

January 30, 2023

The Honorable Daniel Lee  
Assistant U.S. Trade Representative for Innovation and Intellectual Property  
Office of the United States Trade Representative  
600 17th Street Northwest  
Washington, D.C. 20508

**Re: 2023 Special 301 Review: Identification of Countries Under Section 182 of the Trade Act of 1974 (Docket Number USTR-2022-0016)**

Dear Mr. Lee:

On behalf of the Footwear Distributors & Retailers of America (FDRA), thank you for the opportunity to participate in the 2023 Special 301 Review.

FDRA is the footwear industry's trade and business association, representing more than 500 footwear companies and brands across the U.S. This includes the majority of U.S. footwear manufacturers and over 95 percent of the industry. FDRA has served the footwear industry for almost 80 years, and our members include a broad and diverse cross section of the companies that make and sell shoes, from small family-owned businesses to global brands that reach consumers around the world.

Our member companies work hard to design, produce, and deliver shoes to U.S. consumers. Each year, approximately 2.75 billion pairs of shoes cross U.S. borders (or 8.4 pairs of shoes for every man, woman, and child in America). Many of our footwear companies also sell brands that reach consumers in markets all over the world. These companies manage supply chains that span the globe, so they understand the importance of protecting IP and innovation. The U.S. must work to address the failure of other nations to protect patents, trademarks, and copyright in both law and practice, because this supports U.S. footwear jobs and communities.

As the Office of the United States Trade Representative (USTR) conducts its annual Special 301 Review for 2023, FDRA would like to highlight several country-specific issues of concern to our members as well as general IP trends.

### **Country Specific Issues**

As the U.S. works to strengthen IP protection and enforcement for American workers, businesses, and consumers, FDRA encourages the Administration to enter into new bilateral or multilateral trade agreements that will benefit U.S. footwear companies and consumers and include strong IP protections for a 21st century economy. For the 2023 Special 301 Report, we have divided our comments into two sections: major footwear sourcing countries and additional markets. Fighting counterfeiting is particularly important in these key sourcing countries, given

**Matt Priest, President & CEO**

the large volume of manufacturing, machinery, and footwear production knowledge in each of these countries.

## **Major Footwear Sourcing Countries**

### **China**

USTR should prioritize engagement with China on IP protection and enforcement. China is the leading footwear sourcing country for the U.S. market, and it has integrated the use of technology and e-commerce at an incredible pace and scope to deliver products to Chinese consumers.

China has made significant improvements in its protection and enforcement of IP rights, and FDRA values the work the central government has done to raise the importance of IP. More work still needs to be done on IP enforcement at the local and regional levels. FDRA is hopeful that the Chinese government, both at the national and sub-national levels, will over time become increasingly aware of the value – both to Chinese consumers and to the Chinese economy – of vigorously protecting IP rights.

Huge IP challenges exist in three key areas in China: counterfeit enforcement, digital markets, and the difficult legal landscape.

#### *Fighting counterfeits in China*

Basic IP enforcement in China is inadequate. China is still the number one source of counterfeit and pirated goods imported into the U.S. Within China, local officials often turn a blind eye to counterfeiting activity. FDRA members have raised these concerns on counterfeit goods:

- ***Rise in knockoffs***: FDRA members have witnessed a rise of knockoff products made in China that copy iconic product designs and replace or remove the famous trademarks. Such infringement steals the IP of U.S. footwear brands, misleads and confuses consumers (including Chinese consumers), and undermines the significant investments and goodwill U.S. brands have made in protecting their product designs. Knock-off footwear imitating 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.
- ***Problem regions***: The Provinces of Guangdong, Zhejiang, and Fujian pose challenges for footwear brands, because all three are major footwear hubs, producing both legitimate footwear as well as counterfeit products. Putian still remains the largest counterfeit manufacturing area and the major source of high-quality counterfeit shoes. Illicit activity at local markets in Putian decreased because of law enforcement raids and changes to the infringers’ sales models. With the growth of private e-commerce like WeChat, most infringers now set up showrooms in the surrounding residential buildings and leverage

WeChat to operate their online businesses. This makes it difficult to seize goods and measure the economic harm, since many of the transactions happen in the digital environment.

- ***Positive developments in enforcement:*** Despite the challenges presented by the COVID-19 pandemic, some Public Security Bureaus (PSBs) have made efforts to eradicate counterfeit supply chains – conducting cross regional enforcement and tracing all the way from online or offline retail targets to counterfeit manufacturing sources. FDRA member companies appreciate these efforts and hope to maintain this momentum. In 2022, rights holders, with great support from the PSB, conducted in-depth investigations that led to several successful and impactful raids against wholesalers, online infringers, and manufacturers in Putian and Northern China; however, criminal and administrative enforcement actions overall declined from the previous year.
- ***Potential enforcement tool:*** Chinese IP laws provide cause of actions against knockoff infringement, such as the protection of iconic product design under the Anti-unfair Competition Law (“AUCL”). FDRA Members hope to see increased AUCL action against knockoffs from the administrative authorities as well as more guiding cases from the Chinese courts regarding AUCL enforcement.

