

Hearing Statement of the
Footwear Distributors and Retailers of America
To the
Office of the U.S. Trade Representative
Regarding the
2017 Special 301 Review
Docket No. USTR-2016-0026

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, D.C. 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.

General Comments on Trends

FDRA supports USTR's efforts to fight counterfeiting and piracy across the globe. After all, the protection of IP is a cornerstone of the knowledge-based economy, and is one 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.¹

Global trade in counterfeits increasingly targets American footwear brands. The World Customs Organization's "Illicit Trade Report" found that seizures of counterfeit footwear increased by 174% 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 ninth over the three year period.² According to the WCO, FDRA member-company brands are the most counterfeited in the world. During the latest reporting period (2015), Michael Kors was involved in the second most number of Customs IP cases worldwide, second only to Apple, while NIKE was number four.³

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

1. Over the last three to four years, the footwear industry has witnessed a growing trend whereby labels and tags are shipped separately from infringing products and are attached to the infringing products in the domestic market. Infringers apparently believe that shipping tags and labels in a separate consignment helps to avoid brand identification by Customs. In many instances, Customs officials are unwilling to seize product for trademark infringement and are often unwilling to consider design patent infringement as a basis for seizure.
2. 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.
3. 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

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

² Compare World Customs Organization "Illicit Trade Report 2013" at page 64 (showing that global seizures of counterfeit footwear were 3,139,816 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) to World Customs Organization "Illicit Trade Report 2015" at 78 (showing that global seizures of counterfeit footwear were 5,460,907 pieces in 2015) (report found here: <http://www.wcoomd.org/~media/wco/public/global/pdf/topics/enforcement-and-compliance/activities-and-programmes/illicit-trade-report/itr-2015-en.pdf?db=web>).

³ See World Customs Organization "Illicit Trade Report 2015" at 80.

counterfeit goods into the United States primarily using international mail services, such as the China-based express mail service EMS or 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.

4. 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 administrative trademark registration procedures. Also, at times, the judicial systems in developing nations lack transparency and independence, making it difficult for rights-holders to pursue claims.
5. 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. 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. 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.

Last year, FDRA wrote that U.S. law doesn't allow for companies to pursue a civil action against entities that have engaged in the theft of trade secrets. Soon after, Congress and the President took action to address this gap in enforcement. In May 2016, Congress passed, and the President signed, the Defend Trade Secrets Act (DTSA), which permits an owner of a misappropriated trade secret to bring a civil action in federal court if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce. FDRA believes that the DTSA will have a deterrent effect on overseas competitors who may otherwise engage in trade secret theft, and should better equip the U.S. government to advocate for strong trade secrets protection with foreign governments, particularly through trade agreements.

Country Specific Issues

China

While 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, counterfeiting is all too common in China. Indeed, despite improvements during the last two years, China remains the leading source of counterfeit goods, including footwear. For this and other reasons, as outlined below, China should remain on the Priority Watch List. USTR should also continue to note the rampant infringement of footwear IP in China in the 2017 Special 301 report, as USTR did 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 52% of the value seized, while Hong Kong ranks second, accounting for more than 35%.⁴ Amazingly, the number of footwear units detained by Customs for IP violations doubled in the last reporting period (FY2015) and now represents 10% of the total.⁵

Within China, local officials all-too-often turn a blind eye to counterfeiting activity. 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. The Provinces of Guangdong, Zhejiang and Fujian pose particular challenges for footwear brands. In FDRA's view, input from the central government is needed to ensure that China's IP laws and regulations are consistently applied.

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. These cases have repercussions for American footwear brands and for the athletes and celebrities with whom brands partner.

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.

⁴ U.S. Customs & Border Protection, "Intellectual Property Rights: Fiscal Year 2015 Seizure Statistics," at 23. Report may be found here: <https://www.cbp.gov/sites/default/files/assets/documents/2017-Jan/2015%20IPR%20Annual%20Statistics.pdf>

⁵ *Id* at 21.

Meanwhile, export companies in China are not held liable for facilitating the sale of counterfeit goods. There is a need to rebalance responsibilities among all actors, particularly with respect to secondary liability. Export companies should be required to carefully check the identity of consignors and consignees, and to retain records and disclose data when circumstances require.

Though China Premier Li Keqiang 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).

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. In addition, local judges are often unaware of the parameters of China’s IP regime. As civil actions increase, China should provide IP training to judges and court officials in order to facilitate more consistent application of the law across China. Hopefully, over time, the court system in China will be better equipped to manage complex IP matters and provide consistent, streamlined opportunities for IP litigants.

Despite FDRA’s hope that the Government of China will provide guidance and training to judges and local officials, our member companies have noted a lack of commitment to IP enforcement at the central government level. The central government’s support for IP enforcement is minimal. The Government of China devotes inadequate funding and staff to criminal IP enforcement, and administrative authorities, rather than the Public Security Bureau, serve as the main IP enforcement bodies. FDRA member companies have noted that China Customs has become less proactive in IP enforcement matters. China Customs authorities undertook fewer self-initiated IP inspections in 2016 than 2015. Finally, customs cases are not directly transferred to the Public Security Bureau for criminal investigation, so criminal cases are commonly not pursued. Against this backdrop, it becomes more, not less, important for USTR to “hold China’s feet to the fire” in an effort to ensure adequate enforcement of IP rights.

Concerning IP enforcement online, China is working on issuing its new e-Commerce Law. The Draft e-Commerce law includes a counter-notice process that allows counterfeit sellers to easily defend themselves from notice and takedown actions, and places IP holders in a very disadvantageous position. FDRA is monitoring the legislation to be sure that IP rights holders’ interests are reflected in the new law (*e.g.*, online platforms should be required to take appropriate measures to protect consumers and IP rights holders against the promotion, marketing, and distribution of counterfeit products).

