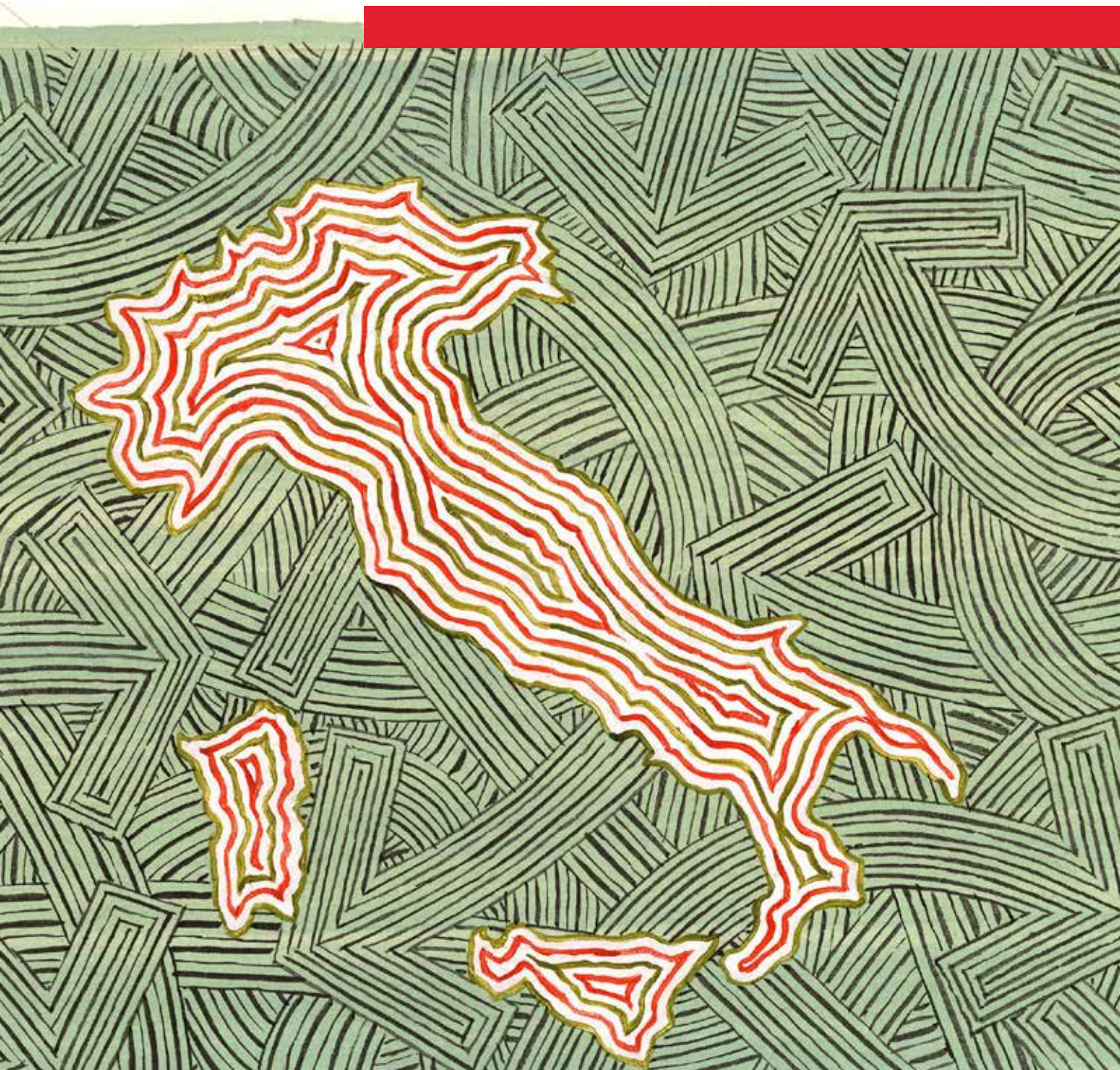


TRADE IN COUNTERFEIT GOODS AND THE ITALIAN ECONOMY

2021 Update



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INTRODUCTION

This study updates the results of the OECD 2018 report “Trade in Counterfeit Products and the Italian Economy”. It assesses the magnitude and scale of counterfeit trade in the Italian context and provides quantitative assessment of its direct, economic impacts through a methodology developed for the 2018 study.

This study was carried out by the OECD’s Task Force on Countering Illicit Trade, and the report was prepared by the OECD Public Governance Directorate in co-operation with the Italian Ministry of Economic Development, and with their financial support. 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.

This Italy-centred study was made in the context of a general report “Global Trade in Fakes. A worrying threat” that presents an updated quantitative analysis of the value, scope and magnitude of world trade in counterfeit and pirated products. Based on data for 2019, it estimates that the volume of international trade in counterfeit and pirated products amounted to as much as USD 464 billion in that year, or 2.5% of world trade.

In previous studies, which relied on the same methodology, trade in counterfeit and pirated goods was estimated at up to 2.5 % of world

trade in 2013, equivalent to up to USD 461 billion, and 3.3% of world trade in 2016, or USD 509 billion. Thus, in nominal terms, in absolute terms and in terms of its share in total trade, the volume of trade in fakes has remained significant, representing amounts close to the GDPs of advanced OECD economies such as Austria or Belgium.





CHAPTER 1.