#### *Addressing the surge of counterfeits sold through digital markets*

In a part of the world that includes one fifth of the world’s population, China’s online markets are unprecedented in the breadth of consumers they can reach. Numerous challenges exist:

- ***Online to offline (O2O) enforcement gaps:*** The use of O2O strategies/tools to engage Chinese consumers creates one of the biggest new enforcement challenges in China. First, it is time consuming for PSBs to obtain records for the transaction, in some cases taking months to obtain the data from the platform company. Second, the quality of the data is limited. The platforms only provide the transaction records of counterfeit sellers covering a limited time period, instead of disclosing the complete counterfeit log to PSBs. Third, there is no consistent standard for adopting digital evidence in different procuratorates and courts. The courts in Eastern China are more accepting of online transaction records whereas courts in other provinces are much more conservative. Fourth, in criminal proceedings, there is an increasing trend for courts to impose monetary fines rather than imprisonment; for civil litigation, courts have awarded lower compensation amounts than in the past.
- ***Pinduoduo’s (PDD’s) counterfeit problem:*** PDD is one of largest platforms in China hosting counterfeit products from many international brands with a focus on Chinese consumers. Rights holders must manage burdensome and costly takedown notices and complaints to try to clean the platform of counterfeits. PDD does not collaborate with brands and provides differing reasons for declining rights holders’ notices. The takedown rate is very low, and the volume of counterfeit products listings is very high. It is our understanding that PDD also does not fully comply with local legislation that requires

information disclosure, including sellers' identity, and creates obstacles for effective criminal investigations.

- ***Livestreaming knockoffs***: Counterfeit products sold via livestream channels are very popular in China. It is extremely difficult to monitor knockoffs sold through these channels. The timing of the broadcast is unpredictable, and the transactions are often diverted to private domains like WeChat. Social media platforms in China must increase monitoring and collaboration with brands and strengthen tools for stopping bad actors.
- ***Small parcels***: After a long period of COVID-19 lockdowns in many cities, customs seizures at the border increased in 2022. Nonetheless, the volume of small parcels crossing the border due to e-commerce transactions remains overwhelming for customs enforcement in China. Greater collaboration and information sharing between law enforcement authorities and rights holders is needed to promote more robust investigations that are critical to tackle the surge of counterfeits sent via small parcels.

### *Navigating the difficult legal landscape*

China's complex legal landscape poses many challenges for U.S. brands. FDRA member companies have raised the following issues:

- ***Bad faith trademark filings***: Because China is a first-to-file jurisdiction, a well-established U.S. brand may discover that an unrelated Chinese party has already registered the brand's trademark. Bad actors do this to exploit the reputation of the U.S. brand or to force the American company to pay a fee to "buy back" the rights to its own trademark. FDRA members continue to see a high volume of bad faith infringing trademark applications allowed to publish for register. This forces legitimate brand owners to file opposition and invalidation actions – wasting limited resources, increasing pressure on China's National Intellectual Property Administration (CNIPA), and driving up costs for American companies. While CNIPA has been an active partner for U.S. brands in working to combat bad faith filers, it must continue to prioritize this difficult issue.
- ***Difficult court processes***: U.S. rights holders that try to "work within the system" by filing claims in Chinese court can sometimes face a difficult, unpredictable, lengthy, and costly process, especially if they seek protection from local courts. At times, local courts demonstrate a bias for the local defendant and a lack of understanding of IP matters. As civil actions increase, China should provide IP training to judges and court officials to facilitate more consistent application of the law across China, and it should also increase funding and staff to ensure adequate resources are in place for criminal IP enforcement.
- ***Trade dress shortfalls***: China technically recognizes trade dress registration as an available protection in its trademark legislation. In practice, however, standards of review for trade dress applications are unclear and burdens of proof are unrealistically high, making it very difficult and often impossible for brands to obtain registration for a

nontraditional mark. FDRA member companies would like to see more realistic and consistent standards of review so that trade dress is, in practice, a granted right.

- ***Partial design rights pending:*** Partial design rights were approved in the Patent Law Review with an effective date of June 2021. Although rights holders are allowed to initiate the application process, further regulatory guidance for practical implementation is still pending. Partial design applications have been filed in China since the effective date, but applicants have not received any feedback from CNIPA and these applications will not be examined until after the revised implementation rules of the Patent Law are published.
- ***IP legislation on the horizon:*** The Chinese government is seeking public comment on the revised Draft of Anti-Unfair Competition Law of P.R.C. Amendment (AUCL). This new amendment proposes some exciting breakthroughs: the prohibition of transactions with bad faith, such as traffic hijacking, undue interference, or malicious incompatibility; the inclusion of the online business operator in the scope of the law; and the added provision that prohibits business operators from using data and algorithms, or any technical means, to sabotage the fair competition of markets by affecting users' options or other methods. If these new amendments take effect, they will certainly benefit rights holders with more methods to conduct digital enforcement against the rampant online infringements in China.

## Mexico

FDRA recommends USTR elevate Mexico to the *Priority Watchlist* in the 2023 Special 301 Report. Significant and serious IP shortfalls exist in Mexico, as highlighted below.

