



ADVISORY COMMITTEE ON ENFORCEMENT

THE STUDY OF PIRACY:

“UNDERSTANDING THE SHADOW MARKET IN MEXICO”

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PIRACY REPORT

This study was commissioned by the American Chamber of Commerce of Mexico, through its Committee on Intellectual Property (IP), and carried out by the Development Research Center, AC (CIDAC), an independent, non-profit think tank that conducts research and presents viable proposals for Mexico's medium and long-term development.

The aim of the study is to show the scale of consumption of illicit products in Mexico; conduct an in-depth analysis of spending habits and consumer profiles; and examine new ways to combat piracy in the country. Unlike other reports on piracy, which focus on specific cities or regions, this study addresses the phenomenon throughout the country.



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METHODOLOGY

- The study adopted a methodology that ensured the representation of urban and suburban areas in five regions, allowing inferences to be drawn for the whole country.
- Interviews were conducted with 1,500 men and women of 15 years or older who reported that they had consumed imitated or pirated products in the preceding year.
- Using the survey results, a segmentation analysis was conducted, dividing the population surveyed into three natural groups, on the basis of the volume and frequency of their consumption of illicit products. This allowed to discover that there are different reasons for consumption, depending on groups and circumstances, and to measure the potential impact of messages on piracy.



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METHODOLOGY

- To estimate the probabilities of the various sales channels, the approach that the Organisation for Economic Co-operation and Development (OECD) had developed in its General Trade-Related Index of Counterfeiting was used as a starting point. The study assessed the probabilities of buying pirated products through specific sales channels on the basis of the answers provided by the respondents in the **National Survey of Consumer Piracy (ENCP)** it had conducted in 2014. Based on these probabilities and data available from the **National Income and Expenditure Survey (ENIGH)**, which segments the consumption of the products studied according to their place of purchase, the potential expenditure on pirated products was estimated. Given the absence of a pre-existing instrument, the ENCP 2014 probabilities were equally used to calculate estimates of piracy on the basis of the ENIGH 2010 and 2012 surveys. As the ENIGH 2014 was not available when the report was prepared, the piracy of 2014 was estimated through the use of the 2012 figures updated by the average consumption growth rates for each category in the last three surveys.

FINDINGS



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Economic impact

In 2014, the piracy shadow market costed the country **more than MXN 43 billion (approximately 2.606 billion dollars)**, excluding the value of seizures of merchandise, job losses, taxes, income and the impact on the health and safety of consumers.

To contextualize the impact of this amount, we can say that it represents:

- **28% more than the total 2015 budget of the National Council of Science and Technology (CONACYT);**
- **34 times the 2015 budget of the Mexican Institute of Industrial Property (IMPI); or**
- **A revenue loss of just over MXN 6 billion in Value Added Tax (VAT).**

FINDINGS



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Perception

Despite the awareness that it was illegal and had negative effects on the country, there was widespread social acceptance of piracy, which in the collective imagination was summarized as: ***“it’s illegal, but not serious”***.

Most consumers did not link the consumption of pirated products to any possible adverse effects on their individual welfare or legal consequences from the authorities. This was occasioned by the high level of **impunity and a permissive rule of law**.

Between 40% and 63% of the respondents felt that most people in Mexico were involved in illegal or unethical conduct, such as littering the street, giving bribes, running red lights, parking in prohibited spaces and driving under the influence of alcohol.

FINDINGS



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Consumption

The four product categories that were most often consumed were the following:

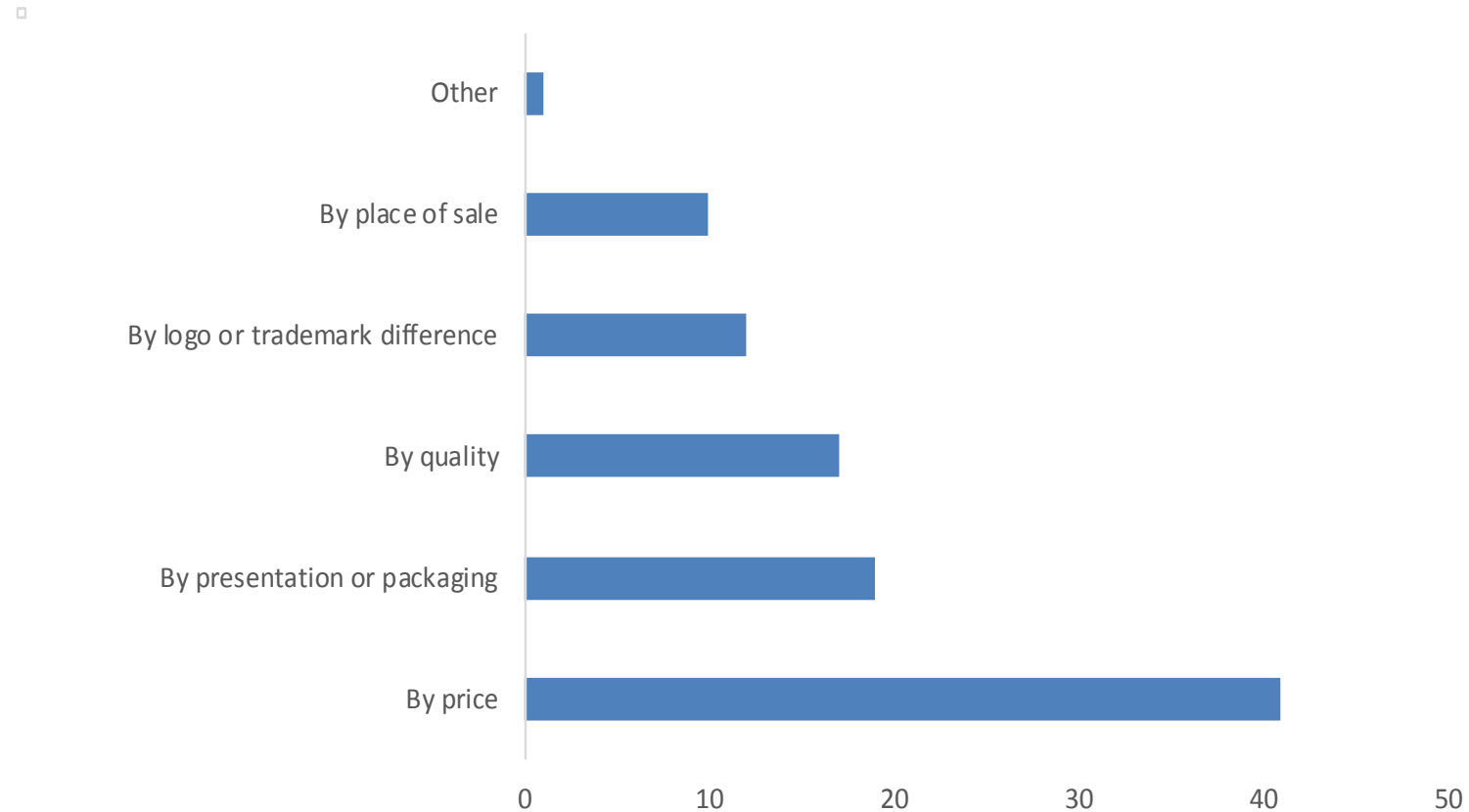
- music, films, clothing and footwear;
- cosmetics, electrical, cleaning and medical products;
- software, toys, video games, electronic and personal care products; and
- cigars and spirits.

QUESTIONS



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How do you identify a pirated product?

