



Trade in Counterfeit Products and the UK Economy

2019 Update



Intellectual
Property
Office

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This study updates the results of the OECD 2017 report [*Fake Goods, Real Losses. Trade in Counterfeit Products and the UK Economy*](#). It assesses the magnitude and scale of counterfeit trade in the UK context and provides quantitative assessment of its direct, economic impacts through a methodology developed for the 2017 study.

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

Executive Summary

Trade in counterfeit goods is a longstanding, worldwide socio-economic risk that is growing in scope and magnitude. It challenges effective governance, efficient business, and consumer well-being, and has become a key source of income for organised criminal groups.

For consumers, counterfeiting poses dangers to health, safety and privacy. It may also lower consumer satisfaction, notably when low-quality fake goods are purchased unknowingly. For rights holders and their authorised vendors, a rise in counterfeiting increases revenue losses, while trademark infringements continuously erode brands' value. For governments, counterfeiting means lost tax revenues, higher unemployment and greater expenses incurred – both to ensure compliance with anti-counterfeiting legislation, and to react to public safety threats and labour market distortions.

In 2017, an innovative, in-depth quantitative assessment of the scale and magnitude of trade in counterfeit and pirated goods in the United Kingdom (UK) context, and its damaging effects was carried out based on 2013 data. The results were published in the OECD report *Trade in Counterfeit Products and the UK Economy: Fake Goods, Real Losses*.

This report presents the updated findings of the 2017 study based on a 2016 dataset. It examines the scale of counterfeit and pirated products smuggled into the UK, and the effect on consumers, industries and the UK government, as well as the scale and effects of global trade in counterfeit goods that infringe on the rights of UK trademark holders. This dual analysis is based primarily on a quantitative assessment of global trade in counterfeit products within and outside the UK economy, using a rich database on seizures of counterfeit products, compiled from various sources. The findings can help both public and private sector decision makers better

understand the nature and scale of the problem for the UK economy, and develop appropriate, coherent and evidence-based policy responses.

Key Findings

- The best estimates indicate that **imports of counterfeit and pirated goods to the UK accounted for as much as GBP 13.6 billion in 2016** – equivalent to 3% of UK imports of genuine goods. Compared to 2013, this value increased in absolute terms (GBP 9.3 billion in 2013), but declined in relative terms (4% of UK imports in genuine goods in 2013).
- Imports of counterfeit goods into the UK vary considerably across product categories. **In absolute terms, ICT devices were the most counterfeited type of goods**, with an estimated value of GBP 2.5 billion of fakes imported to the UK in 2016. In relative terms, clothing, footwear, leather goods and handbags, and toys and games were the most targeted by counterfeiters, with fakes accounting for 9.3% and 8%, respectively, of UK imports from these product categories. These rankings, both in relative and absolute terms, remain similar to the ones established in 2013.
- The analysis shows that **more than one half of imported counterfeit and pirated goods into the UK in 2016 were sold to consumers who actually knew they were buying fake products**. This was already the case in 2013. The share of fakes bought knowingly in the UK varies significantly by product, ranging from 33% for foodstuff to 59% for clothing, footwear, leather and related products.
- Available data show **global trade in counterfeit and pirated products that infringed UK trademarks is increasing, amounting to as much as**

GBP 16.2 billion in 2016 (GBP 13.4 billion in 2013), **equivalent to 3.3% of total UK manufacturing sales** (domestic plus exports) (3% in 2013).

- Sectors where UK intellectual property rights (IPRs) were particularly targeted, in terms of the absolute value of trade, include (i) electronic, electrical equipment and optical products; (ii) machinery and domestic appliances; and (iii) motor vehicles and motorcycles. As a percentage of total trade in a given product category, perfumes and cosmetics, and clothing, footwear, leather and related articles, were UK products most often faked worldwide.
- As in 2013, **counterfeit and pirated goods that infringed the intellectual property rights (IPRs) of UK right holders came mainly from China and Hong Kong (China)**. Thailand now appears as one of the top three provenance economies for counterfeit and pirated goods infringing UK residents' IPRs, while India, which used to be second, is now ranked ninth.
- As for the 2011-2013 period, the results indicate that between 2014 and 2016, more than the half of the goods traded worldwide that infringed UK IPRs were offered on secondary markets – i.e. they were openly sold as fakes to consumers. This share varies among product categories, ranging from 11% for basic metal and fabricated metal products to 67% for watches and jewellery.

Impact on the UK

Generally, the impact of global counterfeiting and piracy on the UK economy is increasing, i.e. the negative effects of both imports of fake goods in the UK and infringements of UK IPRs in global trade on UK firms' sales, jobs and government revenues are larger in 2016 than in 2013. Precisely:

- The estimates for consumer detriment in the UK – that is, the price premium unjustly paid by consumers in the belief they are buying a genuine product – due to deception on primary markets in 2016 amounted to almost GBP 4.8 billion.
- The total volume of **forgone sales for UK wholesalers and retailers due to counterfeit and pirated products smuggled into the UK was GBP 9.2 billion**

in 2016 (4.2 billion in 2013). This is equivalent to 2.7% of total sales in the UK wholesale and retail sector in that year (1.4% in 2013).

