

Product Counterfeiting in Michigan: Articulating and Mitigating the Risk

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The Risk of Product Counterfeiting is Substantial

Product counterfeiting represents a range of criminal activities associated with intellectual property rights infringement. Intellectual property refers to any commercially-used innovation, unique name, symbol, logo, or design and includes copyrights, trademarks, and patents.

The scope and impact of product counterfeiting is large and growing.

- Counterfeit trade is reported to represent 5 to 7 percent of current world trade.
- By some estimates, annual losses have increased from less than \$6 billion in the early 1980s to nearly \$600 billion today.
- Customs and Border Protection seizures have more than doubled in the past five years.
- Nearly two in five surveyed companies and organizations in U.S. defense and industrial supply chains reported encountering counterfeit products between 2005 and 2008.

The variety of counterfeit products is increasing. Though luxury goods such as jewelry, apparel, and handbags remain a common target, counterfeiters produce almost any product bearing a trademark, including food, pesticides, automobile parts, pharmaceuticals, electronics, household products, batteries, healthcare products, and toys.

Product counterfeiting has a detrimental effect on many.

- *Consumers risk their health and safety.* For example, adulterated drugs can lead to drug resistance, health complications, or death; substandard auto parts can lead to injury and death from an accident.
- *Industry suffers lost revenue and reduced innovation, brand value, and reputation.* For example, the U.S. auto-parts industry loses an

estimated \$3 billion in sales annually; total domestic value of all product seizures between 2004 and 2009 was \$1.1 billion.

- *Government loses tax revenue and must pay for enforcement.* For example, between 2007 and 2009, the U.S. Customs and Border Protection spent \$41.9 million just to destroy seized counterfeit products.
- *Economy suffers from loss of jobs and reduced innovation and economic growth.* For example, an estimated 750,000 jobs are lost annually to counterfeits.
- *Public safety is compromised as product counterfeiting fuels other forms of crime.* Product counterfeiting has been linked to international organized crime syndicates, terrorist organizations, extremists, human trafficking, and traditional street crime.

Product Counterfeiting in Michigan



There are several notable reported incidents of product counterfeiting in Michigan.

- Nineteen individuals were charged in Detroit with operating a racketeering enterprise involving counterfeit Viagra, Zig-Zag cigarette wrappers, and tax stamps. Court records reveal the proceeds, estimated at \$16 million, went to Hezbollah.
- Three men were charged in Bay City with conspiracy to traffic in counterfeit goods and money-laundering. They were arrested after police found about 1,000 cell phones inside their van. The men were allegedly part of a scheme to buy up phones that Nokia makes for TracFone and then remove TracFone's proprietary software, enabling use of the

handsets with any cellular provider. When the phones are altered, they are no longer genuine Nokia products.

- Autovation Technologies marketed and sold vehicle foot pedals that infringe General Motors trademarks. Charged with trademark counterfeiting and infringement, the court concluded Autovation Technologies violated General Motors trademarks “by making commercial use of and directly competing with the owner’s authentic foot pedals.”
- Ten members of the JAH Organization (a ring of West African Merchants) were arrested for involvement in a multi-million dollar conspiracy to launder proceeds of sales of counterfeit handbags, CDs, and DVDs. They mailed illegal proceeds to individuals in Michigan, who in turn wired the money to China, Hong Kong, Vietnam, United Arab Emirates, India, Thailand, and Belgium.
- US Customs and Border Protection seized more than 9,000 Gucci handbags at the Port of Detroit. Sent from China, the purses were destined for a Detroit business.
- In cooperation with local, state, and other law enforcement agencies, US Immigration and Customs Enforcement seized nearly 43,000 counterfeit items, with an estimated value of \$530,000, when Detroit hosted Super Bowl XL.

Mitigating Risk By Way of Systematic Analysis

Unfortunately, little is known about the true extent of product counterfeiting. Even the origins of some of the estimates cited above are unclear. Much of what is known comes from anecdotal accounts, scattered case studies, or sweeping claims that lack a rigorous methodological foundation. Our understanding of product counterfeiting is

hindered by the lack of data and systematic research.

The global scope of product counterfeiting requires a national or international understanding, but the crime occurs, and therefore requires a response, at the local level. State policymakers can effectively address product counterfeiting by understanding the specific nature of the problem—the *risk*—in their state. Among critical research needs on product counterfeiting in Michigan and elsewhere are identifying

- To what extent does it occur?
- Where should it fall among public policy priorities?
- How, what types, and where does it occur?
- Does it vary within and across industries, companies, brands, products, and locations?
- What are its effects?
- Who are the primary victims and offenders?
- What is the nature of the demand for counterfeits?
- What are the causes and correlates of it?
- What resources exist to combat it?
- Are additional tools, training, legislation, and other resources needed to address it?
- What more could be done to prevent, detect, and respond to it?

Evidence-based research is required to answer these questions. Such research can provide guidance for policymakers in prioritizing product counterfeiting among other issues. It can also help promulgate data-driven lessons on anti-counterfeit strategy. Analysis is necessary to effectively prevent, detect, and respond to the crime and to shape the allocation of resources to fight it.



About the A-CAPPP

The Michigan State University Anti-Counterfeiting and Product Protection Program (A-CAPPP) is the first and preeminent academic body focusing on the complex global issues of anti-counterfeiting and protection of all products, across all industries, and in all markets, and on strategies to effectively detect, deter, and respond to the crime. Linking industry, government, academic, and other stakeholders through interdisciplinary and translational research, education, and outreach, the A-CAPPP serves as an international hub for evidence-based anti-counterfeit strategy. For more information and opportunities to partner, contact Dr. Jeremy Wilson, Director of the A-CAPPP, at (517)353-9474 or jwilson@msu.edu. Additional information can also be found at <http://www.a-cappp.msu.edu/index.html>.