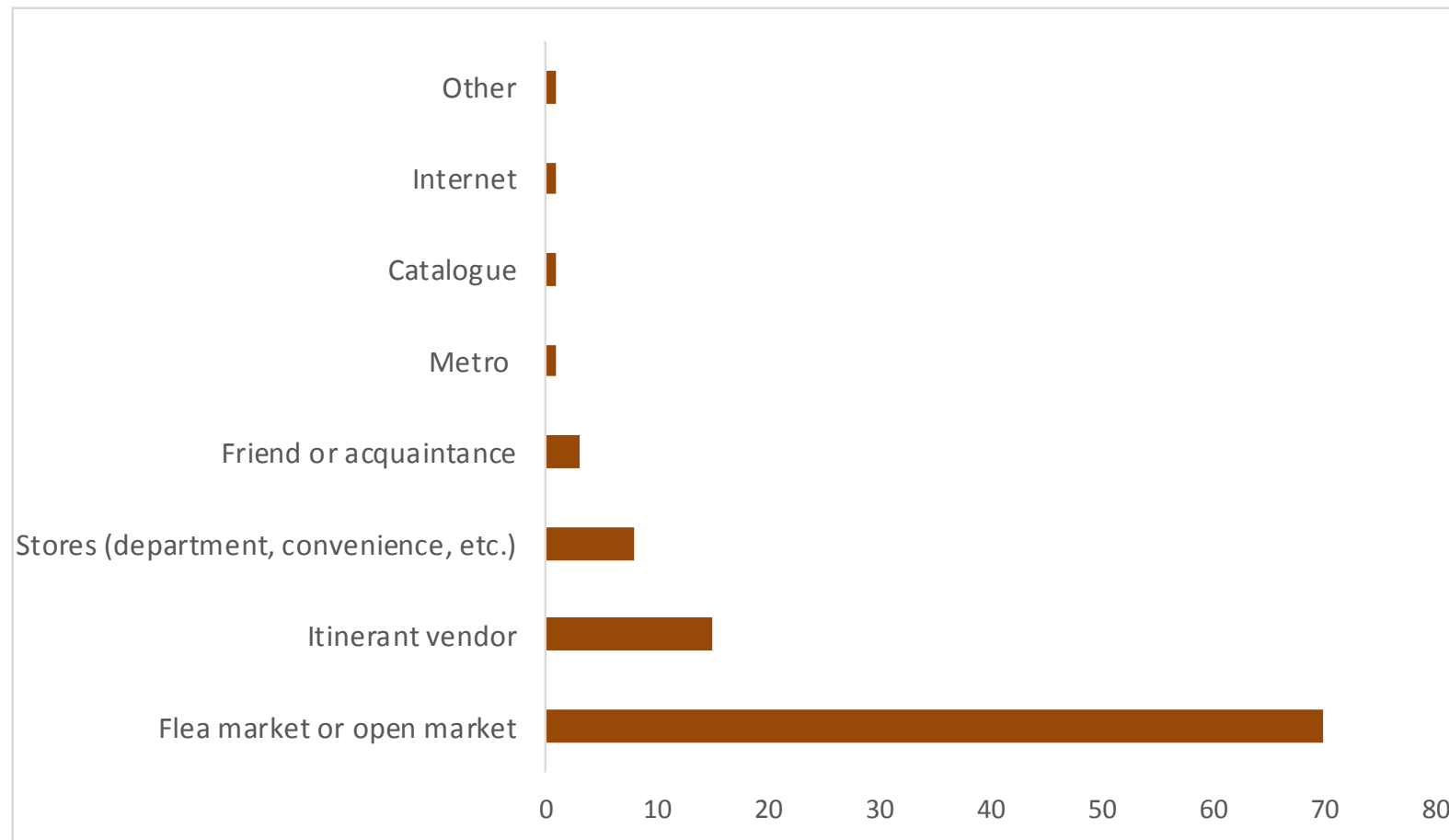


QUESTIONS



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Where do you normally buy these items?

