

Counterfeit goods in the UK

Who is buying what,
and why?

October 2013





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Have fake goods gone mainstream?

18% of respondents sometimes buy fake alcohol.

16% of respondents sometimes buy fake medicines.

90% believe counterfeiting is morally wrong.

We asked a representative sample of UK consumers 10 questions to assess their attitudes, and familiarity with counterfeit goods. The results are enlightening.

18% of our respondents say they sometimes buy fake alcohol; 16% say they buy fake medicines. Over half said they'd bought some form of fake products.

Despite 90% believing it to be morally wrong, our survey respondents were far more worried about losing their bank account details than getting caught. And the problem may get worse: younger people in general seem more comfortable with buying fake goods than elder peers.

Despite an obvious impact on jobs and the economy, is the purchase of counterfeit goods becoming ingrained in society as acceptable behaviour?

Counterfeiting and illicit trade is a growing problem. Estimates vary but global impact has been put at c.US\$650bn p.a. In Europe alone, almost 40 million products were detained by EU customs in 2012, with an estimated value of c. €1bn according to the EU Commission's annual report on customs actions. Companies are seeing their brand reputation being damaged and their revenues stolen.

The attitude of consumers towards this issue is paramount. Clients tell us they are increasingly wary of 'normalisation' whereby purchasing fake goods becomes commonplace and accepted in mainstream society.

This report is indicative only: we surveyed a nationwide representative sample of c. 1,100 consumers to gauge their attitudes to counterfeit goods across certain sectors (see methodology on page 17). We have set out the highlights below but further information is available on request from our anti-counterfeiting team.

Mark James

Fergus Lemon

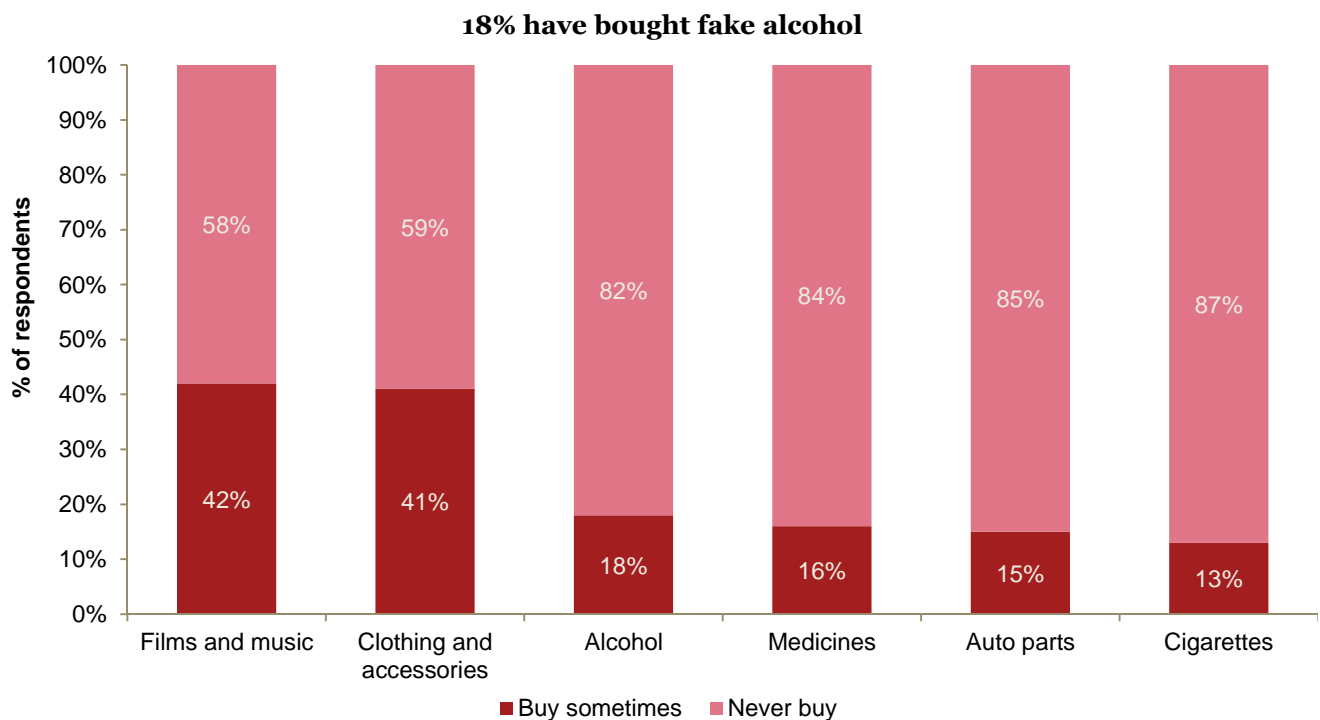
October 2013

Question 1 – How often do you purchase counterfeits?

Please indicate the frequency with which you purchase counterfeit versions of the following products.

18% of our respondents say they sometimes buy fake alcohol; 16% say they buy fake medicines. Over half said they'd bought some form of fake products.

Figure 1: All figures source: PwC UK Counterfeit Survey 2013



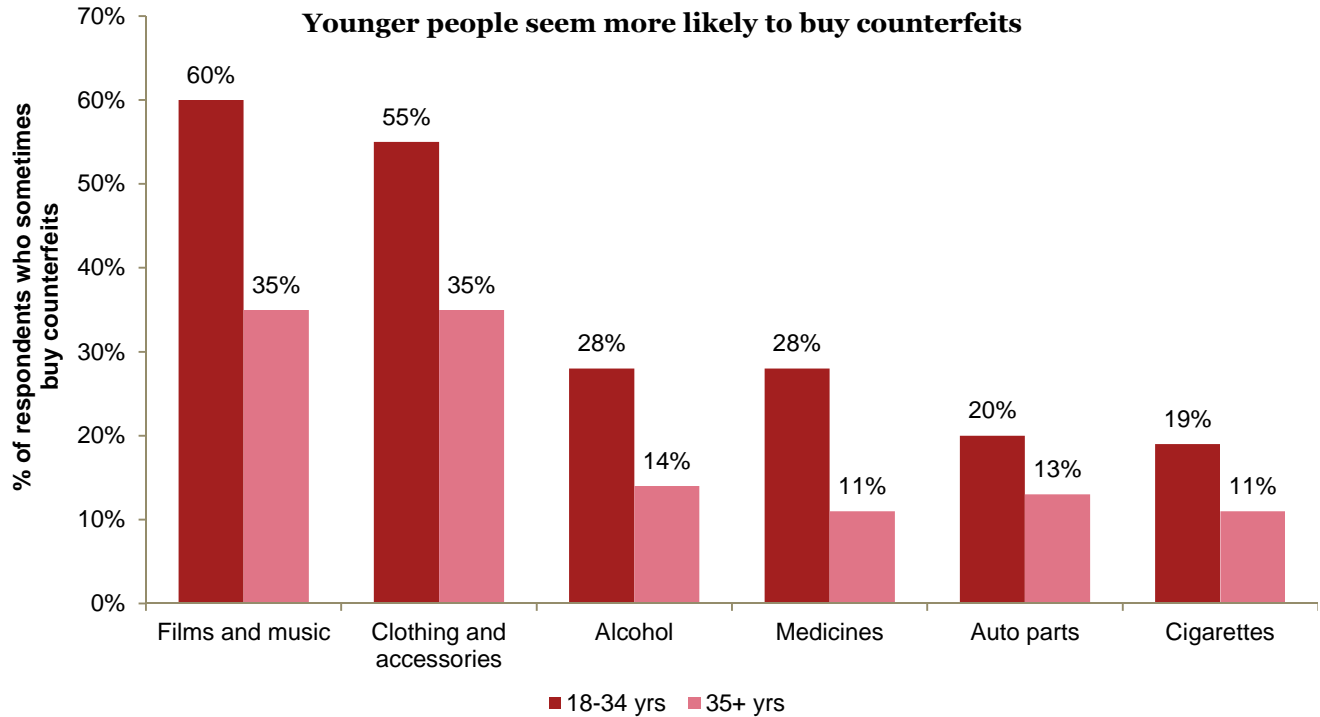
The number of respondents that have bought counterfeit alcohol (18%), medicine (16%) or cigarettes (13%) is particularly alarming given the obvious health risks of ingesting/consuming these products. An indication of the size of the problem in the UK comes from HMRC who have seized nearly 15 million litres of illegally produced alcohol since 2005.