- The total volume of **UK companies' forgone sales due to infringement of their IP rights in global trade amounted to GBP 11 billion** (GBP 8.6 billion in 2013), or 2.1% of total sales of these UK companies in that year (domestic plus exports, 1.9% in 2013).
- Lower sales reduce the demand for labour. Job losses in the UK that inevitably result in the retail and wholesale sector due to counterfeit and pirated imports totalled almost 60,000 in 2016 (40,000 in 2013), equivalent to more than 1.5% of all people employed in the sector (1.1% in 2013). The total number of jobs lost in UK industries due to the global infringement of their trademarks amounted to over 27,000 in 2016 (20,000 in 2013), equivalent to 1.3% of the total number of employees in the UK manufacturing sector (1.2% in 2013).
- **Altogether, at least 86 300 jobs were lost due to counterfeiting and piracy in 2016** (60,000 in 2013). **That represents 1.4% of full time equivalent employees in the UK** (1.15% in 2013).
- Lower sales due to the counterfeit markets in the UK mean lower revenues for the UK government from value-added tax (VAT), corporate income tax (CIT), personal income tax and social security contributions.
- In 2016, forgone tax revenues from the retail and wholesale sector amounted to GBP 3.1 billion. That same year, forgone tax revenue from UK right holders to the UK government amounted to GBP 0.9 billion.
- Altogether, **trade in counterfeit and pirated goods resulted in a reduction in UK public revenues equal to almost GBP 4 billion** (GBP 3.8 billion in 2013), the equivalent of 0.6% of the taxes collected on value-added, personal and corporate incomes, and social security contributions.



Imports of fake goods to the UK: the current picture



What is the total value of counterfeit imports to the UK?

Imports of counterfeit and pirated goods in the UK accounted for as much as GBP 13.6 billion in 2016. **3% of UK imports are fake goods.**

As compared to 2013, this value increased in absolute terms (GBP 9.3 billion in 2013), but declined in relative terms (4% of UK imports in genuine goods in 2013).

The degree of counterfeiting in the UK varies considerably across sectors

In terms of sectors with the highest share of fakes in imports, clothing, footwear, leather and related products are the type of good most affected by counterfeiting. 9% of goods imported to the UK in this category were fakes in 2016. It was followed by household cultural and recreation goods; including toys and games, books and musical instruments with 8%.

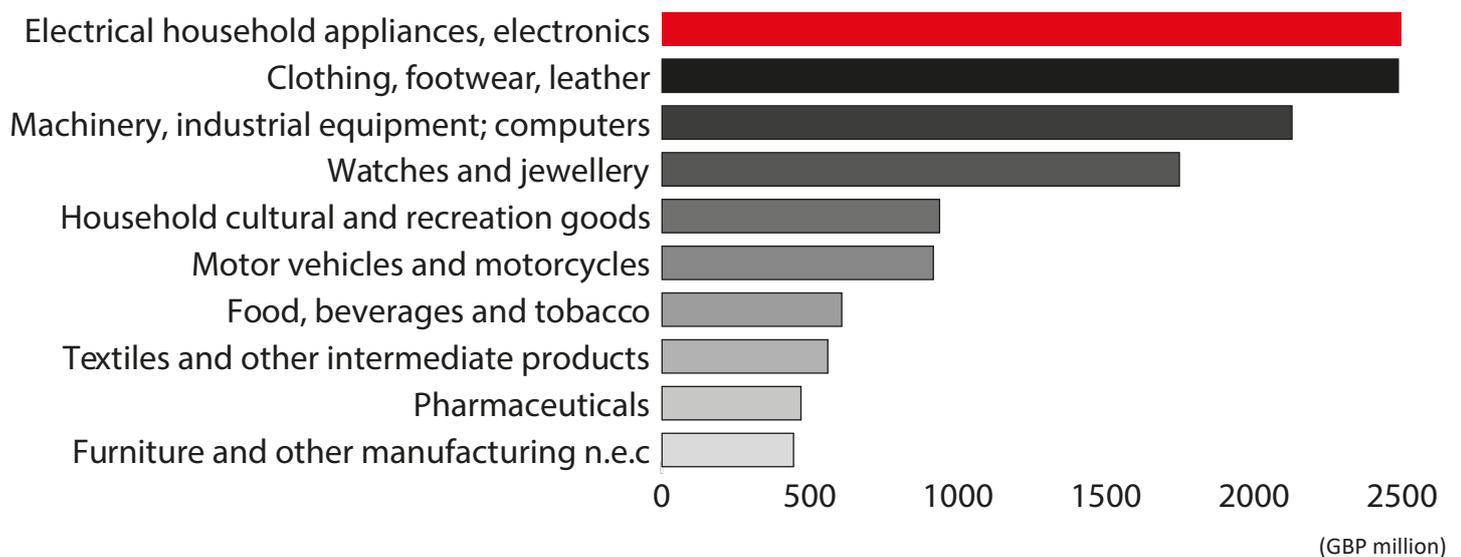
Top imported type of fake goods in relative terms, 2016





