

2. Counterfeiting in Italy

This chapter profiles the victims, volume, and economic consequences of counterfeit and pirated imports in Italy. It lists the top provenance economies for products seized by Italian customs, and compares the ongoing likelihood of each country to be a source of counterfeit goods sold in Italy. It then describes the product types most likely to be fakes, and – employing new, purpose-built methodology – quantifies the degree of counterfeiting for each. The discussion goes on to distinguish between primary and secondary markets, and explores the factor of “consumer detriment”. The chapter concludes with an elaboration of the deleterious effects of counterfeiting for the Italian economy, in terms of consumer welfare, lost sales, lost jobs, and lost government revenue.

2.1. Who is affected and how?

In Italy, imports of counterfeit and pirated products primarily affect:

- Italian retail and wholesale industries
- the Italian government
- Italian consumers.

One could of course argue that Italian IP owners are also negatively affected. That would refer to cases where a fake product smuggled to Italy also infringes Italian IP rights. In order to avoid double counting, those cases are studied in Chapter 3 of this report.

2.1.1. Industry

Legitimate Italian wholesalers and retailers can be badly affected by counterfeit products smuggled into Italy. The damage comes mainly from sales of fake products on secondary markets, i.e. to consumers who knowingly buy them. This in turn leads to lower levels of employment in both sectors.

On the other hand, some industries can actually benefit from counterfeiting. Intermediaries, such as shipping and delivering companies, may record for instance higher demand for their services because of the smuggling of counterfeit goods.

The methodology developed below focuses only on losses incurred by the wholesale and retail industries due to counterfeiting and piracy. It does not take into account either the positive impact of production of counterfeit products, nor potential gains that intermediaries derive from counterfeit trade.

There are two main reasons for this. Firstly, too little is known about the exact nature of counterfeit operations to establish a sound econometric framework that could quantify any potentially positive impact. Secondly, parties that gain from counterfeiting and piracy often operate in an illegal economic environment. The benefits they derive hence do not contribute to social welfare. They instead result in a set of negative externalities, such as erosion of the legal system, corruption of governance structures, and the emergence of criminal networks.

2.1.2. Government

For governments, the principal effects of counterfeit goods smuggling are forgone tax revenues. First of all, the lower sales volume and profits of wholesalers and retailers directly reduce corporate income taxes. Secondly, sales on secondary markets made by wholesalers and retailers are not likely to be registered, which results in reduced sales taxes and value-added taxes. Finally, job losses brought about by counterfeiting reduce payroll taxes, notably social security contributions and personal income taxes.

In the longer term, counterfeit trade can also have broader, more general socio-economic effects on governments, for example relating to trade, innovation and growth, employment, the environment, and criminal activity. However, due to lack of sufficient and consistent cross-economy statistics, quantification of these impacts is not possible at this stage (see Box 2.1).

Box 2.1. The long-term effects of counterfeiting and piracy

The presence of counterfeit and pirated products can have profound long-term implications. For industries, the continued availability of counterfeit products may damage the value of the brand and image of the producers of genuine products. For instance, consumers who purchase fake items in the belief they are genuine will be likely to blame the manufacturer of the genuine product if the fake does not fulfil expectations, thus damaging goodwill. If consumers never discover they have been deceived, they may be reluctant to buy another product from that manufacturer, and may communicate their dissatisfaction to other potential buyers. Also, consumers who purchase the genuine article may be put off by the availability of a counterfeit version. Given that these consumers are aware of potential deception on the primary market, they could adjust their expectations about future consumption.

In addition, lower revenues and profits resulting from counterfeiting and piracy lead in turn to lower investments by rights holders, including investments in research and development (R&D). This could translate into less innovation, slowing technical progress and lowering the rate of economic growth in the longer term.

2.1.3. Consumers

For consumers, 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.

In addition, counterfeit products dramatically increase the potential for negative effects on the health and safety of consumers. Counterfeiters, who target the primary market, while seeking to maximise profits, have limited or no interest in ensuring the quality, efficacy or safety of their products. However, the regulatory control of supply chain of pharmaceuticals and medical equipment in Italy is efficient. There are no major instances of proliferation of counterfeit pharmaceuticals or medical equipment to the supply chain of genuine goods. In addition, even if such damages occur, they cannot be simply quantified, and so they fall outside the scope of this report.

2.1.4. Overall impact

This study provides an estimate of overall impact of counterfeit product smuggling in four areas:

1. loss of sales for retailers and wholesalers;
2. job losses in the wholesale and retail sector;
3. lower tax revenues; and
4. loss of consumer welfare.

The data and the methodological framework developed to calculate these effects are presented, in Annex A.1 and Annex A.2.