IMPORTS OF FAKES TO ITALY

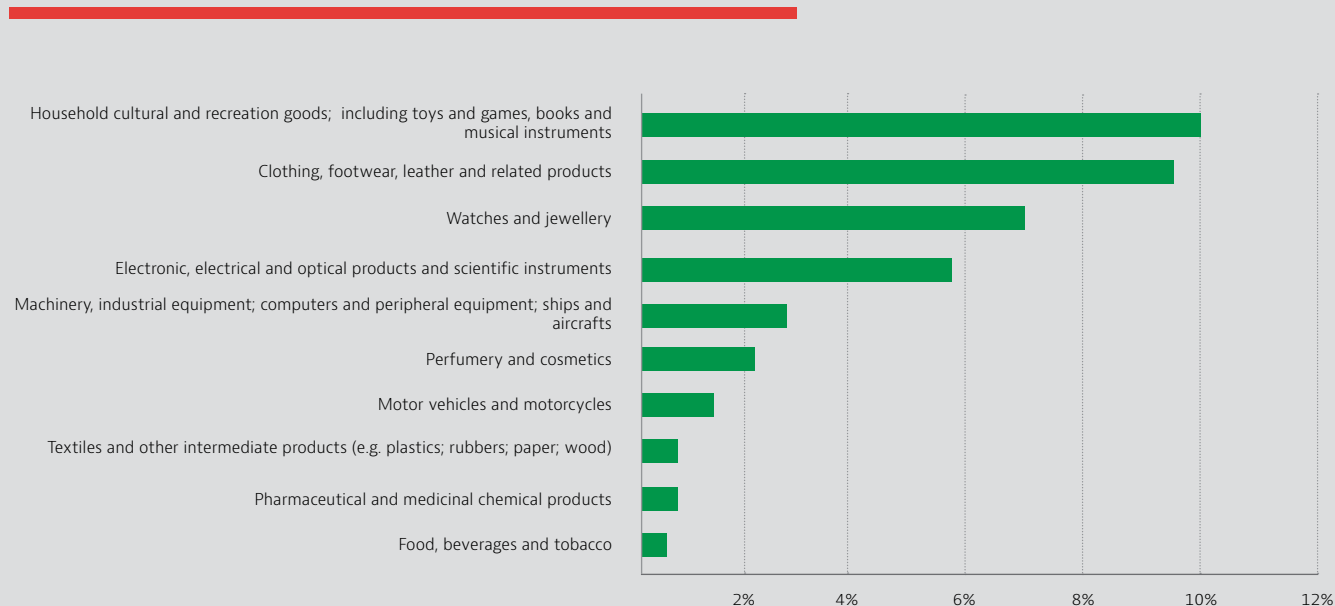
IMPORTS OF FAKE GOODS TO ITALY: THE CURRENT PICTURE

1. WHAT IS THE TOTAL VALUE OF COUNTERFEIT IMPORTS TO ITALY?

In 2019 imports of counterfeit and pirated goods to Italy accounted for as much as EUR 8.7 billion. In relative terms 2.1% of Italian imports are fake goods. (EUR 12.4 billion in 2016 – the equivalent of 4% of Italian imports of genuine goods). Overall imports grew between 2016 and 2019, so as a percentage imports of fakes are now lower. However, the fact the volumes stayed within the similar range of magnitude shows the resilience of the criminal networks involved and their adaptability to changing economic conditions.

The degree of counterfeiting in Italy varies considerably across sectors. In terms of sectors with the highest share of fakes in imports, household cultural and recreation goods; including toys and games, books and musical instruments and clothing, footwear, leather and related products are the type of good most affected by counterfeiting. Around 10% of goods imported to Italy in these categories were fakes in 2019. It was followed by watches and jewellery with 7.1%

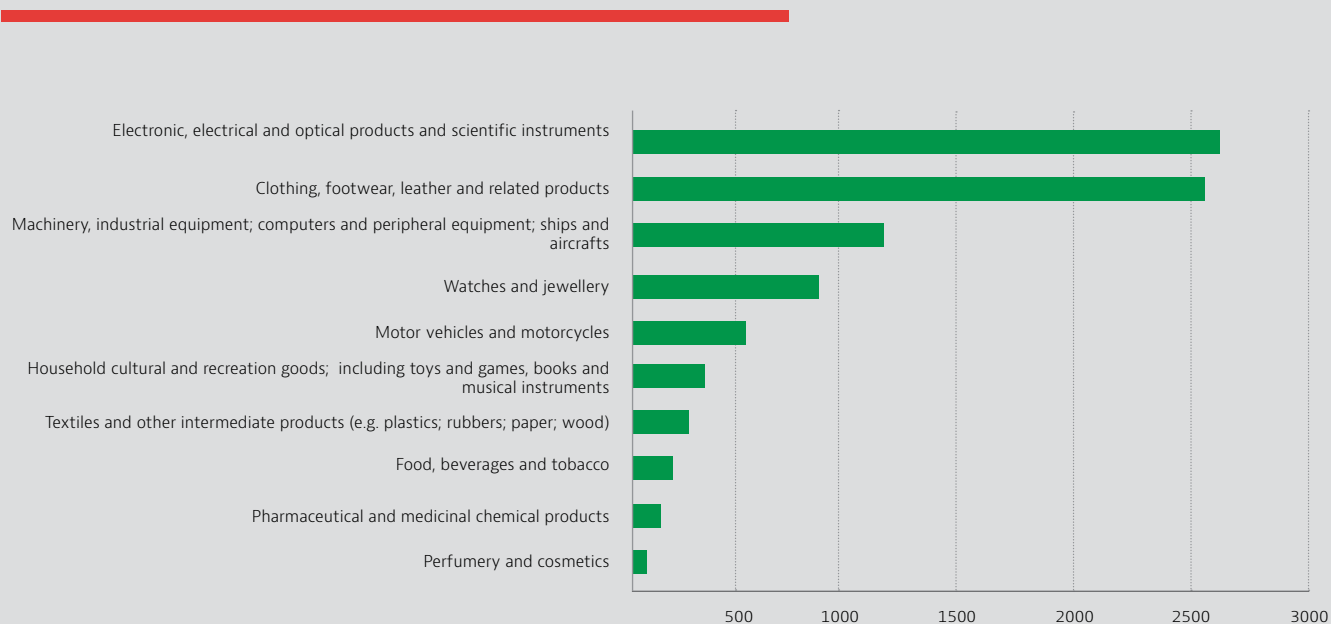
Product categories subject to counterfeiting in Italian imports in relative terms, 2019
In terms of share within the product category