“Commonly used substitutes for ethanol include chemicals used in cleaning fluids, nail polish remover and automobile screen wash, as well as methanol and isopropanol which are used in antifreeze.”

Professor Paul Wallace – Chief Medical Advisor for Drinkaware

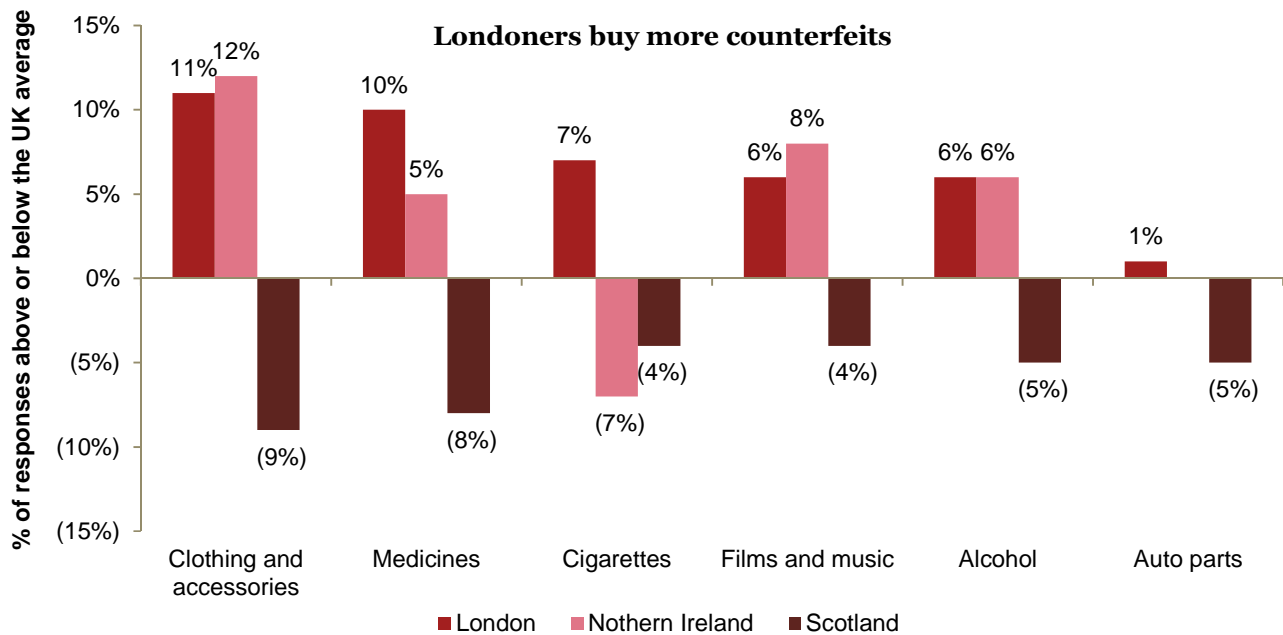
Analysing the responses by age group reveals this could be a growing problem, with younger respondents significantly more likely to buy counterfeit goods. Whilst unsurprising – especially in respect of purchases of clothing and music – what is worrying is that it is the same across a broad spectrum of goods.

Figure 2



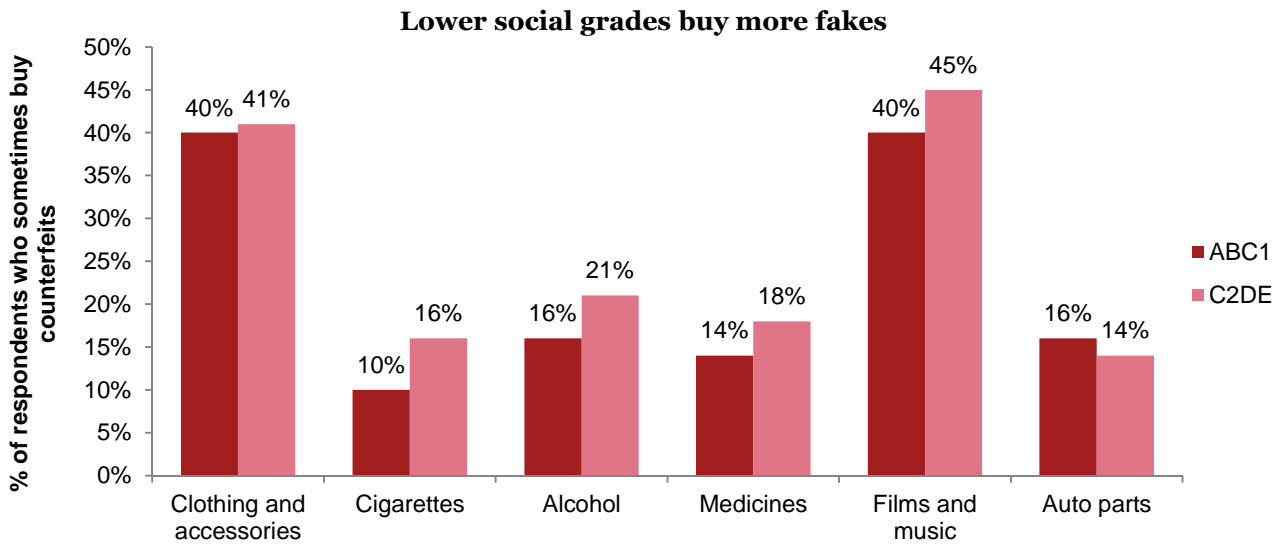
There were also some interesting regional disparities. Comparing regional responses to the national average, respondents in London and Northern Ireland, seem to be buying more fake goods than average; whilst those in Scotland seem better behaved.

Figure 3



Cutting the same responses by social grades indicates lower social grades seem more inclined to buy counterfeit goods than higher grades, particularly in respect of cigarettes.