2.2. The market for counterfeit products in Italy

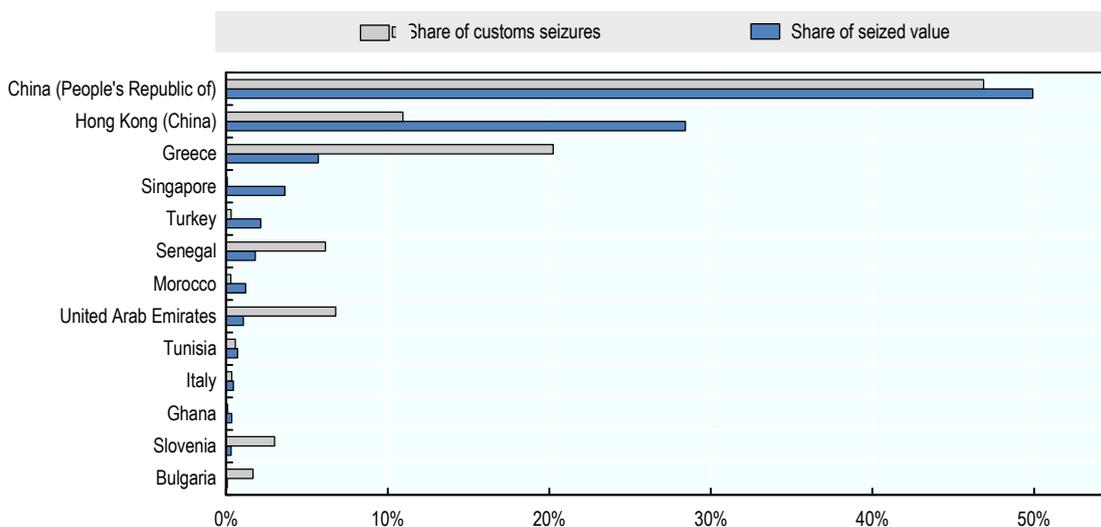
Before calculating the economic consequences of imports of counterfeit and pirated products in Italy, the first step consists in quantifying the volume and the scope of these imports in Italy.

The following paragraphs provide some descriptive statistics on the scope of the market for counterfeit and pirated imports in Italy. Because the value of counterfeit and pirated products seized by customs authorities is likely to represent only a fraction of the actual value of fakes smuggled into the territory, this section uses the General Trade-Related Index of Counterfeiting (GTRIC) methodology developed in OECD/EUIPO (2016) and presented in detail in Annex A.4, to provide a reasonable estimate of the full value.

2.2.1. Where do fake products arriving in Italy mainly come from?

A review of the data on Italian customs seizures shows that counterfeit products imported into Italy between 2011 and 2013 came mainly from China and Hong Kong, China, representing respectively around 50% and 29% of the total value seized by Italian customs (Figure 2.1). They were followed by Greece (6%), Singapore (4%) and Turkey (2%).

Figure 2.1. Top provenance economies for counterfeit products seized by Italian customs, 2011-13



In order to compare the likelihood of each provenance country to be a source of counterfeit goods sold in Italy, these data on customs seizures need to be compared with data on each country's Italian imports and sales of genuine products. This was done using the GTRIC-e index (General Trade-Related Index of Counterfeiting for provenance economies), which compares seizure intensities of counterfeits shipped from a given provenance economy with the share of that provenance economy in Italian imports of genuine goods. GTRIC-e assigns a high score to an economy that is a source of a high value of counterfeit products in absolute terms, or when a large share of Italian imports from that economy is counterfeit.

Table 2.1 shows the top ten economies most likely to be a provenance of counterfeit products smuggled into Italy for the period 2011-2013 (see Table B.1 in Annex B for a

complete list). Clearly, some of these provenance economies, led notably by China, appear to be major sources of infringing items

Some of these main provenance economies of counterfeit and pirated products shipped to Italy were identified as key transit points in the global trade of fake goods in the recent OECD/EUIPO (2017) report. These include Hong Kong (China), Singapore, the United Arab Emirates or the Syrian Arab Republic. Other small Asian economies appear as major exporter of fake goods to Italy, but rather as direct producers of these counterfeits. Those include for instance the Philippines, Pakistan, Malaysia, and Thailand. Finally, North African economies, such as Tunisia and Morocco, and Turkey are also identified as key provenance economies of fake goods in Italy. These could be either because they are important producers of counterfeit and pirated goods, or because they are strategic points of transit.

Table 2.1 indicates that a significant share of trade in fake goods with the destination Italy, transits through other EU countries or Balkans, including Greece, Bulgaria, Germany, Slovenia, Albania and Malta. This concurs with interviews conducted with Italian customs, which indicated that many fake goods that eventually end up in Italy, arrive initially to the EU through harbours in western and northern Europe. These fakes are then transported on trucks to Italy, through the extensive and well-developed European networks of highways.

