Illicit Trade

Misuse of Small Parcels for Trade in Counterfeit Goods

FACTS AND TRENDS

OECD

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Misuse of Small Parcels for Trade in Counterfeit Goods

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Foreword

Illicit trade in fake goods damages economic growth; fuels corruption; and can undermine sound public governance.

To provide policy makers with solid empirical evidence for taking action against this growing menace, the OECD and the EU Intellectual Property Office (EUIPO) joined forces to carry out a set of analytical studies. The results published in previous reports *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact* and *Mapping the Real Routes of Trade in Fake Goods* show 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. These reports also showed that counterfeit and pirated products originate from virtually all economies on all continents, and are conveyed by virtually all means of transport.

One of the areas that has garnered increased attention in recent years has been the use by counterfeiters and other illicit traders of small shipments to cloak their activities. This study provides detailed analysis of economy- and industry-specific patterns in the misuse of small parcel services by counterfeiters. Such information is crucially needed, not only for better understanding this threat, but also for developing effective governance responses.

This study was carried out under the auspices of the OECD's Task Force on Countering Illicit Trade. The Task Force is part of the OECD High Level Risk Forum, which focuses on evidence-based research and advanced analytics to assist policy makers in mapping and understanding the vulnerabilities exploited and created by illicit trade.

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The quantitative research in this study relied on 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.

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Executive summary

Trade in counterfeit goods represents a longstanding, and growing, worldwide socio-economic risk that threatens effective public governance, efficient business and the well-being of consumers. At the same time, it is becoming a major source of income for organised criminal groups. It also damages economic growth, by greatly affecting business revenue and undermining their incentive to innovate.

Counterfeit and pirated products tend to be shipped by virtually every means of transport. In the analysed period, in terms of value, counterfeits transported by container ship clearly dominated. In terms of number of seizures, trafficking fakes by small parcels is growing, becoming a significant problem in terms of enforcement. The small parcels used by counterfeiters for trafficking are shipped either through postal or express services.

This creates significant challenges for customs authorities and has led to calls for increased attention at the international level, including at the World Customs Organization (WCO). Traditionally available information such as ship manifests and the supporting role of customs brokers are often absent in small volume trade.

Currently, only simplified documentation is required to send small volume items shipped by post. The information contained in the documents is certified by the sender and is not usually verified, which creates scope for legitimate errors as well as fraud. The information has traditionally been provided in paper form and thus was not available electronically. It was usually only available to customs authorities in destination countries, upon arrival of the item. While progress has been made in implementing electronic data exchanges, much still needs to be done in this regard. This creates a dilemma for customs, which have to process imports on an expedited basis, while properly assessing duties and monitoring imports with a view towards countering illicit trade.

The larger express companies generally provide door-to-door services that are tracked and traced electronically. Additional information concerning the shipper, product and recipient is also collected this way. This provides a potentially rich data source that, if made available to customs authorities, could greatly assist in risk assessment. Express service providers and customs are increasingly working together to improve data and information exchanges. There is still scope for improvement, as privacy issues and confidentiality concerns need to be addressed. As with postal transactions, the information provided by the sender may contain errors, deliberate misrepresentations, or constitute fraud.

The analysis in this report uses two sorts of data: information on trade in counterfeit goods, which is based on customs data regarding seizures of counterfeit goods obtained from the World Customs Organization, the European Commission's Directorate-General for Taxation and Customs Union and from the US Customs and Border Protection Agency (CBP). These data are complemented with available statistics from the Universal Postal Union and from Eurostat's Comext database that illustrate international trade in small parcels.

The detailed analysis of the 2011-2013 data shows that, although fakes shipped in containers clearly dominate in terms of value of seized goods and the number of items, small parcels are important in terms of number of seizures; nearly 63% of customs seizures of counterfeit and pirated goods involve small parcels. The size of these mail or express courier shipments tends to be very small. Packages with 10 items or less account for the majority of all seizures.

In terms of industry-specific patterns, virtually all industry sectors prone to counterfeiting are concerned, albeit to different degrees. For example, 84% of seized shipments of counterfeit footwear, 77% of fake optical, photographic and medical equipment (mostly sunglasses), and 66% of customs seizures of information and communications technology (ICT) devices involved postal parcels or express shipments. This is also the case for more than 63% of customs seizures of counterfeit watches, leather articles and handbags, and jewellery.

In terms of economy-specific patterns, the analysis indicated that a few provenance economies dominate small parcel trade. These include China, Hong Kong (China), India, Singapore, Thailand and Turkey. While some of these key provenance economies, such as China, India and Thailand, have been identified as potential producers of counterfeit and pirated products, others, such as Hong Kong (China) and Singapore, are key transit points.

Chapter 1. Introduction

Illicit trade in counterfeit and pirated goods[1] is a growing and significant problem. Globalisation opens up new opportunities for criminal networks to expand the scope and scale of their operations in illicit trade in counterfeit and pirated goods. Trade in fakes also undermines good governance, the rule of law and citizens' trust in government, and can ultimately threaten political stability.

In order to improve the factual understanding of counterfeit and pirated trade and provide evidence for policymakers to formulate policies, the OECD and the European Union Intellectual Property Office (EUIPO) together carried out a comprehensive economic assessment of the problem (OECD/EUIPO, 2016) and helped to identify key provenance economies of intellectual property (IP)-infringing goods (OECD/EUIPO, 2017). These studies have found that imports of counterfeit and pirated goods amounted to up to USD 461 billion in 2013, or around 2.5% of global trade (OECD/EUIPO, 2016), and that some provenance economies are more important sources of counterfeit and pirated products than others, either as key producers or strategic points of transit (OECD/EUIPO, 2017).

The counterfeits are shipped by land sea and air, in both large containers and in small packages. A vast majority of the products that were seized from postal and express services concerned small parcels. Between 2011 and 2013, 63% of the total number of customs seizures of counterfeit and pirated goods worldwide referred to postal and courier routes. A recent study by DG Taxud of the European Commission states that 76% of fake goods intercepted in the EU in 2017 were courier and postal small shipments (DG TAXUD, 2018). The main fake product categories shipped via small parcels to the EU include foodstuffs, toys and tobacco goods. In the case of the United States, the share of seizures involving mail and express services was close to 90% in recent years, as compared to 80%in 2010.

For traffickers, small shipments reduce the risk of bulk losses in the event of interception but criminal groups are also becoming adept at evading postal checks (Europol/OHIM, 2015).[2] They are, for example, using stickers/stamps from international postal services to give the impression that shipments are coming from another EU member state, when in fact they may have arrived from a country known for exporting fake products, a technique known as "drop shipping". To prevent interception, products are imported into the European Union in bulk via a member state believed to exercise laxer controls and the packages are then re-directed with an EU postal stamp/sticker. Moreover, criminals have routed postal packages containing counterfeit pharmaceuticals via Canada, known for its high standards and quality, thereby giving consumers a false sense of confidence in the product. The OECD 2018 report on strengthening governance frameworks to counter illicit trade flags small parcels as a significant issue (OECD, 2018).

There are also heightening concerns about the misuse of free trade zones as conduits for illicit trade. The OECD/EUIPO (2017 and 2018) reports analyse the important role that zones play in facilitating shipments of counterfeit products to end markets, by, for example, enabling parties to: i) break down cargoes into a series of smaller shipments, with view

towards lowering the risk and cost of detection in end markets ; and ii) carry out counterfeiting activities in zones. Finally, the 2018 OECD report on strengthening governance frameworks to counter illicit trade also flagged the issue while making a number of recommendations to counter illicit trade in free trade zones (OECD, 2018).

The current report builds on previous analysis, focusing on the use of small shipments by counterfeiters to avoid detection and interception. Previous results (OECD/EUIPO, 2018) show that during 2011-13, the largest share of intercepted counterfeit and pirated products used the post as a means of transit. In addition, most of them included only one item. The current report completes these previous results by focusing on the means through which small shipments are principally channelled: the post and courier and express services, assisted by Internet retail platforms.

These findings should be interpreted in a broad context of booming parcel trade for the express and postal industries. In fact, recent statistics suggest that the markets for small parcels have grown exponentially. The total number of parcels, cross-border and domestic, shipped in 2016 reached 216 billion. International dispatches were highest in Asia (42%). The vast majority of these dispatches end up in OECD countries, as only 3% of all parcel trade end up in developing countries. At the same time, the small parcel market is fast increasing, with two digit growth rates expected in coming years. Currently, international dispatches are increasing at a greater rate than domestic, with an average 7% annual growth and more than 15% in some EU member countries, such as the Netherlands, Poland and Romania (Salehi, F., D. van de Voorde and J. Matuska, 2017).

This report completes these previous analyses with an in-depth study of one particular channel of trade in counterfeit and pirated goods: small parcels shipped either by postal or courier services. In particular, this report examines i) their evolution and the international legal framework in which small parcel services operate and ii) the role small parcels play in the trade of counterfeit and pirated goods.

Notes

[1] Goods that infringe trademarks, copyrights, patents or design rights.

[2] In 2017 OHIM (Office for Harmonization in the Internal Market) was re-named the European Union Intellectual Property Office (EUIPO).

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Chapter 2. Small shipments and counterfeits: Ever greater challenges

The role of the postal operators, express services and e-commerce platforms in small cross-border shipments

Small parcels can be transported cross-border via sea, road, rail and/or air. These movements can be carried out by individuals or a range of companies that handle freight. Two of the more important parties involved are national postal authorities and express and courier services, which together account for most of the movement of small shipments.

Postal operators

National postal operators have traditionally been responsible for handling the movement of letters and parcels within countries and across borders, enjoying a monopoly position for many years. Their competitive position has been challenged on a number of fronts. As markets have been liberalised their main market has significantly weakened, with the number of letter-post items declining from 432 billion pieces in 2001 to 317 billion in 2015 (Table 2.1). At the same time, the market for parcels has surged, rising by 66% to 7.8 billion items between 2001 and 2015. The rise in international parcels was even more pronounced, increasing by close to 150% during 2010-15, from 43.6 million items in 2010 to 108 million in 2015.

Table 2.1. Letters and parcels processed by postal authorities in recent years

Year	Letters			Parcels		
	Domestic	International	Total	Domestic	International	Total
	Billions			Billions	Millions	Billions
2001	432	7.0	439	4.7	40-45	4.7
2010	376	4.8	381	6.1	43.6	6.1
2012	347	3.7	350.9	6.4	61	6.4
2013	336	3.5	339.8	6.7	67	6.7
2014	324	3.46	327.4	7.38	101	7.4
2015	317	3.04	320.4	7.81	108	7.9

Source: UPU (2012, 2015).

The post plays an important role in the movement of letter packets and parcels internationally, providing a relatively low-cost vehicle for moving small consignments across borders. As indicated above, the international parcel market has grown markedly in recent years. Specific data are not available on letter packets, which are classified as letters.

Parties using postal services to ship letter packets and parcels are required to include a customs declaration with their shipments. The information on these declarations is certified by the sender and does not typically appear to be verified by the postal authorities. When presented with an item, postal authorities then apply a 13-character barcode, which includes a two-letter designation of the type of letter or parcel being sent, a unique 9-digit number

identifying the letter or parcel and a two-letter country code that identifies the postal operator (UPU, 2018b). At present, this tracking barcode is the only electronic information that is required for the mailing in most countries.

The declarations have typically been provided by shippers in paper form; as they accompany the shipment, there are no possibilities for sharing such information with destination countries prior to shipment. This puts customs officials in destination countries in an awkward position as manual review of the declarations at the time of arrival would be a time-consuming process, further complicated by the growing volume of such shipments in international trade. Moreover, slowing the processing of arrivals for review would be at odds with objectives aimed at trade facilitation. There are also potential issues with the quality of the information appearing on the declaration, as it is typically unverified, leaving significant scope for fraud on the part of the sender. Finally, as such shipments are relatively small, the cost of interception could be quite high compared to the benefit; moreover, rights holders may well not want to pursue a case involving a small number of low-value items, essentially resulting in wasted effort on the part of customs officials.

Efforts are made to improve mechanisms for collecting and sharing information. In the case of air cargo, for example, the International Civil Aviation Organization (ICAO) and World Customs Organization (WCO), in co-operation with the International Air Transport Association (IATA), are working on mechanisms for developing information on cargoes, prior to their being loaded onto planes; a number of pilot projects have been operating in recent years, with the United States taking the lead in implementing a mandatory reporting requirement in June 2018. [1]The matter is also addressed in the WCO's SAFE Framework of Standards to Secure and Facilitate Global Trade, which calls for postal and customs authorities to consult with one another to ensure that electronic information is shared with customs in advance of the arrival/pre-loading of items (WCO, 2018a).[2] Moreover, the EU Union Customs Code aims at achieving a fully electronic information exchange regime in the coming years.[3] In the United States, a Synthetics Trafficking and Overdose Prevention (STOP) Act was signed into law in 2018; the law requires postal authorities to provide customs with advance electronic data on all international packages, by 2021.[4] Actions are also being taken on this front in Brazil, Japan and the Russian Federation (WCO, 2018b).

Concerning postal services, Universal Postal Union (UPU) regulations already enable postal authorities to exchange information contained on customs declaration forms electronically, with the understanding that the postal authorities could further share this information with customs officials, bearing in mind the privacy issues associated with such data (UPU, 2018a). Moreover, the UPU has been developing an automated Customs Declaration System (CDS) to help streamline customs activities by allowing postal authorities and customs administrations to exchange advance data. It is already in the production phase in some countries; progress, however, has been slow, affected, in part, by concerns over the cost of required updates to IT technology (WCO, 2018b and OECD, 2018). Pilot project is currently underway which seeks to establish an interface between the CDS and ASCUDY, which is an UNCTAD automated system for customs data that is being used by over 95 countries (WCO, 2018b)

Countries are also taking action. In the United Kingdom, as from 1 January 2019, Royal Mail will require shippers to provide electronic customs data when sending items (other than correspondence) to destinations outside the European Union.[5] The action was taken to ensure emerging and future legislative, security and customs requirements in overseas destinations would be met. Some countries are considering applying penalties, delaying or returning items in the absence of the required data. In Canada, advanced electronic data is

now mandatory to select destinations for a number of Canada Post's services, including Xpresspost - USA, Expedited Parcel - USA, Xpresspost - International (excluding prepaid), International Parcel (air and surface), and Tracked Packet and Small Packet.[6]

Express and courier services

Express and courier services play an important role in international trade, providing a means to move merchandise across borders in a time effective manner that can meet the needs of businesses operating global value chains, while providing individual consumers with a means to acquire items on an expedited basis, albeit at a higher cost than conventional postal services. Express delivery operators are notable in their providing door-to-door, customs-cleared, next day and time-defined delivery services, as well as deferred delivery, with track and trace services (Frontier Economics, 2015). The services are attractive to users for their global reach, reliability, transparency, speed and security. There are many players in the express market, which is nonetheless dominated by four companies which together account for 89% of the global market:[7]

- DHL Express (a division of Deutsche Post DHL): 38%
- FedEx Express: 24%
- UPS: 22%
- TNT (a subsidiary of FedEx): 5%
- Other: 11%.

Once considered a small part of the total transport picture, the express and courier segment is now generally considered a separate industry, but there are, however, significant overlaps with respect to postal operators which have themselves expanded into express servicers (Frontier Economics, 2015). For example, in 2002 Deutsche Post became sole owner of DHL, the largest express company.[8] Other postal services either offer express products or operate subsidiaries which provide such services (Frontier Economics, 2015).

The industry collectively has about USD 70 billion in revenues and employs 800 000 workers, while operating 170 000 vehicles and 1 500 aircraft in 220 countries. It accounts for over 30 million shipments per day, which is about one-third of global air cargo.[9]

The largest operators are also referred to as "integrators", as they maintain fully integrated operations across all transport modes, including air transport (Onghena, 2008). With a view towards strengthening their position, postal authorities are teaming up with integrators as well as e-retailers and start-ups to boost parcel volumes, while leveraging their networks to provide "last-mile" delivery for competing delivery services, such as UPS and FedEx (IPC, 2017).

The express and courier service sector has evolved, from the delivery of documents and parcels to all sort of products (van der Lijn, 2005). This includes high value, low weight items such as electronic components, designer fashion and pharmaceuticals (Oxford Economics, 2011).

The express integrators have been successful in: i) driving shipment preparation costs down in areas requiring specific electronic packaging through information and communication technologies, ii) enhancing integration of air and ground networks; iii) increasing technology in the management of networks; iv) improving customer service through ICT applications; and v) passing variable costs on to consignors or consignees (IPC, 2010). In

selected national parcel markets, they have achieved market shares of 25% to 90% (IPC, 2017).

The procedures for shipping with an express carrier are somewhat different than those that apply to postal services as electronic information on shipments is integral to the tracking and tracing of shipments. Such information is generated early in the process, prior to goods actually being shipped.

The express carriers are thus in good position to provide information to customs, and have indeed pledged to do so. With respect to intellectual property (IP) matters, the Global Express Association (GEA), which represents the leading express and courier service companies, has indicated its interest in working with customs authorities. Noting that "effective enforcement of intellectual property rights requires a risk-based and threat-managed approach, as well as co-operation and information sharing between rights holders, customs and express delivery companies", the GEA indicates that delivery companies are seeking to assist customs in five areas, by:[10]

- Providing advance electronic shipment information to enable customs to perform risk assessment and target shipments for further examination.
- Using track and trace systems to remove packages identified by customs as suspicious from traffic flows and provided to customs for further examination.
- Providing customs with facilities and equipment at express delivery hubs to enable them to identify and examine suspect shipments.
- Providing customs with information that may be legally disclosed on shippers and consignees of shipments identified as containing offending goods.
- Closing accounts of customers publicly identified by customs as repeat offenders.

The carriers note, however, that their ability to assist customs is limited as:

i. there are limits on the quantity of information that can be obtained from customers;

ii. they have no expertise in identifying counterfeit merchandise; and

iii. they are subject to national data protection and commercial information confidentiality rules and have no law enforcement authority.

Moreover, customs and shippers' data may be in different formats which are not easily compatible and may make systems integration difficult (OECD, 2018). In addition, in some instances, customs officers are granted access to courier shipper's warehouses and facilities, where small shipments arrive, to review data on proprietary servers. Discussions with customs administrations reveal, however, that there are many instances where the data cannot be shared, thus preventing the transmission of data into customs risk-assessment systems.

In some instances, co-operation has resulted in significant progress in information sharing (OECD, 2018). Some customs administrations have implemented advance commercial information agreements with certain courier companies, enabling a review of limited data elements in advance of the arrival of shipments. The European Express Association, for example, collaborated in a recent pilot project with the European Anti-Fraud Office (OLAF) to identify threats and develop operational targets for countering illicit trade. Electronic information on IP-infringing goods arriving into EU member states was provided to customs. Courier companies used internal targeting programmes and data to identify illicit trade and submit this information to customs. Courier companies are not,

however, in position to determine whether or not goods are in fact counterfeit, as rights holders must be contacted to seize goods. Customs administrations did not necessarily seize the goods or contact rights holders in all instances, leading to the eventual delivery of suspected counterfeits without restriction OECD (2018),

In the United States, under the legal authority from the Security and Accountability for Every Port Act (or SAFE Port Act) of 2006, the US Customs and Border Protection Agency (CBP) collects advance commercial information (key data elements) provided by express consignment carriers and importers (OECD, 2018). This information is automatically fed into CBP's Automated Targeting System. Using an electronic notification system, CBP can order that the high-risk packages be put on hold and presented to CBP for inspection, reflecting the effectiveness of jointly co-ordinated computer systems that track parcels in the courier mode.

However, opportunities remain for improving cooperation between courier companies and enforcement authorities. Internal targeting processes have yielded uneven levels of co-operation with national customs, and the intermediaries are also not privy to the outcomes from the information provided (i.e. whether it leads to seizure or a contact with the rights owner).

E-commerce platforms

Trading platforms such as Amazon, eBay and Alibaba, and others, have been instrumental in promoting growth in e-commerce. The protections that they provide to consumers through, for example, effective dispute resolution processes have been important in this regard, helping to build consumer confidence, which is critical for their success. The companies maintain multi-billion-dollar retail operations that rely on complex logistics systems that include warehouses, courier and postal operators, airports and seaports to facilitate the connections between vendors and customers. The platforms, in which social media companies such as Facebook and Instagram are also becoming active, are benefitting from enhanced IT infrastructure, encrypted payment systems and simplified transaction processes. The larger platforms are operating on a global basis, providing a means for consumers to purchase goods easily from foreign countries. AliExpress, for example, the China-based consumer retail branch of Alibaba, offers products worldwide, through multi-language sites.[11] Related sites operated by Alibaba cater to B2B and wholesale buyers.[12] Amazon and eBay similarly, include foreign offerings on their regional sites. As the sites cater to B2C transactions, they shipments would often fall in the "small" category.

The large platform operators all have policies prohibiting the listing and sale of counterfeit and other illicit products, and they have procedures for removing listings of such products from their sites. While they have intensified efforts to address the problem over time, there are many critics who argue that their efforts still fall short of what is needed. One of the tools for addressing counterfeit listings is through "take-down" requests, which law enforcement or rights holders can make to platform operators. Recent evidence presented by World Intellectual Property Organization (WIPO) members suggests that take-down requests can be an effective method of tackling this problem, so long as the process to apply for such a request in the courts can be done in an effective and timely manner (OECD, 2018). Preventing bad actors from continuing their illicit operations by moving to other venues, however, remains a challenge. Therefore, the European Commission and others have called on the e-commerce platforms to go beyond notice and take down and to take proactive measures to deal with listings for counterfeit products. Some of the major

platforms have begun to address these shortcomings and put in place proactive measures to automatically take down listings[13].

The platform operators collect a great deal of information that could be of great value to customs authorities in their risk assessment activities. To date, customs officials do not, however, typically seek shipment information directly from the large e-commerce vendors or retailers. Indeed, their ability to do so, across borders, would seem to be limited, as would their ability to match e-commerce records with shipping records, as such records would be generated by sellers at the time of shipping and would not necessarily be linked back to the e-commerce transaction. In these instances, postal and express operators would have to be relied on primarily for information.

International policy and regulatory environment

Trade is governed by a series of international agreements and conventions, including those negotiated in the Universal Postal Union (UPU), the World Customs Organization (WCO) and World Trade Organization (WTO). The WCO and WTO agreements seek to promote trade facilitation, in a secure manner that addresses the challenges posed by illicit trade and fraud. The UPU instruments, on the other hand, contain provisions on how postal authorities handle international transactions. The key provisions of the UPU instruments are referenced in the WCO–UPU Postal Customs Guide (UPU, 2018a), which is a joint WCO–UPU tool designed to assist both postal and authorities in areas of mutual interest. Other WCO-UPU tools cover areas such as messaging standards and guidelines for promoting co-operation between postal and customs authorities, at the national level (WCO, 2018b). Moreover, joint guidelines on the exchange of electronic advance data (EAD) between posts and customs authorities are being developed and are expected to be approved and published by June 2019.[14]

Following is a summary of some of the more important agreements and regulations that have particular relevance to trade involving small shipments.

