



**Comments of the**  
**Footwear Distributors and Retailers of America**  
**To the**  
**Office of the U.S. Trade Representative**  
**Regarding the**  
**2016 Special 301 Review**  
**Docket No. USTR-2015-0022**

**Introduction**

FDRA was the first and remains the only trade organization focused solely on the footwear industry. Founded in 1944, FDRA represents the entire footwear industry from small family owned footwear businesses to global footwear companies. It also serves the full supply chain of the footwear industry from research, design and development, to manufacturing and distribution, to retailers selling to global consumers. In all, FDRA supports over 130 companies and 250 brands, or 80% of total U.S. footwear sales, making it the largest and most respected American footwear trade association. In the 70-plus year history of the association, FDRA has supported the footwear industry as its business intelligence hub and voice in Washington, DC and around the globe.

FDRA member companies not only import footwear into the United States. The footwear industry includes global brands that consumers purchase around the world. Our member companies manage supply chains that span the globe, providing our companies with hands-on familiarity with the importance of intellectual property and innovation. Indeed, perhaps more than any other purveyor of manufactured goods, footwear producers rely upon global supply chains. We are acutely aware of the need to aggressively challenge the failure of other nations to protect patents, trademarks, and copyright in both law and practice. Attention to these issues supports U.S. footwear jobs and communities nationwide. After all, FDRA members incorporate cutting edge designs and technology into their products and rely upon the integrity of their brands.

First, I will convey a few comments on general global IP trends and then cover country-specific issues.

**Matt Priest, President**

## General Comments on Trends

FDRA supports USTR's efforts to fight counterfeiting and piracy across the globe. After all, IPR is a cornerstone of the knowledge-based economy, and IP protection is one of the core enabling conditions for creativity, innovation and development of the information society and digital economy. Our member companies devote significant resources to develop cutting-edge performance products, and to protect the value of their brands. These efforts support thousands of American jobs – jobs that are put at risk by counterfeiting and piracy. The economic impact of counterfeiting and piracy has taken on a phenomenal global dimension in the past decade. Trade in counterfeit and pirated goods now represents an estimated five to seven percent of world trade.<sup>1</sup>

Global trade in counterfeits increasingly targets American footwear brands. The two most recent annual World Customs Organization "Illicit Trade Reports" found that seizures of counterfeit footwear increased by 356% during the latest three-year reporting period, and that footwear went from being the twelfth most-seized product for IP violations in the world to the sixth – a stunning increase over a three year period.<sup>2</sup>

FDRA members have noted four general concerns, or trends, globally, some of which have been noted by USTR in past Special 301 reports:

1. Often, penalties are inadequate to deter criminal enterprises from engaging in trademark counterfeiting operations. In many countries, the penalties imposed on these enterprises are so low that they only add to the cost of doing business.
2. Infringers often use express mail and postal services to deliver counterfeit goods in small packages, making it more challenging for enforcement officials to interdict these goods. Illicit websites and e-commerce platforms, the vast majority of which are based in China, ship counterfeit goods into the United States primarily using international mail services, such as the China-based express mail service EMS or the China Post. These shipments arrive at international mail facilities and are inspected for entry by U.S. Customs before being transferred to the postal service for delivery. Sellers often fraudulently report the contents or break shipments up into smaller packages to avoid detection. The sheer volume of small shipments makes it impossible for Customs and Border Protection to adequately screen or x-ray all incoming mail to detect such shipments. The tremendous acceleration and growth of e-commerce globally will only exacerbate this already troubling trend, not just in the U.S., but globally.
3. In numerous countries, legal and procedural obstacles exist to securing and enforcing trademark rights. For example, many countries need to establish or improve transparency and consistency in their

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<sup>1</sup> See e.g., the International Chamber of Commerce's (ICC) estimate of the percentage of world trade represented by imports found here: <http://www.iccwbo.org/products-and-services/fighting-commercial-crime/counterfeiting-intelligence-bureau/>