Table 2.1. Economies most likely to be the provenance of counterfeit and pirated imports in Italy

GTRIC-e values, average 2011-2013

Provenance economy	GTRIC-e
China (People's Republic of)	1.000
Hong Kong (China)	1.000
Senegal	1.000
Greece	1.000
United Arab Emirates	0.959
Tunisia	0.864
Bulgaria	0.816
Slovenia	0.774
Morocco	0.762
Turkey	0.726
Singapore	0.663
Philippines	0.568
Pakistan	0.563
Germany	0.462
Peru	0.438
Syrian Arab Republic	0.394
Thailand	0.332
Albania	0.318
Malaysia	0.289
Malta	0.278

Notes: A high GTRIC-e score indicates that an economy is highly prone to be a source of counterfeit products sold in Italy, either in absolute terms or as a share of Italian imports. The results for all provenance economies for years 2011, 2012 and 2013 are reported in Table B.1 in Annex B.

Such intra-EU transiting of counterfeit goods poses numerous challenges for Italian customs. According to the EU regulations goods are cleared upon arrival to the EU, even if their final destination is in another member state. However, customs officers at arrival ports other than Italy might perceive smuggling of counterfeit goods destined to another member state as a risk of relatively lower priority. In addition customs controls by Italian customs of goods that enter Italy from other EU member states by road would be extremely costly and difficult, and clearly would pose a big obstacle for trade overall.

Consequently, the risk of interception of counterfeits destined for Italy seems to be lower if counterfeiters decide to enter the EU through Member States other than Italy.

During several structured interviews, Italian customs confirmed this phenomenon. Random checks of transportation from other EU member countries performed sporadically at the Mt. Blanc tunnel connecting Italy and France, revealed a large volume of counterfeit goods aiming at Italy, which originated outside the EU.

Similarly alarming trends are observed in the context of small postal and express service shipments. According to interviews carried out the Italian enforcement authorities, the volume of counterfeits shipped through small consignments keeps growing. In addition the majority of fakes shipped via small parcels come from other EU countries, most of which arrived via the biggest airport hubs for small parcels, such as Leipzig (Germany), East Midlands (UK) and Liege (Belgium).¹

The last interesting trend is the large number of seized IP-infringing packaging and labelling material being smuggled into Italy (Box 2.2).

Box 2.2. IP-infringing labels and packaging materials

An analysis of the seizures database, and interviews with the Italian enforcement officials confirm the large number of seized IP-infringing packaging and labels being smuggled to Italy.

The packaging, labels and logos are sent separately from the products to be counterfeited; oftentimes these products are sent without any trademarks. Since these ‘no name’ goods do not infringe any trademark (just design rights in some cases) they are much more difficult to be spotted and seized by enforcement authorities. The final labelling takes place at a later stage somewhere in Italy or in other EU member states.

This approach greatly reduces the risk to counterfeiters of interception and detention; in these cases interception is limited mostly to the seizure of, packaging, and the like. This changing strategy of counterfeiters confirms findings formulated in a study by OHIM and Europol (2015) about the domestic assembly of counterfeit and pirated products from imported materials.

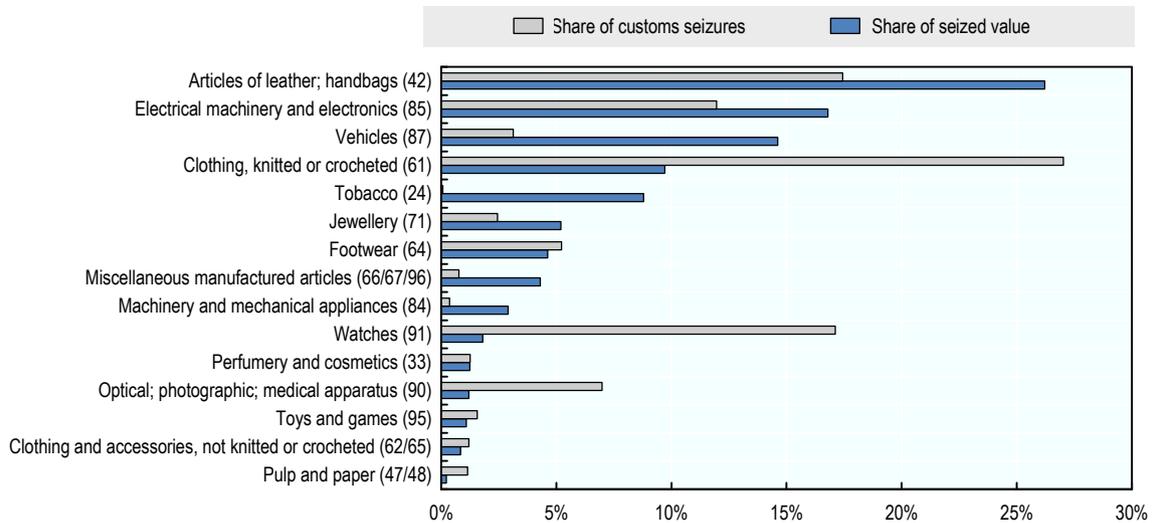
2.2.2. Which product types are most likely to be counterfeited?

