



# Economic Studies in the Observatory

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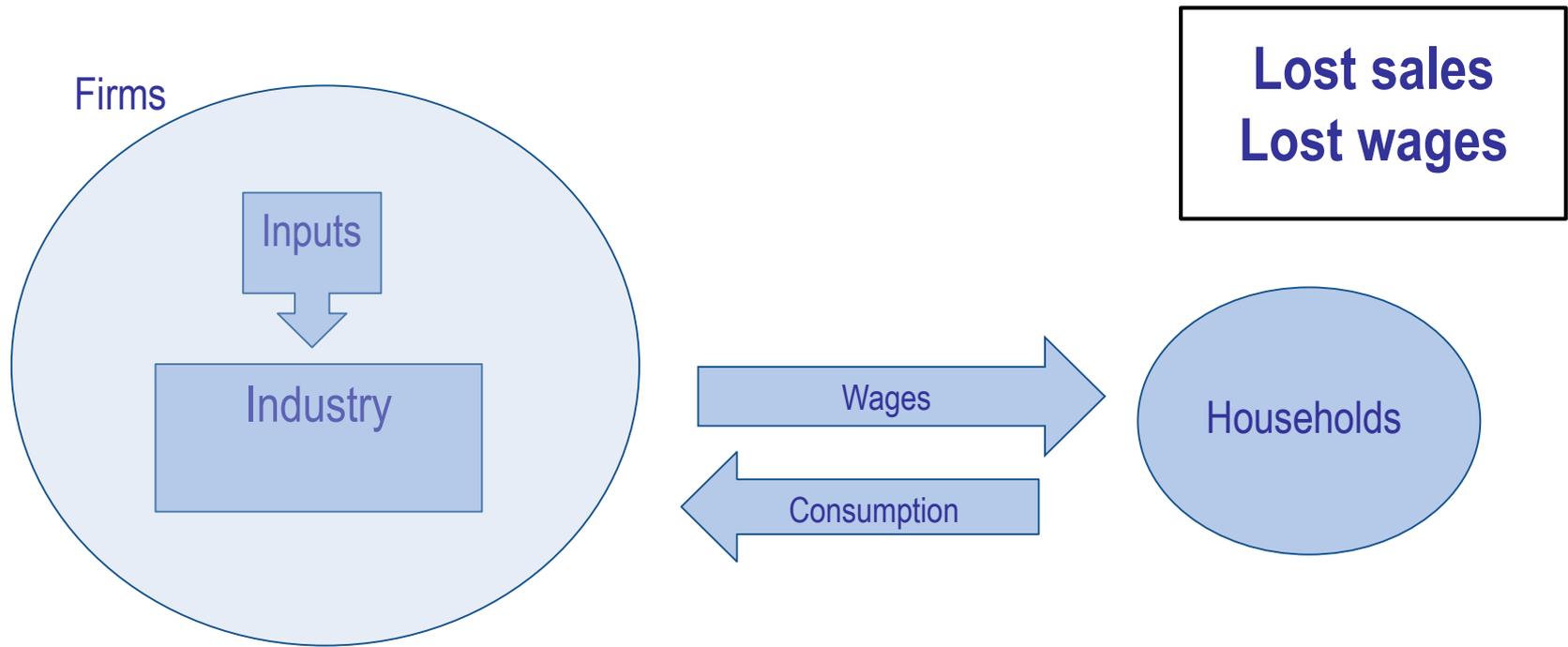
**Patrice Pellegrino, Brussels Liaison Officer OHIM**  
**Conference on Policy and Stakeholder Perspectives to Prevent Counterfeiting and Illicit Trade**

