



## Intellectual Property Theft by the Numbers by Joshua Tallis

One trillion dollars is a big number. One trillion dollars is a one, followed by 12 zeros. One trillion dollars would buy you over forty million new cars. One trillion dollars would buy you more than five and a half million American homes of median value. One trillion dollars is a year's salary for 14.7 million teachers, the total salary of all congressmen and senators for the next ten thousand years, one thousand celebrity divorce settlements or a one year CD paying around fifteen and a half billion in interest.<sup>1</sup> One trillion dollars is also around how much McAfee estimates the total global economic losses were in 2012 due to data theft and security breaches by organized crime, hackers and inside jobs.<sup>2</sup> Intellectual property theft is not costing your company pennies on the dollar; it's costing you millions.

Intellectual property (IP) and brand theft is not simply electronic, although the sheer magnitude of theft taking place among the Internet's ether is an astonishing percentage of the IP stolen annually. In the United States, the Customs and Border Protection (CBP) arm of the Department of Homeland Security (DHS) is responsible for raiding and seizing unlawful merchandise. In 2012 alone CBP estimates it collected \$1.26 billion worth of counterfeit material, averaging out to around \$10,450 per seizure.<sup>3</sup> And despite the fact that only 29% of material seizures were of apparel and accessories, wallets and handbags alone comprised 40% of the actual value of that \$1.26 billion haul (a little over half a billion dollars).<sup>4</sup> All that, of course, is only what was caught, the tip of a one trillion dollar financial iceberg that can easily sink even the biggest of industries.

Take a look at pharmaceuticals, for example. Titans such as Pfizer have been slowly laying off jobs and downsizing their R&D budgets in recent years. Why? Well, some of it probably has to do with patent expiration, but it's a safe wager that an equally weighty contributor is the reality that 5% of all American pharmaceuticals are counterfeited.<sup>5</sup> Put another way, U.S. drug companies lose an annual total of \$12 billion to IP theft. And it is not just medication. The yearly loss to the fashion industry as a consequence of brand forgery is estimated at \$9

---

<sup>1</sup> [http://finance.yahoo.com/news/pf\\_article\\_110132.html](http://finance.yahoo.com/news/pf_article_110132.html)

<sup>2</sup> [http://www.nw3c.org/docs/whitepapers/intellectual\\_property\\_theft\\_september\\_201008B6297ECEB4FAE7EAA79494.pdf?sfvrsn=3](http://www.nw3c.org/docs/whitepapers/intellectual_property_theft_september_201008B6297ECEB4FAE7EAA79494.pdf?sfvrsn=3)

<sup>3</sup> [http://www.cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/ipr\\_communications/seizure/fy2012\\_final\\_stats.ctt/fy2012\\_final\\_stats.pdf](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/ipr_communications/seizure/fy2012_final_stats.ctt/fy2012_final_stats.pdf)

<sup>4</sup> [http://www.cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/ipr\\_communications/seizure/fy2012\\_final\\_stats.ctt/fy2012\\_final\\_stats.pdf](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/ipr_communications/seizure/fy2012_final_stats.ctt/fy2012_final_stats.pdf)

<sup>5</sup> <http://genuine-id.com/?id=29>

billion, while watch manufacturers alone may lose up to \$1 billion in sales to fake Rolexes and faux Fossils.<sup>6</sup>

Where does all of this stuff come from though? Surely an operation so large as intellectual property and brand theft should be easy enough to spot! Well in truth much of it may be, but those responsible are beyond the reach of CBP. China, as you no doubt presumed, remains by far the largest producer of forged goods, totaling about three quarters of all DHS seizures in the United States by dollar value.<sup>7</sup> However something *has* changed in China in recent years. As its economy continues to welcome millions into the middle class, the Chinese domestic market for consumer products has exploded. Presumably that means a great deal for you and your business. Yet if you operate in an industry targeted by intellectual property theft (i.e. nearly any industry), you may arrive in Asian markets only to find your products have preceded you. The Motion Picture Association of America (MPAA), by way of example, speculates that nearly 100% of the retail film market in China is forgeries.<sup>8</sup> That means of the entire movie buying population, virtually none of those one billion individuals are purchasing legal videos. Such a dramatic black market has lead, for the entire copyrighted cinema industry, to losses topping \$2 billion dollars every year. This no doubt has been aided in large part by the growth of Internet piracy.

