

Executive summary

Trade in counterfeit goods is a longstanding socio-economic problem that continues to grow in scope and magnitude. It gives rise to significant challenges to effective governance, efficient business and the well-being of consumers, while simultaneously being a key source of income for organised criminal groups.

For consumers, counterfeiting poses dangers for health, safety and privacy. It may also lower consumer satisfaction, notably when low-quality fake goods are purchased unknowingly. For intellectual property rights holders and their authorised vendors, rising counterfeiting brings revenue losses, while trademark infringements continuously erode brand value. For governments, counterfeiting means lost tax revenues, higher unemployment and greater expenses in ensuring compliance with anti-counterfeiting legislation, and in reacting to public safety threats and labour-market distortions.

This report measures the direct, economic effects of counterfeiting on consumers, retail and manufacturing industry and governments in the United Kingdom (UK). It does so from two perspectives: (1) the impacts on these three groups of imports of fake products into the UK; and (2) the impact on UK intellectual property rights holders of the global trade in fake products. The study developed a methodology to gauge the magnitude and scale of counterfeit trade in the UK 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.

The results of this study refer to 2013 – the year for which latest data are available. However the methodology could be re-used to determine the scale of harm caused by counterfeiting on the UK economy once the new data become available.

Key findings

Trade in counterfeit goods – the UK context

- Imports of counterfeit goods to the UK accounted for as much as GBP 9.3 billion in 2013. This represents 4% of UK imports, well above the 2.5% average share of fake goods in world imports. Electronic and electrical equipment, clothing and footwear were the most frequent counterfeit products smuggled into the UK, followed by toys and games, and leather goods.
- Fakes make up at least 3% of the total value of products with trademarks and patents of UK residents that are traded worldwide. However, for some product categories, like toys, clothing and footwear, this share exceeds 10%.
- China and Hong Kong (China) and India are the main sources of counterfeit imports to the UK. Asian economies, particularly China, India and Turkey are the main provenance of counterfeit and pirated goods that infringe the IPRs of UK residents.
- Approximately half (48%) of counterfeit and pirated were intended for sale on the secondary market. These fake goods were supposed to deceive consumers, who would have bought them believing these goods were genuine.

Impacts on the UK

- **Impacts on sales:** The total volume of lost sales of genuine products in the UK wholesale and retail sector due to imported counterfeit and pirated substitutes amounted to GBP 4.218 billion in 2013, equivalent to 1.37% of total sales in the sector that year. The total volume of lost sales by UK IP rights owners amounted to GBP 8.6 billion, or 1.95% of their total sales in 2013.
- **Impacts on consumers:** The total consumer detriment (the price premium unjustly paid by the consumer in the belief that they are buying a genuine product) of buying counterfeit and pirated products in the UK amounted to almost GBP 100 million in 2013.
- **Impacts on jobs:** Global counterfeiting and piracy in 2013 resulted in 60 000 lost jobs in the UK, comprising 40 000 in the retail and wholesale sector, and 20 000 in the manufacturing sector. This represents 1.15% of all employees in the UK.

- **Impacts on government revenue:** Counterfeit trade meant the UK government lost almost GBP 3.8 billion in tax revenue, of which GBP 2.4 billion were due to counterfeit imports to the UK and 1.4 billion were due to illicit trade in goods that infringe IPR of UK residents. This represents around 1% of the taxes the UK government should have collected on corporate profits, personal incomes, consumption (VAT) and social security contributions.

These estimated losses refer to direct economic impacts only; long-term effects (e.g. on innovation) and other effects (e.g. health and safety) are not included due to data limitations. If added, the total effect of counterfeiting and piracy on the UK economy would be much higher.

The findings should help both public and private sector decision makers to better understand the nature and scale of the trade in counterfeit goods for the UK economy, and to develop appropriate, cohesive, and evidence-based policy responses.



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