

Chapter 2. Imports of fakes to Sweden

Markets for fakes in Sweden

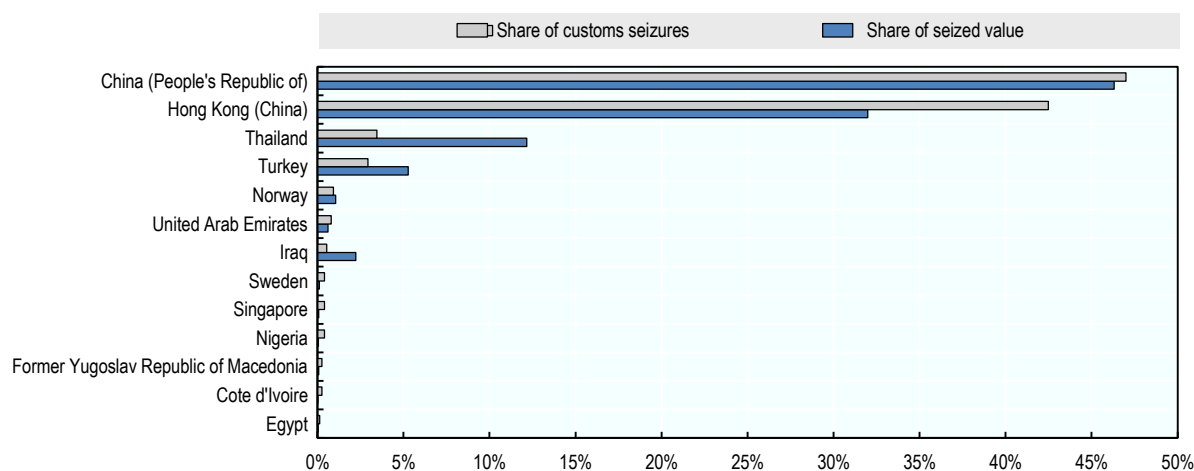
Before calculating the economic consequences of imports of counterfeit and pirated products in Sweden, the first step consists in quantifying the volume and the scope of these imports into Sweden. This analysis relies on a database of seized counterfeit and pirated products provided by customs (see Box 1.1 in Chapter 1).

Where do these goods come from?

Counterfeit and pirated products imported to Sweden between 2014 and 2016 came mainly from China and Hong Kong (China) representing respectively around 46% and 32% of the total value seized. They were followed by Thailand (12%), Turkey (5%) and Iraq (2%).

In terms of volume, the ranking of top provenance economies remains comparable to that of the value of fakes, with China and Hong Kong (China) ranking first and second.

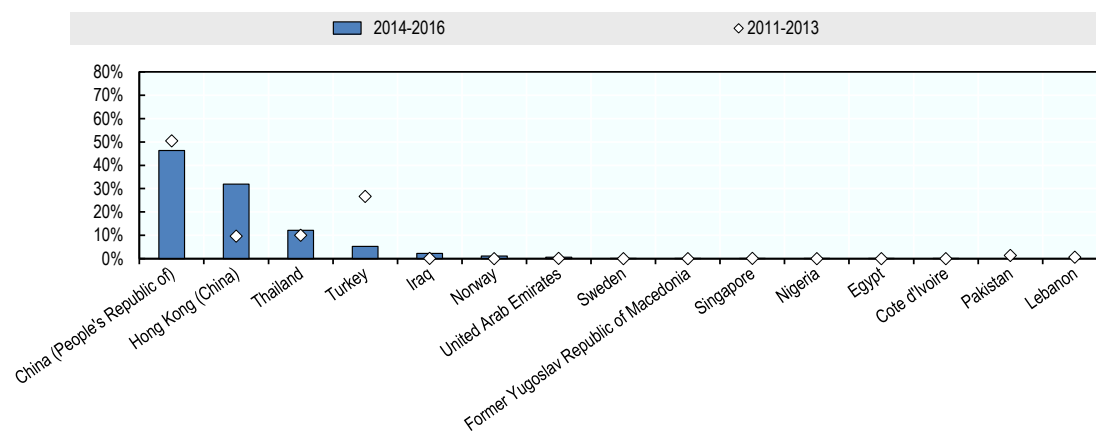
Figure 2.1. Top provenance economies for counterfeit imports in Sweden, 2014-16