<sup>2</sup> Compare World Customs Organization "Illicit Trade Report 2013" at page 64 (showing that global seizures of counterfeit footwear were 2,352,318 pieces in 2012 and 3,211,204 pieces in 2013) (report found here: [http://www.wcoomd.org/en/media/newsroom/2014/june/~/\\_media/WCO/Public/Global/PDF/Topics/Enforcement%20and%20Compliance/Activities%20and%20Programmes/Illicit%20Trade%20Report%202012/ILLICIT%202013%20-%20EN\\_LR2.ashx](http://www.wcoomd.org/en/media/newsroom/2014/june/~/_media/WCO/Public/Global/PDF/Topics/Enforcement%20and%20Compliance/Activities%20and%20Programmes/Illicit%20Trade%20Report%202012/ILLICIT%202013%20-%20EN_LR2.ashx)) to World Customs Organization "Illicit Trade report 2014" at 62 (showing that global seizures of counterfeit footwear were 8,358,707 pieces in 2014) (report found here: [http://www.wcoomd.org/en/media/newsroom/2015/december/~/\\_media/6FDF08E365E49D49C0B6DC375C492B5.ashx](http://www.wcoomd.org/en/media/newsroom/2015/december/~/_media/6FDF08E365E49D49C0B6DC375C492B5.ashx)).

administrative trademark registration procedures. Also, at times, the judicial systems in developing nations lacks transparency and independence, making it difficult for rights-holders to pursue claims.

4. Counterfeiters now commonly register domains that advertise and sell counterfeit goods. Many of these counterfeiters use a country code top-level domain (ccTLD) to avoid detection and to avoid the reach of the U.S. judicial system. Indeed, FDRA member companies face significant trademark infringement, and lose valuable Internet traffic because of misleading and fraudulent domain names. And, it can be hard for companies to find redress. A number of foreign registries do not make registration information publicly available and do little to assist aggrieved rights-holders. In at least one instance, a FDRA member company had to devote significant time and resources to invalidate the registration of a Russian “.ru” site that utilized its trademark to purvey counterfeit goods. A related concern is that ccTLDs lack transparent and predictable uniform domain name dispute resolution policies (UDRPs). Effective UDRPs should assist in the quick and efficient resolution of these disputes. FDRA would ask USTR to work with U.S. trading partners to provide procedures that allow for the protection of trademarks used in domain names and to ensure that dispute resolution procedures are available to prevent the misuse of trademarks.

In addition to the above-mentioned issues, FDRA notes that the theft of trade secrets has become an increasingly important issue for global brands such as our member companies. For U.S. companies to grow and compete globally, they must have confidence in the legal protections provided to trade secrets domestically and around the world. At times, foreign governments are complicit, and, indeed, even participate, in the theft of trade secrets. Current U.S. law doesn't allow for companies to pursue a civil action against entities that have engaged in the theft of trade secrets. FDRA believes that legislation to permit a federal civil cause of action for the theft of trade secrets would have a strong, deterrent effect on overseas competitors who may otherwise engage in such theft. It would also better equip the U.S. government to advocate for strong trade secrets protection with foreign governments, particularly through trade agreements.

### **Country Specific Issues**

#### **China:**

FDRA remains hopeful that the Chinese Government, both at the national and sub-national levels will over time become increasingly aware of the value, to Chinese consumers and to the Chinese economy, of vigorously protecting of IP rights. Nevertheless, counterfeiting is all too common in China, and the country remains the leading source of counterfeit goods. USTR, in the 2015 Special 301 report, noted the rampant infringement of footwear IP in China. USTR should continue to do so in the 2016 report.

Basic IP enforcement in China is grossly inadequate. China continues to be the number-one source of counterfeit and pirated goods imported into the U.S., accounting for more than 60% of the value seized, while Hong Kong ranks second, accounting for more than 20%. Within China, knock-off footwear, purportedly from America's best-known sportswear brands, is commonly found in “brick and mortar” Chinese retailers and in well-trafficked markets such as the Jin Long Pan Foreign Trade Garment Market in Guangzhou, the Luohu Commercial Center in Shenzhen, the Chenghai District in Shantou, the Qi Pu Market in Shanghai, and the Silk Market in Beijing.

Examples of some of the more obvious “sold on the street” knock-offs are immediately below.



