The modern structure of the UK economy is largely based on knowledge, ideas and innovation and its well integrated global value chains. These factors help boost the country's economic growth, but at the same time they make it highly susceptible to the risk of trade in counterfeit goods. This risk negatively affects UK rights holders, the UK government, and the reputation of UK firms. This report measures the direct, economic effects of counterfeiting on consumers, retail and manufacturing industry and governments in the United Kingdom. It does so from two perspectives: the impact on these three groups of imports of fake products into the UK, and the impact of the global trade in fake products on UK intellectual property rights holders.
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Preface

The UK is an example of a modern, innovation-based economy whose success relies on its ability to maximise the value of, and protect, its intellectual property rights (IPRs). The economy is well integrated globally, through active participation in global value chains. A consequence of its high IP-intensity is its potential vulnerability to counterfeiting and piracy on the global stage.

To effectively address the threat of counterfeit trade, it is essential to precisely measure its scale, scope and impact, and to identify any governance gaps that increase vulnerability. This study assesses the negative impacts of counterfeit trade on UK rights holders and on the UK government, and provides methodologies for determining the areas of governance of IP enforcement that need strengthening.

We are confident this study provides an excellent basis to inform and develop policy to tackle the growing threat of counterfeiting and piracy in the United Kingdom.

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Executive summary

Trade in counterfeit goods is a longstanding socio-economic problem that continues to grow in scope and magnitude. It gives rise to significant challenges to effective governance, efficient business and the well-being of consumers, while simultaneously being a key source of income for organised criminal groups.

For consumers, counterfeiting poses dangers for health, safety and privacy. It may also lower consumer satisfaction, notably when low-quality fake goods are purchased unknowingly. For intellectual property rights holders and their authorised vendors, rising counterfeiting brings revenue losses, while trademark infringements continuously erode brand value. For governments, counterfeiting means lost tax revenues, higher unemployment and greater expenses in ensuring compliance with anti-counterfeiting legislation, and in reacting to public safety threats and labour-market distortions.

This report measures the direct, economic effects of counterfeiting on consumers, retail and manufacturing industry and governments in the United Kingdom (UK). It does so from two perspectives: (1) the impacts on these three groups of imports of fake products into the UK; and (2) the impact on UK intellectual property rights holders of the global trade in fake products. The study developed a methodology to gauge the magnitude and scale of counterfeit trade in the UK and to quantify its direct economic impact. It relied primarily on a unique international set of customs seizure data, as well as structured interviews with trade and customs experts.

The results of this study refer to 2013 – the year for which latest data are available. However the methodology could be re-used to determine the scale of harm caused by counterfeiting on the UK economy once the new data become available.

Key findings

Trade in counterfeit goods – the UK context

- Imports of counterfeit goods to the UK accounted for as much as £9.3 billion in 2013. This represents 4% of UK imports, well above the 2.5% average share of fake goods in world imports. Electronic and electrical equipment, clothing and footwear were the most frequent counterfeit products smuggled into the UK, followed by toys and games, and leather goods.

- Fakes make up at least 3% of the total value of products with trademarks and patents of UK residents that are traded worldwide. However, for some product categories, like toys, clothing and footwear, this share exceeds 10%.
China and Hong Kong (China) and India are the main sources of counterfeit imports to the UK. Asian economies, particularly China, India and Turkey are the main provenance of counterfeit and pirated goods that infringe the IPRs of UK residents.

Approximately half (48%) of counterfeit and pirated were intended for sale on the secondary market. These fake goods were supposed to deceive consumers, who would have bought them believing these goods were genuine.

**Impacts on the UK**

**Impacts on sales:** The total volume of lost sales of genuine products in the UK wholesale and retail sector due to imported counterfeit and pirated substitutes amounted to £4.218 billion in 2013, equivalent to 1.37% of total sales in the sector that year. The total volume of lost sales by UK IP rights owners amounted to £8.6 billion, or 1.95% of their total sales in 2013.

**Impacts on consumers:** The total consumer detriment (the price premium unjustly paid by the consumer in the belief that they are buying a genuine product) of buying counterfeit and pirated products in the UK amounted to almost £100 million in 2013.

**Impacts on jobs:** Global counterfeiting and piracy in 2013 resulted in 60,000 lost jobs in the UK, comprising 40,000 in the retail and wholesale sector, and 20,000 in the manufacturing sector. This represents 1.15% of all employees in the UK.

