

focus on

The Illicit Trafficking of Counterfeit Goods and Transnational Organized Crime



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COUNTERFEIT

**DON'T BUY INTO
ORGANIZED CRIME**



The Illicit Trafficking of Counterfeit Goods and Transnational Organized Crime

As a global, multibillion dollar crime, organized criminal groups have not hesitated to cash in on the trade in counterfeit goods. In many parts of the world, international, regional and national law enforcement authorities have uncovered intricate links between this crime and other serious offences including illicit drugs, money laundering and corruption.¹ Some estimates put the counterfeit business at well in excess of \$250 billion a year and hundreds of billions more, if pirated digital products and domestic counterfeit sales are included.²

The involvement of organized criminal groups in the production and distribution of counterfeit goods has been documented by both national and international authorities. Groups such as the Mafia and Camorra in Europe and the Americas, and the Triads and Yakuza in Asia have diversified into the illicit trafficking of counterfeit goods, while at the same time being involved in crimes varying from drug and human trafficking, to extortion and money laundering.^{3;4;5} UNODC's own research reports have recognized the strategic and operational criminal link between counterfeiting and activities such as drug trafficking.⁶

There is an additional societal impact caused by counterfeiting. The trade in counterfeit products can result in increased corruption and law enforcement costs, have a serious impact on public health and safety, lead to social and environmental concerns, and result in the infringement of other criminal and administrative laws such as tax and customs evasion as well as fraud.

The illicit trafficking of counterfeit goods: A criminal act

With the combination of high profits and low penalties resulting from a greater social tolerance compared to other crimes, the illicit trafficking of counterfeit goods is an attractive money-making avenue for organized criminal groups.

In some instances, the illicit trafficking of counterfeit goods is more profitable than other illegal activities,⁷ such as the trafficking and sale of narcotic drugs, people and weapons.⁸ Yet while the il-

licit trafficking of counterfeit goods is often perceived as a 'lesser crime', the consequences can be quite serious, with the costs going far beyond just the illegal copying of products.

Financial flows: The illicit trafficking of counterfeit goods and the link to money laundering

The illicit trafficking of counterfeit goods offers criminals a complementary source of income and a way through which they can launder money.⁹ Additionally, monies received from the sale of counterfeit products can be channelled towards the further production of fake goods or other illicit activities. Criminals also feed fake goods into the legitimate supply chain which provides them with 'clean' money. Not only does this present a challenge to anti-money laundering efforts, but also endangers users who may not be receiving quality goods.¹⁰

In a survey conducted by the UK IP Crime Group, 49 per cent of respondents to the country's annual trading standards survey indicated that they had worked on cases which involved both counterfeiting and money laundering.¹¹

The link between counterfeiting and other crimes

The illicit trafficking of counterfeit goods is often linked to other serious crimes. Europol has warned that counterfeiting is an increasingly attractive avenue for organized crime to "diversify their product range".¹² Evidence suggests that criminal networks use similar routes and modus operandi to move counterfeit goods as they do to smuggle drugs, firearms and people.¹³

Proceeds from other crimes also feed into the production and distribution of counterfeit goods. There have been reports of authorities uncovering operations where proceeds from drug trafficking were channelled into counterfeiting, and where profits from the sale of counterfeit goods were used to further criminal's other illicit operations.^{14;15}

The trading of illicit goods for other illicit items is another trend which is seemingly intensifying.¹⁶ Whereas in the past, il-

licit commodities were bought with cash, organized crime groups are increasingly exchanging goods, such as swapping drugs for counterfeit items and vice-versa. By using counterfeit goods as commodities for full or part payment between organized criminal networks, these groups reduce the amount of capital they need to transfer thereby reducing their exposure and risk.

