

Counterfeit as a global phenomenon: the emerging threats and the routes of fakes

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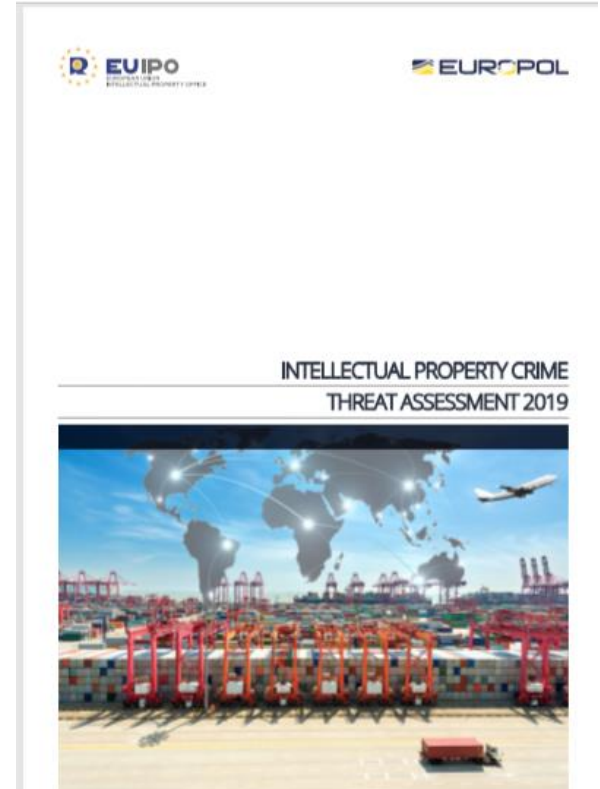
INTRODUCTION

- 1. Why routes are complex**
- 2. Emerging threats: key product sectors**
- 3. The Free Trade Zones**

INTRODUCTION

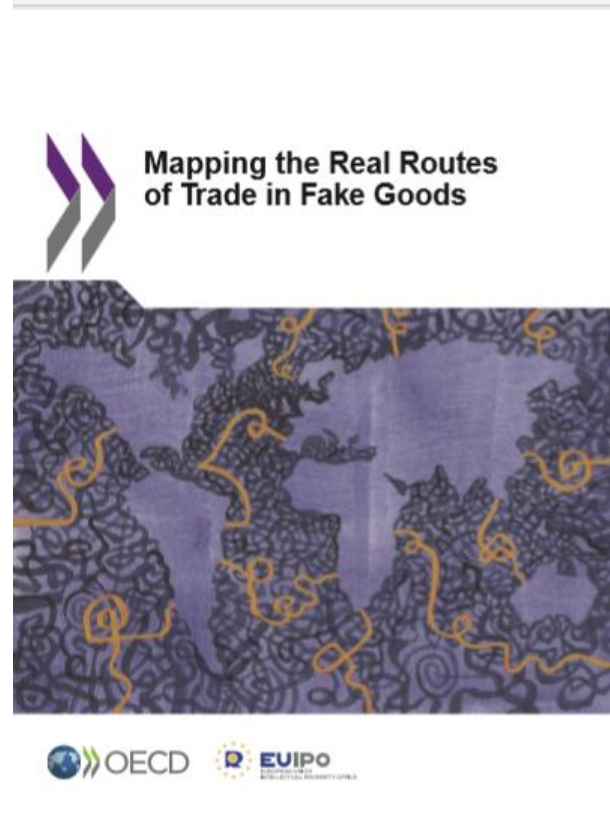
2 main sources have been used for this presentation

**Joint analysis and threat assessment on counterfeit
assessment on counterfeit
EUIPO/EUROPOL
2017 and 2019**



INTRODUCTION

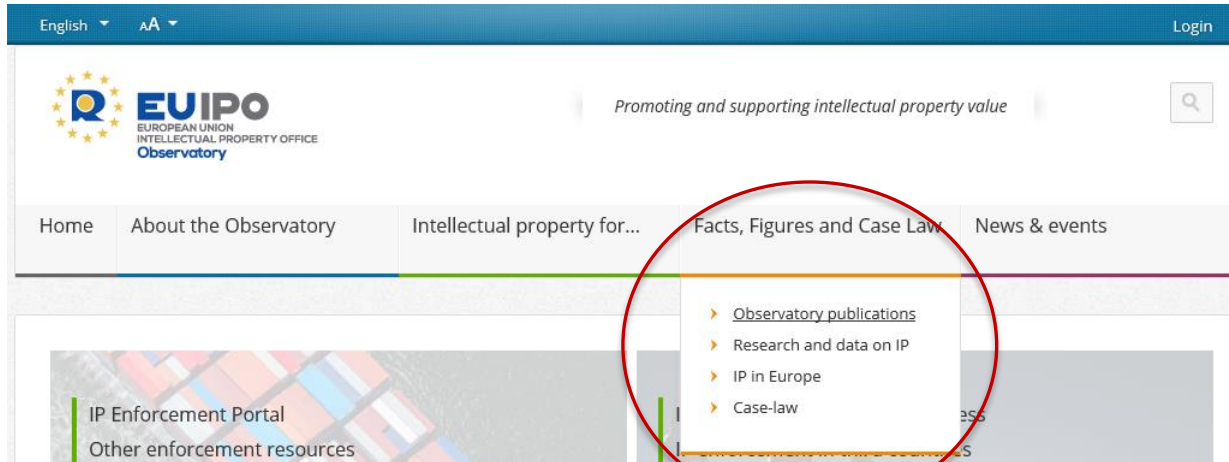
Mapping the Real Routes of Trade in Fake Goods EUIPO/OECD 2017



INTRODUCTION

All publications of the Observatory can be downloaded freely from the website

<https://euipo.europa.eu/ohimportal/en/web/observatory/home>



INTRODUCTION

Emerging threats: IP crime and associated crimes are evolving continuously

- Factors:
 - counterfeiters tend to follow the market (offer and demand)
 - counterfeiters tend to make itinerary and supply chain more complicate to disguise authorities
 - counterfeiters react to enforcement and change their strategies

INTRODUCTION

The response of the authorities is not always up to it, and the fight against fakes must be better supported

General trend worldwide – and in Europe in particular – is to decrease efforts against counterfeit

- IP crime is currently not among priorities of policy makers in the EU.