Figure 4

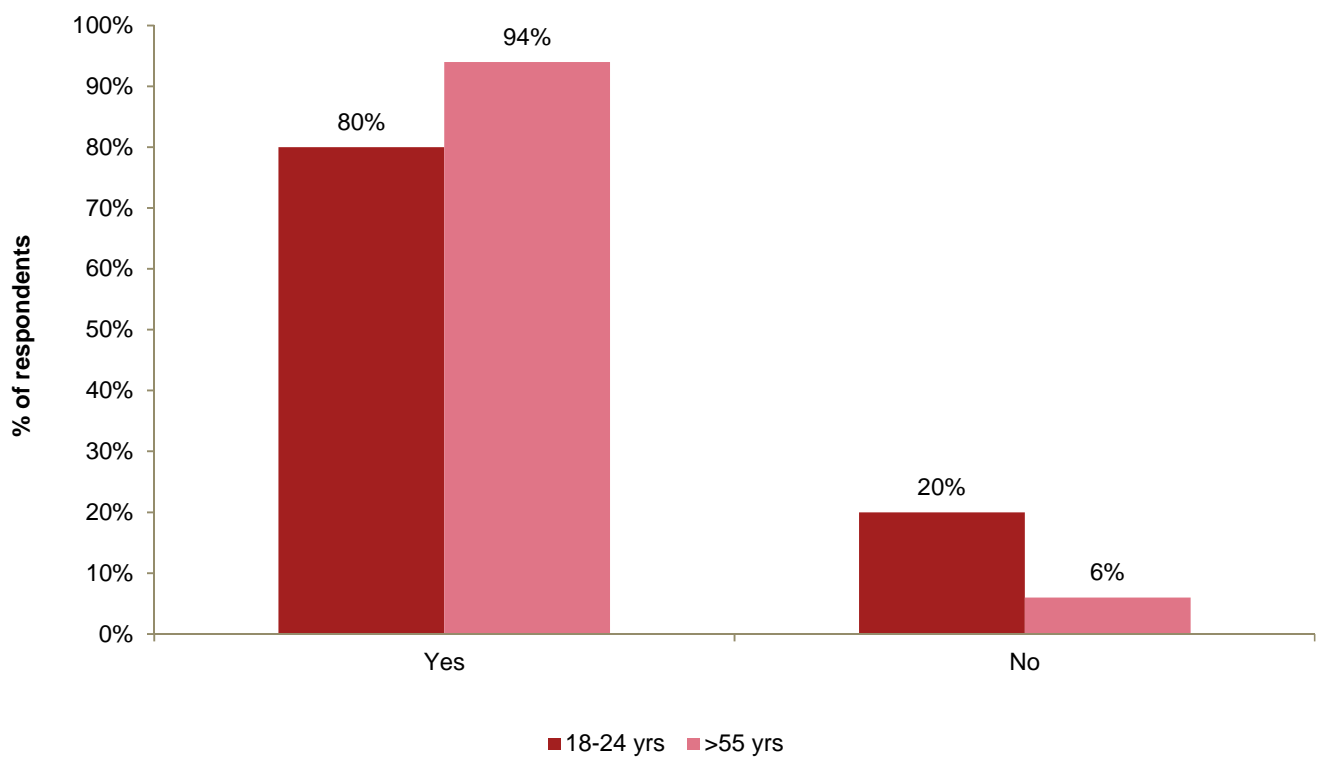


Question 2 – Is counterfeiting morally wrong?

Do you think counterfeiting is morally wrong?

What interests us about this response is not the fact that the large majority believe counterfeiting to be morally wrong (even though half the sample admitted to having bought something that was fake). It is the fact that, as with question 1 above, younger respondents are not as convinced that counterfeiting is wrong. Again, we see acceptance of counterfeit goods as becoming more mainstream.

Figure 5



'The cost of counterfeiting and privacy to the UK economy could be as high as £30 billion and could be costing 14,800 jobs for Britons.'

European Commission Representation in the UK

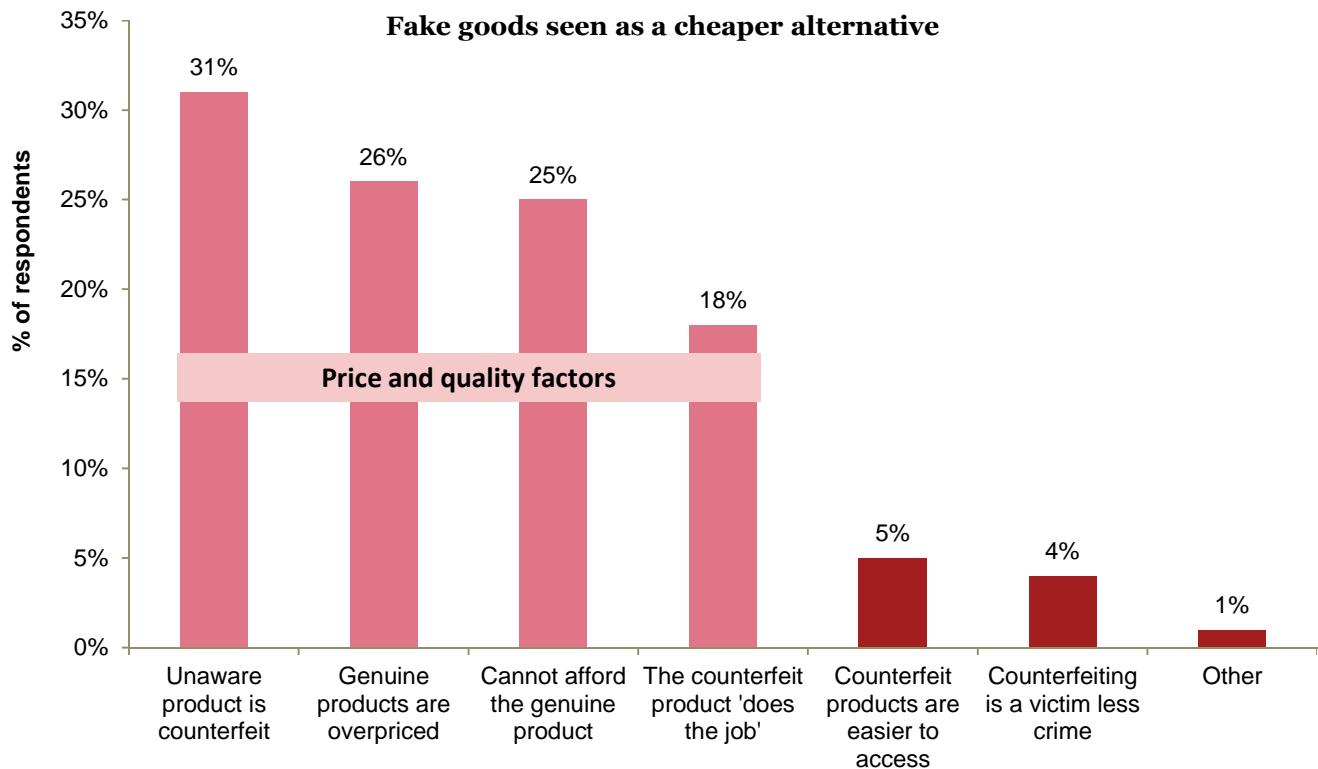
Question 3 – Why would you buy counterfeits?

Why would you buy counterfeit goods?

Price is overwhelmingly the main reason our respondents cited for buying counterfeit goods. The results below point to an acceptance that with lower prices comes an inferior quality (i.e. 18% cite substitution as a reason for buying vs. 25% citing price and affordability) but not enough, it would seem, to put people off.

Interestingly, only 4% of respondents saw the counterfeit industry as being a ‘victimless crime’. We say interestingly, because in an informal survey of brand owners, the majority told us they believed consumers felt this way. Perhaps, the answer is they just do not think about it at all, with purchasing decisions seemingly being driven solely by price.