In absolute terms, electronic, electrical and optical products and scientific instruments were the most counterfeited types of goods, with an estimated value of EUR 2.6 billion of fakes imported to Italy. This category includes a wide range of devices, such as mobile phones, DVD players, headphones, earphones, microphones, batteries etc. This was followed by fake clothing, footwear, leather and related products; and machinery, industrial equipment, computers and peripheral equipment (e.g. computers, tablets, vacuum cleaners ...) with fake imports equal to around EUR 2.5 billion and EUR 1.2 billion, respectively.

Product categories subject to counterfeiting in Italian imports in absolute terms, 2019

In EUR mn

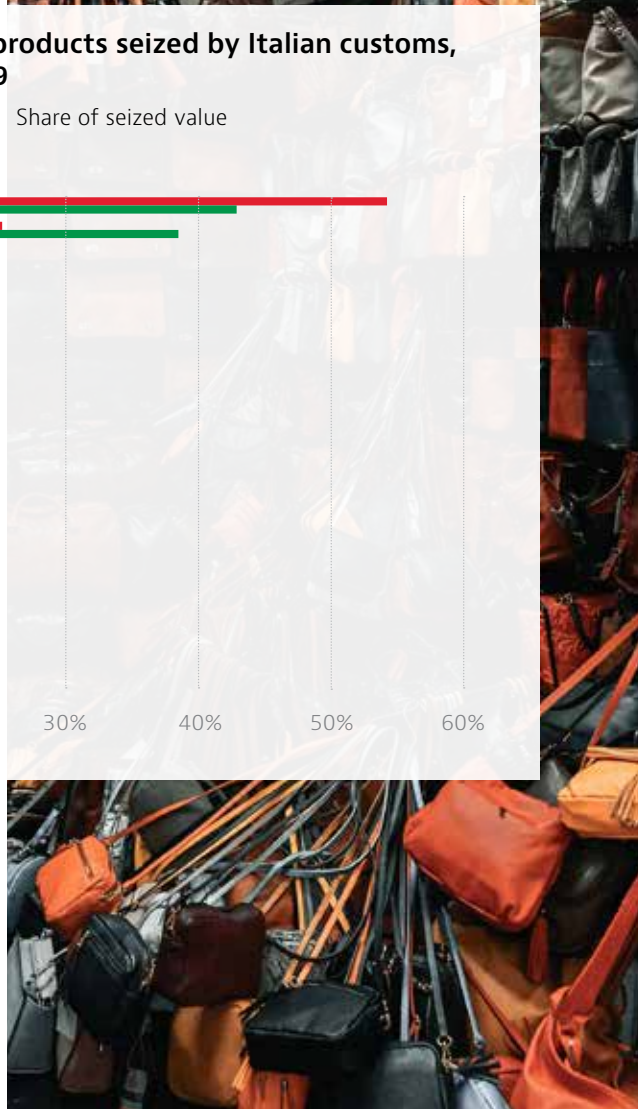
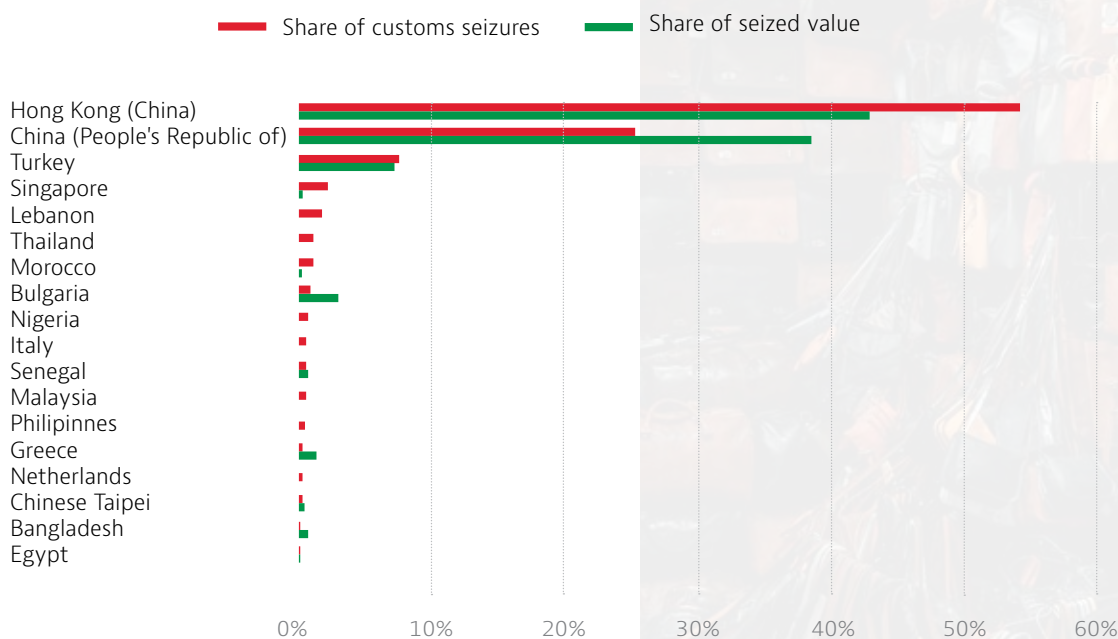


2. WHERE DO FAKE PRODUCTS ARRIVING TO ITALY MAINLY COME FROM?

Most counterfeit and pirated goods imported to Italy come from Asia. The top provenance economies of imports of fake to Italy are Hong-Kong (China), China, Turkey, Singapore, Lebanon and Thailand.