In absolute terms, electrical household appliances, electronic and telecommunications equipment were the most counterfeited types of goods, with an estimated value of GBP 2.5 billion of fakes imported in the UK. This category includes a wide range of devices, such as mobile phones, DVD players, headphones, earphones, microphones, batteries etc. This was followed by fake clothing, footwear, leather and related products; and machinery and mechanical appliances (e.g. computers, tablets, household appliances, vacuum cleaners) with fake imports equal to around GBP 2.4 billion and GBP 2.1 billion, respectively.

**Top imported type of fake goods in the UK in absolute terms, 2016
(GBP million)**





Where do fake products arriving in the UK mainly come from?

Top provenance economies for counterfeit products seized by UK customs, 2014-16



Most counterfeit and pirated goods imported into the UK come from Asia. The top provenance economies of fake UK imports are China, Hong-Kong (China), Turkey, India, Pakistan and Bangladesh.

Are UK consumers knowingly buying fakes?

46.5% of imported counterfeit and pirated products sold in the UK in 2016 were sold to consumers who actually knew they were buying fake products.

The share of fakes destined for secondary markets varies significantly by sector, ranging from 32.8% for pharmaceuticals to 59% for clothing, footwear, leather and related products.



Sector	Share of the secondary market (bought knowingly)
Clothing, footwear, leather and related products	58.47%
Perfumery and cosmetics	57.87%
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	55.46%
Watches and jewellery	54.24%
Electrical household appliances, electronic and telecommunications equipment	53.51%
Chemical and allied products; except pharmaceuticals, perfumery and cosmetics	53.21%
Non-metallic mineral products (e.g. glass and glass products, ceramic products)	51.83%
Basic metals and fabricated metal products (except machinery and equipment)	44.20%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	42.34%
Household cultural and recreation goods; including toys and games	42.34%
Motor vehicles and motorcycles	40.19%
Food, beverages and tobacco	33.15%
Pharmaceutical and medicinal chemical products	32.81%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	27.64%
Total	46.51%



The impact of fake imports on the UK

Overall, the impact of global counterfeiting and piracy on the UK economy is increasing, i.e. the negative effects of imports of fake goods on UK firms' sales, jobs and government revenues are larger in 2016 than in 2013.



Consumer detriment

Consumer detriment – that is, the price premium unjustly paid by consumers in the belief they are buying a genuine product – in the UK due to deception on primary markets in 2016 amounted to almost **GBP 4 .8 billion**.

This value varies significantly across sector. In 2016, the highest detriment was recorded for ICT devices and household appliances (GBP 786 million).

Estimate of consumer detriment in the UK by sector, 2016

GBP 786 million Electrical household appliances, electronic and telecommunications equipment					
GBP 692 million Watches and jewellery		GBP 676 million Clothing, footwear, leather and related products		GBP 640 million Food, beverages and tobacco	
GBP 601 million Motor vehicles and motorcycles	GBP 520 million Household cultural and recreation goods	GBP 420 million Machinery, industrial equipment	GBP 122 million Textiles and other intermediate products	GBP 113 million Furniture, lighting equipment, carpets and other manufacturing	GBP 72 million Perfumery and cosmetics

