Trade in Counterfeit and Pirated Goods: MAPPING THE ECONOMIC IMPACT

Executive Summary
April 2016
EXECUTIVE SUMMARY

This study offers up-to-date analysis of the impact on **global trade of counterfeit and pirated products**, known as “fakes” by the general public. **Using statistical analysis and** drawing on a unique, global dataset covering almost half million customs seizures the study establishes the huge share of international trade commandeered by counterfeit and pirated goods.

In 2013, international trade in counterfeit and pirated products represented up to 2.5% of world trade, or as much as USD 461 billion. This is the equivalent of the GDP of Austria, or the combined GDP of Ireland and the Czech Republic. Above all, it highlights that right holders, governments and the formal economy as a whole might suffer from significant economic and social losses. It also suggests the financial power of the criminal networks that are behind such trade.

Specific analysis of the European Union shows that, in 2013, imports of counterfeit and pirated products amounted to up to 5% of imports, or as much as USD 116 billion (EUR 85 billion). This suggests that the relative impact of counterfeiting is twice as high for a group of developed countries such as the EU, than it is for the world as a whole. The scope of the phenomenon appears to be greater than a decade ago. An OECD study conducted back in 2008 estimated that counterfeit and pirated goods accounted for up to 1.9% of world imports, or up to USD 200 billion, relying on the best data and more limited methods available at the time. In the context of today’s revival of international trade and open, global economy, there is no shortage of opportunities for counterfeiters and criminals. Indeed, counterfeit and pirated trade has become a major threat for any modern, knowledge-based economy.

Counterfeiting and piracy matter in an innovation-driven global economy. Intellectual property (IP) is a key value generator for firms and an enabler of success in competitive markets. At the macroeconomic level, IP protection and enforcement is one of the main drivers of innovation which contributes to sustained economic growth. Given the fundamental economic importance of IP, counterfeiting and piracy must be directly targeted as a key threat to sustainable IP-based business models.

Many products are affected by counterfeiting and piracy, from luxury and business-to-business goods to common consumer products. Any product to which IP adds economic value to rights holders and creates price differentials becomes a target for counterfeiters. Counterfeit products range from relatively high-end consumer luxury goods such as watches, perfumes or leather goods, to business-to-business products such as machines, chemicals or spare parts covering all price ranges, to common consumer products such as toys, pharmaceuticals, cosmetics and foodstuff. In fact, every IP-protected product can be counterfeited. There are even records of seized counterfeit (trademark infringing) fresh strawberries, bananas, cinnamon or coconut oil. Some counterfeit products, such as pharmaceuticals, spare parts and toys, are of very low quality, and can pose significant health and safety threats.

All market segments are targeted. Counterfeiters and pirates maximize their profits by targeting all potential market segments. This includes secondary markets, in which consumers willingly purchase infringing products from counterfeiters and pirates, and primary markets, where buyers of counterfeit goods are deceived, believing they purchase legitimate items.

Counterfeit and pirated trade is a global and dynamic phenomenon. Recently, markets for IP-infringing products have become increasingly globalized and are affected by global trends. The post crisis revival of trade including growing market openings in many regions, the emergence and globalization of value chains, and booming e-commerce in global trade, are all at play and underpinning global market dynamics, for legitimate and counterfeit goods.
Counterfeit and pirated products can originate from virtually all economies on all continents; China appears as the largest producing economy. While counterfeit goods can originate from any economy, on average, middle income and emerging economies tend to be important players in the international markets for counterfeit and pirated goods. These are identified as “provenance economies”, either as important transit points in international trade, or as producing economies, with China being the largest producing economy. Intuitively, these economies tend to have both sufficient infrastructure and productive and technological capabilities that enable large scale trade. Yet, these economies may not have developed sound institutional frameworks, including IP-related legislation and enforcement practices, to combat such counterfeit trade.

Most brands are hit by counterfeiting. While many are located in OECD countries, China has also been targeted. A detailed analysis of the data on brands, coupled with information on the registration of rights holders of infringed IP, shows that the majority of products targeted by counterfeiters are registered in OECD countries – primarily the United States, Italy, France, Switzerland, Japan, Germany, the UK and Luxembourg. However, emerging economies are also seeing an increase of registered rights holders. For example, recent data show that the IP rights of Chinese companies have been frequently infringed. Whether they are in developed economies, or in fast growing emerging economies, all innovative companies that rely on IP to support their global development strategy are at risk.

Trade routes in counterfeit and pirated goods are complex and can change dynamically, including intermediary transit points. An analysis of counterfeit and pirated imports into the EU identified a set of important intermediary transit points. Some of these, such as Hong Kong, China or Singapore, are important hubs of international trade in general. Other transit points include economies with very weak governance and a strong presence of organized criminal or even terrorist networks (e.g. Afghanistan or Syria). The analysis shows significant changes from year to year, as traffickers exploit new governance gaps. This reflects the ability of counterfeiters and criminal networks to quickly identify weak points and gaps and consequently leverage opportunities for arbitrage.

The share of small shipments, mostly by post or by express services keeps growing. This is apparently due to shrinking costs of such modes of transport and the increasing importance of Internet and e-commerce in international trade. For traffickers, small shipments are also a way to avoid detection and minimise the risk of sanctions. This in turn raises costs of checks and detention for customs and presents significant additional challenges to enforcement authorities. Managing such a huge volume of seizures, from processing to destruction in an environmental friendly way, represents a significant burden on the operations of customs and a cost to tax payers.

More investigations are needed to address the challenge, so that countries can, individually and cooperatively, design policies and enforcement solutions. Information on the magnitude, scope and trends of counterfeit and pirated trade is critical to understanding the nature of the challenges faced by governments and right holders. However, the current results rely on customs seizure observations and do not include domestically produced and consumed counterfeit and pirated products and pirated digital products on the Internet, which calls for complementary analysis.

The full report is available at www.euipo.europa.eu and www.oecd-ilibrary.org
Trade in Counterfeit and Pirated Goods: MAPPING THE ECONOMIC IMPACT

Executive Summary
April 2016