Top provenance economies for counterfeit products seized by Italian customs, 2017-2019



3. DO ITALIAN CONSUMERS KNOWINGLY BUY FAKES?

62% of imported counterfeit and pirated products sold in Italy in 2019 were sold to consumers who actually knew they were buying fake products.

The share of consumers who demand fakes knowingly varies significantly by product type, ranging from 31.9% for motor vehicles and motorcycles to 64.4% for clothing, footwear, leather and related products.



Table 1. Share of Italian consumers who buy fakes knowingly by product type, 2019

Sector	Percentage of consumers who knowingly buy fakes
Motor vehicles and motorcycles	31.9%
Household cultural and recreation goods; including toys and games, books and musical instruments	32.9%
Perfumery and cosmetics	33.2%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	33.3%
Machinery, industrial equipment, computers and peripheral equipment; ships and aircrafts)	48.5%
Electronic, electrical and optical products and scientific instruments	59.1%
Watches and jewelry	63.0%
Clothing, footwear, leather and related products	64.4%
TOTAL	62.0%

SOCIO-ECONOMIC IMPACT OF IMPORTS OF FAKES TO ITALY

Trade in counterfeit and pirated goods clearly has damaging effects on the Italian economy. Imports sales of fake goods in Italy, lower consumer satisfaction, reduce sales of legitimate Italian retail and wholesale sectors, kill jobs and reduce government's revenues.

1. CONSUMERS' DETRIMENT

Consumers' detriment – that is, the price premium unjustly paid by consumers in the belief they are buying a genuine product – in Italy due to deception on primary markets in 2019 amounted to almost EUR 6.7 billion.

This value varies significantly across sector. In 2019, the highest detriment was recorded for ICT devices and household appliances (EUR 2.4 billion).

Table 2. Estimate of consumer detriment in Italy by sector, 2019

Sector	Value in EUR million
Perfumery and cosmetics	45.9
Household cultural and recreation goods; including toys and games, books and musical instruments	138.4
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	196.5
Motor vehicles and motorcycles	567.1
Watches and jewelry	868.9
Machinery, industrial equipment, computers and peripheral equipment; ships and aircrafts)	946.6
Clothing, footwear, leather and related products	1482.4
Electronic, electrical and optical products and scientific instruments	2411.1
TOTAL	6656.8

2. LOST SALES FOR FIRMS IN THE WHOLESALE AND RETAIL SECTOR

The total volume of forgone sales for Italian wholesalers and retailers due to counterfeit and pirated products smuggled to Italy was EUR 4.2 billion in 2018. This is equivalent to 3.2% of total sales in the Italian wholesale and retail sector impacted by counterfeiting in that year (3.8% in 2016).

The highest sale losses to the Italian wholesale and retail industries in absolute terms were for clothing, footwear, leather and related products (EUR 1.48 billion in forgone sales in 2018), followed by electronic, electrical and optical products (EUR 1.25 billion in forgone sales in 2018).

The sector of electronic, electrical and optical products experienced the highest losses in relative terms (12.9% of forgone sales due to the counterfeiting market). It was followed by the sector "watches and jewellery" (5.5%) and that of clothing, footwear, leather and related products (4.7%).

Table 3. Lost sales for the Italian wholesale sector due to fake imports in Italy, 2018

Sector	Value in EUR million	Share of sales
Perfumery and cosmetics	58.2	0.9%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	161.1	1.6%
Watches and jewelry	190.9	5.5%
Household cultural and recreation goods; including toys and games, books and musical instruments	209.7	1.8%
Motor vehicles and motorcycles	284.0	0.7%
Machinery, industrial equipment, computers and peripheral equipment; ships and aircrafts)	604.9	2.8%
Electronic, electrical and optical products and scientific instruments	1252.4	12.9%
Clothing, footwear, leather and related products	1484.7	4.7%
TOTAL	4245.8	3.2%

3. LOST JOBS IN THE WHOLESALE AND RETAIL SECTOR

Lower sales reduce the demand for labour. Job losses in Italy that inevitably result in the retail and wholesale sector due to counterfeit and pirated imports totalled almost 20 thousand in 2018, equivalent to more than 2.1% of all people employed in the impacted sectors (1.65% in 2016).

In absolute terms, the highest job losses due to counterfeiting and piracy were found in the sales of clothing, footwear, accessories and related products: more than 8,000, or 2.7% of all employees in the sectors listed.

In relative terms, the wholesalers and retails in the electronic and household appliances sector and in the watches and jewellery sector were the most affected, incurring 9.6% and 4.6% of job losses in 2018, respectively.

Table 4. Lost jobs in the Italian retail and wholesale sector due to fake imports in Italy, 2018

Sector	Number of employees	Share of employees
Perfumery and cosmetics	325	0.7%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	795	1.1%
Clothing, footwear, leather and related products	8283	2.7%
Watches and jewelry	1077	4.6%
Electronic, electrical and optical products and scientific instruments	5163	9.6%
Machinery, industrial equipment, computers and peripheral equipment; ships and aircrafts)	2268	1.9%
Motor vehicles and motorcycles	1088	0.5%
Household cultural and recreation goods; including toys and games, books and musical instruments	1067	1.3%
TOTAL	20067	2.1%

Note : Employees are measured in full time equivalent units according to Eurostat definition.