Evidence gathered from the results of the joint UNODC / World Customs Organization Container Control Programme (CCP) also highlights the extent of illicit trafficking of counterfeit goods by sea. While initially established to assist authorities intercept drugs being trafficked in shipping containers, the targeting skills developed through participation in the CCP has seen the type of offences detected by authorities rapidly diversify. Between January and November 2013, more than one-third of containers stopped for inspection by CCP teams worldwide, and subsequently seized, have involved counterfeit goods.¹⁷

Meanwhile a survey conducted by the UK IP Crime Group showed that 40 per cent of respondents had worked on cases where counterfeiting was linked to drug crime, while 29 per cent stated that they had found a connection between counterfeiting and overall organized crime.¹⁸

Coercion, corruption and criminal gangs

There has long been involvement by traditional organized criminal groups in the illicit trafficking of counterfeit goods: the Neapolitan Camorra, for example, has a history of selling designer knock-offs manufactured by the same people who produce the originals. Nowadays, the Camorra increasingly sells counterfeit products manufactured in Asia, using the same marketing channels¹⁹, while others, such as the 'Ndrangheta, have established extensive contacts with Chinese groups to import counterfeits.²⁰

This points to the opportunistic nature of organized criminal groups: where there is money to be made through illicit means, criminals will be attracted to it. In part, this explains the growing relationship between the illicit trafficking of counterfeit goods operations and organized crime, and as a result these groups are increasingly moving towards activities that have traditionally been regarded as economic crimes.²¹ Corruption and bribery are inherently linked to the illicit trafficking of counterfeit goods, particularly when these are shipped internationally. Coercion and racketeering are similarly associated with organized crime's role in counterfeiting. Shopkeepers for instance have been forced to sell counterfeit products in amongst their legitimate stock.²²

Fraud, tax, customs evasion and the breaking of civil and administrative laws

The illicit trafficking of counterfeit goods negatively impacts Government revenues through lost taxes and customs duties if smuggled into a country. Even in countries traditionally considered as production hubs, there can be a loss of corporate taxes and VAT paid over to the Government.

Counterfeiting also costs society more as a result of additional law enforcement and policing expenses, through higher medical and social security costs owing to injuries and illness, and through

increased costs for law-abiding consumers who have to pay more to cover the additional costs for producers related to security and tracing systems, litigation and civil enforcement.

The growing trend in online sales: an opportunity for organized crime

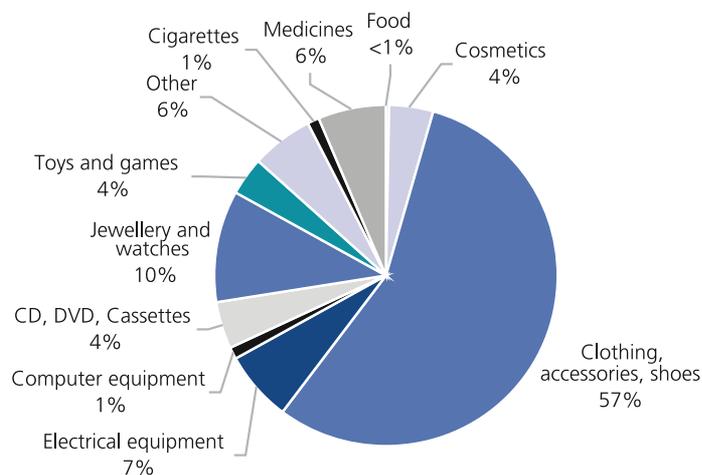
Just as the licit market for online sales of goods is increasing, so is the opportunity for the online sale of counterfeit goods by organized crime groups. The full extent of the role of organized crime groups in selling such products online is yet to be determined. However, they have proven to be extremely versatile and opportunistic when it comes to new avenues of illicit profit generation. This is coupled with the added challenge of digital piracy of film, games, music and other digital products as the internet evolves as a platform that is abused by criminal groups for illicit operations. With this comes not just the opportunities for more digital sales of physical counterfeit goods but also possibly a greater shift toward illegal selling of digital products.

The value of counterfeiting as an illicit activity

Counterfeiting is a hugely profitable business, with criminals relying on the continued high demand for cheap goods coupled with low production costs. By nature of this being an illicit business, the extent of counterfeiting is difficult to calculate and estimations can vary significantly. One widely used figure from the OECD places the value of counterfeiting in the region of \$250 billion per year. This figure, however, includes neither domestically produced and consumed counterfeit products nor the significant volume of pirated digital products being distributed via the Internet which would lead the figure of worldwide counterfeiting to be "several hundred billion dollars more".²³

Counterfeit seizures made at the European borders by product type (number of incidents), 2008

UNODC: *The Globalization of Crime: A Transnational Organized Crime Threat Assessment* (2010), p. 178



Source: European Commission



Social, ethical and health consequences

The costs attached to counterfeiting go beyond manufacturer's monetary losses, the theft of other people's ideas and inventions and the overall impact on taxes and customs duties. With significant social, ethical and health consequences, the illicit trafficking of counterfeit goods is a crime which touches virtually everyone in one way or another.

