Chapter 3. Conclusions and next steps

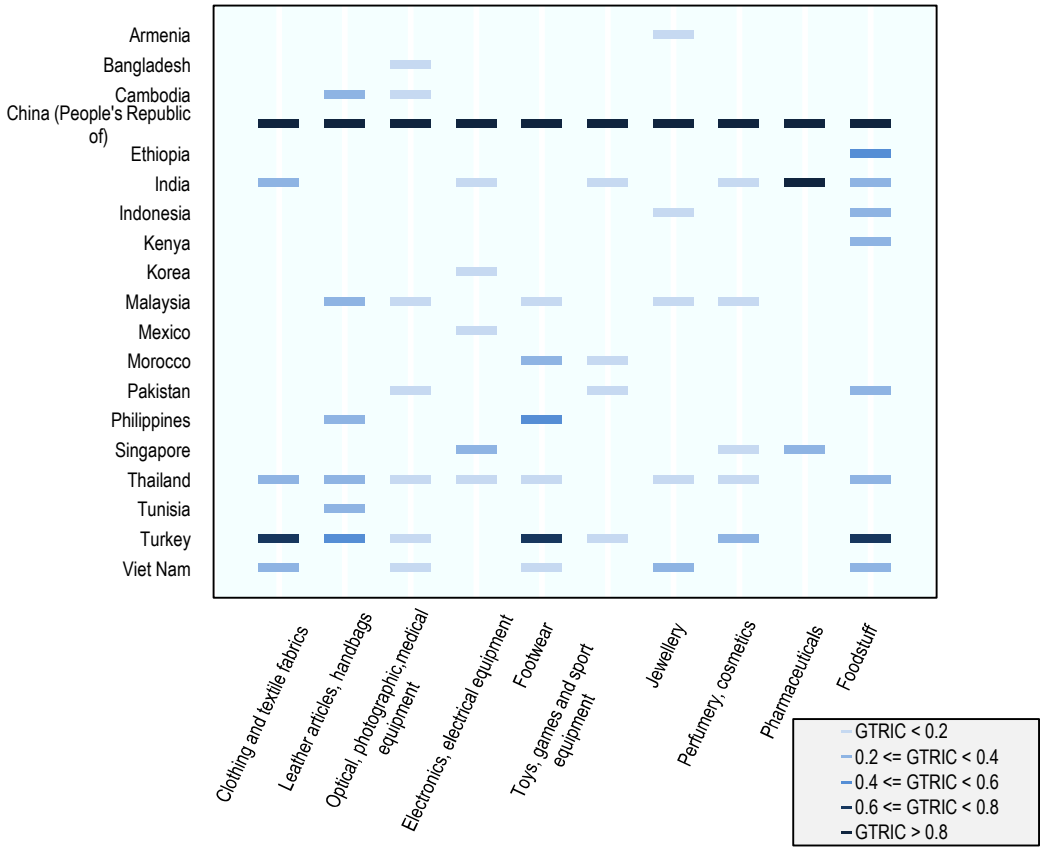
This chapter offers an overview of the findings presented in Chapter 2. While the data show large variations in experiences across sectors, some general patterns are observed. These include the identification of key producer countries, as well as key transit hubs. The chapter draws out some policy implications of these findings, then lists steps that could be taken to enhance future work.

This study has examined the complex routes through which counterfeit and pirated goods are traded, focusing on ten main product types which are particularly vulnerable to counterfeiting. These include fast-moving consumer goods such as candy bars and shampoo, as well as business-to-business products, such as spare parts and computer chips. Trade in these products combined accounts for USD 284 billion (EUR 208 billion) in 2013, more than a half the total global estimated trade in fake goods.

The data show large variations in experiences across sectors. For example, counterfeit foodstuff is shipped in large packages, whereas electrical components and jewellery are mostly shipped in small parcels. Electronics and cosmetics are trafficked mostly to OECD countries, such as the EU countries and the US, whereas pharmaceuticals and foodstuff are also shipped in large quantities to developing, sub-Saharan economies.

Despite these differences, some general patterns can be distinguished. Globally, in nine out of ten product categories, China emerges as the key producer of counterfeit goods, with India being a more important producer of fake pharmaceuticals (Figure 3.1). Several East Asian economies – including India, Thailand, Malaysia, Pakistan and Viet Nam – have been identified as important producers in many sectors, although their role is much less significant than China. Finally, Turkey appears to be a relatively important producer, especially for fake leather goods, foodstuff and cosmetics.