- ***Low priority for IP protection:*** The current administration in Mexico has not prioritized IP enforcement and protection. The Administration's austerity program has negatively impacted key agencies, including relevant ones for IP like the Trademark Office (IMPI) and the Attorney General's Office (FGR). As a result, IP enforcement has been seriously compromised, and IMPI lacks effective support from LEAs. This commonly prevents the authorities from executing their determinations and sanctioning possible IP infringers. There were almost *no raids related to IP cases* conducted by the criminal authorities in Mexico in 2022.
- ***Limited customs authority:*** Existing provisions in Mexico's Customs Law only provide authorities with *ex-officio* power to initiate border measures – not to make determinations, seize, and destroy IP infringing goods. For that reason, goods that are suspected of IPR infringement must still obtain an order either from IMPI (administrative) or FGR (criminal) allowing for inspection and detainment. The administrative action is usually helpful when the infringer is a well-established business and there is a way of finding a domicile for notifications. However, the proceeding is executed as a trial, which makes the costs extremely high for rights holders. As a result, the criminal option had become the preferred go-to action for rightsholders to enforce, especially through the FGR's Specialized Unit dedicated to investigating crimes against

copyrights and industrial property. However, the austerity program from the federal government has resulted in less action towards infringing goods. The Specialized Unit work has been reduced to solving mainly old cases, rather than focusing on new cases brought by rights holders, especially in the growing digital markets space in Mexico. We encourage the Mexican government to advance its enforcement framework by adding power for Customs to seize and destroy counterfeit goods independently and to review its current perspective on the enforcement of IP rights (especially from a criminal perspective).

- ***E-commerce enforcement gaps:*** With the sharp increase in e-commerce and small parcel shipments, there is a strong need for the Mexican government to work with online platforms and rights holders to implement preventive and proactive measures to tackle the increase in offerings of counterfeits online. This includes 1) implementing registration requirements for third-party sellers that allow the authentication of both seller and product; 2) disclosing seller information on the product page; 3) blocking offers for suspicious counterfeit products; and 4) banning repeat offenders.
- ***Some positive developments:*** Mexico continues to develop an environment for equal recognition and enforcement of trade dress rights. In addition, Mexico's Trademark Office (IMPI) has supported enforcement (oppositions and invalidations) in cases of recognized well-known marks.

## Vietnam

Vietnam is on the right track to develop an IP system that allows for growth and development. Authorities are open and willing to make changes to harmonize with international standards.

- ***Counterfeiting concerns:*** As more and more brands have shifted production from China to Vietnam, counterfeiters have moved manufacturing to the country as well, where they manufacture not only pure counterfeits but also look-alike knockoffs. Since Vietnam is the second largest sourcing country of footwear for the U.S. market, the market is ripe for counterfeiters to exploit. It is critical that the Vietnamese government proactively work to fight the surge of counterfeiting.
- ***Areas for improvement:*** Vietnam should focus on providing greater clarity in the current laws for the recognition of nontraditional marks or trade dress. The National Office of Intellectual Property of Vietnam (NOIP) allows rights holders to file applications for nontraditional marks, but further guidance is needed on both the examination process and enforcement. For applications to be effective, there must be more structural support and consistency. In addition, Vietnam should harmonize the approach to well-known mark status to make it consistent with international norms. So far, the process does not seem to confer to brand owners any of the enforcement benefits typically seen in other jurisdictions.
- ***Positive developments:*** The recently passed E-commerce Decree should strengthen customs enforcement processes in Vietnam, especially related to e-commerce and small parcels. FDRA recommends additional support from regulators to make e-commerce

platforms more effective in reducing the offer of counterfeit products sold on the platforms. One area where Vietnam has excelled in its IP enforcement is its excellent program to control the transshipment of counterfeits from China via Vietnam to Laos, Cambodia, or Thailand. This program has established an effective control of counterfeit goods in the Southeast region.

## Indonesia

Unfortunately, Indonesia does not have sufficient laws in place to protect rights holders.

- ***Inadequate customs system for seizures:*** The customs system lacks thorough processes for detaining suspicious products and seizing counterfeits. The criteria for rightsholders often proves unworkable, resulting in only a small number of cases and placing a huge burden on bonds and guarantees requirements and other obligations. When brands are able to stop shipments of suspicious counterfeits, there is often a lack of transparency by law enforcement and the informal system reinforces local protection.
- ***Increase in domestic counterfeiting:*** With the significant increase in local production of legitimate footwear, FDRA member companies have also seen an increase in the local manufacturing of counterfeit products. FDRA recommends Indonesia takes proactive steps to address the counterfeiting problem. This includes a special focus on e-commerce, where Indonesia has a large potential for growth. Indonesia currently lacks the legal framework to tackle the large number of counterfeit goods sold online.
- ***Difficult trademark opposition process:*** In addition, FDRA recommend that Indonesia review its trademark invalidation/opposition proceedings. The Indonesian trademark office continues to have a very narrow interpretation of trademark rights, and in opposition proceedings, generally only decides cases in instances where the parties' mark and goods are nearly identical. Improving these procedures is critical to preventing infringers and counterfeiters from obtaining "similar" but not quite identical trademark registrations. In addition, the trademark office should promote a thorough review of the current invalidation/cancellation/opposition appeals process. Today, once a decision is made in an opposition, the only additional recourse by the brand owner is to file costly and time-consuming civil litigation.
- ***Positive developments:*** The Indonesian government and intellectual property authorities recently started showing an interest in promoting substantial changes to the local IP environment. FDRA member companies have started to see some good enforcement decisions coming out of The Trademark Office (TMO). FDRA would like to reinforce the importance of consistency, continued effort to recognize trademark rights, and realistic enforcement via TMO in the next period.

