

4. What is the impact on Italy overall?

This study presents the direct, economic effects of counterfeiting on Italian consumers, the Italian retail and manufacturing industry, and the Italian government. The findings of this study should assist public and private decision-makers in formulating effective, cohesive, and evidence-based responses to this risk. In addition, the methodology developed for this report could be re-used to determine the scale of harm caused by counterfeiting on the Italian economy on a regular basis.

4.1. Trade in fake goods: The overall impact on Italy

This report has assessed quantitatively the value and scope of trade in counterfeit and pirated products in Italy, and gauged some of its effect on consumers, jobs, sales and tax revenue in that country.

It looked at two particular categories of effects: those of imports of counterfeit and pirated products in Italy; and those of global trade in Italian IPR-infringing products. Adding together the results gives a good idea of the overall impact of counterfeit trade on Italian consumers, right holders and government.¹

Concerning the total impact of counterfeit trade in Italy, the best available statistics show that the total consumer detriment due to consumer deception by counterfeiters in 2013 amounted to almost EUR 2 billion. The sales losses to Italian wholesale and retail industries in 2013 amounted to EUR 23.6 billion, or 4.1% of total sales in that year. The total volume of forgone sales by Italian rights owners due to infringement of their IP in 2013 amounted to EUR 55.5 billion, or 4.4% of their total sales in that year. These sale losses subsequently translate into lost jobs and lower tax returns (Table 4.1).

Table 4.1. Total direct impact of counterfeit and pirated trade in the Italian context, 2013

Total lost sales (wholesale and retail)		Total lost sales (Italian IP right owners)		Total lost jobs		Total lost taxes	
EUR 6.9 billion	2.7% of sales	EUR 25.1 billion	3.1% of sales	87800 lost jobs	1.97% of full time equivalent employees	EUR 9.6 billion	0.9% of Italian GDP

An assessment of the global damage due to counterfeiting and piracy on the Italian economy can be made by comparing the scale of losses due to counterfeiting in Italy on the one hand, and due to infringement of IP rights of Italian firms on the other hand.

In absolute terms, losses experienced due to infringement of Italian IP abroad are much greater than those due to imports of fakes to Italy. In terms of damage to Italian revenue they amounted to EUR 5.9 billion of foregone taxes vs EUR 3.7 billion caused by imports of fakes to Italy. This calls for continued strong involvement of Italy in international, plurilateral and multilateral initiatives to counter the risk of trade in counterfeit and pirated goods.

It seems that there are two main reasons, why the impact of infringement of Italian IP abroad is much more devastating than the imports of fakes to Italy:

- Firstly, products offered by Italian companies are particularly attractive for counterfeiters due to their innovativeness, high quality and the great reputation they enjoy. It means that globally, trade in counterfeit and pirated goods poses a vital threat to Italian companies that can undermine their innovative efforts and investment.
- Secondly, Italy has a strong governance response system that seems to be effective in reducing the overall damage of counterfeit imports to Italy, and temper the demand for fakes in Italy. This is confirmed by several studies that report very low tolerance for fakes among Italian consumers (EUIPO, 2017).

In addition, many fake products sold in Italy are electrical and electronic components that are often sold on primary markets to unaware consumers. These products that are offered

by parties that do not respect warranties; the products themselves often pose significant health and safety risks to unaware consumers, as documented by several studies (UL, 2016). It also means that the intergovernmental co-ordination of anti-counterfeiting efforts is essential to take into account those impacts that might be within the scope of all relevant agencies (e.g. those in charge of health and safety or environmental impacts).

Regarding IP infringement of Italian products worldwide, it should be also noted that many infringed products are produced by Italian small and medium enterprises. These products in most cases enjoy great reputation, and consequently become very profitable targets for counterfeiters. At the same time SMEs often do not have sufficient resources and capacities to monitor this threat, and to develop effective countermeasures. It means that the negative impacts for SMEs can be much more severe than for big companies that have experience and capacities to deal with the risks of counterfeiting. This reinforces the call for stronger co-operation in international actions against the trade in fakes.

Overall, this report has presented a state-of-the-art quantitative analysis of the scale of counterfeiting in the Italian context, and of its negative impacts in areas such as jobs, consumer detriment and public revenue. The study developed a methodology to gauge the magnitude and scale of counterfeit trade in Italy and to quantify its direct economic impact. It relied primarily on a unique international set of customs seizure data, as well as structured interviews with trade and customs experts.

In particular, the best available estimates based on the customs data indicate that global counterfeiting and piracy in 2013 resulted in almost 87 800 lost jobs in Italy. That same year, counterfeit trade resulted in almost EUR 26 billion of forgone tax revenue for the Italian Government.

The magnitude of the issue, and the scale of its impact, should remain of high priority to both Italian policy makers and the country's private sector. There are significant implications for the future, including those for activities that generate high value-added, and those for innovation potential, both of which are sources of long-term economic growth.

