Chapter 5

Charting the trade routes of fake ICT goods

This chapter charts the trade routes of fake ICT goods. It identifies which provenance economies appear to be producing fake ICT goods, and which are transit points in international trade. It does so by comparing the General Trade-Related Index of Counterfeiting (GTRIC) indices calculated in the previous chapter with data on ICT industrial activities.

In the previous chapter, the application of the General Trade-Related Index of Counterfeiting (GTRIC) methodology to world trade and custom seizures data identified the key provenance economies of counterfeit trade in ICT products. However, it did not indicate whether these provenance economies are source (producing) countries or transit economies.

By comparing the GTRIC indices calculated in the previous chapter with data on ICT industrial activities, this chapter charts trade routes of counterfeit ICT products to identify which provenance economies are more likely to be producers of infringing ICT devices, and which are more likely to be transit points.

The counterfeit trade routes are deliberately complex

Parties engaging in the trade of counterfeit ICT equipment tend to ship infringing products via complex trade routes, often using transit points in jurisdictions with little or no risk of IP-related enforcement actions (OECD – EUIPO, 2016). This is done to:

- "falsify" all the documents and camouflage the original point of production and/or departure
- establish distribution centres for counterfeit goods (e.g. in free trade zones), and for transhipping them in smaller orders to their final destinations
- process products, usually in the free trade areas, often by adding counterfeit trademarks and/or repackaging or re-labelling goods.

Consequently, in most cases it is difficult for customs officers to determine the producing economy, not only because of document cleansing, but also because the actual process of counterfeiting may not take place in the same economy as the good was produced. A fake product may be produced in one economy, while its labelling with counterfeit logos or packaging into trademark-infringing packages may take place in another economy that is closer to destination markets and has weaker IP enforcement.

While imports of counterfeit ICT products 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.*

*. Since 23 March 2016, customs authorities in the EU can take action in relation to goods coming from third countries and brought into the customs territory of the Union without being released for free circulation, including transit, and bearing a trade mark being identical or essential identical to an EU trade mark.

Identifying possible producers and transit points is complex

Given the very good quality of customs seizures data overall, quantitative analysis can shed light on which provenance economies are more likely to be producers of infringing ICT goods, and which are more likely to be the transit points.

Data on the ICT-related industrial activities of the top provenance economies were compared with the GTRIC-p index on the propensity of various ICT product categories to be counterfeit (Annex B). The logic behind this exercise is as follows: if a given economy is an important provenance economy of counterfeit ICT products in international trade, and is also an important manufacturer of these products, it is likely to be a producer of counterfeit ICT goods, rather than just a point of transit. Conversely, an economy that is a significant provenance according to the GTRIC-e score, but that simultaneously reports low ICT-related industrial production, is more likely to be a transit point.

The exercise was carried out in four steps:

1. ICT-related industry data (output) were extracted from the industrial statistics database of the United Nations Industrial Development Organization (UNIDO). These data are classified according to the categories of industrial activity ISIC-Rev3.
2. ISIC-Rev3 categories were matched with the main broad categories of ICT products that refer to the GTRIC-p indices.* As a result, each ICT-related industrial category (ISIC-Rev3) was assigned an index of propensity to counterfeiting from the corresponding GTRIC-p table.

*. The correspondences are the following: Computers and peripheral equipment – Manufacture of office, accounting and computing machinery (ISIC 3000); Communication equipment – Manufacture of television and radio transmitters and apparatus for line telephony and line telegraphy (ISIC 3220); Consumer electronic equipment – Manufacture of television and radio receivers, sound or video recording or reproducing apparatus, and associated goods (ISIC 3230); Electronic components – Manufacture of electronic valves and tubes and other electronic components (ISIC 3210); Electrical equipment – Manufacture of accumulators, primary cells and primary batteries (ISIC 3140).

3. A set of significant provenance economies of counterfeit ICT products was identified by listing all those with a GTRIC-e index larger than 0.3. For each provenance economy, data on ICT-related industrial outputs were weighted with the indices of propensity to counterfeiting calculated in Step 2. The results for each economy were summarised into total output of ICT industries, controlled for propensity to counterfeiting.
4. These results were then normalised for each year covered by the sample of customs seizures: 2011, 2012 and 2013.

This exercise resulted in assigning an index value of between 0 and 1 for each important provenance economy of counterfeit ICT products in international trade. Large values of this index indicate a high probability that an economy is a producer of counterfeit ICT goods. Low values indicate a high probability that an economy is an important transit point for the trade in counterfeit ICT goods (Table 5.1).

The People's Republic of China emerges as the clear main producer economy of counterfeit ICT products in international trade, while the exact role of the other important provenance economies is unclear. These provenance economies may be producers (e.g. for some sensitive ICT goods), transit economies (e.g. for other sensitive ICT goods), or both.

In addition, variations in reporting schemes and data quality mean that all these results should be considered as general indications only. The schemes used for data on industrial production (ISIC) and for propensities to counterfeit (ICT categories based on HS) are different. Moreover, the counterfeiting propensities are reported at an aggregate level, which reduces the precision of a match between both datasets.

The data on industrial production are also incomplete for many ICT sectors and economies. Only about 80% of all sectors sensitive to counterfeiting identified by GTRIC-p have a corresponding category in the industrial dataset. Available data are also lacking at the economy level, as there are still no credible data on ICT-related industrial output for many important provenance economies.

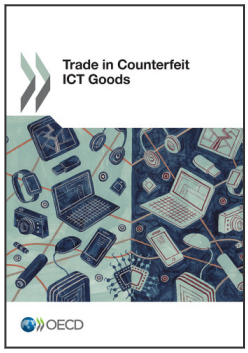
Table 5.1. **Potential producers and transit points of fake ICT goods**

Status	Provenance economy	Index
Potential **producers** of counterfeit ICT goods	**China (People's Republic of)**	1.000
Potential **transit points** for the trade in counterfeit ICT goods	**Germany**	0.419
	Korea	0.407
	Sweden	0.356
	Turkey	0.304
	Canada	0.301
	Brazil	0.298
	India	0.298
	Uruguay	0.295
	Chile	0.265
	Hong Kong (China)	0.244
	Serbia	0.238
	Morocco	0.217
	United Arab Emirates	0.208
	Tunisia	0.206
	Greece	0.198

Notes: The index assigns a relative score of between 0 and 1 to each important provenance economy of counterfeit ICT products in international trade. Large values of this index indicate a high probability that an economy is a producer of counterfeit ICT goods. Low values indicate a high probability that an economy is an important transit point for the trade in counterfeit ICT goods.

Reference

OECD/EUIPO (2016), *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264252653-en.



From:

Trade in Counterfeit ICT Goods

Access the complete publication at:
https://doi.org/10.1787/9789264270848-en

Please cite this chapter as:

OECD (2017), "Charting the trade routes of fake ICT goods", in *Trade in Counterfeit ICT Goods*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264270848-8-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.