Environmental impact

The environmental costs of counterfeiting for example are often understated. With no regulation, the production of counterfeit goods can present particular challenges to the environment. Toxic dyes and chemicals disposed of unlawfully, and unregulated air pollution are just some of the ways that counterfeiting could contribute to environmental harm. The lack of known producers means that legal recourse or consumer rights are virtually non-existent as is a clear understanding of who is responsible for any clean-up or impact. Similarly, the disposal of counterfeits is a worrying issue. Seized counterfeit electronic goods for instance, with their unknown components, can be very difficult to dispose of in an environmentally friendly manner as can the disposal of counterfeit chemicals used in the production of fake goods.²⁴

Labour exploitation

Employment rights, decent pay and working conditions can also be affected. As jobs in the production of counterfeit goods can be unregulated and low paid, workers are placed in a vulnerable position and are not granted the same form of protection as in the more regulated employment market. Safety and security concerns for example are ignored, while benefits are non-existent.

It has been documented that migrants who have been smuggled into a country are coerced into selling counterfeit goods while irregular labour, including children, can be used in the production of counterfeit items. Europol has observed the link between migrants who have been smuggled across borders and organized criminal groups: "The majority of counterfeit products are distributed by means of unlicensed markets and street sales. Many

of these markets are controlled by organized crime groups. Illegal immigrants, often from Africa or Asia, are known to have been coerced by their facilitators distributing counterfeits".²⁵

Given the illegal nature of counterfeiting, labour conditions could be far worse than those seen in legitimate companies where, despite regulations, mistreatment can happen. Severe labour abuses in the supply chains of even some of the world's major brands have been well documented^{26;27}, with instances such as threats of violence, exposure to hazardous materials, and deadly working conditions all having been noted. If this can happen in global companies whose supply-chain practices are at least open to some degree of scrutiny, then the situation would be much worse for workers in a clandestine setting.

The European Commission notes that while legitimate companies have a reputation to uphold (aside from an obligation to respect laws on labour and other rights), counterfeiters do not share these concerns resulting in the mistreatment of workers.²⁸

The International Labour Organization has similarly discussed the connection between counterfeiting and labour exploitation. As far back as 1996, the ILO reported on labour and the clothing industry noting, "few (clandestine workshops) pay any respect to labour legislation and many hire illegal migrants. Many are involved in counterfeiting products from famous trade marks".²⁹ In a subsequent report from 2000, the ILO stated that clandestine workshops which "employ large numbers of illegal immigrants, have specialized in copying and pirating well-established brand names". Furthermore, these are generally marked by "labour practices that are contrary to the most rudimentary principles of respect for human rights at work", including "confiscation of immigrant workers' identity papers" and "housing illegal workers in hazardous and unhealthy dormitories".³⁰ Other accounts of counterfeiting and labour exploitation also exist. One investigative reporter whose writing on the fashion industry includes first-hand experiences with counterfeiting workshops discusses the presence of exploited labour – in particular situations involving the excessively cruel and criminal treatment of children as young as six – in various countries where workers are forced to assemble counterfeit goods.³¹

Threat to public health and safety

Counterfeit goods and fraudulent medicines pose a serious risk to public health and safety. With no legal regulation and very little recourse, consumers are at risk from unsafe and ineffective products.

With criminals operating in any and all areas where there is a profit to be made, the extent of the crime is far wider than copying designer handbags and DVDs. From children's toys to car parts, alcohol to agricultural tools, clothes to cosmetics – the list is extensive and diverse, with few 'opportunities' left out. Even the counter-

feiting of civil and military aeroplane parts have been reported over the years, while increasing reports of electrical and other items being copied highlight a significant public health risk.^{32;33}

Faulty counterfeited products can lead directly to injury and death. The vast range of items which are illegally copied can have serious health and safety consequences and have been raised in various parts of the world, including in developing countries.