The dataset on customs seizures of IP-infringing goods smuggled into Italy can also be used to quantify infringed product types in that country. It should be noted that in 2013, a wide range of product categories were subject to counterfeiting in Italy (see Figure 2.2). This means that any type of product for which IP adds economic value, and thus creates

price differentials, will become a target for counterfeiters and a potential threat to the Italian economy and society.

While a broad range of goods are sensitive to infringement, the intensity of counterfeiting varies significantly across product categories. This is supported by seizures statistics shown in Figure 2.2, which are concentrated in a relatively limited number of product categories, including articles of leather and handbags; ICT devices; clothing; watches; jewellery and sunglasses.

Figure 2.2. Share of seizures of counterfeit goods in Italy by product type, 2011-13



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

A meaningful measure of the likelihood of different types of infringing products to be sold in Italy can be obtained using the GTRIC-p index (General Trade-Related Index of Counterfeiting for product categories). As with GTRIC-e, the seizure intensity of a given product category is compared with the share of this product category in Italian imports of genuine goods. The result is a ranking of products smuggled into Italy by the likelihood that they will be counterfeited (see Table B.2 in Appendix B for the complete list).

Table 2.2. Top 25 product categories in terms of likelihood of being counterfeited

GTRIC-p scores, average 2011-2013

Product category (HS codes)	GTRIC-p
Watches (91)	1.000
Articles of leather; handbags (42)	1.000
Clothing, knitted or crocheted (61)	1.000
Tobacco (24)	0.999
Miscellaneous manufactured articles (66/67/96)	0.999
Toys and games (95)	0.985
Footwear (64)	0.965
Perfumery and cosmetics (33)	0.904
Printed articles (49)	0.866
Optical; photographic; medical apparatus (90)	0.857
Electrical machinery and electronics (85)	0.831
Vehicles (87)	0.513
Jewellery (71)	0.483
Clothing and accessories, not knitted or crocheted (62/65)	0.436
Plastic and articles thereof (39)	0.374
Tanning or dyeing extracts (32)	0.368
Machinery and mechanical appliances (84)	0.353
Pulp and paper (47/48)	0.330
Iron and steel; and articles thereof (72/73)	0.296
Pharmaceutical products (30)	0.264
Tools and cutlery of base metal (82)	0.239
Foodstuffs (02-21)	0.222
Rubber and article thereof (40)	0.213
Glass and glassware (70)	0.181
Furniture (94)	0.178

Notes: A high GTRIC-p score signals a product category that is more likely to be counterfeit – that is to say, it contains high euro values for counterfeit products, or a large share of Italian sales in that product category is counterfeit. Figures in parenthesis are Harmonized System (HS) codes as defined by the United Nations Trade Statistics (UN Trade Statistics, 2017). Values are zero for HS categories non-displayed in this table.

2.2.3. What is the total value of counterfeit products sold in Italy?

The best estimates – based on the data provided by customs authorities and on the GTRIC methodology – indicate that imports of counterfeit and pirated products in Italy accounted for as much as EUR 10.4 billion in 2013, the equivalent of 3% of Italian imports of genuine goods. The term “as much as” is crucial here, as it refers to the upper limit of counterfeit and pirated products imported in Italy. 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 reveals that the degree of counterfeiting in Italy varies considerably across product categories. In terms of sectors with the highest share of fakes in imports, articles of leather and handbags were on top. 15.3% of goods imported to Italy in this category were fakes. It was followed by toys and games with 14.3% (see Table 2.3 for the top 18 categories in 2013; and Table B.3 in Annex B for complete results by HS categories for years 2011, 2012, 2013).