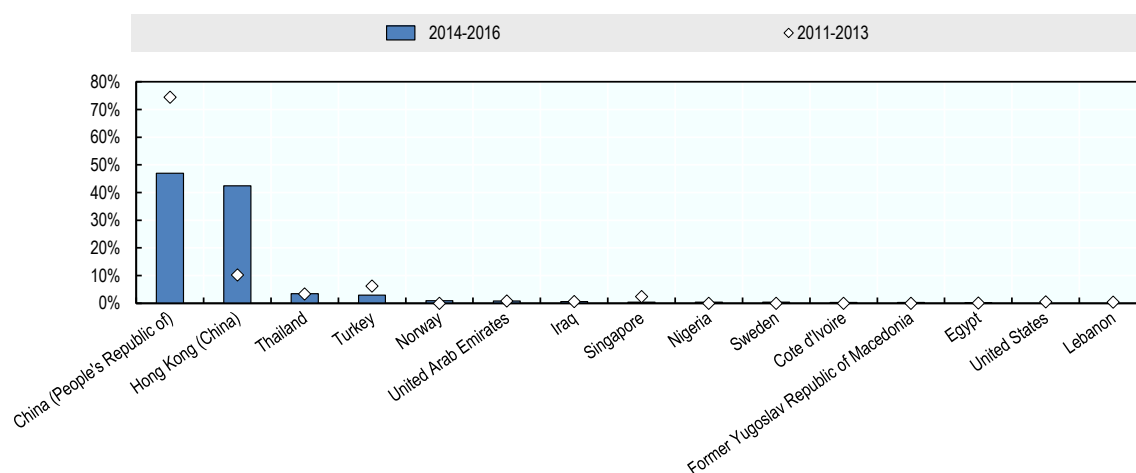
Initially (i.e. between 2011 and 2013), the top four provenance economies for counterfeit imports in Sweden were already China, Hong Kong (China), Singapore and Turkey. Over time, these economies remained the most prominent provenances of fakes coming into Sweden. However, it is worth noting that Turkey moved back while Hong Kong (China) moved up in the ranking in terms of both seized value and customs seizures.

Figure 2.2. Top provenance economies for counterfeit imports in Sweden, change between 2014-16 and 2011-13

A. In terms of seized value



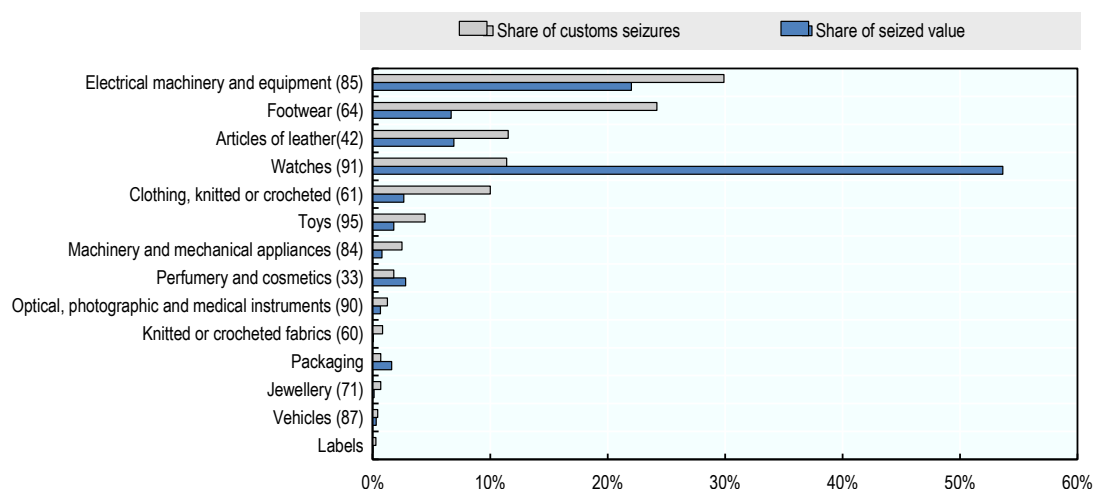
B. In terms of customs seizures



Which product types are most likely to be counterfeited?

Regarding infringed products categories, one can see that counterfeit products smuggled into Sweden are especially concentrated in a limited number of industries. Relating to both the number of customs seizures and the seized value, these include electrical machinery, footwear, leather goods, clothing and watches (see Figure 2.3).