Table 1, developed by the OECD, shows just how diverse this list of products can be and highlights those counterfeit or fraudulently produced goods which can cause serious harm to consumers:

Table 1: The diverse nature of illicitly produced goods (select categories)

Automotive	Scooters, engines, engine parts, body panels, air bags, windscreens, tires, bearings, shock absorbers, suspension and steering components, automatic belt tensioners, spark plugs, disc brake pads, clutch plates, oil, filters, oil pumps, water pumps, chassis parts, engine components, lighting products, belts, hoses, wiper blades, grilles, gasket materials, rings, interior trim, brake fluid, sealing products, wheels, hubs, anti-freeze, windshield wiper fluid
Chemicals/pesticides	Insecticides, herbicides, fungicides, non-stick coatings
Consumer electronics	Computer components (monitors, casing, hard drives), computer equipment, webcams, remote control devices, mobile phones, TVs, CD and DVD players, loudspeakers, cameras, headsets, USB adaptors, shavers, hair dryers, irons, mixers, blenders, pressure cookers, kettles, deep fryers, lighting appliances, smoke detectors, clocks
Electrical components	Components used in power distribution and transformers, switchgears, motors and generators, gas, and hydraulic turbines and turbine generator sets, relays, contacts, timers, circuit breakers, fuses, distribution boards and wiring accessories, batteries
Food, drink and agricultural products	Fruit (kiwis), conserved vegetables, milk powder, butter, ghee, baby food, instant coffee, alcohol, drinks, candy/sweets, hi-breed corn seeds
Pharmaceuticals	Medicines used for treating cancer, HIV, malaria, osteoporosis, diabetes, hypertension, cholesterol, cardiovascular disease, obesity, infectious diseases, Alzheimer's disease, prostate disease, erectile dysfunction, asthma and fungal infections; antibiotics, anti psychotic products, steroids, anti inflammatory tablets, pain killers, cough medicines, hormones, and vitamins; treatments for hair and weight loss.
Tobacco	Cigarettes, cigars, and snuff
Toiletry and other household products	Home and personal care products, including shampoos, detergents, fine fragrances, perfumes, feminine protection products, skin care products, deodorants, toothpaste, dental care products, shaving systems, razor blades; shoe polish; non-prescription medicine

Among the many illicit products which can be harmful to consumers, three such examples have been seen in the form of fraudulent medicines, counterfeit food products and electrical consumer goods.

Fraudulent Medicines

Fraudulent medicines are one of the most harmful forms of illicit activity with the manufacturing, trade and consumption of these products posing a particularly dangerous threat to people's health. Criminal activity in this area is big business: the sale of fraudulent medicines from East Asia and the Pacific to South-East Asia and Africa alone amounts to some \$5 billion per year³⁵ – a sizeable amount of money being fed into the illicit economy.

The World Health Organization has previously estimated that up to 1 per cent of medicines available in the developed world are likely to be fraudulent. This figure rises to 10 per cent in various developing countries, and in parts of Asia, Africa and Latin America, fraudulent pharmaceuticals could amount to as much as 30 per cent of the market.³⁶ In an article in the medical journal *The Lancet* in mid-2012, it was noted that one third of malaria medicines used in East Asia and sub-Saharan Africa are fraudulent.³⁷

Incorrectly manufactured medicines present particular dangers. These types of medicines are found either to contain the wrong dose of active ingredients, or none at all, or to have a completely different ingredient included. In some cases, fraudulent medicines have been found to contain highly toxic substances such as rat poison.³⁸ Fraudulent medicines also deprive sick people of treatment, leaving them vulnerable to the disease they are meant to be fighting. They also make some of the world's most dangerous diseases difficult to treat by contributing to the development of drug-resistant strains.

All kinds of medicines – both branded and generic – can be made fraudulently, ranging from ordinary painkillers and antihistamines, to "lifestyle" medicines, such as those taken for weight loss and sexual dysfunction, to life-saving medicines including those for the treatment of cancer and heart disease. Among the most commonly produced fraudulent medicines are those for treating depression, schizophrenia, diabetes, blood pressure and cholesterol. In West Africa there has been a marked increase in fraudulent medicines, including antibiotics, antiretroviral drugs and medicines to fight life-threatening diseases such as malaria and tuberculosis.



