

# COUNTERFEIT TRADE'S LINKS TO ORGANISED CRIME



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The scale of counterfeit goods being traded globally is not only reaching dangerous levels in terms of its economic impact; clear links to the criminal underworld and terrorism are also increasingly behind the trade. By David Suzuki, with TC Brown.

It's no secret that sex sells, and it's no less a hot commodity in Asia than anywhere else.

Investigations and raids in Asia in recent years have netted tonnes of counterfeit sexual enhancements such as Viagra, Cialis and Levitra.

In China, six months after Viagra was introduced, the State media reported that 90 percent of the blue pills on the Shanghai market were fakes. And last year, hospitals in Singapore treated 150 non-diabetics who presented with severe hypoglycaemia after they ingested counterfeit impotency drugs that contained a powerful diabetic medication. Because the men were not diabetic, their blood sugar dropped sharply. Four died and seven suffered severe brain damage.

Many of these pirated erectile dysfunction drugs are produced in China and controlled by gangs. Authorities know that these illicit products are sold worldwide, often through digital markets. In February, the *Journal of Clinical Practice* reported that between 4,500 and 15,000 websites peddled such knock-offs.

Bulk shipments of sham impotency pills produced in China's Zhejiang and Fujian provinces flood Japan's shores. They are imported by Korean syndicates, some of which are connected to Japan's Yakuza, an organised crime organisation that has existed in one form or another since the 17th century. This criminal supply chain links the world's second, third and 11th-largest economies.

The production and sale of all imitation trademark goods, sex-related or otherwise, is quickly becoming a growing, transnational problem that plagues brand owners and governments alike, resulting in lost profits, tarnished reputations and skewed economies.

Estimates suggest that counterfeit trade, including domestic production, consumption and international trade, could be worth \$600 billion or more, larger than the GDP of many countries, according to statistics from the United Nations Interregional Crime and Justice Research Institute (UNICRI).

Investigate a little deeper and you'll find an even darker element. It's clear that organised crime has its collective hands in intellectual property crimes in all industries, says Alan Drewsen, executive director of the International Trademark Association.

"The significant expansion in the production and distribution of fake drugs constitutes a particularly pernicious threat to the health of consumers worldwide," Drewsen says. "It's a threat that has only increased as these criminals use the Internet to open up new channels of distribution." Counterfeit drugs account for between 10 and 30 percent of all medicines sold in many parts of the developing world, according to some estimates.

These unlawful acts lead to an even more alarming scenario—money gained through sale of illicit counterfeit goods is being used, in some instances, to fund terrorist activity.

#### Low-risk, high-profit piracy

A 2009 RAND Corporation study, which focused on 14 cases of film piracy, provides an eye-opening illustration of how the production of knock-offs can be linked to criminal syndicates and terrorist organisations. Counterfeiting is widely used to generate cash for diverse criminal organisations, the report said.

"These cases, combined with established evidence for the broader category of counterfeiting-terrorism connections, are highly suggestive

that intellectual property theft—a low-risk, high-profit enterprise—is attractive not only to organised crime, but also terrorists, particularly opportunistic members of local terrorist cells," the report said. "[T]hree of the documented cases provide clear evidence that terrorist groups have used the proceeds of film piracy to finance their activities."

RAND pointed out that DVD piracy, which can be extrapolated to other knock-off goods, has a higher profit margin than narcotics, with minimal risks. That makes it attractive around the world "as an element of criminal portfolios that also include drugs, money laundering, extortion and human smuggling".

Counterfeit crimes produce an immense source of quick enrichment that is low-risk due to a scarcity of adequate deterrents in the form of strict laws or penalties in most countries.

Many criminal organisations that have earned huge profits from drug trafficking and smuggling arms are also already structured for trading in counterfeits. They have established routes and methods to conceal their crimes and they don't worry about rules, which are usually national in scope, making it easier for unlawful trans-border operations.

Many of these syndicates use their profits from piracy as a system to launder money and fund other crimes, says Sandro Calvani, director of UNICRI.

"In practice, counterfeiting is a sort of perfect and flexible instrument in the hands of dangerous criminals," Calvani says. The international community must renew its efforts to co-operate in adopting techniques to combat piracy or "risk being always a step behind and suffer even more consequences".

