Addressing Global Software Piracy

Partnering with Governments, Industry, and Customers to Strengthen Economies, Drive Innovation, and Protect Information Systems

The global information technology (IT) industry is a vital driver of economic growth, employing more than 35 million people worldwide and generating an estimated US$3 trillion in spending around the globe. This vibrant IT “ecosystem” exists in large part due to an ongoing cycle of investment and innovation by hundreds of thousands of software, hardware, and IT companies—many of them small and locally owned. These companies rely on intellectual property (IP) systems that offer protections and incentives to develop new ideas, bring them to market, and share them with other innovators.

Ensuring the health of the IT ecosystem and the IP incentives that drive investment and innovation is particularly important in the current economic climate—perhaps more so for emerging markets than for established ones. As emerging markets devote more resources to becoming knowledge-based economies, they are realizing the importance of IP and are correspondingly strengthening their commitment to IP incentives, protections, and enforcement mechanisms.

The loss of economic value through IP theft, including counterfeiting and piracy, results in lost jobs, an estimated US$600 billion in lost global revenues annually, and health and safety risks from unsafe products. For example, international criminal syndicates counterfeit and pirate the IP of a diverse array of technology companies, including Microsoft and our partners. Microsoft is the world’s largest software company, with nearly 90,000 employees in over 100 countries; our

Policy Briefs from Microsoft

A convergence of innovative software and intelligent devices, complemented by cloud-based services, will stimulate economic growth, make government more effective, and benefit citizens in areas ranging from education to healthcare to the environment. This policy brief is one in a series from Microsoft about next-generation computing.
The criminal rings seeking to profit from software piracy have developed international counterfeiting production and distribution networks, digital piracy infrastructures that touch virtually every corner of the globe, and sophisticated fraud schemes to gain access to products and services offered by Microsoft and our partners. Increasingly, software pirates are involved in other types of criminal behavior, including online fraud and identity theft, child exploitation, narcotics trafficking, and violent crime.

To address the threat posed by global software pirates, Microsoft has built a worldwide anti-piracy team that tracks and traces criminals in more than 150 countries and works closely with law enforcement to support criminal prosecutions. This team includes former police officers and prosecutors, IP attorneys and specialists, intelligence analysts, forensics experts, and government affairs professionals.

In collaboration with other companies and with industry associations, Microsoft works with legislators and policymakers on the enactment and implementation of laws and policies that protect IP incentive systems and allow them to thrive. We also work closely with customers who unwittingly receive counterfeit or pirated software, to provide them with genuine software and identify the counterfeit suppliers. In the past two years, the number of counterfeit reports we have received from customers has more than doubled to over 150,000, demonstrating that customers increasingly understand the threat posed by counterfeit software. The critically important partnerships between Microsoft, industry members, governments, partners, and customers form the cornerstone of our approach to addressing piracy.
The Risks of Counterfeit Software

The security risks to individuals, businesses, and governments posed by counterfeit and pirated software are significant and increasing. One seminal study by the market intelligence firm IDC in 2006 showed that one in four Web sites offering counterfeit software attempted to install unwanted or malicious code upon downloading.1 The study also described a review of counterfeit Microsoft software purchased at resellers in 17 countries, which found that more than 50 percent contained phony code or malware or could not even be installed. A 2009 study by the Business Software Alliance and IDC found that countries with high piracy rates often have high malware infection rates.2

A recent Microsoft study highlighted these dangers and how easy it can be for customers to unknowingly install risky software.3 A review of 30 mid-size businesses in the United Kingdom found that more than one-third of the companies were unknowingly using counterfeit software. These businesses spent an average of US$10,000 on the software. Each company reported purchasing the software in good faith and expressed shock that it was not genuine.

The impact of using counterfeit software can be serious and costly. The effects of malware can range from annoying advertisements to a severe breach of information security. A recent Harrison Group study found that companies using pirated or counterfeit software were 73 percent more likely to experience loss of or damage to sensitive data and 43 percent more likely to have critical computer failures lasting 24 hours or longer.4 Recovery from an incident of malicious software on a single workstation can exceed US$1,000, and the costs due to lost or compromised data can run into the tens of thousands of dollars per incident. Individuals and organizations that knowingly purchase pirated or counterfeit software in the hopes of saving money can see those savings—and much more—wiped out with a single security breach.