In October 2011, a survey by Gallup, polled around 1,000 people in sub-Saharan Africa which gauged their experience with fraudulent medicines.³⁹ Around one in five adults across all surveyed countries said that either they or members of their household had been “victims” of fraudulent medicines.

Some medicines are known to have a significantly higher mark-up per kilogram than certain illicit drugs. In one study by the Italian Ministry of Economic Development, it was shown that organized crime groups made several times more from the production and sale of fraudulent medicines than they did from illicit drugs such as cocaine, heroin and opium.⁴⁰

Counterfeit food and beverages

Another area that continues to be exploited by counterfeiters—and one that is often not considered in the public mind when discussing fake products—is foodstuffs. Every year consumers throughout the world are deceived into buying expensive counterfeit foodstuffs. A ploy favoured by criminals is to intentionally mislabel and misrepresent foods as luxury items or as originating in certain countries, allowing them to raise prices. A recent estimate based on data from the United Kingdom Food Standards Agency⁴¹ suggested that fraud could affect as much as 10 per cent of all the food bought in that country. One such example is that of “wild” salmon, which, it is estimated, is in fact farmed fish in one out of every seven cases.

But it is not simply a matter of people being conned into believing that they are eating superior food. In just one example of the life-threatening potential of the trade in counterfeit foodstuffs, thousands of Chinese babies became sick in 2008 after drinking contaminated milk formula containing melamine, a chemical normally used in plastics. While the chemical is banned from use in food, it is added to watered-down milk in order to make the liquid appear higher in protein when tested. The ripples of this food scare were felt internationally, with fears that the contaminated

products may have reached other parts of the world. There have also been cases where dangerous chemicals have been found to be present in fraudulent food in place of other more expensive and legitimate additives.

In 2012, counterfeit alcohol killed at least 20 people in the Czech Republic, with many others suffering from serious illnesses and even blindness.⁴² The concoctions, which were bottled and labelled to look like genuine brands, were laced with industrial chemical methanol which was believed to have come from wind-screen wiper fluid.⁴³

Electrical consumer goods

Consumer electronics can also be counterfeited, with similar dangerous or deadly results. From beauty products, to kitchen goods, to entertainment electronics – this extensive area presents a threat to unsuspecting consumers. What is particularly worrying are the diverse avenues that counterfeit electronics can reach consumers: sometimes counterfeits are in the form of entire products, sometimes they enter the supply chain as fraudulently produced parts and are inadvertently used in legitimate goods.⁴⁴

Counterfeit batteries, for example, which are used extensively in consumer goods, can contain volatile chemicals which may explode; counterfeit cabling and other components inside household products meanwhile might lack correct insulation and melt during use and catch fire.

While instances concerning the dangers of counterfeit electronics abound, the following two examples present an idea of just how dangerous these can be to a person’s health and safety. In the first example, it was reported that a 17-year old girl in the UK had severe burns to her head after a counterfeit hair straightener heated up far beyond what is considered safe for use.⁴⁵ In the second, a woman was killed when she answered a call while her cell phone was charging. The counterfeit charger which was to blame was thought to lack basic safety components which prevented the direct electrical current going into the phone.⁴⁶

What can be, and is being, done?

Given the evident connection between transnational organized crime and the illicit trafficking of counterfeit goods—and the recognition of this link at national and international levels—there are several ways in which this can be, and is being, tackled. This spans a number of areas and actions on the part of both authorities and consumers.

Legislative actions

Adopting and fully implementing the United Nations Convention against Transnational Organized Crime: The counterfeit business is a global operation spread across numerous countries and organized by cross-border criminal networks. As a result, there is an ever-growing need for action at both local and international levels. The United Nations Convention against Transnational Organized Crime⁴⁷ is the world's most inclusive platform for cooperation in tackling organized crime. 179 countries are currently Parties to the Convention⁴⁸ and have committed themselves to fighting organized crime locally and internationally by such means as collaboration and ensuring that domestic laws are suitably structured.

As an important instrument in tackling transnational organized crime, the Convention fosters international cooperation and, aside from encouraging the adoption of measures such as the establishment of domestic criminal offences, urges countries to put in place frameworks for extradition, mutual legal assistance and law enforcement cooperation. Within the Convention's framework, States Parties could decide to adopt tougher laws in order to tackle the illicit trafficking of counterfeit goods, particularly in the case of public health and safety threats.