Figure 6



‘A generic iPhone charger reportedly shocked a woman to death.’
Business Insider

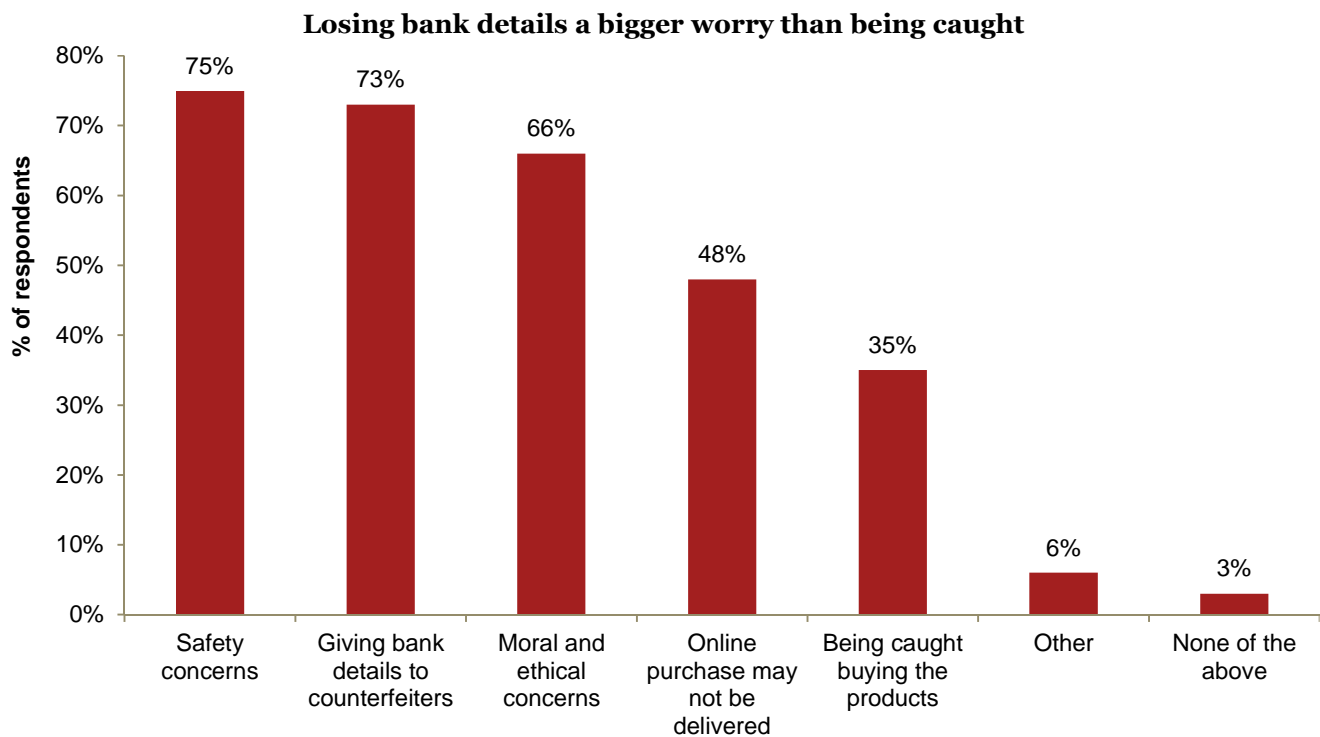
Question 4 – What would put you off?

What would put you off buying counterfeit goods?

75% of our respondents understandably said they'd be put off buying counterfeit goods by health and safety concerns (yet seemingly 18% have bought fake alcohol and 16% fake medicines). Interestingly though, only 35% would be put off by being caught.

Our respondents seem far more worried about their bank details being stolen than they are by being prosecuted. Again, our point would be that buying counterfeit goods seems widely accepted.

Figure 7

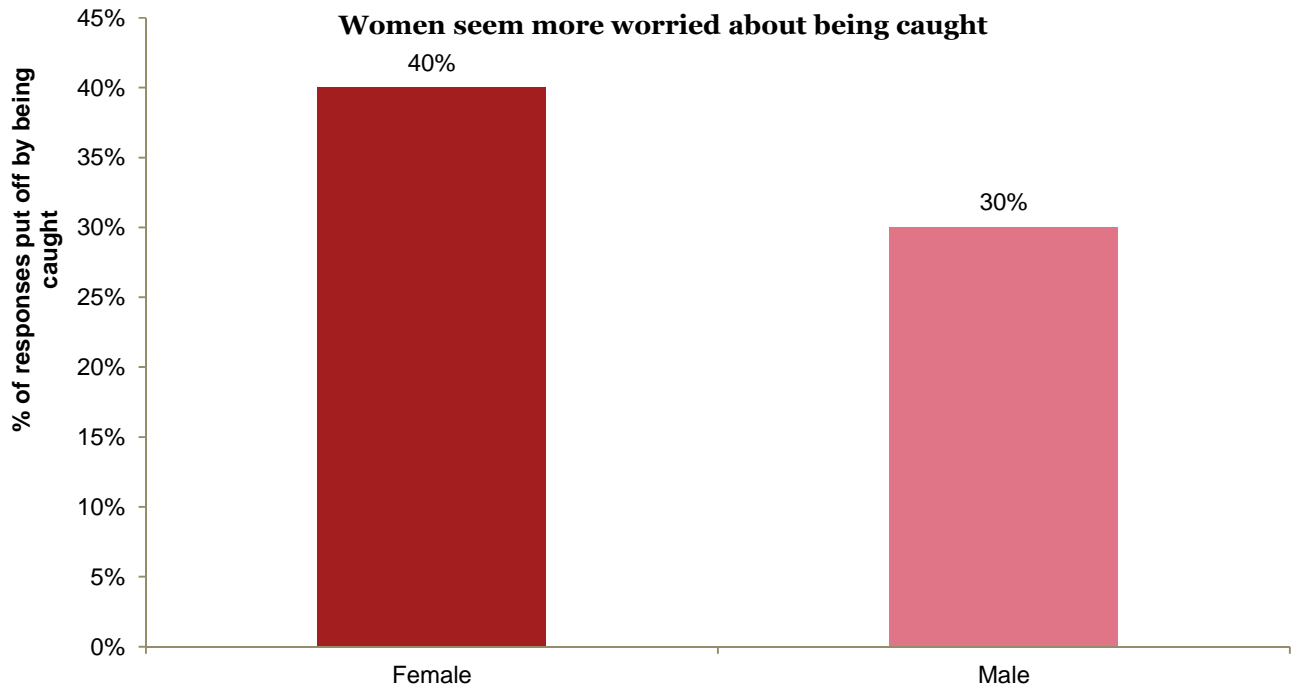


‘Criminals rake in U\$250 billion per year in counterfeit goods that pose health and safety risks to unsuspecting public.’

United Nations Office on Drugs and Crime

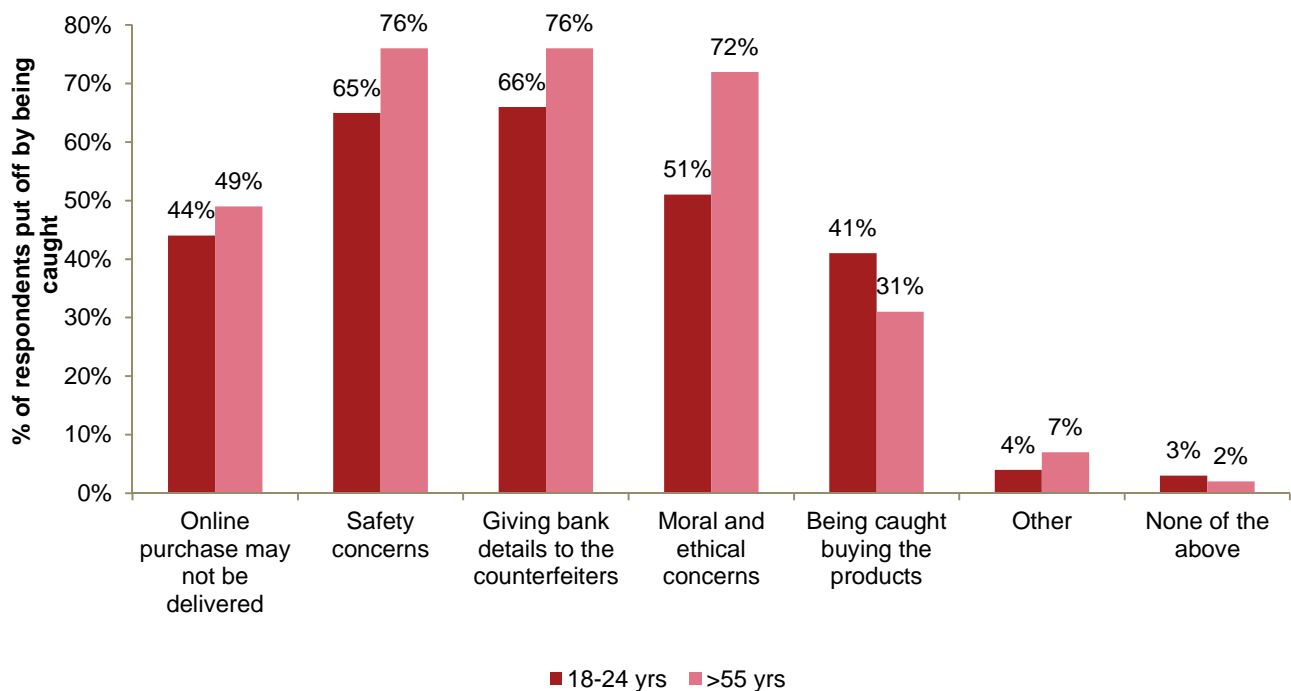
Sticking with the 35% who would be put off by being caught it seems, from our sample at least, that men are more blasé about this than women:

Figure 8



Analysing the responses by age is also interesting. In general, younger people are less likely to be put off buying counterfeit goods than their elder peers. The exception being the fear of being caught. Perhaps (see question 2 above) that's because younger people make far more purchases?

