

# THE EMERGENCE OF THE EUROPEAN COUNTERFEIT MARKETS

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**Abstract:** *The European market of counterfeit goods has become a subject of increasing concern for businesses, private firms and policymakers. With a growing demand in consumption for this kind of goods, each sector is damaged from the toy industries to the pharmaceuticals industry. This article is aimed to expose the dynamic of the European counterfeiting markets, to highlight the main factors of production, the main providers, the smuggling routes, the overall profit, the main counterfeit products and also to offer a general perspective on the affected European markets.*

**Keywords:** illegal markets; counterfeiting; piracy; criminal networks; intellectual property.

**JEL Classification:** K42; K14; H26; F60.

## INTRODUCTION

Today counterfeiting has become a real business with major implications all around the world affecting several industries, national economies but also known as a huge grey industry that practically helps financing criminal organizations channels. As a result of this globalized world, it is designed as an extent of the underground market along with a serious growing demand of cheap goods. Step by step the consumption values were distorted and people`s attitudes towards spending money and investing changed. While one of the few sides of consumption is characterized by a significant share of manufactured goods placed and produced through decentralized sectors, the consumers tend to balance between consumption of cheaper products and quality and expensive products, products that suggest also a growing demand on the luxury market.

The days when the trade secrets were closely guarded are gone, now those who hold intellectual property rights are very often threatened by those looking for quick profit with cheaper materials but with a strong “borrowed” business idea, aiming to seduce the lower end of the market. Generally when unauthorized copies appear on the market, it is very unclear where or who to blame or even how to take measures to combat this kind of illegal practice. Although the interesting part of counterfeit markets is the simple fact that in most parts of the world a few can tell a copy from an original, so these unauthorized goods can support also higher prices.

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Counterfeiting is defined as an illegal form of reproduction or imitation of products, often of inferior quality, sold without the brand owner's authorization. It is known as an illegal practice when an Intellectual Property Right (IPR) is infringed. Basically the process of counterfeiting does not take into account the value and the right of the registered trademark, designation of a product, a patent or a copyright agreement.

Despite international action and agreements, the counterfeit market is still growing and it is no longer just a matter of copying the common luxury fashion goods, the market itself suffered several transformation covering a wide range of products, from simple goods like toys, electronic equipment and materials, to pharmaceutical and medications items, that can poses serious health and safety consequences.

Counterfeiting represents about 5-8% of world trade and is nowadays less risky and more profitable than drug trafficking (Penz, Schlegemilch and Stottinger, 2009, p. 67). It is estimated that the total annual value is over £ 250 billion, and the counterfeiting is a crime that has grown alongside globalization as the proliferation of technology and more porous borders (Treadwell, 2011, p. 177). Thus the global market faces new trends, the European market seems to be directly affected by this. However, the European market it is not seen as a whole is very divided in buying fake goods, it is very different if we consider the extreme points, the Western and Eastern parts of Europe, both with a different history, culture, social values and education towards consumption.

Within Europe the consumption of counterfeit products brings important implication on the economy, such as corruption, the rise of the black market and tax avoidance, but also gives a lower rate to the society's morality.

This article will examine the European consumption of counterfeit products, the consumer behaviour and also the main providers of such goods.

## **1. THE COUNTERFEITING PHENOMENON IN EUROPE**

With the recent economic situation, counterfeiting in Europe is considered to be on the rise. Usually known as a place where counterfeiting luxury goods dominated the main markets, Europe seems to be a simply market where the producers are now more concentrated on counterfeiting more ordinary items characterized generally by cheap ways of production.

According to the Report on the EU customs enforcement of intellectual property rights (IPR, 2012), China continued to be a significant provider of goods suspected of infringing which entered

the EU (73% of the total amount of articles), followed by Turkey, a main source for foodstuffs, Panama for alcoholic beverages, Thailand for non-alcoholic beverages, Hong Kong for mobile phones, computer equipment and Syria for recorded CD/DVD (IPR, 2012, p. 3).

Most of the cases of counterfeit are often thought of as luxury watches or designer handbags or even clothes, thus a significant number of reports demonstrated that counterfeits can exist in nearly all product categories.

Before analysing the data on counterfeits per product category it is important to headline that the market for counterfeit goods is very difficult to quantify. However the most accurate image of the market size is provided by the European Commission – Taxation and Customs Union. Regarding the main type of detained products can be figured medicines items which accounted for 24% of the overall amount, followed by packaging materials (21%), cigarettes (18%), clothing (4%), accessories for mobile phones (3%) and labels, tags and stickers (2%) (IPR, 2012, p. 3). A counterfeit does not mean only a part of the shadow economy and tax avoidance, the counterfeits products can also be potentially dangerous to the health and safety of consumers (suspected items concerning food and beverages, body care articles, medicines, toys and so on).

Table 1 offers an overview of the top categories of detained articles such as medicines, packaging materials, cigarettes, clothing, mobile phone accessories, or labels, tags, stickers and so on.