## India

FDRA recommends India focus its efforts on effectively implementing its IP laws, improving its IP protection processes, and hiring and training IP officials.

- ***Bureaucratic trademark process:*** India’s trademark office (TMO) has an opportunity to modernize archaic and highly manual procedures for IP protections. The TMO continues to require outdated modes of document authentication and signatures and still heavily relies on paper (as opposed to electronic) methods for pleadings and evidence submission. For example, due to the style of pleading and presentation of evidence, submissions are routinely 40 to 50 pages long. Each page of the submission must be signed for authentication; one filing, in one case, can easily require a signature 50 times.
- ***Long trademark backlog:*** Currently the 10-year trademark backlog at the courts and the TMO prevents brands from filing utility patents and trademarks in the country. The value of having the protection is lost during the long exam processing time.
- ***Famous Marks program shortfalls:*** The TMO initiated a pilot program called the “Famous Mark Registry”, but it has not yet gained traction. The program would create an opportunity for India to have a clear process to protect famous marks. The program would benefit from having rules, standards, and timelines established to allow for brands to effectively participate in the process. In the meantime, as there is no movement on this front, well known mark status is still effectively granted only by enforcement decisions at the TMO or by court decisions.
- ***Rise in counterfeits:*** FDRA Members have noticed an increasing number of counterfeiting distribution hubs in India. Enforcement remains very challenging for brands and local law enforcement authorities due to various social, cultural, and community aspects. FDRA Members are also closely monitoring the draft of India’s new e-commerce law. We expect the law to clarify the legal system to protect rights holders and define the terms for platform liability in IPR infringement cases.
- ***Procedural hurdles:*** At customs, while the IPR (Imported Goods) Enforcement Rules 2007 have played a big role in curbing counterfeit goods entering India, there are several procedural issues that hurt rights holders. While the IPR Rules prescribe specific timelines, adjudication process is very slow in practice at almost all customs ports across India with very few exceptions. The delay in adjudication consequently causes a lengthy timeframe for the destruction of seized goods. At various ports, it may take over 3 to 5 years for the destruction to be completed. As result of the delay in adjudication and the delay in the destruction of goods, substantial funds from the rights holder are blocked in the form of bank guarantees. Even when the destruction is complete, there are several ports where the return of guarantees requires a herculean effort by the rights holder to have them released. The delay in adjudication and low penalties do not deter counterfeiters. There are several cases of repeat offenders who have imported huge quantities of illicit goods into India.

## South Korea

South Korea’s intellectual property laws are comprehensive, and the authorities and processes are becoming increasingly efficient. Korea has improved its IP system to respond to the accelerating digital transformation. Over the past two years, the Korea Intellectual Property



Office (KIPO) amended both the Trademark and the Design Protection Act to properly protect digital goods with trademarks and graphic image designs.

- ***IP protection environment:*** KIPO is one of the more progressive offices in terms of its recognition, having a continuous process to clarify and improve the rules. Courts have a thorough process for IP with easy access, knowledgeable practitioners, and well-developed IP jurisprudence. It is one of the more advanced countries in terms of recognition and enforcement of non-traditional rights of registered and nonregistered marks. The government has also been proactive in establishing a cleaner online marketplace with less counterfeits. January 13, 2023, Korea Fair Trade Commission (KFTC) published a monopoly examination guideline for online platforms to prevent potential abuse of market dominance and unfair trade practices of online platform operators and thus to further protect small online vendors and consumers.
- ***Concerns about NFTs/metaverse:*** While we appreciate KIPO being the first office globally to provide guidance on protection and enforcement of trademark rights in the realm of NFTs/metaverse, we are highly concerned by KIPO's position that digital and physical goods are unrelated for purposes of finding likelihood of confusion and trademark infringement (e.g. digital shoes are not similar to physical shoes). This position does not reflect the reality of the marketplace, how consumers use and perceive the metaverse/digital products, nor does it account for the practical state of infringements.
- ***Best practices with small shipments:*** South Korea's customs processes and efforts to partner with brands has resulted in an effective management of small parcels at the border. Korea customs provides the best practices on the interception of small parcels.
- ***Cross-border e-commerce challenges:*** The challenge in Korea remains around cross-border e-commerce that is mostly located in China or other countries, without a physical location in Korea. As a next step, FDRA recommends Korea increase collaboration with law enforcement in other countries to achieve better results on cross-border issues.

## Japan

Footwear brands have seen positive developments in Japan with new laws aimed at fighting counterfeits and strengthening protection for consumers buying on e-commerce platforms. As we have seen in numerous countries, the volume of small shipments entering Japan creates challenges for IP enforcement.

- ***Positive developments in fighting counterfeits:*** Before the Amendment of Trademark Law/Customs Law on October 1, 2022, 20 percent of interceptions of counterfeit goods shipped from overseas business operators were released as non-infringing trademark rights, based on a provision that allowed for personal use objections by importers. After the law was amended, however, brands can successfully seize almost all counterfeit interceptions. The Japanese government has also been active on a public awareness campaign that is showing results. We expect a general decrease on the number of consumers who knowingly purchase counterfeits online.