Possible reasons:

- it's a victimless crime?
- it only affects luxury industry?
- **there are few resources and they must be concentrated on other crime priorities?**

INTRODUCTION

On the contrary:

- IP crime is a multi-crime phenomenon
 - money laundering
 - drugs and human trafficking
 - funding terrorism
 - and many others
- Fakes can jeopardize human health and environmental quality
- Counterfeit now affects all kind of everyday goods – not only luxury goods

THE SITUATION AT THE EUROPEAN UNION'S BORDERS

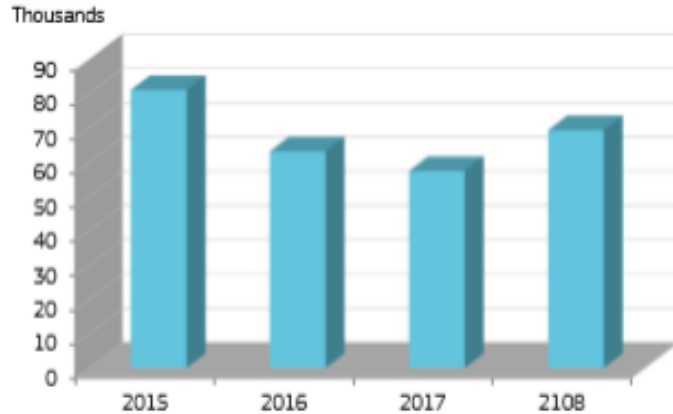


Chart 3. Number of registered cases

Year	Number of cases
2015	81 098
2016	63 184
2017	57 433
2018	69 354



SEIZURES INCREASED

European Commission (DG TAXUD) - Report on the EU customs enforcement of intellectual property rights: results at the EU border, 2018

THE SITUATION AT THE EUROPEAN UNION'S BORDERS

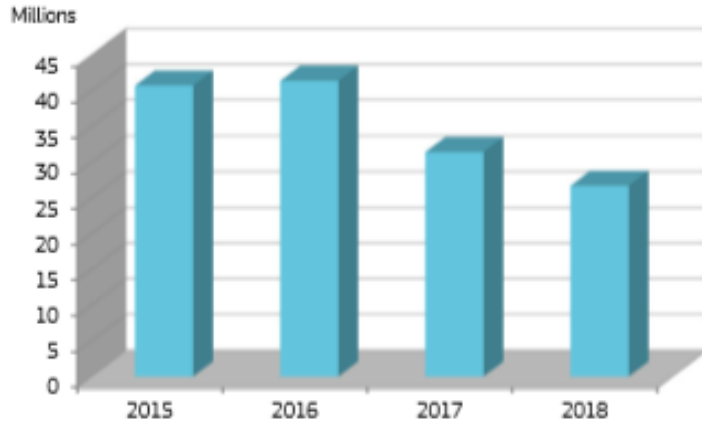


Chart 4. Number of detained articles

Year	Number of articles
2015	40 728 675
2016	41 387 132
2017	31 410 703
2018	26 720 827



BUT LESS ITEMS SEIZED

European Commission (DG TAXUD) - Report on the EU customs enforcement of intellectual property rights: results at the EU border, 2018

THE ROUTES OF FAKES ARE COMPLEX ONES

The use of complex trade routes with transshipment points is standard practice in all international trade (economically justified):

- many ports are not directly connected with one shipping line, so that the shipment needs to be broken down and shipped in several legs
- the mode of transport changes during the journey
- consolidation (combining small shipments into a larger one) or deconsolidation (dividing a large shipment into smaller ones)

THE ROUTES OF FAKES ARE COMPLEX ONES

But for counterfeiters, complex routes are used to avoid enforcement (not economically justified)

- Why:
 - most important hubs used: it makes it easier to hide oneself
 - choosing weaker governance systems with less controls
 - trying to involve many intermediaries
 - extensive use of **transit** points
 - misuse of **free trade zones**

THE ROUTES OF FAKES ARE COMPLEX ONES

Decision on which route to follow can be taken by criminal organisations acting in **complex transport and distribution networks**

- OCG have skills, network and resources to:
 - effectively react to enforcement and change way
 - identify weak points in controls capacity
 - identify gaps in terms of legality
 - where local criminal organisations are already active or can provide support – **the case of Italy**

TRANSSHIPMENT AND CRIMINAL ORGANISATIONS

Port of Gioia Tauro (Italy), transshipment and the «'ndrangheta»



USE OF TRANSIT

Transit points and **transit customs regime** offer great opportunities to counterfeiters

- Transit is used for:
 - falsification of documents to camouflage real provenance
 - establishing distribution and sorting centres of fakes
 - re-packaging/label of products
 - transit regime is usually less controlled

