

COMPTROLLER WILLIAM C. THOMPSON, JR.
Testimony before:
New York State Senate Majority Task Force on Immigration
250 Broadway
March 18, 2005
10 AM

Senator Padavan, it is a pleasure to appear before you this morning. Thank you for conducting this hearing on this matter of great importance to our City, our State and our nation.

The counterfeit trade is a rapidly growing drain on the global economy. Worldwide, it is estimated that the counterfeiting market – or the real dollar exchange associated with counterfeiting – amounts to 456 billion dollars.

In the United States, last year it totaled 286 billion dollars – that’s close to three-quarters of the worldwide counterfeiting industry.

Because New York City is one of the lynchpins of the global economy, the City is losing a significant amount of tax dollars as a result of this global scourge.

The City is home to a large share of the nation’s counterfeit trade for a number of reasons, including the size of our population, the high volume of tourists, which generate high demand for both legal and counterfeit goods, and the high volume of imports coming into the Port of New York.

Counterfeit goods can range from the harmless, like fake Rolex watches and pirated CDs, to the potentially deadly, like phony holiday lights and even airplane parts.

What these goods have in common is that they represent theft – theft of copyright, theft of intellectual property, and theft of revenue.

A report my office released last fall, “Bootleg Billions: The Impact of the Counterfeit Goods Trade on New York City,” estimates that in 2003, counterfeiting was a 23 billion dollar industry in the City and, as a result, the City lost more than 1 billion dollars in tax revenue.

I would like to add that these are our best estimates about an area that is extraordinarily difficult to quantify. Our conclusions are based on thoughtful economic and statistical analysis, but they can only be estimates. That 1 billion dollar figure is comprised of unpaid New York City sales taxes (380 million dollars), business income taxes (290 million dollars) and personal income taxes (360 million dollars).

New York State and New York City lost a combined total of about 2.5 billion dollars in tax revenue in 2003 as a result of the sale of counterfeit goods.

We've all seen the news stories and television coverage about counterfeiting. Here are some of the more noteworthy cases, to give a sense of the scope of the problem:

During the 2003 holiday season, authorities seized more than 2 million dollars worth of counterfeit goods in a Chinatown operation. They confiscated fake Louis Vuitton clutch bags, bogus Kate Spade calfskin tote bags and faux Fendis, among the hundreds of items.

Another raid yielded more than 500,000 fake watches....and in yet another, police seized more than 1 million dollars worth of counterfeit designer handbags and apparel from a Garment District warehouse. Among the bounty: fake Louis Vuitton, Burberry, Coach, Chanel, and Fendi handbags and fake Sean John and Rocawear apparel.

And in another case, authorities broke up a major counterfeiting ring and arrested nine scam artists after an 18-month sting operation. They rented a warehouse and ordered shipments of brand-name counterfeits, and as a result, they were able to seize 700,000 dollars worth of fake Gucci handbags, Calvin Klein underwear, Nike sweatshirts, Rolex watches and other labels

Legitimate versions of those goods would have sold for 2 million dollars.

Considering the City's recent budget crises, the loss of revenues attributed to counterfeiting is truly alarming.

This illegal trade activity is depriving our residents of necessary tax revenue at a time when New York City continues to confront multi-billion dollar budget deficits.

The loss of this revenue significantly diminishes the City's ability to deliver essential services such as education, public safety and sanitation, and it creates a higher tax burden for all City residents.

Think about what an extra billion dollars could buy each year.

An extra billion dollars in our budget could pay for a full-time nurse in every public school, thousands of extra police officers, and millions of new textbooks for our school children.

In addition to the lost revenue, counterfeiting takes its toll in other ways.

Counterfeiting undermines the notion of fairness for those who pay taxes and endangers the future prosperity of the city's businesses and creative community.

Businesses that pay sales taxes, companies that invest in branded products or enterprises that pay licensing fees for intellectual property will no doubt lose confidence in government if these rights are not vigorously protected.

New York City has a significant stake in curtailing counterfeiting because, as a large international city, it is home to many jobs that are tied to the creation and protection of trademarks, copyrights and patents.

Those who prey upon the intellectual property of others may shrink the pool of investment in creative talent, designers, product developers, artists, musicians, and the like. And this pool of talent is one of New York City's greatest long-term assets.

I have proposed a series of recommendations to help combat this problem. They include the following goals:

Create an industry task force that includes representatives from New York State, New York City and the Federal government.

Seek dedicated funding from the Federal and State government to support enforcement of existing laws against the counterfeiting industry, and recycle a portion of revenues generated by fines and enforcement actions to further strengthen enforcement.

Monitor and advise industries that do not yet have industry-wide anti-counterfeiting intelligence.

Increase enforcement of existing laws against the counterfeiting industry, such as safety regulations applicable to retail stores.

Encourage the creation of an intellectual property research and training center.

This is a problem that we all can address together, and I am encouraged that the city and industry have already taken steps to crack down on counterfeiting. I look forward to working with Members of the state legislature and other leaders to make further progress on this important matter.

I would also like to commend the efforts of New York City's law enforcement community in confronting this extremely challenging issue.

Thank you, and I would be glad to answer any questions you may have.