**Brussels, 16<sup>th</sup> June 2015**

## Quantification of Infringement

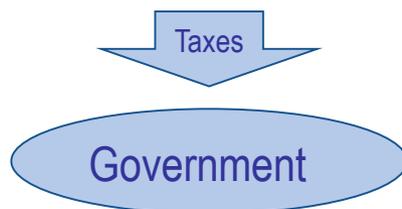
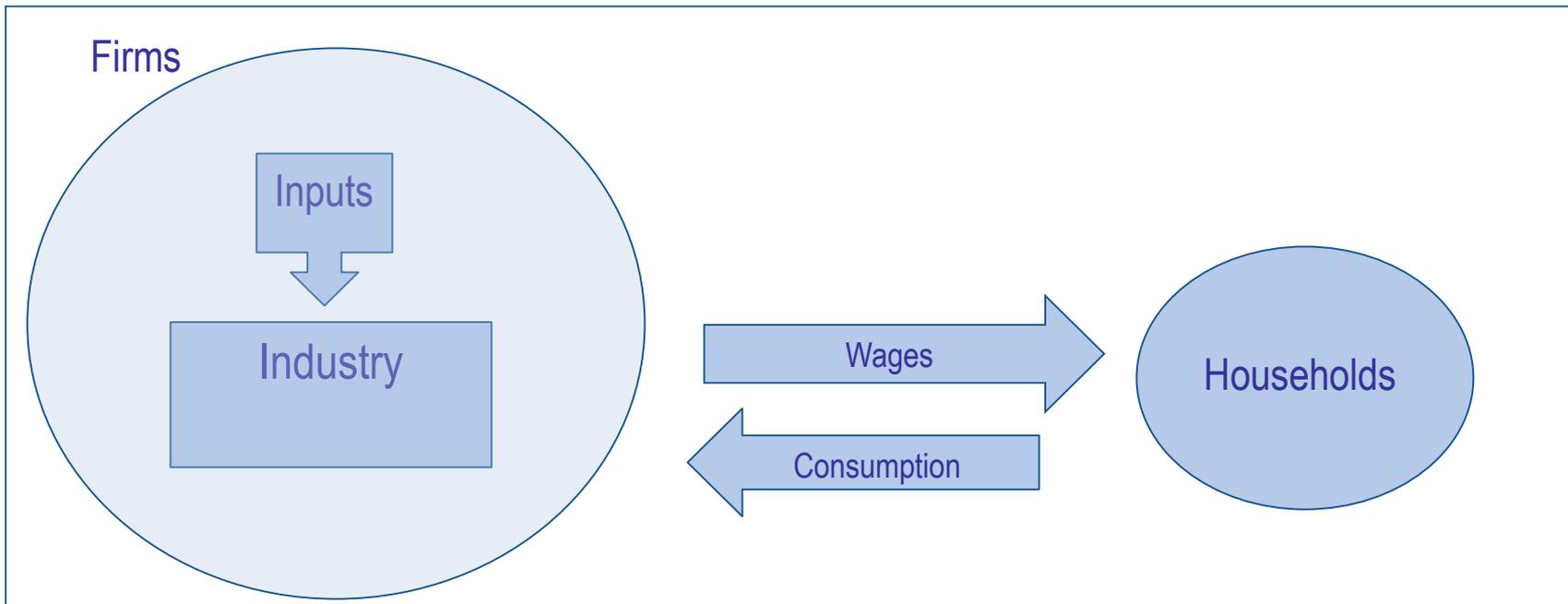
- Objective: to quantify the extent and impact of counterfeiting and piracy in the EU
  - Reduced sales by legitimate businesses
  - Reduced tax revenues
  - Lower employment
  - Costs of enforcement, both public and private
- Four work streams
  - Joint study with OECD (counterfeit goods)
  - Studies to be carried out with JRC: infringement of digital content (music, film, e-books)
  - Infringement of Geographical Indications (in cooperation with DG AGRI)
  - **Sectorial studies carried out by OHIM (counterfeit goods)**

# Infringement: Impact on private sector



**Induced effects:** decrease in consumer spending because of lost wages in legitimate industries (to some extent compensated by income from counterfeiting activities).