Looking at specific products, a very wide range of counterfeit goods has been imported to Sweden. For example, for the general category “clothing”, fakes include dress shirts, sweat suits, t-shirts, jackets, jumpers, socks and sport jackets. The electrical machinery and equipment category includes seized goods such as earphones, mobile phone parts, batteries, chargers and TVs. Counterfeit belts, gloves, handbags, jackets and travel trolleys belong to the articles of leather category destined for the Swedish market.

Figure 2.3. Share of seizures of counterfeit goods in Sweden by product type, 2014-16

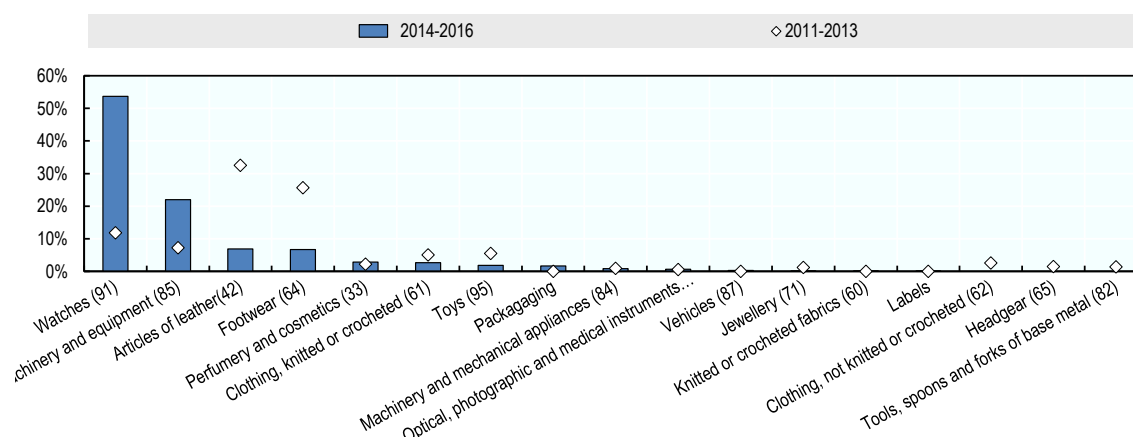
Note: Figures in parenthesis are Harmonized System (HS) codes as defined by the United Nations Trade Statistics (UN Trade Statistics, 2017).

Concerning changes between 2011-13 and 2014-16, the top five product categories of counterfeit goods in Sweden remains composed the same way but changes have to be noted. In terms of seizures, the share of electrical machinery and watches increased in 2014-16 while the share of footwear, leather goods and clothing tended to decrease over this period (Figure 2.4).

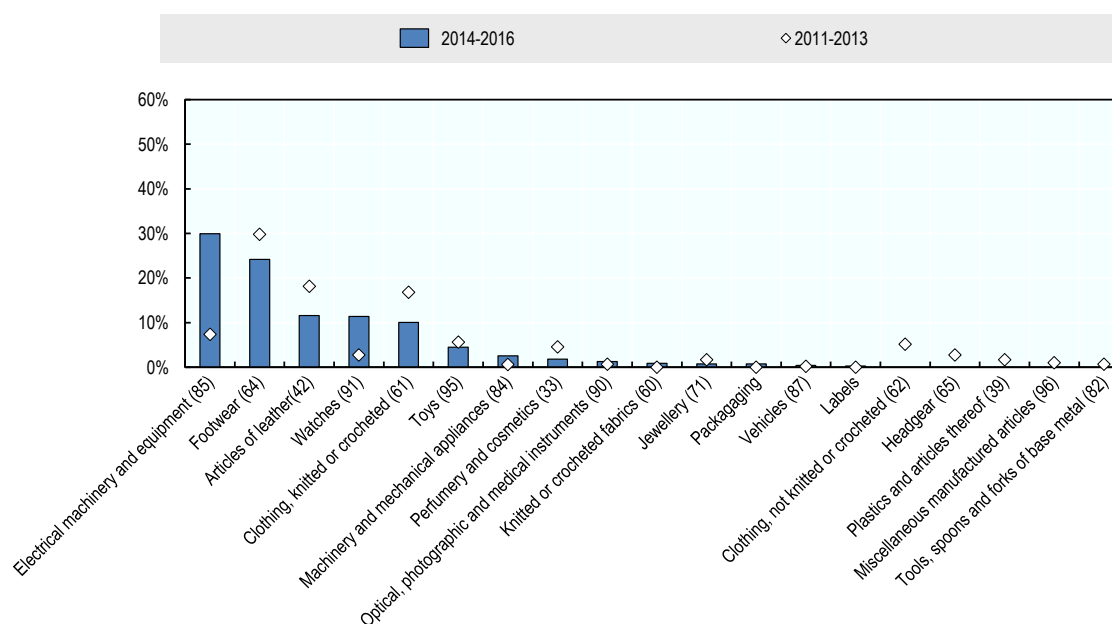
Findings relating to seized value are very similar: the share of watches and information and communication technology (ICT) devices increased while the share of leather products and footwear decreased.