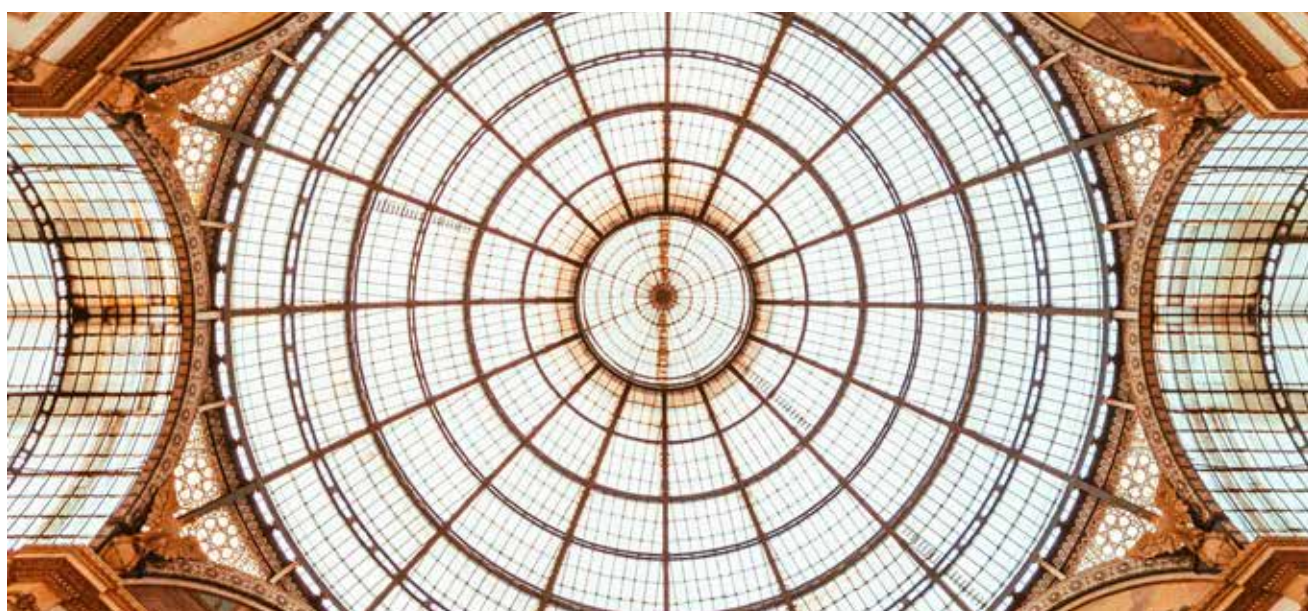
4. LOSSES IN GOVERNMENT REVENUES DUE TO SALES OF FAKE GOODS

Lower sales in the wholesale and retail sector due to counterfeit and pirated imports in Italy mean lower tax revenues for the Italian Government from value-added tax (VAT), corporate income tax (CIT), personal income tax (PIT) and social security contributions (SSC).

The total value of foregone tax revenues for the Italian government amounted to almost EUR 1.7 billion in 2018. This is equivalent to 0.55% of total taxes collected by the Italian government on these three taxes.

Table 5. Forgone taxes for the Italian government due to imports of fakes to Italy, 2018

Type of taxes	Value in EUR mn	Share
Personal Income Taxes and Social Security Contributions	451.5	0.24%
Corporate Taxes	287.2	0.87%
Value Added Taxes	934.1	0.85%
TOTAL	1672.7	0.5%





CHAPTER 2.

MADE IN ITALY? INFRINGEMENT OF ITALIAN IPRS WORLD WIDE

INFRINGEMENT OF ITALIAN IPR IN GLOBAL TRADE: THE CURRENT PICTURE

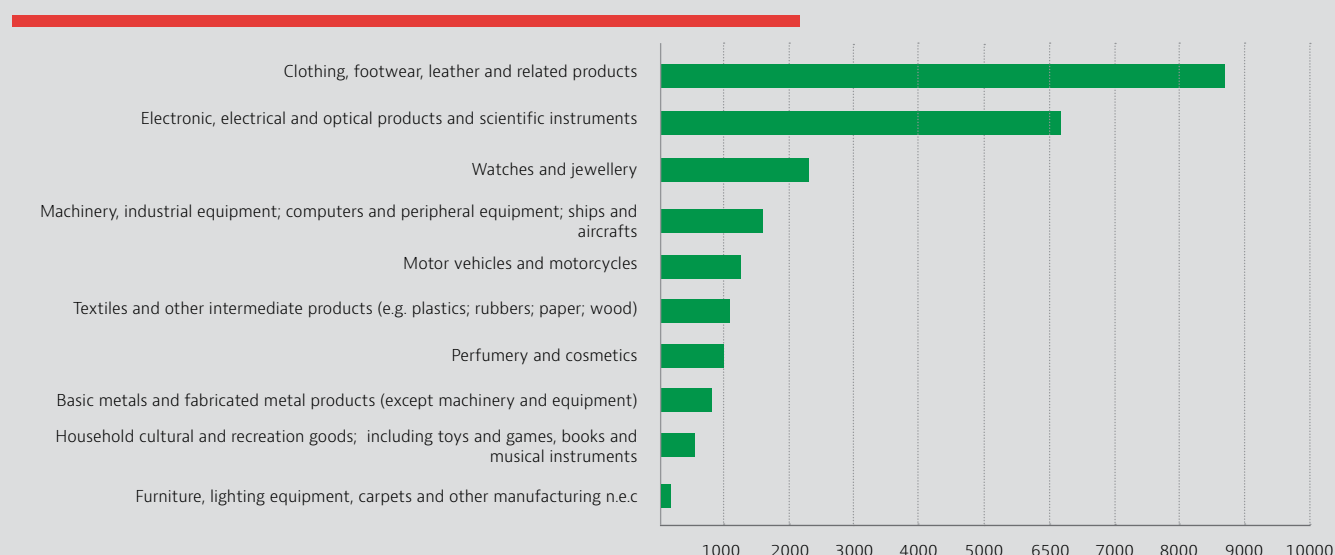
1. WHAT IS THE VALUE OF GLOBAL TRADE IN COUNTERFEIT PRODUCTS THAT INFRINGE ITALIAN IP RIGHTS?