Figure 3.1. Economies by likelihood of being a producer of fake goods by industries, 2011-2013

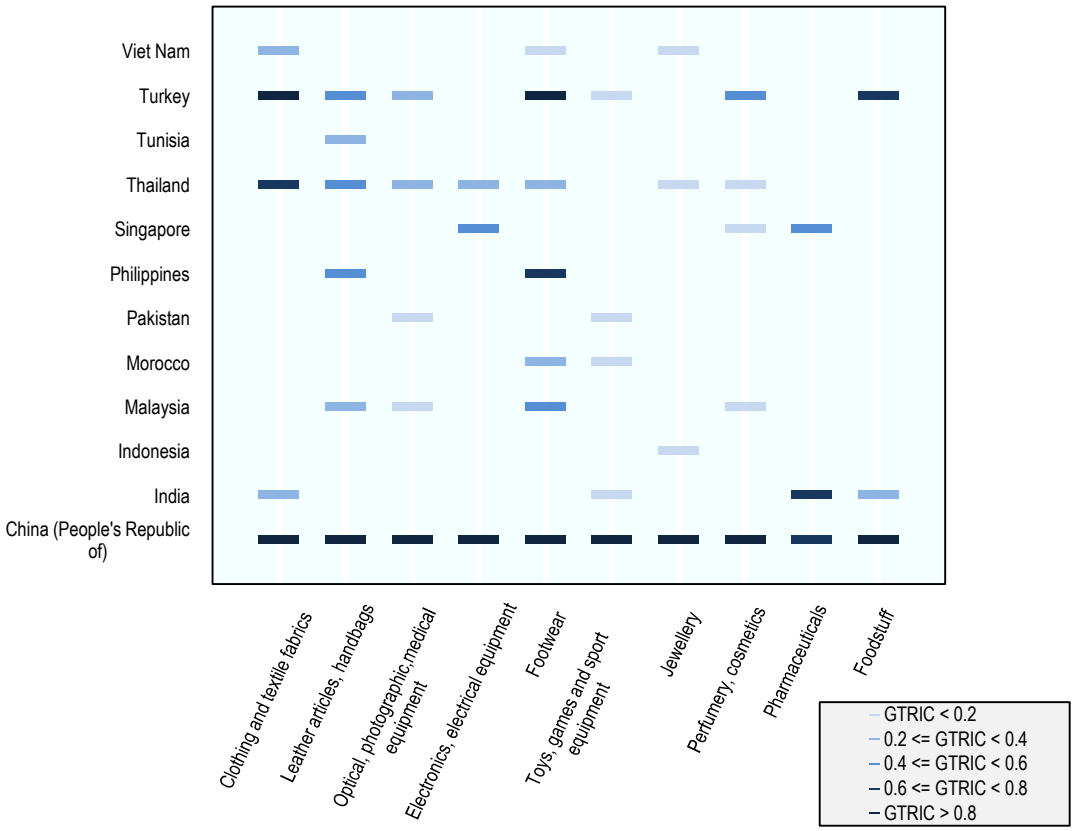


Statlink: http://dx.doi.org/10.1787/888933529977

Note: The darker fields indicate greater likelihood that an economy is a producer of counterfeit goods in a given product category.

From the EU perspective, China is the major producer of counterfeit and pirated products across all categories analysed for the EU Common Market, while India is an equally important producer of fake pharmaceuticals (Figure 3.2). As with the global findings for the production of counterfeits, several East Asian economies are found to produce fake goods destined for Europe as well, but on a smaller scale and in specific categories of goods. For example Malaysia and the Philippines are producers of counterfeit leather and footwear, while Thailand is seen as a producer of fake clothing and electronics. In the Middle-East, Turkey is a relatively important producer of fake leather, handbags clothing, foodstuff and footwear products that often make their way to the EU by land crossing.

Figure 3.2. Economies by likelihood of being a producer of fake goods by industries; the EU perspective, 2011-2013



