Because they are laws of general application, the "provisions of Title Three of Book Ten of the C.C.Q. can, in principle, apply to an administrative tribunal like the FMAT, even if no private right is in issue and even if no conflict of jurisdiction arises" [para 41; see also para 63]. However, the court then concludes, contrary to the decision of Mainville JA, that the FMAT does not have jurisdiction under the CCQ [para 73]. But a majority of the court goes on to hold that s. 93 provides the FMAT with jurisdiction over the defendants in accordance with *Unifund* (Cote J dissents from this view). Section 93 is a special jurisdictional rule, beyond the CCQ, which gives the FMAT jurisdiction [paras 93-94]. In the end, the detour/digression into conflict of laws and the CCQ is not a significant factor in arriving at the ultimate result. The majority explains that "[t]o evaluate whether these statutes may be applied in such circumstances, the Quebec securities scheme must be interpreted to determine its territorial reach. That issue involves consideration of this Court's decision in *Unifund*, which holds that the permissible territorial application of provincial legislation is determined by assessing the sufficiency of the connection among the enacting jurisdiction, the subject matter of the legislation, and the individual or entity sought to be regulated" [para 102]. This aligns very closely with the position of the majority of the Court of Appeal below.

Particularly with respect to the law of Quebec, the decision is important for what it says about the relationship between the conflicts rules in the CCQ and the jurisdiction of any administrative tribunal. It also offers, in setting out its conclusions that none of the general CCQ rules apply, some observations on the scope of those provisions, which could be helpful for future disputes. Both the majority decision and the dissent contribute to these issues. In addition, the majority opinion offers several observations about the *Unifund* test regarding the extraterritorial application of provincial law [paras 111-23]. One of these is that the "real and substantial connection" test used in *Unifund* is different from other "real and substantial connection" tests used elsewhere in the law, such as for purposes of assumed jurisdiction under *Club Resorts Ltd. v Van Breda*, 2012 SCC 17. The majority describes this as a "family" of tests [para 118], noting that "the same formula of words … involves different considerations in each of the varying contexts in which the formula is employed". This has been reasonably well understood prior to this decision but it is interesting to see it explained as such by

the court.

Justice Cote dissents. She agrees with the primacy of the CCQ provisions in the analysis and that none of them apply to give the FMAT jurisdiction. She disagrees with the majority on the basis that, in her view, none of the statutory provisions beyond the CCQ give the FMAT jurisdiction over the British Columbia resident defendants [para 156ff]. In her view, *Unifund* does not apply to this issue because the concern is the territorial jurisdiction of the FMAT and not the application of the *Securities Act* [paras 174-75].

In the Canadian context, it will be interesting to think about what the decision might herald for subsequent analysis of the jurisdiction of an administrative tribunal in a common law province. Will the starting point in those situations be the private international law rules on jurisdiction in that province, whether found in a court jurisdiction statute or in the jurisprudence?

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# How to Criticize U.S. Extraterritorial Jurisdiction (Part II)

*Written by Bill Dodge, the John D. Ayer Chair in Business Law and Martin Luther King Jr. Professor of Law at UC Davis School of Law.*

There are better and worse ways to criticize U.S. extraterritorial jurisdiction. In Part I of this post, I discussed some shortcomings of a February 2023 report by China's Ministry of Foreign Affairs, "The U.S. Willful Practice of Long-arm Jurisdiction and its Perils." I pointed out that the report's use of the phrase "long-arm jurisdiction" confuses extraterritorial jurisdiction with personal jurisdiction. I noted that China applies its own laws extraterritorially on the same bases that it criticizes the United States for using. I argued that the report ignores significant constraints that U.S. courts impose on the extraterritorial application of U.S. laws. And I suggested that China had chosen to emphasize weak examples of U.S.

extraterritoriality, such as the bribery prosecution of Frédéric Pierucci, which was not even extraterritorial.

In this post, I suggest some better ways of criticizing U.S. extraterritorial jurisdiction. Specifically, I discuss three cases in which the extraterritorial application of U.S. law appears to violate customary international law rules on jurisdiction to prescribe: (1) the indictment of Huawei executive Wanzhou Meng; (2) the application of U.S. sanctions based solely on clearing dollar transactions through U.S. banks; and (3) the application of U.S. export controls to foreign companies abroad based on "Foreign Direct Product" Rules. The Ministry of Foreign Affairs report complains a lot about U.S. sanctions, but not about the kind of sanctions that most clearly violates international law. The report says much less about export controls and nothing about Meng's indictment, which is odd given the tensions that both have caused between China and the United States.

## Wanzhou Meng

In 2018, federal prosecutors in New York indicted Huawei executive Wanzhou Meng for bank and wire fraud. They then sought her extradition from Canada, where she had been arrested at the request of U.S. authorities. The indictment was based on a meeting in Hong Kong between Meng and HSBC, a British bank, to convince it to continue doing business with Huawei despite concerns that the Chinese company might be violating U.S. sanctions on Iran. The prosecution's theory appears to have been that Meng's representations at this meeting ultimately caused HSBC's U.S. subsidiary to clear foreign transactions denominated in dollars through the United States in violation of Iran sanctions.