WTO Trade Facilitation Agreement

The Trade Facilitation Agreement concluded by WTO countries in December 2013 and came into force in February 2017 provides a framework for strengthening international trade, by promoting measures that simplify and expedite the movement of goods between countries.[15] To this end, the agreement, which came into force in 2017, sets out measures for effective co-operation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It calls for members to provide pre-arrival information on exports to destination countries in electronic format and for importing countries to develop the capacity for processing such information (WTO, 2014).

The agreement also calls for members to adopt or maintain a risk management system for customs control to avoid arbitrary or unjustifiable discrimination or a disguised restriction on international trade. Members are expected to concentrate customs control and, to the extent possible, other relevant border controls, on high-risk consignments and expedite the release of low-risk consignments, but at the same time, are free to select, on a random basis, consignments for such controls as part of its risk management.

Finally, the agreement calls on countries to develop or maintain procedures allowing for the expedited release of at least those goods entered through air cargo facilities, to persons who apply for such treatment, and to provide, to the extent possible, for a *de minimis*

shipment value or dutiable amount for which customs duties and taxes would not be collected.

While limited progress has been made with respect to the development of the capacity to exchange advance information on shipments electronically, countries have been active in developing and refining their risk management systems, and through, the WCO, they have developed further guidelines for expedited shipments. Most countries have also developed *de minimis* thresholds, below which taxes and tariffs are not applied to imports. Table 2.2 shows that these values vary considerably from country to country, ranging from USD 8 to USD 800 for the world's largest economies.

Table 2.2. *De minimis* levels, below which no taxes or duties would be collected by customs, for the world's largest economies

Economy	*De minimis* levels		Comment
	In designated currency	In USD	
Brazil	USD 50	50	For postal shipments only
Canada	CAD 20	15	CAD 60 for gifts
China	CNY 50	8	Applies to shipments with duty and VAT liabilities below the designated level
France	EUR 150 (customs duties)	186	EUR 45 for gifts
	EUR 22 (VAT)	27	
Germany	EUR 150 (customs duties)	186	EUR 45 for gifts
	EUR 22 (VAT)	27	
India	INR 10 000	150	For commercial samples. INR 20 000 for gifts, and INR 1 000 for items which involve transfer of foreign exchange
Italy	EUR 150 (customs duties)	186	EUR 45 for gifts
	EUR 22 (VAT)	27	
Japan	JPY 10 000	90	
Korea	USD 150	150	
Russian Federation	RUB 5 000	89	
United Kingdom	EUR 150 (customs duties)	186	
	GBP 15 (VAT)	21	
United States	USD 800	800	

Sources: see GEA (2018) and WCO (2017b).

The existence and level of thresholds have a number of benefits: for governments, it reduces the scope of the imported items that need to be processed, freeing up resources for other work; for businesses and consumers, it simplifies the importation of goods and lowers their cost. On the other hand, the reduced customs surveillance that could occur on items that are exempt from tariffs and taxes could also benefit parties involved in IP crime, providing a mechanism to operate below the radar screen.

Changes have been or are being made in *de minimis* regimes. The European Union is introducing a new system that will make it easier for consumers and businesses, in particular start-ups and small and medium-sized enterprises, to buy and sell goods cross-border online.[16] The new rules will come into force progressively through 2021 and, among other things, aim at eliminating by 2021 the problem of fraud caused by the Value-Added Tax (VAT) exemption for goods valued at under EUR 22 coming from outside the European Union.

In Australia, goods valued at AUD 1 000 or less were treated as *de minimis* and, as such, Goods and Service Tax (GST)-free (with the exception of tobacco and alcohol). The system raised concerns with respect to equality of treatment with domestic goods (tax neutrality) and higher reported levels of undervaluation fraud to escape taxes. In response, the Treasury Laws Amendment (GST Low-Value Goods) was passed in 2017 and requires that all e-commerce vendors, with business worth AUD 75 000 or more, annually to collect tax revenues and remit these to the government on behalf of consumers as from 1 July 2018 (Productivity Commission, 2017). The system requires an accounting mechanism that includes electronic commercial declarations for these goods (OECD, 2018). Although the legislation does not require that freight companies and express carriers collect this information and report it to the tax authorities, in practice they need to do so.

In the case of the United States, the *de minimis* provisions were liberalised significantly. Under the Trade Facilitation and Trade Enforcement Act of 2015, the level was raised four-fold, from USD 200 to USD 800, in 2016.[17]

WCO Immediate Release Guidelines

In 1990, the WCO developed a set of release/clearance procedures designed to expedite the clearance of small or negligible value goods across borders that were primarily carried by courier and express mail services.[18] At that time, the guidelines operated on the principle of information provided by the operator to customs in advance of the arrival of the goods. The guidelines were revised in 2014 to reflect revisions made to the Kyoto Convention and a number of other developments, and again in 2018 (WCO, 2018c).

There are increased demands for customs to take on more, and greater, responsibilities in areas such as security, commercial fraud, illicit drug/firearms trafficking, money laundering, electronic crime, smuggling, environmental crime and transnational organised crime.

There is an acceleration in the pace of the digital transformation of economies and businesses, where information technology,[19] mobile technology, the Internet and electronic payment systems have transformed the way businesses and consumers buy and sell goods.

There is an exponential growth of e-commerce, in particular with respect to business-to-consumer (B2C) and consumer-to-consumer (C2C) transactions, and an increased role of consumers in individual transactions, all of which has led to tremendous growth in smaller consignments crossing the borders and has increased the workload of businesses and border agencies alike.

The guidelines recommend that consignments presented for immediate release be divided into four categories:

- Correspondence and documents.
- *De minimis* consignments for which no duties and taxes are to be collected in light of the low value of the shipment.
- Low-value dutiable consignments (which would be subject to a simplified declaration).
- High-value consignments (which would be subject to a full declaration).

In the case of *de minimis* consignments, the guidelines stipulate that documentation should be provided electronically to customs, in advance of their arrival, with a view towards facilitating customs' risk management and the immediate release of the consignments. As

discussed elsewhere in this report, courier and express companies are in good position to provide such information, as would be parties engaged in B2B or B2C transactions. Postal authorities, on the other hand, are generally accepting customs declarations in paper form, making electronic and advance information unfeasible.

The postal situation is recognised in the guidelines, which indicate specifically that postal consignments for which information is provided in a non-electronic format and is provided after arrival should nevertheless be granted prompt, if not immediate, release. The need for the development of more advanced mechanisms has been, however, underscored. At the same time, the wealth of information available to e-commerce operators is recognised, and it is recommended that co-operation be pursued.

WCO Cross-Border E-Commerce Framework of Standards

In 2018, the WCO adopted a Cross-Border E-Commerce Framework of Standards to meet the challenges associated with the growing volume of B2B and B2C trade (WCO, 2018d). These challenges, which were examined in a 2017 WCO report on e-commerce (WCO, 2017b). included the need to balance the need to ensure rapid release and clearance of goods, while managing safety and security risks, efficient revenue collection and statistical analysis. The need for standards was taking place in a setting where problems with illicit trade, illicit financial flows, IP infringement, counterfeiting, piracy and commercial fraud continued to affect trade. Action was seen as required in order to support trade facilitation, safety and security and compliance objectives.

The framework includes 15 standards. The need to develop a capacity for e-commerce stakeholders to exchange advance electronic forms with customs administrations in a timely manner for effective risk management is stressed. The capacity to do so should be supported by:

- The development of appropriate legal and regulatory frameworks (Standard 1).
- Use of international standards for advance electronic data (Standard 2).
- Development of risk management that is specific to e-commerce (Standard 3).

With respect to trade facilitation and simplifying customs procedures::

- Mechanisms should be developed for i) clearing shipments using simplified procedures and ii) facilitating the immediate release of low-risk shipments (Standard 5).
- The concept of expanding the scope of authorised economic operators should be explored, with a view towards assisting micro, small and medium-sized enterprises and individuals to fully benefit from the opportunities of cross-border e-commerce.(Standard 6).

On the safety and security front, customs should share relevant intelligence with trusted e-commerce stakeholders to enhance targeting efforts:

- Customs administrations should work with other relevant government agencies to establish procedures for analysis and investigations of illicit cross-border e-commerce activities with a view to prevent and detect fraud, deter the misuse of e-commerce channels and disrupt illicit flows (Standard 9).
- Governments should establish co-operation frameworks between and among various national agencies through relevant electronic mechanisms including single

window, as appropriate, in order to provide a cohesive and co-ordinated response to safety and security risks stemming from cross-border e-commerce (Standard 10).

- Public-private partnerships and international co-operation should be pursued to ensure compliance and facilitation (Standards 11 and 12).
- Public awareness of risks and responsibilities need to be promoted (Standard 13).
- Customs administrations in collaboration with other relevant government agencies, the private sector and academia, should explore innovative technological developments and consider whether these developments can contribute to more effective and efficient control and facilitation of cross-border e-commerce (Standard 15).

Finally, with respect to *de minimis* thresholds, the guidelines call on governments to make fully informed decisions based on specific national circumstances (Standard 8).

The recognition that specific steps need to be taken to address the challenges posed by e-commerce reflects a recognition that current mechanisms for handling high volumes of small shipments are largely inadequate and that more needs to be done to access the rich electronic data that e-commerce operators routinely collect prior to goods being shipped. There is also recognition that the benefits in taking measures to facilitate e-commerce should not undermine efforts to detect and interdict trade in counterfeits and other illicit products.

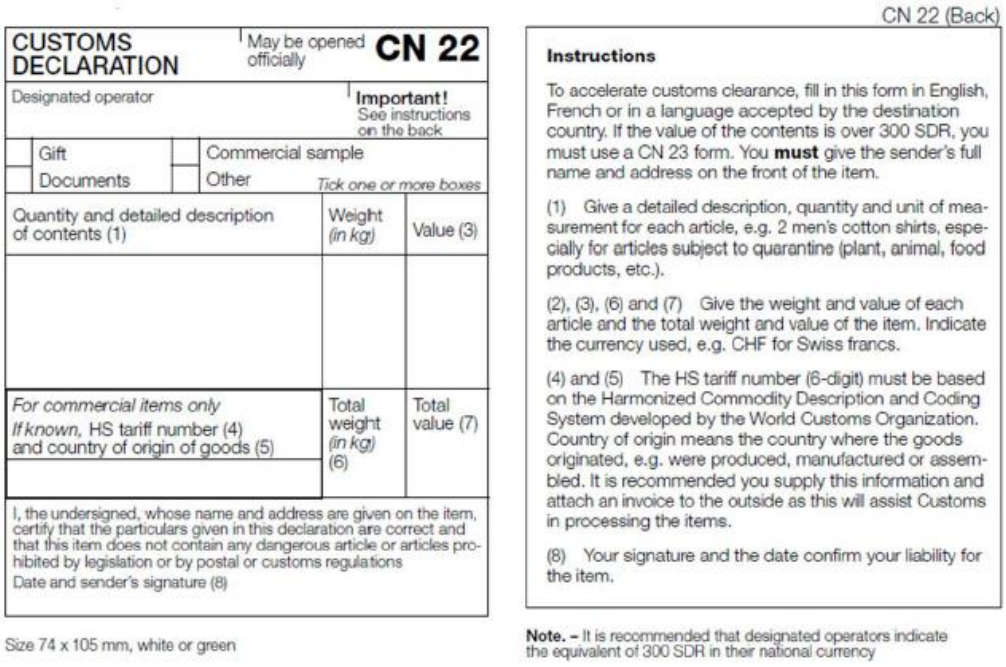
UPU agreements

UPU agreements include provisions governing the cross-border movement of documents and merchandise handled by postal authorities, and the costs incurred in cross-border operations.

Customs declarations

The UPU, in consultation with the WCO, developed two forms, one of which must accompany all parcels and letters containing items; the forms are treated as formal declarations by customs. The CN 22 is a simplified form that is used for packets weighing up to 2 kg, with a monetary value up to SDR[20] 300 (about USD 400) (Figure 2.1). Until 2016, the form requested information on: i) the type of product being traded (i.e. gift, document, commercial sample or other), which was indicated by ticking a box; ii) the quantity and detailed description of the contents of the shipment; and iii) the weight and value of the shipment. In addition, the parties involved were asked to provide information, "if known", on the Harmonised System (HS) tariff code for the shipment and the country of origin. The forms were to be signed and dated, with the signee certifying the accuracy of the information, and attesting that the shipment did not contain any dangerous or prohibited articles.

Figure 2.1. CN 22 customs form, pre-2016



CUSTOMS DECLARATION | May be opened officially | CN 22

Designated operator | Important! See instructions on the back

☐ Gift ☐ Commercial sample
☐ Documents ☐ Other
Tick one or more boxes

Quantity and detailed description of contents (1)	Weight (in kg)	Value (3)
For commercial items only *If known,* HS tariff number (4) and country of origin of goods (5)	Total weight (in kg) (6)	Total value (7)

I, the undersigned, whose name and address are given on the item, certify that the particulars given in this declaration are correct and that this item does not contain any dangerous article or articles prohibited by legislation or by postal or customs regulations

Date and sender's signature (8)

Size 74 x 105 mm, white or green

CN 22 (Back)

Instructions

To accelerate customs clearance, fill in this form in English, French or in a language accepted by the destination country. If the value of the contents is over 300 SDR, you must use a CN 23 form. You **must** give the sender's full name and address on the front of the item.

(1) Give a detailed description, quantity and unit of measurement for each article, e.g. 2 men's cotton shirts, especially for articles subject to quarantine (plant, animal, food products, etc.).

(2), (3), (6) and (7) Give the weight and value of each article and the total weight and value of the item. Indicate the currency used, e.g. CHF for Swiss francs.

(4) and (5) The HS tariff number (6-digit) must be based on the Harmonized Commodity Description and Coding System developed by the World Customs Organization. Country of origin means the country where the goods originated, e.g. were produced, manufactured or assembled. It is recommended you supply this information and attach an invoice to the outside as this will assist Customs in processing the items.

(8) Your signature and the date confirm your liability for the item.

Note. – It is recommended that designated operators indicate the equivalent of 300 SDR in their national currency

Source: UPU (2014), *WCO-UPU Postal Customs Guide*, www.icao.int/Meetings/AirCargoDevelopmentForum-Togo/Documents/WCO-UPU_PostalCustomsGuide-June2014.pdf.

In 2016, the form was revised, with a view towards assisting customs in carrying out better risk profiling and more efficient collection of duties and taxes, as well as supporting postal administrations in enhancing service delivery (Figure 2.2).[21] The revisions included the addition of two new categories of products: those that were being returned and those that were intended for sale. In the case of the "other" category, parties were asked to provide details. Moreover, two new columns were added, where it was "recommended" that senders provide information on the HS code and country of origin, for the commercial sales of each article listed. Finally, a requirement to include a barcode that would be assigned by the designated postal operator was added and made mandatory in 2018.

Figure 2.2. CN 22 customs form, revised in 2016

CUSTOMS DECLARATION | May be opened officially | CN 22

Designated operator | Important! See instructions on the back

☐ Gift	☐ Commercial sample		
☐ Documents	☐ Returned goods		
☐ Sale of goods	☐ Other (please specify): _____		

Quantity and detailed description of contents (1)	Net weight (2)	Value and currency (3)	H S tariff number* (4)	Country of origin* (5)
Total weight (in kg) (6)		Total value (7)		

I, the undersigned, whose name and address are given on the item, certify that the particulars given in this declaration are correct and that this item does not contain any dangerous article or articles prohibited by legislation or by postal or customs regulations

Date and sender's signature (8)

Size 74 x 105 mm, white or green

CN 22 (Back)

Instructions

To accelerate customs clearance, you must complete all applicable fields, and fill in this form in English, French or in a language accepted by the destination country. If the value of the contents is more than 300 SDR, you must use a CN 23 form. You must give the sender's full name and address on the front of the item.

For commercial items, it is recommended that you complete the fields marked with an asterisk (*), and attach an invoice to the outside, as it will assist Customs in processing the items.

Select a reason for export. ("Gift" is not an acceptable reason for export for commercial items.)

(1) Give a detailed description (generic descriptions such as "clothes" are not acceptable), quantity and unit of measure for each article, e.g. two men's cotton shirts.

(2), (3) Give the weight and value with currency for each article, e.g. CHF for Swiss francs.

(4*) The HS tariff number (6 digits) is based on the Harmonized Commodity Description and Coding System developed by the World Customs Organization.

(5*) Country of origin means the country where the goods originated, e.g. were produced, manufactured or assembled.

(6), (7) Give the total value and weight of the item.

(8) Your signature and the date confirm your liability for the item.

Note. – It is recommended that designated operators indicate the equivalent of 300 SDR in their national currency

Source: UPU (2018a), *WCO-UPU Postal Customs Guide*, www.upu.int/uploads/tx_sbdownloader/guideWcoUPUCustomsEn.pdf.

The second form is the CN 23, which can be used in lieu of the CN 22 at the trader's discretion, but must be used for packets or parcels with weights ranging from 2 kg to 20 kg (or, optionally, 30 kg), or whose value, regardless of weight, exceeds SDR 300 (UPU, 2018b) (see Annex A). The form is more comprehensive than the CN 22, requesting information on:i) the name and address of the sender and recipient; ii) the sender's customs reference (if any); iii) the importer's reference (optional); iv) the importer's phone/fax/email (if known); v) postal charges; vi) the office of origin/date of posting; vii) comments; and viii) license, certificate and invoice numbers. In 2016, additional fields were added, including ones for the telephone numbers of the sender and recipient, and "sale of goods" as a new category. As with the CN 22, senders are now asked to provide further information if they ticked the "other" product category box.

As indicated by the WCO, complete and accurate information from the declaration forms would be highly beneficial to customs officials for risk assessment. The current problem is that these forms may only be available to customs authorities in importing countries when the packages and parcels arrive, and only in paper form. As a result, they would seem to be of limited value for risk assessment. Moreover, parties sending merchandise may be challenged in providing accurate information on the 6-digit HS item number, as proper classification would require knowledge of how the system operates and how it can be accessed. The challenges may be particularly great for small traders with insufficient experience in shipping to foreign markets.

Efforts to improve performance in this regard have been underway for a number of years. UPU regulations already enable postal authorities to exchange information contained on the CN 22 and CN 23 forms, electronically, with the understanding that the postal

authorities could further share this information with customs officials, bearing in mind the privacy issues associated with such data (UPU, 2018*a* and *b*). Moreover, the UPU has been developing an automated Customs Declaration System to help streamline customs activities by allowing postal authorities and customs administrations to exchange advance data.

In the United Kingdom, as from 1 January 2019, Royal Mail will require shippers to provide electronic customs data, similar to that on customs forms CN22 and CN23, when sending items (other than correspondence) to destinations outside the European Union.[22] The action was taken to make sure emerging and future legislative, security and customs requirements in overseas destinations would be met. It was noted that some countries are considering applying penalties, delaying or returning items in the absence of the required data.[23] Assistance is offered to traders with respect to the provision of HS item numbers in the form of an online tool.[24]

In the European Union, regulations governing Entry Summary Declarations (ENS) require data for targeting and risk-assessment purposes to be provided as early as possible for air traffic, up to two hours in advance for rail shipments and one hour in advance for road shipments (OECD, 2018). In postal and courier modes, there are no current obligations to require ENS prior to arrival. The European Union has, however, piloted a project under its Europe 2020 strategy to ensure that the data elements required under the CN23 are provided in advance under the ENS. The project attempts to identify elements that can be used: i) for immediate risks (i.e. "bomb in box"); as well as ii) for customs declaration and risks related to illicit trade. The results of the pilot project have indicated its feasibility for widespread application; however, many barriers remain, including legacy infrastructures and slow IT development, which have led to delays in the programme's implementation.

Terminal charges and inward land rates

Postal authorities in the UPU require postal operators to deliver inbound international letters to the recipients in their country (GAO, 2017). A terminal dues system was created in 1969 to establish a means for compensating postal operators for the cost of delivery, from the entry point into its country. Until 2018, a single rate was applied no matter what their shape or contents; the rates took the form of caps on what postal authorities could charge. In 2018, that system was modified to establish separate rates for document mail and letter packets. As shown in Table 2.3 the caps are calculated on the basis of the weight of an item, plus a fixed charge for each mail item. There are four categories of countries, under which developing countries are effectively granted lower caps. Imported parcels, on the other hand, are subject to an inward land rate, which is a unique value based on costs calculated by national postal authorities, for their jurisdictions.

Table 2.3. UPU terminal due cap rates for 2018

Country group	Documents	Small packets
Group I	SDR 2.294/kg + 0.294/pc	SDR 1.584/kg + 0.705/pc
Group II	SDR 2.064/kg + 0.264/pc	SDR 1.313/kg + 0.584/pc
Group III	SDR 1.831/kg + 0.234/pc	SDR 1.198/kg + 0.533/pc
Group IV	SDR 1.774/kg + 0.227/pc	SDR 1.089/kg + 0.485/pc

Source: Campbell, J. (2016), *Major Decisions of the 2016 UPU Istanbul Congress and Implications for International Package Delivery Services*, www.wik.org/fileadmin/Konferenzbeitraege/2016/16th_Koenigswinter_Seminar/S2_3_Campbell.pdf.

Postal charges are settled between postal authorities and it is not clear to what extent these charges are passed on to their customers. The terminal dues have been subject to controversy in recent years as they have been viewed by some as providing a subsidy to exporters due to their relatively low levels (GAO, 2017). Overall, it appears that shippers in Asia are able to take advantage of favourable shipping rates. An examination of China Post rates for shipping items to Chicago, for example, reveals that they can be significantly lower than those for shipping the same items from San Francisco to Chicago, providing a significant advantage to Asian shippers (Table 2.4).

Table 2.4. Shipping costs to Chicago

In USD

Mode	Weight			
	100 grams	500 grams	1 kg	2 kg
From Beijing				
China Post Airmail	2.66	11.52	22.6	44.75
China Post eBay ePacket	2.33	6.95	12.86	24.68
From San Francisco				
USPS Priority Mail	7.85	12.4	16.65	23.15
FedEX Express saver	25.41	28.94	32.52	38.96

Source: Herman, A. (2017), *Crisis in the Mail: Fixing a Broken International Package System*, https://s3.amazonaws.com/media.hudson.org/files/publications/20170302HermanCrisisInTheMailFixingaBrokenInternationalPackageSystem.pdf.

Notes

[1] See www.wcoomd.org/en/media/newsroom/2018/april/tegacs-moves-forward-with-the-guiding-principles-for-pre-loading-advance-cargo-information.aspx and www.cbp.gov/border-security/ports-entry/cargo-security/acas.

[2] See the section on *International policy and regulatory environment* for information on related WCOI instruments.

[3] See https://ec.europa.eu/taxation_customs/business/union-customs-code_en.

[4] See www.govexec.com/management/2018/10/trump-signs-law-curb-postal-services-unintentional-role-opioid-crisis/152351/.

[5] See www.royalmail.com/business/services/sending/international-data.

[6] See www.canadapost.ca/tools/pg/manual/PGcustoms-e.asp#1382680.

