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The global report on counterfeiting: anti-counterfeiting and the apparel industry

February 2012

by Stacy Baker



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The global report on counterfeiting: anti-counterfeiting and the apparel industry

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Chapter 2 **Can counterfeiters be stopped?**

It is clear that the practice is highly networked

If as much as 7% of global trade, or \$600 billion, is derived from counterfeit products and that figure is growing, it is clear that the practice is not only pervasive but also highly networked. The WCO predicts that this figure is growing at an alarming rate – more than 400% since the early 1990s, while sales of legitimate brands grew just 50% over the same timeframe. With this in mind, the question of whether counterfeiting can be stopped seems more than unlikely. In fact, tempering the activity is a huge step on its own: it is akin to asking whether any crime could be stopped completely. But the degree of counterfeiting could certainly be lessened. This would require governments to take the crime more seriously, and become more aggressive with enforcement as well as a complete shift in attitude among consumers who do not see (or at least turn a blind eye towards) the negative effects from widespread or large-scale counterfeiting practices. The bigger question is whether this is possible.

There are signs that the initial steps are actually happening now. Within the past couple of years, media interest in this issue has increased dramatically. With increasing evidence of ties to terrorist groups who view this type of crime as a much safer, and effective way to raise funds and make a living, consumers are starting to see genuine negative effects, not just a few lost sales.

Media interest in this issue has increased dramatically

This is especially true with regard to health and safety issues that are regularly posed by substandard counterfeit products in the toy, electrical, pharmaceutical and food industries. “Governments now have incentives to take counterfeiting more seriously – the ultimate job of a government is the protection of citizens,” said Darren Pagoda, of the US Patent and Trademark office and former attorney with the IACC, in an interview with ABOUT Style. “There are legitimate corporate citizens and employers that keep the economy going, provide jobs and play by the rules. These are the people who need to be rewarded with economic incentives created by the legal system.”

In many cases, however, you are not dealing with a small little racket pumping out a few extra Prada purses and selling them on the streets of New York. These tend to be major operations run by major criminals who use the enormous profits to fund other large crime rings. This means those trying to prosecute are tracking counterfeits through a web of intricate illegal activity.

Brands are a popular target, their value, reputation and consumer franchise delivering a large market and assured sales. Easy profit, over-stretched enforcement authorities and relatively light penalties if caught, combined with the convenient use of existing criminal networks, make this a very ‘soft’ crime, which costs the UK economy an estimated £10 billion a year in early 2000s, and has risen today to £490 billion (\$775 billion). Even more surprising, that figure is expected to double by 2015.

Adding to the challenge of stopping the crime is the fact that counterfeiters are able to so closely duplicate a brand down to name, logos, tags, etc., that they become difficult to distinguish from originals.

Counterfeiters do not fear prosecution

The country’s customs department has made numerous improvements that have facilitated the interception of products, like training, notifying brand owners of suspect activity and incorporating technology advancement in identifying counterfeit products. Although improvements are being made, it is clear that counterfeiters do not fear prosecution. For example, US snowboard maker Burton does not distribute in Taiwan, yet on a factory visit, Burton employees found: Burton fleeces displayed in a showroom, counterfeit product sold in night markets, and counterfeit branded bags sold on e-Bay from Taiwan. Unfortunately the company does not have the resources to track and prosecute all instances of factory leaks or other types of counterfeiting.

