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**THE NUMBERS  
 GUY**

By CARL BIALIK



# Efforts to Quantify Sales of Pirated Goods Lead to Fuzzy Figures

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Counterfeit and pirated goods are a big problem for global business, costing hundreds of billions of dollars, according to manufacturers and trade groups. But their estimates tell more about how difficult it is to assign a value to lost sales than about the actual size of the counterfeiting problem.

Washington business groups such as the U.S. Chamber of Commerce and the International AntiCounterfeiting Coalition calculate that global counterfeit sales equal \$600 billion to \$650 billion a year -- numbers parroted in news releases by companies claiming to fight piracy. They build on the often-cited claim that counterfeit goods represent 5% to 7% of all world trade. That claim got its official launch in a 1997 report by the International Chamber of Commerce, which cited these percentages as only a "general assumption."

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"It is virtually impossible to find accurate statistics to substantiate these perceptions" that counterfeiting is on the rise, the ICC author wrote.

The barriers to accurate data on piracy are clear: It's a shadowy business run by criminals.

Yet from these shaky foundations, a new gospel was born: 5% to 7% became the ubiquitous estimate. It was used in a 1998 report by the Organization for Economic Cooperation and Development and is often attributed to that group -- "unfortunately," OECD Deputy Director for Science, Technology and Industry John Dryden wrote earlier this year, because the number is based on methodology that is "not clear."

More recently, it was applied by Canadian business groups to arrive at a figure of up to \$30 billion in annual costs, which crept into a 2005 report by the Royal Canadian Mounted Police. But after op-eds in the Canadian press last month criticized the estimate, the RCMP backed away. "That number was provided by

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the private sector, not by us," Superintendent Ken Hansen says. "We didn't independently verify it."

The OECD's recent attempt to improve on the guesstimate put all counterfeit trade -- excluding homegrown and downloadable fakes -- at \$200 billion at the high end, extrapolating from customs seizures and guessing at how many illegitimate goods are missed at border patrols. But the OECD acknowledges in a report to be published soon that the number is based on incomplete information. Researchers asked countries to submit data on seizures of counterfeit goods; just 45 countries did, and only 15 of those offered details beyond broad categories about which products were fakes.

Moreover, the data were extrapolated to the countries that didn't respond. Researchers then guessed at a factor that would reflect the rate of counterfeiting for the most-pirated goods in the most-pirate-prone countries. They decided 5% was the most likely figure, but they were seeking a ceiling, so they doubled it, got a total of \$100 billion, and doubled that again to account for "statistical variability" in their model.

"Data available are very poor, given the illicit and illegal character of counterfeiting and piracy," says OECD economist Danny Scorpecci.

The ICC applauds the work of the OECD but is sticking with its \$600 billion figure, Jeffrey Hardy, coordinator of an ICC anticounterfeiting program, told me. He sees the \$200 billion not as an upper bound but as "a starting point" on which to add other types of piracy, such as downloading and domestically consumed fake goods, and other costs, such as lost taxes. "If you start adding up the categories, you start seeing the number is \$600 billion or more," Mr. Hardy says.

Such numbers fill a vacuum arising from spotty customs data. Seizure rates vary widely by port, a Government Accountability Office study found earlier this year, suggesting different levels of enforcement. Loren Yager, primary author of the report, says checking goods is time-consuming and difficult, and many are missed. "We wouldn't consider the seizure rate to be a random sample of the extent of counterfeit goods coming in," he says.

Individual industries, such as software and music, promulgate their own figures on lost sales, which often require survey respondents to know -- and reveal -- how much they buy is fake. These surveys ask buyers how much pirated goods they consume and how much legitimate goods they'd substitute for them if the pirated goods were unavailable.

One recent study, funded by the free-market Institute for Policy Innovation and touted earlier this month by NBC Universal Chief Executive Jeff Zucker, relied in part on these iffy surveys to estimate that copyright piracy costs the U.S. \$58 billion annually. The study's author says his approach was "conservative."

The best way to minimize survey respondents' fears of prosecution, or stigma, for buying counterfeits would be, paradoxically, to interview them in person using a laptop computer, says Jon Krosnik, a Stanford University political scientist and survey-design researcher. "Good interviewers make people comfortable," he says. Unfortunately, they also cost \$900 per survey.

That would be a steep price for many industry groups, which are interested in the numbers not so much for their reliability as their ability to spur the government to fight fakes.

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