



General Assembly Second

**Economic and Financial
Committee**

Table of Contents

| | |
|------------------------------------|-----------|
| Letter from the Secretariat | 1 |
| Description of Committee | 2 |
| Introduction | 3 |
| Historical Analysis | 4 |
| Current Situation | 7 |
| Case Study: China | 8 |
| UN Involvement | 9 |
| Possible Solutions | 10 |
| Questions to Consider | 12 |

This background guide has been adopted and reformed from the Canadian High School Model United Nations 2017 background guide for the General Assembly Second: Economic and Financial.

Letter from the Secretariat

Delegates,

Welcome to the background guides for MiniMUN 2017! Whether it is your first or third Model United Nations conference, it is our hope at MiniMUN that you will continue to further expand your knowledge of MUN, world issues, and the UN itself.

The purpose of this background guide is to introduce the committee and the topic, as well as help you write your position paper. Details on position paper and submission are available under the Position Paper tab on our website:

<http://chsminimun.weebly.com/position-papers.html>

The topics and committees were chosen to reflect the problems that our world leaders face. As a delegate, you will be stepping into the role of world leaders. You will take on perspectives different from your own, and you will push for what your country believes to be right.

We have diligently worked to make this year's topics even more captivating and advanced than previous years. If at any time, you are having trouble understanding the background guide, finding information on the topic, or writing your position paper, please contact your chairs for help. They are more than willing to assist you to make MiniMUN a productive and engaging conference!

We are very excited to see you at MiniMUN 2017!

Rogan Munro-Foulis and Christine Pang

Secretary-General and Director-General, MiniMUN 2017



Description of Committee

The second of the six General Assembly Main Committees, the Economic and Financial Committee is the primary economic body of the United Nations (UN). Founded as a standing committee of the General Assembly by the UN Charter of 26 June 1945, its purpose is to “promote international cooperation in the economic field. Its mandate is to consider all relevant international economic issues such as macroeconomic policy, trade statute, sustainable development, globalization, poverty eradication, and technological progress. ECOFIN has devoted its past few sessions to groups of countries in special situations, including specific classes of countries such as Least Developed Countries (LDCs) and Landlocked Developing Countries (LLDC). ECOFIN is part of the larger General Assembly, the “main deliberative organ of the United Nations,” and as such, resolutions passed in this committee have the support of a far greater group of nations than in other international financial organizations. In ECOFIN, each of the 193 member states of the UN General Assembly has one vote, giving an equal voice to each sovereign entity, large or small, developed or developing. Despite the lack of monetary leverage, given the weight behind each resolution, decisions made in this forum dictate the policies of other more active organizations such as the International Monetary Fund, World Bank, and World Trade Organization. It is for this reason that decisions made at ECOFIN have such wide-ranging effects.

ECOFIN: <http://www.un.org/en/ga/second/>

Impact of Counterfeit Goods

Introduction

To provide a common definition of counterfeit goods, International Trademark Association defines that “Counterfeiting is the practice of manufacturing, importing/exporting, distributing, selling or otherwise dealing in goods, often of lower quality, under a trademark that is identical to or substantially similar from a registered trademark, without the approval or oversight of the registered trademark owner.” Most counterfeit goods are found to be produced in developing countries with strong and cheap manufacturing industries; the first country that probably comes to your mind is China. Before fully diving into this topic, it may be good to look at it by the numbers, and evaluate how much of an issue counterfeit goods are in the global community. Between 2008 and 2010, over 70% of all counterfeit goods globally came from China, and over 87% of counterfeit goods in the United States came from China in that same time period. In 2010, approximately 2% of all goods were estimated to be counterfeit in the United States. Given the fact that US imported approximately \$587 billion worth of goods from East Asia, 2% of that accumulates to approximately \$11.7 billion of counterfeit goods. Looking at the global scale, in 2009 alone over \$1.77 trillion of international trade consisted of counterfeit and pirated physical goods. The top three kinds of goods that are counterfeited are brand name clothing, electronics, and handbags & luxury accessories, respectively. Now that the size of the issue has been explored, it may be helpful to look at the consequences of counterfeit goods. First and foremost, not only are consumers at risk of purchasing

counterfeit and low quality goods, they are also drawing customers away from the true retailers. Furthermore, if counterfeiting is not slowed down or eliminated, it results in more taxes being spent to observe the trade of counterfeit goods, and takes away jobs of those working to create original, official merchandise for big brand names. As counterfeit goods serve as a severe threat to global development, it is part of ECOFIN's mandate to solve this issue worldwide.