Global trade in counterfeit products infringing Italian trademarks amounted to EUR 24.3 billion in 2018. It is equivalent to 3.6% of total Italian manufacturing sales (domestic plus exports) of impacted sectors. The value of global trade of Italian counterfeit goods tends to be lower than in 2016 (EUR 31.65 billion) while the share of sales of impacted sectors is the same. It highlights that counterfeiters have focused on core Italian manufacturing sectors, in particular clothing, footwear and leather goods and optical products. The value of fakes “made in Italy” in these sectors kept growing over time.

In absolute terms, the following Italian industries were especially targeted by counterfeiters: clothing, footwear, leather and related products as well as electronic, electrical and optical products and scientific instruments.

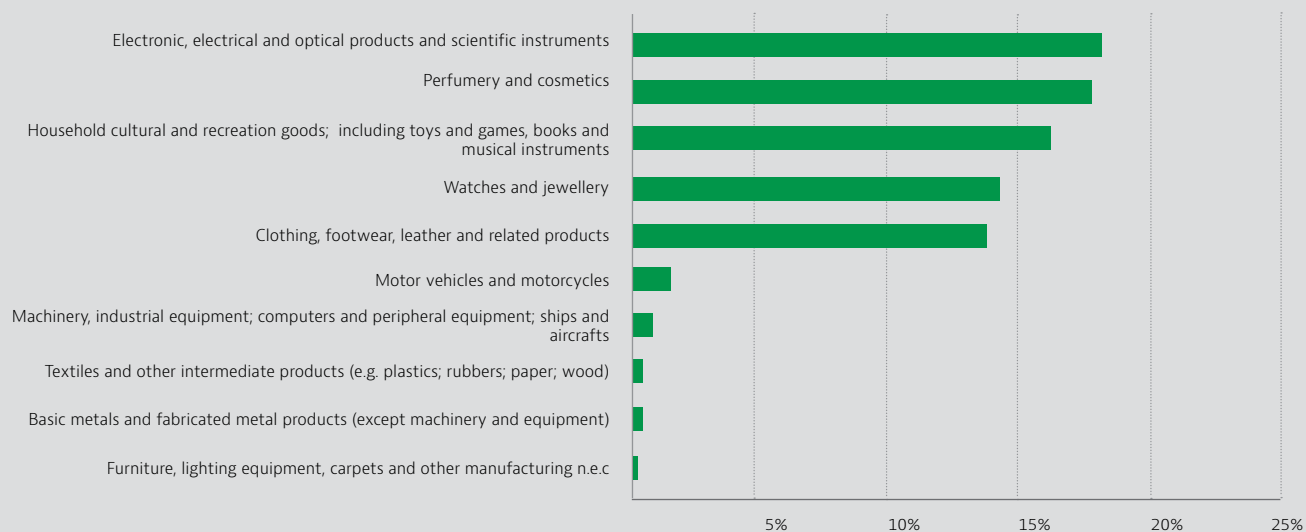
In relative terms, the following Italian sectors were particularly targeted by counterfeiters: electronic, electrical and optical products and scientific instruments, perfumery and cosmetics and household cultural and recreation goods, including toys and games, books and musical instruments. In these sectors fakes accounted for almost 18%, 17.5% and 16.7% respectively.

Product categories subject to infringements of Italian IPR in global trade, in absolute terms 2018
In terms of value (EUR mn)



Product categories subject to infringements of Italian IPR in global trade, in relative terms 2018