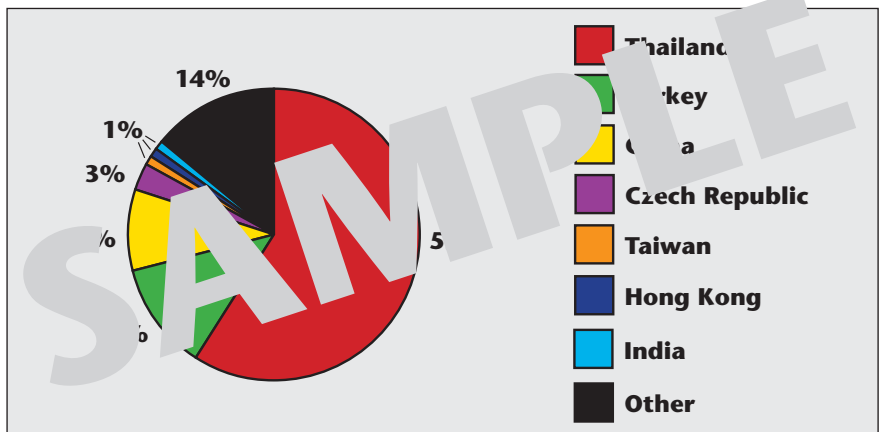
State-sponsored counterfeiting is extremely prevalent

Apparel companies estimate that they lose 20% of the value of their sales to counterfeit goods coming from China. However, the country is not just targeting international brands. Experts estimate that 80% of the fakes coming from China are Chinese brands. Although the government has given lip service to heightening enforcement of anti-counterfeiting laws, the truth is that state-sponsored counterfeiting is extremely prevalent here. The incentive – and resources – to stop the activity is low. For example, one report blamed the Japanese Yakuza crime syndicate for nearly 60% of all Louis Vuitton fakes comes from Asia. In this case, the luxury brand maker is going after a few guys selling fakes on a table in New York or a couple of factories in Taiwan.

Some companies, however, are making strides. Columbia Sportswear recently raided factories in two cities with the help of Chinese authorities. The result was the seizure of more than 8,000 pullovers, trousers and jackets. Three months earlier, the company raided another factory and seized more than 2,000 fakes. Chinese officials also closed their Silk Market recently – which for the past 20 years had specialised in selling counterfeit Western products like Nike shoes and North Face outerwear.

Figure 1: Origination of counterfeit goods: Clothing

Broken down by number of cases expressed as % by provenance or origin of goods:



	%
Thailand	14
Turkey	10
China	5
Czech Republic	1
Taiwan	1
HongKong	1
India	1
Other	14

Source: IACC

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Counterfeiting is a truly global problem. And it is a problem that appears to be spiralling out of control. Revenues generated from counterfeit product sales are estimated to have grown by more than 400% since the early 1990s, while sales of legitimate brands grew just 50% over the same timeframe.

This exclusive report from ABOUT Style analyses the extent of the damage caused to legitimate brands in the clothing and apparel sector, and offers advice on how the problem can be addressed.

Section by section the report breaks down the key problems associated with this global menace, and outlines practical advice to companies looking to formulate effective anti-counterfeiting strategies.

Many leading apparel industry executives and influential Wall Street analysts and attorneys participated in this research, making it an invaluable resource for anyone involved in branding and its associated industries.

Product type: Report/Study
Publication date: February 2012 **Price:** £99
No. pages: 40 **Format:** PDF

The global report on counterfeiting—provides answers to key questions such as:

Brands

- Which brands are most at risk?
- What are the telltale signs that your brand is being copied?

Can counterfeiters be stopped?

- What are the realistic objectives that a company can set itself?
- To what extent can increased media interest help?
- Should brands aggressively pursue prosecution or adopt a more defensive strategy?
- Does emerging technology actually help the fight against counterfeiting?
- What are the important tips that should be passed on to consumers?

Elements of a successful anti-counterfeiting strategy

- What is the most important element for a legitimate manufacturer?
- What approach should be taken if resources are low?
- How can external agencies help?
- Is it possible to target the source of counterfeiting activity?

Where to find counterfeiters

- Why is Thailand responsible for so much counterfeiting activity?
- Is China really cracking-down on counterfeiters?
- What are the favourite modes of transport for counterfeiters?

Anti-counterfeiting tools and solutions

- How is technology helping anti-counterfeiting efforts?
- Are criminals as technology-savvy as the legitimate apparel companies?
- What overt and covert solutions are available to manufacturers?

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