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Meanwhile, Alibaba’s numerous e-commerce sites are a significant and rapidly escalating source of counterfeit goods to U.S. and global consumers. FDRA is encouraged by Alibaba’s late December hiring of a well-respected executive to tackle IP infringement issues, as well as Alibaba’s late December announcement that it was bolstering its hiring of IP enforcement staff. Alibaba’s engagement with rights-holders, particularly on the T-Mall platform, to crack down on counterfeiting and piracy is also promising, but more needs to be done. The size of the problem is immense and growing. Alibaba’s Taobao consumer-to-consumer marketplace platform is simply rife with offerings of counterfeit footwear and other consumer goods. Taobao’s processes for rights-holders to register and request enforcement action, as well as Taobao’s “good faith” takedown procedures, remain slow, difficult to use, and lack transparency. In addition, AliExpress is quickly becoming the number one source of e-commerce in many countries around the world, and there are even less procedures in place to screen counterfeit products. All Chinese e-commerce platforms need to be taking a more proactive approach to counterfeit products that requires filtering and removing illicit products, rather than relying on brands to trigger a time-intensive and expensive takedown process.

In addition to shortcomings in the enforcement of IP rights within China, China’s legal landscape can pose many challenges for U.S. brands. China is a first-to-file jurisdiction, presenting well-established U.S. brands with a challenge when they discover that their mark has already been registered by an unrelated Chinese party, seeking to exploit the reputation of the American company, or to force the American company to pay a fee to “buy back” the rights to its own trademark. Commonly, Chinese citizens will register Chinese-character marks, as well as pinyin marks, that sound identical, or almost identical, to the marks of U.S. companies. One prominent example of this involves a dispute between Michael Jordan and Qiaodan Sports, an athletic footwear and sports equipment manufacturer in Southern China that has been able to obtain numerous trademarks related to Michael Jordan’s name, his Jumpman-like logo, his signature #23, and even his kids’ names. This dispute is now pending before the Supreme People’s Court, and a separate naming rights case is pending before the Shanghai Intermediate Court. These cases will have repercussions for many athletes and celebrities.

China’s 2014 trademark law amendments increase the risk that brand owners will be forced to combat pirates registering marks in bad faith. Under the law, for example, if an existing trademark owner

opposes preliminary approval of a mark registered by another party and loses, the mark is deemed valid until and unless a special review board invalidates it. As a result, a bad-faith registrant may not only freely use a mark for years while waiting for a review board without infringing the brand owner's rights, but also take enforcement action against the brand owner.

U.S. rights-holders that endeavor to "work within the system" by filing claims in Chinese court face a difficult, unpredictable, lengthy, and costly process. At times, local courts evince a bias for the local defendant, though this situation may be rectified somewhat by China's recent establishment of specialized IP courts in Beijing, Shanghai and Guangzhou. Hopefully, these courts will facilitate better management of complex IP matters and provide consistent, streamlined opportunities for IP litigants.

Though China Premier Li Keqiang recently announced that China will impose "a large sum" of damages against IP infringers, penalties remain inadequate. When a rights-holder is able to obtain judicial relief for an IP violation in the footwear and apparel sector, the average award is only in the tens of thousands of dollars, hardly high enough to deter infringers. The maximum statutory award remains RMB 500,000 (approximately \$76,000).

Brand owners have also raised a concern about the increasing costs of warehousing and destruction of their brands seized by the Chinese enforcement authorities, particularly the environmental consequences of the traditional destruction methods of burning or burying the counterfeit goods. FDRA recommends the development of national standards on the storage and destruction of counterfeit goods. In parallel, the Chinese government should explore ways to reduce the financial burden on brand owners.

The adequate protection of IP benefits not only rights-holders and their American workers, but also benefits legitimate Chinese manufacturers and Chinese consumers. Because of these shared benefits, FDRA and its member companies will continue to work with stakeholders within China to foster improvements in the IP regime. FDRA member NIKE, Inc. is a founding member of the Quality Brands Protection Committee (QBPC), a brand-owners' coalition with more than 180 company members. For years, QBPC has worked effectively and cooperatively with the Chinese government, and multinational and Chinese companies in the fields of IP and brand protection. By working cooperatively with other stakeholders, Nike has participated with QBPC in the revision of various Chinese laws and regulations, and has had the opportunity to speak at related seminars and forums.

## **Russia**

Massive markets of counterfeit goods, both physically and online, continue to flourish in Russia. Enforcement procedures are generally slow and inefficient, a particularly negative sign in a country where infringing goods are not only imported but also domestically manufactured. In addition, Russia's current Criminal Code does not allow for corporate entities to be held criminally liable. This, along with an apparent reluctance by enforcement authorities to take action against large infringers and a poorly-staffed IP economic crime police have led to a deterioration in the level of enforcement. Online piracy continues to plague the Russian market, and the government has not established an effective enforcement strategy to combat the growing array of pirate web sites located in the country. As a result, U.S. brands face a persistent threat of counterfeiting in, and from, Russia.

