



Mapping the Real Routes of Trade in Fake Goods

Executive summary



Preface

Globalisation, trade facilitation, and the rising economic importance of intellectual property are drivers of economic growth. However, they have also created new opportunities for criminal networks to expand the scope and scale of their operations, free-riding on intellectual property and polluting trade routes with counterfeit goods. The consequences for the economy are serious. Trade in counterfeit goods not only damages economic growth but also undermines good governance, the rule of law and citizens' trust in government, and can ultimately threaten political stability. In some cases, the fakes can also have serious health, safety and environmental implications.

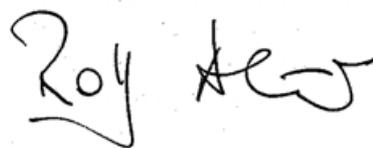
Precise information about the routes of trade in counterfeit goods is essential for tailoring effective governance responses to this scourge. The complexity of the routes of trade in fakes can be a formidable obstacle for enforcement authorities.

We are very pleased that our two institutions were able to work together to analyse a unique set of global customs seizure data to chart the routes of trade in fake goods. We are also grateful to the World Customs Organization, the European Commission's Directorate-General for Taxation and Customs Union, and the United States Department of Homeland Security for providing excellent data on customs seizures of IP-infringing products.

We are confident that this research will make a major contribution to the understanding of trade in counterfeit and pirated goods. We trust that it will help governments develop targeted policy responses and strengthen governance frameworks to tackle this phenomenon.



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Foreword

The broadening scope and magnitude of counterfeiting and piracy, and counterfeit trade in particular, are key challenges in the global economy, which is increasingly innovation-driven. The economic threat that these practices pose undermines innovation and hampers economic growth, while generating adverse health, safety and security effects for governments, businesses and consumers. Organised criminal groups are playing an increasingly important role in these activities, benefiting significantly from profitable counterfeiting and piracy operations.

The current study was conducted jointly by the OECD and the EU Intellectual Property Office (EUIPO), in order to provide policy makers with robust empirical evidence about this threat. As shown by the 2016 OECD-EUIPO report *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact*, trade in counterfeit and pirated goods amounted to up to 2.5 % of world trade in 2013, and that it was even higher when considering only the EU, where it amounted to up to 5 % of imports.

The analysis carried out in 2016 also found that parties that engage in the trade in counterfeit and pirated products tend to ship them via complex trade routes. To complement that analysis, this report looks at the issue of origin of fake goods by industry, identifying both the economies that produce the goods and those that serve as transit points in trade.

The analysis shows that China is the top producer of counterfeit goods in all analysed categories, while Hong Kong (China), United Arab Emirates and Singapore are global hubs for trade in counterfeit goods. The analysis also uncovers a large number of regional and sector-specific patterns.

This report builds on two equally valid policy concerns. The first is the impact of crime and illicit trade activities on good governance, public safety and the rule of law. The second is the negative effect that counterfeit trade has on legitimate competitive advantage of rights holders, and consequently on innovation, employment and long-term economic growth.

At the OECD, this study was conducted in the context of the Task Force on Countering Illicit Trade (TF-CIT), of the High Level Risk Forum that focuses on evidence-based research and advanced analytics to assist policy makers in mapping and understanding the market vulnerabilities exploited and created by illicit trade.

The report was prepared by Piotr Stryszowski, Senior Economist and Florence Mouradian, Economist at the OECD Directorate for Public Governance and Territorial Development jointly with Michał Kazimierzak, Economist at the European Observatory on Infringements of Intellectual Property Rights of the EUIPO, under the supervision of Stéphane Jacobzone, Counsellor, OECD and Nathan Wajsman, Chief Economist, EUIPO. The authors are grateful to Peter Avery (OECD) for his contributions.

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The quantitative research in this study relied on a rich, global database on customs seizures, provided by the World Customs Organization (WCO) and supplemented with regional data submitted by the European Commission's Directorate-General for Taxation and Customs Union, the US Customs and Border Protection Agency and the US Immigration and Customs Enforcement. The authors express their gratitude for the data and for the valuable support of these institutions.

