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Illicit trade in fake goods is a major challenge in an innovation-driven global economy. It has a negative impact on the sales and profits of affected firms, as well as broader adverse effects on the economy as well as public health, safety and security. Organised criminal groups are seen as playing an increasingly important role in these activities, using profits from counterfeiting and piracy operations to fund other illegal activities. Counterfeiting operate swiftly in the globalized economy, misusing free trade zones, taking advantage of many legitimate trade facilitation mechanisms and thriving in economies with weak governance standards.

To provide policy makers with solid empirical evidence for taking action against this threat, the OECD and the EU Intellectual Property Office (EUIPO) joined forces to carry out a series of analytical studies. The results have been published in a set of reports, starting with the 2016 Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact. The report showed that trade in counterfeit and pirated goods amounted to up to 2.5% of world trade in 2013; when considering only the imports into the EU, they amounted to up to 5% of imports.

Trade in counterfeit and pirated goods is a very dynamic and constantly changing phenomenon. Continuous measurement efforts are needed to monitor this risk. This report presents updated figures on the scale, scope and magnitude of trade in counterfeit and pirated goods, based on a statistical analysis of a unique database of half a million seizures of counterfeit goods. Structured interviews with trade and customs experts also contributed to the analysis.

The results are alarming. In 2016, counterfeit and pirated goods amounted to as much as 3.3% of world trade, and up to 6.8% of EU imports from third countries. These figure underscore once again the need for coordinated action against IP crime in general and trade in counterfeits in particular.

We are very pleased that our two institutions joined forces once again to update the results published in the 2016 OECD – EUIPO report Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact and to assess the scope and magnitude of damages to world trade caused by counterfeit and pirated goods.

At the OECD, this study was conducted under the Task Force on Countering Illicit Trade (TF-CIT) of the OECD High Level Risk Forum. The Forum 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 study was shared with other policymaking OECD bodies with relevant expertise in the area of trade and innovation.

We are confident that the updated results will contribute to a better understanding of the risk that counterfeiting poses for global economy, and will assist policy makers in formulating effective solutions to combat and deter this scourge.

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This study presents an updated quantitative analysis of the value, scope and magnitude of world trade in counterfeit and pirated products. The report uses a tailored, statistical methodology, originally developed for the OECD (2008) study, and elaborated for the OECD – EUIPO (2016) report, which was based on data for 2013.

This updated report, based on data for 2016, estimates that in that year, the volume of international trade in counterfeit and pirated products could amount to as much as USD 509 billion. This represents up to 3.3 % of world trade. This amount does not include domestically produced and consumed counterfeit and pirated products, or pirated digital products being distributed via the Internet. The previous OECD-EUIPO study, which relied on the same methodology, estimated that up to 2.5 % of world trade was in counterfeit and pirated goods in 2013, equivalent to up to USD 461 billion.

Between 2013 and 2016, the share of trade in counterfeit and pirated goods in global trade grew very significantly. Moreover, this growth was reported during a period of a relative slowdown in overall world trade. Consequently, the intensity of counterfeiting and piracy is on the rise, with significant potential risk for intellectual property (IP) in the knowledge-based, open and globalised economy.

Drawing on detailed EU data, this study also performs an in-depth assessment of the situation in the European Union. The results show that in 2016, imports of counterfeit and pirated products into the EU amounted to as much as EUR 121 billion (USD 134 billion), which represents up to 6.8 % of EU imports, against 5 % of EU imports in 2013. It should be noted that these results rely on customs seizure observations and do not include domestically produced and consumed counterfeit and pirated products; nor do they include pirated digital content on the Internet.
Counterfeit and pirated products continue to follow complex trading routes, misusing a set of intermediary transit points. Many of these transit economies host large free trade zones that are important hubs of international trade.

The use of small shipments for trade in fakes also keeps growing. Small shipments, sent mostly by post or express services, are an example of greater trade facilitation; on the other hand, they are also a way for criminals to reduce the chance of detection and minimise the risk of sanctions. The proliferation of small shipments raises the cost of checks and detention for customs and introduces additional significant challenges for enforcement authorities. There is thus a need for co-ordinated examination of policies in this area.

Fake products can be found in a large and growing number of industries, such as common consumer goods, (footwear, cosmetics, toys), business-to-business products (spare parts or chemicals), IT goods (phones, batteries) and luxury items (fashion apparel, deluxe watches). Importantly, many fake goods, particularly pharmaceuticals, food and drink, and medical equipment, can pose serious negative health and safety risks.

While counterfeit and pirated goods originate from virtually all economies in all continents, China and Hong Kong, China continue to be by far the biggest origin.

The companies suffering from counterfeiting and piracy continue to be primarily registered in OECD countries; mainly in the United States, France, Switzerland, Italy, Germany, Japan, Korea and the United Kingdom. However, a growing number of companies registered in high-income non-member economies, such as Singapore and Hong-Kong, China, are becoming targets. In addition, a rising number of rights holders threatened by counterfeiting are registered in Brazil, China and other emerging economies. Counterfeiting and piracy thus present a critical risk for all innovative companies that rely on IP to support their business strategies, no matter where they are located.