The Economic Benefits of Increasing Legal Software

Software piracy is on the rise. The global software piracy rate increased 3 percent between 2007 and 2008. This increase was driven primarily by the double-digit growth of the market for personal computers in developing countries and regions with high software piracy rates. However, even in countries and regions with lower piracy rates—such as the United States, Japan, and Western Europe—pirated software can be found on one in every five PCs. Even more alarming is the staggering increase in global economic losses from software piracy, which increased by 5 percent from 2007 to 2008, to US$50.2 billion.

The good news is that even an incremental reduction in software piracy can have dramatic benefits for the global economy. Lowering the piracy rate by just 10 percent would create an estimated 600,000 new jobs worldwide and contribute US$24 billion in additional tax revenues to local and national governments. In addition to supporting governments and their local and national economies, these economic benefits would flow to hundreds of thousands of legitimate businesses. For every unit of revenue that Microsoft realizes from reductions in software piracy, other companies in the software ecosystem realize more than four units in increased revenues.

Public-Private Collaboration: The Key to Combating Piracy

The growing global threat of software piracy is one that neither governments nor the industry can tackle alone. Government and industry cooperation on a range of enforcement and policy issues is crucial to ensuring that officials have the tools they need to address piracy effectively. Microsoft and our local partners are actively working with governments, other industry members, and trade associations to provide training and other needed collaboration on anti-piracy issues.

When industry-government partnerships on IP incentives are strong and sustained, the benefits that flow to economies and society are significant. One powerful example is the partnership between the software industry and the Russian government. In 2007, Russian authorities and the software industry began actively collaborating on an orchestrated IP awareness and enforcement

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6 Ibid.
8 “The Impact of Software Piracy and License Misuse on the Channel,” IDC white paper, sponsored by Microsoft and the International Association of Microsoft Certified Partners (June 2008).
campaign. This campaign was designed as a sustained effort to support legal software innovation, distribution, and use. It included training for hundreds of law enforcement officials in investigating and prosecuting software pirates and led to more than 3,000 criminal raids in a single year.

The effort also included a highly visible public awareness campaign in multiple Russian cities about the risks of piracy. The results were dramatic. Software piracy in Russia dropped a record 7 percent in 2007, and another 5 percent in 2008. These gains have contributed millions of dollars and thousands of jobs to local partners and the Russian economy and have led to an environment in which legal software innovation can better flourish in the future.

Another example is the campaigns in Greece, Italy, Serbia, and Colombia that require software inspections during tax audits of businesses. This approach, which also includes the enactment of relevant IP and fiscal laws, training, and cooperation with the private sector, has led to measurable drops in overall software piracy rates in all four countries.

In 2008 alone, tax inspectors in Serbia audited more than 1,000 companies and filed more than 100 complaints with the public prosecutor’s office for alleged use of pirated software. The Serbian software piracy rate has already begun to decline and is expected to decline even further in the future with the government’s active efforts in this area. In Italy, the program led to a dramatic decline in software piracy rates, from 92 percent in 1991 to 55 percent in 1996.

**Dismantling Criminal Syndicates**

Strong enforcement against criminal syndicates is another critical building block in an effective global anti-piracy strategy. In the largest counterfeiting case in history, Microsoft worked with law enforcement authorities in China and the U.S. to build a high-profile case against a criminal syndicate based in southern China. This software counterfeiting ring is believed to be responsible for producing US$2 billion in counterfeit Microsoft software and distributing it to unsuspecting customers in at least 36 countries. This quantity of software is larger than the amount of legitimate Microsoft software distributed in all of Europe during the same time period.

On December 31, 2008, the Futian People’s Court in Shenzhen, China, convicted 11 members of the counterfeiting syndicate and sentenced them to prison terms ranging from 1½ to 6½ years—the longest sentences ever handed down in China for IP rights violations. This landmark case was the result of unprecedented international cooperation between U.S. and Chinese law enforcement officials, who, together with Microsoft and our local partners, developed leads and evidence from more than 1,000 Microsoft customers and partners victimized by the syndicate.