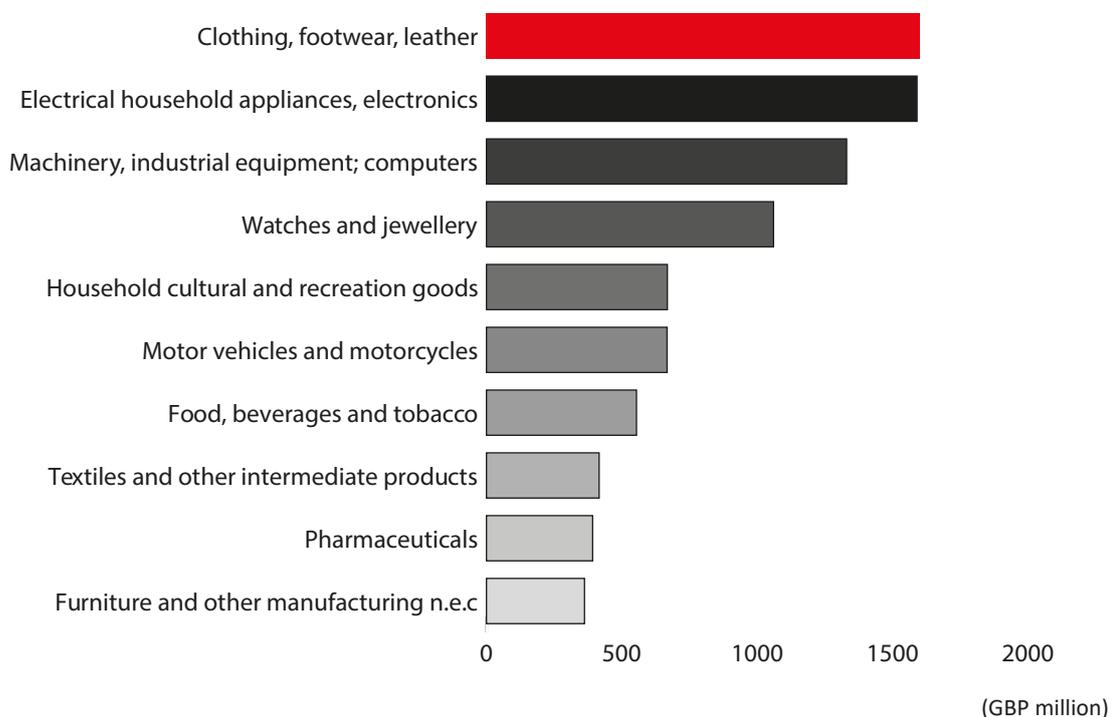
Lost sales for firms in the wholesale and retail sector



The total volume of forgone sales for UK wholesalers and retailers due to counterfeit and pirated products smuggled into the UK was GBP 9.2 billion in 2016 (4.2 billion in 2013). This is equivalent to 2.7% of total sales in the UK wholesale and retail sector in that year (1.4% in 2013).

The highest sale losses to the UK wholesale and retail industries in absolute terms were for clothing, footwear, leather and related products (GBP 1.60 billion in forgone sales in 2016), followed by electronic, electrical and optical products (GBP 1.59 billion in forgone sales in 2016).

Top wholesale and retail industries impacted by fake imports in the UK in terms of absolute sales, 2016 (GBP million)



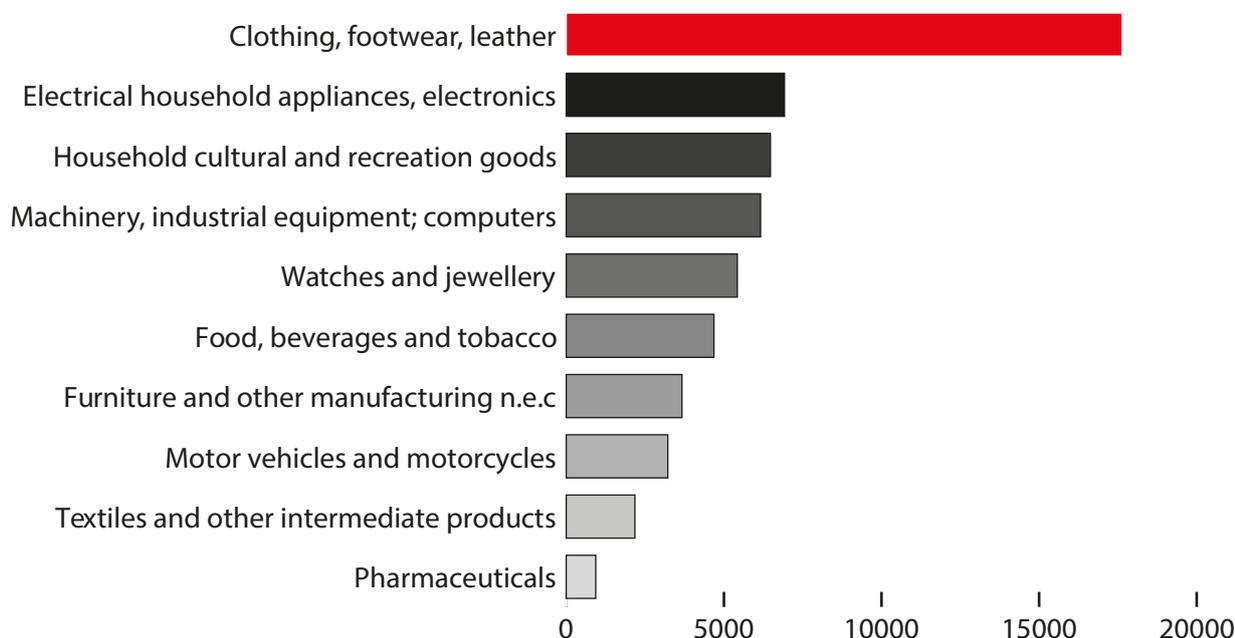
Lost jobs in the wholesale and retail sector

Lower sales reduce the demand for labour. Job losses in the UK wholesale and retail sector are the inevitable result of counterfeit and pirated imports. Almost 60,000 jobs were lost in 2016 (40,000 jobs lost in 2013), equivalent to more than 1.5% of all people employed in the sector (1.1% in 2013).