Table 2.3. Top product categories subject to counterfeiting in Italian imports in relative terms, 2013

In terms of share within the product category

HS category	Share of fake imports
Articles of leather; handbags (42)	15.3%
Toys and games (95)	14.3%
Miscellaneous manufactured articles (66/67/96); <i>incl. luxury pens, cuff-links, pins, lighters and umbrellas.</i>	13.4%
Clothing, knitted or crocheted (61)	12.7%
Footwear (64)	10.8%
Watches (91)	9.8%
Printed articles (49); <i>including fake packaging and boxes made for domestic assembly.</i>	9.6%
Electrical machinery and electronics (85); <i>incl. a wide range of ICT devices.</i>	9.3%
Optical; photographic; medical apparatus (90); <i>incl. sunglasses</i>	9.0%
Tobacco (24)	7.7%
Perfumery and cosmetics (33)	5.8%
Clothing and accessories, not knitted or crocheted (62/65)	5.8%
Vehicles (87); <i>incl. spare parts and car accessories</i>	4.2%
Jewellery (71)	3.6%
Machinery and mechanical appliances (84); <i>incl. computers, tablets, machine tools, household appliances.</i>	3.5%
Tanning or dyeing extracts (32); <i>incl. toner cartridges.</i>	3.5%
Plastic and articles thereof (39); <i>including fake plastic packaging made for domestic assembly.</i>	3.1%
Tools and cutlery of base metal (82); <i>incl. hand tools; buttons; razor blade.</i>	2.4%
Other made-up textile articles (63); <i>incl. carpets; blankets; pillows.</i>	2.2%

Note: Figures in parenthesis are Harmonized System (HS) codes as defined by the United Nations Trade Statistics (UN Trade Statistics, 2017_[17]).

In absolute terms, ICT devices (electrical and electronic components) were the most counterfeited type of goods, with an estimated value of EUR 2.3 billion of fakes imported in Italy. This category includes a wide range of devices, such as mobile phones, DVD players, headphones, earphones, microphones, batteries etc. It was followed by fake machinery and mechanical appliances (e.g. computers, tablets, household appliances, vacuum cleaners) with fake imports equal to around EUR 1 billion (see Table 2.4 for the top categories); and Table B.3 in Annex B for complete results by HS categories for years 2011, 2012, 2013).

It should be highlighted that these findings are in line with other relevant research and statistics. The overall shift of counterfeit products from top-end consumer goods to virtually all product categories for which IP offers profit margin has been observed in other markets. A relevant example is the ICT industry that recently has been particularly targeted. This has been confirmed by numerous publications by the OECD (2017), EUIPO-ITU (2017), or by the EC JRC and Politecnico di Milano (Thumm et. al, 2018).

Table 2.4. Top product categories subject to counterfeiting in Italian imports in absolute terms, 2013

HS Category	Vaule in EUR mn
Electrical machinery and electronics (85); incl. a wide range of ICT.	2263
Machinery and mechanical appliances (84); incl. computers, tablets, machine tools.	1076
Vehicles (87); incl. spare parts and car accessories.	1023
Optical; photographic; medical apparatus (90); incl. sunglasses.	781
Clothing, knitted or crocheted (61)	725
Footwear (64)	495
Foodstuffs (02-21)	481
Plastic and articles thereof (39); including fake plastic packaging made for domestic assembly.	476
Iron and steel; and articles thereof (72/73); incl. kitchen tools; cookware; keys; sanitary ware; gas stoves.	392
Articles of leather; handbags (42)	352
Clothing and accessories, not knitted or crocheted (62/65)	328
Pharmaceutical products (30); incl. lifestyle drugs.	297
Jewellery (71)	283
Toys and games (95)	247
Tobacco (24)	158
Perfumery and cosmetics (33)	134
Watches (91)	128
Miscellaneous manufactured articles (66/67/96); incl. luxury pens, cuff-links, pins, lighters and umbrellas.	126

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

2.3. The primary and secondary markets for counterfeit products sold in Italy

Two questions are crucial in assessing the economic impact of counterfeit products smuggled into Italy for domestic retail and wholesale industries, consumers, and the government. First, what is the proportion of counterfeit products that are sold on primary versus secondary markets in Italy? Second, within secondary markets, what is the rate at which Italian consumers are substituting counterfeit goods for legitimate products?

The distinction between primary and secondary markets described earlier is a critical one. Every sale of a fake item on a primary market clearly represents a direct loss for the retail and wholesale industry. In secondary markets, however, only a share of consumers would have deliberately substituted their purchases of counterfeit products for legitimate ones. This is because in secondary markets consumers know what they are buying is fake, and they decide to proceed with the purchase for a number of possible reasons (see Box 2.3). The key issue then is how to calculate the consumers' substitution rate, i.e. the extent to which every illegal purchase displaces a legal sale.

Box 2.3. Why do people buy fakes knowingly?

There are numerous reasons identified in the scientific literature for why people buy fakes. Firstly, if the genuine product is hard to get hold of, this might greatly increase the perception of its value. Furthermore, the willingness of consumers to purchase a counterfeit product seems to increase if they can rate its quality before purchase and to decrease if they cannot. The situation surrounding the purchase also determines purchase intentions. The situational mood explains why some people are more prone to buy counterfeits even if that is illegal or they experience post-purchase dissatisfaction with a product of low quality. Recent psychological research illustrates a number of other motivations, such as the “thrill of the hunt” for what’s fake being part of a “secret society”, and genuine interest. Buyers of counterfeit products also try to legitimise and justify their behaviour.