Figure 9

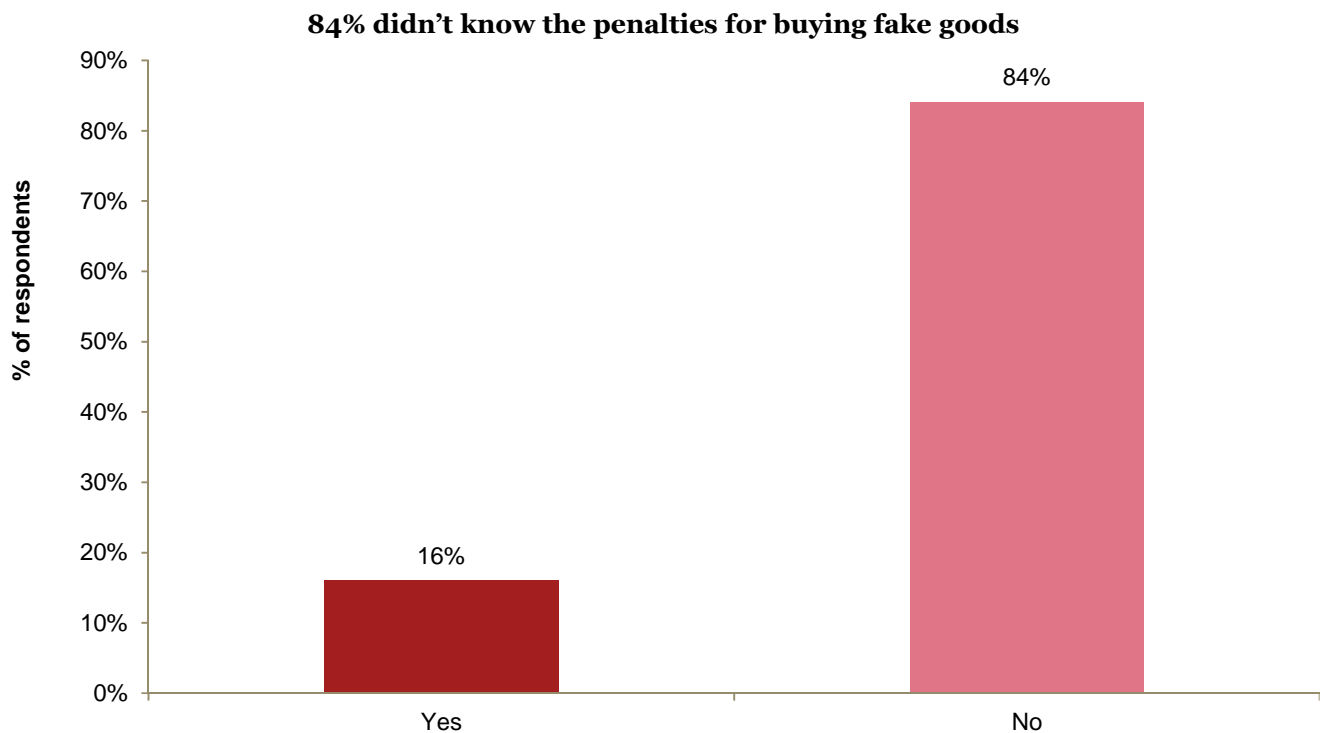


Question 5 – Do you know the law?

Do you know what the penalties are for being caught buying and/or selling counterfeit goods in the UK?

One thing's for certain: hardly any of our respondents knew what the penalties are for buying or selling counterfeit goods (see figure 10 below). Perhaps, that and the fact they seem so blasé about being caught (figure 7) go hand in hand.

Figure 10



'30 months in prison for the man found with over 2,000 counterfeit electrical goods, including Beats headphones and Nintendo Wii controllers.'

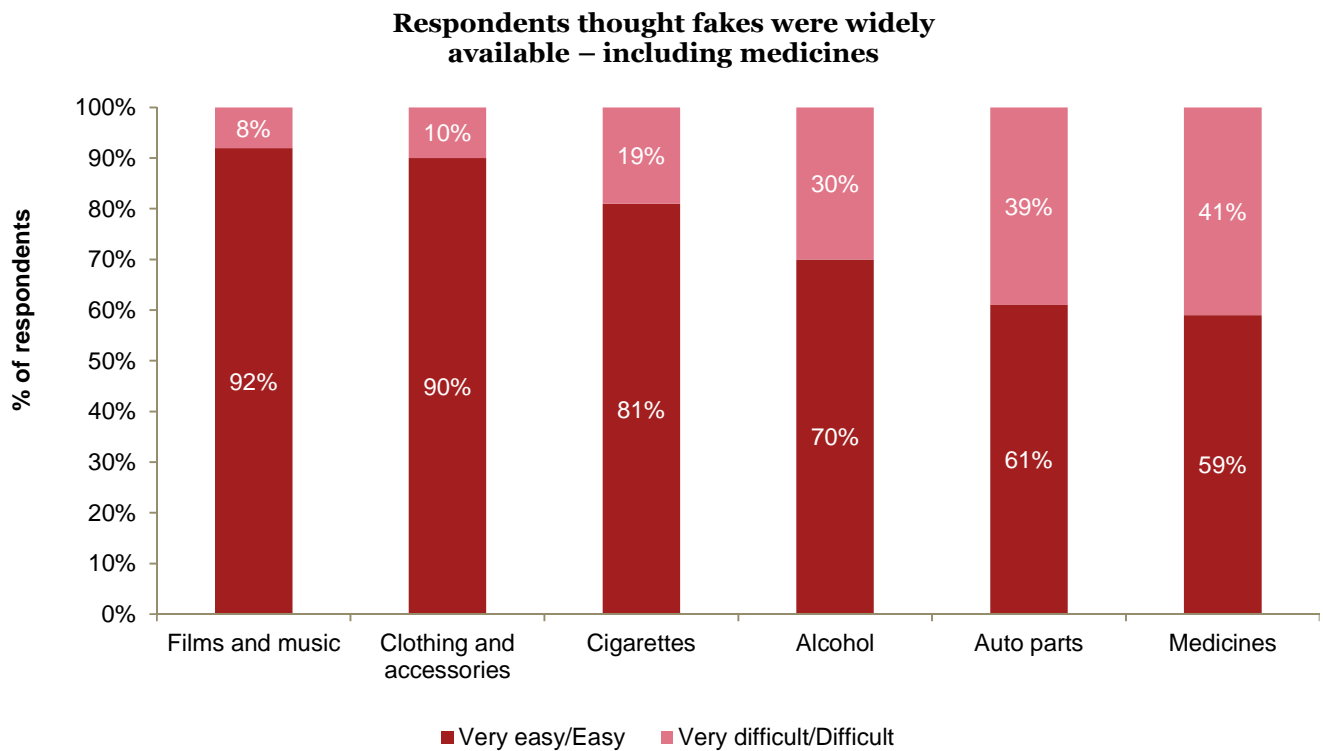
BBC News / Portsmouth Trading Standards

Question 6 – How easy are they to buy in the UK?

Please indicate how easy you think it is to purchase counterfeit products in the UK.

These responses surprised us. The proportion of respondents who believed fake cigarettes, alcohol, auto parts and medicines were readily available was very high. That the lowest response we got was that 59% of respondents thought buying fake medicines was easy/very easy tells a story in itself. The high proportion of respondents who thought films, music and clothing were easy to purchase was more in line with our expectations.

