

## Foreword

The modern structure of the UK economy is largely based on knowledge, ideas and innovation. The innovative industries that rely on intellectual property (IP) rights (including trademarks) are the backbone of the UK economy. These industries are also an integral part of global value chains, which make the UK a significant contributor of value added in the complex structures of world trade.

The trademark-intensive UK economy and its active participation in global value chains help boost the country's economic growth. At the same time, these factors make it highly susceptible to trade in counterfeit goods.

The risk of trade in counterfeits has been growing in recent years, not only becoming a significant threat to the engine of economic growth, but also undermining good governance, the rule of law and citizens' trust in government. As shown by the recent OECD reports, *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact* and *Mapping the Real Routes of Trade in Fake Goods*, trade in counterfeit and pirated goods amounted to up to 2.5 % of world trade in 2013, and was an even higher share (5%) of imports into the EU. Parties that engage in counterfeit trade are well organized, and ship goods via very complex routes that pose a formidable challenge for enforcement authorities.

Trade in counterfeit goods negatively affects UK rights holders, the UK government, and the reputation of UK firms. For the UK government, counterfeiting and piracy has an impact on tax revenues, and supports an expansion of organized criminal networks that are often actively involved in counterfeit and pirated trade. The study finds that counterfeit goods accounted for as much as 4% of total imports to the UK. At the same time, fakes make up at least 3%

of the total value of products with UK trademarks and patents that are traded worldwide.

The consequences are significant. The estimated total volume of sales lost by UK rights owners due to counterfeiting amounted to almost 2 % of their total sales in 2013. Furthermore, in 2013 an estimated sixty thousand jobs were lost in the UK due to the threat of counterfeiting (about 1.15% of total UK employment). Lastly, for the UK government, counterfeiting may have resulted in a potential loss of almost GBP 3.8 billion in tax revenue.

In order to design effective policies to tackle the threat of counterfeit trade in the UK context, the problem needs to be identified and assessed. This study serves two purposes:

It proposes an objective and fact-based methodology for such quantitative assessment of the scale and harmful effects of counterfeit trade on UK rights holders and the UK government;

It applies this methodology, providing robust findings that will help the UK government design policies to combat counterfeiting and piracy and to identify the main governance gaps in this area.

This study was carried out by 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 market vulnerabilities exploited and created by illicit trade. This is the first of a set of country and regional case studies that will not only assess the scale and magnitude of counterfeit trade, but also quantify some of its negative economic impacts at a regional level.

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