Sources: Bian, Haque and Smith (2015); Bian et al. (2016); Eisend and Schuchert-Güler (2006)

The methodology used to calculate the share of primary and secondary markets in Italy is presented in Step 2 of Annex A.2, while Table 2.4 below identifies the secondary and, consequently, primary markets for counterfeit products sold in Italy by sector. This shows that 51.1% of imported counterfeit and pirated products sold in Italy in 2013 were sold to consumers who actually knew they were buying fake products, with the remaining share purchased unwittingly. The share of fakes destined for secondary markets varies significantly by sector, ranging from 15% for foodstuff to 60% for watches and jewellery and ICT devices.

Table 2.5. Share of secondary markets for counterfeit products in Italy, 2013

Sector	Share secondary markets
Food, beverages and tobacco	15.35%
Chemical and allied products; except pharmaceuticals, perfumery and cosmetics	23.33%
Pharmaceutical and medicinal chemical products	28.57%
Perfumery and cosmetics	62.61%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	46.10%
Clothing, footwear, leather and related products	50.02%
Watches and jewellery	58.35%
Non-metallic mineral products (e.g. glass and glass products, ceramic products)	30.00%
Basic metals and fabricated metal products (except machinery and equipment)	17.14%
Electronic and electrical equipment, optical products, scientific instruments	60.03%
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	36.94%
Motor vehicles and motorcycles	55.29%
Household cultural and recreation goods; including toys and games, books and musical instruments	43.26%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	37.59%
Total	51.12%

Once the shares of primary and secondary markets are identified, the next key question is how to calculate the consumers’ substitution rate on secondary markets – i.e. the extent to which every illegal purchase displaces a legal sale. Information on substitution rates can be obtained from two different sources: academic research on consumers’ socio-

economic behaviour, and consumer surveys. The majority of academic research has focused on intangible pirated products, such as digital piracy; findings are rarer for tangible products, with the exception of luxury items.

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 (Anti-Counterfeiting Group, 2007). It determined a 39% substitution rate for clothing and footwear, meaning that every EUR 2.5 spent on fake clothes, accessories or footwear in secondary markets translates into EUR 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.

Table 2.6 summarises the substitution rates used in this study.

Table 2.6. Assumed consumer substitution rates in the main scenario

Sector	Substitution rate
Perfumery and cosmetics	49%
Watches and jewellery	27%
Clothing, accessories, leather and related products	39%
Other sectors	32%

Sources: Anti-Counterfeiting Group (2007) and Tom et al. (1998).

The general shortage of data on substitution rates between fake and genuine goods is in fact the main challenge in the overall quantitative exercise on the effects of counterfeiting. Therefore, such exercise includes a sensitivity analysis that checks if changes in substitution rates could significantly bias final results. The analysis is done by introducing three different scenarios, with three different sets of substitution rates (see Box 2.4). The results of the sensitivity analysis are summarised in the Annex A.6.

Importantly, the estimated results for the three scenarios as presented in the Annex A.6 are very close to each other. This re-confirms the robustness of all the results presented in the analysis.

Box 2.4. Sensitivity analysis of substitution rates

The sensitivity analysis is done to address the scarcity of data on substitution rates between fake and genuine goods. To do it, three different scenarios are introduced.

The first assumes substitution rates that follow the results of the Anti-Counterfeiting Group's (2007) consumer survey. In this scenario, a substitution rate of 39% has been chosen for the product category related to clothing and footwear, meaning that every EUR 2.5 spent on fake clothes, accessories or footwear in secondary markets translates into EUR 1 in lost sales for the retail and wholesale industry. Also in accordance with this consumer survey, the selected rates in scenario 1 are 49% for products related to the perfumery and cosmetics sector, and 27% for products belonging to the watch and jewellery industries. Finally, according to the study carried out by Tom et al. (1998), the selected substitution rate is 32% for all other fake products sold on secondary markets.

The second scenario is more conservative, and assumes substitution rates 10 percentage points lower. The third scenario is the most conservative one, and assumes the substitution rates to be 20 percentage points lower than in the first scenario.

In order to test the robustness of the results, they are calculated based on these three alternative scenarios, all based on lower assumed consumer substitution rates. The three are recapped in the Table 2.7 below.

Table 2.7. Assumed consumer substitution rates in the three performed scenarios

Sector	Scenario 1	Scenario 2	Scenario 3
Perfumery and cosmetics	49%	39%	29%
Watches and jewellery	27%	17%	7%
Clothing, accessories, leather and related products	39%	29%	19%
Other sectors	32%	22%	12%

Sources: Author's own calculations based on Anti-Counterfeiting Group (2007) and Tom et al. (1998).