Historical Analysis

Free trade, international trade with no taxes, tariffs, quotas, or other restrictions, has always been a worldwide goal. In many economic systems, it is not uncommon for certain flaws to cause major issues. With the system of international free trade, the main "flaw" at mind is counterfeit goods, leading to the founding of the International Trademark Association (ITA) in 1878. This system created by a group of merchants was the first system created to fight the production of counterfeit goods. It was also the first time any awareness was raised about counterfeit goods. Seven years after the introduction of the ITA, the United Nations General Assembly addressed the issue of counterfeit goods through their draft resolution 39/248 (A/RES/39/248). In clause 1(a), its main goal was "to assist countries in achieving or maintaining adequate protection for their population as consumers." This resolution would go on to set the foundation for the United Nations Guidelines on Consumer Protection. The establishment of the World Trade Organization (WTO) in 1995 served as the finishing touch in creating a global free trade network, allowing the spread of counterfeit goods. China would then come into the equation within the

coming years, creating a growing economy for counterfeit goods. Over the next few years until 2007, little attention was paid to counterfeit goods until the Organization for Economic Cooperation and Development (OECD) in 2007 published a report, describing the numbers revolving around counterfeit goods. The first record of the approximate worth of physical counterfeit goods in the international economy was done in 2007 by OECD: that report revealed that about \$167 billion worth of counterfeit goods were traded in that year. That number continued to rise up to a staggering \$600 billion dollars as of this present day. Looking at China in the past especially, in 2000 it contributed 8% of all counterfeit goods to the EU, ranking fourth out of all exporting countries. Since then, that number has continued to rise. Fast forward eight years later to 2008, most counterfeit goods could be traced back to China: according to the World Customs Organization, the 8% has increased to a staggering 65%.²⁶ In 2009, 65% would once again increase to the recorded 79%. Counterfeits have always been a growing problem, and despite various efforts to seize counterfeit goods before they are sold, it still remains a problem. However, detection and seizure methods have improved significantly over the past years. The amount of counterfeits seized had multiplied up to tenfold over the past several years. For Europe especially, customs authorities have seized three times as many goods that have been seized in the United States; for Europe, almost 200 million units of goods were caught by European Customs in 2008. In that same year, it was documented that most of the seizures were clothing or accessories (57%), followed by watches (10%) and electrical equipment (7%). Over the past five years, another

rising issue among counterfeit goods has been online piracy. Over 22% of online data processing was used for torrenting, the illegal free sharing of copyrighted data, and other privacy acts. In 2011 online piracy saw 297 million users. Only two years later, that figure became 327 million: a growth rate of over 10%. With the internet rapidly being more accessible, that number is expected to grow massively. Items pirated can range from music CDs and video games to movies and e-books. It is a growing concern for all copyright holders, and will remain so for many years to come. To combat this issue, there have been efforts to stop this. In 2011, the Stop Online Piracy Act (SOPA)—an anti-piracy bill brought to the House of Representatives—was introduced: the main purpose of the bill was to shut down websites that housed files that users could torrent, the most well-known of which being The Pirate Bay, one of the biggest torrent sourcing sites on the internet. Since 1998, acts such as the Digital Millennium Copyright Act (DMCA) have targeted copyright infringement on the web. However, this act has not been effective against overseas websites such as ThePirateBay, and thus SOPA was created. Due to a disagreement against a solution, SOPA was not drafted successfully.

Current Situation

Western Europe receives the most counterfeit goods out of any given area in the world, triple the amount of counterfeit goods received in the United States. Some types of products that are often counterfeited are medicine, clothing and accessories, as well as virtual copyrighted items. Among all counterfeits however, the ones that may be the most dangerous are pharmaceutical counterfeits. It has

been estimated that up to 10% of all medicine and other pharmaceuticals sold are counterfeit; for most of these products, the contents may be inactive or diluted or even poisonous. China currently serves as the largest exporter of counterfeit pharmaceuticals, and this raises a question regarding why China seems to be the main culprit. With the largest growing population in the world, China is a large source of good, yet very cheap labor for those wishing to sell or supply counterfeit products. These goods are then shipped to countries where many people are able to afford these products, such as the UK. More counterfeit sales implies less legitimate sales; over \$512 billion is lost annually due to less real goods being bought. Furthermore, every day jobs are lost due to these illegal suppliers of goods. According to research analysts from Stanford University, “approximately 2.5 million jobs worldwide have been lost” with 750,000 of them coming directly from the USA. Due to the low-cost of counterfeit goods, they have the capability of driving out large amounts of the workforce. Moving onwards, counterfeit goods threaten the health of online shopping, with fake goods being all over sites such as eBay, Alibaba, and Taobao. Despite various promises made by their CEO Jack Ma to stop counterfeit goods, Alibaba has come under frequent backlash for these “superficial” claims.