Figure 2.4. Share of seizures of counterfeit goods in Sweden by product type, change between 2014-16 and 2011-13

A. In terms of seized value



B. In terms of customs seizures

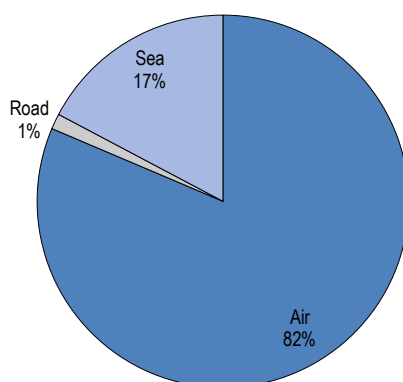


What are the conveyance methods used to ship fake Swedish imports?

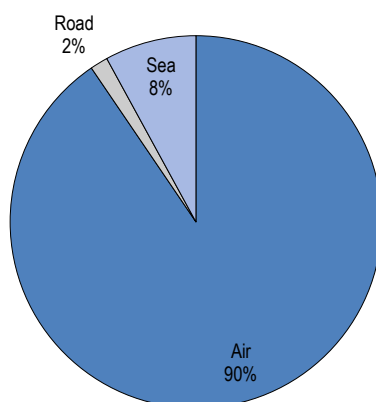
In terms of their value, in 2014-16, counterfeit goods imported into Sweden were mainly transported by air (82% of the seized value), followed by sea (17%). This also means that 90% of customs actions involving seizures of Swedish fake imports were shipped by air, followed by sea (8%) and road (2%).

Figure 2.5. Transport modes of fake goods imported to Sweden, 2014-16**A. In terms of seized value**

2014-16

**B. In terms of customs seizures**

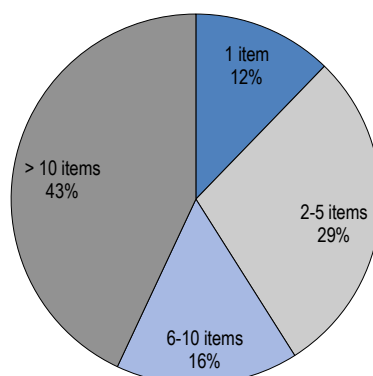
2014-16



Regarding the size of shipments, around 57% of the seizures involved 10 or less items. More than 40% of seized goods were shipped in small packages which counted less than 6 items. These figures are in line with the worldwide trend since a majority (63%) of global customs seizures of counterfeit and pirated goods involved small parcels (OECD/EUIPO, 2018). The increasing use of small shipments is a mean for counterfeiters to reduce losses in the event of customs interception. It also reflects the sharp growth in e-commerce and particularly the increase in items shipped directly to consumers by parcel post or letter packets. (Figure 2.5).

Figure 2.6. Size of shipments of counterfeit imports to Sweden, 2014-16

As a percentage of customs seizures

***What is the total value of counterfeit products sold in Sweden?***

The best estimates, based on the data provided by customs authorities and on the GTRIC methodology, indicate that imports of counterfeit and pirated goods in Sweden accounted for as much as SEK 18.3 billion (USD 2.2 billion), the equivalent of 1.6% of Swedish imports of genuine goods. The term “as much as” is important since it refers to the upper limit of counterfeit and pirated products imported in Sweden. In addition, this amount does not include domestically produced and consumed counterfeit and pirated products and pirated digital products that are distributed via the Internet.

The analysis also shows that the degree of counterfeiting in Sweden varies across product categories. Watches and jewellery as well as toys and games were the most affected categories by counterfeiting. Indeed, 14.3% and 12.2% of goods imported to Sweden in these respective categories were fakes. This was followed by clothing (8.9%) and electronic appliances (5.9%). Categories relating to vehicles (0.2%) and machinery (0.9%) were affected by counterfeiting to a lesser extent.