2.4. To what extent are Italian consumers overpaying for fake products?

While consumers who knowingly purchase fake products are prepared to accept any trade-off between cost and quality, consumers who unwittingly purchase fake goods end up paying an excessive price for a low-quality product. As explained in Step 3 in Annex A.2, this “consumer detriment” can be estimated by the average price premium earned by counterfeiters from both markets, times the volume of fake goods sold on primary markets.

The estimates for consumer detriment in Italy were thus calculated in two steps. The first was to calculate for each sector the difference between average prices on primary and secondary markets. These differences represent the individual consumer detriment from an individual purchase. Second, this individual detriment was multiplied by the total volume of transactions on the primary market in a product category.

The estimates for consumer detriment in Italy are presented in Table 2.8. In 2013, the highest detriment was recorded for watches and jewellery (EUR 1.42 billion). The total detriment due to consumer deception in 2013 amounted to almost EUR 2 billion.

Table 2.8. Estimate of consumer detriment in Italy by sector, 2013

Sector	Value in EUR mn
Food, beverages and tobacco	53.9
Chemical and allied products; except pharmaceuticals, perfumery and cosmetics	0.6
Pharmaceutical and medicinal chemical products	5.3
Perfumery and cosmetics	15.0
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	1.3
Clothing, footwear, leather and related products	253.0
Watches and jewellery	1420.0
Basic metals and fabricated metal products (except machinery and equipment)	0.8
Electronic and electrical equipment, optical products, scientific instruments	66.5
Machinery, industrial equipment; computers and peripheral equipment; ships and aircrafts	8.2
Motor vehicles and motorcycles	19.3
Household cultural and recreation goods; including toys and games, books and musical instruments	64.9
Furniture, lighting equipment, carpets and other manufacturing n.e.c	1.8
Total	1910.6

2.5. The effect of fake goods on sales in the Italian retail and wholesale sector

The sales lost due to the counterfeiting market in the Italian retail and wholesale sector are calculated using the methodology presented in Step 4 of Annex A.2. It is done using the substitution rates determined in the existing literature: 39% for the product category relating to clothing and footwear; 49% for products relating to the perfumery and cosmetics sector; 27% for products belonging to the watch and jewellery industries; and 32% for all other fake products sold on secondary markets.

Overall, the total volume of forgone sales in the Italian wholesale and retail sector due to counterfeit and pirated imports in 2013 was EUR 6.9 billion. This is equivalent to 2.7% of total sales in that Italian wholesale and retail sector the same year.

The highest sale losses to the Italian wholesale and retail industries in absolute terms were for electronic, electrical and optical products (EUR 1.8 billion in forgone sales in 2013), followed by clothing, footwear, leather and related products (EUR 1.3 billion in forgone sales in 2013).

The sector of “watches and jewellery” experienced the highest losses in relative terms (7.5% of forgone sales due to the counterfeiting market). It was followed by the sector of electronic, electrical and optical products (5.4%) and that of clothing, footwear, leather and related products (4.4%).

Table 2.9. Lost sales for the Italian retail and wholesale sector due to fake imports in Italy, 2013

Sector	Value in EUR mn	Share of sales
Food, beverages and tobacco	618	1.0%
Chemical and allied products; except pharmaceuticals, perfumery and cosmetics	125	3.7%
Pharmaceutical and medicinal chemical products	254	2.3%
Perfumery and cosmetics	85	1.6%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	446	4.3%
Clothing, footwear, leather and related products	1269	4.4%
Watches and jewellery	221	7.5%
Non-metallic mineral products (e.g. glass and glass products, ceramic products)	16	0.2%
Basic metals and fabricated metal products (except machinery and equipment)	475	4.0%
Electronic and electrical equipment, optical products, scientific instruments	1794	5.4%
Machinery, industrial equipment; computers and peripheral equipment	732	4.1%
Motor vehicles and motorcycles	569	1.9%
Household cultural and recreation goods; including toys and games, and musical instruments	212	2.1%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	132	0.6%
Total wholesale and resale sector	6949	2.7%

2.6. The effect of the counterfeiting market on jobs in the Italian retail and wholesale industry

Lower sales in the retail and wholesale industries reduce the demand for labour, and consequently lead to job losses. However, a $x\%$ decrease in sales does not necessarily translate into a corresponding decrease of $x\%$ in jobs, such that the extent to which each wholesale and retail industry adjusts employment when sales vary first needs to be calculated. The basic econometric model presented in Step 5 in Annex A.2 makes it possible to estimate these industry-specific elasticities. Combining these industry-specific elasticities of employment with the estimated lost sales detailed in the previous section allows then estimating the number and share of lost jobs within wholesale and retail industries.