- ***Positive developments in the digital space:*** In May 2022, the “Act on the Protection of the Interests of Consumers Using Digital Trading Platforms” came into force. This law reflects the government's desire to strengthen regulations from the perspective of consumer protection against damage caused by various Internet transactions. The law has also an impact on the sale of counterfeit goods. Currently, many distributors of counterfeit goods falsify seller information when registering at a platform, and platforms have no obligation to verify these data. Therefore, there are many cases that cannot be enforced. The new law stipulates consumers who suffer damages have the right to request disclosure of the seller information necessary for claiming damages. If it is determined that countermeasures against counterfeit goods are not functioning sufficiently due to the platform, the Consumer Affairs Agency can order the platform operator to delete the listings. A public-private council discusses how to deal with unscrupulous dealers.
- ***Small parcels:*** Many small parcels of counterfeit goods purchased online are seized by customs, but the number of import suspension cases have increased by 3 times (5,000 per year) and the number of shoes seized by 10 times (11,000 per year) between 2020 and 2022. Until a few years ago, 90 percent of such counterfeits were imported from China. However, in recent years, the volume of counterfeits imported from Vietnam has increased to about 50 percent.

## **Brazil**

Government support for IP enforcement against counterfeiting is slim in Brazil. FDRA members have expressed concerns about IP enforcement gaps, domestic manufacturing of counterfeits, and inadequate customs procedures for seizures of illicit goods.

- ***IP enforcement gaps:*** Despite some positive efforts, Brazil lacks proper legislation to provide rights holders with effective protection against IP infringements. The Brazilian Industrial Property Law still has lower penalties for crimes against counterfeits than those applied to crimes against copyrights. The bill number 333/1999 seeks to amend the Law n°. 9279/96 (Brazilian Industrial Property Law) to bring penalties for crimes related to counterfeiting in line with those in place for copyright offenses and allow criminal cases against offenders. The bill still remains pending final voting for approval by the Brazilian Congress. Trademark enforcement at the Parent and Trademark Office (INPI) is also incredibly difficult, with the Office rarely enforcing brand owner’s rights against infringing marks. Even in cases of marks recognized as famous in *Brazil Famous Marks Registry*, INPI will not enforce, making the Famous Marks *Registry* effectively useless. FDRA recommends INPI revisit its approach to rights afforded to famous marks as well as to scope of rights and enforcement generally.
- ***Local manufacturing of counterfeits:*** 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. In fact, a very high percentage of the counterfeit goods sold in Brazil come from local manufacturing. Nova Serrana city, Minas Gerais State, counts more counterfeit factories than legitimate ones. FDRA members, which are amongst the more popular consumer

brands in Brazil, must often take their own civil actions to try to seize counterfeit goods with short support from government. USTR should urge the local government to combat the flagrant manufacturing and selling of counterfeit merchandise throughout the country.

- ***Inadequate customs procedures for seizures:*** Brazil also needs to clarify and harmonize customs procedures related to the seizure of counterfeit goods. Brazil should implement a system for registering trademarks at customs (a “Recordation System”) to regulate existing standards in TRIPS, reduce costs and simplify processes. This would represent a great advancement and an effective tool to address issues of interpretation of Brazilian legislation regarding customs procedures. A draft bill to implement a “Recordation System” has the support of the Brazilian Federal Revenue Secretariat and the Repression Coordination (COREP).
- ***Legislative efforts on IP in Brazil:*** The National Council against Piracy and Intellectual Property Crimes (CNCP) – (a public/private body created within the framework of the Ministry of Justice) in the recent years has promoted coordinated work between platforms and rights holders that resulted in the issuance of two relevant guides: (i) Best Practices Guide for Internet Platforms; (ii) Guidelines for the implementation of anti-piracy measures by the Government, Right Holders, Payment Service Providers, and Intermediaries. Although these Guides are nonbinding, they have created a framework used to leverage the cooperation among some Internet platforms and rightsholders to establish best practices and collaborate to reduce the offer of counterfeits online.

In addition to these “Soft Laws” sponsored by the Ministry of Justice, on December 21, 2022, the Federal Revenue Service published in the Federal Register the Normative Instruction (IN) 2124/2022 changing customs control rules applied to international shipments (small parcels – B2C), including purchases made from 'cross border' marketplaces. Interestingly, the Normative Instruction included various obligations for transport companies (couriers) and for “Correios” (similar to US Post Office). This is a novelty to the norm: the inclusion of Correios in the list of obligations that carriers already submitted. For example, in Article 12-V, both couriers and Correios are required to: “adopt measures to prevent the undue use of customs clearance of shipment and the illegal transport of weapons, ammunition, narcotics, drugs and other goods whose import or export is suspended or prohibited, or that violate intellectual property rights, including goods whose import or export is prohibited by postal legislation.” Additionally, the most important part of this rule is the Article 12-A, which obliges courier companies, as well as Correios to provide information to customs about each of the shipments that are being transported in advance of the arrival of the goods in the country, allowing customs to carry out an intelligence and risk analysis. FDRA is still analyzing this provision carefully to understand the full impact.

- ***Positive developments:*** Integrated efforts like the one of the São Paulo City Hall with Customs, Federal Revenue and State Police calls attention by the level of coordination and results over the years in São Paulo downtown, which is one of the main hubs for distribution of counterfeit products in the country. This *Task Force* seized tons of counterfeit products and continues to push not only to close, but to maintain the malls in

São Paulo downtown closed. In addition to the work of this *Task Force*, the Federal Highway Police does a consistent and excellent job seizing thousands of counterfeit products every year on the Brazilian roads. Considering the improper and illegal behavior of Shopee in its marketplace in Brazil, brands continue working with the Public Prosecutor – CyberGaeco Division, in order to push Shopee to comply with Brazilian Legislation.