[7] See www.statista.com/statistics/236309/market-share-of-global-express-industry, https://en.wikipedia.org/wiki/DHL_Express, https://en.wikipedia.org/wiki/FedEx_Express, https://en.wikipedia.org/wiki/United_Parcel_Service, https://en.wikipedia.org/wiki/TNT_Express.

[8] See https://en.wikipedia.org/wiki/DHL_Express.

[9] See www.capec.co.nz/ and www.interpol.int/content/download/28422/378878/version/1/file/Express%20Delivery%20Services%20and%20the%20Protection%20of%20Intellectual%20Property%20Rights,%20Mr.%20Koh,%20Conference%20of%20Asia%20Pacific%20Express%20Carriers%20(CAPEC).pdf.

[10] See https://global-express.org/index.php?id=15.

[11] See www.aliexpress.com/.

[12] See www.shippo.co.uk/tips-and-tricks/whats-the-difference-between-alibaba-wholesale-alibaba-aliexpress/.

[13] See for example the Report from the Commission to the European Parliament and the Council on the functioning of the Memorandum of Understanding on the Sale of Counterfeit Goods via the Internet. Available at: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex:52013DC0209

[14] See www.wcoomd.org/en/media/newsroom/2018/november/wco-upu-contact-committee-endorses-joint-guidelines,

[15] See www.wto.org/english/tratop_e/tradfa_e/tradfa_introduction_e.htm.

[16] See http://europa.eu/rapid/press-release_IP-17-4404_en.htm.

[17] See www.cbp.gov/trade/trade-enforcement/tftea and www.cbp.gov/newsroom/national-media-release/de-minimis-value-increases-800.

[18] See www.wcoomd.org/en/topics/facilitation/instrument-and-tools/tools/immediate-release-guidelines.aspx.

[19] For more information, see the WCO working group on digital trade.

[20] IMF Special Drawing Right.

[21] See www.wcoomd.org/en/topics/facilitation/activities-and-programmes/ecommerce.aspx.

[22] See www.royalmail.com/business/services/sending/international-data.

[23] Royal Mail noted that the United States passed legislation that will mandate that inbound shipments be accompanied by electronic customs data as from the end of 2018.

[24] See www.gov.uk/trade-tariff.

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Chapter 3. An overview of international evidence on the misuse of small parcels by counterfeiters

This chapter presents quantitative evidence on the use of small shipments in the transmission of counterfeit and pirated goods across global markets. Statistical evidence suggests that small shipments provide an increasingly attractive means to facilitate the trade in counterfeit goods for a large range of product categories. Indeed, the data show that small shipments and parcels tend to dominate in numerous trade routes, reflecting the shrinking costs of postal and courier shipments and the increasing importance of the Internet and e-commerce in international trade.

The decision of a party to engage in the illegal production of counterfeit or pirated goods involves determinations of: i) what products will be counterfeited or pirated; ii) where the products will be produced; iii) where the infringement will take place; iv) what geographic markets will be targeted; and v) how products will be shipped to end markets without being intercepted. The factors driving decisions in this regard include the profitability and magnitude of potential markets for candidate products, technological and logistical factors associated with the production and distribution of the products, and the risk and consequences of detection by law enforcement bodies (OECD, 2008).

With respect to what is being produced and where, recent analysis indicates that the range of products being counterfeited and pirated is broad, ranging from high-end consumer luxury goods such as watches, perfumes and leather goods, to business-to-business products such as machines, chemicals or spare parts, and to common consumer products such as toys, pharmaceuticals, cosmetics and foodstuffs (OECD/EUIPO, 2016). Every product protected by intellectual property (IP) can be counterfeited; there are even records of seized counterfeit fresh fruits and other foodstuffs. Some counterfeit products, such as pharmaceuticals, spare parts and toys, can be of low quality and can create significant health and safety threats.

Where do we source our information?

All information concerning trade in counterfeit and pirated trade comes from the OECD-EUIPO database on customs seizures (OECD/EUIPO, 2016) (see Box 3.1 for more details). Importantly, the main goal of this exercise is to understand the nature of misuse of small parcels in trade in counterfeit and pirated goods. More research and more data would be needed to fully understand some additional dimensions, especially the dynamic character of trade flows in small parcels.

The descriptive analysis of the dataset of customs seizures presented in the OECD-EUIPO study identified 173 provenance economies of counterfeit and pirated products (OECD/EUIPO, 2016). The study also noted that some modes of transport tend to dominate the others in terms of the total number of seizures. In addition, some provenance economies may specialise in certain modes of transport, types of goods, etc.

The analysis carried out in the present study has highlighted some important measurement and data-related issues.[1] Even though the information on counterfeit and pirated trade has improved significantly in recent years, more can be done to improve and expand

information on this phenomenon within the European Union. This is because data collection in the EU focuses on seizures done at the external borders. Consequently, the information on the production of fakes within the EU for the internal market and on the circulations of fakes within the EU is less precise.

Box 3.1. The OECD-EUIPO database on seized counterfeit and pirated products

The database on customs seizures is the critical quantitative input to this study. This database brings together data from three separate datasets: the European Commission's Directorate-General for Taxation and Customs Union (DG TAXUD) and the US Customs and Border Protection (CBP) and the World Customs Organization (WCO). The database includes detailed information on seizures of IP-infringing goods made by customs officers in 99 economies around the world between 2011 and 2013. For each year, there are more than 100 000 observations in the database; in most cases, each individual observation corresponds to one customs seizure.

The database contains a wealth of information about IP-infringing goods that can be used for quantitative and qualitative analysis. In most cases, for each seizure the database details: the date of seizure, the mode of transport of the fake products, the departure and destination economies, the general statistical category of the goods seized and a detailed description of the goods, the name of legitimate brand owner, the number of products seized and their approximate value.[2]

For more information on the OECD-EUIPO dataset see OECD/EUIPO (2016).

In addition, two databases were used to source information on small parcels: Eurostat's Comext and Universal Postal Union (UPU).

Eurostat Comext (Eurostat, 2018) is a tailor-made application for external trade – International Trade in Goods Statistics (ITGS) and production statistics (Prodcom). It provides access not only to both recent and historical data of the EU and its individual Members States but also to statistics of a significant number of non-EU countries. Any aggregated and detailed statistics on international trade in goods disseminated through the Eurostat website[3] are compiled from Comext. In the context of this research, Comext datasets (Eurostat, 2018) contain information on the mode of transport, including by postal and express services[4].

UPU (2018) data holds the oldest records of international statistics collected by an international organisation. The UPU's statistical database provides a dynamic overview of postal developments in each country. It contains data from over 200 countries or territories and includes approximately 100 indicators of postal development, grouped in 12 chapters. The data is collected annually from all UPU member countries and published in the Postal Statistics Yearbook.

Overall view

Counterfeit and pirated products originate from virtually all economies, on all continents. The largest source of infringing products that are seized, however, is East Asia, with the People's Republic of China and Hong Kong (China) together accounting for over 80% of the seizures made by other countries during 2011-13 (based on OECD/EUIPO, 2016). The

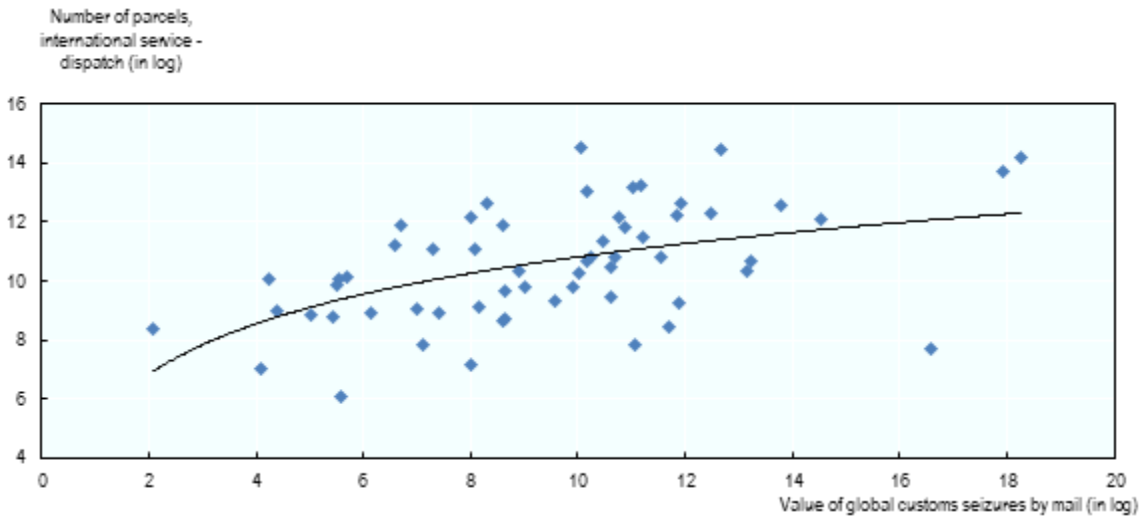
end-markets for infringing products that are traded internationally, on the other hand, are global, led by the United States, European Union and the Middle East.

Misuse of small parcels in the broader context of global trade in postal parcels

A general, aggregated picture on the misuse of small parcels in the global trade in counterfeits can be drawn based on data on postal services provided by the Universal Postal Union (UPU).

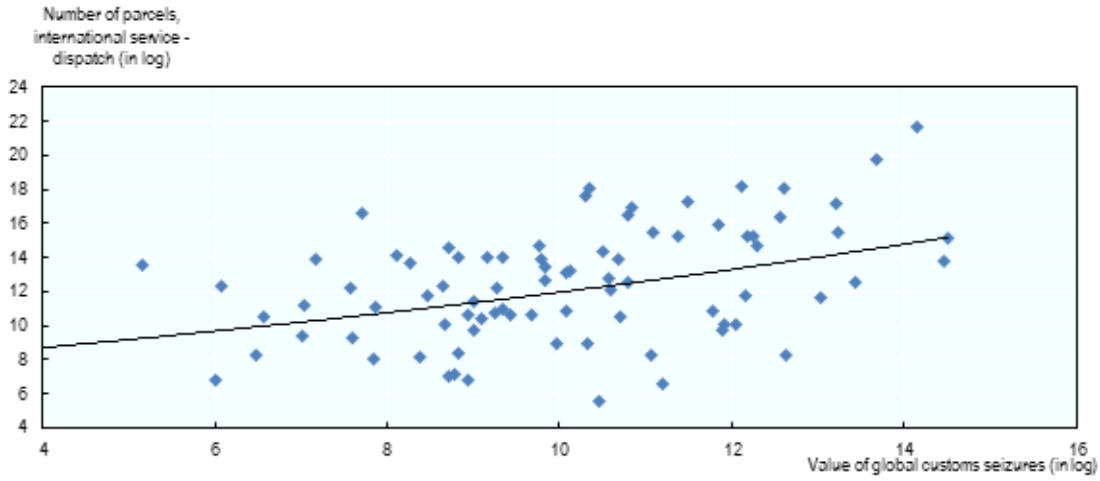
Figure 3.1 and Figure 3.2 combined indicate that the intensity of trade through postal services is clearly correlated with the value of counterfeit and pirated products exported by economies worldwide by post (Figure 3.1) or in total (Figure 3.2).

Figure 3.1. Global customs seizures by mail and number of parcels internationally dispatched, 2013



Note: Each point corresponds to one economy in 2013.
Sources: OECD/EUIPO (2016) and UPU database (2018c).

Figure 3.2. Global customs seizures and number of parcels internationally dispatched, 2013



Note: Each point corresponds to one economy in 2013.
Sources: OECD/EUIPO (2016) and UPU database (2018c).

Of course, such initial checks are likely to suffer from numerous biases. For example, these simple cross-sectional comparisons of legal and illegal dispatches of parcels might be partially affected by the size of the country. This is why, a more detailed analysis based on disaggregated data by product category is needed to shed more light on the trends in counterfeit and pirated trade (see section below).

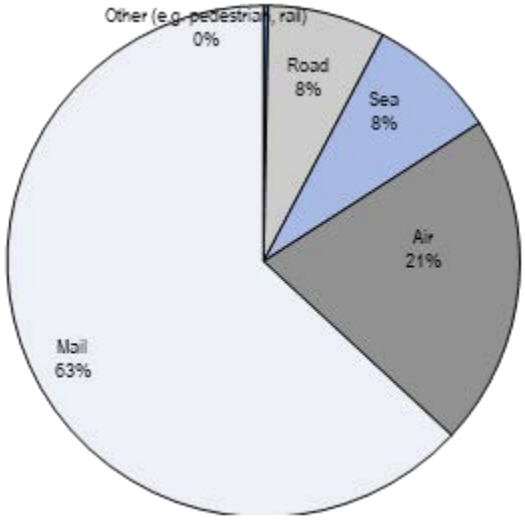
With respect to how internationally traded products are shipped to end markets, data on customs seizures provides insights into the distribution networks that are used. In terms of value of seizures and number of goods seized, sea container ships clearly dominate. However, in terms of number of seizures, during 2011-13, an average of 63% of seizures worldwide involved postal shipments (OECD/EUIPO, 2016). Air transport and sea followed, with slightly more than 20% and 9%, respectively; vehicle transport accounted for about 7%. Other modes (including rail and pedestrian traffic) were negligible.

The number of seizures of small parcels containing counterfeits is very high; but in terms of value other forms of transport dominate

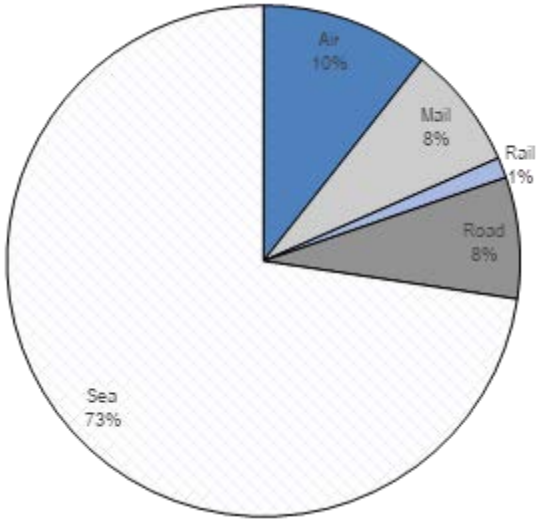
The 2016 OECD-EUIPO study on trade in counterfeit and pirated goods (OECD/EUIPO, 2016) highlighted that the majority of global customs seizures of IP-infringing goods occurred through small parcels, that is through postal or courier routes and solutions. In terms of numbers of seizures, from 2011-13, nearly 63% of the number of customs seizures of counterfeit and pirated goods worldwide arrived via mail, i.e. via postal and courier routes (Figure 3.3, a). However in terms of the value of seizures container ships clearly dominate (Figure 3.3, b).

Figure 3.3. Size of seized shipments of IP-infringing products, 2011-13

As percentage of total customs seizures of counterfeit and pirated goods



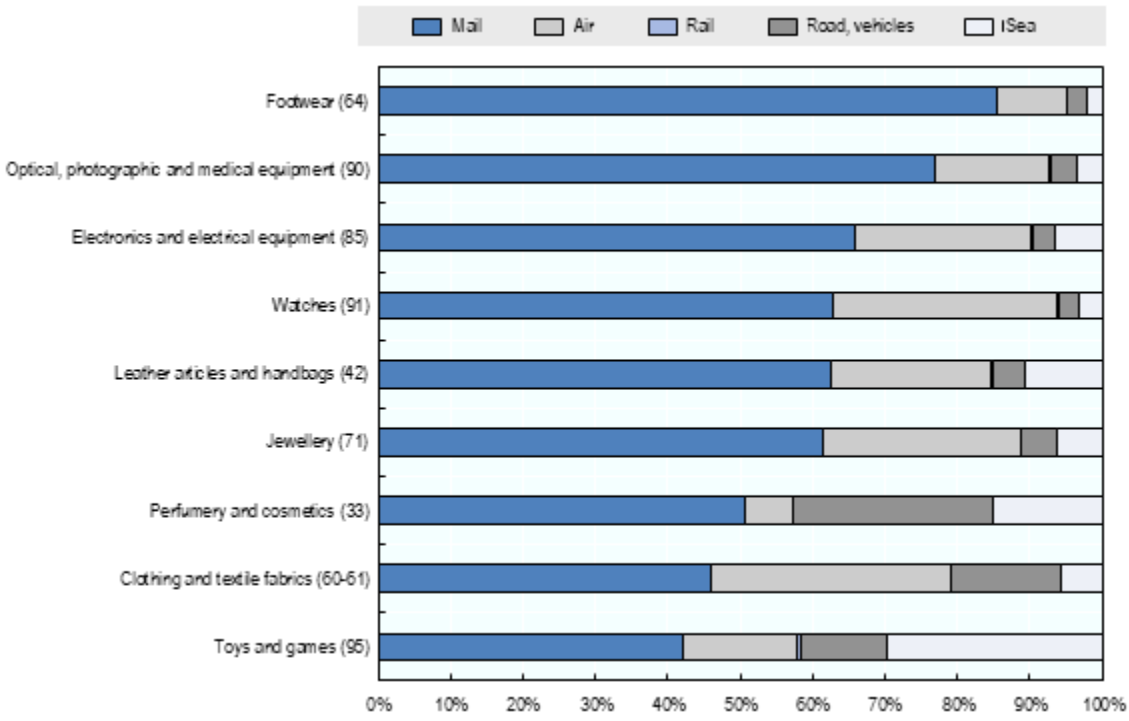
As a percentage of global seized value



The subsequent OECD-EUIPO analysis (OECD/EUIPO, 2017) focused on the global diffusion of counterfeit and pirated products for a few specific IP-intense and tradable product categories, including fast-moving consumer goods such as clothing, footwear or cosmetics, and business-to-business products, such as spare parts and computer chips.[5] In all sectors, counterfeit seizures occur principally in the mail mode. This is illustrated in Figure 3.4 below.

Figure 3.4. Counterfeits seized in mail across selected IP-intense sectors, 2011-13

As a percentage of total customs seizures worldwide



Source: OECD/EUIPO (2017), *Mapping the Real Routes of Trade in Fake Goods*, http://dx.doi.org/10.1787/9789264278349-en.

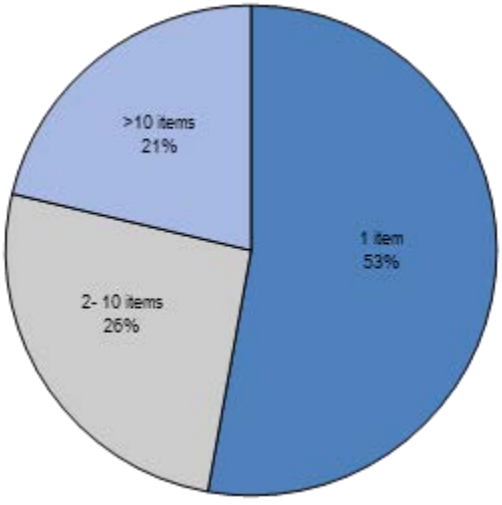
More specifically, Figure 3.4 above shows that, between 2011 and 2013, 84% of seized shipments of counterfeit footwear, 77% of fake optical, photographic and medical equipment (mostly sunglasses) and 66% of customs seizures of ICT devices concerned postal parcels or express shipments. This is also the case for more than 63% of customs seizures of counterfeit watches, leather articles and handbags, and jewellery.

The size of seized shipments of counterfeits by postal parcels is very small

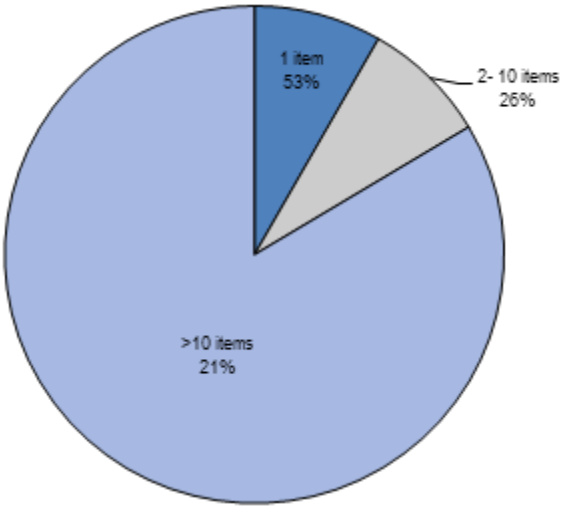
In terms of value, the share of large shipments by mail (i.e. containing more than ten items) tend to dominate (Figure 3.5, b). However, the analysis in terms of the number of global customs seizures indicates that size of shipments seized in mail or express courier transport channels tends to be very small. This is illustrated in Figure 3.5, a) below, which indicates that from 2011 to 2013, 53% of global customs seizures concerning postal shipments included only 1 item and 26% between 2 and 10 items. This means that small packages, with 10 items or less, account for the majority of the number of counterfeiting seizures.

Figure 3.5. Size of seized postal parcels, 2011-13

a) As a percentage of the number of global customs seizures concerning postal shipments



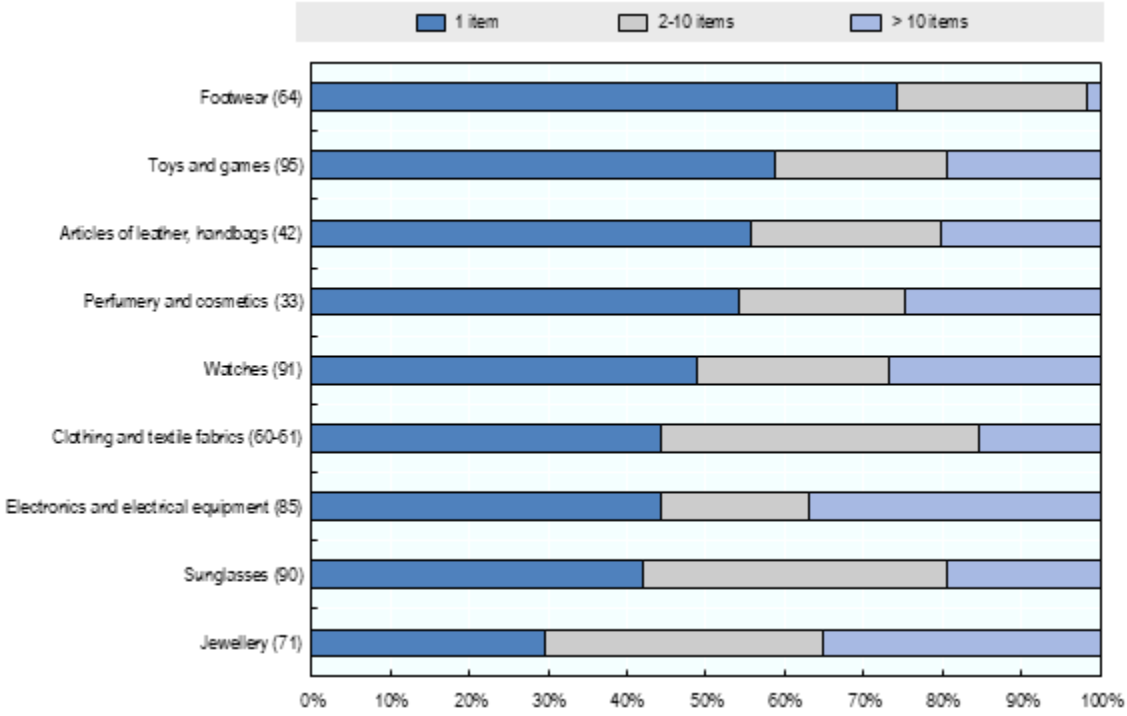
b) As a percentage of globale seized value concerning postal shipments



It is also important to note that for the most IP-intense product categories studied in the OECD/EUIPO report (2017), the size of seized postal parcels tends also to be very small. This is illustrated by Figure 3.6 below, which shows that between 2011 and 2013, 77% of customs seizures of fake footwear shipped by postal parcels included only 1 pair. Similarly, 60% of fake toys and games, 56% of fake articles of leather and handbags, 55% of counterfeit perfumery and cosmetics and 49% of fake jewellery related to shipments by mail or express couriers included only 1 item. This highlights the role of de-consolidated shipments via small parcels.