In terms of share within the product category

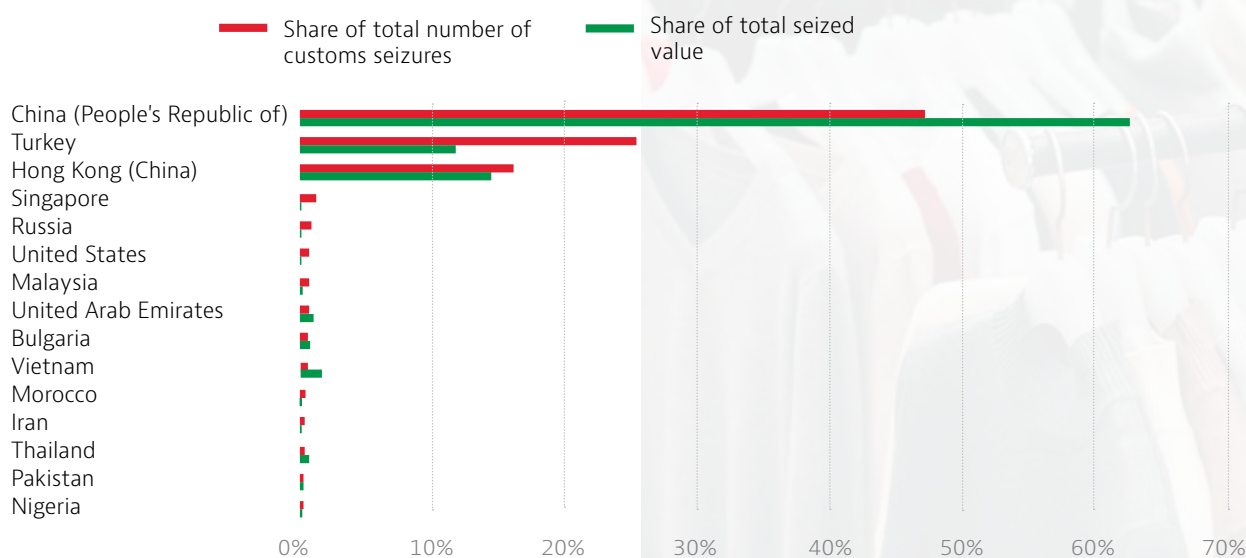


2. WHERE DO THESE GOODS ORIGINATE?

From 2014-2016 to 2017-2019, counterfeit and pirated goods that infringe the intellectual property rights of Italy right holders come mainly from China, Turkey and Hong Kong (China).



Main destination economies of fake goods infringing Italian IP, 2017-19



3. ARE CONSUMERS KNOWINGLY BUYING FAKE “MADE IN ITALY” GOODS?

More than a half of the goods traded worldwide that infringed Italian IPRs were openly sold as fakes to consumers, who know what they buy.

This share varies among product categories, ranging from 11.1% for fabricated metal products (e.g. machine spare parts) to 53.5% for clothing, footwear, leather and related products.

Table 6. Share of secondary markets for counterfeit products infringing Italian IPR, 2017-19

Sector	Share of the secondary market
Basic metals and fabricated metal products (except machinery and equipment)	11.1%
Household cultural and recreation goods; including toys and games, books and musical instruments	35.4%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	42.7%
Perfumery and cosmetics	43.6%
Watches and jewelry	45.6%
Electronic, electrical and optical products and scientific instruments	48.4%
Clothing, footwear, leather and related products	53.5%
TOTAL	51.5%



THE IMPACT OF GLOBAL INFRINGEMENTS OF ITALIAN IP RIGHTS ON THE ITALIAN ECONOMY

Global trade in fake goods infringing the Italian IP rights has damaging effects on Italian firms and the Italian economy. Fake “made in Italy” goods reduce Italian firms’ sales, destroy jobs and consequently reduce government’s revenues.

1. IMPACT ON FIRMS’ SALES IN THE MANUFACTURING SECTOR

In 2018, the total volume of Italian companies’ forgone sales due to infringement of their IP rights in global trade amounted to EUR 16.9 billion, 2.5% of total sales of these Italian companies in that year (domestic plus exports). This is slightly lower than in 2016 (3.2%). However, this should not obscure the impact at the industry level.

The industry of clothing, footwear, leather and related products, which experienced the highest losses (EUR 5.9 billion of forgone sales in 2018), was more severely impacted than in 2016 (EUR 3.8 billion). It was followed by the electronic, electrical and optical products and scientific instruments and watches and jewellery industries whose foregone sales increased compared to 2016, amounting to EUR 4.4 billion and EUR 1.6 billion respectively.

In terms of shares of sales, the highest losses were recorded by the manufacturing industries for perfumery and cosmetics; household cultural and recreation goods; including toys and games, books and musical instruments as well as electronic, electrical and optical products and scientific instruments which lost 13.6%, 12.7% and 12% of their sales, respectively.



Table 7. Estimated lost sales for Italian domestic manufacturing industries, 2018

Sector	Value in EUR billion	Share of sales
Perfumery and cosmetics	808.9	13.6%
Household cultural and recreation goods; including toys and games, books and musical instruments	511.1	12.7%
Electronic, electrical and optical products and scientific instruments	4410.3	12.0%
Watches and jewellery	1553.5	9.7%
Clothing, footwear, leather and related products	5872.4	9.6%
Motor vehicles and motorcycles	806.4	1.0%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	835.1	0.7%
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	1216.6	0.7%
Basic metals and fabricated metal products (except machinery and equipment)	823.4	0.5%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	80.2	0.2%
TOTAL	16918.0	2.53%



2. IMPACT ON JOBS IN THE MANUFACTURING SECTORS.

The total number of jobs lost in Italian industries due to the global infringement of their trademarks amounted to over 51 thousand in 2018, equivalent to 2.1% of the total number of employees in the Italian impacted manufacturing sector (2.3% in 2016).

In absolute terms, the highest job losses due to counterfeiting and piracy were found in the sectors of clothing, footwear, leather and related products: 8.1% of all employees in the sectors listed.

In relative terms, the manufacturing sector of household cultural and recreation goods; including toys and games, books and musical instruments was the most affected, incurring more than 15% of job losses in 2018.

Table 8. Estimated lost jobs for Italian manufacturing industries, 2018

Sector	Number of employees	Share of employees
Household cultural and recreation goods; including toys and games, books and musical instruments	1528	15.2%
Watches and jewellery	3843	12.1%
Perfumery and cosmetics	1792	9.5%
Electronic, electrical and optical products and scientific instruments	11935	8.5%
Clothing, footwear, leather and related products	24845	8.1%
Motor vehicles and motorcycles	1519	0.9%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	2864	0.6%
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	1878	0.3%
Basic metals and fabricated metal products (except machinery and equipment)	1398	0.2%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	271	0.2%
TOTAL	51872	2.1%

3. IMPACT ON GOVERNMENT REVENUE

Lower sales and lower profits for Italian rights holders mean they pay lower corporate income tax to the government. In addition, fewer employees mean lower personal income tax revenues and lower social security contributions. In 2018, this forgone tax revenue amounted to EUR 2.94 billion, equivalent to 1.32% of total Italian revenues collected on these two taxes.