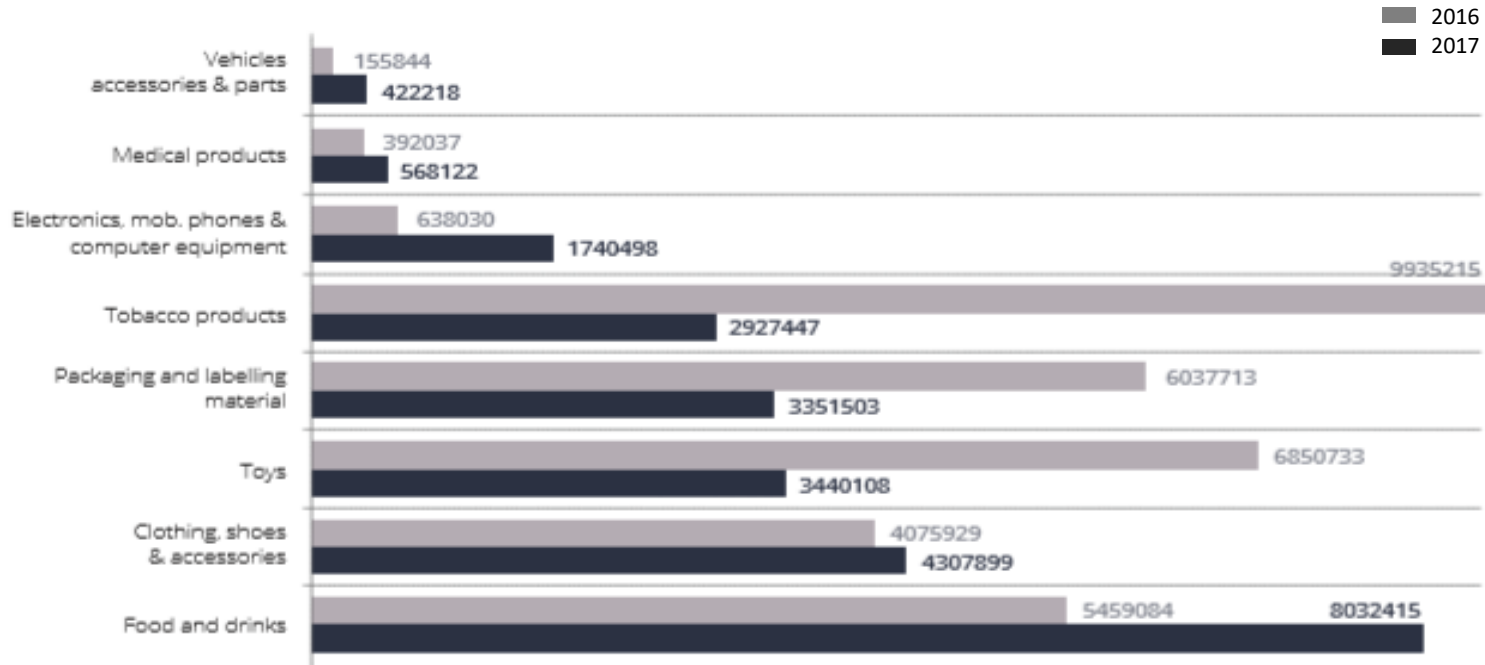
USE OF TRANSIT

Main transit hubs identified:

- globally
 - Hong Kong (China)
 - Singapore
 - United Arab Emirate
- more sensitive for the EU
 - Hong Kong (China)
 - United Arab Emirate
 - Albania
 - Morocco
 - Egypt
 - Ukraine

EMERGING THREATS: KEY PRODUCT SECTORS

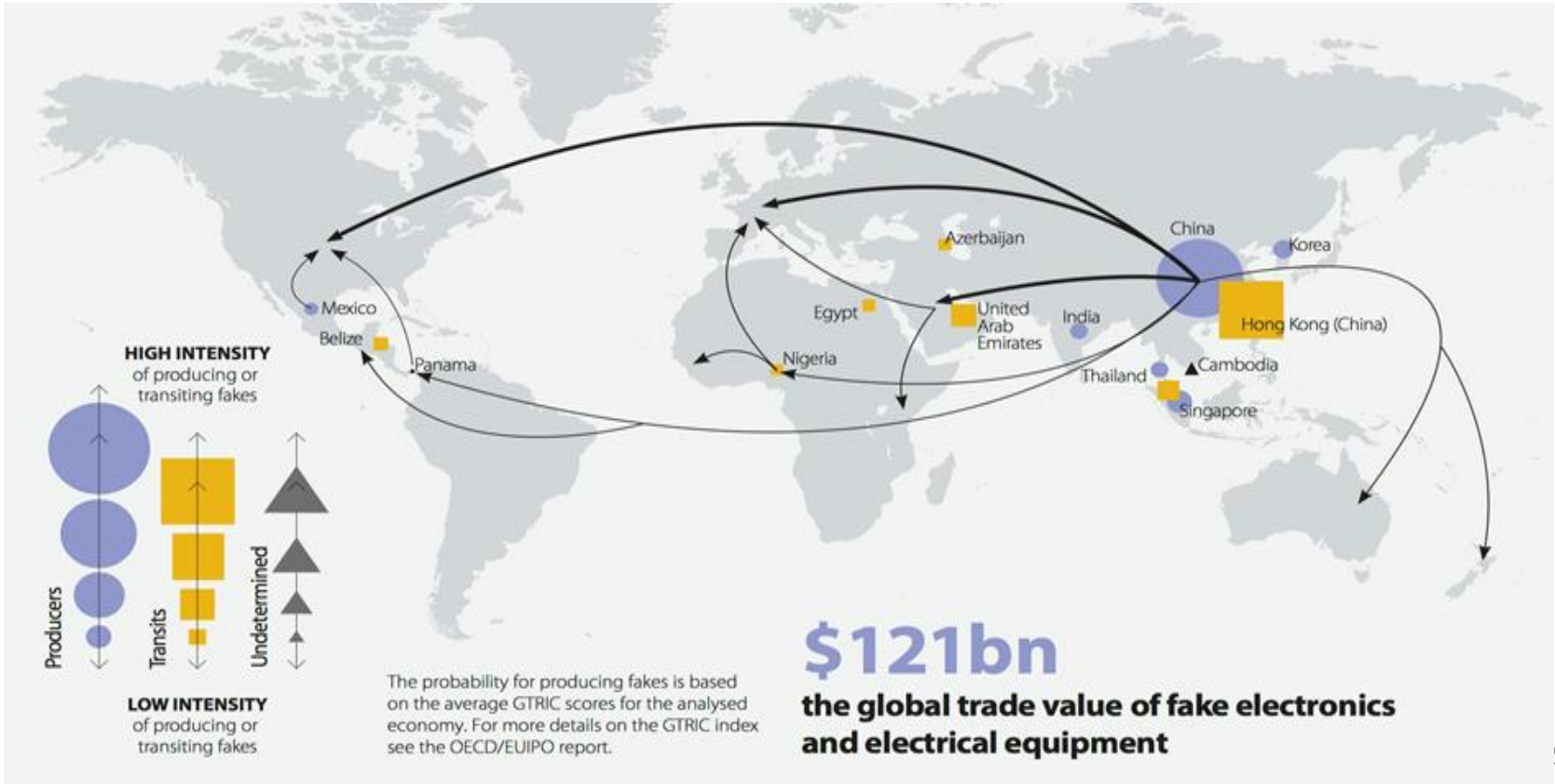
EUROPOL-EUIPO IP CRIME THREAT ASSESSMENT 2019: areas covered



ELECTRONICS

- EU 2015 to 2017: increasing seizures of **mobile phones and accessories (chargers mainly)** and **computers and accessories**
- More items seized but less seizures: traffic shifted from small consignments to maritime containers (though chargers bought on e-market places still is a threat)
- EU 2017: increase in **semiconductors mostly from Hong Kong and China**:
 - usually via postal services and express couriers (very small objects)
 - many cases of EU transit for the USA
 - high safety risk