Figure 3.6. Size of seized shipments of postal parcels across selected IP-intense sectors, 2011-13

a) As a percentage of the number of global customs seizures concerning postal shipments



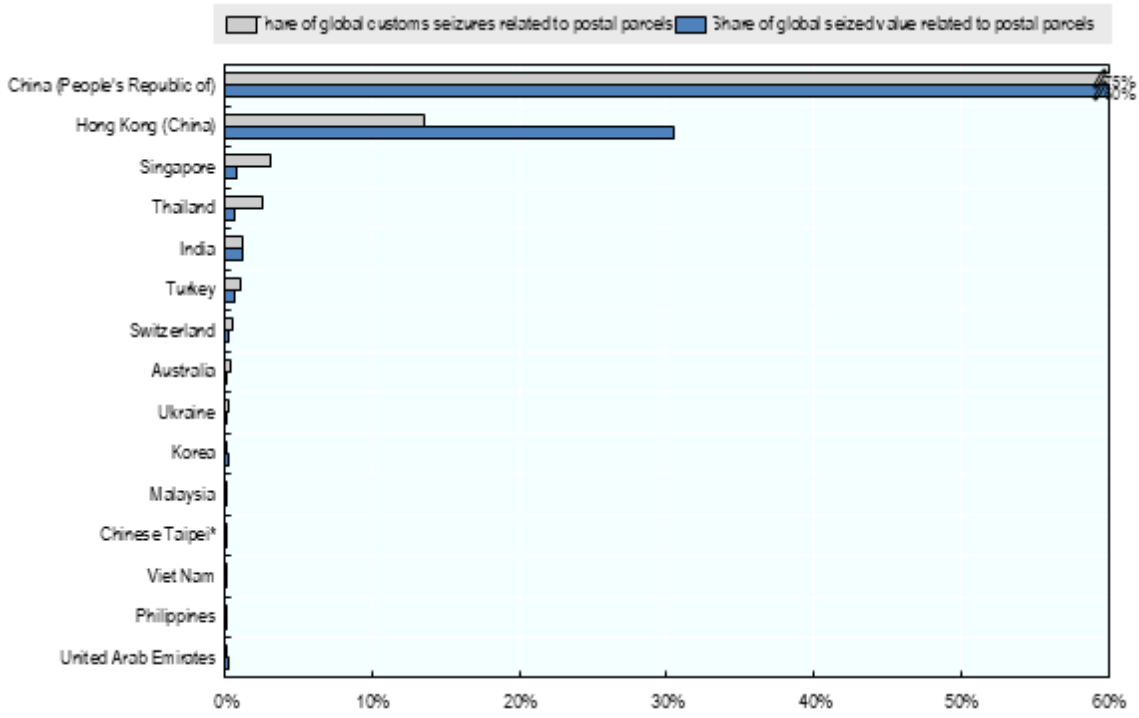
Provenance economies of small parcels containing fakes

The key points of provenance of seized counterfeit products shipped by mail or express couriers are reported in Figure 3.7. The People's Republic of China appears as the largest provenance economy for postal shipments, being the origin of 60% of the total value of postal parcels containing fakes and seized worldwide. It is followed by Hong Kong (China), India, Singapore, Thailand and Turkey.

The key provenance economies in the global trade of seized small parcels in counterfeit products are also classified in the top ten provenance economies for each one of the products most affected by infringement studied in OECD/EUIPO (2017). Those are reported in detail in Table A B.1.

If some of these key provenance economies, such as the People's Republic of China, India and Thailand, have been identified as key producers of counterfeit and pirated products, others, such as Hong Kong (China) and Singapore, have been identified as key transit points (see OECD/EUIPO, 2017).

Figure 3.7. Top 15 provenance economies of seized postal parcels containing counterfeits, 2011-13



Seizures by post from the top provenance economies of counterfeit goods

Figure 3.8 presents the ratio of percentage of postal seizures in a given economy to the average percentage of postal seizures across the top 20 provenance economies. This figure indicates that Asian economies are more likely to use post mode for exporting counterfeit goods. The countries where the ratio is particularly high are Cambodia, India, Macau (China), the People's Republic of China, Singapore and Thailand. For India, Macau (China) and Singapore, the seizures by post are almost 2.5 times higher than on average. However, the other countries of the 20 top provenance economies are less likely to export fakes by using the postal mode. In Morocco, Pakistan, Panama, Senegal, Suriname, Turkey and the United Arab Emirates, the ratio is low and largely under 0.5.

Figure 3.8. Economies most likely to use postal parcels for exporting fake goods among the top 20 provenance economies in terms of their propensity to export counterfeit goods (GTRIC-e, average 2011-13)

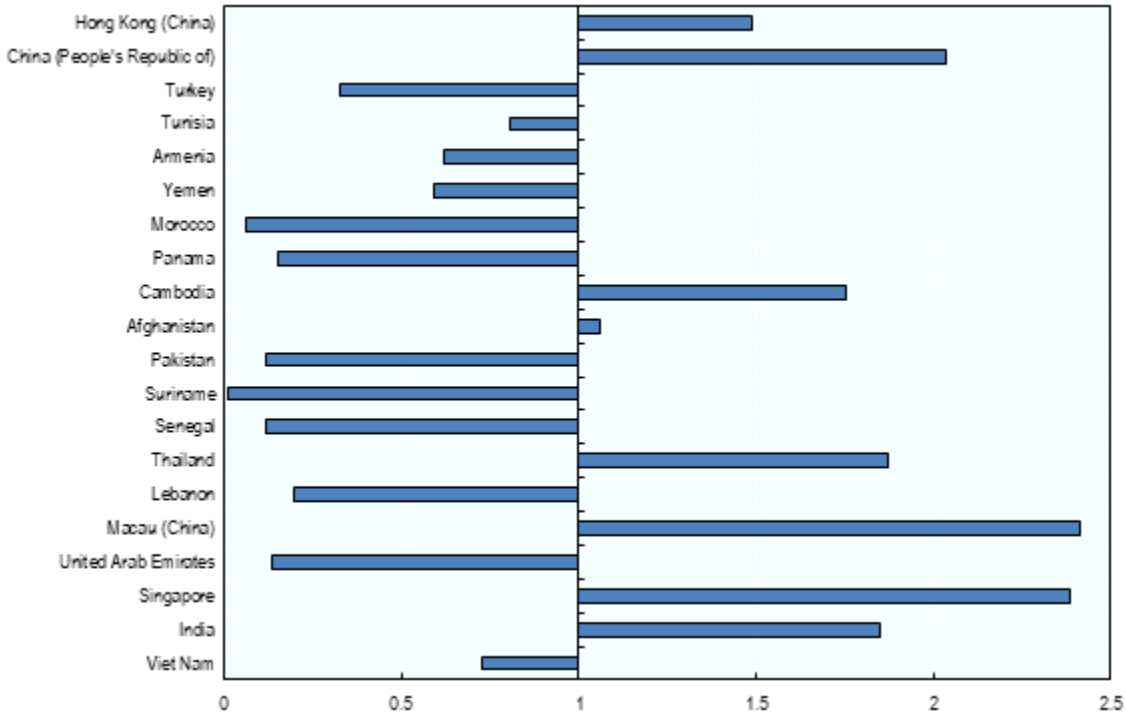
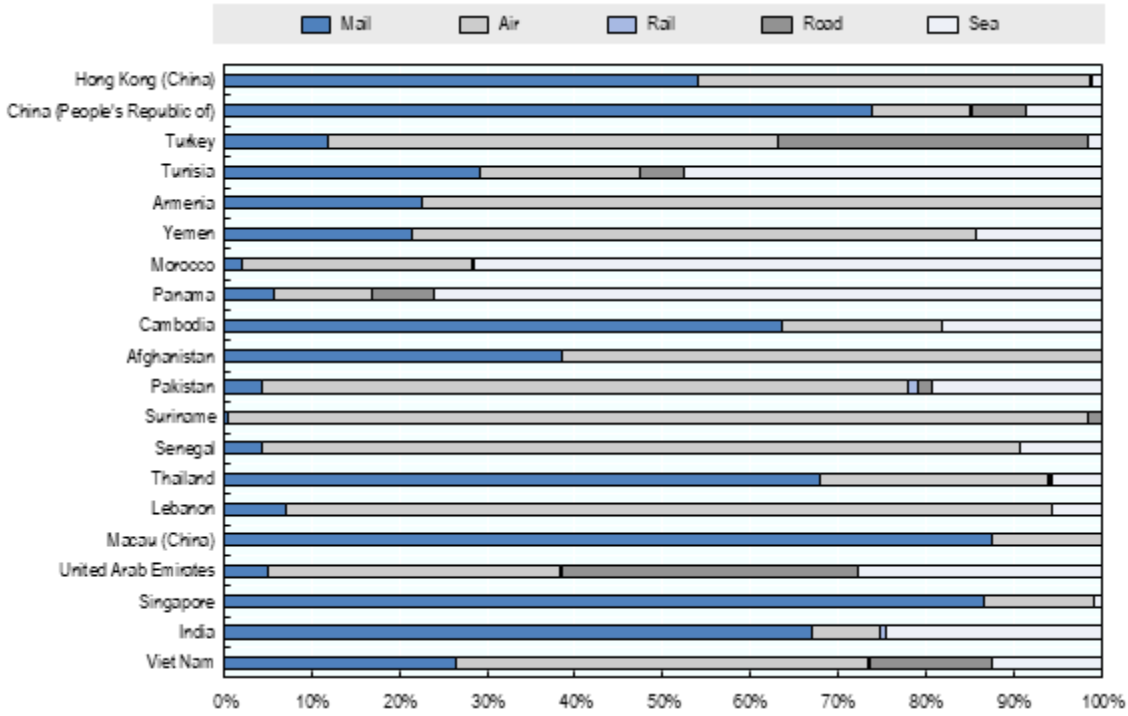


Figure 3.9 lists the transport modes used by top provenance economies for exporting fake goods. An almost identical list of economies more likely to use the post has been identified. In Macau (China) (87.5%), Singapore (86.6%), the People's Republic of China (73.9%), Thailand (68%), India (67.1%) and Cambodia (63.6%), post is the preferred mode for exporting counterfeit products. In Macau (China) and Singapore, around 90% of exports of counterfeit goods are sent by mail. However, in Suriname (0.4%), Morocco (2.2%), Senegal (4.3%), Pakistan (4.3%), the United Arab Emirates (5%), Panama (5.6%) and Turkey (11.8%), the share of export of fakes by the post is low. Afghanistan sets itself apart as it serves as an intermediary in using the postal mode for transporting fake goods.

Figure 3.9. Share of export of fakes by transport mode in terms of number of global seizures for the top 20 provenance economies of fake goods in terms of GTRIC-e (average 2011-13)



The number of seizures, however, is only part of the story. A closer examination of EU experience shows that, as above, most interceptions of counterfeit products occurred in postal channels in 2017 (65%), followed by air (20%) and express services (11%). In terms of the number of items intercepted, however, while the number of sea seizures accounted for only 3% of the total in 2017, they accounted for 64% of the total number of items seized, and 35% of the total value of seizures (Table 3.1). This reflects the fact that bulk shipments are more likely to be moved by vessels; sea seizures yielded an average of 12 400 items per seizure, as compared to 22 items per postal seizure.

Table 3.1. EU seizures, by means of transport used, in 2010, 2015, 2015 and 2017

Year	2010		2015		2016		2017	
Means of transport	Number of seizures	% of total	Number of seizures	% of total	Number of seizures	% of total	Number of seizures	% of total
Air	18 645	24	14 970	19	14 166	22	11 336	20
Express services	2 101	3	5 418	7	5 241	8	6 367	11
Post	48 997	62	57 185	71	41 236	65	37 232	65
Road	85	(1)	2	(1)	11	(1)	11	(1)
Rail	5 681	7	1 073	1	667	1	851	1
Sea	3 602	5	2 450	3	1 863	3	1 636	3
Total	79 111	100	81 098	100	63 184	100	57 433	100
	Number of items seized (in thousands)	% of total	Number of items seized (in thousands)	% of total	Number of items seized (in thousands)	% of total	Number of items seized (in thousands)	% of total
Air	6 313	6	4 865	12	4 579	11	4 433	14
Express services	3 410	3	2 200	5	2 228	5	2 770	9
Post	1 035	1	893	2	911	2	834	3
Road	272	(1)	(2)	(1)	15	(1)	38	-1
Rail	7 945	8	2 648	7	5 910	14	3 113	10
Sea	84 331	82	30 123	74	27 743	67	20 223	64
Total	103 307	100	40 729	100	41 387	100	31 411	100
	Value of seizures (in thousands of EUR)	% of total	Value of seizures (in thousands of EUR)	% of total	Value of seizures (in thousands of EUR)	% of total	Value of seizures (in thousands of EUR)	% of total
Air	203 851	18	118 846	19	186 155	28	127 986	22
Express services	26 951	2	87 155	14	51 570	8	118 537	20
Post	36 569	3	57 790	9	47 234	7	101 845	17
Road	3 235	(1)	5	(1)	709	(1)	5 268	1
Rail	109 102	10	52 853	8	14 923	2	28 544	5
Sea	730 012	66	325 459	51	372 308	55	202 963	35
Total	1 109 720	100	642 108	100	672 899	100	585 142	100
	Number of items per seizure		Number of items per seizure		Number of items per seizure		Number of items per seizure	
Air	339		325		323		391	
Express services	1 623		406		425		435	
Post	21		16		22		22	
Road	3 203		11		1 338		3 415	
Rail	1 399		2 467		8 861		3 658	
Sea	23 412		12 295		14 892		12 361	
Overall	1 306		502		655		547	

Notes:
1. Less than 0.5%.
2. Less than USD 500.
Sources: EC (2015), *Report on the EU Customs Enforcement of Intellectual Property Rights: Results at the EU Border, 2014*, https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/2015_ipr_statistics.pdf and EC (2018), *Report on the EU Customs Enforcement of Intellectual Property Rights: Results at the EU Border, 2017*, https://ec.europa.eu/taxation_customs/sites/taxation/files/report_on_eu_customs_enforcement_of_ipr_2017_en.pdf.

The data further show that the total number of cases, items and values of seizures performed in the EU decreased during 2010-17. There was, however, a sharp increase in the number

of cases and value of express shipment interceptions (up 200% and 340% respectively); moreover, while the number of postal cases declined, the value of the interceptions climbed by close to 180%.[6]

The EU data also do not show a clear trend in the number of seizures and values of seizures in rail and sea transport, as opposed to the growing values of seizures in small parcels (postal and courier). This could be due to two main factors. First, it could reflect changes in transport modes of illicit trade. Trade in fakes could recently have shifted from containers transport to rail and possibly for some goods to express services. Second, it could reflect changes in the operation techniques and intensity of enforcement services, with a shift of enforcement focus towards small parcels. More research is needed to understand these changes and to determine the relative importance of these two factors.

Similar developments occurred in the United States, where the number and value of seizures through express channels rose by 234% and 77% respectively, between 2010 and 2017 (Table 3.2). By 2017, their share of seizures reached 60% and 36% of the total number and value respectively, up from 31% and 12% in 2010. The number and value of seizures from cargo channels, on the other hand, fell by 38% and 49% between the 2 years.

Table 3.2. US seizures by means of transport used, in 2010, 2015, 2016 and 2017

Year	2010		2015		2016		2017	
Means of transport	Number of seizures	% of total	Number of seizures	% of total	Number of seizures	% of total	Number of seizures	% of total
Express services	6 116	31	14 897	52	17 363	55	20 417	60
Mail	9 743	49	10 834	38	11 236	36	9 992	29
Cargo	2 309	12	1 287	4	1 621	5	2 628	8
Other	1 791	9	1 847	6	1 250	4	1 106	3
Total	19 959	100	28 865	100	31 560	100	34 143	100
	MSRP value of seizures*	% of total	MSRP value of seizures*	% of total	MSRP value of seizures*	% of total	MSRP value of seizures*	% of total
Express services	242.8	17	436.6	32	614.5	44	429.3	35
Mail	105.5	7	94	7	100.4	7	128.4	11
Cargo	776.5	55	495.6	37	457.7	33	397.5	33
Other	288.6	20	326.3	24	210.3	15	251.1	21
Total	1 413.4	100	1 352.5	100	1 382.9	100	1 206.3	100

Note: * In millions of US dollars.
Sources: Homeland Security (n.d.), *Intellectual Property Rights Seizure Statistics: Fiscal Year 2017*, www.cbp.gov/sites/default/files/assets/documents/2018-Feb/trade-fy2017-ipr-seizures.pdf;
CBP (n.d.a), *Intellectual Property Rights: Fiscal Year 2016 Seizure Statistics*, www.cbp.gov/sites/default/files/assets/documents/2018-Jan/FY2016%20IPR%20Seizure%20Statistics%20Book%20%28PDF%20Formatting%29_OT.pdf; and CBP (n.d.b), *Intellectual Property Rights: Fiscal Year 2011 Seizure Statistics*, www.cbp.gov/sites/default/files/documents/FY2011%20IPR%20Seizure%20Statistics_0.pdf.

Product trends

A review of the number of items involved in seizures and the modes in which the seizures were made reveals that there was significant variation in the role that small shipments played among product categories during 2011-13. Overall, the average number of items per seizure during 2011-13 was quite small, with 66% accounting for up to 10 items. Single items alone accounted for 38% of the total (OECD/EUIPO, 2016). A closer examination reveals more than 90% of footwear and perfumery seizures involved 10 or fewer items and more than 60% involved only one item. Moreover, the number of items seized per seizure

was 10 or less in more than half of the seizures in all product categories analysed (Table 3.3).

Table 3.3. Share of seizures made, by number of items seized, 2011-13 (% of total)

Sector	10 or less items	1 item
Perfumery and cosmetics	92	62
Footwear	92	64
Clothing and fabrics	70	31
Leather articles and handbags	67	39
Optical, photographic and medical equipment	63	29
Toys, games and sports equipment	59	37
Jewellery	52	20
Electronics and electrical equipment	52	30

A review of the seizures made by different conveyance modes also reveals significant variance among product areas. During 2011-13, 85% of footwear seizures were made through postal and express channels, which are the domain of small shipments (Table 3.4). In contrast, only 42% of the number of seizures of fake toys and games were made through the channels associated with small shipments. The postal channel remains popular for counterfeits. In 2016, some 7.3 million mobile phones and accessories were discovered in mail parcels, in 2 166 seizures (WCO, 2017a). The number of items per seizure averaged 3,361 making it the most popular channel for the counterfeits as 707 freight container seizures yielded only 2.2 million items (an average of 3 057 items per seizure). This could reflect the nature of mobile phones and associated equipment. These items are small but expensive and they become outdated quickly so it is not surprising that the quickest transport mode possible is used to deliver them, whether genuine or counterfeit.

Table 3.4. Share of seizures made via post and express conveyance, 2011-13.

Sector	Share of global customs seizures concerning postal parcels within the product category
Footwear	85
Optical, photographic and medical equipment	77
Electronics and electrical equipment	66
Leather articles and handbags	63
Jewellery	61
Perfumery and cosmetics	51
Clothing and fabrics	46
Toys, games and sports equipment	42

Detection techniques

Risk assessment can play an important role in improving the ability of customs to intercept counterfeit trade, in a cost-effective manner, consistent with the concurrent need to facilitate trade. As indicated earlier, advance commercial information on small shipments is uneven or contains gaps. There are, moreover, important data quality issues that remain due to omissions or mistakes in data (either accidental or intentional) that affect the risk-assessment process. Low information quality and the lack of information or description on small packages are important in this regard. The consequences are significant as the capacity of authorities to reduce risks to health, safety and the security of citizens is challenged.

Risk assessment is, however, only one among the techniques used. Intelligence-led investigations, random screening and routine controls are also used (WCO, 2017a). A review of the detection methods used in seizures in 2016 reveals that risk profiling and routine checks were the dominant means of detection. Risk profiling was most successful in finding counterfeits shipped in by air, followed strongly by routine checks. The routine checks, however, yielded by far the highest number of items seized. In the case of articles shipped by mail, risk profiling exceeded routine checks by a small margin in terms of the number of seizures, but, as with sea seizures, routine checks yielded the highest number of items seized, by far. Across all conveyance methods, routine controls accounted for the seizure of 260 million items, as compared to 29 million though risk profiling. This is an indication of the need to invest more in risk management systems and to share information better among the customs authorities.

Joint actions can also be important. The WCO co-ordinated two operations a number of years ago, targeting counterfeits shipped through the post and courier services. Operation Global Hoax, which took place in 2010, resulted in the seizure of tens of thousands of pirated and counterfeit CDs and DVDs at international mail facilities and express courier depots in the course of a global operation.[7] Forty-two countries participated in the operation, which aimed at stemming the trade in postal and courier channels. More than 782 parcels were seized, yielding in excess of 142 000 DVDs and 28 000 CDs. Customs also seized over 271 000 other counterfeit items, including razors, pharmaceuticals, curling irons, household goods, watches, mobile phones and accessories, clothing, computer accessories, jewellery, video game gadgets, MP3/MP4 players and leather goods. . The operation resulted in seizures of over USD 5 million worth of counterfeit and pirated DVDs and CDs in the United States alone .

Operation Global Hoax II, which took place from November 2011 to January 2012, also focused on postal and courier channels.[8] Forty-three countries participated in the operation, which shared information and intelligence using CENcomm, the WCO's secure communication tool. More than 30 000 parcels were detained and over 150 000 counterfeit or pirated items were seized, including toys, pharmaceuticals, electronic goods, clothing, TV/movie DVDs, watches, mobile phones and handbags as well as other illicit goods such as cannabis seeds, anabolic steroids and amphetamines.

Small shipment market trends

In terms of trends, some preliminary, general observations can be drawn based on existing reports. Overall, the share of small shipments, mostly by post or by express services, is growing (OECD/EUIPO, 2016 and WCO, 2016). An examination of the international market for courier, express and parcel products in 13 European countries[9] reveals high growth in recent years, with revenue increasing by 5% per year during 2014-16, from EUR 14.6 billion to 16.2 billion, while the number of shipments grew more sharply, by about 10% per year, from 592 million to 720 million (Table 3.5) (Salehi, van de Voorde and Matuska, 2017). The share of shipments made using standard methods exceeded those shipped by express on a revenue basis, averaging 56% and 44% respectively, with significant variation amongst countries. Business-to-consumer (B2C) growth topped business-to-business (B2B), both in standard and express shipping categories, fuelled by a boom in e-commerce. The weight of shipments averaged 19 kg in the case of standard shipments, and 7 in the case of express. Growth is expected to continue, with lighter weight e-commerce shipments commanding higher market shares.