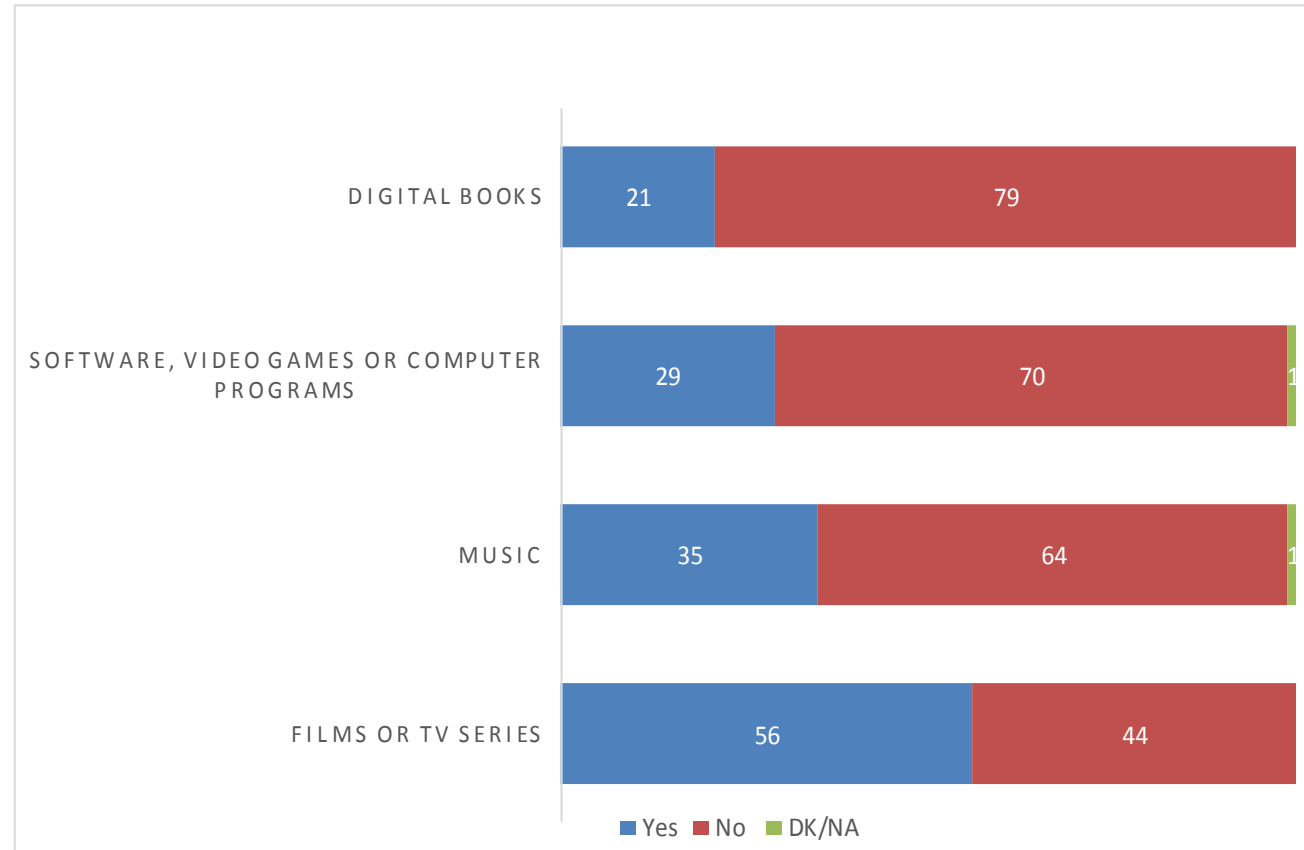


QUESTIONS



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In the past year, have you accessed or downloaded from the Internet (...) pirated products?