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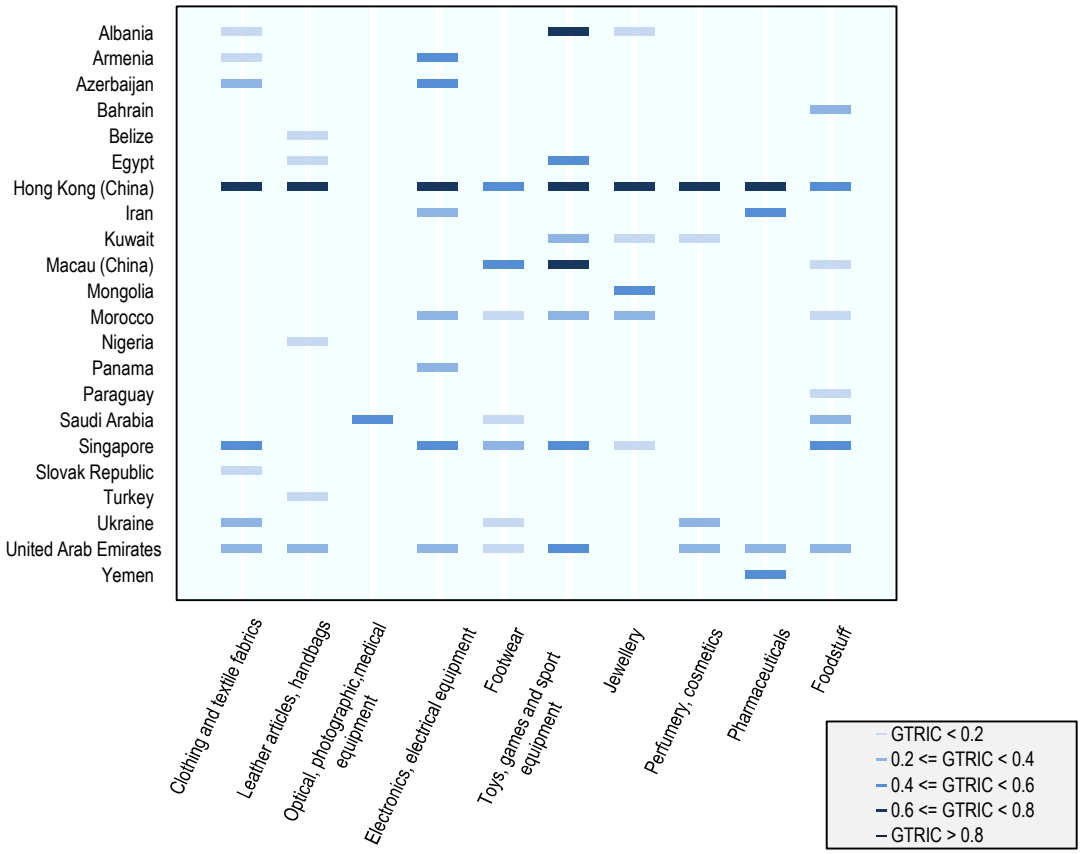
Note: The darker fields indicate greater likelihood that an economy is a producer of counterfeit goods that are shipped to the EU in a given product category.

The use of transit points has also been investigated, given their role in easing the trade in fake goods. This includes falsifying documents in ways that camouflage the original point of departure; establishing distribution centres for counterfeit and pirated goods; and repackaging or re-labelling goods. In addition while imports of counterfeit goods are, in most cases, targeted by local enforcement authorities, goods in transit are often not within their scope, which means they are less likely to be intercepted.

The analysis of transport modes helped to identify several hubs that are acting as transhipment centres for fake goods. In general the goods arrive in large quantities in containers, and are sent then sent on to their end market in small parcels by post or courier services. There are three global transit points that specialise in repackaging fake goods from containers to small postal or courier shipments: Hong Kong (China), Singapore and the United Arab Emirates (Figure 3.3). These hubs specialise in a wide range of counterfeit products, such as foodstuff; perfumery and cosmetics; leather articles and handbags; optical, photographic and medical equipment; and electronics etc. In addition, there are some important regional transit points. For example several Middle Eastern economies (i.e. the UAE, Saudi Arabia and Yemen) are important transit points for trade in fake goods to Africa. Three transit points – Albania, Egypt, Morocco and

Ukraine – were identified for shipments of fakes to the EU. Finally, Panama is an important transit point for fakes shipped to the United States.

Figure 3.3. Economies by likelihood of being a transit point for trade in fake goods, 2011-2013



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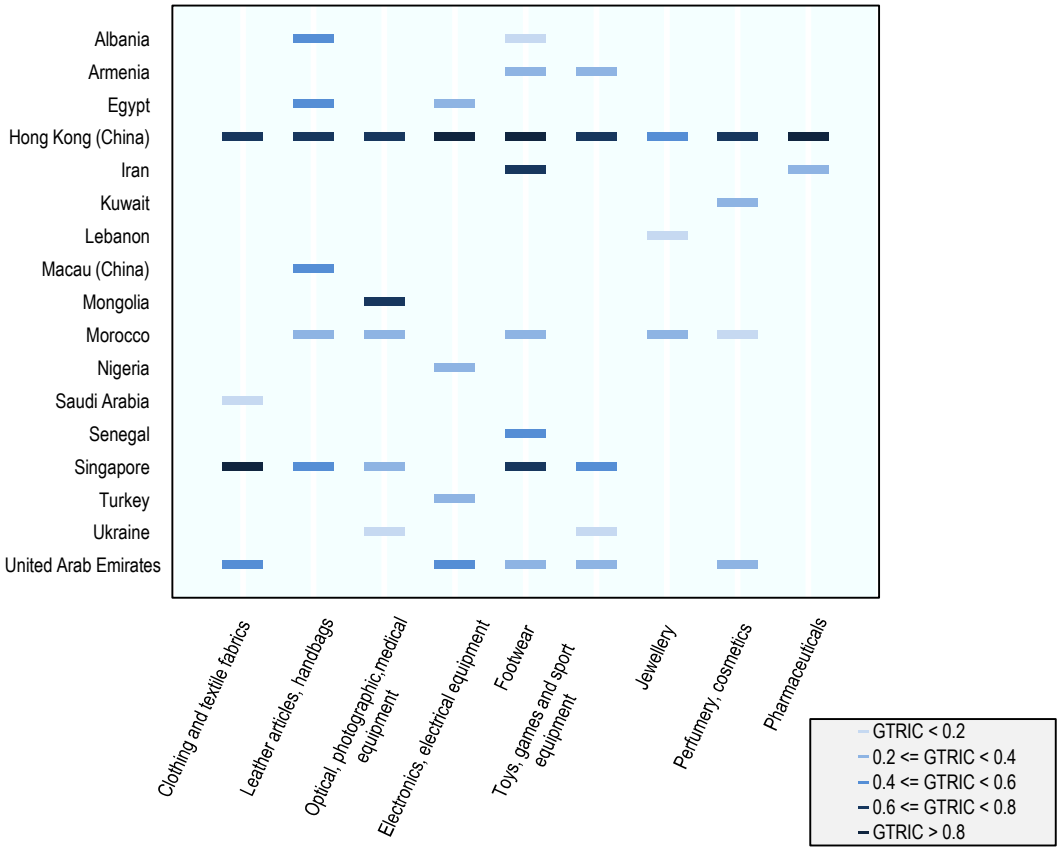
Note: The darker fields indicate greater likelihood that an economy is a transit point for trade in counterfeit goods in a given product category.