Table 3.5. International courier, express and parcel market in 13 European countries, 2014-16

Item	2014	2015	2016
Revenues	Millions of EUR		
Express	6 530	6 770	7 118
Standard	8 116	8 633	9 107
Total	14 646	15 402	16 224
Number of shipments	In millions		
Express	147	159	171
Standard	445	498	549
Total	592	657	720
Revenue per shipment	EUR per shipment		
Express	44	43	42
Standard	18	17	17
Total	25	23	23

Note: The 13 countries are Austria, the Czech Republic, France, Germany, Italy, the Netherlands, Poland, Romania, Russia, Spain, Sweden, Turkey and the United Kingdom.

Source: Salehi, F., D. van de Voorde and J. Matuska (2017), *Europe's International CEP Market: Solid Growth with Challenges Ahead*, www.atkearney.de/documents/856314/14626670/2017.09_CEP+Study_V07+%28secured%29.pdf/70575347-7e07-1cee-b4bb-83c59c7b99df.

The Kearney assessment (Salehi, F., D. van de Voorde and J. Matuska, 2017) does not include letter packets in its parcel totals, the volume of which could well exceed that of parcels. In the United States, for example, the postal service reported receipt of about 498 million parcels and letter packets in calendar year 2017 (Office of the Inspector General, 2018). Further information on the share of packets can be gleaned from an assessment of 2016. In that year, some 605 million pieces of letter mail were received from foreign destinations; most of these letters (i.e. more than 300 million items) were packets (GAO, 2017). This would suggest that more than 60% of total volume was in the form of packets.

Industry-specific analysis

Perfumery and cosmetics

The perfumery and cosmetics industry refers to products in the HS 33 product category. Over the period 2011-13, there are various examples of counterfeit perfumery and cosmetics recorded in the OECD/EUIPO database of customs seizures, such as counterfeit make-up, creams, aftershaves, shampoos, luxury perfumes, nail sets, and even toothpaste and toothbrushes. In some cases, these counterfeit products can pose a serious health threat to consumers.

According to calculations in the OECD-EUIPO (2016) study, global trade in counterfeit perfumery and cosmetics was valued at up to USD 5.3 billion (EUR 3.8 billion) in 2013. This represents 4.7% of global trade in perfumes and cosmetics, and places the industry in the top 15 most affected by global counterfeiting and piracy in terms of value.

As noted above, the largest share of shipments of counterfeit perfumery and cosmetics was by mail, accounting for 51% of the total number of global customs seizures of infringing perfumes and cosmetic preparations (Figure 3.10, left panel). The shares of shipments by road (28%), sea (15%) and air (6%) were less significant. The analysis of the value of

customs seizures reflects, however, that the value of shipments made by sea or road was larger than the value of shipments of fake perfumes and cosmetic products by mail (Figure 3.10, right panel).

This is confirmed by Figure 3.11, which indicates that 54% of shipments of counterfeit perfumes and cosmetics preparations made by mail and seized by customs authorities worldwide between 2011 and 2013 included only 1 item, and 21% between 2 and 10 items. Hence, information provided by Figure 3.10 and Figure 3.11 combined confirms that in terms of *value* of seized goods sea transport is by far the most significant mode of transport, even if there are more individual seizures of small parcels.

Figure 3.10. Shipment method for seized counterfeit perfumes and cosmetics, 2011-13

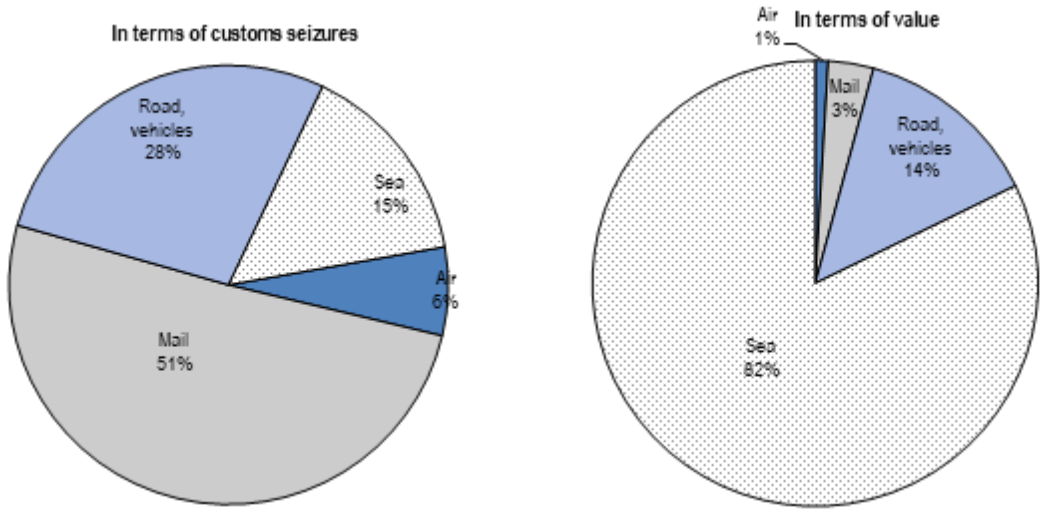
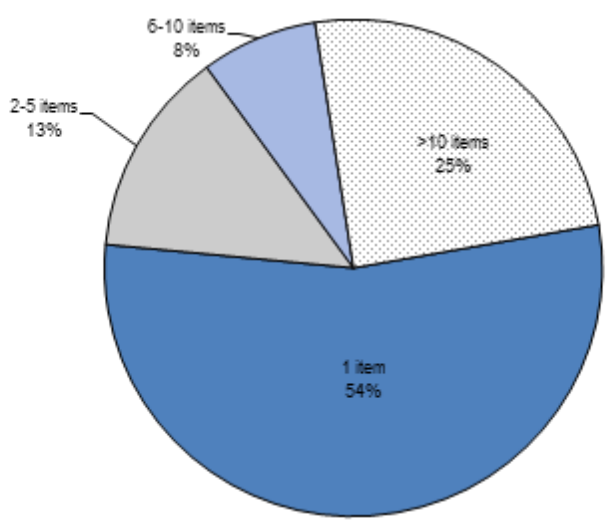
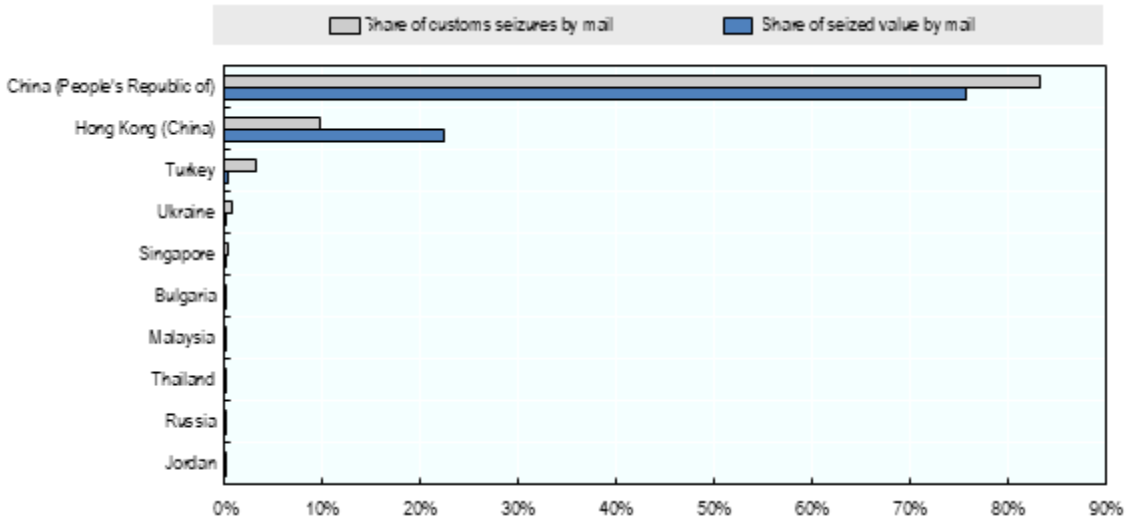


Figure 3.11. Size of seized shipments of IP-infringing perfumes and cosmetics by mail, 2011-13



The OECD-EUIPO (2017) study identifies the People's Republic of China, India, Malaysia, Singapore, Thailand and Turkey as important producers of counterfeit perfumery and cosmetics. Hong Kong (China) and the United Arab Emirates appear to be important hubs for the fakes produced in the People's Republic of China, which are then exported throughout the world.

Figure 3.12. Provenance economies of seized postal parcels containing perfumes and cosmetics, 2011-13

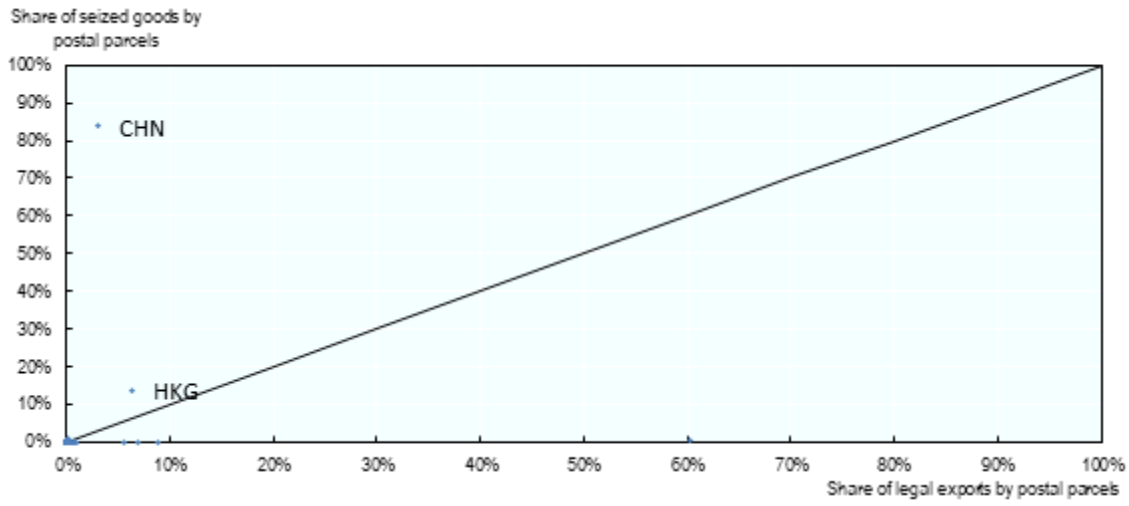


Lastly, the legal flows of perfumes and cosmetics imported from a given economy by small parcels can be compared with the share of seizures of fake perfumes and cosmetics shipped by parcels from that economy (Figure 3.13).

In this figure, the horizontal axis shows for each economy the share of legal exports of perfumes and cosmetics shipped by parcels (postal and express)[10] and the vertical axis shows the share of seizures of fake perfumes and cosmetics originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels.

For trade in fake perfumes and cosmetics, the People's Republic of China and Hong Kong (China) are the biggest exporters of fake goods in these product categories in small, express and parcel services.

Figure 3.13. Counterfeit perfumes and cosmetics: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Leather articles and handbags

The leather articles and handbag industry refers to products in the HS 42 product category. This category notably includes articles of apparel and clothing accessories made of leather or of composition leather as well as trunks, suits, cameras, jewellery, cutlery cases, travel, tool and similar bags wholly or mainly covered by leather, composition leather, plastic sheeting or textile materials.

According to calculations for the OECD-EUIPO (2016) study, global trade in counterfeit articles of leather and handbags was up to USD 8.6 billion (EUR 6.2 billion) in 2013. This represents more than 11.5% of the total trade in leather articles and handbags and makes the industry the most affected by global counterfeiting and piracy in terms of trade percentage.

Over the period 2011-13, the largest share of seized shipments of counterfeit articles of leather and handbags was sent by mail, at 63% of the total number of global customs seizures (Figure 3.14, left panel). However, the share of seized shipments by air (22%), sea (11%) and road (4%) was also significant. The analysis of the value of customs seizures reflects however that the value of shipments made by sea or air were larger than the value of shipments of fake articles of leather and handbags by mail (Figure 3.14, right panel).

This is confirmed by Figure 3.15 which indicates that 56% of seized shipments of IP-infringing leather articles and handbags made by mail between 2011 and 2013 included only 1 item and 24% between 2 and 10 items. Information provided by Figure 3.14 and Figure 3.15 combined confirms that in terms of *value* of seized goods sea transport is by far the most significant mode of transport, even if there are more individual seizures of small parcels.

Figure 3.14. Shipment methods for seized counterfeit articles of leather and handbags, 2011-13

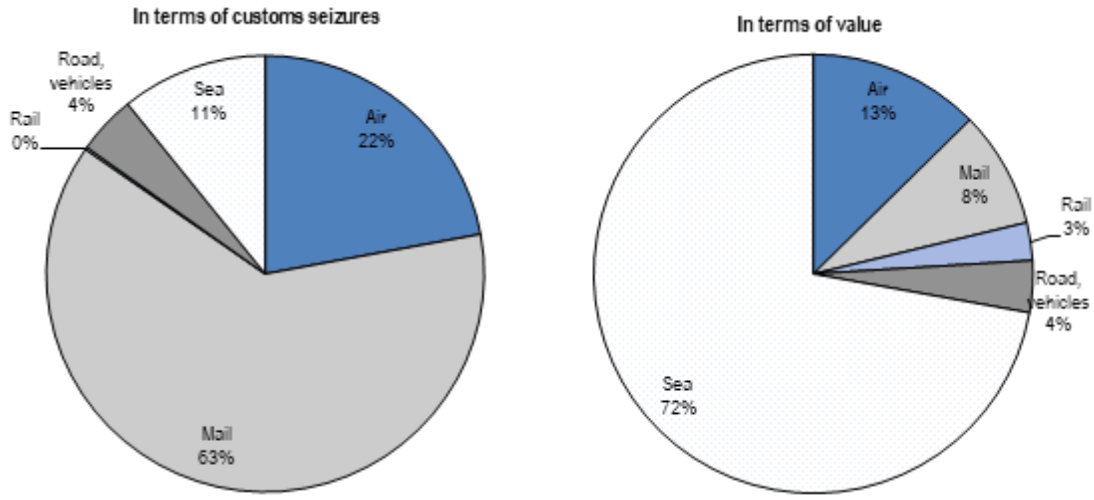
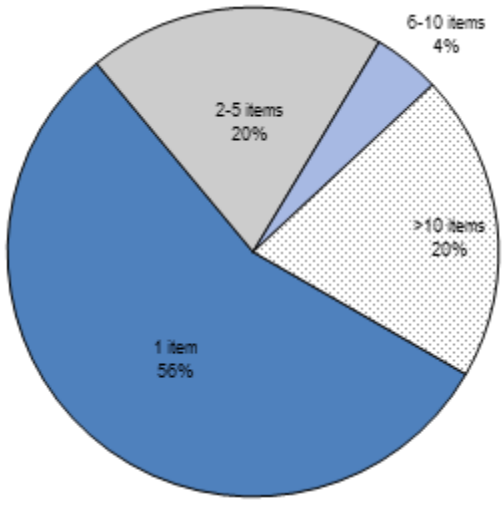
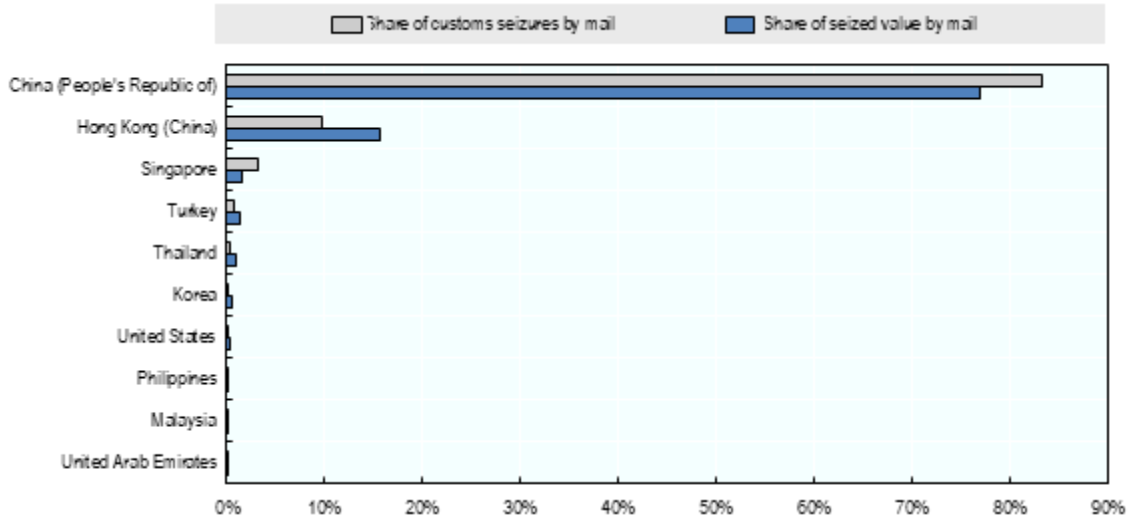


Figure 3.15. Size of seized shipments of IP-infringing leather articles and handbags by mail, 2011-13



The OECD-EUIPO report (2017) identifies China as the main producer of counterfeit leather articles and handbags. It is followed by a group of Far East Asia economies (including Cambodia, Indonesia, Malaysia, the Philippines and Thailand, Tunisia and Turkey). The study also notes that the producers exported counterfeit products across the globe directly, but also used the large Asian trade hubs of Hong Kong (China) or Singapore, and some Middle East economies (e.g. the United Arab Emirates and Kuwait) as transit points.

Figure 3.16. Provenance economies of postal parcels containing counterfeit leather articles and handbags, 2011-13

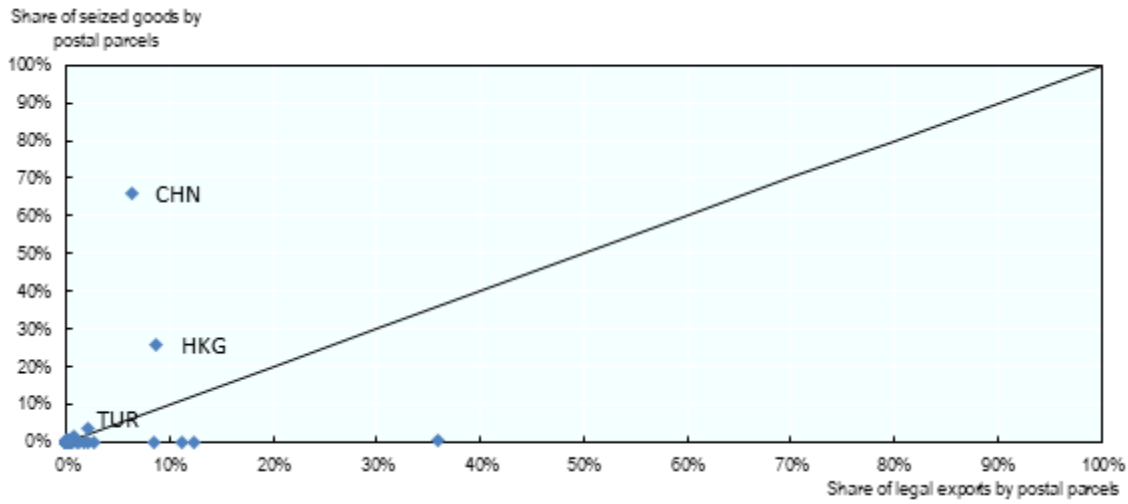


Lastly, Figure 3.17 compares the legal flows of articles of leather and handbags imported from a given economy by small parcels, with a share of seizures of fake articles of leather and handbags shipped by parcels from that economy.

In this figure, the horizontal axis shows for each economy the share of legal exports of leather articles and handbags shipped by parcels (postal and express)[11] and the vertical axis shows the share of seizures of fake leather articles and handbags originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels.

For trade in fake articles of leather and handbags, the People's Republic of China, Hong Kong (China), Singapore and Turkey, are the economies with the highest, relative propensities to export fake goods in these product categories in small, express and parcel services.

Figure 3.17. Counterfeit articles of leather and handbags: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Clothing and textile fabrics

The clothing and fabrics (knitted or crocheted) industry refers to products in the HS 60 and HS 61 product categories, and mainly includes shirts, blouses, coats and suits.

According to calculations for the OECD-EUIPO (2016) study, global trade in counterfeit clothing and fabrics was up to USD 27.7 billion (EUR 20.3 billion) in 2013. This represents more than 11% of global trade in clothing and textile fabrics and ranks the industry as 3rd most affected by global counterfeiting and piracy in relative terms (i.e. as a percentage of world imports within the product category) and 5th in terms of value.

Over the period 2011-13, most seizures of counterfeit clothing and textile fabrics were effectuated while goods were transported by mail at 46% of the total number of global customs seizures reported (Figure 3.18, left panel). Smaller shares went by air (33%), road (15%) and sea (6%). The analysis of the value of customs seizures reflects that the value of shipments made by sea, road or air was larger than the value of shipments of IP-infringing clothing and textile fabrics made by mail (Figure 3.18, right panel).

This is confirmed in Figure 3.19 which indicates that 44% of shipments of fake clothing and textiles fabrics made by mail and seized by customs authorities worldwide between 2011 and 2013 included only 1 item and 41% between 2 and 10 items. Hence, information provided by Figure 3.18 and Figure 3.19 combined confirms that in terms of *value* of seized goods sea transport is by far the most significant mode of transport, even if there are more individual seizures of small parcels.