Executive Summary

Trade in counterfeit and pirated goods is a worldwide phenomenon that is growing in scope and magnitude. Globalisation, trade facilitation, and the rising economic importance of intellectual property have been fuelling economic growth on the one hand, while on the other opening up new opportunities for criminal networks to expand the scope and scale of their operations, with serious negative consequences for the economy and society. Trade in counterfeit pirated goods also undermines good governance, the rule of law and citizens' trust in government, and can ultimately threaten political stability.

Parties that engage in the trade of counterfeit and pirated products tend to ship infringing products via complex routes, with many intermediary points. The transit points are used to i) facilitate falsification of documents in ways that camouflage the original point of departure, ii) establish distribution centres for counterfeit and pirated goods, and iii) repackage or re-label goods. In addition, while imports of counterfeit goods are, in most cases, targeted by local enforcement authorities, goods in transit are often not within their scope, which means they are less likely to be intercepted.

This study assesses the complex routes associated with the global trade in counterfeit and pirated goods. It is important to note that higher reported shares of custom seizures, as well as higher reported estimates for being a source of counterfeited products (i.e. the GTRIC-e scores), do not necessarily suggest that an economy is a significant producer of counterfeits. The analysis in this study uses a set of statistical filters to go further in clarifying the role of important provenance countries. It identifies key producing economies and key transit points for ten main sectors that are particularly vulnerable to counterfeiting. These sectors span a wide range of IP-intense, tradable goods, including fast-moving-consumer goods such as foodstuff or cosmetics, to business-to-business products, such as spare parts and computer chips. The combined trade of fakes in these sectors account for USD 284 billion in 2013 (EUR 208 billion in 2013), more than half of total estimated trade in fake goods.

In the analysis, the People's Republic of China (hereafter "China") emerges as the top producer of counterfeit goods in nine out of ten analysed categories. In addition, several Asian economies, including India, Thailand, Turkey, Malaysia, Pakistan and Viet Nam are important producers in many sectors, although their role is much less significant than China's. Turkey appears to be an important producer in some sectors – such as leather goods, foodstuff and cosmetics – which are sent by road to the EU.

The data identifies several important transit points for trade in counterfeits, including Hong Kong (China), the United Arab Emirates and Singapore, which are handling trade in counterfeit goods in all the analysed product categories. Fake goods arrive in large quantities in containers and are sent further in small parcels by post or courier services.

In addition, there are some important regional transit points. For example several Middle Eastern economies (e.g. the United Arab Emirates, Saudi Arabia and Yemen) are important transit points for sending fake goods to Africa. Four transit points – Albania, Egypt, Morocco and Ukraine – are of particular significance for redistributing fakes destined for the EU. Finally, Panama is an important transit point for fakes en route to the United States.

Finally, the data show that small shipments and parcels tend to dominate numerous trade routes, reflecting the shrinking costs of postal and courier shipments and the increasing importance of Internet and e-commerce in international trade. Shipments with fewer than ten items accounted for about 43% of all shipments, on average.

This analysis can inform policy discussions among individual governments or on a regional or global level that aim to prevent, reduce or deter trade in counterfeit and pirated goods. It can help in designing more tailored policy responses to strengthen governance frameworks aiming to tackle this risk. The report calls for more in-depth analysis for the development of efficient enforcement and governance frameworks in three areas:

- the role of free trade zones in transshipments
- the detection problem posed by small shipments

the economic features of provenance economies, including the quantitative relationship between the intensities of counterfeiting and indices of free trade, quality of governance, and public sector integrity

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Trade in counterfeit and pirated goods is a vital threat for modern, innovation-driven economies, a worldwide phenomenon that grows in scope and magnitude. Counterfeiters ship infringing products via complex routes, with many intermediary points, which poses a substantial challenge to efficient enforcement. This study looks at the issue of the complex routes of trade in counterfeit pirated goods. Using a set of statistical filters, it identifies key producing economies and key transit points. The analysis is done for ten main sectors for which counterfeiting is the key threat. The results will facilitate tailoring policy responses to strengthen governance frameworks to tackle this risk, depending on the profile of a given economy that is known as a source of counterfeit goods in international trade.

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