ELECTRONICS

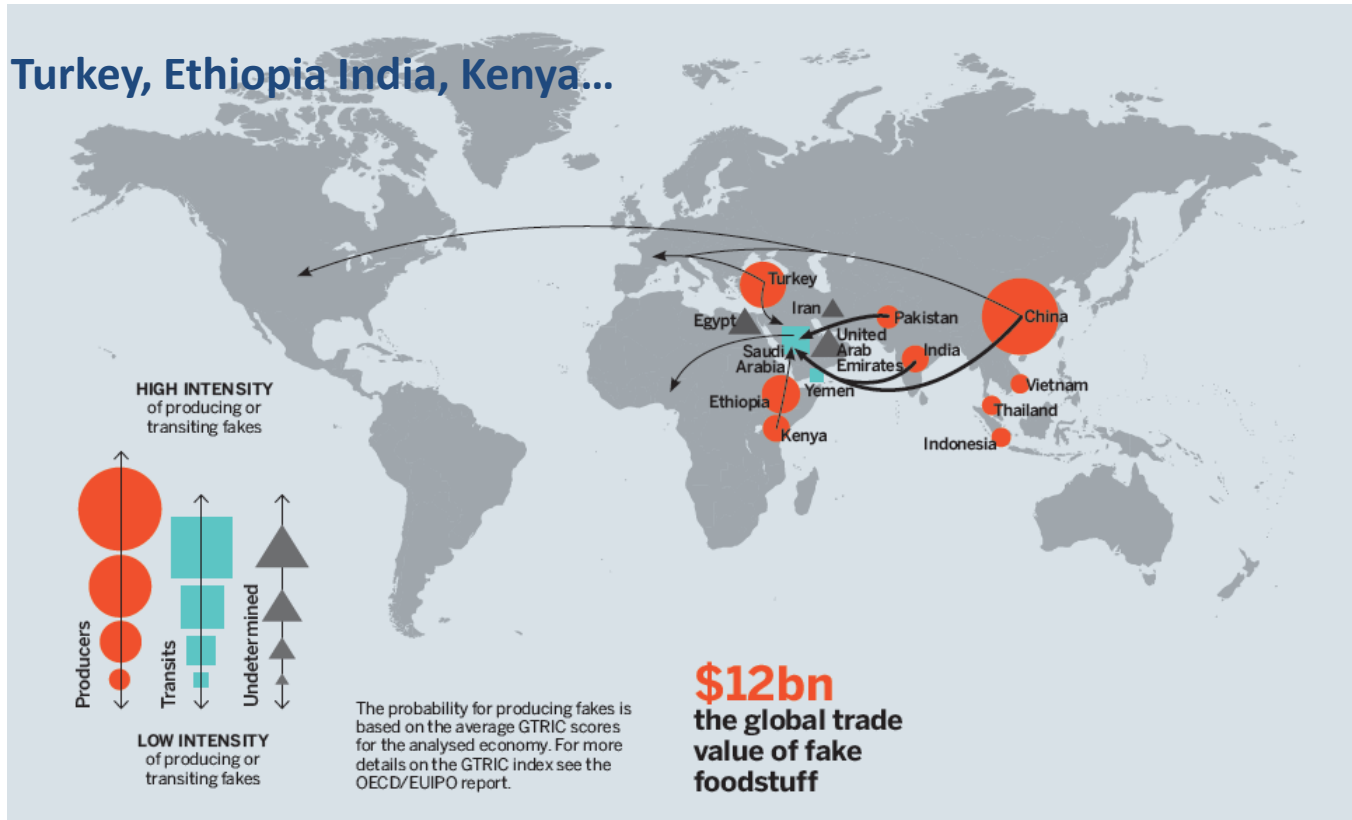


FOOD AND DRINKS

- Constantly increasing, 25% of all seized items in the EU Customs in 2017
- Different kind of IPR can be infringed: trade marks, geographical indications, design
- Quality food, but also sweets and chewing gums, and meats (health risk), pasta and tea
 - **frequently seized in grocery stores: high infiltration of the legal supply chain** (role of wholesalers and unaware re-sellers)
- Some EU countries are frequently producing economies **for export, including to China**

FOOD AND DRINKS

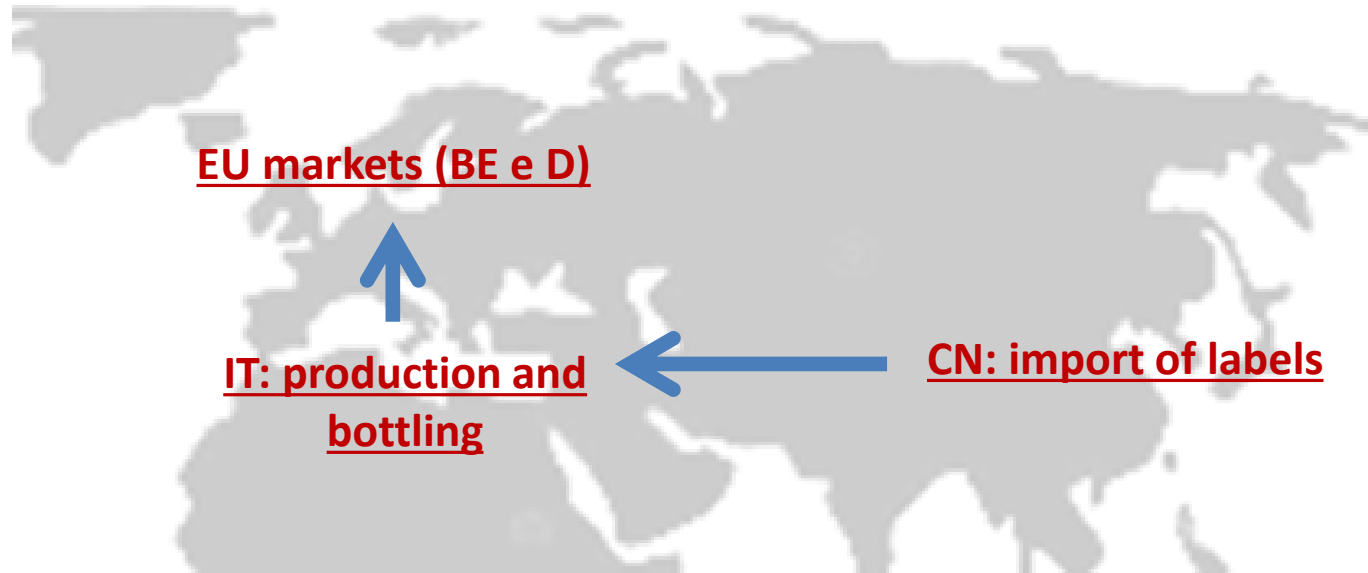
China, Turkey, Ethiopia India, Kenya...



