



## Investigating the societal costs of IP infringement

*Negative impacts on human rights, sustainable  
development and inward investment*

# INTRODUCTION

Counterfeiting and piracy account for the largest economic value of all forms of illicit trade. The problem has intensified to staggering levels, and the OECD reports that it amounted to 2.5% of global trade in 2016. Illicit trade in counterfeit goods poses a significant threat to contemporary and globally interconnected economies. Counterfeiting and piracy occur across multiple industry sectors and can extend to other and similar problems. For example, unbranded petroleum products and substandard pharmaceuticals may be considered fakes but may not necessarily encompass an IP infringement. Examples of digital illicit trade common to facilitating piracy of copyright works and live events—through storage, download and streaming—include cybercrimes and money-laundering in the financial system.

## Societal costs of IP infringement

Counterfeit trade not only undermines the core of sustainable economic growth but also presents substantial risks to public health, safety, and the environment. In today's dynamic and forward-thinking global economy, combatting this illicit trade is crucial for fostering genuine progress and ensuring the well-being of societies worldwide. Counterfeiting and piracy has detrimental social and economic consequences; notably it:

- Poses a triple threat to development: crowding out economic activity, depleting government revenues, and

raising costs for achieving the UN SDGs.

- Is produced outside normal channels of commerce with little regard to environment and health and safety regulations—and as a result poses risks to economic growth, consumer health, livelihoods and the environment.
- Fuels human rights abuses including the demand for forced and child labor in 12 sectors, and human trafficking.
- Is driven by corruption of public officials and encourages illicit revenue streams.
- Leads to diminished foreign investment that hinders economic growth.

To effectively influence governments to prioritize IP protection and act against infringement requires speaking their language, and that language encompasses prosperity, security, sustainable development, consumer protection and human rights – not just IP rights.

Our work aims to reach new audiences within governments and international standard setting bodies to raise awareness that illicit trade, including counterfeiting and piracy, is not a victimless crime and that it needs to be prioritized by governments and law enforcement.

## 1. MAPPING THE IMPACT OF ILLICIT TRADE ON THE U.N. SUSTAINABLE DEVELOPMENT GOALS



Despite the recognition of international trade as an important means to achieve the UN SDGs, insufficient attention has been given to the substantial impact that illicit trade has on holding back progress. To help governments and business better understand how their efforts to achieve sustainable development must account for the negative forces of illicit trade, TRACIT evaluates the impact of illicit trade on the 17 UN SDGs in the following sectors: agri-foods, alcohol, fisheries, forestry, petroleum, pharmaceuticals, precious metals and gemstones, pesticides, tobacco, wildlife and all forms of counterfeiting and piracy. Illicit trade compromises the attainment of the UN SDGs in significant ways, crowding out legitimate economic activity, depriving governments of revenues, dislocating legitimate jobs and causing irreversible damage to ecosystems and human lives.



## 2. UN SDGs AND ILLICIT TRADE IN COUNTERFEIT AND PIRATED GOODS



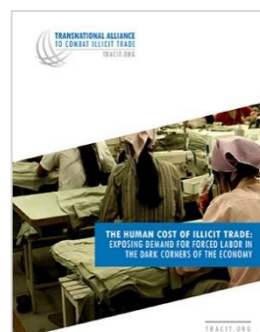
The illicit production and trafficking of counterfeit and pirated goods represents a direct threat to the achievement of the UN SDGs. These goods are produced outside the normal channels of commerce with no regard to environment, health and safety regulations—and as a result pose risks to long term economic growth, consumer health, livelihoods and the environment. Consequently, it is not surprising that illicit trade in counterfeit and pirated goods negatively impacts nine of the 17 SDGs.



## 3. THE HUMAN COST OF ILLICIT TRADE: EXPOSING DEMAND FOR FORCED LABOR IN THE DARK CORNERS OF THE ECONOMY



Amongst the worst crimes associated with illicit trade is the demand it creates for forced and child labor to carry out the tasks of making counterfeits, sewing fake logos on luxury apparel, or harvesting illegal fish. Women, children and men of all ages and race are forced to work in illicit sectors, where they are abused by organized criminals pursuing clandestine profits. Occurrences of forced labor are examined in illicit activities in several sectors: counterfeiting, pharmaceuticals, mining, fishing, tobacco, pesticides; and timber. TRACIT's report finds that ending these human rights abuses will only be possible by eradicating illicit trade and the demand for forced labor associated with it.



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### 4. THE LINK BETWEEN ILLICIT TRADE AND SOVEREIGN CREDIT RATINGS



In light of the strong impacts of illicit trade on countries' economic output and performance, TRACIT investigates the correlation between countries' creditworthiness and vulnerability to illicit trade. It finds that correcting regulatory and economic circumstances that enable illicit trade can improve sovereign credit ratings and reduce the cost of raising capital in the international financial markets. The report compares the credit ratings attributed by S&P Global, Fitch Group and Moody's and the scores attributed by the Global Illicit Trade Environment Index. The report examines the direct negative impact that illicit trade has on the economic, social, and institutional risk factors that credit rating agencies evaluate to determine countries' ability to honor their debt. Corruption, crime, human trafficking, money laundering, and environmental degradation connected with illicit trade all combine to weaken a country's economic, financial and institutional stability that underpin its credit ratings.



### 5. MONEY TALKS: THE CROOKED CONNECTION BETWEEN ILLICIT TRADE AND CORRUPTION



One of the key underlying conditions that makes countries more vulnerable to illicit trade is corruption, which erodes controls designed to prohibit illegal goods to move across borders, undermines law enforcement operations to detect or interrupt illicit trade, and contributes to impunity of illicit traders. TRACIT's upcoming report finds that corruption is affecting illicit trade worldwide. There is not a single sector of illicit trade that is not tainted by corruption, including agrifoods, alcohol, IUU fishing, forced labor, timber, or wildlife, pharmaceuticals, pesticides, precious metals, gemstones, tobacco products, petroleum, or counterfeiting. any successful steps to mitigate illicit trade will necessarily require strong and targeted measures to prevent corrupt actors from compromising the integrity of the global supply chain.



#### About TRACIT

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to drive change to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.

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