

The Escalating Cost of Counterfeiting

BY JULIANNE R. DAVIS

Counterfeiting is one of the fastest growing economic crimes of modern times. The rapid expansion of the Internet has only compounded the problem in recent years. The International Chamber of Commerce (ICC) estimates that in 2015 the value of counterfeit goods globally will exceed \$1.7 trillion, or over 2 percent of the world's economy. This estimate does not include the nonmonetary damages caused by injuries or death from counterfeit products. While counterfeiters continue to reap significant profits, millions of consumers are at risk from unsafe and ineffective products.

Product counterfeiting has been appropriately described by many as the “crime of the 21st century.” As noted by the ICC, “what was once a cottage industry has now become a highly sophisticated network of organized crime that has the capacity to threaten the very fabric of national economies, endanger safety and frequently kill. It devalues corporate reputations, hinders investment, funds terrorism, and costs hundreds of thousands of people their livelihood every year.”

Counterfeits are in every country and every industry sector. Counterfeits 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. Counterfeiting is a hugely lucrative business, with criminals relying on the continued high demand for cheap goods coupled with low production and distribution costs.

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. 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.

Counterfeiting affects companies, governments and individuals in a myriad of ways. Counterfeits create an underground trade that deprives governments of revenue for vital public services and imposes greater burdens on taxpayers. The ICC claims that the cost of lost tax revenue and additional welfare spending due to counterfeit goods is as much as \$125 billion in developed countries alone. Counterfeiting also leads to more public resources being spent on

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fraud-detection methods by public sector authorities and larger intelligence, as well as the need for policing budgets to counter sophisticated schemes and networks.

Furthermore, counterfeiting can significantly reduce the profitability of legitimate businesses and cause financial turmoil due to low product turnover; stolen know-how; lost jobs; wrongful lawsuits caused by counterfeited products; and price hikes following beefed-up security systems used to counter organized criminal activities and investments in research and development (R&D). Counterfeiters become competitors of legitimate companies. As a result, companies lose sales and market share. Making matters worse, counterfeiters have an unfair advantage because they have no R&D-related costs or investments in brand development. Therefore, counterfeiters leech profits from American businesses in ways that no legitimate competitor can.

Counterfeiters also erode the value of the brands they counterfeit. As low-quality, inexpensive fakes flood the market, and as more and more customers are deceived by bogus goods, the market demand, and thus the market price of a particular brand, declines substantially. Customers who inadvertently purchase counterfeit goods may conclude that the brand has failed to deliver on its promise of quality. The damage to

the company can be further compounded if that disgruntled customer stops purchasing products of a particular brand.

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 World Health Organization estimates that up to 1 percent of medicines available in the developed world are likely to be fraudulent. Tampered formulations present particular dangers. In some cases, fraudulent medicines have been found to contain highly toxic substances, or to contain fractional amounts of active formulations or even none at all.

Unfortunately, individual businesses cannot solve the problem on their own, nor can individual consumers or even individual governments. Cooperation between these entities at a global — not just national — level is crucial for stemming counterfeiting and its ill effects. Consumers, businesses, trade associations, regulatory agencies, local and national law enforcement, the federal government and foreign governments must all work together to fight a common enemy. ■



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