FOOD AND DRINKS

CASE STUDY – Fake quality wine in Italian region Tuscany

- February 2017, operation of the Italian Carabinieri on counterfeited GI wine: 11.000 bottles of «Tignanello» wine seized



FOOD AND DRINKS

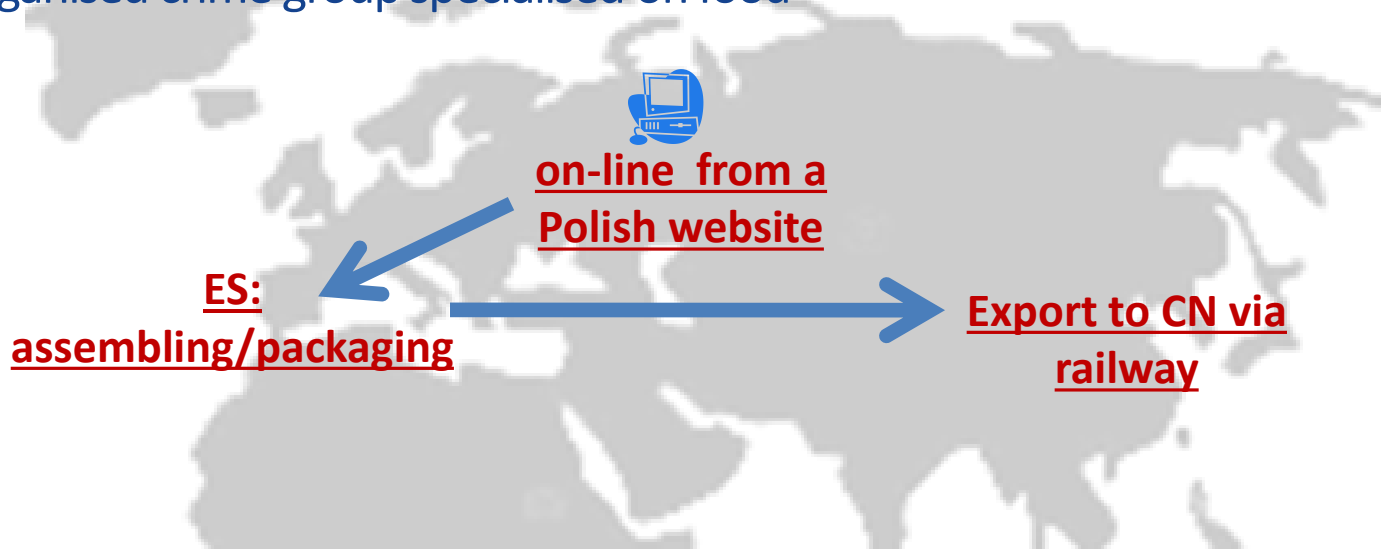
CASE STUDY – Fake quality wine in Italian region Tuscany



FOOD AND DRINKS

CASE STUDY – Fake milk powder for China markets

- In «OPSON VI» 2017/2018: milk powder manufactured in the EU, purchased on-line and sold to China (8 tons seized)
- Organised crime group specialised on food



FOOD AND DRINKS

CASE STUDY – Operation «ROSSO ORIENTALE» Italian food, August 2019

- Italian Customs Agency and the Guardia di Finanza (financial police)
- 8 tons seized



imported
at Genova port for
the Italian market

shipped by maritime
transport from the
Philippines

LUXURY GOODS , CLOTHES AND ACCESSORIES

- The most popular and critical (especially in Europe): **clothing and shoes** mainly
- Mostly ordered on on-line marketplace and shipped separately as small consignment – postal services and express couriers
 - difficulties in risk analysis with little available information – collaboration with intermediaries is needed
- Among luxury goods, **watches** are far the most seized in Europe in 2017 – provenance Asia
 - including of high value: 30% of the total value of items seized in EU in 2017 (number 1)