In absolute terms, the highest job losses due to counterfeiting and piracy were found in the sales of clothing, footwear, accessories and related products: more than 17,000, or 2.9% of all employees in the sectors listed.

In relative terms, the wholesalers and retailers in the electronic and household appliances sector and in the watches and jewellery sector were the most affected, incurring 5.4% and 4.6% of job losses in 2016, respectively.

Top wholesale and retail industries impacted by fake imports in the UK in terms of absolute number of jobs, 2016





Losses in government revenues due to sales of fake goods

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

The total value of foregone tax revenues for the UK government amounted to GBP 3.1 billion in 2016. This is equivalent to 0.55% of total taxes collected by the UK government on these three taxes.

Forgone taxes for the UK government due to fake imports in the UK, 2016

Type of taxes	Value in GBP mn	Share
Personal Income Taxes and Social Security Contributions	661.45	0.27%
Corporate Taxes	582.66	1.30%
Value Added Taxes	1834.80	1.60%
Total	3078.90	0.55%



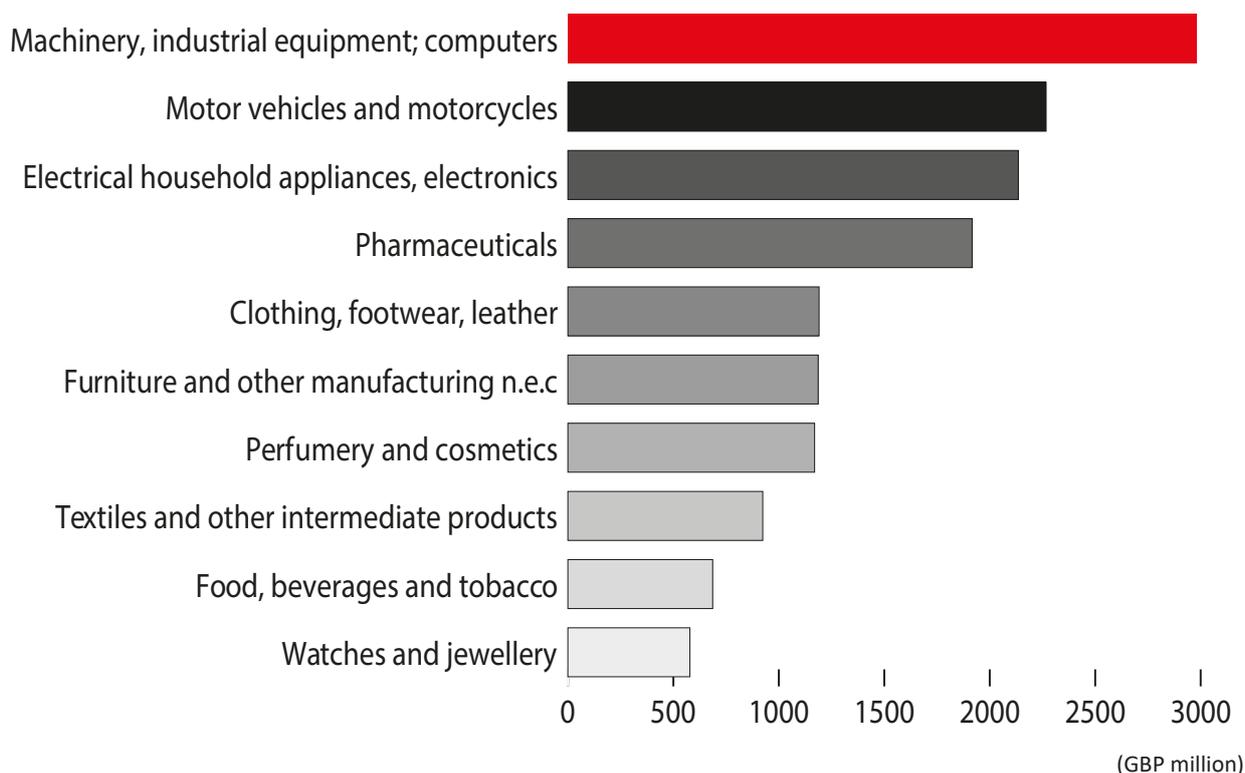
Infringement of UK IPR in global trade: the current picture

What is the value of global trade in counterfeit products that infringe UK IP Rights?

Global trade in counterfeit products infringing UK trademarks and patents is increasing, amounting to GBP 16.2 billion in 2016 (against GBP 13.4 billion in 2013). It is equivalent to 3.3% of total UK manufacturing sales (domestic plus exports).

