

RESEARCH

EU fashion sector sees sales loss of 9.7pc due to counterfeiting

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Gucci fall/winter 2015 campaign

By JEN KING

Each year, more than \$28.5 billion in profits is lost in the European Union due to counterfeit apparel and accessories, according to a new report by the EU Observatory.

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The “[Quantification of IPR Infringement](#)” report, which looks at the cosmetics and personal care sector as well as apparel and accessories, dissects the economic impact counterfeit goods have on employment in intellectual property rights intensive industries and how consumers' perceptions of intellectual property are formed in the EU-28. Luxury goods are often subjected to counterfeits, which dilute the brand's standing and harm the trust a house has with its consumers due to fears of making a purchase that is not authenticated and of a trusted quality.

“With this report we can put a figure on the economic impact of counterfeiting and its consequences in terms of lost revenue and jobs at EU level in the clothing, shoes and accessories sector,” said António Campinos, president of the [Office for Harmonization in the Internal Market](#), Alicante, Spain.

Since it is difficult to quantify the scale of counterfeiting and its societal consequences,

the EU Observatory's Office for Harmonization in the Internal Market (OHIM), an intellectual property agency, analyzed variations between forecast sales and actual sales per sector, and by country in the EU.

The statistical techniques used include economic and social factors, which allow the EU Observatory to estimate the amount of lost sales by intellectual property rights (IPR) holders due to counterfeiting, in addition to loss of employment in a given sector.

Fakin' it

According to the report, the fashion industry in Europe has seen 363,000 jobs lost due to the counterfeiting of clothing, footwear and accessories. The manufacture and distribution of these counterfeit items totals more than \$28.5 billion.

The report also found that the sale of knock-off goods, in the EU alone, accounts for nearly 10 percent of the total sales in the fashion sector throughout the 28 countries in the union. Job loss is a result of these products being sold due to less profits generated by the manufacturing brand, thus resulting in layoffs and terminations because of a lessened need for labor.

Also, since brands manufacturing counterfeit goods and those selling the items do not pay taxes, the EU government has lost more than \$8.7 billion in revenue. With the economic conditions in many European countries on shaky ground, the added revenue from the sale of authenticated goods from mass and high-end brands may reduce the burden.

In the report, specific countries are analyzed to reflect the impact counterfeiting has on economies in terms of revenue lost and unemployment.

For instance, in Italy, the counterfeit industry of apparel and accessories cost manufacturers, retailers and distributors in the country approximately \$4.9 billion in lost sales and more than 50,000 jobs lost.

In 2013, Italian fashion house Gucci filed a lawsuit against a number of counterfeit Web sites and online merchants to help protect the brand's image, although the legal battles are not likely to stop counterfeiters.



Gucci pre-fall 2015 campaign

The label went after Web domains and individual merchants on online trading community iOffer in a suit in the Florida Southern District Court. Although this case was not likely to stop counterfeiters, it could prevent them from targeting Gucci in the future ([see story](#)).

More recently, Italian police closed down 410 Web sites that sell high-end fashion fakes such as Prada handbags and Patek Philippe timepieces. The raids occurred in 11 Italian cities including Milan, a center of Italian fashion.

According to [Business of Fashion](#), in 2014, Italian police seized \$3.2 billion in counterfeit goods. Italy's fashion sector has increased its crackdown on counterfeit goods because the apparel industry generates \$65.8 billion for its economy each year.

The United Kingdom and France are equally affected by counterfeit goods with \$3.9 billion and \$3.8 billion in revenues lost, respectively. Germany has seen the same loss in revenue and the counterfeit industry has accounted for more than 50,000, or 14 percent, of jobs lost.

In the beauty sector the outcome from counterfeit goods is on par with the impact it has had on apparel and accessories brands. But, the revenue lost is not as steep at \$5.4 billion with 50,000 in jobs lost per year as well as \$1.8 billion lost in government taxes.

The screenshot shows a product listing for 'Wholesale - Essie nail polish oil 2012 summer bikini series mini set 4 5ml'. The product image shows a box of four small bottles of nail polish in various colors. The page includes a price table, shipping information, and payment options.

Wholesale Price	Qty	Price
3-4	1	US \$35.00
5-9	1	US \$30.00
10-24	1	US \$25.00
25-49	1	US \$20.00

Shipping Cost: US \$16.75 to United States via ChinaPOSTAL
Delivery Time: 17-21 Days
Processing Time: Ships out within 7 days
Total Cost: US \$174.75

Payment Methods: VISA, MasterCard, Skrill, PayPal, Western Union, Money Order

Example of Essie nail polish infringement

The sale of counterfeit perfumes and cosmetics, in addition to personal care items such as sunscreen and shampoo, equals 7.8 percent of total sales in the sector throughout the 28 countries in the EU.

As with fashion, the jobs lost are a direct result of manufacturers not needing as many hands due to decreases in sales.

In 2013, anti-counterfeiting and brand protection agency OpSec found that beauty and health product counterfeiters are using cunning tactics such as infringed product and factory images and manipulated feedback ratings to dupe consumers and jeopardize brand equity.

The study found that beyond harming brand image, counterfeiters are selling products that pose legitimate health risks to consumers. To help brands and consumers identify phony products, OpSec provides a series of telltale warning signs.

OpSec found that more than 40,000 sellers offered brand name products and packaging in large quantities. To amplify the ordinary concerns about counterfeits, the study details dangerous chemicals such as cat urine, antifreeze and high levels of lead that have been found in counterfeit products ([see story](#)).

Fighting back

Luxury brands have developed ways, often through the court systems, to fight against the development and retailing of counterfeit goods.

For instance, in 2013, Richemont-owned Cartier's recent win with a trademark infringement lawsuit against China-based companies indicated that luxury marketers should not ignore threats to brand equity in the country and send a message to counterfeiters.

Cartier won in a Shanghai court after it filed a lawsuit against two jewelry companies based in Beijing and a Chinese online supermarket that sells these companies' products for using the brand name without the French jeweler's consent. Luxury marketers should continue to pursue trademark cases to take a stance against counterfeiting, especially in China where the government is just starting to acknowledge the issue ([see story](#)).

Similarly in 2015, luxury conglomerate Kering has filed a lawsuit against Chinese ecommerce giant Alibaba, claiming the retailer has been facilitating the sale of counterfeit goods.

Kering, along with its brands Gucci and Yves Saint Laurent, filed the lawsuit in a U.S. district court in New York May 15, stating that the online retailer has been allowing, and possibly encouraging, the sale of knock-off goods for profit. The group filed a similar suit against Alibaba in 2014, but soon dropped the case when the ecommerce player agreed to implement strategies to avoid the sale of counterfeits on its site ([see story](#)).

Having this information at their disposal may help brands decide if they wish to proceed with a court case to combat counterfeit goods.

"These results will not only help policy makers in their work, they will also help consumers make more informed choices," Mr. Campinos said.

Final Take

Jen King, lead reporter on Luxury Daily, New York

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