Figure 3.18. Shipment methods for seized counterfeit clothing and textile fabrics, 2011-13

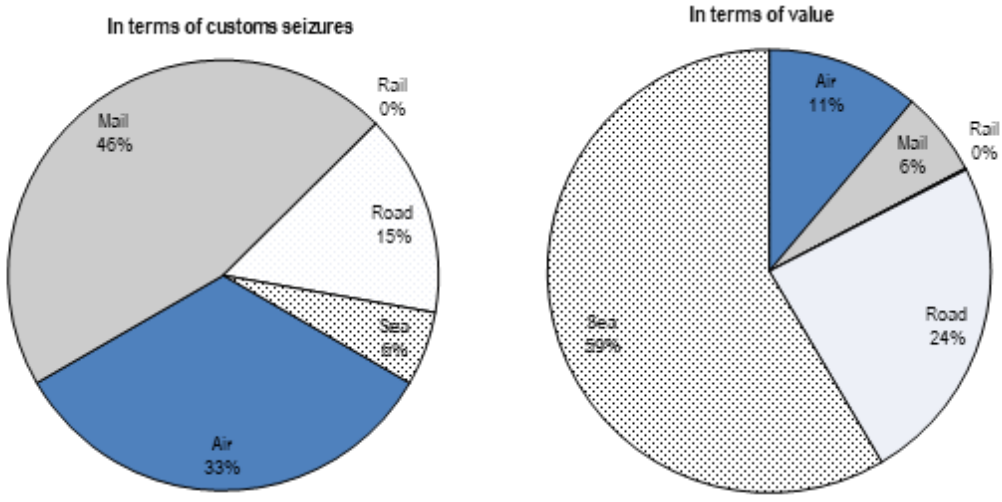
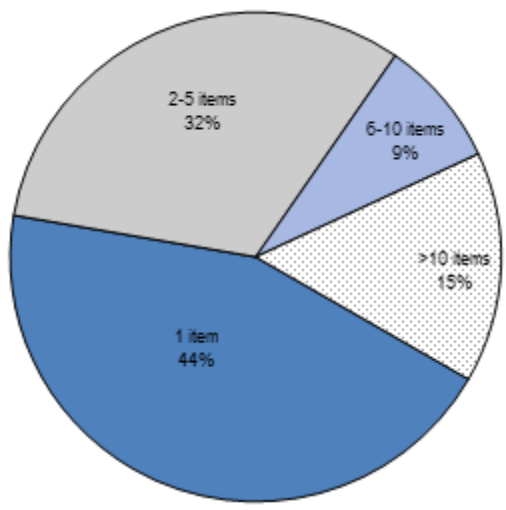
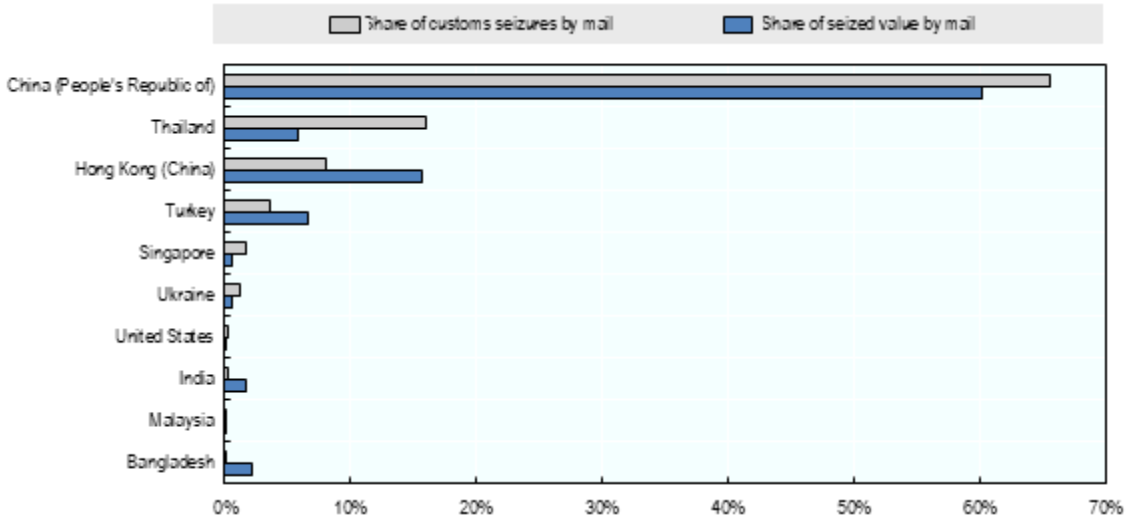


Figure 3.19. Size of seized shipments of IP-infringing clothing and textile fabrics by mail, 2011-13



The OECD-EUIPO (2017) study reports that the People's Republic of China is the main producer of counterfeit clothing and textiles fabrics, followed by Viet Nam, Thailand, India and Turkey. It is interesting to note that these economies export the counterfeit textile articles directly worldwide, as well as using the large Asian trade hubs of Hong Kong (China), Singapore and the United Arab Emirates as transit points.

Figure 3.20. Provenance economies of seized postal parcels containing counterfeit clothes and textile fabrics, 2011-13

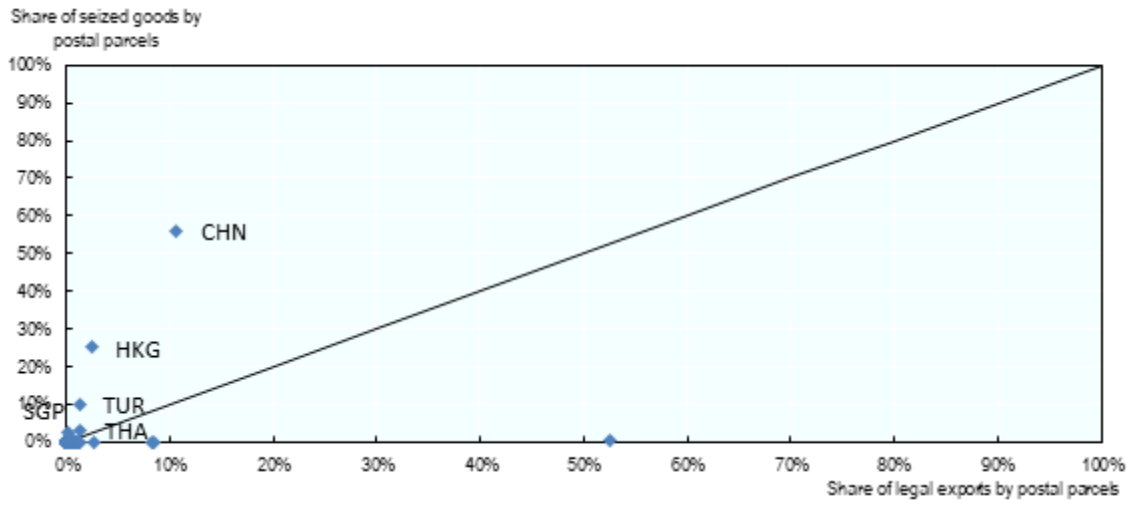


Lastly, Figure 3.21 compares the legal flows of clothing and textile fabrics imported from a given economy by small parcels with a share of seizures of fake clothing and textile fabrics shipped by parcels from that economy.

In this figure, the horizontal axis shows for each economy the share of legal exports of clothing and textile fabrics shipped by parcels (postal and express)[12] and the vertical axis shows the share of seizures of fake clothing and textile fabrics originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels within focal HS.

For trade in fake articles of clothing and textile fabrics, the People's Republic of China, Hong Kong (China), Thailand and Turkey are the economies with the highest relative propensities to export fake goods in these product categories in small, express and parcel services.

Figure 3.21. Counterfeit clothing and textile fabrics: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Footwear

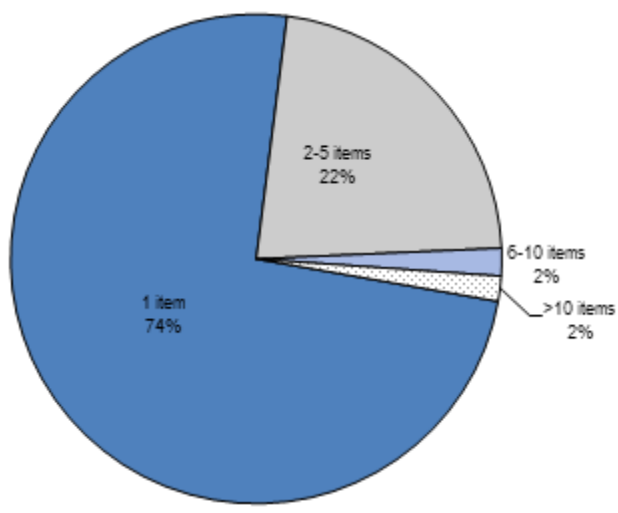
The footwear industry refers to products in the HS 64 product category. According to calculations in the OECD-EUIPO (2016) study, global trade in counterfeit footwear was up to USD 13.3 billion (EUR 9.7 billion) in 2013. This represented 10.5% of global trade in footwear and made the industry the 5th-most affected by global counterfeiting and piracy in relative terms (i.e. as a percentage of world imports within the product category) and 10th in terms of value.

Over the period 2011-13, the major share of counterfeit footwear seizures was sent by mail (85%) (Figure 3.22, left panel). However, the analysis of the value of customs seizures reflects that the value of shipments made by sea was by far larger than the value of shipments of fake footwear made by mail (Figure 3.22, right panel).

This is confirmed in Figure 3.23 which indicates that 74% of shipments of counterfeit footwear made by mail and seized by customs authorities worldwide between 2011 and 2013 included only 1 item and 24% between 2 and 10 items. Information provided by Figure 3.22 and Figure 3.23 combined confirms that in terms of value, sea transport is the largest channel for seized fake footwear, accounting for more than 80%. However, in terms of number of seizures small parcels are the most frequently reported in global trade in counterfeit footwear.

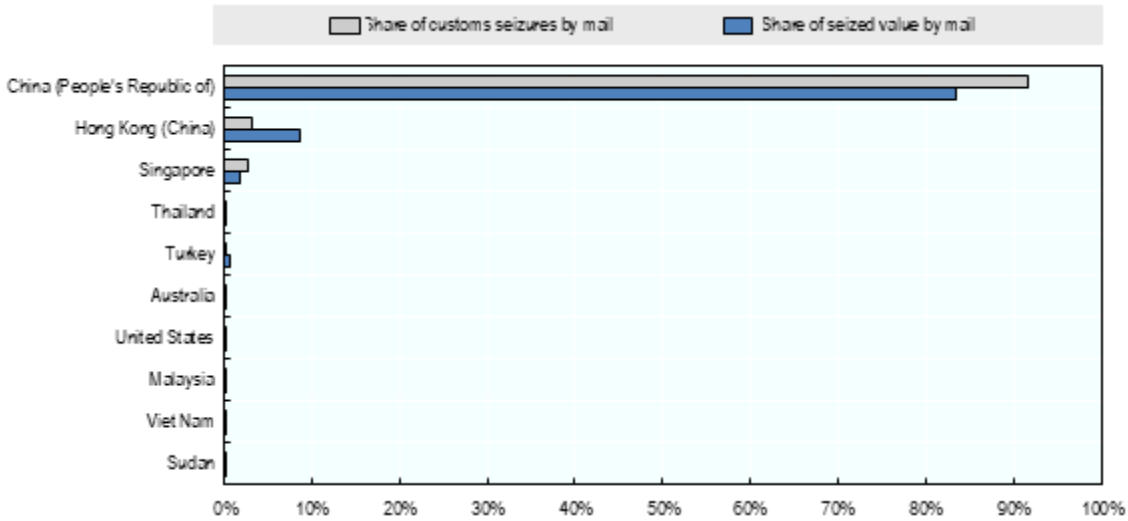
Figure 3.22. Shipment methods for seized counterfeit footwear, 2011-13

Figure 3.23. Size of shipments of seized counterfeit footwear by mail, 2011-13



The OECD- EUIPO study identifies the People's Republic of China as the main producer of counterfeit footwear, followed by a group of Far East Asia economies, including Malaysia, the Philippines, Thailand and Viet Nam. Counterfeiters located in these five economies export directly to Europe and the United States, as well as via large Asian trade hubs (e.g. Hong Kong (China) and Singapore) and Middle East economies (e.g. Kuwait, Qatar, Saudi Arabia). Finally, Morocco and Turkey are also indicated as important producers, targeting the European Union and southeast Europe in particular.

Figure 3.24. Provenance economies of postal parcels containing counterfeit footwear, 2011-13

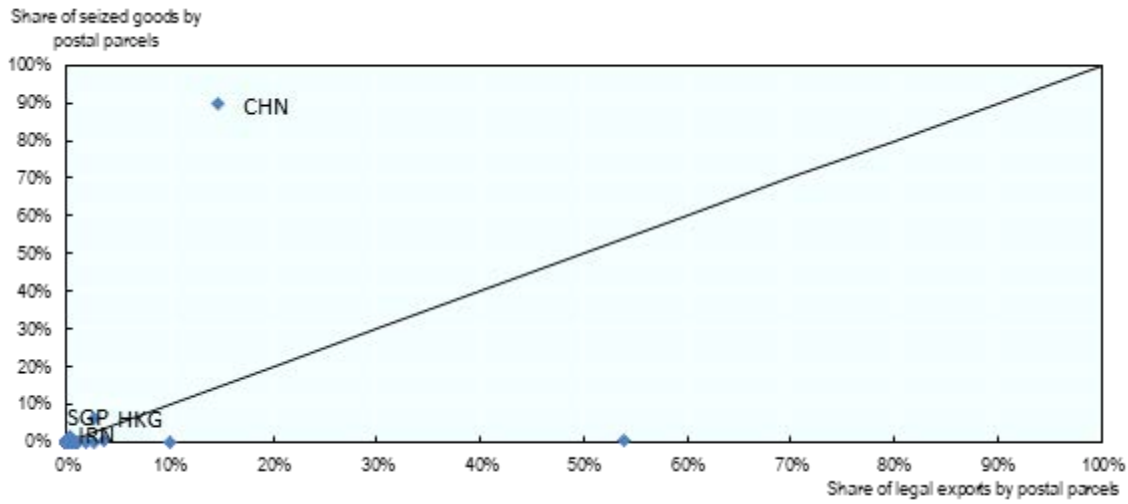


Lastly, Figure 3.25 compares the legal flows of articles of footwear imported from a given economy by small parcels, with a share of seizures of fake footwear shipped by parcels from that economy.

In this figure, the horizontal axis shows for each economy the share of legal exports of footwear shipped by parcels (postal and express)[13] and the vertical axis shows the share of seizures of fake footwear originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels.

For trade in counterfeit articles of footwear, the People's Republic of China, Hong-Kong (China) and Singapore are the economies with the highest relative propensities to export fake goods in these product categories using small, express and parcel services.

Figure 3.25. Counterfeit footwear: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Jewellery

The jewellery industry refers to products in the HS 71 product category. This category includes notably jewellery of precious metal, gold, silver or base metal, as well as imitation jewellery, pearls, diamonds and other precious stones.

According to calculations for the OECD-EUIPO (2016) study, global trade in counterfeit jewellery articles was USD 40.9 billion (EUR 30 billion) in 2013. This represented more than 4.8% of the total trade in jewellery and made the industry the 2nd most affected by global counterfeiting and piracy in terms of value.

Over the period 2011-13, the largest share of seizures of counterfeit jewellery was shipped by mail (61%), followed by air (28%) (Figure 3.26). Sea (6%) and road (5%) made up smaller shares. However, the analysis of the value of customs seizures reflects that the value of shipments made by air is larger than the value of shipments of fake jewellery made by mail (Figure 3.26, right panel).

This is confirmed in Figure 3.27, which indicates that 38% of shipments of counterfeit jewellery made by mail and seized by customs authorities worldwide between 2011 and 2013 included only 1 item and 35% between 2 and 10 items. Information provided in Figure 3.26 and Figure 3.27 combined confirms that in terms of *value* of seized goods sea transport is by far the most significant mode of transport, even if there are more individual seizures of small parcels.

Figure 3.26. Shipment methods for seized counterfeit jewellery, 2011-13

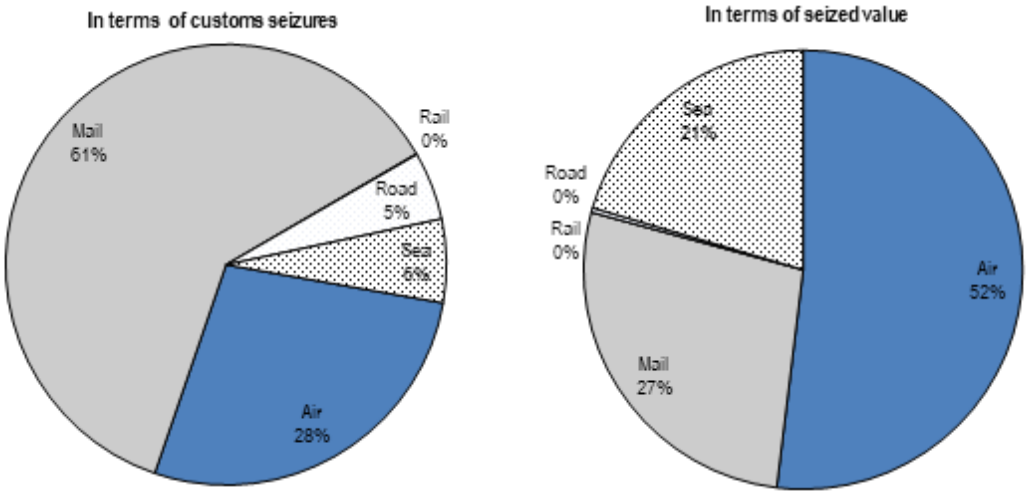
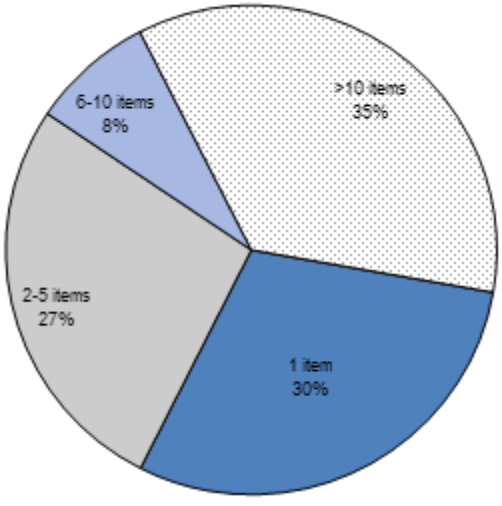
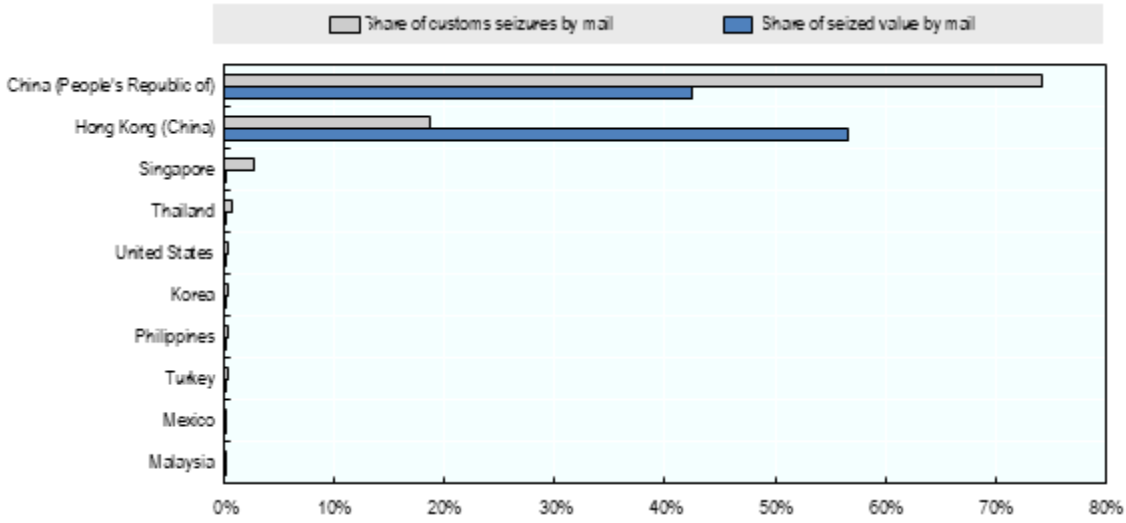


Figure 3.27. Size of seized shipments of counterfeit jewellery by mail, 2011-13



The OECD-EUIPO study (2017) identifies the People's Republic of China as the main producer of counterfeit jewellery, followed by a group of Far East Asia economies, including Indonesia, Malaysia, Thailand and Viet Nam. Counterfeiters located in these five economies export the counterfeit jewellery directly to Europe, the United States, large Asian trade hubs (e.g. Hong Kong (China), Macau (China) and Singapore) and Middle East economies (e.g. Kuwait, Qatar and Saudi Arabia). Armenia is also indicated as a producing economy of counterfeit jewellery, though counterfeiters in Armenia appear to export the fakes exclusively to the European Union and northeast Europe (e.g. Russia).

Figure 3.28. Provenance economies of postal parcels containing counterfeit jewellery, 2011-13

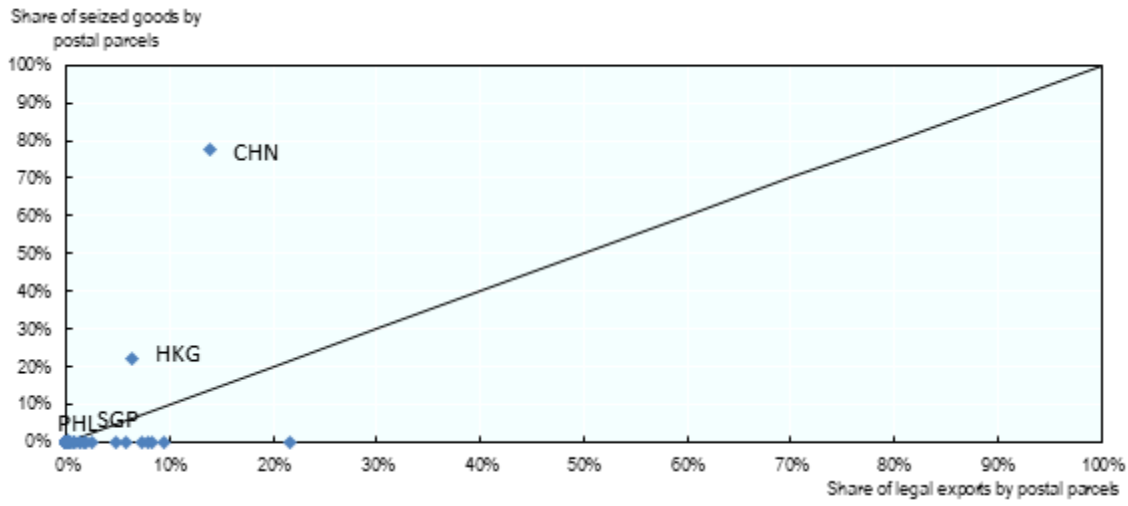


Lastly, Figure 3.29 compares the legal flows of articles of jewellery imported from a given economy by small parcels, with a share of seizures of fake jewellery shipped by parcels from that economy.

In this figure, the horizontal axis shows for each economy the share of legal exports of jewellery shipped by parcels (postal and express)[14] and the vertical axis shows the share of seizures of fake jewellery originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels.

For trade in fake articles of jewellery, the People's Republic of China, Hong Kong (China), the Philippines and Singapore are the economies with the highest relative propensities to export fake goods in these product categories in small, express and parcel services.

Figure 3.29. Counterfeit jewellery: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Electronic and electrical equipment

Electronic and electrical equipment industry refers to products in the HS 85 product category. Over the period 2011-13, customs authorities worldwide notably recorded seizures of counterfeit memory cards and sticks, earphones, headphones and headsets, mobile phones, batteries, chargers, microphones, speakers, and even electronic integrated circuits.

According to calculations for the OECD-EUIPO (2016) study, global trade in counterfeit electronic devices and electrical equipment was valued at USD 121 billion (EUR 88.6 billion) in 2013. This represents more than 5.3% of the total trade in those products, making this industry the most affected by global counterfeiting and piracy in terms of value.