**Table 1 - Top categories by articles in Europe, 2011**

<b>Counterfeit commodities</b>	<b>Number of incidents</b>
<b>Medicines</b>	23,93%
<b>Packaging materials</b>	21,21%
<b>Cigarettes</b>	17,63%
<b>Clothing</b>	3,52%
<b>Mobile phone accessories</b>	2,73%
<b>Labels, tags, stickers</b>	2,19%
<b>All others categories</b>	28,79%

Source: Report on EU customs enforcement of intellectual property rights 2012, p.13, available at [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm)

According to the European Commission, in terms of cases, the top 3 categories are especially shoes, clothing and bags, wallets and purses. These kinds of products are very often shipped via post and courier after an order via internet (see Table no.2).

**Table 2 - Top categories by cases in Europe, 2011**

<b>Commodities</b>	<b>Number of incidents</b>
<b>Non-sport shoes</b>	27,94%
<b>Clothing</b>	19,68%
<b>Bags, wallets, purses</b>	7,53%
<b>Electrical household goods</b>	6,37%
<b>Watches</b>	5,03%
<b>Sport shoes</b>	5,80%
<b>All other categories</b>	32,58%

Source: Report on EU customs enforcement of intellectual property rights 2012, p.13, available at [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm)

The data in Table 2 illustrates an increasing constant regarding traditional counterfeit commodity such as clothing, watches followed closely by electronic equipment's such as CD/DVD.

The general trend is given by the consumers demand for luxury goods. For example some researchers suggest that thanks to the proliferation of digital communications it was possible and easier the copyrighted work of luxury brands which today seems to continue to experience strong growth, especially in emerging markets such as India and China and from there, worldwide (Chadha and Husband, 2006).

Counterfeiters do not concern themselves with product development costs, guarantees or advertising. The profit is maximized by the theft and copying of an original idea, often with cheaper materials. Nevertheless, IPR infringing goods are increasingly sold at a price similar to that of the original goods and effectively substitute them on the market (IPR, 2012, pp. 13-14).

Among the European states in 2011, Bulgaria seems to be first country regarding the number of intercepted articles followed by Italy (see Table 3).

**Table 3 - Overview of cases and articles per Member State**

<b>The evolution of the number of intercepted articles in Member States- period 2010/2011</b>			
<b>Member State</b>	<b>Number of intercepted articles</b>		
	<b>2010</b>	<b>2011</b>	<b>%</b>
<b>Austria</b>	292.606	97.957	-67%
<b>Belgium</b>	1.776.855	4.297.806	142%
<b>Bulgaria</b>	4.444.533	32.593.339	633%
<b>Cyprus</b>	88.985	170.914	92%
<b>Czech Republic</b>	1.451.993	1.861.910	28%
<b>Germany</b>	2.378.815	2.277.714	-4%
<b>Greece</b>	12.391.430	5.490.037	-57%
<b>Spain</b>	12.391.430	5.490.037	-56%
<b>Italy</b>	15.900.422	29.908.415	88%
<b>Netherlands</b>	9.625.526	5.086.932	-47%
<b>Malta</b>	2.650.692	4.568.054	72%
<b>Romania</b>	3.303.353	1.339.058	-59%
<b>United Kingdom</b>	5.940.183	4.653.454	-22%
<b>Total</b>	<b>103.306.928</b>	<b>114.772.812</b>	<b>11%</b>

Source: Report on EU customs enforcement of intellectual property rights 2012, p.21, available at [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm)

The power of the Internet enabled the counterfeit merchandisers to reach consumers in all parts of the world. With the entrance of the Internet as a new market actor, the merchandisers of such goods are posing a real threat to the luxury houses, generally because of the phenomenon extent, professional websites, low prices, and faster delivery times and so on. The luxury brands are losing enormous amounts of money and are for example, responding stating that buying counterfeit products help support for instance terrorism and other not only illegal activities but also morally apprehensive. One dramatic example of counterfeiting leading to losses for brands is that of Louis Vuitton, in the Italian market, that, in the late 1970s, withdrew completely from the market when they found themselves unable to compete with the counterfeiters of their products. (Radon, 2012, p. 74)

Besides luxury goods another issue is given by the software piracy. A study conducted by BSA Global Software demonstrated that over the half of the world's personal computer users, 57% admit to pirating software. Thirty one percent say they do it "all of the time", "most of the time" or "occasionally", and another 26% admit to having stolen software, but only "rarely" (BSA, 2011, p.1). The commercial value of this shadow market of pirated software climbed from \$ 58.8 billion in 2010 to \$63.4 billion in 2011, a new record, propelled by PC shipments to emerging economies where piracy rates are highest (BSA, 2011, p.1).