Table 2.1. Top product categories subject to counterfeiting in Swedish imports in relative terms, 2016

In terms of share within the product category	
HS category	Share of fake imports (%)
Watches and jewellery	14.3
Household cultural and recreation goods; including toys and games, books and musical instruments	12.2
Clothing, footwear, leather and related products	8.9
Electrical household appliances, electronic and telecommunications equipment	5.9
Perfumery and cosmetics	1.5
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	0.9
Motor vehicles and motorcycles	0.2

In absolute terms, ICT devices are by far the most counterfeited types of goods (see Table 2.2 for the top categories). The estimated value of fake ICT devices imported into Sweden amounted SEK 10 billion (USD 1.2 billion) in 2016. This category includes a wide range of products such as phone batteries, chargers and earphones. The clothing category followed, whose value of fake goods imported into Sweden amounted to around SEK 4.6 billion (USD 550 million).

The high estimate value of fake ICT devices reflects the strong and growing demand for this kind of goods. In addition, ICT products are knowledge-intensive and protected with intellectual property, and consequently particularly subject to counterfeiting (see the OECD report on trade in counterfeit ICT goods, 2017).

Table 2.2. Top product categories subject to counterfeiting in Swedish imports in absolute terms, 2016

HS category	Value in USD million
Electrical household appliances, electronic and telecommunications equipment	1210.0
Clothing, footwear, leather and related products	551.0
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	165.0
Household cultural and recreation goods; including toys and games, books and musical instruments	160.0
Watches and jewellery	74.0
Motor vehicles and motorcycles	39.8
Perfumery and cosmetics	13.3

The primary and secondary markets for counterfeit products sold in Sweden

The distinction between primary and secondary market is crucial for the analysis of the economic impacts of counterfeit products smuggled into Sweden. The primary market refers to the consumers that bought fakes unknowingly. On this primary market, every sale of a fake item represents a direct loss for the Swedish retail and wholesale industry. The secondary market refers to the consumers who buy fakes consciously. On this secondary market, only a share of consumers would have deliberately substituted their purchases of counterfeit products for genuine ones.

Table 2.3 identifies the share of secondary and consequently primary markets for counterfeit products sold in Sweden by sector. This shows that 49.8% of imported counterfeit and pirated products sold in Sweden in 2014-16 were sold to consumers who actually knew they were buying fake products while the remaining share purchased unwittingly. The share of fakes destined for secondary markets varies significantly by sector, ranging from 20% for vehicles to 57.8% for toys and games. Logically, consumers tend to buy fakes unknowingly for product categories with a potential high-security issue (i.e. vehicles and machinery).

Table 2.3. Share of secondary markets for counterfeit products in Sweden

Sector	Share of secondary market (%)
Household cultural and recreation goods; including toys and games, books and musical instruments	57.8
Perfumery and cosmetics	55.0
Watches and jewellery	53.8
Electrical household appliances, electronic and telecommunications equipment	52.3
Clothing, footwear, leather and related products	48.3
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	37.5
Furniture, lighting equipment, carpets and other manufacturing n.e.c	33.3
Motor vehicles and motorcycles	20.0
Total	49.8

Once the share of primary and secondary markets is identified, the next step is to calculate the consumer's substitution rate on the secondary market, i.e. the extent to which every illegal purchase replaces a legal sale. Academic research on consumers' socio-economic behaviour and consumers themselves are the two different sources to obtain information on substitution rates.

There are several studies that report estimates on consumers' substitutions rates. The first one is the Anti-Counterfeiting Group's (2007) consumer survey that looked at various product categories. It assessed a 39% substitution rate for clothing and footwear, meaning that every UDS 2.5 spent on fake clothes, accessories or footwear in secondary markets translates into USD 1 in lost sales for the retail and wholesale industry. The same survey determined the 49% substitution rate for products related to the perfumery and cosmetics sector and 27% for products belonging to the watch and jewellery industries. Another study on substitution rates was a survey by Tom et al. (1998) that determined the rate of 32% for all other fake products sold on secondary markets. All these substitution rates are displayed in Table 1.1.

To what extent are Swedish consumers overpaying for fake products?

For deceived Swedish consumers who purchased fakes on primary markets, counterfeit product smuggling may reduce the value or satisfaction they derive from the products concerned. This is based in large measure on differences from similarly priced products in terms of quality and/or performance. Such differences are likely to be noticed, for instance when a consumer buys a low-quality fake product on the primary market believing it to be a high-quality genuine article.