# Infringement: Impact on public sector



**Loss of government revenues: taxes and Social Security contributions**

## Other economic costs of IP infringement: private sector

- Cost of staff dedicated to fighting infringement
- Operational costs related to fight against infringement (e.g. private investigation, storage and destruction, travel etc.)
- Legal costs (in-house and outside counsel, evidence gathering, non-recoverable damages)
- Consequential costs (e.g. increased insurance premium or reduced investment that leads to foregone profits)
- In the long run, less innovation due to reduced investment

## Other economic costs of IP infringement: public sector

- Other revenue losses (excise taxes, import duties)
- Costs of enforcement (customs, police, prosecutors, judiciary, IP office, other authorities)
- Administrative and coordination costs related to enforcement
- Storage and destruction costs
- Costs of awareness campaigns
- Costs of dealing with health and safety consequences of counterfeit products

## Joint study of trade in counterfeit goods with OECD

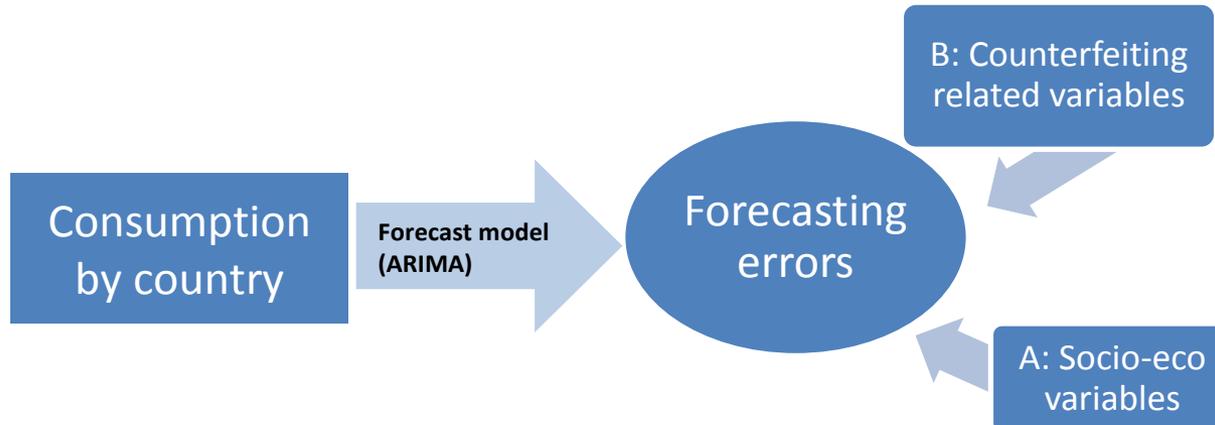
- In 2008, OECD estimated that trade in counterfeit goods amounted to \$250 billion per year
- OHIM and OECD are now updating this study
  - Better data (in cooperation with DG TAXUD and WCO)
  - Enhanced methodology
- Project carried out under mandate of OECD's Task Force on Illicit Trade
- Significant financial contribution and participation by OHIM staff
- Work started 1/1/2015, completion 1H 2016

## Sectorial studies of impact of counterfeit goods

- ✓ Perfumes and toilet preparations: € 60 billion
  - ✓ Industrial gases: € 14 billion
  - Medicines: € 288 billion
  - Tobacco products: € 64 billion
  - ✓ Clothing and footwear: € 270 billion
  - Vehicle parts: € 204 billion
  - ✓ Watches and jewellery: € 15 billion
  - ✓ Luggage and handbags: € 15 billion
  - Pesticides: € 12 billion
  - Spirits: € 15 billion
  - Wine: € 26 billion
  - Beer: € 42 billion
  - ✓ Sports goods: € 8 billion
  - Games and toys: € 11 billion
  - Computers: € 69 billion
- Other sectors under consideration:
- mobile phones
  - construction materials