## Global spiderweb

The repercussions can be quite significant and wide-ranging for branded companies and governments. Counterfeit trade leads to lost profits, brand reputation smears, reduced taxes and revenues, decreased investments, job loss and major risks to consumer health and safety.

These crimes can skew elements of legitimate economies, too. For instance, Japan's \$200 billion-a-year underground economy affects legitimate business deals. Investigations by Suzuki Reconnaissance Advisors (SRA) have revealed that about 20 percent of transactions in the Japanese construction business involve some element of the Yakuza.

Criminals engaged in selling counterfeit goods have shown a complete indifference toward public safety. "Make no mistake, the only concern the counterfeiter has is how much money he is going to make," says Kelly Nantel, press secretary for US Immigration and Customs Enforcement (ICE), which manages the National Intellectual Property Rights Coordination Center in Virginia. The centre has two multi-US agency initiatives aimed at counterfeits that pose a health or safety risk: Operation Guardian and Operation Apothecary. They have seized millions of dollars' worth of counterfeit, substandard or tainted products trying to enter the US.

Intellectual property rights protect creativity, entrepreneurship and innovation: the key drivers of domestic and global economic growth, says Megan Mattson, a US Department of State

spokeswoman. US intellectual property assets account for \$5.0 trillion dollars or more—about one-third of the value of all US corporations, according to the Council of Economic Advisors.

"Strong protection and enforcement of intellectual property is critical to the function of a healthy world economy," Mattson says. State works on the domestic and global front to protect businesses include the Administration's global Strategy Targeting Organized Piracy (STOP!) initiative. "We collaborate with our trading partners to ensure the approach to fighting fakes is global and mutually beneficial to our economies," Mattson says.

The harm from knock-off goods can filter down on a more personal level, too.

"Counterfeiters often have recourse to labour exploitation, including exploitation of children, and may also be involved in human trafficking," Calvani says. "These aspects and their financial and criminal interests are all linked together to form a huge spiderweb that touches every country in the world."

Investigative and consulting agencies are fighting these battles globally on the front lines. The merger of Suzuki Reconnaissance Advisors (SRA), which covers the Asia-Pacific region, along with the PICA, with its strong presence in the Americas, Middle East and Northern Africa, will bring a natural and seamless synergy of intelligence and security consulting to these campaigns in order to help protect brands and their products and reputations.

Meanwhile, greater efforts must be made to better educate the public about the harm connected with the purchase of knock-off goods in the hope of reducing the demand for fakes.

As the RAND report points out: "Counterfeiting is a threat not only to the global information economy, but also to public safety and national security."

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TC Brown operates an independent, multimedia enterprise in Columbus, Ohio for a widely diverse group of businesses, consulting organisations and government agencies. He was a successful journalist for 25 years and is the recipient of national, state and local journalism awards. He has also appeared on ABC-TV's *Nightline* with Ted Koppel and two investigative series he wrote were nominated for Pulitzer Prize consideration.

## Combating counterfeiting

A 2009 RAND report examines the links between the global production and the sale of counterfeit goods, organised crime and terrorist organisations.

The non-profit think tank said that it found a "clear need" for additional global intelligence gathering and sharing so that the scope and nature of the connections between piracy and organised crime can be illuminated.

"The mandate is clear for policy makers and law enforcement around the world to revisit the common but erroneous assumption that counterfeiting is a victimless crime," RAND said.

The five components deemed critical for success in combating counterfeiting include:

- Increased political will of governments to commit resources, conduct public awareness campaigns and share intelligence with industry

- Stronger legislation to expand the definition of organised crime to include large-scale counterfeiting tied to other criminal activity and enactment of provisions to give investigators more authority
- Consistent enforcement that strengthens international co-operation, provides guidelines to trace production and distribution chains, and improves the processing of cases more quickly
- Deterrent sentencing that increases penalties and creates new laws that make piracy a priority offence within anti-gang strategies
- Innovative solutions, including the revision of custom and immigration forms to include the prohibition of importation of counterfeit goods, the recruitment of the financial community to spot money laundering activity and the potential of making large-scale piracy an extraditable offence.