Table 9. Public revenue losses due to Italian IP infringements in global trade, 2018

Type of taxes	Value in EUR bn	Share
Personal Income Taxes and Social Security Contributions	1.67	0.9%
Corporate Taxes	1.27	3.9%
TOTAL	2.94	1.32%



COVID-19 AND FAKE “MADE IN ITALY”

The COVID-19 pandemic has largely re-shaped illicit trade in counterfeit goods that infringe Italian IP rights. Some results have been coined in a set of discussions with enforcement officials and industry delegates and following the on-going enforcement actions. Other lasting results on counterfeiting are expected to emerge gradually.

As for the short-term effects, trade and enforcement experts highlight that the pandemics has flamed existing problems, and in terms of volumes there are some modest effects. Experts also point at several COVID-19-related factors have shaped the landscape of illicit trade for fakes that infringe Italian IP, such a changing trade routes and distorted supply chains.

Criminal networks have reacted very quickly to the crisis and adapted their strategies to take advantage of the shifting landscape. For example counterfeiters have continued to supply fake Italian clothing during the lockdowns in Europe and the US, exploiting shortages of suppl. This re-confirms that these well-organized criminal networks have foreseen the disruptions of some transport routes and prepared their operations accordingly.

Another observed trend is a substantial shift towards further misuse of the online environment. The online boom also resulted in a considerable growth of new online marketplace and online platforms – created during the COVID-crisis. There is robust observable growth in the online supply of fakes infringing Italian IP rights including clothing, leather goods, cosmetics and FMCGs. It occurs on all types of online platforms, including those that used to be relatively free from this risk. Apart from websites, criminals also begin to misuse new online channels of communication, such as WhatsApp or Facebook messenger. In addition, criminals also tend to move to the dark web with their illicit offerings of counterfeit products that might pose health risks, such as illicit pharmaceuticals or fake protective equipment. Enforcement officials also highlight that those counterfeit medical products that are related to COVID-19 are often bought online and shipped by air cargo in small parcels.

Finally, COVID-19 also resulted in changes in customs control priorities (e.g., greater focus on COVID-19-related products) and labour shortages among law enforcement officials. Criminals have reacted to these changes, and some of their responses include streamlining of production and supply chains of fake goods. Part of production, and distribution of fakes that infringe Italian IP, have been moved closer to EU's borders to facilitate illicit operations, and to free ride on changing priorities of enforcement. For example, industry experts recently report that a significant volume of assembly and export of fake goods “made in Italy” takes place in Turkey, often in legitimate production sites. This allows criminals to use illicitly the existing, well-developed logistical chains and to benefit from proximity to the EU markets.



IMPORTANT

This analysis does not claim to quantify all the impacts of counterfeit and pirated trade on the Italian economy. It identified and looked at areas where quantification were possible.

There are many effects of counterfeiting and piracy that cannot be quantified, or that will occur in the long term. This includes effects on consumer health and safety, on the environment, on the proliferation of criminal networks or on long-term innovation and growth.

A good example of health risks posed by counterfeits are fake perfumes. They can be very toxic, as counterfeiters want to minimize all the costs, disregarding health norms, and using cheaper but potentially toxic ingredients. A large volume of fake perfumes are smuggled to Italy, mostly in bulk filled in tanks, and then packed in illicit assembly sites. For example in June 2021 the Italian Carabinieri, dismantled an organised crime group involved in the trafficking of counterfeit goods including counterfeit perfumes produced in EU-neighbouring countries. Seizures included thousands of fake goods, including counterfeit perfumes.

OVERALL IMPACT

Generally, the impact of global counterfeiting and piracy on Italy is slightly decreasing, following the trend of global trade in fakes. The volumes of impact remain high, though.

- The estimates for consumer detriment in Italy – that is, the price premium unjustly paid by consumers in the belief they are buying a genuine product – due to deception on primary markets in 2019 amounted to almost EUR 6.7 billion.
- Forgone sales for Italian wholesalers and retailers due to counterfeit and pirated products smuggled to Italy was EUR 4.2 billion in 2018.
- Italian companies' forgone sales due to infringement of their IP rights in global trade amounted to EUR 16.9 billion in 2018.
- Italian products enjoy good reputation, and "Made in Italy" becomes a lucrative target for counterfeiters, especially in core Italian manufacturing sectors such as clothing, footwear and leather goods. For example, the Italian clothing industry lost almost 10% of sales due to counterfeiting of their products worldwide.
- Altogether, almost 72 000 jobs were lost in Italy due to counterfeiting and piracy in 2018.
- Trade in counterfeit and pirated goods resulted in a reduction in Italian public revenues equal to more than EUR 4.6 billion in 2018.

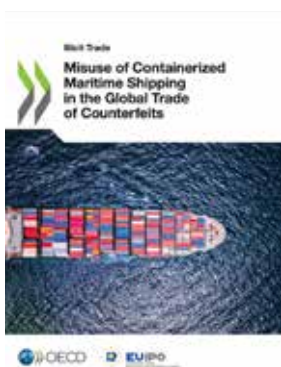


FURTHER READING



Global Trade in Fakes, A Worrying Threat.

<https://www.oecd.org/publications/global-trade-in-fakes-74c81154-en.htm>



Misuse of Containerized Maritime Shipping in the Global Trade of Counterfeits.

https://www.oecd-ilibrary.org/governance/misuse-of-containerized-maritime-shipping-in-the-global-trade-of-counterfeits_e39d8939-en



Trade in Counterfeit Pharmaceutical Products.

https://www.oecd-ilibrary.org/governance/trade-in-counterfeit-pharmaceutical-products_a7c7e054-en

THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The 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.

www.oecd.org

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 TFCIT 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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