



Problem of illicit trade in medical products



KEY POINT

Measuring illicit trade and its impact is challenging; illicit trade in the medical product sector adversely impacts poverty and health.

The international community is still reeling from a devastating pandemic

In a little over two years, the COVID-19 virus has caused over 6 million deaths, and surviving communities continue to endure the health, economic and social consequences. The challenge for the medical sector has been the ramping up and diversification of production and distribution of needed medical

technologies – vaccines, diagnostics, therapeutics and personal protective equipment – to diagnose, treat and protect populations from the ravages of the virus.

As WTO Director-General Ngozi Okonjo-Iweala noted in 2021, 80 per cent of global vaccine production was concentrated in only 10 countries, in Europe, North America and South Asia; whereas Latin America had 2 per cent of global production capacity and Africa had less than 0.2 per cent.

The pandemic has drawn attention to the medical product sector – in particular, the causes and consequences of the uneven distribution, disruptions and shortfalls of critical resources. In this context, the perils associated with illicit trade have faced fresh scrutiny (see Box 1).

“Illicit trade in medical products threatens human welfare, endangering the health and safety of people and denying them critical resources.”

Illicit trade in medical products poses a persistent and evolving threat

Illicit trade in medical products threatens human welfare, endangering the health and safety of people and denying them and communities of critical resources. It undermines legitimate economic activity and leads to revenue and reputational losses for businesses that stifle product development and innovation. It deprives governments of the revenue for public investment and the resources needed to ensure good governance and freedom from corruption.



BOX 1

Defining illicit trade

For the purposes of this publication, “illicit trade” is broadly understood as the selling of goods in violation of national and/or international laws, which is meant to cover goods that are illegal due to their characteristics, as well as those that contravene laws by virtue of how they are produced, distributed, marketed, labelled, identified, certified or sold.

Reference is also made to trade in “counterfeit” goods as a subset of illicit trade. In the WTO context, counterfeit trademark goods are goods involving slavish copying of trademarks. They are goods that give the false impression of being the genuine product originating from the genuine manufacturer or trader (see, for a definition, footnote 14(a) to Article 51 of the TRIPS Agreement).

Inherently clandestine in nature, illicit trade is difficult to measure

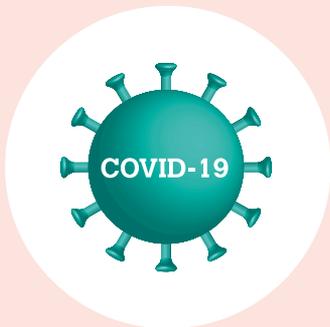
Methodologies to quantify the magnitude of illicit trade consist mainly of extrapolating from customs seizure data concerning IPR-infringing goods, or by examining discrepancies in reported import and export data (see Box 2). Although both approaches have limitations and do not lead to clear trend analysis, a few estimations reveal the nature and scope of the illicit trade problem.

BOX 2**Illicit trade in numbers****Overall illicit trade (2019)****US\$ 535 bn****2.8% total world trade****Loss in tariff revenue US\$ 87 bn**

According to WTO estimates, the overall amount of illicit trade as measured through misinvoicing (i.e. discrepancies between reported imports and reported exports) was US\$ 535 billion in 2019, representing 2.8 per cent of total world trade in goods in that year. WTO estimates of global tariff revenue losses from illicit trade relating to misinvoicing amounted to US\$ 87 billion in 2019.

Illicit trade in pharmaceutical products (2019)**US\$ 9-28 bn****1.3-4.2% total value of pharmaceutical trade**

The WTO estimates a range of illicit trade in pharmaceutical products as measured through misinvoicing between US\$ 9 billion and US\$ 28 billion in 2019, representing between 1.3 per cent and 4.2 per cent of the total value of trade of pharmaceutical products in 2019.*

**Seizures of pharmaceutical products during COVID-19****↑ 5%****higher in 2020 vs 2019**

The average value of customs seizures of counterfeit and stolen medicines grew by 5 per cent in 2020 (OECD/EUIPO, 2021). WCO customs seizure data also shows increased illicit trading activity over this period (WCO, 2022).

* These estimates are based on import/export data of pharmaceutical products as defined by the WTO Agreement on Trade in Pharmaceutical Products.

Impact for people of illicit trade in medical products

The effort to assess the impact of illicit trade in medical products on the lives and livelihoods of people has been more qualitative in nature. A 2017 report by the World Health Organization identifies key public health impacts such as the effects incorrect ingredients have in producing toxicities or a lack of efficacy, generating increases in mortality, morbidity and the prevalence of disease (WHO, 2017). It also noted various economic impacts, including increased health care spending and costs, losses for those in legitimate medical product supply chains, and the increased burden for health care professionals, regulatory authorities and law enforcement.

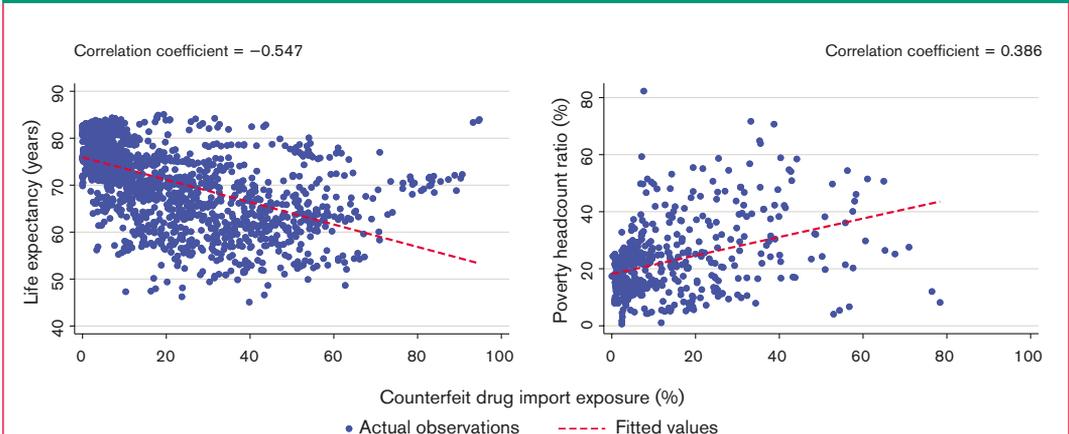
The larger socioeconomic impacts consist mainly of lost productivity and income due to prolonged illness or death, and a corresponding lack of

social mobility and increased poverty. This is supported by WTO analysis which shows a correlation between the use of imported counterfeit medical products and poverty and poor health outcomes (see Figure 1).

Improving the quality of trade data

The use of trade statistics to assess illicit trade in medical products and its impact could be improved by increasing the quality of reported data, reporting import data net of any trade costs and increasing the level of disaggregation of data on cross-country input–output linkages. Greater collaboration between stakeholders, including intergovernmental organizations, national authorities and the private sector would be helpful in this effort.

Figure 1: Correlations between exposure to counterfeit pharmaceutical imports and selected SDG indicators



Note: WTO Secretariat calculations based on World Bank World Development Indicators, Trade Data Monitor and GTRIC-e (General Trade-Related Index of Counterfeiting for economies) data from table 4.1 in OECD/EUIPO (2020). In the right panel, the poverty headcount ratio is expressed at national poverty lines, as per cent of the population.