Figure 11

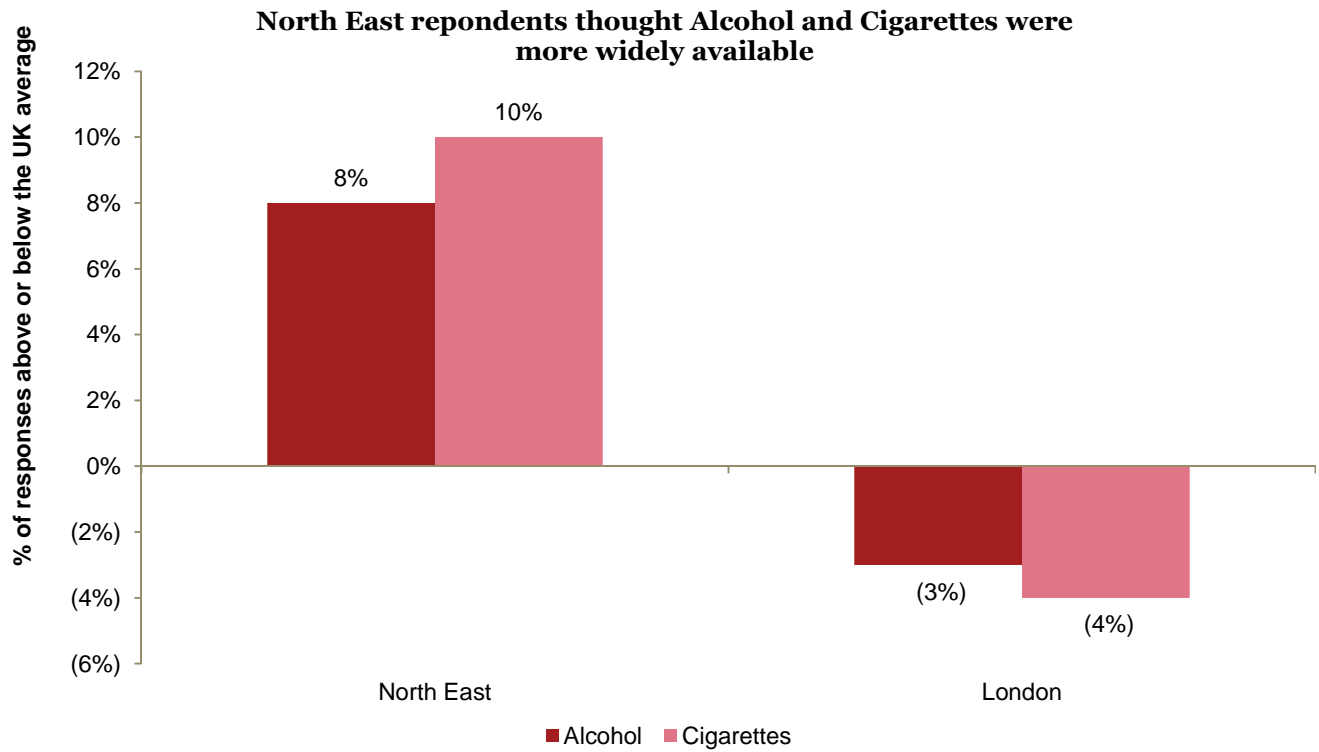


In one week in June 2013 more than one million doses of illegal medicine worth approximately £2 million were seized in the UK.

MHRA press release

Analysing the responses for cigarettes and alcohol by region; respondents in the North East thought these products were much more widely available than their peers in London.

Figure 12



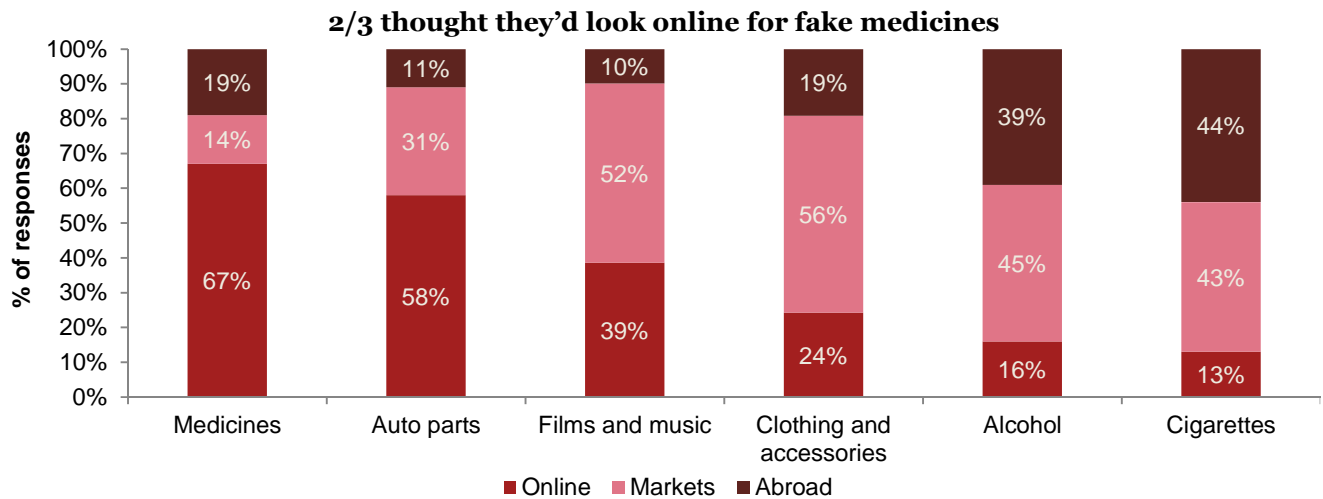
Question 7 – Where would you buy counterfeits?

Where you would be most likely to buy counterfeit products?

For us the stand out point from these responses is that some two thirds of our respondents thought that they would buy fake medicines online.

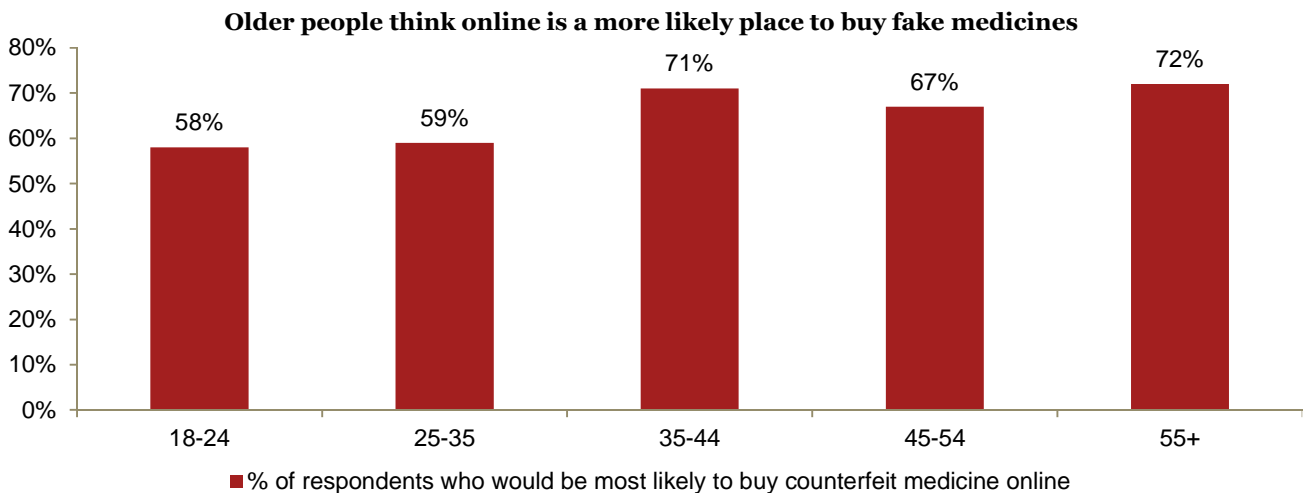
Elsewhere, it does not come as a surprise that respondents seem more likely to buy cigarettes and alcohol abroad than other products. Or that 56% thought they would buy counterfeit clothing from markets. We were surprised that only 39% thought they would buy films and music online (but perhaps with hindsight we should have distinguished between buying counterfeit films and downloading the real thing illegally).