In absolute terms, the following UK industries were especially targeted by counterfeiters: vehicles and parts, electrical household appliances, electronic and telecommunications equipment, pharmaceutical products and clothing, handbags, footwear and related products.

Top industries affected by infringements of UK IPR worldwide in absolute terms, 2016 (GBP million)

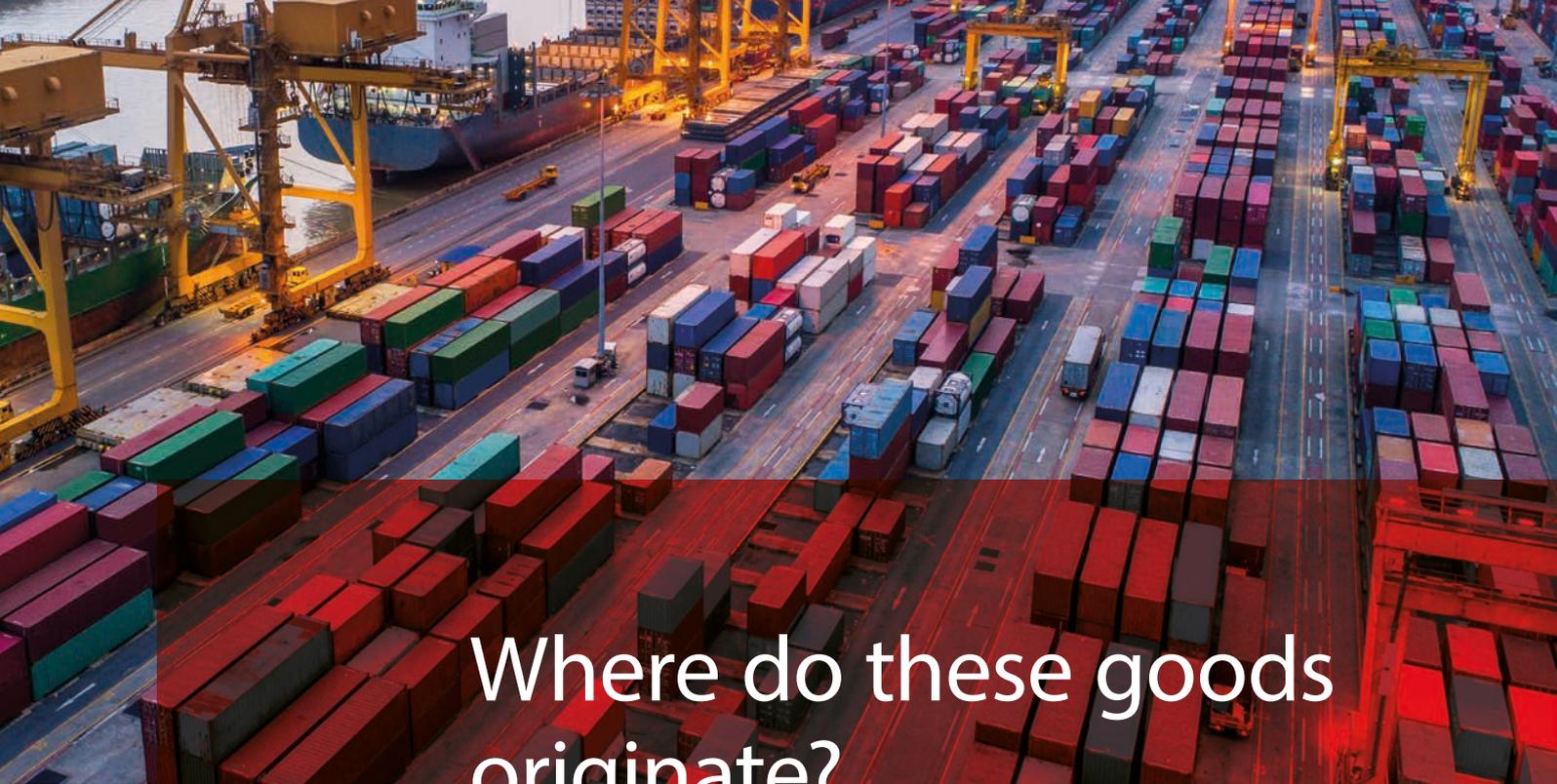


In relative terms, the following UK sectors were particularly targeted by counterfeiters: perfumery and cosmetics, clothing, footwear and handbags, and household cultural and recreation goods (e.g. toys and games, books, music instruments). In some of these sectors fakes accounted for up to 10%.



Top industries affected by infringements of UK IPR worldwide in absolute terms, 2014-16





Where do these goods originate?

Top provenance economies of fake goods infringing UK IP, 2014-16



From 2014 to 2016, 2013, counterfeit and pirated goods that infringe the intellectual property rights of UK right holders come mainly from China, Thailand and Hong Kong (China).

Are consumers knowingly buying fake UK goods?