**Impacts on government revenue:** Counterfeit trade meant the UK government lost almost £3.8 billion in tax revenue, of which £2.4 billion were due to counterfeit imports to the UK and 1.4 billion were due to illicit trade in goods that infringe IPR of UK residents. This represents around 1% of the taxes the UK government should have collected on corporate profits, personal incomes, consumption (VAT) and social security contributions.

These estimated losses refer to direct economic impacts only; long-term effects (e.g., on innovation) and other effects (e.g., health and safety) are not included due to data limitations. If added, the total effect of counterfeiting and piracy on the UK economy would be much higher.

The findings should help both public and private sector decision makers to better understand the nature and scale of the trade in counterfeit goods for the UK economy, and to develop appropriate, cohesive, and evidence-based policy responses.
What is the total value of counterfeit imports to the UK?
Imports of fake goods in the UK accounted for as much as £9.3 billion in 2013. 4% of UK imports are fake goods, above the world average (2.5%).

Where do these fakes come from?
Most fake goods imported into the UK come from Asia. The top three sources of fake UK imports are China, Hong Kong (China) and India.
Which imported products to the UK are most likely to be fake?

Any type of product for which IP adds economic value becomes a target for counterfeiters and a potential threat to the UK economy and society. While a broad range of goods among UK imports are faked, some goods are more likely to be a target. Articles of leather, watches and footwear account for more than half the value of fake goods in the UK.
What is the value of global trade in fake goods that target UK companies?

Global trade in fake goods infringing UK IP amounted to £13.4 billion in 2013. It is equivalent to 3% of total UK manufacturing sales (domestic plus exports). For some product categories, like toys, clothing and footwear, this share exceeds 10%.

Where do these goods originate?

Asian economies, particularly China, India and Turkey are the main provenance of counterfeit and pirated goods that infringe the IP Rights of UK companies.

Which products are targeted?

All UK products, where trademark adds value are targeted, from basic common goods to luxury or intermediary products. The most targeted goods are clothing, articles of leather, footwear, perfumery and cosmetics.
Fake UK goods – where do they originate? (2013)

65% OF FAKE UK GOODS come from China

% of total seized value

Which UK products are targeted? (2013)

25% OF FAKE UK GOODS are clothes

% of total seized value

China (People’s Republic of)
India
Turkey
Hong Kong (China)
Indonesia
South Africa
Unknown
Cambodia
Greece
Morocco
Senegal
Viet Nam
Panama
Bulgaria

Clothing, knitted or crocheted
Articles of leather
Headgear
Perfumery and Cosmetics
Footwear
Clothing, non-knitted or crocheted
Electrical machinery and equipment
Plastics and parts thereof
Optical, photographic, medical instruments
Jewellery
Miscellaneous chemical products

INFRINGEMENT OF UK IP RIGHTS WORLDWIDE · 7
THE LOSSES

**Firms’ sales**

The total volume of lost sales of genuine products in the UK due to imported fake goods amounted to **£4.218 billion** in 2013, equivalent to 1.37% of total sales.

In addition, some sales were never realised by UK producers due to counterfeiting of their products. The total volume of lost sales by UK IP rights owners amounted to **£8.6 billion**, or 1.95% of their total sales in 2013.

**Consumer detriment**

Consumers who unwittingly purchase fake goods end up paying an excess price for a low quality product. More than half (52.8%) of fake goods imported to the UK (2011-2013) were unwittingly bought by consumers.

The total consumer detriment is the price premium unjustly paid by the consumer in the belief they are buying a genuine product. This detriment amounted to almost **£100 million** in 2013.
Other effects of counterfeiting

There are many effects of counterfeiting that cannot be quantified including, for example, negative effects on consumer health and safety, and on the environment. There are many substandard fake goods – pharmaceuticals, car spare parts, baby formulas, toys, foodstuff, medical equipment, etc. – that can lead to significant health and safety threats. Fake pesticides or fungicides often do not correspond to safety norms and pose serious environmental hazards.

The effects of counterfeiting on corruption and on criminal activities are also extremely difficult to quantify. Revenues from trade in fake goods often fuel organised criminal networks, and public institutions are weakened when criminals use corruption to facilitate their activities.