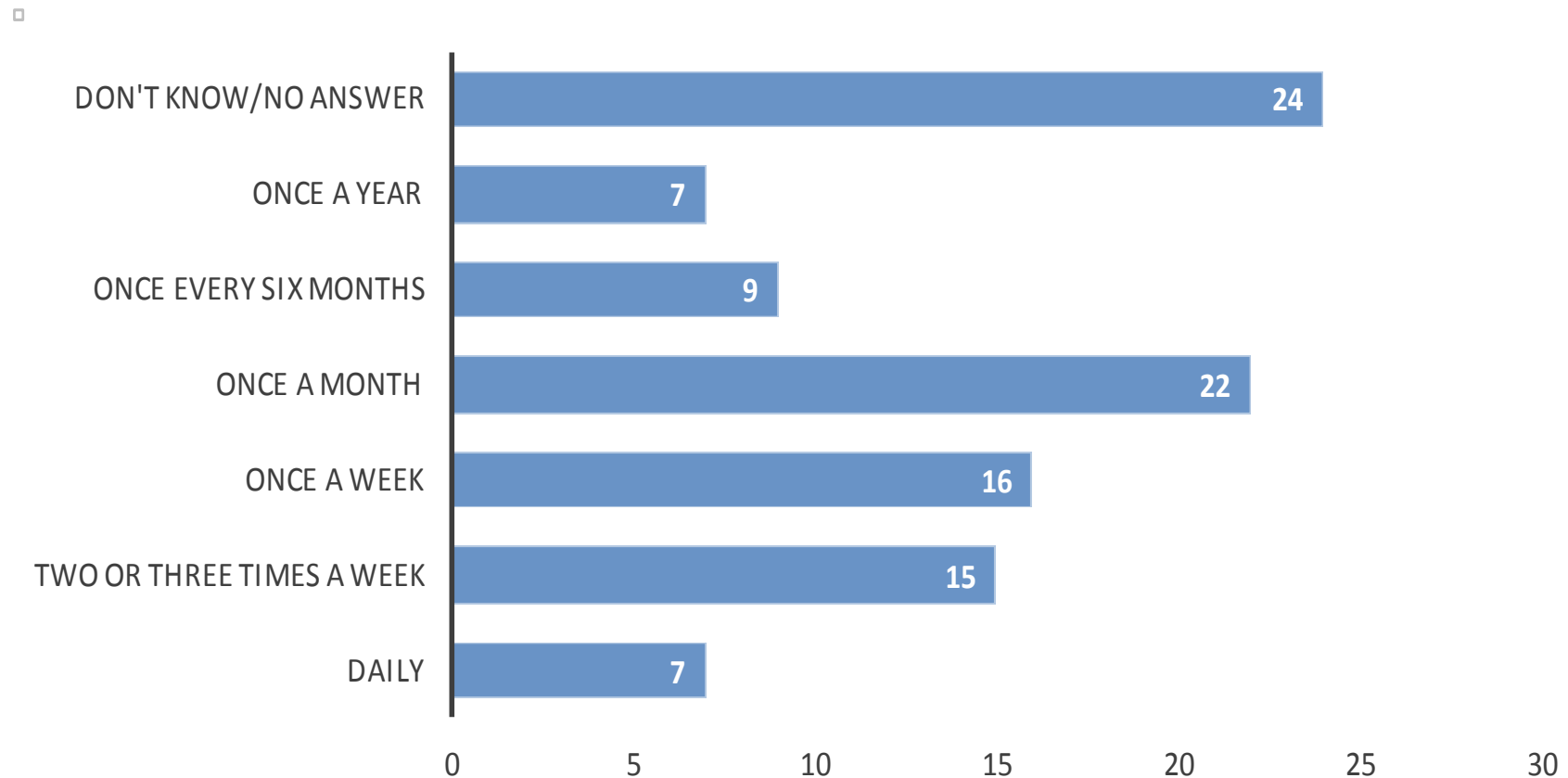
* This question only applied to Internet users.

QUESTIONS



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How often do you download or access this content?



* This question only applied to Internet users.

FINDINGS



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Three types of consumers were identified

- Consumers with **low consumption**: their motivation was more closely related to aspirational issues and health needs. Men and women, age 45 or older. Low Internet use. Most receptive to messaging;
- Consumers with **moderate consumption**: they did not regard piracy as something serious, and pirated products were accessible to them. Mostly women, ages 35 to 44. Moderate Internet use. Receptive to messaging regarding health risks and organized crime ; and
- Consumers with **high consumption**: they responded to aspirational or ideological issues resulting from the rise of the Internet and the gap between the cultural and financial value they attached to digital content. Men and women, ages 15 to 34. Highest academic levels. High Internet use (3 downloads per week).

FINDINGS



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Key Finding in High Consumption group:

- Most of their piracy consumption is **online**.
- Conduct is **not driven by price** of products. This group has **higher purchasing power**.
- Sophisticated **ideological** approach. Not receptive to traditional messaging.
- Sense of entitlement**
- Likely to continue consuming** pirated materials, even when they are aware of their adverse effects on the economy, and links to organized crime.

FINDINGS



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- Consumption patterns for pirated products were not homogeneous. **Different consumer profiles had different decision-making processes.** Influencing factors included age, purchasing power, education and the perceptions of the environment.
- **Price was not a fundamental variable**; it was only relevant to a group of consumers in certain contexts.