Meanwhile, Alibaba’s numerous e-commerce sites are a significant and rapidly escalating source of counterfeit goods to U.S. and global consumers. FDRA remains encouraged by Alibaba’s late December 2015 hiring of a well-respected executive to tackle IP infringement issues, as well as Alibaba’s 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 at an exponential rate. 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 take a more proactive approach to counterfeit products – an approach that requires filtering and removing illicit products, rather than relying on brands to trigger a time-intensive and expensive takedown process.

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.

Russia

Massive markets of counterfeit goods, both physical 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. This, along with an apparent reluctance by enforcement authorities to take action against large infringers and poorly-staffed IP economic crime police, have led to a deterioration in the level of enforcement. Though the legal system has been improved in certain respects (*e.g.*, updated and more detailed IP legislation and the creation of IP specialized courts), court proceedings move slowly and judges remain reluctant to award damages. Meanwhile, enforcement bodies, particularly the police and Customs, are not active in fighting counterfeiting.

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. Considering that the Russian e-commerce market was worth more than 9 billion Euros in 2015, and considering that sporting goods, clothing and footwear are the fastest growing categories, FDRA would suggest that USTR establish a dialogue with the Russian Government and enforcement bodies to develop and implement a better strategy to fight against counterfeiting over the Internet. FDRA brands have experienced non-cooperation from Internet service providers when such providers should clearly block access to infringers. As a result, FDRA member companies face a persistent and growing threat of online counterfeiting in, and from, Russia. As Russia prepares for World Cup 2018, it is more important than ever, that the country make commitments to address its significant counterfeit problems ahead of the games.

Brazil

Brazil should be elevated from Watch List to the Priority Watch List, for the reasons outlined below.

Despite its presence on the Watch List, there have been no improvements in Brazil over the past two years. Indeed, IP protection is simply not a priority for governments in Brazil, at both the federal and state levels. Government support for IP enforcement is minimal, whether measured in terms of funding or numbers of staff. Meanwhile, a lack of IP expertise amongst judges and law enforcement authorities represents a major obstacle to address IP infringement. The legal system is less than efficient, to put it mildly. In the judiciary of the State of São Paulo, for example, IP owners have had difficulty obtaining injunctions to seize counterfeit products. For these reasons, several brand owners have stopped even trying to pursue IP infringement in Brazil, because such efforts commonly result in sustained costs with no tangible results.

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.

These openly-operating markets for fake goods are supplemented by a thriving network of counterfeit goods producers and the Brazilian Government does not seem to be addressing the issue. A very high percentage of the counterfeit goods sold in Brazil are manufactured in Brazil. Nova Serrana city, Minas Gerais State, counts more counterfeit factories than legitimate ones. The United States should pressure Brazil to combat the flagrant manufacturing and selling of counterfeit merchandise in Brazil.

Meanwhile, online counterfeiting activity in Brazil remains a major problem. Brazil’s new e-commerce law (n. 12.965/14 - “Marco Civil da Internet”) contains a burdensome process by which rights-holders must obtain a court order to remove an advertisement of an infringing product from the Internet. Furthermore, despite the efforts of FDRA member companies to tackle offers of fake products on Brazil’s main e-commerce platform (www.Mercadolibre.br or “Mercado”), the percentages of counterfeits are well above 50% on the site, because Mercado faces no liability for its activities. FDRA member companies have tried to engage with Mercado to help Mercado reduce the number of counterfeit products offered by the site’s sellers, but Mercado has refused to engage in meaningful dialogue and has accused brand owners of misusing the burdensome notice and take down procedures the site has in place.

Finally, the Government of Brazil needs to provide adequate resources to address the extremely 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 the National Industrial Property Institution to share information with USPTO to facilitate and expedite design patent and trademark registrations, but the process in Brazil remains far too slow and cumbersome.

For all of the above-cited reasons, Brazil should, again, be elevated from Watch List to the Priority Watch List. The infringement of IP rights is pervasive and flagrant in Brazil, and the Government has done little to combat the problem.

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.

Nevertheless, FDRA member companies face two, notable challenges in the EU:

The Rotterdam Port:

Counterfeiting is not considered a priority for Dutch law enforcement authorities (FIOD and Customs). While the Rotterdam port and the logistics facilities of the Netherlands play a crucial role in the importation and distribution of counterfeit products throughout Europe, very few of the detentions at the Port are of U.S.-branded footwear, even though, as mentioned above, U.S. brands such as NIKE and Michael Kors are among the most-infringed trademarks in the world.

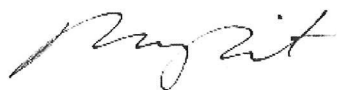
Online Platforms: Duty of Care:

The EU must modernize and reinforce its legal framework, so as to better combat online counterfeiting. It would be advisable for the EU to introduce a duty of care principle, applicable to all actors of the digital value chain. Online platforms should be obliged to act with diligence by taking proactive, reasonable, and appropriate measures in order to protect consumers and IP rights holders against the promotion, marketing and distribution of counterfeit products. Online platforms should take preventive measures that aim to stop the placement online of counterfeit goods (*e.g.*, filters or measures to secure the traceability of content providers); should take reactive measures to ensure the swift removal of counterfeit goods (*e.g.*, efficient “notice and takedown” mechanisms); and should take follow-up measures to prevent repeated infringements (*e.g.*, suspension of accounts of counterfeit sellers, and the imposition of sanctions from the first attempt to sell or advertise counterfeit goods).

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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