To understand and combat this risk, governments need up-to-date information on the magnitude, scope and trends of counterfeit and pirated trade. This study aims to shed some light on illicit trade, but further analysis is needed to support policy and enforcement solutions, and enable governments and agencies worldwide to work together.
What products are targeted?

Seizures of counterfeit and pirated goods
Top industries by Harmonised System (HS) codes (2014, 2015 and 2016)

- Footwear (64)
- Clothing, knitted or crocheted (61)
- Articles of leather (42)
- Electrical machinery and equipment (85)
- Watches (91)
- Optical, photographic and medical instruments (90)
- Perfumery and cosmetics (33)
- Toys (95)
- Jewellery (71)
- Pharmaceutical products (30)
- Headgear (65)
EVERYTHING CAN BE COUNTERFEIT

The scope of counterfeiting and piracy is broad and covers almost all trademark-protected products. As long as a given product is protected with a trademark that adds an economic value to its rights holder, it is very likely that this product becomes target for counterfeiters. There are cases of seized trademark infringing fresh ginger, potatoes, peaches and, fresh strawberries, cinnamon, furskins, cement, guitars, or construction materials. This constantly expanding industry scope of counterfeiting proves that counterfeiters apply very aggressive strategies, dynamically looking for all kinds of profit opportunities.

FAKES CAN DAMAGE YOUR HEALTH

A growing number of fakes pose significant threats to the environment or to consumers’ safety and health. For example, counterfeit chemical products, pesticides or fungicides that do not correspond to safety norms often pose serious environmental hazards. Health and safety risks are often caused by substandard counterfeit pharmaceuticals, toys, chemicals, food and drink, batteries, etc. Customs officers seized such dangerous fake goods as for example contact lenses, dental equipment, tanning products and baby formulas.
Where do fakes come from?
Most counterfeit and pirated goods come from Far East Asia.

Seizures of counterfeit and pirated goods
Top provenance economies (2014, 2015 and 2016)
COMPLEX ROUTES OF TRADE IN FAKES

Counterfeiters ship fake products via complex trade routes, using several transit points. This is for several reasons:

- “Cleansing” of all the documents and camouflaging the original point of production and/or departure.

- Establishing distribution centres for counterfeits (e.g. in free trade zones), and for transhipping them in smaller orders to their final destination points.

- Processing of products, usually in the free trade areas, often by adding counterfeit trademarks and/or repackaging or relabelling goods.

MISUSE OF FREE TRADE ZONES

Many countries have set up free trade zones (FTZs) to boost business activity and reap the benefits from free trade. These zones have been instrumental in the evolution of trade routes for the integrated supply chains of the global economy. However, some FTZs tend to facilitate illegal and criminal activities such as trade in counterfeit and pirated products, by providing a relatively safe environment, good infrastructure and light oversight. The OECD – EUIPO research confirms that on average the existence, number and size of FTZs in a country correlate with increases in the value of exports of fakes from that country. An additional FTZ within an economy is associated with a 5.9% increase in the value of these problematic exports on average.
Who is losing?

Counterfeiting is a critical risk for all innovative companies no matter where they are located.

Seizures of counterfeit and pirated goods
Top economies of origin of right holders whose IP rights are infringed, 2014 – 16
How are fakes transported?
In terms of value, fakes transported by container ship dominate. In terms of number of seizures, trafficking fakes by small parcels is growing, becoming a significant problem for enforcement.
In 2016 trade in counterfeit and pirated products amounted to as much as **USD 509 billion**. This represents up to **3.3% of world trade**.

The share of fakes in world trade grew significantly. In 2013 up to 2.5% of world trade was in fake goods (up to USD 461 billion).

This growth was reported during a period of a relative slowdown in overall world trade. The intensity of counterfeiting is on the rise – big risk for the knowledge-based, open and globalised economy!
The EU case study:
In 2016, imports of fake products into the EU were up to **EUR 121 billion** (USD 134 billion); up to **6.8% of EU imports**, against 5% of imports of fakes in 2013.

Main origins of fakes coming to the EU are China, Hong Kong (China), United Arab Emirates and Turkey. India and Morocco are also important sources of fakes and their role has been growing!

Fakes smuggled to the EU the most intensly are watches, leather goods, footwear, tobacco and cosmetics. Fake toys are on the rise!
Further reading

Trade in Counterfeit Goods and Free Trade Zones
Evidence from Recent Trends

Trade in Counterfeit Goods and the Italian Economy
Protecting Italy’s Intellectual Property

THE EUROPEAN UNION INTELLECTUAL PROPERTY OFFICE (EUIPO) is a decentralised agency of the EU, headquartered in Alicante, Spain. It manages the registration of the European Union trade mark (EUTM) and the registered Community design (RCD), as well as carrying out cooperation activities with the national and regional intellectual property (IP) offices of the EU. The EUIPO carries out research and activities to combat IP rights infringement through the European Observatory on Infringements of Intellectual Property Rights.

All EUIPO-Observatory publications can be found here.

http://euipo.europa.eu

THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) is a unique forum where the governments of 35 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy, and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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