More than the half of the goods traded worldwide that infringed UK IPRs were offered on secondary markets – i.e. they were openly sold as fakes to consumers.

This share varies among product categories, ranging from 11% for basic metal and fabricated metal products to 67% for watches and jewellery.

Sector	Share of the secondary market (bought knowingly)
Watches and jewellery	66.7%
Clothing, footwear, leather and related products	65.8%
Electrical household appliances, electronic and telecommunications equipment	62.3%
Motor vehicles and motorcycles	56.2%
Household cultural and recreation goods; including toys and games, books and musical instruments	54.6%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	52.2%
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	49.4%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	48.2%
Non-metallic mineral products (e.g. glass and glass products, ceramic products)	43.2%
Perfumery and cosmetics	40.0%
Food, beverages and tobacco	37.1%
Pharmaceutical and medicinal chemical products	33.5%
Chemical and allied products; except pharmaceuticals, perfumery and cosmetics	33.3%
Basic metals and fabricated metal products (except machinery and equipment)	11.1%
Total	53.2%

It is important to note that many effects of counterfeiting on consumer health and safety cannot be quantified. For example, there are many fake pharmaceuticals, baby formulas, toys, medical equipment, cosmetics, batteries, etc., that are substandard and can pose significant health and safety risks. However, these risks cannot be precisely quantified.



The impact of global infringements of UK IPR on the UK economy

Overall, the impact of global counterfeiting and piracy on the UK economy is increasing. Infringements of UK IPRs in global trade on UK firms' sales, jobs and government revenues are larger in 2016 than in 2013.

Impact on firms' sales in the manufacturing sector

In 2016, the total volume of UK companies' forgone sales due to infringement of their IP rights in global trade amounted to GBP 11 billion (GBP 8.6 billion in 2013), or 2.1% of total sales of these UK companies in that year (domestic plus exports, 1.9% in 2013).

The manufacturing industry for electrical household appliances, electronics and telecommunications equipment incurred the highest losses (GBP 1.9 billion of forgone sales in 2016).

Top manufacturing industries impacted by infringements of UK IPR in terms of absolute sales, 2016

GBP 1931.3 million Electrical household appliances, electronic and telecommunications equipment					
GBP 1588.8 million Pharmaceuticals		GBP 1400.5 million Motor vehicles and motorcycles		GBP 1277.8 million Machinery, industrial equipment, computers	
GBP 931.5 million Perfumery and cosmetics	GBP 798.1 million Furniture and other manufacturing n.e.c	GBP 713.1 million Clothing, footwear, leather	GBP 629.9million Textiles and other intermediate products	GBP 513.9 million Food, beverages and tobacco	GBP 342.5 million Chemical and allied products

In terms of the share of sales, the highest losses were recorded by the manufacturing industries for perfumery and cosmetics; clothing, footwear, leather and related products, and watches and jewellery, which lost over 12.6%, 12.1% and 12% of their sales, respectively.

Top wholesale and retail industries impacted by fake imports in the UK in terms of absolute sales, 2014-16