Table 2.10 presents the main results for various branches of the wholesale and retail sector. Total job losses in the Italian retail and wholesale sector due to counterfeiting imports in Italy amounted to more than 23,150 in 2013, equivalent to more than 1.3% of all people employed in the sector.

In absolute terms, the highest job losses due to counterfeiting and piracy were found in the sales of clothing, footwear, accessories and related products: 6582, or 2.4% of all employees in the sectors listed. In relative terms, the wholesalers and retails in the watches and jewellery sector were the most affected, incurring 3.6% of job losses in 2013.

Table 2.10. Lost jobs in the Italian retail and wholesale sector due to fake imports in Italy, 2013

Sector	Number of employees	Share of employees
Food, beverages and tobacco	3374	0.6%
Chemical and allied products; except pharmaceuticals, perfumery and cosmetics	244	1.7%
Pharmaceutical and medicinal chemical products	565	1.2%
Perfumery and cosmetics	340	0.9%
Textiles and other intermediate products (e.g. plastics; rubbers; paper; wood)	1847	2.3%
Clothing, footwear, leather and related products	6582	2.4%
Watches and jewellery	797	3.6%
Non-metallic mineral products (e.g. glass and glass products, ceramic products)	65	0.1%
Basic metals and fabricated metal products (except machinery and equipment)	1649	2.1%
Electronic and electrical equipment, optical products, scientific instruments	1712	2.7%
Machinery, industrial equipment; computers and peripheral equipment	2262	2.1%
Motor vehicles and motorcycles	2272	1.1%
Household cultural and recreation goods; including toys and games and musical instruments	813	1.1%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	629	0.3%
Total wholesale and retail sector	23149	1.3%

Note: Employees are measured in full time equivalent units according to Eurostat (2018)² definition.

2.7. Losses in government revenues due to sales of fake goods

Lower sales in the wholesale and retail sector due to counterfeit and pirated imports in Italy mean lower tax revenues for the Italian Government from value-added tax (VAT), corporate income tax (CIT), personal income tax (PIT) and social security contributions (see Step 6 in Annex A.2).

Table 2.11 presents this forgone revenue by type of taxes, which amounted to EUR 3.7 billion in 2013. Within this overall figure, the largest component was forgone value added taxes, amounting to EUR 1.5 billion.

Table 2.11. Forgone taxes for the Italian government due fake imports in Italy, 2013

Tax type	Value in EUR mn	Share of collected taxes
Personal income taxes and social security contributions	1354	0.8%
Corporate income taxes	831	2.1%
Value added taxes	1529	1.6%
Total	3714	1.2%

Finally, one should keep in mind that the degree of tax loss also depends on the efficiency of tax collection schemes. An inefficient fiscal system might allow companies to exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations where there is little or no economic activity. The OECD Base Erosion and Profit Shifting programme (BEPS) was designed to tackle this problem (Box 2.5). According to its recent findings based on country-by-country reporting, Italy is one of the countries with the most advanced legislative framework to counter this problem.

Box 2.5. The OECD BEPS programme

The OECD Base Erosion and Profit Shifting (BEPS) programme tackles tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations. Although some of the schemes used are illegal, most are not. However, the practice undermines the fairness and integrity of tax systems because businesses that operate across borders can use BEPS to gain a competitive advantage over enterprises that operate at a domestic level. Moreover, when taxpayers see multinational corporations legally avoiding income tax, it undermines voluntary compliance by all taxpayers.

Under the BEPS framework, over 100 economies collaborate to implement measures to counter these strategies. The Inclusive Framework presents information on the domestic legal frameworks based on country-by-country (CbC) reporting around the world; in so doing, it has provided tax administrations with a high-level snapshot of the measures currently being implemented.

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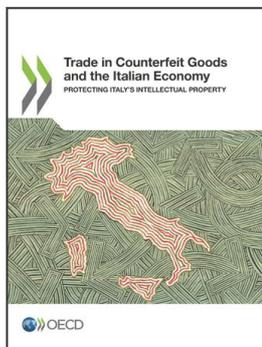
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Notes

¹ The Italian enforcement authorities noted that a large share of small parcels arriving by air to Italy from outside the EU is also not destined to Italy. The arrival airports in Italy for small parcels are: Bergamo, Bologna, Milan Linate, Milan Malpensa, Pisa, Rome Fiumicino, Rome Ciampino and Venezia.

² Eurostat (2018) defines employees as those persons who work for an employer and who have a contract of employment and receive compensation in the form of wages, salaries, fees, gratuities, piecework pay or remuneration in kind. A worker from an employment agency is considered to be an employee of that temporary employment agency and not of the unit (customer) in which they work.



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