### **Additional Markets of Concerns**

- **Algeria:** Algerian Customs was previously one of the most active anticounterfeiting authorities in Africa, but the situation has changed since 2018. Annaba port, the largest port in the country, remains the main destination of inbound and outbound counterfeit shipments. The port offers no follow-up system for rights holders other than in-person. For this reason, rights holders must travel from Algiers to the far port of Annaba to follow up or file documents, resulting in a lengthy and costly process. In addition, the process lacks transparency and often results in delays, because rightsholders must file complaints against each subject before the courts. Not only does this make the process burdensome; it could lead to information leakage. We recommend considering the introduction of an information sharing system between rightsholders and authorities, as well as the use of online systems that can speed up the current procedures at the port level.
- **Chile:** is highly progressive and a global leader in its recognition and enforcement of copyright protection. The provisions of its copyright law allow for enforcement against infringers, with penalties ranging from fines to jail time, provided there is a public action. Recent changes to the Industrial Property Law N°19.039 entered into force in 2022. Those include additional figures for trademark infringement and an increase in penalties for infringers who import, commercialize, and distribute counterfeit products; this now includes, not only fines, but jail time. Further updates to the Industrial Property law should contemplate a change in the provision that still requires a previous complaint by a private party to begin an investigation in a case of trademark infringement. This change would put trademark infringements at the same level as the copyright infringements in Chile. It is worth noting that IP crime cases in general close with penalties that represent alternative measures (such as complying with some conditions, product destruction, in few cases, payment for damages to the victim) and not a conviction due to the low penalty involved.

FDRA members have partnered with local governments, allowing for increasing seizures of unbranded shoes based on the recognition of unregistered copyrights (based on a standard Copyright Law provision). Almost two years ago, customs and police force started to take action against the importation of unbranded footwear that use copyrighted textile designs. As a result, around 200,000 infringing pairs of footwear have been seized during this 2-year period, which shows a strong impact in the local market of footwear. Cases under this new strategy are open and waiting for a final decision. In addition, Customs at Santiago's International Airport has been constantly seizing counterfeit goods in small shipments. During the last year, authorities have been active in working on cases

that arise from investigations related to different social media listings. Platforms like Instagram or Facebook are usually used by sellers to offer their products, and authorities have been taking action against these sellers, when they have a brick-and-mortar venue where actions can be executed.

- **European Union (EU):** FDRA members value the increased focus on IPR issues by the EU Commission and follow with interest the developments of the unified patent system and the review of the Design Directive. On enforcement, it is important to highlight that some FDRA members have partnered with select EU Member States, such as France and Italy. Actions at the customs level continue to have a positive impact and can help model enforcement to reduce knockoffs that are intended to be labeled after crossing the border of consumer markets' countries. FDRA members continue to encourage law enforcement and customs to prioritize counterfeits at ports in Europe. The adoption of the Digital Services Act (DSA) should represent a great improvement to the legal framework for combating online counterfeiting. It helped strengthen footwear IP in the EU by including the implementation of preventive and proactive best practices to help platforms reduce the offer of counterfeits online. These best practices include seller identification; information disclosure to consumers; transparency and easy access on terms and conditions; and a thorough process for the notice and take down system. Additional improvements expected by FDRA members would have included a mechanism to suspend and ban repeat offenders. It is our hope that this important issue will be revisited in future opportunities for legislative or regulatory updates to the DSA.

FDRA also agrees with the Commission's stated objective to harmonize, simplify, and streamline the procedure for EU-wide registration of designs through the revision of the Regulation on Community Designs and the Recast of the Directive on the legal protection of designs. We appreciate the continuing discussion including the opportunities to provide stakeholder comment on the proposed revisions. Some proposed revisions we see as positive, such as the proposed broader definitions of "Product" and "Design" that will help to take account of the technological innovations and evolution of the digital world. However, other areas we encourage the EU Commission to consider more carefully such as the proposed extension of the list of limitations enshrined in Article 20 of the Regulation and the fee schedule modifications that disadvantage larger entities in favor of smaller entities.

- **Egypt:** Egypt is a significant market for Chinese counterfeit goods. Recently the Egyptian government took measures to prevent the importation of substandard goods, but the level of IPR protection and enforcement has not changed. The current legal system should be reviewed to ensure that it aligns with international standards. The commercial courts in Egypt deal with IP cases among many others. FDRA members have observed some positive developments in the court system, with some decisions being rendered within nine months. While decisions in the courts can provide some level of deterrents for counterfeiters, enforcement is not an easy process; enforcement might take years and result in significant costs for the rights holder. In addition, rights holders still do not have visibility on actions taken by law enforcement agencies, especially Customs.