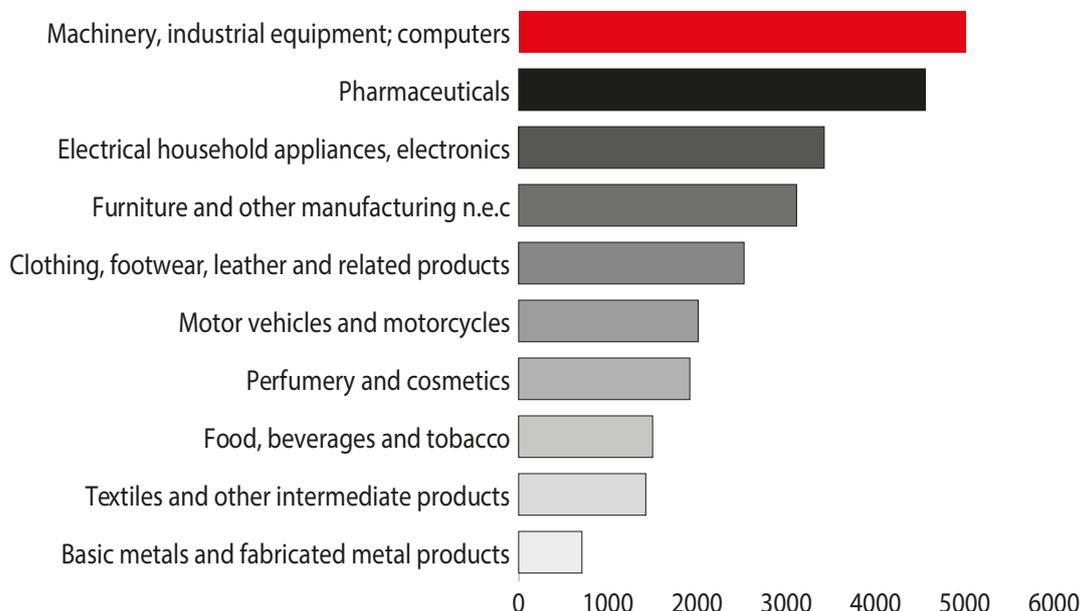


Impact on jobs in the manufacturing sectors

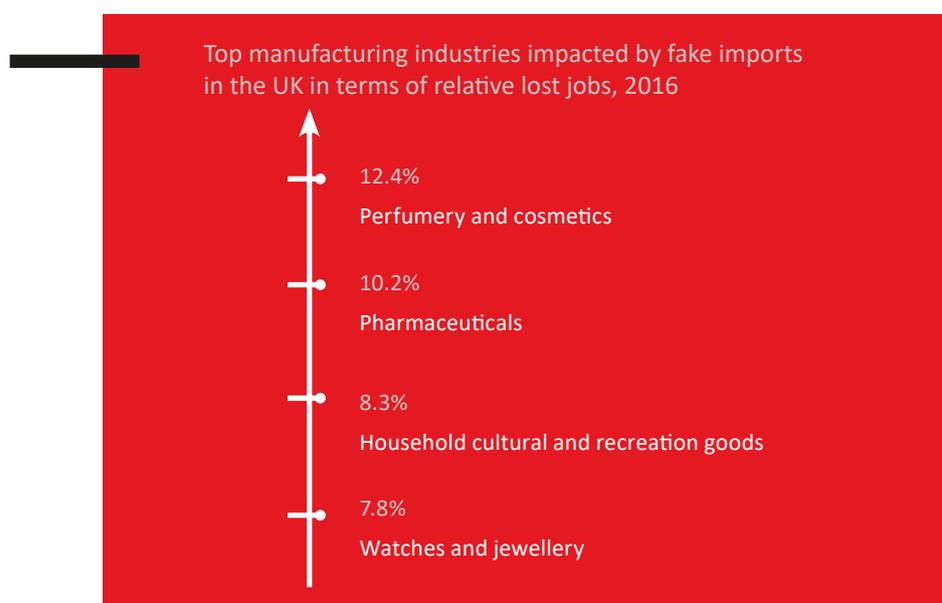
The total number of jobs lost in UK industries due to the global infringement of their trademarks amounted to over 27,000 in 2016 (20,000 in 2013), equivalent to 1.3% of the total number of employees in the UK manufacturing sector (1.2% in 2013).

In absolute terms, the highest job losses due to counterfeiting and piracy were found in the sectors of machinery, domestic appliances, computers: accounting for around 5,000 lost jobs, or 1.3% of all employees in the sectors listed.

Top manufacturing industries impacted by fake imports in the UK in terms of absolute number of jobs, 2016



In relative terms, the manufacturing sector of perfumery and cosmetics was the most affected, incurring 12.4% of job losses in 2016.



Impact on government revenue

Lower sales and lower profits for UK rights holders mean they pay lower corporate income tax to the government. In addition, fewer employees mean lower personal income tax revenues and lower social security contributions. In 2016, this forgone tax revenue amounted to GBP 897 million, equivalent to 0.31% of total UK revenues collected on these two taxes.

Public revenue losses due to UK IPR infringements in global trade, 2016

Type of taxes	Value in GBP mn	Share
Personal Income Taxes and Social Security Contributions	366.318	0.15%
Corporate Income Taxes	530.97	1.19%
Total	897.288	0.31%



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

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

Overall Impact



Generally, the impact of global counterfeiting and piracy on the UK is increasing.



The estimates for consumer detriment in the UK – that is, the price premium unjustly paid by consumers in the belief they are buying a genuine product – due to deception on primary markets in 2016 amounted to almost GBP 4.8 billion.



Forgone sales for UK wholesalers and retailers due to counterfeit and pirated products smuggled into the UK was GBP 9.2 billion in 2016.



UK companies' forgone sales due to infringement of their IP rights in global trade amounted to GBP 11 billion in 2016.



Altogether, at least 86 300 jobs were lost due to counterfeiting and piracy in 2016. That represents 1.4% of full time equivalent employees in the UK.



Trade in counterfeit and pirated goods resulted in a reduction in UK public revenues equal to almost GBP 4 billion in 2016.

THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where the governments of 36 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

www.oecd.org

The OECD Task Force on Countering Illicit Trade (TF-CIT) convenes governments and a wide range of stakeholders to map and analyse the underlying dynamics of illicit trade. Its evidence-based research and advanced analytics draw attention to the convergence of criminal networks that operate illicit trade, from counterfeits to narcotics, from excise goods to the trafficking of persons and wildlife. The goal of the TFCIT is to foster public policies, international cooperation and public private partnerships that deter and reduce illicit markets.

<http://oe.cd/tfcit>



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