Strengthening money laundering legislation: With the illicit trafficking of counterfeit goods and money laundering intrinsically linked, there is a profound importance in ensuring national laws are securely in place to counter all forms of money laundering. Given the danger of re-investment into other forms of organized crime, tracking and confiscating illicit funds is critical. The United Nations Interregional Crime and Justice Research Institute (UNICRI) and the International Chamber of Commerce's (ICC) Business Action to Stop Counterfeiting and Piracy (BASCAP) recently presented a comprehensive argument on this issue. Advocating for the confiscation of the proceeds of crime, the two organizations called on Governments to seize profits made by organized criminal networks from counterfeiting as a more effective response than just imprisonment.⁴⁹

Operational actions

Cross-border/multi-sector partnerships: The illicit trafficking of counterfeit goods is evidently not an internal issue and in the production, trafficking and sale of these items multiple countries

are affected. As a result, bilateral and multilateral cross-border investigations are highly important. Equipping officials with tools to identify counterfeit goods is one way to curb this crime. The mentioned UNODC/World Customs Organization Container Control Programme is one method that is helping train officials to confiscate counterfeits as well as other illicit goods before they reach consumers. UNODC's regional cooperation networks for prosecutors, working with INTERPOL and others, could potentially provide the ideal platform to trace back such seizures through the supply chain and track down and investigate criminal networks involved in this illicit trade. This type of 'back-tracking' investigation could help in dismantling criminal networks engaged both in the illicit trafficking of drugs and other illicit products.

Consumer actions

Developing and utilizing innovative tools: One way in which counterfeiting can be tackled is through empowering consumers to make more informed decisions. The UNODC campaign 'Counterfeit: Don't Buy into Organized Crime'⁵⁰ is one example of the type of awareness initiatives which should be pursued with added vigour in order to mobilize the full force of consumer power against such criminal business and deprive organized crime of one of its most profitable and low-risk money sources. Surveys have shown that the public agree that counterfeit goods assist organized crime and pose a threat to consumer health and safety.⁵¹ ⁵² By extension therefore, consumers should be provided with tools to make decisions on their purchasing choices. One product that is aimed specifically at consumers is the 'INTERPOL-Checkit' (I-Checkit) which provides the general public with a product verification tool to check if products are real or counterfeit.⁵³

Capacity-building

Training: Competencies in tracking and combating current and emerging counterfeit threats can vary dramatically from country to country. Given this, there is a need for coordinated training which will help streamline approaches. The 'International IP Crime Investigators College' (IIPCIC) – run by INTERPOL and the Underwriters Laboratories' UL University – is one such offering and is aimed at law enforcement, regulatory authorities and private sector IP crime investigators through online courses.⁵⁴

Technical tools

Testing: There are a number of national and international product control organizations that have a role to play in the health and safety side of counterfeiting. There are also specific tools which are becoming available to assist in detecting counterfeit goods before they reach consumers. The development of one such device by the US Food and Drug Administration in the form of a handheld device has been used to screen products to identify counterfeit goods across a range of areas.⁵⁵



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- ¹ INTERPOL, Europol and several national law enforcement entities have highlighted a link to organized crime. The United Kingdom's Annual Report for 2011/12 on intellectual property crime argues that there is a definitive link between counterfeiting and organized crime: "IP crime has to be organized as it involves so many different stages usually across international boundaries. There are numerous examples of investigations into other types of serious and organized crime uncovering a link to IP crime and vice versa". (UK IP Crime Group, 'IP Crime: Annual Report 2011-2012', p.14, 2012. Available from <http://www.ipo.gov.uk/ipcreport11.pdf>)
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UNODC

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Counterfeit goods generate over \$250 billion a year for criminal enterprises, and their purchase could be funding other more sinister organized criminal activities.

Not only do counterfeit goods raise several ethical concerns such as labour exploitation and environmental impact, but they can be harmful and potentially dangerous to consumers. UNODC's new campaign highlights the often unforeseen consequences from the consumption of fake goods.

www.unodc.org/counterfeit