Health risks and counterfeit hair straighteners

Hair straighteners are very commonly counterfeited, with a number of premium brands regularly being faked. A genuine version of these usually retails at around £90-100, whilst the counterfeit can be purchased from a market stall for approximately £30. However, counterfeits have been sold online for around £70, which may seem to close enough to the real price to suggest to consumers that the product is genuine, but offered at a discount.

A detailed examination of a sample of fake hair straighteners done by Electrical Safety First showed that the internal components of fake products were compromised and severely lacking in both function and basic essential safety features. In addition, unlike the genuine product, the fake product did not have any additional safety features, such as an automatic cut-off which turns off the heating plates after a given amount of time to reduce the risk of fire and burns to the user.

Source: Electrical Safety First (2016), A shocking rip off: The true cost of counterfeit electrical products
In total, global counterfeiting and piracy in 2013 resulted in **60,000 lost jobs in the UK**. This represents **1.15% of all employees in the UK**.

Lower sales in the **retail and wholesale sectors** reduce demand for labour, and lead to job losses. These total job losses in the retail and wholesale sector amounted to more than **40,000**, equivalent to more than **3%** of all people employed in the sector.

Lower sales of genuine UK products translates into fewer jobs in the affected **manufacturing sectors in the UK** (not taking into account manufacturing abroad). The total number of jobs lost in the UK industries amounted to more than **20,000**, equivalent to **1.29%** of the total number of employees in the UK manufacturing sector.

**Government Revenues**

Lower sales and lower profits for UK rights holders, and in the UK wholesale and retail sector mean lower tax revenues for the government from value-added tax (VAT) revenue, and corporate income tax (CIT). In addition, fewer employees mean lower personal income tax revenues and lower social security contributions.
Trade in fakes meant the UK government lost almost **£3.8 billion in tax revenue**, of which £2.4 billion were due to counterfeit imports to the UK and £1.4 billion were due to illicit trade in goods that infringe IP Rights of UK residents.

This represents **around 1% of the taxes the UK government** should have collected on corporate profits, personal incomes, consumption (VAT) and social security contributions.

### The long-term effects of counterfeiting and piracy

Counterfeit and pirated products can have profound long-term implications. For industries, the continued presence of counterfeit products may damage the value of the brand and image of the producers of genuine products. For instance, consumers who purchase fake items in the belief that they are genuine will be likely to blame the manufacturer of the genuine product if the fake does not fulfil expectations, thus damaging goodwill. If consumers never discover that they have been deceived, they may be reluctant to buy another product from that manufacturer, and may communicate the information to other potential buyers. Also consumers who purchase the genuine article may be put off by the availability of counterfeited products. Given that consumers are aware of potential deception on the primary market, they could adjust their expectation about future consumption patterns.

In addition, lower revenues and profits induced by counterfeiting and piracy lead in turn to lower investments by rights holders, including investments in research and development (R&D). This could translate into less innovation, slowing technical progress and lowering the rate of economic growth in the longer term.

These long-term effects cannot be quantified for two main reasons. Firstly, to do so would generally require data spanning several years. Such data are unavailable. Secondly, existing studies that could contribute to producing an adequate, alternative methodology are mostly theoretical and do not provide robust empirical support.
The modern structure of the UK economy is largely based on knowledge, ideas and innovation and its well integrated global value chains. These factors help boost the country’s economic growth, but at the same time they make it highly susceptible to the risk of trade in counterfeit goods. This risk negatively affects UK rights holders, the UK government, and the reputation of UK firms. This report measures the direct, economic effects of counterfeiting on consumers, retail and manufacturing industry and governments in the United Kingdom. It does so from two perspectives: the impact on these three groups of imports of fake products into the UK, and the impact of the global trade in fake products on UK intellectual property rights holders.

Trade in Counterfeit Products and the UK Economy
Fake Goods, Real Losses

Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact

Mapping the Real Routes of Trade in Fake Goods
THE OECD TASK FORCE ON COUNTERING ILLICIT TRADE (TF-CIT) convenes governments and a wide range of stakeholders to map and analyse the underlying dynamics of illicit trade. Its evidence-based research and advanced analytics draw attention to the convergence of criminal networks that operate illicit trade, from counterfeits to narcotics, from excise goods to the trafficking of persons and wildlife. The goal of the TF-CIT is to foster public policies, international cooperation and public private partnerships that deter and reduce illicit markets.

http://oe.cd/tfcit

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