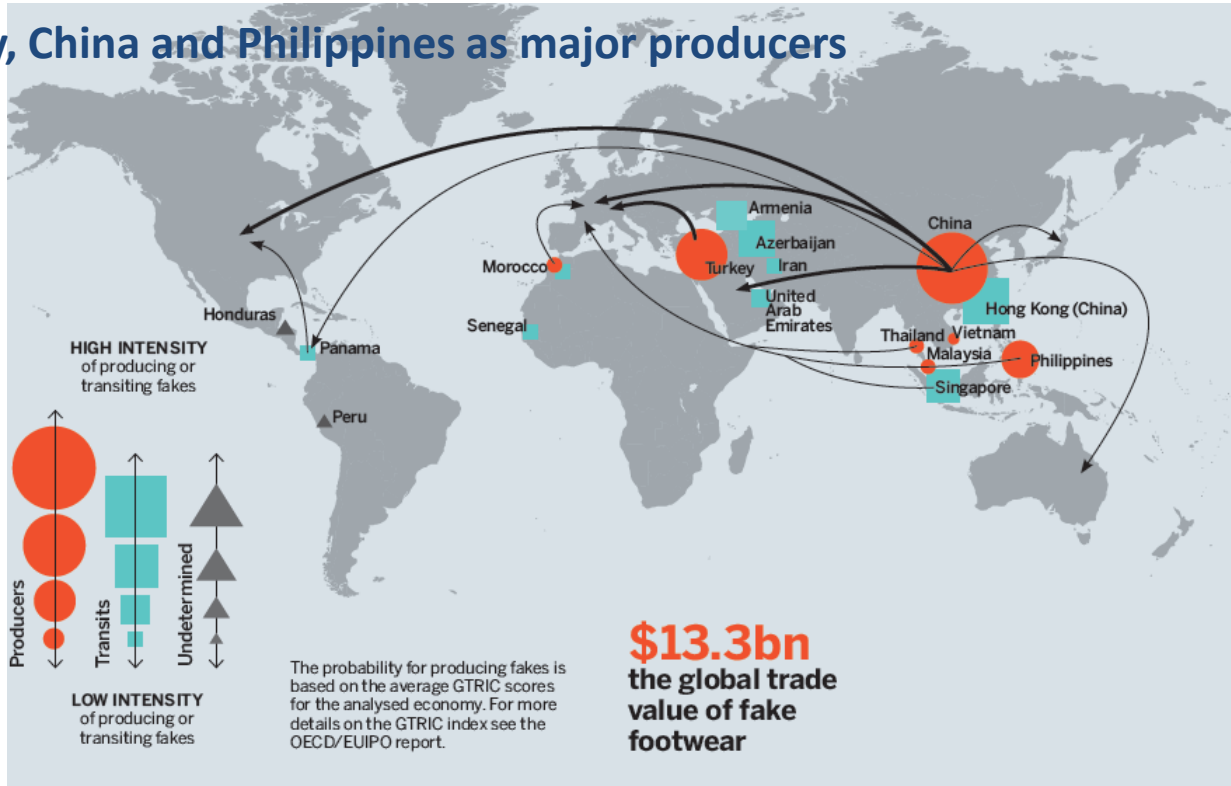
ROUTES OF CLOTHING

Turkey is increasing in production of fake clothes for Europe



ROUTES OF FOOTWEAR

Turkey, China and Philippines as major producers



LUXURY GOODS , CLOTHES AND ACCESSORIES

- Emerging threat in clothing: increasing trade of labels and packaging materials from China and other Asian Countries to Europe for use in domestic production of counterfeit - **CASE STUDY Operation PINAR (Spain)**



LUXURY GOODS , CLOTHES AND ACCESSORIES

CASE STUDY – Operation PINAR (Spain)

- EUROPOL and the Spanish National Police, 2016
- international OCG dismantled in the textile and clothing sector
 - 71 arrested
 - 6 premises searched
 - 150 bank accounts seized
 - 2 stamping plates and documents

LUXURY GOODS , CLOTHES AND ACCESSORIES

CASE STUDY – Operation PINAR (Spain)

- 3 organised groups with no leadership
 - horizontal organisation, all sharing the network, infrastructures and contacts
- *2 modi operandi*:
 - import from Turkey, China and Portugal
 - domestic production



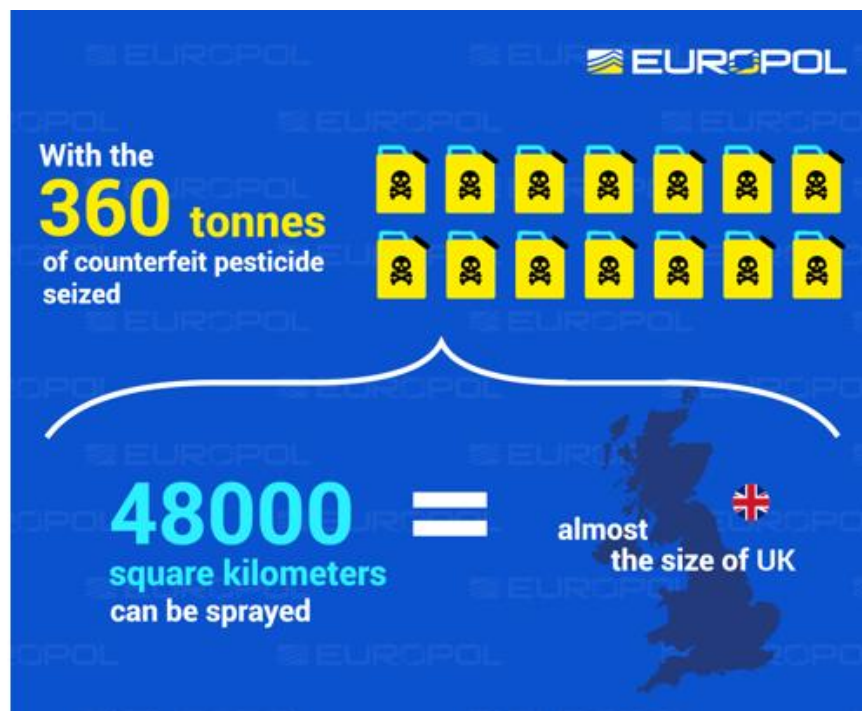
Las autoridades han intervenido 264.980 productos que vulneran los derechos de propiedad industrial

PESTICIDES

- Constantly increasing – about 14% of pesticides market of the EU according to the European Crop Protection Association
- Different kinds of IPR can be infringed: trade mark and patent
- Highly risky for health and safety
 - not tested
 - sometimes toxic, sometimes ineffective
 - impact on land and water (risk of infiltration)
 - risk for farmers and consumers

PESTICIDES

CASE STUDY – Operation SILVERAXE III 2018

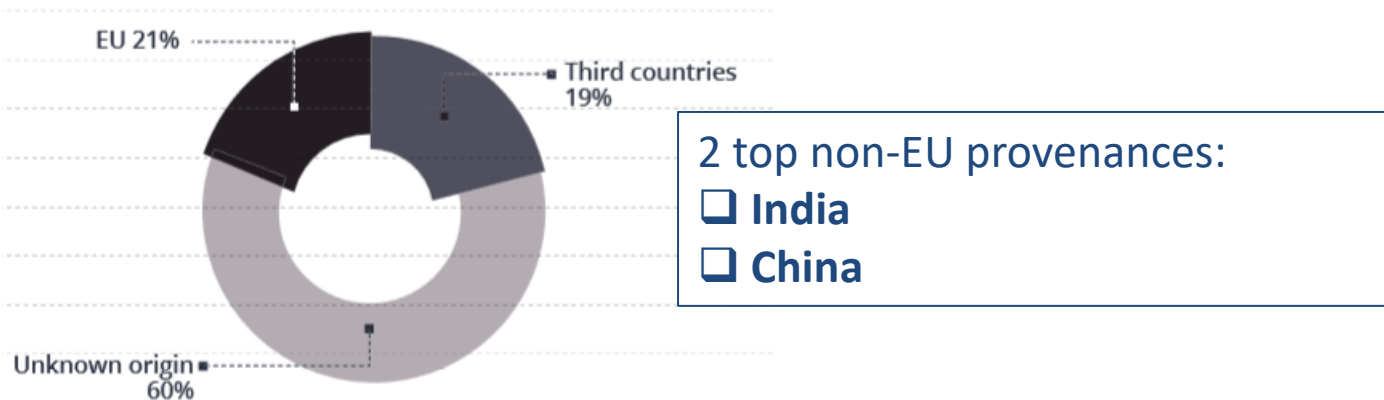


<https://www.europol.europa.eu/newsroom/news/largest-ever-seizure-of-illegal-or-counterfeit-pesticides-in-europol-silver-axe-operation>