- Morocco:** The Moroccan government has recently reintroduced the free trade zones as key motivators for the economy. As IP regulation and enforcement are non-existing in such areas, these zones have become attractive to illegitimate businesses, including interest from Chinese counterfeiters. One important zone, the Tanger Free Zone, is used for exportation into Mauritania and Europe. In addition to these enforcement gaps in Morocco, the criminal courts take time to render decisions and lack sufficient damages to deter counterfeiting. On the other hand, when the cases are brought before the commercial courts (specialized IP courts), cases are judged in a reasonable time and damages reflect guidelines provided by the law in force. However, rightsholders do not have visibility on what happens to seizures. There is no formal destruction procedure, and rightsholders only occasionally receive notice of seizures and destructions.
- Russia:** Russia should remain on the *Priority Watchlist* in the 2023 Special 301 Report. Massive markets of counterfeit goods, both physical and online, continue to flourish in Russia. Russia has been encouraging parallel imports of footwear due to continued internal demand without brands' consent. Enforcement possibilities are limited. In the current situation, brands are concerned about being denied the registration or the renewal of their trademarks in the country – that in turn could be registered by another party. Removing Russia from the “priority watch list” may have an undesired effect for global brands.
- Saudi Arabia:** Saudi Arabia has laws in place that continue to allow for effective implementation processes for the protection of IPR. The country's shift of IP enforcement to the Saudi Authority for Intellectual Property (SAIP) resulted in a dramatic increase of the number of cases of enforcement. These actions were previously handled by the Ministry of Commerce, with limited resources and a low interest in tackling counterfeits. SAIP has recently focused efforts on cleaning up Saudi markets. However, SAIP has also taken over all the Customs detentions reporting to rights holders. This resulted in some turbulence in the process, and SAIP is unable to fulfil the requests of sharing shipping info and intelligence with the rights holders. One positive aspect of the system is that rightsholders are not required to pay any government fees while complaining or enforcing against counterfeits. Products seized are usually destroyed within a few weeks of the notified action. However, on some occasions, brands still see products from seizures being re-exported. The court process remains slow, and Saudi Arabia lacks IP specialized commercial courts.
- Spain:** La Junquera El Perthus City, at the old border between Spain and France, continues to be a location where strong counterfeiting activity occurs. Police continue to raid the approximately thirty stores that sell numerous fake products to end consumers and also distribute them to traders, but the courts in the region are acquitting infringers and the illicit activity continues. The stores have built hidden sell areas behind their stores where access is only given to trusted clients. Platforms such as TikTok provide information on how consumers can have access to the El Perthus hidden areas.
- Turkey:** Turkey has not effectively prioritized counterfeits, as crimes related to IP are generally perceived as minor crimes. The government does not give the same importance to the importation and exportation of counterfeit textile and footwear products as it does

to counterfeit tobacco or alcoholic beverages. It also fails to provide full protection of trademarks' rights for transit goods at customs and fails to apply the "Quick Destruction" of counterfeit goods despite provision in the IP Law. As 2023 is an election year, FDRA members expect even less enforcement against counterfeiting in Turkey. In the current system, search and seizure warrant requests are evaluated by the general criminal court judges who may lack expertise in IP matters. This generally results in inconsistent interpretations of the scope of 'reasonable doubt' that are common in practice. Objections to such court decisions dismissing a complaint may be procedurally filed before the same first-instance criminal court, and not before a specialized criminal IP court, which lumps the possibility of a reversal in the verdict. Some public prosecutor offices decline to request a seizure warrant from the court for goods intercepted by Customs.

- **United Arab Emirates (UAE):** The level of IP protection and enforcement has remained stable in the UAE. We appreciate the government's outreach to stakeholders to discuss solutions to IP issues, especially in preparation for EXPO Dubai. Despite efforts by law enforcement to work with brands to combat counterfeits, rightsholders do not have visibility on what occurs to goods seized by the Dubai Economic Department and other government agencies. Products for seizures are still re-exported based on the UAE Federal Law 37/1992 that allows the re-exportation of the substandard goods. While Dubai Customs has recently shown an increased interest in combatting counterfeits, we believe officials across the country should play a bigger role, given the large quantities of counterfeits entering the UAE. Almost fifty percent of counterfeits in the UAE are imported and sold by traders of the Ajman China mall. As a result of continuous pressure, the Ajman government conducted a series of sweep actions against counterfeiters inside the mall for the first time since its opening. This has resulted in bringing the visibility of counterfeits to almost zero, but illicit traders are still using some locked shops to store counterfeits and distribute products to their closed trusted groups of resellers.
- **United Kingdom (UK):** The UK government and UK IPO have started a review of the UK's national IP legislation and recently opened a consultation on design legislation. FDRA member companies would like to see the fair and equal recognition of trade dress marks in the UK. We believe there is an opportunity for the UK to be a leader in this space in the region. We congratulate the UK government for maintaining the IP rights exhaustion regime between the EU and the UK, providing certainty for rights holders. We also appreciatively note that Design Registration Certificates are now available to be issued electronically. This is a helpful and welcome change. The UK now issues electronic registration certificates for designs that are filed electronically. This process change has made it much easier to collect, transmit, and internally store data related to registrations.

### **General Comments on Global Trends**

FDRA's concerns about global IP protection and enforcement trends fall into four categories.

### **Challenges on E-Commerce Platforms**

With the significant rise of e-commerce over the past few years, footwear companies have seen a substantial and troubling increase in both unauthorized sales and counterfeiting, as bad actors use popular e-commerce sites to target unsuspecting consumers in the U.S. During the COVID-19 pandemic, e-commerce shipments grew exponentially.