FINDINGS



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- Physical pirated products were **mainly bought in flea markets** and open markets. While pirated products might be marketed through all sales channels, they were **less likely to penetrate highly centralized value chains and sales channels** such as department stores, because of more rigorous quality controls.
- The Internet and the rise of social networks have been crucial to the consumption of digital piracy in Mexico. **53% of Internet users acknowledged having downloaded** pirated music, films and/or TV series illegally and with significantly high frequency; in **50% of cases, they did this from home.**



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WHAT MESSAGES CAN HELP ?

Consumers were particularly receptive to messages that emphasize the negative effects of consuming pirated products and the risks to their individual welfare, particularly their **life and health**.

Consumers were also receptive to messages that illustrated the **link between the sale of counterfeit or pirated products and organized crime**.

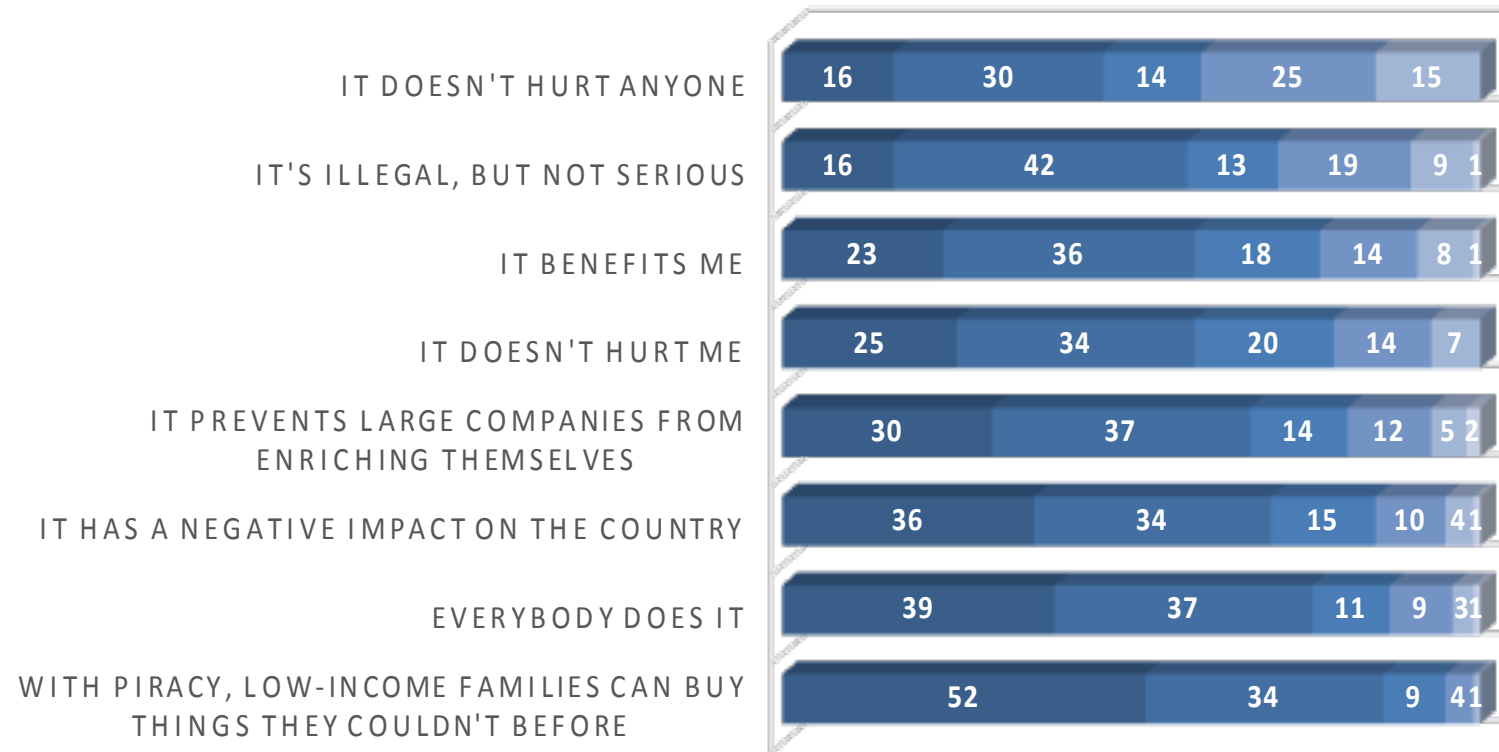
In general, people did not view pirated products as desirable or of good quality. In response to open questions, they even associated piracy with theft, corruption and fraud. Similarly, **70% of the population knew that piracy had negative effects** on the country, although **58% considered that these effects are not serious**.