PESTICIDES

CASE STUDY – Operation SILVERAXE III 2018

- EUROPOL and the EU Member States + the European Antifraud Office OLAF
- checks at major seaports, airports and land borders, as well as production and repacking facilities



PESTICIDES

CASE STUDY – Operation SILVERAXE III 2018

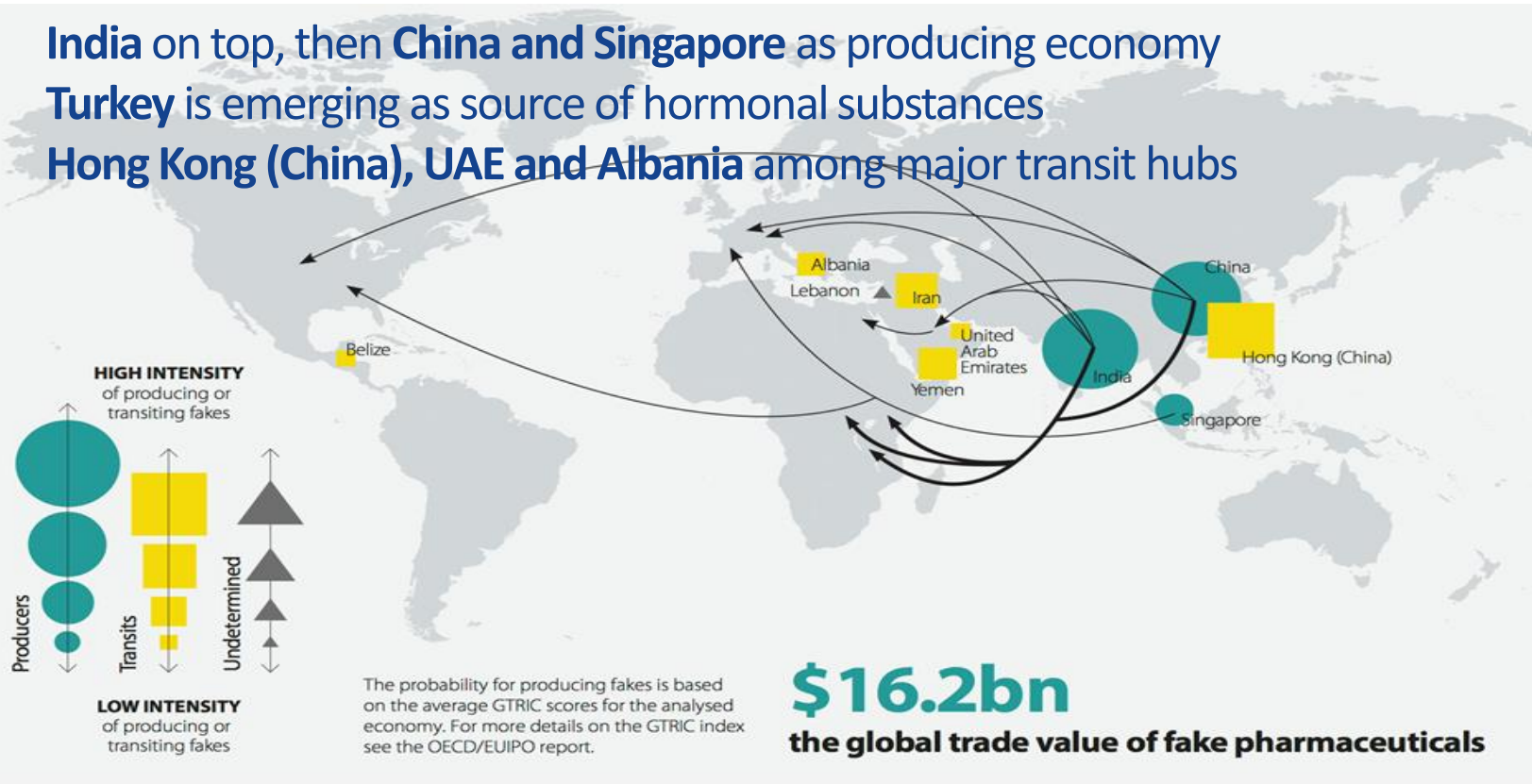
- *Modi operandi*
 - import of the main chemical component in bulk to be processed at destination
 - fraudulent import declaration (smuggling the pesticide)
 - boxes or bottles bearing trade marks or logos shipped separately from the chemical
- **Export from the EU in some cases:**
 - Moldova
 - Russia
 - Turkey
 - Ukraine

PHARMACEUTICALS

- Growing threat to human health due to purchases on-line and shipment in small parcels
 - increasing use of illegal **e-pharmacies** and **social media**
 - cases also in the **darkweb**; cases reported in the UK of unsafe Xanax bought in the darkweb
- Most counterfeited:
 - erectile dysfunction medicines (e.g., Viagra)
 - performance enhancing drugs: anabolic steroid and doping substances
 - hypnotic
 - slimming pills
 - HIV related medicines

PHARMACEUTICALS

- **India on top, then China and Singapore** as producing economy
- **Turkey** is emerging as source of hormonal substances
- **Hong Kong (China), UAE and Albania** among major transit hubs



PHARMACEUTICALS

CASE STUDY – Operation PANGEA XI 2018 on illicit sales of medicines on-line



Police, customs and health regulatory authorities from 116 countries targeted the illicit online sale of medicines and medical products during INTERPOL's Operation Pangea XI.

The operation resulted in 859 arrests and the seizure of 500 tonnes of potentially dangerous pharmaceuticals.

<https://www.interpol.int/en/News-and-Events/News/2018/Illicit-online-pharmaceuticals-500-tonnes-seized-in-global-operation>

PHARMACEUTICALS

CASE STUDY – Operation PANGEA XI 2018 on illicit sales of medicines on-line

- Figures of the operation
 - 116 Countries
 - 500 tons seized
 - USD 14 million worth of potentially dangerous medicines
 - 3,671 web pages closed down (including social media pages)

PHARMACEUTICALS

CASE STUDY – Operation PANGEA XI 2018 on illicit sales of medicines on-line

- *Modi operandi:*
 - smuggling product through **concealment** (in other shipment or objects)
 - Poland: in DVD boxes
 - Ireland: in empty books
 - with **false declaration** at the customs:
 - Argentina: 4 million pills of Ipobrufen declared as “samples”
 - UK: 150,000 slipping pills declared as clothing etc.