Over the period 2011-13, the largest share of seizures of counterfeit electronics and electrical equipment was sent by mail, representing 66% of all global customs seizures of these products reported in the database (Figure 3.30, left panel). Shipments by air (25%) and sea (6%) were less significant. However, the analysis of the value of customs seizures reflects that the size of shipments made by sea or air was larger than the size of shipments of fake electronics and electrical equipment made by mail (Figure 3.30, right panel).

This is confirmed in Figure 3.31, which indicates that 44% of shipments of counterfeit electronics and electrical equipment made by mail and seized by customs authorities worldwide between 2011 and 2013 included only 1 item and 19% between 2 and 10 items. Information provided in Figure 3.30 and Figure 3.31 combined confirms that in terms of *value* of seized goods sea transport is by far the most significant mode of transport, even if there are more individual seizures of small parcels.

Figure 3.30. Shipment methods for seized counterfeit electronics and electrical equipment, 2011-13

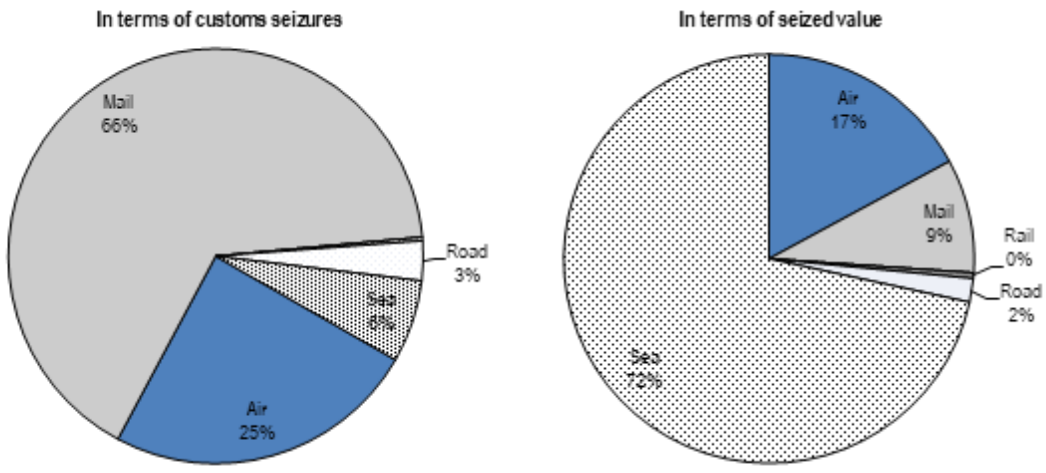
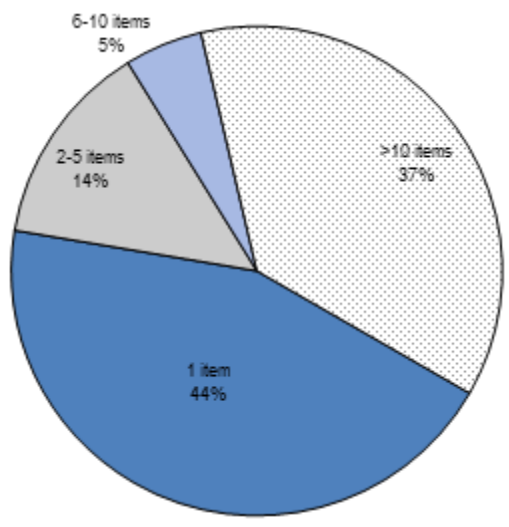


Figure 3.31. Size of seized shipments for IP-infringing electronics and electrical equipment by mail, 2011-13

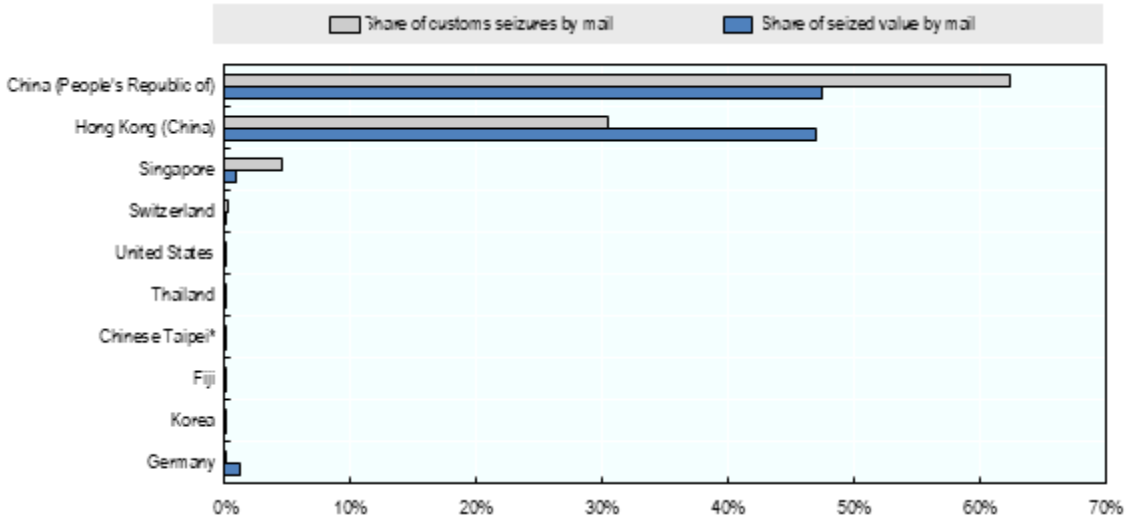


The People's Republic of China is the main producer of counterfeit electronics and electrical equipment, followed by Singapore and other producers located in Asia, including Thailand and Korea.

Hong Kong (China), Singapore and United Arab Emirates also appear as the largest transit points for counterfeit electronics and electrical equipment produced in Asia and re-exported throughout the globe. Egypt and Turkey are also indicated as key transit points for counterfeit electronic and electrical products transiting to Middle Eastern economies and the European Union. On the African continent, Cameroon, Guinea and Nigeria are transit points for fake electronics and electrical equipment produced in the People's Republic of China for re-export to other Western African economies and the EU. Finally, on the American continent, Belize, Guatemala and Panama are key transit points for counterfeit

electronic and electrical goods produced in the People's Republic of China and Singapore targeting the United States. Note that some of these goods were already in transit in Hong Kong (China).

Figure 3.32. Provenance economies of postal parcels containing counterfeit electronics and electrical equipment, 2011-13

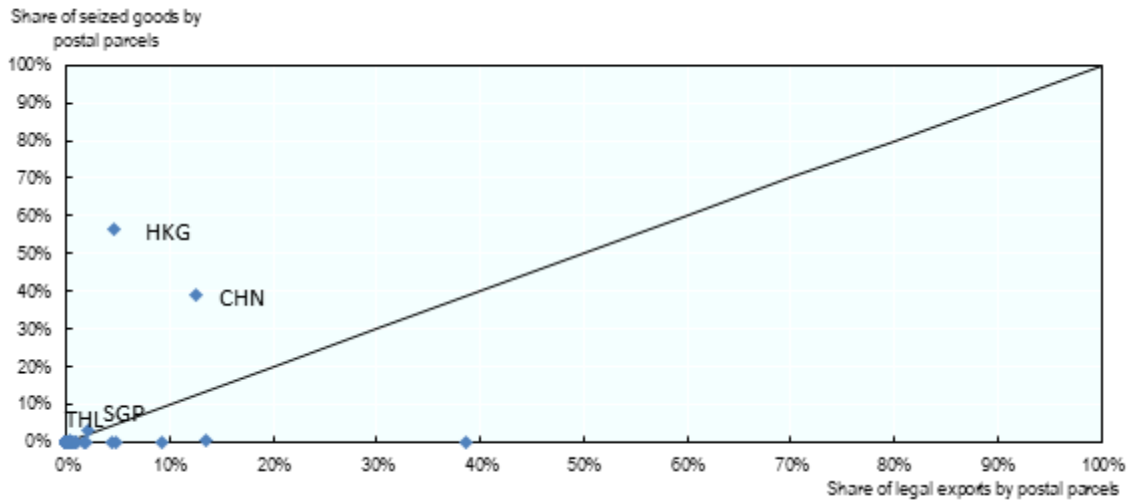


Lastly, Figure 3.33 compares the legal flows of articles of electronics and electrical equipment imported from a given economy by small parcels, with a share of seizures of fake electronics and electrical equipment shipped by parcels from that economy.

In this figure, the horizontal axis shows for each economy the share of legal exports of electronics and electrical equipment shipped by parcels (postal and express)[15] and the vertical axis shows the share of seizures of fake electronics and electrical equipment originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels.

For trade in fake articles of electronics and electrical equipment, the People's Republic of China, Hong Kong (China) and Singapore are the economies with the highest relative propensities to export fake goods in these product categories in small, express and parcel services.

Figure 3.33. Counterfeit electronic and electrical equipment: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Optical, photographic and medical equipment

The optical, photographic and medical equipment industry refers to products in the HS 90 product category. Over the period 2011-13, customs authorities worldwide notably recorded seizures of counterfeit sunglasses, contact lenses, bulbs and tubes, lasers, telescopes, microscopes, veterinary instruments and apparatus, and medical supplies.

According to calculations for the OECD-EUIPO (2016) study, global trade in counterfeit electronic devices and electrical equipment was worth USD 29.2 billion (EUR 21.4 billion) in 2013. This represented more than 5.2% of all trade in these products and made this industry the 4th most affected by global counterfeiting and piracy in terms of value.

Over the period 2011-13, the largest share of counterfeit sunglasses' seizures, photographic apparatus and medical equipment was sent by mail, with 77% of all global customs seizures of these products reported in the database (Figure 3.34, left panel). However, the analysis of the value of customs seizures reflects that the value of shipments made by sea and road was larger than the value of shipments of sunglasses, photographic apparatus and medical equipment made by mail (Figure 3.34, right panel).

This is confirmed in Figure 3.35, which indicates that 42% of shipments of fake sunglasses and photographic apparatus made by mail and seized by customs authorities worldwide between 2011 and 2013 included only 1 item and 39% between 2 and 10 items. Information provided in Figure 3.34 and Figure 3.35 combined confirms that in terms of *value* of seized goods sea transport is by far the most significant mode of transport, even if there are more individual seizures of small parcels.

Figure 3.34. Shipment methods for seized counterfeit optical, photographic and medical equipment, 2011-13

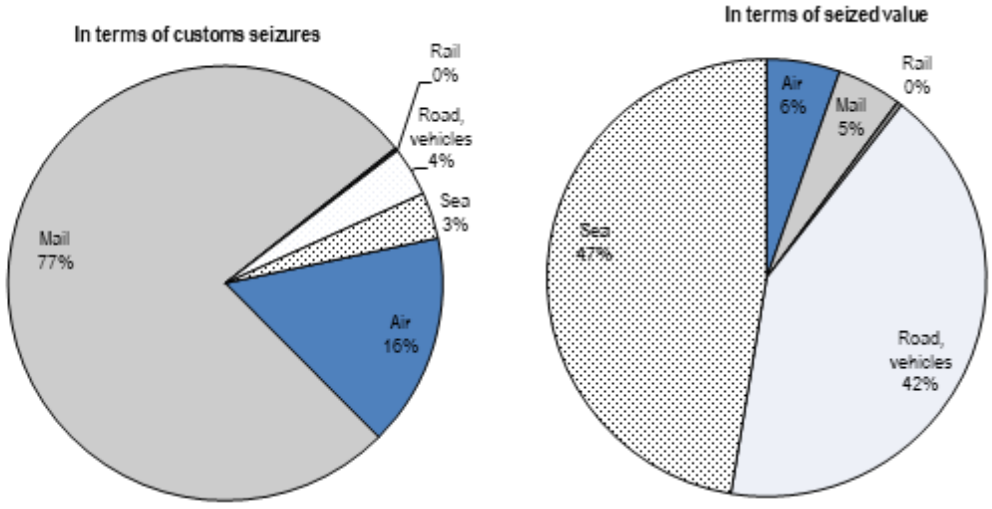
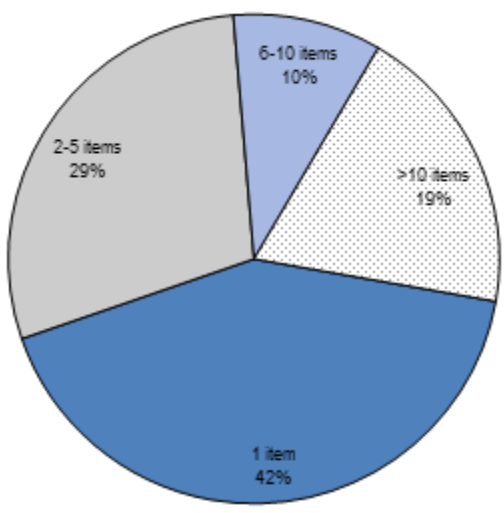
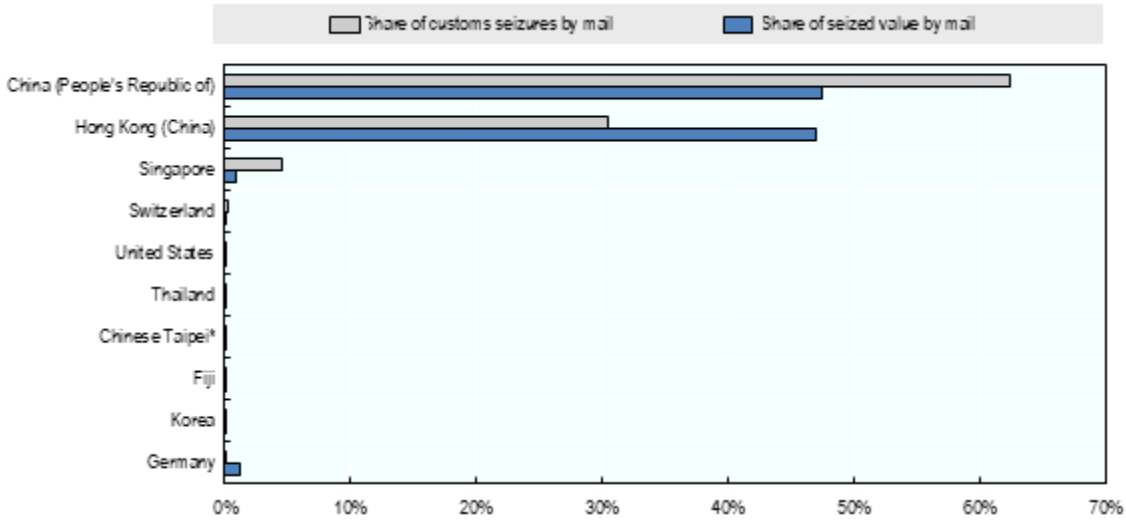


Figure 3.35. Size of seized shipments for IP-infringing optical, photographic and medical equipment by mail, 2011-13



The OECD-EUIPO (2017) study identifies China as the main producer of counterfeit optical, photographic and medical equipment. The group of developing East Asia economies – Bangladesh, Cambodia, Malaysia, Pakistan, Thailand and Viet Nam – also appear as important producers. Counterfeiters in the People's Republic of China and these six developing economies exported counterfeit sunglasses, photographic apparatus and medical equipment directly to Europe, the United States, and the Middle East (e.g. Kuwait, Qatar, Saudi Arabia). Some of them may also use Hong Kong (China) or Singapore as transit points. Finally, Turkey is also indicated as a producing economy of counterfeit sunglasses, optical and photographic equipment, mainly targeted at the European Union and Saudi Arabian markets.

Figure 3.36. Provenance economies of postal parcels containing counterfeit optical, photographic and medical equipment, 2011-13

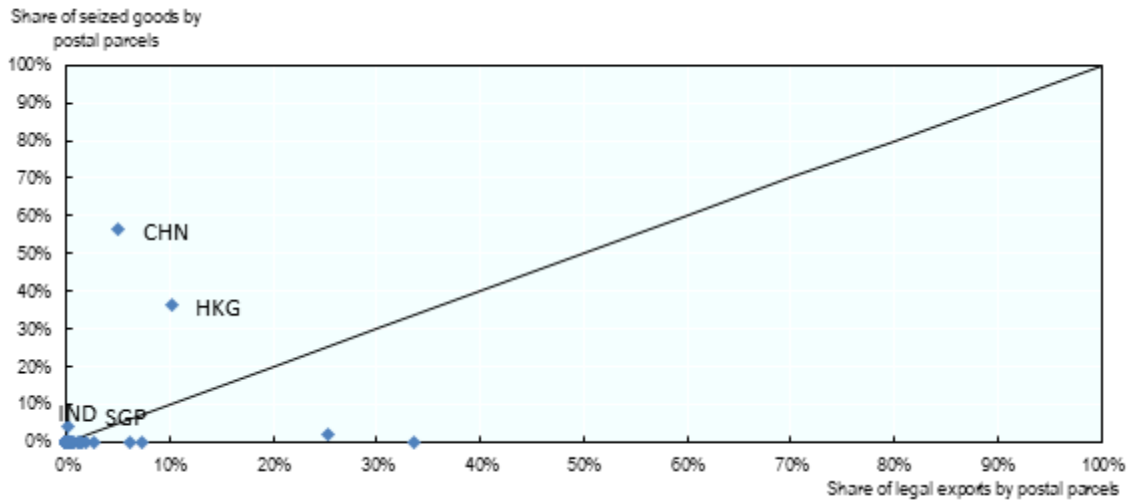


Lastly, Figure 3.37 compares the legal flows of articles of optical, photographic and medical equipment imported from a given economy by small parcels, with a share of seizures of fake optical, photographic and medical equipment shipped by parcels from that economy.

In this figure, the horizontal axis shows for each economy the share of legal exports of optical, photographic and medical equipment shipped by parcels (postal and express)[16] and the vertical axis shows the share of seizures of fake optical, photographic and medical equipment originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels.

For trade in fake articles of optical, photographic and medical equipment, the People's Republic of China, Hong Kong (China) and India are the economies with the highest relative propensities to export fake goods in these product categories in small, express and parcel services.

Figure 3.37. Counterfeit optical, photographic and medical equipment: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Toys and games

The toys, games and sports equipment industry refers to products in the HS 95 product category. Over the period 2011-13, customs authorities worldwide mainly seized counterfeit video game consoles and controllers, balls and balloons, bicycles, boxing gloves, car models, cards, exercise equipment, figures, plastic toys sticks, skateboards, robots and dolls.

According to calculations for the OECD-EUIPO (2016) study, global trade in counterfeit toys, games and sports equipment was worth USD 9.72 billion (EUR 7.12 billion) in 2013. This represented more than 11% of all trade in those products, making this industry the 2nd most affected by global counterfeiting and piracy in relative terms (i.e. as a percentage of trade within the product category).

Over the period 2011-13, the largest share of seizures of counterfeit toys, games and sports equipment was sent by mail, accounting for 42% of all global customs seizures of these products reported in the database (Figure 3.38, left panel). However, the analysis of the value of customs seizures reflects that the value of shipments made by sea, road or air was larger than the value of shipments of fake toys and games made by mail (Figure 3.38, right panel).

This is confirmed in Figure 3.39, which indicates that 59% of shipments of fake toys and games made by mail and seized by customs authorities worldwide between 2011 and 2013 included only 1 item and 22% between 2 and 10 items. Information provided in Figure 3.38 and Figure 3.39 combined confirms that in terms of *value* of seized goods sea transport is by far the most significant mode of transport, even if there are more individual seizures of small parcels.

Figure 3.38. Shipment methods for seized counterfeit toys and games, 2011-13

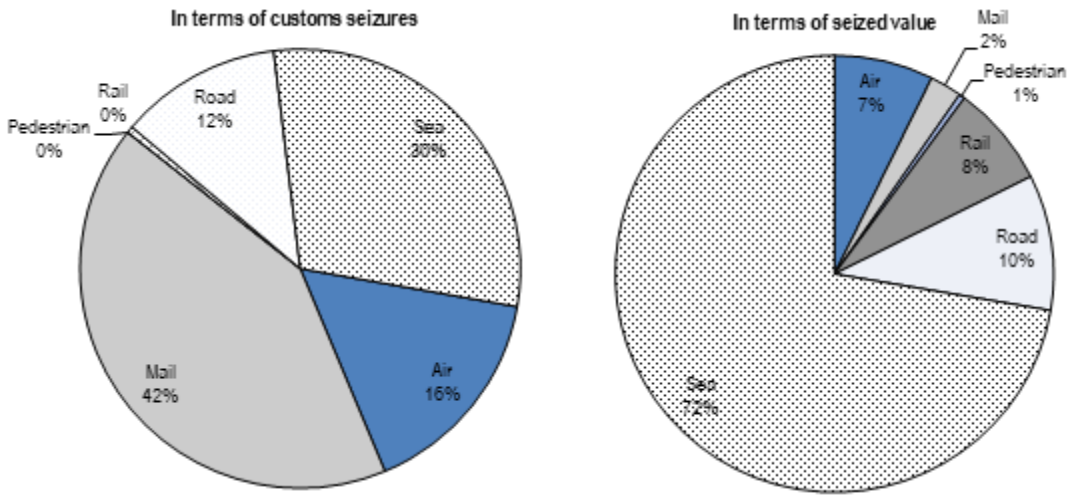
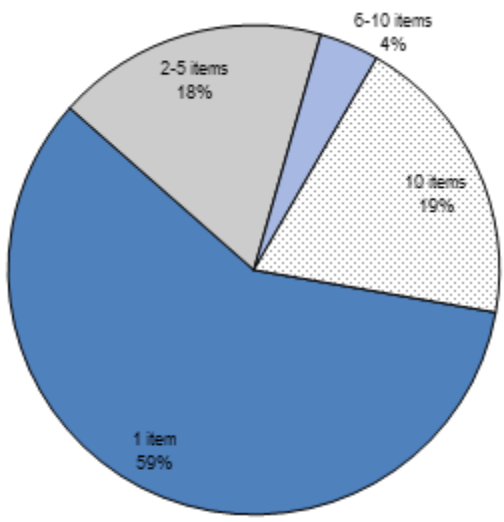


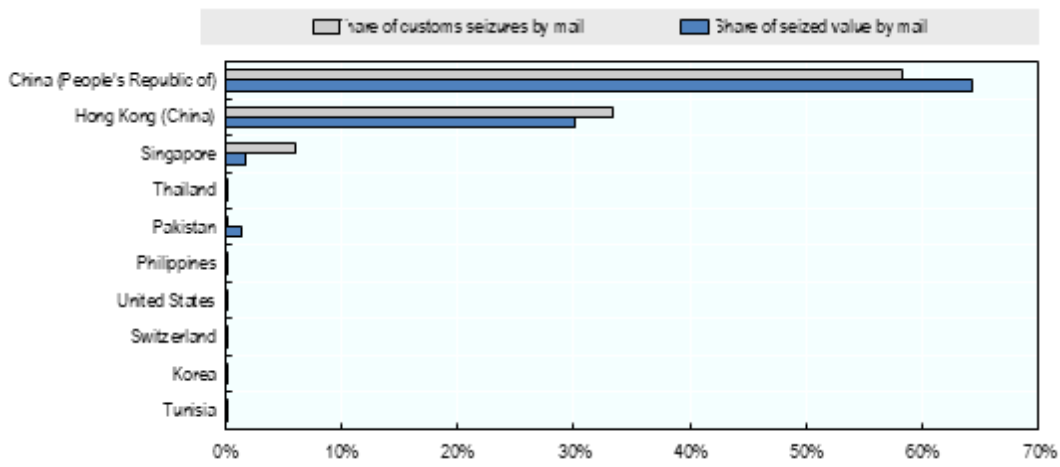
Figure 3.39. Size of seized shipments of IP-infringing toys and games by mail, 2011-13



The OECD-EUIPO study (2017) identifies the People's Republic of China as the main producing economy of fake toys, games and sports equipment, producing and exporting these fakes throughout the world, using a significant number of transit points. India and Pakistan are also identified as key producing economies, followed by Morocco and Turkey mainly targeted at Europe.

