



Counterfeit Goods – A bargain or a costly mistake?



The production and sale of counterfeit goods is a global, multi-billion dollar problem and one that has serious economic and health ramifications for Governments, businesses and consumers. Counterfeiting is everywhere – it can affect what we eat, what we watch, what medicines we take and what we wear – and all too often the link between fake goods and transnational organized crime is overlooked in the search for knock-offs at bargain-basement prices.

The hand of organized crime

Counterfeiting is a hugely lucrative business, with criminals relying on the continued high demand for cheap goods coupled with low production and distribution costs. The illegal activities related to counterfeiting take advantage of unwitting consumers and bargain-hunters, exploiting people's appetites for cut-price brands or simply their financial position.

While the costs are difficult to quantify – and do not include non-monetary damage such as illness and death – the value of counterfeiting is estimated by the OECD to be in the region of \$250 billion per year.¹ While counterfeiters continue to reap significant profits, millions of consumers are at risk from unsafe and ineffective products.

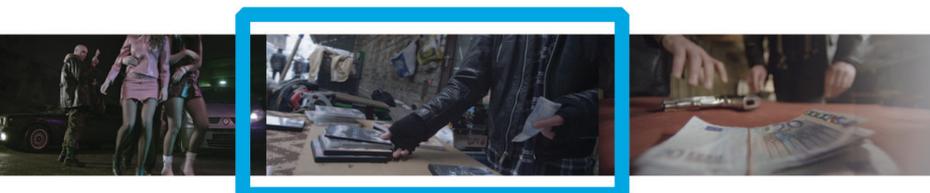
It is a truly transnational problem. The World Customs Organization noted that in 2008 counterfeit products destined for 140 countries were detected.² In many countries the absence of deterrent legislation encourages counterfeiters, since they have less fear of being apprehended and prosecuted than they would

for other crimes. Counterfeiters engage in elaborate plans to disguise their activities. They establish fictitious businesses and front companies. They exploit border-control weaknesses and poor regulatory frameworks. And they use false documents to obtain pharmaceutical ingredients, as well as manufacturing equipment to replicate genuine products.

The criminal networks behind counterfeiting operate across national borders in activities that include the manufacture, export, import and distribution of illicit goods. The scale and ingenuity of the trade in counterfeits poses a formidable challenge to law enforcement authorities, as counterfeiters adopt extremely flexible methods in order to mimic products and prevent their detection. Criminal organizations are also often involved beyond just producing and moving counterfeit goods, with many also trafficking drugs, firearms and people.

A bargain...or is it?

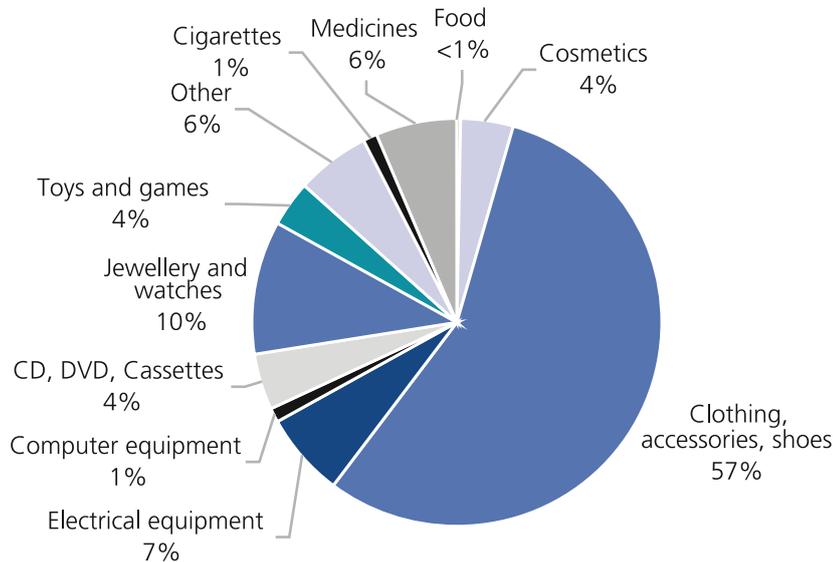
Counterfeiters are involved in the illegal production of knock-offs in virtually every area – food, drinks, clothes, shoes, pharmaceuticals, electronics, auto parts, toys, currency, tickets for transport systems and concerts, alcohol, cigarettes, toiletries, building materials and much, much more. Often the temptation for consumers can be too strong to resist, with many not understanding the risks and ramifications attached to this illicit industry. Buying a counterfeit handbag or pair of jeans, for example, might not be regarded as an illegal transaction – simply a cheaper way to wear the latest fashion goods. However, often little thought is given to how the money