Case Study: China

In China, counterfeits are everywhere. Not taking counterfeit goods into account, many products owned by people all over the world have the “Made in China” marking. According to a UNODC report, over 87% of all counterfeits come from China. It should be considered why many counterfeit good providers are

finding labor from China: compared to the American minimum wage of \$7.25 per hour, the average wage in China is only \$0.75 an hour. With China finding its way into the World Trade Organization (WTO), it can more successfully export its goods into the United States. Looking at the WTO, it is currently the only organization governing the “rules” of international trade. Having been signed by a majority of the world’s trading nations, the WTO creates a common ground for nations to negotiate trade agreements, and it is what allows China to trade easily with the United States. However, that does not mean China may create its own rules freely. As a signatory of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), they are subject to a minimum level of copyright, trademark and patent protection. On the contrary, it does not command any level of enforcement. Despite China’s agreeance with TRIPS by enforcing a level of Intellectual Property (IP) protection, it did not provide the law enforcement forces nor the sufficient education to enforce these newly mandated rules. As a result, TRIPS has not had much of an effect on China’s counterfeit market. On the topic of the governing of “rules” in international trade, there has been a lot of resistance against Chinese counterfeiting of luxury items though it has not led to a solution. Parts of this issue are related to the Chinese government’s lack of regulation around intellectual property, a work or invention that is patented or trademarked, and its failure to take action against counterfeiters: as a result, to this day an estimated \$1.22 billion of counterfeit goods remain circulating in China. One instance of successful resistance against counterfeit goods that took place in China was in 2013, when Cartier, a French luxury brand took a

trademark violation lawsuit against Chinese-based companies. After taking the issue to the Shanghai court, Cartier won the lawsuit and were awarded a \$29,000 compensation for “unfair competition and trademark infringement.”

UN Involvement

The United Nations Office on Drugs and Crime (UNODC) has been especially active around the issue of counterfeit goods, having produced numerous reports, one example of which was Daniel Schwarz’s Transnational Organized Crime in East Asia and the Pacific. The report, which written in 2013, included chapters talking specifically about counterfeit goods. There have been other committees under the UN, such as the World Health Organization (WHO) and United Nations Conference on Trade and Development (UNCTAD) that have seen draft resolutions created regarding counterfeit goods, though they did not pass. As for ECOFIN, no draft resolutions exist regarding the subject matter of concern. Expanding upon UNCTAD’s involvement with regulating counterfeit goods, in 2001 it published the United Nations Guidelines for Consumer Protection (UNGCP) in hope of creating better protection for consumers. Some of its goals included “to assist countries in achieving or maintaining adequate protection for their population as consumers” and “to promote sustainable consumption.” This served as further development of the original General Assembly resolution 39/248 (A/RES/39/248) presented on April 16, 1985. To this current day, the UNGCP remains the basic framework upon the United Nations’ opinion regarding consumer protection, and has since its creation in 1985 gone through several revisions, the most current of which being the General

Assembly resolution (A/RES/70/186) taken place on December 22, 2015. In that resolution, the previous Consumer Protection resolutions were mentioned in the preambulatory clauses while recognizing the importance of new issues such as e-commerce.

Possible Solutions

Looking at the United Nations draft resolution presented in the past, most of the points suggested member states addressing and reviewing certain laws as well as supporting the common interests of consumers through the judgement of human rights and fair market policies. However, when looking at specific cases of this issue such as China, even further efforts such as the establishment of WTO and TRIPS seem to trip over this obstacle. As a result, resolutions from other perspectives may be highly useful. The first possibility is the establishment of a surveillance program over all supply chain suppliers and manufacturers. By targeting suppliers, it may be possible to stop counterfeit goods before they enter the global market, and that may possibly shut down their entire supply. Referring to China's case study, though the laws and rules are there, the enforcement is not, and this surveillance system will be able to serve as a regulatory system. However, it may come to fierce discussion which country would control this surveillance system, and it may be controversial in that some countries' sovereignty may be endangered. Another possible solution is the promotion of legitimate goods over counterfeit, and public awareness programs to educate the public regarding the dangers of buying counterfeit. However in order to do that, a system may have to be built that would teach consumers to value

legitimate goods over counterfeit. Some examples of reasons people buy counterfeit are cheaper prices, more convenient purchasing, and a sense of “beating the system”. As for the issue with Internet piracy, it may be difficult to maintain a platform where copyright law is utilized while at the same time data may be easily accessible. A possible solution may be creating a common database, but once again it raises questions regarding where the servers are to be located, who is to maintain the servers, and clear logistics issues, which are evident with this entire solution. Finally, a forced shutdown upon all distributors of illegal/counterfeit products may be required. This solution may potentially be the least possible, but the most effective out of all three possible solutions so far. The solution would consist of the shutdown of every supplier of goods such as fake jewelry, accessories, clothing and the like, as well as every server supplying data violating counterfeit law such as torrents and pirated material. As with all “possible solutions” categories, these solutions are solely ideas to think about and are in no way required to be implemented to pass a resolution in ECOFIN.

Questions to Consider

1. Think of the topic from a different perspective. If you supply counterfeit goods, what changes would make your business easier to conduct? Now, think of what changes should be made to inhibit these counterfeit goods suppliers.

2. Consider when you have personally purchased counterfeit goods with the knowledge that it is indeed counterfeit. What convinced you to purchase the product?

3. Considering that the WTO and TRIPS have not been very effective in slowing the flow of counterfeit goods, what are some other ways that this trade can be stopped?

4. How will free trade affect the market for counterfeits? What about supply and demand?

5. Is it realistic to fully eliminate the existence of counterfeit goods in our economy? Why or why not?