WHAT MESSAGES CAN HELP?

□

- Strongly agree
- Agree somewhat
- Neither agree nor disagree
- Disagree somewhat
- Strongly disagree
- DK/NA





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WHAT MESSAGES CAN HELP?

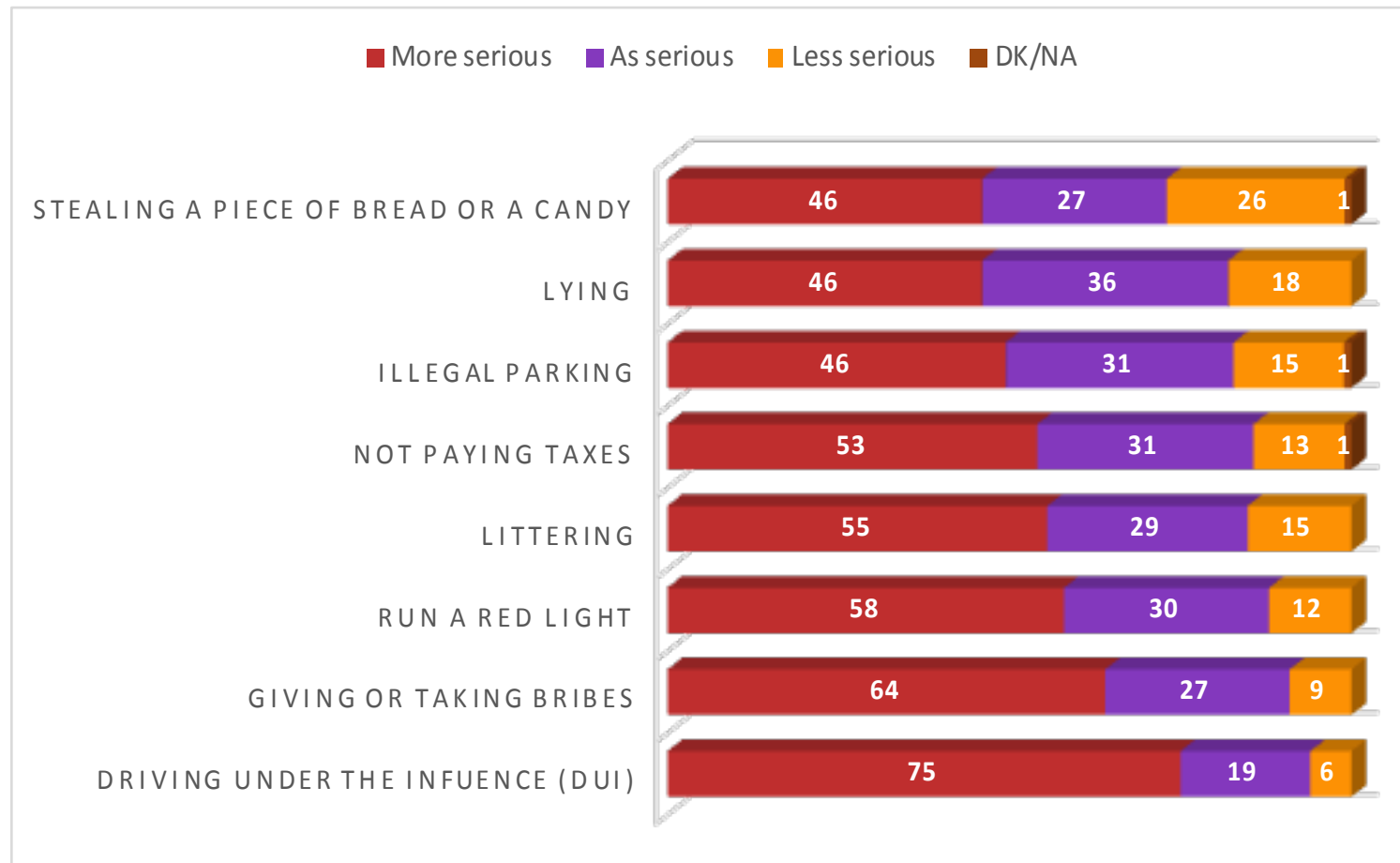
When the surveyed participants were presented with examples of illegal or unethical activities, they considered them all to be worse than piracy, including activities such as telling lies or stealing a loaf of bread or a sweet.