The Internet does not simply facilitate the creation of counterfeit goods either; it now plays a crucial role in the dissemination of such material as well. The back alley trading of Canal Street peddlers has moved online in droves, even to sites as recognizable and reputable as eBay. In a small-scale experiment of their own design, the renowned jewelry company Tiffany purchased 186 items off eBay. They found that only 5% of them were genuine. In a similar test by Microsoft, 115 individual copies of physical technology were purchased and analyzed. Of those, 39% were fraudulent and another 12% contained software that was either manipulated or foreign. Out of nearly half a million Dior and Luis Vuitton products being sold on eBay in the first half of 2006, as many as 90% were deemed fake.<sup>9</sup>

Some experts speculate that as much as 10% of all global trade is derived in part from stolen intellectual property or brand theft. Those same experts suggest that revenue from the sale of counterfeit goods has increased 400% since the 1990s.<sup>10</sup> The damage this has caused to the American economy is more than just counted in dollars and cents. According to the International Anti-Counterfeiting Coalition, a \$200 billion hit to American producers has also meant the loss of three quarters of a million U.S. jobs.<sup>11</sup> The McAfee report quoted above polled one

---

<sup>6</sup> <http://genuine-id.com/?id=29>

<sup>7</sup> [http://www.cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/ipr\\_communications/seizure/fy2012\\_final\\_stats.ctt/fy2012\\_final\\_stats.pdf](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/ipr_communications/seizure/fy2012_final_stats.ctt/fy2012_final_stats.pdf)

<sup>8</sup> <http://www.unc.edu/courses/2010spring/law/357c/001/ACG/stats.html>

<sup>9</sup> <http://www.unc.edu/courses/2010spring/law/357c/001/ACG/stats.html>

<sup>10</sup> <http://www.opsecsecurity.com/en/brand-protection/facts-figures>

<sup>11</sup> <http://www.opsecsecurity.com/en/brand-protection/facts-figures>

thousand of the world's largest companies. From that they estimated that those businesses lost \$4.6 billion in intellectual property theft. Yet the damage was not yet wholly done. Combined, those companies then had to spend \$600 million repairing or mitigating the damage done to them by that theft.<sup>12</sup>

So that is the big picture. Numbers with 12 zeros on the end and Chinese merchandise magnates shipping in Gucci handbags by the thousands. But what does this mean for you, on your business' scale? Well, let's start by downsizing that last number we mentioned. If it costs a multination corporation \$1 of damage control for every \$8 lost, you can likely anticipate at least \$10 per unit of combined revenue loss due to intellectual property thieves. And no brand is too small to be targeted. With literally billions of dollars to make, there is a market for every counterfeit.

If your business risks losing \$10 of damage per widget sold, wouldn't it make sense to pay \$0.50 per sale to secure the integrity of your brand? That is where Security Management International comes in. As an international intelligence and security services provider, SMI's team of CIA, FBI, Special Ops, business intelligence, and legal experts is specifically trained to teach you how to secure your intellectual property. We are here to offer you the tools to take IP and brand security into your own hands. We strongly encourage you to contact us for a personalized consultation. \$1,000,000,000,000 is a big number. Don't be a part of it.

### **About the Author:**

Joshua Tallis is the Manager of the Research and Analysis Department at Security Management International, LLC. He is a graduate of The George Washington University's Elliott School of International Affairs and a current doctoral candidate at the University of St. Andrews. He has been an analyst in DC for the past several years, and has been with SMI since it opened its doors. He can be reached at [jtallis@smiconsultancy.com](mailto:jtallis@smiconsultancy.com).

---

<sup>12</sup> [http://www.nw3c.org/docs/whitepapers/intellectual\\_property\\_theft\\_september\\_201008B6297ECEB4FAE7EAA79494.pdf?sfvrsn=3](http://www.nw3c.org/docs/whitepapers/intellectual_property_theft_september_201008B6297ECEB4FAE7EAA79494.pdf?sfvrsn=3)