The additional analysis of transit points from the EU perspective confirms the above-mentioned findings (Figure 3.4). Hong Kong (China), Singapore and the United Arab Emirates are the main transit points for fakes around the globe. These hubs are found to specialise in the repackaging of counterfeits that are taken from large shipping containers and placed into smaller postal and courier packages that that are then sent onwards to all economies including the EU. In addition to these global hubs, there are at least four economies that function as exclusive transit points for shipments of counterfeits into the EU: Morocco (leather goods, footwear and optical equipment); Albania (leather goods and perfumes); Egypt (leather goods and electronic equipment) and Ukraine (jewellery, perfumes and cosmetics).

Figure 3.4. Economies by likelihood of being a transit point for trade in fake goods to the EU, 2011-2013



Statlink: http://dx.doi.org/10.1787/888933530034

Note: The darker fields indicate greater likelihood that an economy is a transit point for counterfeit goods exported to the EU in a given product category.

More in-depth analysis in three areas will be crucial for developing efficient enforcement and governance frameworks to counter the substantial risks posed:

- the role of free trade zones in transhipments
- the detection problem posed by small shipments
- the economic features of provenance economies, including the quantitative relationship between the intensities of counterfeiting and indices of free trade, quality of governance, public sector integrity, etc.

Free trade zones, such as Jafza in the UAE, frequently feature among the list of transit points. While imports of counterfeit goods are, in most cases, targeted by local enforcement authorities, goods in transit are not within their scope, which means they are less likely to be intercepted. Further research is needed on the role of free trade zones in counterfeit and pirated trade. This research could build on the dataset developed in the main study to examine the scope and volume of counterfeit and pirated trade in the

context of selected free trade zones. It could also scan the key enablers of counterfeiting and piracy in free trade zones, such as more relaxed oversight, softened customs controls and a lack of transparency.

Small shipments are clearly a way to avoid detection and minimise the risk of sanctions. Checking and detaining them raises costs for customs and, consequently, introduces additional significant challenges for enforcement authorities. The large volume of small shipments sent by mail or express seems to be related to the recent fast growth of the Internet, and particularly e-commerce solutions. For enforcement authorities, postal and express shipments containing counterfeit products tend to be more difficult to detect and to detain. Consequently, the use of e-commerce for facilitating counterfeit commerce imposes an additional significant burden on enforcement authorities.

The role of the online environment and e-commerce in the context of counterfeiting of physical goods is dynamic and more research is needed to uncover its impact on counterfeiting and piracy activities.

Finally, more quantitative research is needed to improve the precision of assessments of the role of economies in trade in counterfeit and pirated goods. Information developed in this study shows that some economies tend to specialise in the production of infringing goods, whereas others emerge as key transit points through which infringing goods pass. More analysis is needed to develop a fuller quantitative picture of counterfeit trade at the national level, and to determine why counterfeit profiles look different for economies that otherwise seem similar. The analysis could for example investigate the quantitative relationship between the intensities of counterfeiting and indices of free trade, the quality of governance and the integrity of public sector.

In addition to the three areas discussed above, the analysis presented could be used to help develop a more effective set of enforcement and governance responses – for transit points and for specific producing economies. Among the issues to be addressed are the adequacy of deterrent penalties, trade-based money laundering, and other factors related to transnational crime.