- For online platforms, the seller contact information is not consistently verified and often found to be inaccurate. Even when contact information is available, platforms often do not share full and detailed data on violators with rights owners.
- Brands do not have the resources or ability to get in touch with every online seller suspected of selling counterfeit or infringing product to ask for additional information and pictures. FDRA member companies have also discovered that many individuals and entities selling counterfeit or infringing goods on these platforms use false identities, making it impossible for brands to identify the bad actors. Since individuals often provide cover for commercial activity on platforms, all sellers should be verified rather than select entities with sales over a certain threshold.
- Information provided or displayed by platforms may be misleading to consumers, including fulfillment services provided by platforms, the ranking of a good based on sales, or the advertisement of the good on the platform. For example, the product images, reviews, and seller information can be inaccurate or hard to find, often hidden behind a link, and unrelated to the specific seller or product at issue, and references to “replicas” are often overlooked by consumers. Each of these techniques provides a false sense of legitimacy for counterfeit goods sold on platforms.
- Under the current court-developed framework for notice and takedown procedures, platforms do not have sufficient motivation to detect and prevent counterfeiting and infringements. They often profit from both the individual sales and by the availability of a broad selection of third-party sellers’ products, including counterfeit and infringing goods. In some cases, this encourages platforms to develop long and convoluted notice and takedown procedures for brand owners. Platforms should process the notices in a harmonized and effective way and should make it possible to notify several illegal listings in one notice. Notice and takedown procedures implemented by platforms should be harmonized and user friendly.
- On an annual basis, FDRA member companies are forced to file trademark counterfeiting and infringement lawsuits against thousands of platform sellers alleging direct liability – not secondary liability – for selling counterfeit and infringing goods. These lawsuits are limited in their efficacy because (1) many of these sellers are located in China or other countries and have used false contact info to register with the marketplace; (2) these sellers almost never appear in court and simply default; and (3) the sellers have limited funds in their platform accounts – usually just a fraction of the amount of the judgment companies are awarded.
- For the 2023 Special 301 Report, FDRA encourages the Committee to closely examine the ways in which these current e-commerce challenges directly impact global IPR protection and enforcement.



## **Inability of CBP to Seize Goods Based on Design Patent Infringement**

Bad actors currently take advantage of a loophole to evade U.S. Customs and Border Protection (CBP) and deliver counterfeit footwear to the U.S. market.

- Counterfeiters increasingly ship labels and trademark tags separately from infringing products and attach them to the infringing products once in the U.S. market in order to avoid seizure by CBP.
- If the labels are seized by CBP, the more valuable fake shoes will still enter the U.S. Under current law, CBP is authorized to seize counterfeit trademarked shoes but cannot seize a shoe that is clearly a copy of a trademark shoe absent the presence of a logo or distinguishing tag.
- A number of other countries, such as Mexico, India, Japan, South Korea, and the European Union (EU), already allow such design patent enforcement.
- Bipartisan legislation (S. 2987, The Counterfeit Goods Seizure Act of 2019), introduced in the 116<sup>th</sup> Congress, would have directly addressed this current loophole by giving CBP authority to seize based on design patent infringement. We strongly encourage the reintroduction and enactment of this key legislation in 2023.

## **Additional Enforcement Gaps**

There are a number of other areas that contribute to the surge of counterfeit footwear entering the U.S. market.

- Infringers often use express mail and postal services to deliver counterfeit goods in small packages, making it more challenging for enforcement officials to confiscate these goods. The sheer volume of small shipments makes it impossible for CBP to adequately screen or x-ray all incoming mail to detect such shipments. Almost two million small packages entered the U.S. through international mail each day, even before the COVID-19 pandemic exponentially increased the volume of shipments.
- The quality of information available to CBP on small parcels is as important as the process used by port authorities to communicate with rights holders. To increase the effectiveness of enforcement actions – and the ability to track real importers and identify the bad actors – we recommend creating standards and automatization for information sharing between authorities and rights holders.
- Customs officials may also lack sufficient training or knowledge to consider trade dress as a basis for seizure. In today's 21<sup>st</sup> century retail environment, the way that a brand presents a shoe – from its appearance to packaging – is a critical part of the customer experience. Companies devote significant resources to innovation in this area, which directly impacts a brand's reputation and the relationship it has built with the consumer.

## **Inadequate Protections for U.S. Companies in Foreign Markets**

In numerous countries, legal and procedural obstacles exist to securing and enforcing trademark rights.

- Penalties are often inadequate to deter criminal enterprises from engaging in counterfeiting. In many countries, the penalties imposed on these enterprises are so low that they only add to the cost of doing business.
- 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 rightsholders to pursue claims. The judicial systems in many countries also lack proper specialization and training on IP rights.
- Counterfeiters now commonly register domains that advertise and sell counterfeit goods. Many of these counterfeiters use a country code top-level domain (ccTLD) to prevent detection and avoid the reach of the U.S. judicial system. 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 relief.
- The theft of trade secrets has become an increasingly important issue for global brands. 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 in, and even participate in, the theft of trade secrets.

## **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 consumers purchase footwear. Now more than ever it is vitally important that the U.S. government work 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 U.S. consumers.

Sincerely,



Matt Priest  
President & CEO  
Footwear Distributors and Retailers of America