While this case was a major breakthrough, much more remains to be done in China and other countries to limit the volume of counterfeit software being produced and distributed, and to protect consumers from the risks of using fake software.
Supporting Governments with Intelligence, Innovation, and Expertise

Our collaboration with international, national, state, and local law enforcement on software piracy investigations has resulted in raids, seizures, and arrests of IP criminals in virtually every country in the world, including many smaller emerging economies that increasingly understand the importance of a healthy, legal technology sector. Microsoft is committed to maintaining and expanding cooperative anti-piracy efforts with governments across the globe to ensure that police, prosecutors, border authorities, and the judiciary have the tools and assistance they need to address counterfeiting and piracy more effectively.

Microsoft has developed a variety of forensic and intelligence systems to support our anti-piracy efforts. Nine regional product evaluation centers around the world examine and process suspected counterfeit software. In 2008, these centers evaluated more than 500,000 pieces of evidence that were used to support both civil and criminal cases and for business intelligence. A significant amount of this evidence came directly from our customers and partners through tips and voluntary product submissions.

Microsoft has also invested in technologies that enable us to “connect the dots” between pieces of evidence. These technologies identify “fingerprints”—specific physical characteristics—of counterfeit discs and match them to fingerprints of other known counterfeit software. This enables Microsoft and law enforcement officials to trace illegal discs to the criminal syndicates that produced them and to estimate production volumes. For example, in the China case, we linked thousands of counterfeit discs—encompassing 19 Microsoft products in 11 languages—to the same syndicate. We’ve also developed improved techniques to detect malicious code and spyware in counterfeits sold to unsuspecting consumers around the world.

One of the latest breakthroughs in anti-piracy forensics is a tool that works remotely to determine the manufacturing facility where counterfeit discs were produced. The tool “reads” data error patterns unique to each Laser Beam Recorder (LBR) used in mastering. These unique LBR fingerprints are matched to fingerprints in our extensive library of discs from known counterfeit manufacturing facilities. When a disc exhibits the same characteristics, we can trace the counterfeit to a particular facility.
Microsoft also relies heavily on business intelligence in our anti-piracy efforts. Our global anti-piracy team routinely monitors the marketplace through data mining, mystery shopping, test purchases, and other internal and public intelligence sources to identify pirate suppliers and piracy trends. This intelligence enables us to uncover the sources of piracy and address them with technology solutions and enforcement. It also helps us better protect our customers and partners from the risk of counterfeits and follow up on the tips they provide.

Microsoft’s arsenal of forensic tools and capabilities enables police and prosecutors to get the full story behind a single test purchase or seizure of evidence. The intelligence ties counterfeit software to particular production facilities and to known counterfeiting syndicates, and it demonstrates to judges and juries the true extent and nature of the damage that has been caused. We will continue to invest in innovative technologies and anti-piracy forensics that allow us to partner effectively with governments in responding to this increasingly complex global threat.

Building Stronger Partnerships for the Future

The wide range of software, services, and computer and communication devices available today enables people and businesses to pursue their ideas and opportunities in ways only dreamed about a decade ago. A decade from now, the possibilities created by technology innovations will be equally groundbreaking. As Microsoft’s vision of “life without walls” becomes a reality for the billions of people connected through personal computers, mobile devices, and the Web, protecting the integrity of the world’s technology infrastructure, and the intellectual property that fuels it, will become increasingly critical.

To fully realize the benefits from innovation and a system of IP incentives, our partnerships and collaborations must grow and strengthen to meet new challenges. We will need continued improvements in our investigative and analytical tools and skills, more robust and effective international cooperation and coordination in investigations and prosecutions, more effective IP rights and enforcement rules, and increased investment by governments around the world in programs to protect IP. Only then will we be able to succeed against the multi-billion-dollar global threat of counterfeiting and piracy and fully realize the economic growth and social opportunities that a healthy, legitimate technology ecosystem can help create.

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