Figure 13



Digging a little deeper, older people in general thought that online was a bigger channel (for counterfeit medicines) than their younger peers.

Figure 14



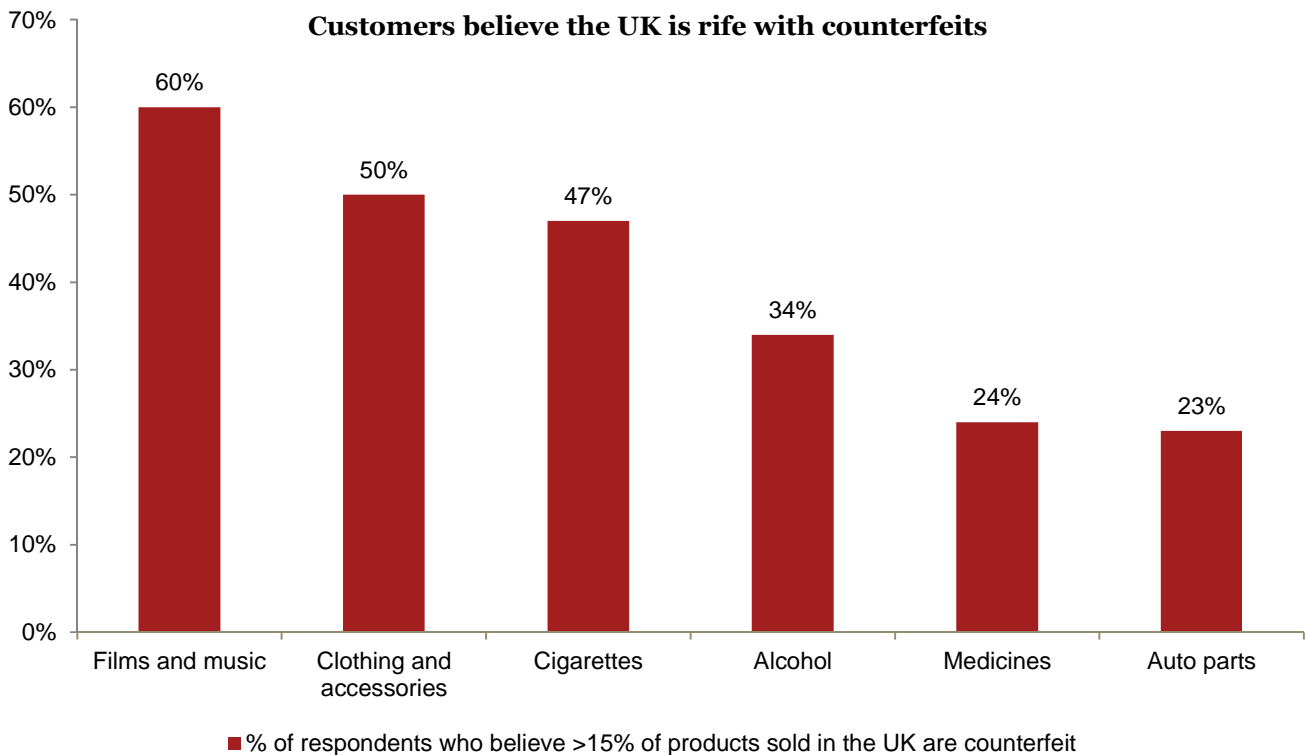
Question 8 – How prevalent are they in the UK?

What proportion of products sold in the UK do you think are counterfeit?

This question was asked to determine ease of access to counterfeits – or perceptions thereof.

What interests us about these results is just how prevalent consumers believe fake goods to be. Take cigarettes: whilst estimates vary, in general brand owners tell us they believe c. 11% of the UK market is counterfeit and illicit trade, with illicit trade by far the largest part. Yet many consumers seem to think the issue is much worse. Nearly half (47%) of respondents thought fake cigarettes accounted for 15% of the market or more.

Figure 15

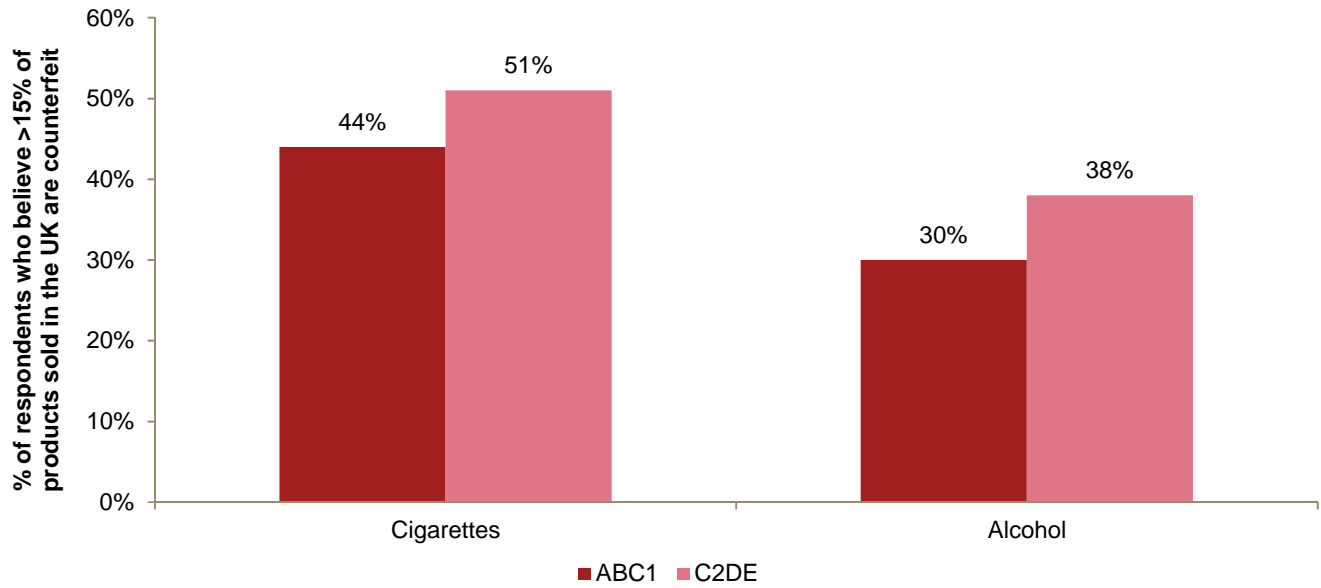


‘The UK has seen an increase in counterfeit medical products, particularly within the medical device sector. These products seriously undermine the safety and quality of the devices and pose a serious danger to patients.’

Bruce Petrie – Compliance & Enforcement Manager at the MHRA

Analysis by social grades shows a greater proportion of C2DE grades believing prevalence of fake cigarettes and alcohol was 15% or more of their respective UK markets.

Figure 16



Question 9 – Who should be taking action?

Whose responsibility is it to stop the sale of counterfeit goods. Please rank (with 1 being most important and 5 being least important).

1. Police
2. Government
3. Consumers
4. Online market places
5. Manufacturers

Two things interest us about the rankings above:

Firstly, that the police seem to be held more accountable than online market places. Yet given the prevalence of sites selling fake goods, one might have expected our respondents to hold the latter more accountable. It would seem far easier, for instance, to stop a site selling fake handbags than it is to track down the site owner and get it closed down.

Secondly, we are struck by the fact that manufacturers ranked last. Given some of the attitudes expressed in answer to earlier questions we thought consumers might have ranked themselves less responsible than manufacturers. Certainly, consumers put greater penalties (for themselves) last in terms of assessing what should be done (see Question 10 overleaf).