This suggests that there is a fairly widespread social acceptance of piracy, even though most people know that it is illegal. The phrase *“it’s illegal, but not serious”* probably best sums up the attitude towards piracy in Mexico.

Also, the study also detected two reasons for illegal acts: they were believed to have **no consequences** or they were **not considered serious**. It is also important to mention the endogenous component in the answers about the reasons for consuming pirated products.



WHAT MESSAGES CAN HELP?





Comparative table of the responses provided by the three groups consuming pirated products

Topic	Low consumption (47% of the population)	Moderate consumption (23% of the population)	High consumption (30% of the population)
Socio-demographic profile	<ul style="list-style-type: none"> No predominant gender Aged 45 or more Little education Mostly married, widowed or divorced Occupation such as studies or retirement 	<ul style="list-style-type: none"> Mostly women. Mostly aged 35-45 years Education up to secondary school No particular civil status Mainly employed people, but also an unemployed component 	<ul style="list-style-type: none"> No predominant gender Mostly young people High school, technical stream or higher. Either single or living with a partner Mostly housewives
Internet use	<ul style="list-style-type: none"> No Do not consume piracy via the Internet 	<ul style="list-style-type: none"> No Do not consume piracy via the Internet 	<ul style="list-style-type: none"> Yes Heavy downloading of pirated products.
Attitude to piracy	<ul style="list-style-type: none"> Acknowledge their consumption and if they found out some of its effects, would stop. 	<ul style="list-style-type: none"> Consider that consuming pirated products is illegal but not serious, so they will continue. There are worse things than consuming pirated products. 	<ul style="list-style-type: none"> More radical group in terms of attitude: although they are aware of some consequences and the illegality of piracy, they intend to continue consuming pirated products, <i>i.e.</i> they find it convenient.
Proposed solution	<ul style="list-style-type: none"> The three branches of government should cooperate Raise awareness among sellers of pirated products. 	<ul style="list-style-type: none"> Do not consider any measures to help combat piracy 	<ul style="list-style-type: none"> Do not consider any measures to help combat piracy

RECOMMENDATIONS



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Guidelines to follow:

- Consumers are particularly receptive to deterrent messages that emphasize the **negative effects and risks** that consuming pirated products imposes on individual wellbeing, especially concerning health and safety risks.
- Consumers are also receptive to messages that make the connection between the sale of counterfeit or pirated products and the activities of **organized crime**.
- **Avoid oversimplifying the phenomenon** of piracy. It is a multifaceted problem of serious dimensions.

RECOMMENDATIONS



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Guidelines to follow:

- Increase messages that talk about: (i) the negative effects and risks that piracy poses to a **person's individual welfare**, (ii) the link between the sale of counterfeit and pirated products and the activities of **organized crime**.
- Raise the barriers to access these products in order to **modify consumption patterns**.
- Promote before the competent authorities, regulators, and investigators the need to **differentiate between digital piracy, access to information, protected innovation and the free exchange of digital content** in order to avoid confusion within society and false valuations of these concepts.

RECOMMENDATIONS



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Guidelines to follow:

- Zero tolerance for impunity: substantially raise the costs of acquiring pirated goods through monitoring by the authorities, a rigorous application of the law and a **closing of regulatory gaps** that allow for the easy domestic and cross-border sale of these products.
- Spread the news that intellectual property violations are **serious and high-risk crimes** that harm the growth of businesses, the creation of formal employment and the safety of consumers as well as public finances; that is to say, all of Mexican society.



Thank you!