Of course, counterfeit products dramatically increase the potential for negative effects on the health and safety of consumers. However, the regulatory control of supply chains in Sweden is efficient and there were no major reported instances of fakes posing a potential threat to the supply chain of genuine goods. In addition, even if such damages occur, they cannot be simply quantified and so fall outside the scope of this report.

In 2016, the total detriment due to consumer deception amounted to almost SEK 4.5 billion (USD 540 million). The highest detriment was recorded for electrical appliances, electronic equipment (SEK 2.3 billion or USD 271 million) followed by clothing (SEK 1.3 billion or USD 159 million).

Table 2.4. Estimate of consumer detriment in Sweden by sector, 2016

Sector	Value in USD million
Electrical household appliances, electronic and telecommunications equipment	271
Clothing, footwear, leather and related products	159
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	55.8
Household cultural and recreation goods; including toys and games, books and musical instruments	36.5
Watches and jewellery	13.3
Perfumery and cosmetics	3.9
Total	539.5

The effect of fake goods on sales in the Swedish retail and wholesale sector

Overall, the total volume of foregone sales in the Swedish wholesale and retail sector due to counterfeit imports in 2016 was SEK 4.3 billion (USD 521 million) equivalent to 1.5% of the total sales of the wholesale and retail sectors affected by counterfeiting.

In absolute terms, the highest sales losses to the Swedish wholesale and retail industries were for electrical household appliances, electronic and telecommunications equipment (SEK 2.3 billion or USD 275.4 million), followed by clothing, footwear, leather and related products (SEK 1.1 billion or USD 136.8 million), and machinery, industrial equipment, computers and peripheral equipment, ships and aircrafts (SEK 361.7 million or USD 43.4 million).

In relative terms, the sector of electrical household appliances, electronic and telecommunications equipment experienced the highest losses (6% of sales), followed by the sector of watches and jewellery (3.5%) and that of clothing, footwear, leather and related products (1.5%).

Table 2.5. Lost sales for the Swedish retail and wholesale sector due to fake imports in Sweden, 2016

Sector	Value in USD million	Share of sales (%)
Electrical household appliances, electronic and telecommunications equipment	275.4	6.0
Watches and jewellery	15.8	3.5
Clothing, footwear, leather and related products	136.8	1.5
Household cultural and recreation goods; including toys and games, books and musical instruments	34.2	1.2
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	43.4	0.6
Perfumery and cosmetics	3.4	0.4
Motor vehicles and motorcycles	12.1	0.1
Total	521.1	1.5

The effect of the counterfeiting market on jobs in the Swedish retail and wholesale industry

Total job losses in the wholesale and retail sector due to counterfeit imports into Sweden amounted to around 2 500 in 2016, equivalent to 1% of all people employed in the sectors affected by counterfeiting.

In absolute terms, the highest job losses due to counterfeiting were found in the electrical household appliances, electronic and telecommunications equipment sector (1 190 people). This was followed by the clothing and toys and games industries where job losses were experienced by 726 people and 245 people respectively.

In relative terms, the ICT devices industry experienced the highest job losses (around 4% of employees). It was followed by the watches and jewellery, and clothing industries where job losses represented 2.1% and 1.1% of their employees respectively.

Table 2.6. Lost jobs in the Swedish retail and wholesale sector due to fake imports in Sweden, 2016

Sector	Number of employees	Share of employees (%)
Electrical household appliances, electronic and telecommunications equipment	About 1 200	3.9
Watches and jewellery	About 100	2.1
Clothing, footwear, leather and related products	About 700	1.1
Household cultural and recreation goods; including toys and games, books and musical instruments	About 250	0.8
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	About 200	0.4
Perfumery and cosmetics	Less than 100	0.2
Motor vehicles and motorcycles	Less than 100	0.1
Total wholesale and resale sector	About 2 500	1

The effect of the counterfeiting market on Swedish government revenues

Lower sales in the wholesale and retail sector due to counterfeit and pirated imports in Sweden mean lower tax revenues for the Swedish government from value-added tax (VAT), corporate income tax (CIT), personal income tax (PIT) and social security contributions.

Table 2.7 presents this foregone revenue by type of taxes, which amounted to SEK 1.8 billion (USD 222 million) in 2016. Within this overall figure, the largest component was foregone value-added taxes, amounting to around SEK 1 billion (USD 130 million).

Table 2.7. Foregone taxes for the Swedish government due to fake imports into Sweden, 2016

Tax type	Value in USD million
Value-added taxes	130.3
Personal income taxes and social security contributions	61.9
Corporate income taxes	30.0
Total	222.2

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