# Sectorial studies: methodology

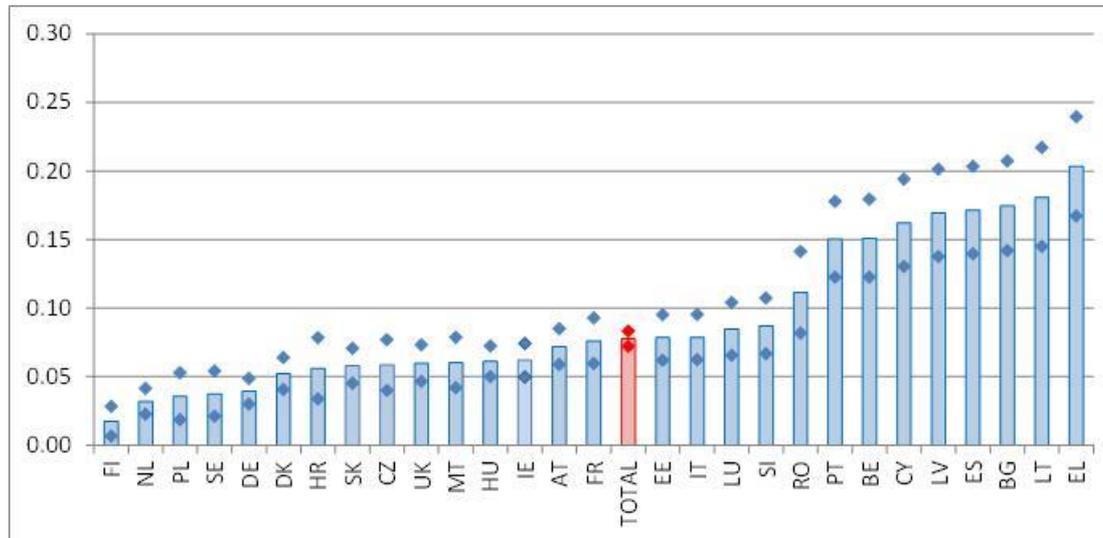
1. Construct forecasting model (ARIMA) for consumption by country
2. Analyse the forecasting errors from stage 1 and explain these errors with relevant explanatory variables



## Explanatory variables

- Variables related to demand for cosmetics and perfumes, such as:
  - GDP or per capita income
  - GDP growth
  - Prices
  - Demographic variables
- Variables related to counterfeiting, such as:
  - Income distribution (population in risk of poverty, Gini index)
  - Indexes of corruption, government effectiveness, regulatory quality
  - Attitudes towards IPR, as revealed by IP Perception Study and other surveys
- Altogether, 65 different explanatory variables were considered

# Results for perfumes and toilet preparations (published 10/3/2015)



The average over five years of total counterfeiting effect estimated for EU28 is **7.8% of consumption (4.7 billion €)**. *This is a **DIRECT** estimate of sales lost by industry in the EU as a result of counterfeiting.*

**DIRECT effect on employment = 51,561 jobs.**

# Results for perfumes and toilet preparations: indirect effects

Since production in the legitimate industry is lower than it would otherwise have been, its purchases from other sectors that provide inputs to NACE 20.42 are also lower.