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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

may ultimately end up in the hands of organized crime groups or how the industries that rely on legitimate sales suffer. The buying of fraudulent pharmaceuticals can obscure the long-term risks: there are numerous examples of disability and death caused by tainted medication, and such pharmaceuticals contribute to the growth of drug-resistant diseases. Even obscure purchases like safety goggles or electrical plugs that have been illegally copied and reproduced present significant risks, given their lower quality. Counterfeit cigarettes also present multiple risks: they are even more harmful than genuine cigarettes, as they may contain much higher levels of nicotine and other dangerous chemicals such as arsenic, benzene, cadmium and formaldehyde.

The criminals behind these operations present huge challenges to all sectors of society: they threaten public health through the production of fraudulent medicines; they deprive the public sector of tax revenue through bypassing official channels; they add to public spending through increased law enforcement work to counter this illicit trade; and they increase the price of legitimate products as companies seek to recoup their losses.

More taxes, more expense, fewer jobs

The ramifications of counterfeiting affect everyone, with Governments, businesses and society being robbed of tax revenue, business income and jobs. The flood of counterfeit and pirated products creates an enormous drain on the global economy by

creating an underground trade that deprives Governments of revenue for vital public services and imposes greater burdens on taxpayers. It also leads to more public resources being spent on fraud-detection methods by public sector authorities and larger intelligence and policing budgets being needed to counter sophisticated schemes and networks. Counterfeit goods also undermine employment, as products are copied and produced illegally, thereby displacing sales of original merchandise and reducing the turnover of legitimate companies. Fraudulent medicines also have a direct impact on increased medical costs due to prolonged treatment periods and medical complications in the spread of treatment-intensive diseases. The prices of products also go up because companies increase security systems to counter organized criminal activities and have to invest more in research and development.

Exhibit A: Phoney pharmaceuticals — an unfolding public health tragedy

One of the most harmful forms of counterfeit goods is fraudulent medicines. In recent years there has been a marked increase in the manufacturing, trade and consumption of these products — often with harmful results, and at times fatal. The sale of fraudulent medicines from Asia to South-East Asia and Africa alone amounts to some \$1.6 billion per year³ — a sizeable amount of money being fed into the illicit economy. The World Health Organization estimates that up to 1 per cent of medicines available in the developed world are likely to be



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fraudulent. This figure rises to 10 per cent in various developing countries, and in parts of Asia, Africa and Latin America, fraudulent pharmaceuticals amount to as much as 30 per cent of the market.⁴ 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.⁵

Tampered formulations 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. 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 and viruses stronger by contributing to the development of drug-resistant strains, as the active ingredients are no longer able to work correctly. More resistant strains are then passed on to other victims, and the legitimate drugs they take to fight the same disease are less effective.

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 cancer treatment and heart disease drugs. Medications for treating depression, schizophrenia, diabetes, blood pressure and cholesterol are also among the commonly faked medicines. 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. Meanwhile in Asia – a key manufacturer of legal medicine – the production of fraudulent drugs is seen to be on the rise. According to statistics from the World Customs Organization, around two thirds of counterfeits (medicines and other goods) detected globally in 2008 were shipped from East Asia.⁶

Exhibit B: fake food – a deadly meal

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 thousands of 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 Agency⁷ 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.

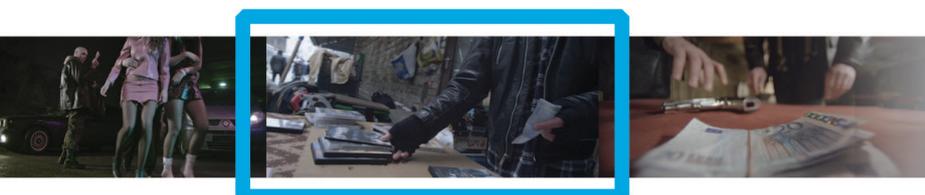
But it is not simply a matter of people being conned into believing that they are eating superior food. In just one example of the life-threatening potential of the trade in counterfeit foodstuffs, thousands of Chinese babies became sick in 2008 after drinking contaminated milk formula containing melamine, 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 Europe and beyond. There have also been cases where rat poison and other dangerous chemicals have been found to be present in fraudulent food in place of other more expensive and legitimate additives.