Question 10 – What should be done?

What do you think should be done to stop counterfeiting?

Please rank (with 1 being the most important and 4 being the least important).

1. Harsher penalties for counterfeiters
2. Stronger enforcement
3. Better education of consumers
4. Harsher penalties for consumers

Despite 90% stating they believed it morally wrong, and a similar proportion (80%) admitting they didn't know the penalties, as outlined below our respondents put more pressure on the culprits ahead of better education/harsher penalties for themselves.

It is not an issue we'd expect consumers to raise, but we note industry bodies are requesting tighter, transparent best practices and Know Your Client policies to ensure that legitimate shipping and delivery companies don't unwittingly transport counterfeit goods for counterfeiters.

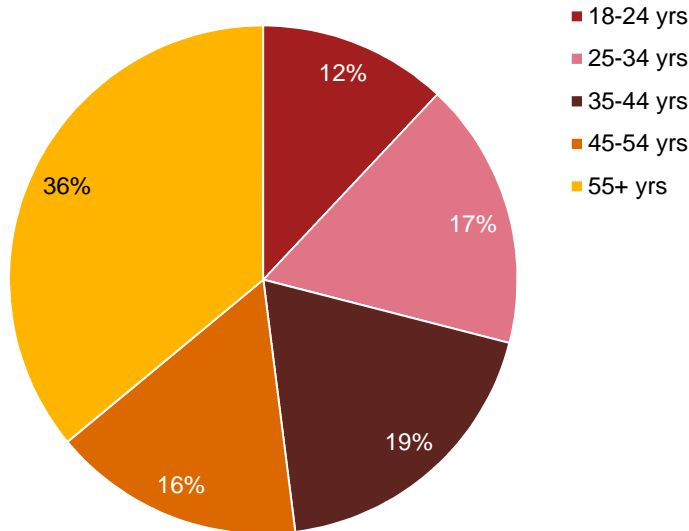
“Brand owners see a lack of Know Your Client precautions in the shipping industry as a key contributor to the transport and delivery of counterfeit goods to the UK.”

Mr D’Arcy Quinn – anti-counterfeiting advisor to brand owners

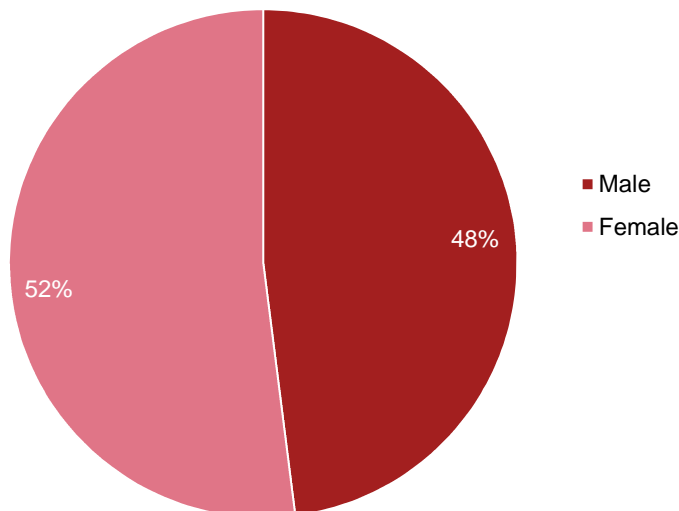
Methodology

PwC used an external provider to ask selected questions of a consumer panel over the course of 2 days in August 2013. The interviews of 1,073 respondents were achieved to a nationally representative proportion by age, gender, region and social grade in order for the results to accurately represent the nation to a 95% confidence level at +/- 3.1% confidence interval.

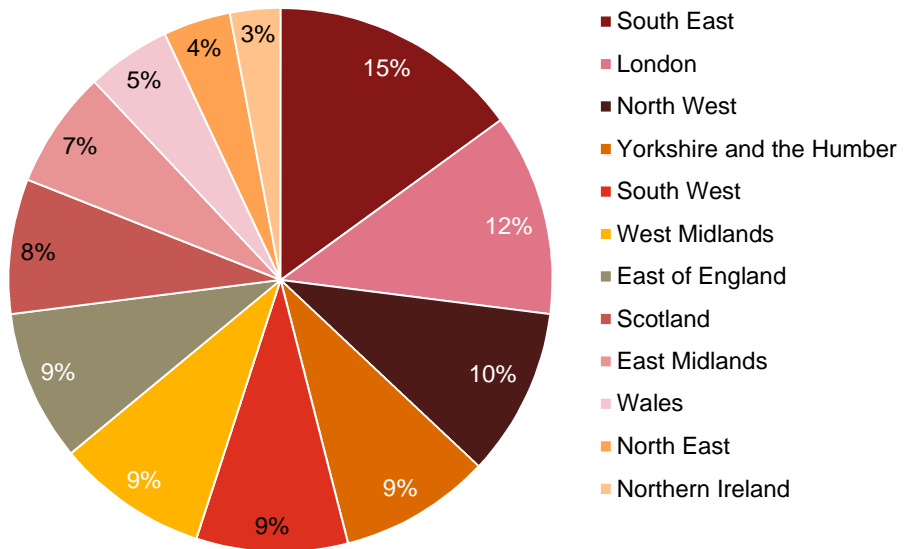
Respondents by age



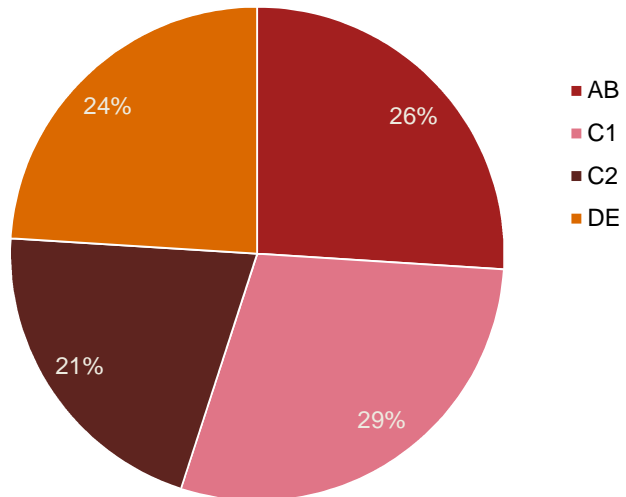
Respondents by Gender



Respondents by Geography



Respondents by Social grade



How PwC can help

Theft of intellectual property is an issue that plagues a number of companies across a wide range of sectors. Whatever guise this theft takes, be that counterfeiting, piracy or illicit trade, the results are the same: endangerment of consumers, brand damage and loss of revenue. This is a problem that has been around for decades but has become more prevalent with the growth in the internet and advancements in technology, the onset of a global economic recession and the development of international trade.

Companies, law enforcement agencies and governments around the world employ a number of means to detect, disrupt and prevent these criminal activities. At PwC we apply our core capabilities and sector expertise to provide anti-counterfeiting solutions to clients around the globe. For example:

Data overload?

Data Analytics

In our experience data on counterfeiting (seizure data, investigation data, web data) is extremely fragmented and there is little intra/inter industry sharing or analysis. Our analytical teams can assist with the aggregation, and forensic analysis of this data across sectors which in turn can, we believe, improve the efficiency of investigations.

How big is the problem?

Quantifying the economic impact

Counterfeiting and illicit trade have a substantial impact on companies, industries and countries around the world yet this impact is hard to quantify. Our experts in economic quantification work with clients to provide a best in class estimation of both the financial and non-financial impact that these activities have.

Are your partners the culprits?

Counterparty Investigations

Knowing everything you can about your business partners prior to working with them and during the course of your relationship is crucial: especially if expanding overseas. Our corporate intelligence investigators have the ability to search thousands of online databases on a real time basis for clients around the world. We identify information about companies and individuals that help inform our clients' decisions and provide updates and alerts during the course of the relationship should anything new come to light.

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