During the extradition proceeding, I filed an affidavit with the Canadian court explaining why the U.S. prosecution violated international law. Customary international law allows states to exercise prescriptive jurisdiction only when there is a "genuine connection" between the subject of the regulation and the regulating state. There are six traditional bases for jurisdiction to prescribe: territory, effects, active personality, passive personality, the protective principle, and universal jurisdiction.

Clearly the United States did not have prescriptive jurisdiction based on territory or nationality because the conduct occurred in Hong Kong and Meng is not a U.S. national. Passive personality, which recognizes jurisdiction to prescribe based on

the nationality of the victim, also could not justify the application of U.S. law in this situation because the alleged misrepresentations were made to a non-U.S. bank. And bank and wire fraud do not fall within the categories of offenses that are subject to the protective principle or universal jurisdiction.

The only possible way of justifying the application of U.S. law would be effects jurisdiction, reasoning that Meng's meeting with a British bank in Hong Kong caused its U.S. subsidiary to continue clearing dollar transactions through New York. But, in this case, it was not clear that the alleged misrepresentations actually caused such effects in the United States. And even if they did, it is difficult to say that such effects were substantial, which is a requirement for effects jurisdiction under customary international law.

Apart from customary international law, it is also doubtful that Meng's conduct in Hong Kong fell within the scope of the federal bank and wire fraud statutes. Applying the presumption against extraterritoriality (a limit on U.S. extraterritorial jurisdiction discussed in yesterday's post), the Second Circuit has interpreted those statutes to require conduct in the United States that constitutes a "core component" of the scheme to defraud. Although U.S. courts are currently divided on how much U.S. conduct is required under the federal bank and wire fraud statutes, Meng engaged in no U.S. conduct at all.

After nearly three years of house arrest in Canada, Meng agreed to a deferred prosecution agreement with the United States, in which she admitted that her statements to HSBC were false (though not that they violated U.S. law), and she returned to China. The agreement resolved a "damaging diplomatic row" between China and the United States. Because the indictment provides a clear example of U.S. extraterritorial jurisdiction in violation of international law, it is odd to find no mention of this case in the Ministry of Foreign Affairs report.

## Correspondent Account Jurisdiction

A second example of U.S. extraterritorial jurisdiction that violates international law involves U.S. secondary sanctions. In contrast to Meng's indictment, the report discusses U.S. sanctions at length, but it does not focus on the kind of sanctions that most clearly violate international law. This is what Susan Emmenegger has called "correspondent account jurisdiction": sanctions imposed on foreign persons engaged in foreign transactions when the only connection to

the United States is clearing dollar payments through banks in the United States.

The report calls the United States a "sanctions superpower" and specifically mentions U.S. sanctions against Cuba, Iran, Iraq, Libya, and Syria, as well as human rights sanctions under the Global Magnitsky Human Rights Accountability Act. "Sanctions strain relations between countries and undermine the international order," the report says. They can also cause "humanitarian disasters."

One can certainly criticize some U.S. sanctions as a matter of policy. As a matter of international law, however, most of these programs have strong support. U.S. sanctions typically take the form of access restrictions, limiting the ability of foreign parties to do business in the United States or with U.S. nationals. Under international law, these programs are based on the territoriality and nationality principles. In their comprehensive legal analysis of U.S. secondary sanctions, Tom Ruys and Cedric Ryngaert note that "most of these measures—denial of access to the US financial system, access to US markets, or access to the US for individual persons—merely amount to the denial of privileges" and "international law does not entitle foreign persons to financial, economic, or physical access to the US."

But correspondent account jurisdiction is different. The United States is currently prosecuting a state-owned bank in Turkey, Halkbank, for violating U.S. sanctions on Iran. According to the indictment, Halkbank ran a scheme to help Iran repatriate more than $20 billion in proceeds from oil and gas sales to Turkey's national oil company by using the proceeds to buy gold for Iran and creating fraudulent transactions in food and medicine that would fit within humanitarian exceptions to U.S. sanctions. The only connection to the United States was the clearing of dollar payments through banks in the United States.

As discussed above, customary international law requires a "genuine connection" with the United States. None of the traditional bases for jurisdiction to prescribe would seem to supply that connection. Halkbank is not a U.S. national, and it is being prosecuted for conduct outside the United States. Passive personality does not provide jurisdiction under international law because the only potential harm to U.S. persons from Halkbank's conduct is the risk of punishment for Halkbank's correspondent banks for violating U.S. sanctions, harm the United States is well placed to avoid. And clearing dollar transactions is not the sort of conduct that either the protective principle or universal jurisdiction covers.

That leaves the effects principle—that by arranging transactions with Iran in dollars outside the United States, Halkbank caused the clearing of those transactions in the United States. As in Meng's case discussed above, the problem with this argument is that the effects must be substantial to satisfy customary international law. It is difficult to see how merely clearing a transaction between foreign nationals that begins and ends outside the United States rises to the level of a substantial effect, since it does not in any way disrupt the U.S. financial system.