## **Canada**

Canada's IP regime falls short of standards maintained in the rest of the developed world. Despite Canada's passage, a little more than a year ago, of legislation granting Canadian customs authorities the power to seize imports of counterfeit goods, Canada still falls short in sharing information between enforcement authorities and rights-holders. To make progress against the transshipment of counterfeit goods into and through Canada, Canadian customs authorities should work with Customs and Border Protection and use this new power to prioritize enforcement actions and stop trade in infringing products.

In addition to enforcement shortcomings, Canada, remarkably, has not acceded to major multilateral trademark agreements. Canada is not a member of either the Madrid Agreement Concerning the International Registration of Marks or the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks. Nor is Canada a member of the Geneva Act of the Nice Agreement or the Nice international classification of goods and services applied for the registration of marks system. Finally, Canada is not a member of the Trademark Law Treaty, or the Singapore Treaty on the Law of Trademarks.

## **Turkey**

Turkey serves as a key transshipment point for counterfeit goods manufactured in Asia, and the Turkish Government has shown inadequate resolve to crack down on this illicit trade. Serious issues exist with regards to enforcement, not the least of which is Turkey's requirement that rights holders must pay for the storage of seized counterfeits. Turkish judicial proceedings are generally slow and judges lack training in IP issues. Finally, there are significant difficulties in obtaining preliminary injunctions, with burdensome requirements for search warrants.

## **Brazil**

Because of a complex Customs and regulatory system, imported consumer goods in Brazil are often more highly-priced than in other markets. These high prices fuel the smuggling of counterfeit goods onto the black market. FDRA members, which are amongst the more popular consumer brands in Brazil, often must compete with a flourishing black market. Indeed, markets for fake goods operate openly in Brazil, most notably the "Galeria Page" in São Paulo. Moreover, enforcement of IP rights, especially counterfeit seizures in São Paulo has deteriorated substantially over the last several years. Although the CNCP (National Council Against Piracy and Intellectual Property Crimes) was a successful initiative in the past, the Ministry of Justice has failed to support it or provide adequate resources. One can only assume that the sale of counterfeit goods has only increased in light of Brazil hosting both the 2014 FIFA World Cup and the 2016 Olympics, and it is more important than ever that Brazil take a more proactive approach to enforcement in critical cities, such as São Paulo.

FDRA is encouraged by the appointment of a new head of the National Industrial Property Institution (INPI), Luiz Otavio Pimental, but the government needs to provide adequate resources to address a lengthy delays and backlogs in the processing of trademark registrations, design patents, and utility patents. This is particularly critical for footwear companies that rely on trademarks and design patents to protect their innovative products. We applaud efforts by INPI to information share with USPTO to

facilitate and expedite design patent and trademark registrations. We also would encourage INPI to develop a fast track registration process for trademarks and designs related to the Olympics. A similar procedure was available for FIFA-related marks for the World Cup, and FDRA's members would welcome a process that would better protect the significant investments that are being made related to sports and the Olympics in Brazil.

### **The European Union**

It is worth noting that FDRA member companies have partnered well with European Union-wide entities to coordinate IP policy and to more effectively crack down on trade in counterfeit goods. FDRA member companies participate in the multi-stakeholder Observatory on Counterfeiting, established after agreement by EU member states in 2009. The Observatory makes recommendations on EU IP policy and legislation, data collection, and efforts to increase consumer awareness. Through the Observatory and other institutions, FDRA member companies have worked with member states such as France, Italy, U.K. and the Czech Republic to improve IP enforcement.

### **Conclusion**

FDRA appreciates the opportunity to submit comments on the challenges faced by our member-companies around the world in the protection of their IP rights. As leading global innovators, our members are driving advancements in product design never before seen. Our industry stands on the cusp of innovations that will alter the way global footwear manufacturers produce footwear and diverse footwear consumers purchase footwear. Now more than ever it is vitally important that the U.S. Government takes all actions necessary to protect these innovations, designs, brands and images worldwide. We stand ready to work with USTR to bolster respect for, and enforcement of, IP by our trading partners. Doing so protects American jobs and benefits consumers.

Respectfully submitted,



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