International cooperation and consumer power

The counterfeit business is a global operation spread across numerous countries and organized by cross-border criminal networks. In a bid to tackle these crimes there is an ever-growing need for action at both the local and the international level. The United Nations Convention against Transnational Organized Crime is the world's most inclusive platform for cooperation in tackling this issue. 170 countries⁸ are currently party to the Convention and have committed themselves to fighting organized crime locally and internationally by such means as collaboration and ensuring that domestic laws are suitably structured. In October 2012 UNODC will be hosting the Conference of the Parties to the United Nations Convention against Transnational Organized Crime. This biennial series of meetings brings together Governments from across the world to promote and review the execution of the Convention in order to ensure better implementation in tackling this international issue.

Organizations such as INTERPOL and the World Customs Organization are also central to tackling this sort of crime, particularly given the cross-border nature of the operations behind counterfeiting. This provision of a crucial link between law enforcement agencies is a good example of the kind of actions necessary to curb transnational organized crime networks.

There is also a great need to build more awareness of the scale of the problem. The responsibility for this is widespread, with international organizations, public health authorities, trade organizations, consumer groups and concerned citizens all able to play their part and make people aware of the dangers of counterfeit goods to health and safety. Private companies complicit in this trade should, for instance, be named and shamed, and codes of conduct more rigorously enforced.



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Law enforcement agencies should also take a tougher stand against counterfeiters, and that stance ultimately has to be backed up by relevant and comprehensive local laws. Coordinated and cross-sector action at the international level is vital for identifying, investigating and prosecuting these criminals. One such area in which measures are lacking in many parts of the world is that of rogue Internet pharmacies, which operate with little fear.

Consumers also have a responsibility to exert their influence with their purchasing choices. While consumers often cannot identify counterfeit goods, such as medicines containing dangerous products, the more evident purchases of counterfeit

products should be shunned. Counterfeiting networks can – and will – continue to operate as long as customers support this form of illegal trading.

If you know a film has been illegally copied and is being sold as a knock-off, don't buy it. If your favourite designer brand is clearly not made by your favourite designer, stay away. Beyond these obvious counterfeit products, stay alert to other warning signs. If a medicine that you know normally requires a prescription is available online without any sort of script from a doctor, then it could harm your health, perhaps irreversibly. Remember – while these purchases may save you money in the short term, the longer-term losses are far more costly.

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¹ Organization for Economic Cooperation and Development, “*Magnitude of counterfeiting and piracy of tangible products: an update*”, November 2009. Available from www.oecd.org/dataoecd/57/27/44088872.pdf.
This figure does not include domestically produced and consumed counterfeit products nor the significant volume of pirated digital products being distributed via the Internet. If these items were added, the total amount of counterfeiting worldwide could be several hundred billion dollars more.

² World Customs Organization, “*Customs and IPR report: 2008*”. Available from <http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/Enforcement/IPR%202008%20EN%20web.pdf>.

³ *The Globalization of Crime: A Transnational Organized Crime Threat*

Assessment (United Nations publication, Sales No. E.10.IV.6.2010). Available from www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf.

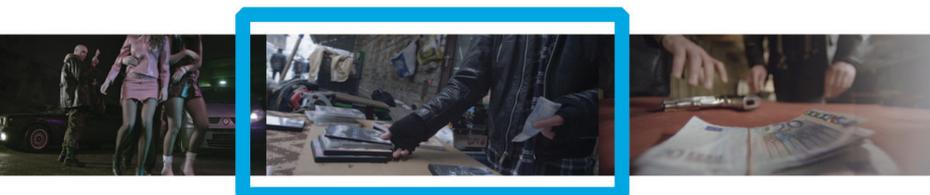
⁴ World Health Organization, “*Counterfeit medicines: an update on estimates*”, 15 November 2006. Available from www.who.int/medicines/services/counterfeit/impact/TheNewEstimatesCounterfeit.pdf.

⁵ *The Lancet*. 2012. www.thelancet.com.

⁶ *The Globalization of Crime: A Transnational Organized Crime Threat Assessment*.

⁷ Kate Ravillious, “*Buyer beware*”, *New Scientist*, vol. 192, No. 2577 (November 2006), pp. 40-43.

⁸ See http://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&tmtmsg_no=XVIII-12&chapter=18&lang=en.



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