TOBACCO PRODUCTS

- Growing domestic production in the EU, with 74 local plants dismantled in 2017-2018 and 429 million counterfeited cigarettes seized
- The web is used significantly for buying both products and raw material to be processed at destination (including cigarettes via social media)
- OCG are active in this sector and they are traditionally often involved also in other crimes: migrant smuggling, drug trafficking, forgery of documents, money laundering and **tax evasion**

TOBACCO PRODUCTS

- *Modi operandi:*
 - **import/export of raw tobacco** to be processed into cigarettes at destination: x-ray machines hardly can distinguish from other agricultural products
 - boxes, filters, cigarette paper and equipments are imported separately from tobacco to elude controls by the customs
 - purchase of **tobacco leaves on-line**

TOBACCO PRODUCTS

- **Vietnam** and **China** as producing economies
- The Eastern border is the closest threat for the EU: **Ukraine**, **Belarus** and **Moldova** as producing economies



VEHICLE PARTS

- Increasing globally (422,218 items seized in the EU in 2017)
- High safety risk!



<https://www.youtube.com/watch?v=KvgWDxrIKKg>

VEHICLE PARTS

- A wide range of car and vehicle parts are counterfeited:
 - airbags, alloy rims, brakes pads, fuel pumps, master cylinders, radiators etc.
- Emerging threats: oil, fuel, pollen and air **filters** massively detected in the EU in 2018:
 - very profitable market
 - large offer on-line, for the consumer to order the single needed item directly
 - shipped in small parcel by post or express courier
- Main producing economies:
 - Turkey
 - China

VEHICLE PARTS

CASE STUDY – Operation RENEGADE 2017

- A Joint Customs Operation involving Europe and Asian Countries on car parts



PRESS RELEASE No 11/2017

26/06/2017

Operation Renegade halts thousands of potentially dangerous auto spare parts and other counterfeit goods

Over 70,000 counterfeit auto spare parts, including grills, oil and air filters, and fuel pumps, along with 500 cylinders of CFC refrigerant commonly used in air-

VEHICLE PARTS

CASE STUDY – Operation RENEGADE 2017

- The figures of the operation
 - more than 70,000 items seized
 - about 400 containers checked in Europe and Asian ports
 - 56 million cigarettes (accounting for €12 million loss in customs duties and taxes)
 - 668 kg of cocaine

VEHICLE PARTS

CASE STUDY – Operation RENEGADE 2017

- Excellent example of Europe-Asia partnership
 - the operation has been carried out within the Asia-Europe Meeting (ASEM) framework
 - Bulgaria, Italy, Spain, Norway, China and Europol
 - Cambodia, China, India, Japan, Lao, Malaysia, Pakistan, the Philippines, the Russian Federation, Singapore, Thailand and Vietnam collaborated in the operational phase

LABELS AND PACKAGING MATERIAL

- Trade of counterfeit packaging is the sign of:
 - **the existence of domestic productions**
 - **the existence of organised structures with delocalised activities**
- It is horizontal: affecting all categories of product
- The figures:
 - globally: more than 5,000 seizures of labels in 2014-2016 and more than 3,100 seizures of packaging materials
 - in the EU: 1,051 cases in 2017 with about 3,350,000 items seized

LABESL AND PACKAGING MATERIAL

- *Modi operandi*
 - **separate importation** of unbranded product and labels/packaging:
 - in the same shipment
 - in different shipment
 - local production of labels and packaging to be attached to:
 - **products which have been imported unbranded**
 - locally manufactured products
 - products and labels/packaging assembled in customs warehouses, in transshipment, in free trade zones or other situations with reduced surveillance

COUNTERFEIT ROUTES AND FREE TRADE ZONES

«Complex routes» of IP infringers often include a **Free Trade Zone (FTZ)**

- FTZ is a tool for a government **to boost economy**, by facilitating business and international trade in national ports, favoring investments, employment and welfare

COUNTERFEIT ROUTES AND FREE TRADE ZONES

- FTZs are designated areas (usually closed physically) that lie outside the customs jurisdiction of the country where they are located
 - **no customs duties**
 - no other customs or administrative procedure otherwise applicable to import
 - generally reduced surveillance

COUNTERFEIT ROUTES AND FREE TRADE ZONES

- Size of the FTZ can vary: from single warehouses to big complexes comprising thousands of businesses, and even whole harbors
- Permitted activities in the FTZ:
 - storing
 - assembling
 - packaging
 - manufacturing etc.
 - **mainly for export**

COUNTERFEIT ROUTES AND FREE TRADE ZONES

- Studies of the OECD and the EUIPO confirm that there is a **link between FTZs and trade in counterfeit products: 5,9% increase in exports of illicit goods** when a FTZ is established in one country
- Benefits offered to counterfeiters by transshipment into a FTZ:
 - possibility to hide the real origin of the cargo
 - possibility to manipulate goods at low surveillance (or with no surveillance)
 - **light regulation of business activities in the zone**

A FREE TRADE ZONE'S PROFILE



Jebel Ali Free Zone *JAFZA Company Registration – Dubai*

Freezone License

Why us:

- Top quality company formation services in Dubai and all UAE free zones
- Advice and consultancy on what corporate structure suits you best
- Highest levels of integrity and confidentiality
- One-stop-shop solutions tailored to meet your business needs
- Wide range of administration and add-on services for your day-to-day operations
- Specialist multilingual staff with extensive experience in international tax planning, corporate planning and support, financial reporting and management consultancy

We guarantee ease of mind throughout the process, ensuring a fast and efficient business setup in Dubai.

We are your local partner

<https://jafzafreezonecompany.com/>

A FREE TRADE ZONE'S PROFILE

The Jebel Ali Free Trade Zone (Jafza) in Dubai

- created in 1985
- over 7,000 companies from more than 100 countries
- over 144,000 workers employed

It accounts for more than 32% of the United Arab Emirates' foreign direct investment, and more than 50% of Dubai's exports

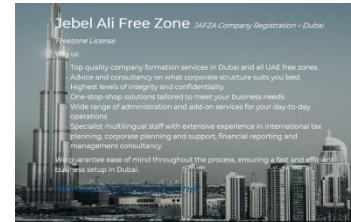


A FREE TRADE ZONE's PROFILE

The Jebel Ali Free Trade Zone (Jafza) in Dubai

For investors, the zone offers the following:

- 100% foreign ownership
- 0% corporate tax for 50 years (renewable)
- no restrictions on capital repatriation
- 0% import or re-export duties
- 0% personal income tax
- no currency restrictions
- onsite customs
- others





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Thank you