Correspondent account jurisdiction is not just a violation of international law; it is also a violation of U.S. domestic law. U.S. sanctions against Iran are issued under a statute called the International Emergency Economic Powers Act (IEEPA). IEEPA authorizes the President to prohibit financial transactions only "by any person, or with respect to any property, subject to the jurisdiction of the United States." As I explain in greater detail here, if the United States does not have jurisdiction under international law, the sanctions are invalid as a matter of domestic law under IEEPA.

The Ministry of Foreign Affairs report wants to claim that U.S. extraterritorial jurisdiction "violates international law." But on sanctions, it spends most of its energy discussing programs that are consistent with international law. The report mentions correspondent account jurisdiction only briefly, accusing the United States of exercising jurisdiction based on "the flimsiest connection with the United States, such as … using U.S. dollar[s] for clearing or other financial services." With this example, I agree. I simply wonder why the report did not focus on it to a greater extent.

## Foreign Direct Product Rules

A third example of U.S. extraterritorial jurisdiction that the report could have emphasized involves U.S. export controls. On October 7, 2022, in a "seismic shift" of policy, the United States adopted new rules to limit China's ability to develop advanced computing power, including artificial intelligence. (The rules were updated last month.) Most of these rules are consistent with international law, but the Foreign Direct Product Rules arguably are not.

First, the regulations limit the export from the United States of computer chips with advanced characteristics, other products that contain such chips, and

equipment used to manufacture such chips. These restrictions are consistent with international law because they are based on U.S. territorial jurisdiction.

Second, the regulations add several Chinese companies, universities, and other entities to the U.S. Entity List and Unverified List, which prohibit those entities from receiving exports from the United States. Again, these restrictions are consistent with international law because they are based on U.S. territorial jurisdiction.

Third, the regulations prohibit U.S. engineers and scientists from helping China with semiconductor manufacturing even if those individuals are working on things that are not subject to export controls. These restrictions are consistent with international law because they are based on U.S. nationality jurisdiction.

Fourth, the regulations extend U.S. export controls extraterritorially to non-U.S. companies outside the United States. These rules are known as Foreign Direct Product Rules (FDP rules) because they prohibit foreign companies from exporting goods to China that are the direct products of technology that originated in the United States. Currently, the most advanced computer chips are made in Taiwan, South Korea, and Japan. The machines to make these chips are manufactured in the Netherlands. But U.S.-origin technology is used in virtually all chip manufacturing. So, the effect of these FDP rules is to extend U.S. export controls to chips made in Taiwan, Japan, and South Korea even if those chips themselves contain no components that were originally made in the United States.

There is a serious question whether FDP rules violate international law. None of the traditional bases for jurisdiction to prescribe exists. These U.S. rules are not based on territory, effects, nationality, passive personality, the protective principle, or universal jurisdiction. The origin of technology is not a traditional basis for jurisdiction to prescribe. Of course, the traditional bases are not exclusive. They are simply well accepted examples of a more general requirement that the regulating state must have a “genuine connection” to whatever it wishes to regulate. But it is not clear that the origin of technology qualifies as a genuine connection.

One thing that makes this analysis more complicated is the reaction of other states. Customary international law is based on state practice, so one must pay

close attention to whether other states consider the origin of technology to be a legitimate basis for export controls. China, of course, has protested the U.S. export controls. But Taiwan, Japan, South Korea, and the Netherlands have not. This is different from what happened 40 years ago when the United States imposed export controls on foreign companies to prohibit the sale of certain goods to the USSR to try to stop the building of pipelines from Russia to Europe. In that case, the United States' allies in Europe strongly protested the export controls as a violation of international law, and in the end the United States withdrew those controls. This time, U.S. allies are supporting the export controls on sales of advanced computer chips to China.

The Ministry of Foreign Affairs report makes no mention of FDP rules. It does claim that "[u]nder the pretext of safeguarding national security," the United States "has adopted a package of measures including the Entity List and economic sanctions to restrict foreign enterprises from obtaining raw materials, items and technologies vital to their survival and development." The report's specific mention of the Entity List, which essentially blacklists certain Chinese companies, is consistent with the emphasis on this list in other Chinese protests of U.S. export controls. But, as explained above, the U.S. Entity List does not violate international law, whereas the FDP rules arguably do.

## Conclusion

The United States frequently exercises extraterritorial jurisdiction. As I discussed in Part I of this post, so does China. Countries are within their rights to apply their laws extraterritorially so long as doing so is consistent with international law.

In these posts, I have used the Ministry of Foreign Affairs report as a foil because it has shortcomings. As I described yesterday, it uses confusing terminology, criticizes the U.S. for regulating on the same bases that China does, ignores constraints on U.S. extraterritoriality, and illustrates its points with weak examples (like the case of Frédéric Pierucci, which was not even extraterritorial). But I do not mean to suggest that the United States is beyond criticism. The United States does sometimes apply its laws extraterritorially in ways that violate international law, and, in this post, I have pointed to three examples.

It seems to me that China's criticism of U.S. extraterritorial jurisdiction would be

more effective if it would focus on examples that violate international law rather than on examples that do not. China should be talking less about Frédéric Pierucci and more about Wanzhou Meng.

*[This post also appears at Transnational Litigation Blog (TLB)]*