Hong Kong (China), Macau (China) and Singapore are indicated as the main transit points for counterfeit toys, games and sports equipment worldwide. Bahrain, Kuwait and Saudi Arabia are also key transit points in the global trade of counterfeit toys, games and sports equipment. They receive the fakes directly from the People's Republic of China, India and Pakistan, and indirectly from Hong Kong (China), and re-export them to the European Union, the United States and North and Central Africa.

Figure 3.40. Provenance economies of postal parcels containing counterfeit toys and games, 2011-13

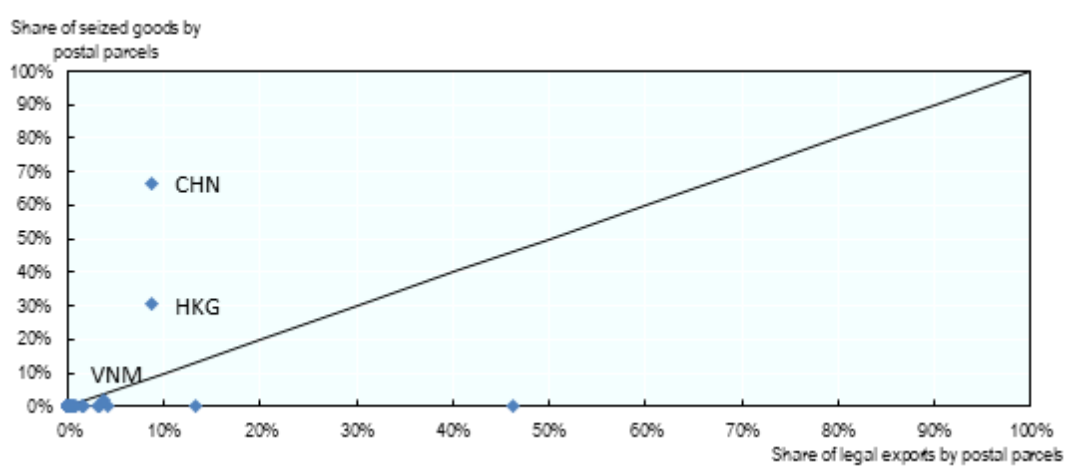


Lastly, Figure 3.41 compares the legal flows of articles of toys and games imported from a given economy by small parcels, with a share of seizures of fake toys and games shipped by parcels from that economy.

In this figure, the horizontal axis shows for each economy the share of legal exports of toys and games shipped by parcels (postal and express)[17] and the vertical axis shows the share of seizures of fake toys and games originating from that economy by parcels (postal and express). The diagonal line is 45 degrees and follows points where values of axes x and y are the same. It means that all the points above the 45-degree line depict economies where the share of seizures is above the share of legitimate flows by parcels.

For trade in fake articles of toys and games, the People's Republic of China, Hong Kong (China) and Viet Nam are the economies with the highest relative propensities to export fake goods in these product categories in small, express and parcel services.

Figure 3.41. Counterfeit toys and games: Share of legal exports in small parcels and share of seizures in small parcels, 2011-13



Notes

[1] Note that EUIPO works now with the European Union enforcement authorities to establish best practices in data collection across the EU. The Anti-Counterfeiting Intelligence Support Tool (ACIST) converts the collected data into harmonised format so that it can be compared and aggregated.

[2] There are two principles for reporting the value of counterfeit and pirated goods: 1) declared value (value indicated on customs declarations), which corresponds to values reported in the general trade statistics; and 2) replacement value (price of original goods). The structured interviews with customs officials and the descriptive analysis of values of selected products conducted in OECD-EUIPO (2016) revealed that the declared values are reported in most cases.

[3] See https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/focus-on-comext.

[4] The term 'postal consignments' relates only to parcel post conveyed by postal authorities or 'postal operators authorised by a Member State to provide services governed by the Universal Postal Union Convention'. See more at : Eurostat, 2017.

[5] 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.

[6] Characterisations of trends need to be treated with caution, however, as there is considerable variability from year to year; this could be due to a number of factors, including shifts in customs priorities and detection techniques.

[7] See www.wcoomd.org/en/media/newsroom/2010/october/mountains-of-pirated-and-counterfeit-cds-and-dvds-seized-in-global-operation.aspx.

[8] See www.wcoomd.org/en/media/newsroom/2012/february/global-operation-nets-tens-of-thousands-of-counterfeits.aspx.

[9] Austria, the Czech Republic, France, Germany, Italy, the Netherlands, Poland, Romania, Russia, Spain, Sweden, Turkey, the United Kingdom.

[10] The information on legal trade flows of perfumes and cosmetics by parcels comes from the Eurostat's Comext database (Eurostat, 2018).

[11] The information on legal trade flows of leather articles and handbags by parcels comes from the Eurostat's Comext database (Eurostat, 2018).

[12] The information on legal trade flows of clothing and textile fabrics by parcels comes from the Eurostat Comext database (Eurostat, 2018).

[13] The information on legal trade flows of footwear by parcels comes from the Eurostat Comext database (Eurostat, 2018).

[14] The information on legal trade flows of jewellery by parcels comes from the Eurostat Comext database (Eurostat, 2018).

[15] The information on legal trade flows of electronic and electrical equipment by parcels comes from the Eurostat Comext database (Eurostat, 2018).

[16] The information on legal trade flows of optical, photographic and medical equipment by parcels comes from the Eurostat Comext database (Eurostat, 2018).

[17] The information on legal trade flows of toys and games by parcels comes from the Eurostat Comext database (Eurostat, 2018).

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Chapter 4. Conclusions

Lessons learnt

World trade continues to expand, bringing significant benefits to business and consumers alike, providing them with opportunities to purchase a wide variety of goods at competitive prices. In the case of business, the development of global value chains has further enhanced the value of trade. Low-cost ocean freight has been an important factor in trade growth, but air transport has also been significant, providing a means to move goods quickly, albeit at higher cost.

The liberalisation of trade and efforts to lower barriers through initiatives taken at the WCO, the WTO and elsewhere in support of trade facilitation have strengthened the trade regime, to the advantage of businesses of all sizes. The large and growing role of free trade zones as transport hubs and centres of economic activity have also been important, providing a cost-effective means for business to handle goods in transit.

The liberalisation of trade has also opened up opportunities for organised crime and other criminal actors to pursue lucrative illicit activities, including the movement of prohibited goods across borders. Illicit trade in arms, tobacco, wildlife and counterfeit products have flourished. The magnitude and scope of the problem have captured the attention of governments and many initiatives have been taken to combat illicit trade. Although progress has been made, criminal elements have been quick to adapt to changing circumstances, finding new ways to elude detection and restriction of their illegal activities.

One of the areas that has garnered increased attention in recent years has been the use by counterfeiters and other illicit traders of small shipments. While counterfeits trafficked by container ships clearly dominate in terms of value, trafficking of fakes by small parcels is growing and dominate in terms of number of seizures. The small parcels tend to be shipped through postal or express services. The growth in use of small parcels reflects efforts by counterfeiters to address some of the shortcomings for trade in counterfeit goods related to the ocean freight. While the risk of detection may be low in ocean freight, when seizures occur, losses on confiscated cargoes could be large. Small shipments, however, provide a means for counterfeiters to lower the potential losses that result from seizures. Even more importantly, the ability to avoid detection may be considerably higher, even though the aggregated cost of shipment per item shipped is likely to be higher for post than for ocean freight.

The attractiveness of small shipments for counterfeiters has increased over time, benefitting from the explosive growth in e-commerce, and the accompanying rise in cross-border transactions by business and, even more importantly, consumers. The sharp increase in items shipped directly to consumers by parcel post or letter packets has in effect ballooned, flooding the market with a growing number of items. The small shipments are handled primarily through postal means and express mail companies.

The challenges posed by the growing volume of items have been huge for the customs authorities responsible for handling items as they cross borders, and much attention has been paid internationally, at the WCO and elsewhere. The information that has been traditionally available, for example through ship manifests, and the supporting role of customs brokers are often absent in small volume trade. In the case of small volume trade involving postal authorities, for example, only simplified documentation has traditionally been required when items are sent. The information contained on the documents is certified by the sender and is not typically verified, creating broad scope for both errors as well as fraud.

The information has generally been provided in paper form; it has thus not been available electronically and, in any case, has been only generally available to customs authorities in destination countries, at the time the item arrives. This has created a dilemma for customs, as they have had to balance the need for expedited processing of imports, with the need for properly assessing duties and monitoring imports with a view towards countering counterfeit and other illicit trade. A close review of imports would necessarily cause delays that would not be acceptable, and, given the difficulty in identifying counterfeit items, their low value (if contained in parcels or packets) and the relatively small share that they are likely to represent in total trade, would not be cost-effective. Efforts are being made to enhance the use of electronic forms in the post, with a view towards providing such information to customs in destination countries in advance of arrival of shipments. This would facilitate risk assessment, which relies critically on data and other information to be successful. Problems associated with incomplete, misleading, incorrect or fraudulent information, however, would remain.

The situation with express companies is better, as the companies involved generally provide door-to-door services that are tracked and traced electronically. In these cases, other information, on the shipper, product and recipient, are collected electronically, providing a potentially rich data source that, if available to customs authorities, would greatly assist in risk assessment. Co-operation in this area has advanced as express service providers and customs are working together to improve data and information exchanges, but it appears that there is considerable scope for improvement in this regard as there are, among other things, privacy issues to be addressed, along with confidentiality concerns. As with postal transactions, there may be issues concerning the quality of the information as it is generally based on that provided by the sender, creating a room for errors and, more importantly, deliberate misrepresentations or fraud.

The attractiveness of small shipments as a vehicle for illicit trade is also affected by the special treatment that many countries have established for low value shipments. Imports valued below *de minimis* levels are not generally subject to tariffs and taxes. The thresholds vary greatly by country, and have, in recent years, been adjusted up or down in different countries, for a variety of reasons. In the United States, the level was increased from USD 200 to USD 800, with a view towards facilitating trade. Australia and the European Union, on the other hand, have reduced or are in the process of reducing the scope of the *de minimis* exemption.

The outlook for addressing issues involving imports of small packages containing counterfeit and other illicit items is challenging. In the case of the United States alone, the number of parcels and packets reached 498 million in 2017, more than 60% of which came in the form of packets. With e-commerce expected to continue to grow rapidly, handling a growing number of potentially mislabelled shipments presents significant challenges.

Risk assessment has been an important tool for customs in combatting illicit trade in counterfeits, but WCO information indicates that routine checks have been the most effective technique. This suggests that there is likely considerable scope for improving risk assessment techniques, as well as for developing other ways to disrupt small-scale trade in counterfeits.

The quantitative analysis provided in this report employs large datasets to provide more detailed and precise information about the scale and magnitude of misuse of small parcels, via express and postal services in illicit trade in fake goods.

This analysis is based primarily on data on customs seizures of counterfeit goods obtained from the World Customs Organization, European Commission's Directorate-General for Taxation and Customs Union and from the US Customs and Border Protection (CBP). These data are complemented with available statistics on international trade in small parcels from the Universal Postal Union (UPU) and from the Eurostat's Comext database (Eurostat, 2018).

The analysis shows that, although fakes shipped in containers clearly dominate in terms of value of seized goods and the number of items, small parcels are on top in terms of number of seizures. Nearly 63% of customs seizures of counterfeit and pirated goods refer to small parcels. It is also important to note that the size of these shipments by mail or express courier tends to be very small. Small packages, with 10 items or less, account for the majority of all counterfeiting seizures.

Regarding the industry-specific patterns, small parcels are commonly used by counterfeiters in virtually all the industry sectors prone to counterfeiting. In some product categories where counterfeiting is a particularly big problem, small parcels are more intensely used, however. For example, 84% of shipments of counterfeit footwear, 77% of fake optical, photographic and medical equipment (mostly sunglasses), and 66% of customs seizures of ICT devices concerned postal parcels or express shipments. This is also the case for more than 63% of customs seizures of counterfeit watches, leather articles and handbags, and jewellery.

Lastly, regarding the economy-specific patterns, the analysis highlights a few provenance economies, where small shipments are misused in the context of trade in fakes. These include the People's Republic of China, Hong Kong (China), India, Singapore, Thailand and Turkey. If some of these key provenance economies, such as the People's Republic of China, India and Thailand, have been identified as potential producers of counterfeit and pirated products, others, such as Hong Kong (China), Singapore and United Arab Emirates have been identified instead as key transit points.

Next steps

The quantitative analysis presented identifies several research areas that might merit further investigation. A more in-depth analysis of these topics could be beneficial for developing efficient enforcement and governance frameworks to counter the risks posed by trade in counterfeit goods:

- As highlighted by the previous OECD/EUIPO studies, closing public governance and enforcement gaps are essential for effective action against illicit trade in counterfeits. Poor governance, corruption and weak intellectual property rights (IPR) enforcement enable counterfeiters to misuse logistics and trade facilities. Interestingly, some important provenance economies, where small parcels are very

intensely used are characterised by seemingly sound governance and good quality infrastructure. It could be useful for policymakers to probe more deeply into why these economies are such important nodes for the trade in fake goods in order to tailor policies accordingly.

- Existing qualitative information suggests that the market for misuse of small parcels is very dynamic. Further investigation into how these dynamics evolve is needed – either at the industry level or through a case-by-case analysis. This investigation could take into account more nuanced aspects of the dynamic changes in industry/economy structure of use of small parcels as well as the interplay between corruption, intellectual property enforcement gaps and the trade in fakes through small parcels.
- More research is needed to clarify the reasons for the declining number of seizures in rail and sea transport, as opposed to the growing number and values of seizures in small parcels (postal and courier). Such research would look at the extent to which this happened due to i) possible changes in transport modes of illicit trade, and ii) changes in operation techniques and the intensity of enforcement services.

Policy makers and the private sector should be concerned about the significant scope of counterfeit trade using small parcels to harm legitimate businesses and economic activity, and to cause damage to the health, safety and security of citizens. It should be addressed by governments as part of their efforts to counter illicit trade. The analysis presented could be used to help develop more effective cooperation between customs authorities, postal and express operators, e-commerce platforms and right holders, in particular by improving mechanisms for collecting and sharing good quality information

References

Eurostat (2018), Easy Comext Database, http://epp.eurostat.ec.europa.eu/newxtweb/ (accessed on October 18th 2018).

Annex A. CN 23 customs declaration form

Figure A.1. CN 23 customs declaration form

(Designated Operator)

CUSTOMS DECLARATION **CN23**

From
Name
Business
Address
Postcode Tel. No.
Country

Sender's customs reference (if any)

No. of item (barcode, if any) May be opened officially

Important! See instructions on the back.

To
Name
Business
Address
Postcode Tel. No.
Country

Importer/addressee reference (if any) (tax code/VAT No./importer code) (optional)

Importer/addressee fax/e-mail (if known)

Detailed description of contents (1)	Quantity (2)	Net weight (in kg) (3)	Value (5)	For commercial items only: HS tariff number (7)	Country of origin of goods (8)
		Total gross weight (4)	Total value (6)	Postal charges/Fees (9)	

Category of item (10)
- ☐ Gift
- ☐ Documents
- ☐ Commercial sample
- ☐ Returned goods
- ☐ Sale of goods
- ☐ Other (please specify) :

Explanation :

Comments (11): (e. g.:goods subject to quarantine, sanitary/phytosanitary inspection or other restrictions)

Office of origin/Date of posting

I certify that the particulars given in this customs declaration are correct and that this item does not contain any dangerous article or articles prohibited by legislation or by postal or customs regulations.

☐ Licence (12) No(s). of licence(s)

☐ Certificate (13) No(s). of certificate(s)

☐ Invoice (14) No. of invoice

Date and sender's signature (15)

Box A.1. Instructions

You should attach this customs declaration and accompanying documents securely to the outside of the item, preferably in an adhesive transparent envelope. If the declaration is not clearly visible on the outside, or if you prefer to enclose it inside the item, you must fix a label to the outside indicating the presence of a customs declaration.

To accelerate customs clearance, complete this declaration in English, French or in a language accepted in the destination country. If available, add importer/addressee telephone number and email address, and sender telephone number.

To clear your item, the Customs in the country of destination need to know exactly what the contents are. You must, therefore, complete your declaration fully and legibly; otherwise, delay and inconvenience may result for the addressee. A false or misleading declaration may lead to a fine or to seizure of the item.

Your goods may be subject to restrictions. It is your responsibility to enquire into import and export regulations (prohibitions, restrictions such as quarantine, pharmaceutical restrictions, etc.) and to find out what documents, if any (commercial invoice, certificate of origin, health certificate, licence, authorisation for goods subject to quarantine [plant, animal, food products, etc.]), are required in the destination country.

Commercial item means any goods exported/imported in the course of a business transaction, whether or not they are sold for money or exchanged.

(1) Give a detailed description of each article in the item, e.g. “men's cotton shirts”. General descriptions, e.g. “spare parts”, “samples” or “food products” are not permitted.

(2) Give the quantity of each article and the unit of measurement used.

(3) and (4) Give the net weight of each article (in kg). Give the total weight of the item (in kg), including packaging, which corresponds to the weight used to calculate the postage.

(5) and (6) Give the value of each article and the total, indicating the currency used (e.g. CHF for Swiss francs).

(7) and (8) The HS tariff number (6-digit) must be based on the Harmonized Commodity Description and Coding System developed by the World Customs Organization. “Country of origin” means the country where the good originated, e.g. were produced/manufactured or assembled. Senders of commercial items are advised to supply this information as it will assist Customs in processing the items.

(9) Give the amount of postage paid to the Post for the item. Specify separately any other charge, e.g. insurance.

(10) Tick the box or boxes specifying the category of item.

(11) Provide details if the contents are subject to quarantine (plant, animal, food products, etc.) or other restrictions.

(12), (13) and (14) If your item is accompanied by a licence or a certificate, tick the appropriate box and state the number. You should attach an invoice for all commercial items.

(15) Your signature and the date confirm your liability for the item.

Source: Adapted from Japan Post, www.post.japanpost.jp/int/download/cn23.xlsx.

Annex B. Additional tables

Table B.1. Top 10 provenance economies of packages containing fakes for selected IP-intense sectors, 2011-13

Product category (HS code)	Provenance economy	Share of seized value by postal parcels (%)	Share of customs seizures by postal parcels (%)
Perfumery and cosmetics (33)	China (People's Republic of)	75.8	83.3
	Hong Kong (China)	22.4	9.9
	Turkey	0.4	3.4
	Ukraine	0.0	0.9
	Singapore	0.1	0.5
	Bulgaria	0.1	0.3
	Thailand	0.1	0.1
	Malaysia	0.1	0.1
	Jordan	0.0	0.1
	Russia	0.0	0.1
Articles of leathers and handbags (42)	China (People's Republic of)	75.3	77.0
	Hong Kong (China)	19.9	15.7
	Singapore	0.4	1.6
	Turkey	1.8	1.5
	Thailand	0.3	1.0
	Korea	1.2	0.6
	United States	0.1	0.4
	Philippines	0.1	0.3
	Malaysia	0.1	0.1
	United Arab Emirates	0.1	0.1
Clothing and textile fabrics (60/61)	China (People's Republic of)	60.2	65.6
	Thailand	5.8	16.1
	Hong Kong (China)	15.7	8.1
	Turkey	6.7	3.7
	Singapore	0.6	1.8
	Ukraine	0.6	1.4
	United States	0.1	0.4
	India	1.7	0.3
	Malaysia	0.0	0.2
	Bangladesh	2.2	0.2
Footwear (64)	China (People's Republic of)	83.4	91.7
	Hong Kong (China)	8.6	3.3
	Singapore	1.9	2.8
	Thailand	0.2	0.3
	Turkey	0.7	0.3
	Australia	0.3	0.3
	United States	0.1	0.2
	Malaysia	0.1	0.1

Product category (HS code)	Provenance economy	Share of seized value by postal parcels (%)	Share of customs seizures by postal parcels (%)
Jewellery (71)	China (People's Republic of)	42.4	74.1
	Hong Kong (China)	56.6	18.6
	Singapore	0.2	2.7
	Thailand	0.1	0.7
	United States	0.0	0.4
	Korea	0.0	0.4
	Turkey	0.0	0.3
	Philippines	0.0	0.3
	Malaysia	0.2	0.3
	Mexico	0.0	0.3
Electronics and electrical equipment (85)	China (People's Republic of)	47.5	62.4
	Hong Kong (China)	47.0	30.5
	Singapore	1.0	4.6
	Switzerland	0.1	0.3
	United States	0.1	0.2
	Thailand	0.1	0.2
	Chinese Taipei*	0.1	0.2
	Fiji	0.0	0.1
	Korea	0.2	0.1
	Germany	1.3	0.1
Optical, photographic and medical equipment (90)	China (People's Republic of)	67.0	88.8
	Hong Kong (China)	31.2	8.2
	Singapore	0.1	0.9
	Thailand	0.1	0.8
	Malaysia	0.0	0.2
	United States	0.8	0.1
	Russia	0.0	0.1
	Greece	0.0	0.1
	Korea	0.1	0.1
	India	0.3	0.1
Watches (71)	China (People's Republic of)	65.1	62.1
	Hong Kong (China)	32.9	27.4
	Singapore	0.8	5.7
	Thailand	0.4	1.4
	Turkey	0.3	0.8
	United States	0.0	0.3
	Sweden	0.0	0.3
	Greece	0.0	0.3
	Malaysia	0.0	0.2
	Japan	0.0	0.2
Toys and games (95)	China (People's Republic of)	64.2	58.3
	Hong Kong (China)	30.2	33.4
	Singapore	1.8	6.1
	Thailand	0.1	0.3
	United States	0.1	0.3
	Philippines	0.2	0.3
	Pakistan	1.4	0.3
	Tunisia	0.1	0.2
	Korea	0.2	0.2

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Illicit Trade

Misuse of Small Parcels for Trade in Counterfeit Goods

FACTS AND TRENDS

This study examines the potential for the misuse of small parcels for trade in counterfeit and pirated goods. It presents the legal and economic contexts of the operation of express and postal services. It also looks at the available data on volumes of small consignments, via postal and courier streams, in the context of seizures of counterfeit and pirated goods. Furthermore it analyses the links between the observed dynamics in markets for small parcels and the available information on misuse of this service by traffickers in counterfeit and pirated goods.

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