4.2. Improving the evidence

Even though information on counterfeit and pirated trade has significantly improved in recent years, it still falls far short of what is needed for robust analysis that can serve as the basis for more granular conclusions. Further research on measurement techniques and data collection methods could help refine the analysis and close data gaps. The key data-related issues identified in this study refer to:

- lack of compatibility and completeness of existing datasets, which calls for greater harmonisation of data collection
- information gaps on consumer behaviour, especially on substitution rates, which calls for more surveys and experiments
- difficulties in quantifying certain impacts of counterfeiting, e.g. the effects on consumers' health and safety, which calls for more co-ordinated efforts.

Regarding the lack of compatibility and completeness of existing datasets, existing datasets and frameworks for data collection could be used more fully for improving our understanding of the many aspects of counterfeiting and piracy. Unfortunately, as the analysis revealed, these datasets and the frameworks for data collection are often inconsistent or incomplete.

As different taxonomies have been used to create individual datasets, they are often incompatible. Trying to match them can be very laborious or even impossible. For example, on the one hand datasets on counterfeit seizures were created from the trade-related taxonomies (such as the World Customs Organization [WCO]’s Harmonized System), while data on industrial activity rely on the *International Standard Industrial Classification* of All Economic Activities (ISIC) categorisation. Matching these essentially incompatible datasets could provide a wealth of additional information, for example about the production points of counterfeit products.

To address this issue, more consistency is needed in data collection and harmonisation processes. For example the Customs Enforcement Network (CEN), a reporting framework developed by customs agencies through the World Customs Organization (WCO), offers one of the most promising ways forward for improving information on infringement of counterfeit and pirated products. The framework establishes the parameters for reporting on seized/intercepted products. The Harmonized System of the WCO, for example, provides a coded nomenclature for over 5 200 items; using this at the detailed six-digit level would provide much-needed specificity about the products being intercepted/seized.

In addition to the further development and harmonisation of existing datasets, far more can and should be done to address the information gaps concerning consumer behaviour and to improve understanding of that behaviour as it relates to the purchase of counterfeit goods. This in particular refers to the estimation of substitution rates, which are critical when analysing the effects of counterfeiting and piracy on rights holders, but difficult to develop using traditional economic and econometric tools.

There are two basic ways to assess the substitution rate: surveys and economic experiments. Irrespective of the method chosen, the assumptions underlying approaches should be clear, as should the economic arguments; transparency is key. Outcomes should be evaluated in terms of reasonableness and, wherever possible, be subject to sensitivity analysis to determine how variations in key assumptions affect outcomes.

There are several areas of counterfeiting and counterfeit trade for which no clear or commonly agreed methodology exists to gauge impacts, and so quantifying certain impacts becomes difficult. These include environmental harm due to the use of poor-quality counterfeit chemicals, and adverse effects of counterfeits on consumers’ health and safety.

On that last point, there are numerous anecdotal reports on the adverse effects counterfeit products can have on public health and safety or on the environment. Those reports, however, are limited in scope. A more systematic and extensive approach for developing data in this area is therefore needed – a suggestion already made by an OECD report on the economic impact of counterfeiting and piracy OECD (2008). The report presented a potential way of developing information on counterfeit medicine following (Liang et al., 2007). Under a “Patient Safety Reporting System”, patients, medical practitioners and suppliers would provide input. Reporting would thereby not be restricted to professionals and rights holders, but would include consumers. To facilitate reporting, it was recommended that provisions be available for supplying input by email, the Internet (via web-based forms), mail or fax. While the focus of the system was directed exclusively towards pharmaceuticals, it could be adapted for use more widely.

Some progress is being made on collecting data on effects in a more systematic fashion, particularly in the pharmaceuticals sector. An International Medical Products Anti-

Counterfeiting Taskforce (IMPACT) was recently created by the World Health Organization (WHO, 2011). Among other goals, the task force aims to develop accessible and reliable information on the nature and extent of the problem. IMPACT has simplified the process and tools for reporting counterfeit medicine, and data collection is now facilitated by the Rapid Alert System (RAS) (WHO, 2013), a web-based reporting platform accessible to any interested party.

4.3. Next steps

The unique methodology developed for this report can lend itself to a number of additional exercises. These could include other country studies, which could eventually lead to a benchmarking exercise. The potential for additional case studies is particularly fruitful where the data are abundant and where there is evidence of significant impact by infringements.

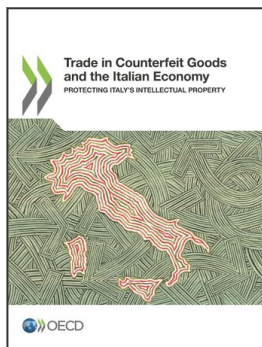
The methodology could also be successfully and repetitively re-applied to determine the relative changes in the scale and effects of counterfeiting and piracy in Italy. In addition, the methodology offers some flexibility in accommodate improvements in research, for example on substitution rates. This could lead to a more detailed analysis that would produce a more complete picture of trade in counterfeit and pirated goods, and its negative impact on rights holders, governments and consumers in Italy.

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Notes

¹ Note that the methodology takes into account the “double-counting” issue, which arises from importing fake products into Italy that infringe the IPR of Italian firms. This is done by breaking down the seizure dataset and identifying Italy as the economy of residence of rights holders whose IP rights were infringed. In addition, the framework looks only at areas where quantification was possible; the impact should definitely not be interpreted as the total impact of counterfeit trade in Italy.



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