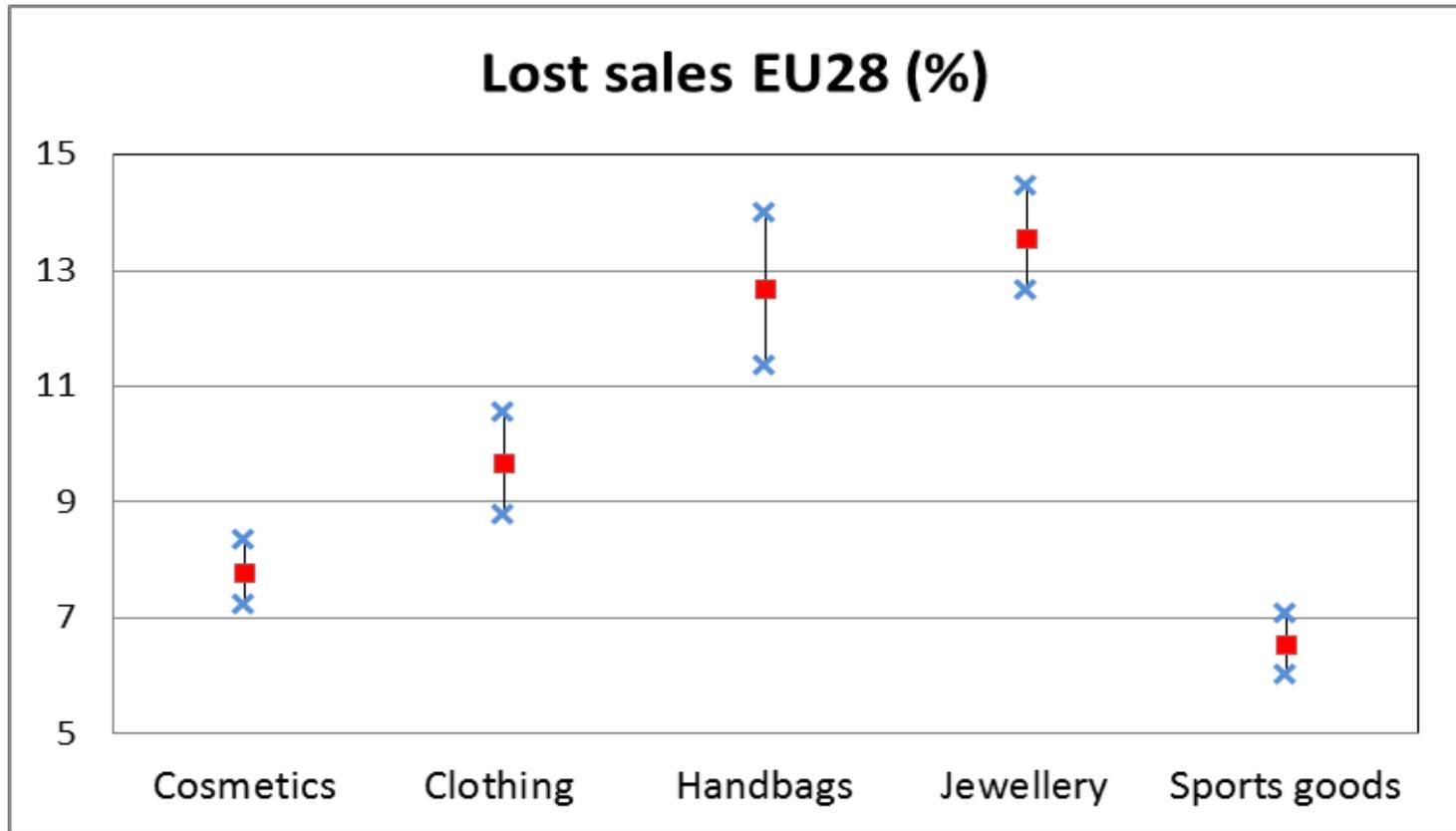
Total effect of lost sales due to counterfeiting **including DIRECT and INDIRECT effects** is estimated at **9.5 billion €**.

Chemical industry	2,3	Financial services	0.2
Wholesale trade	2,3	Security	0.2
Retail trade	1,1	Rental & leasing	0.1
Legal and accounting	0.3	Advertising	0.1
Electricity, gas ...	0.3	Construction	0.1
Warehousing	0.2	....	
Real state	0.2	<b>TOTAL</b>	<b>€ 9.5B</b>

Total loss of employment  
(direct+indirect)  
**78,959**

Loss of government  
revenue: **€ 1.7 B**

# Sectorial studies: summary of results for 5 sectors





## Joint study of digital infringement with JRC

- Collaboration with Institute for Prospective Technology Studies (IPTS), JRC satellite in Seville
- Music: well advanced
- Film: some work done, but lack of data
- E-books: currently discussing ToR and data issues with IPTS
- Other types of digital content (e.g. TV shows, streaming of sporting events) when and if data becomes available

## Study of infringement of GIs

- Cooperation with DG AGRI
- Unlawful use of EU GI names under Article 12 and 13 of the 2006 Regulation, including imitation, evocation or translation
- Based on reports on controls carried out in Member States and provided to the Commission
- Objective: to estimate the size of the illicit market
- Terms of Reference presented to the Economics & Statistics Working Group in February 2015



**OFFICE FOR HARMONIZATION  
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**Thank You**