**Table 4 - Software Piracy in Europe 2008-2011**

EU countries	Piracy Rates				Commercial Value of Unlicensed SOFTWARE (\$)			
	2011	2010	2009	2008	2011	2010	2009	2008
<b>Austria</b>	23%	24%	25%	24%	\$226	\$209	\$212	\$184
<b>Belgium</b>	24%	25%	25%	25%	\$252	\$233	\$239	\$269
<b>France</b>	37%	39%	40%	41%	\$2.754	\$2.579	\$2.544	\$2.760
<b>Germany</b>	26%	27%	28%	27%	\$2.265	\$2.096	\$2.023	\$2.152
<b>Italy</b>	48%	49%	49%	48%	\$1.945	\$1.879	\$1.733	\$1.895
<b>United Kingdom</b>	26%	33%	34%	33%	\$13.749	\$12.771	\$11.750	\$13.0223
<b>Total</b>	<b>32%</b>	<b>33%</b>	<b>34%</b>	<b>33%</b>	<b>\$13.749</b>	<b>\$12.771</b>	<b>\$11.750</b>	<b>\$13.023</b>

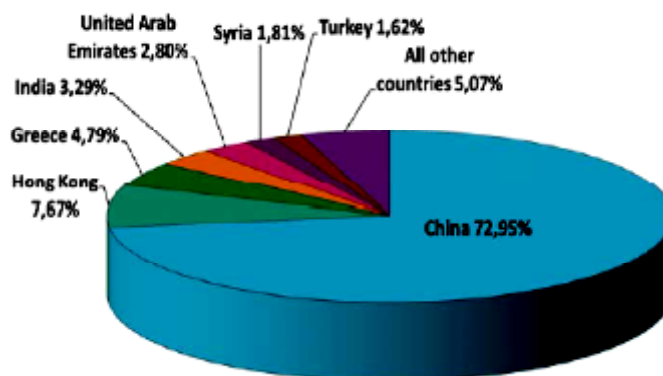
Source: BSA 2011, p. 9, available at <http://globalstudy.bsa.org/2011/>

Among European countries, it can be concluded that in the 2008-2011 period, the countries in Central and Eastern Europe were most affected by this phenomenon (Bulgaria, Greece, Romania, Poland, etc.) followed by the countries from the Western and Central Europe such as France, Germany or Italy (see Table 4).

## 2. DISTRIBUTION OF COUNTERFEIT COMMODITIES

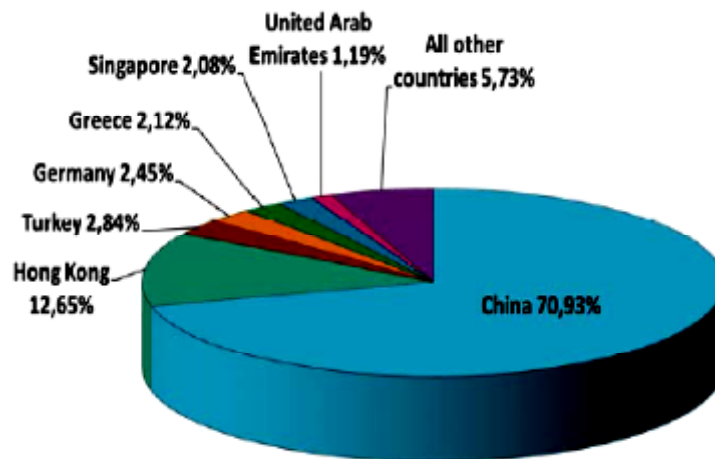
According to IPR statistics 2012, China remains the primary country where the suspected IPR infringing goods were coming from at the moment of the detention. In the last few years, in the top 10 were figuring China, Hong-Kong, India Turkey and the United Arab Emirates. Among these countries Syria appears to be the first time situated in this classification due to detentions of recorded CD/DVDs. Most of the counterfeit commodities reach Europe markets by sea, air, express and postal transport.

**Figure 1 - Countries by provenance by articles**



Source: Report on EU customs enforcement of intellectual property rights 2012, p.15, available at [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm)

Figure 2 - Countries of provenance by value



Source: Report on EU customs enforcement of intellectual property rights 2012, p.15, available at [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/index\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm)

## CONCLUSIONS

According with the data provided by BSA studies and European Commission, counterfeiting is extent phenomenon that emerged in the last few years in European countries. Helped by the influence of China, Turkey and India counterfeiting markets, Europe is drowned as a beginning market dominated by counterfeiters, which have decreased in some manners the morality of the society. Although the big luxury houses are threatened by the expansion of counterfeiters and fake goods the real threat is given by the underground channel that helps financing terrorism activities.

Currently is very hard to compare a high quality product with a fake one, because generally the counterfeiters are really professional when it comes to sell their products. In Europe the extent of counterfeiting has also a socio-economic impact, considering the big numbers of job losses, sale opportunities, tax revenues and so. The governments are very implicates taking measures to combat this real issue, through police investigation and operations at a large scale.

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