



PROTECTING BRANDS FROM PRODUCT COUNTERFEITING



EXECUTIVE SUMMARY



The manufacture and sale of counterfeit goods is a global problem that directly impacts legitimate producers and retailers in every industry. Many companies have already taken steps to prevent the production and sale of counterfeit copies of their legitimate products and to minimize their exposure to the risks associated with counterfeit products. But reducing the risk of being targeted by counterfeiters ultimately requires each company to develop and implement a formal brand protection program that addresses its unique requirements and vulnerabilities and which is subject to rigorous periodic auditing to help ensure that their program accounts for unanticipated vulnerabilities.

This UL white paper discusses the key elements of an effective brand protection program and offers a process for mitigating the risk of counterfeit products, from an initial risk analysis to program implementation. The paper also presents UL's multi-pronged approach to assist manufacturers, retailers and law enforcement agencies in the fight against counterfeit products.



"THE WORLDWIDE VALUE OF IMPORTED COUNTERFEIT AND PIRATED PRODUCTS IS APPROACHING HALF A TRILLION DOLLARS (USD) PER YEAR, OR ABOUT 2.5 PERCENT OF ALL GLOBAL IMPORTS."

-OECD

THE LANDSCAPE FOR COUNTERFEIT PRODUCTS

A counterfeit product can generally be defined as an imitation product that has been created with the explicit intent of deceptively representing that item as genuine. In many cases, counterfeit products are made from materials or components of lesser quality with the goal of offering a lower-cost alternative to products and brands that buyers know and trust. Virtually every type of product is subject to counterfeiting, including industrial components and chemicals, drugs and pharmaceutical products, military and aerospace components and parts, food and food products, consumer electronics and accessories and fashion items such as clothing and leather goods.

According to a 2016 report jointly issued by the Organisation for Economic Co-operation and Development (OECD) and the European Union's Intellectual Property Office (EUIPO), the worldwide value of imported counterfeit and pirated products is approaching half a trillion dollars (USD) per year, or about 2.5 percent of all global imports. While counterfeiting activities impact

producers from countries around the world, counterfeiters generally target well-known brands from leading industrialized countries. Twenty percent of counterfeit products seized by law enforcement officials represent brands owned by U.S. companies. Italian brands represent an additional 15 percent of counterfeits and French and Swiss brands each represent 12 percent.¹

The growth in recent years in the number of counterfeit products has been facilitated in part by shifting consumer preferences for shopping online and the proliferation of online merchants. Although most major online retailers have clear anti-counterfeiting and anti-pirating policies and actively respond to reports of counterfeit products marketed through their retail platforms, other sellers openly market fake products. As evidence of this trend, the OECD report previously cited notes that counterfeit goods shipped in postal parcels accounted for 62 percent of seizures between 2011 and 2013. And the U.S. Chamber of Commerce's Global Intellectual Property Center (GIPC) estimates that as of February 2016, small parcel shipments of counterfeit products are now seized ten times more frequently than products contained in large shipping containers.²

THE SAFETY CONSEQUENCES OF COUNTERFEIT PRODUCTS

The production and sale of counterfeit products poses numerous challenges for legitimate companies all along the distribution channel. Of course, the greatest concern for most types of counterfeit products is the potential safety risks that they pose to users. In most cases, counterfeit products are designed and manufactured without regard to safety regulations and technical standards applicable to legitimate products. In many cases, this problem is masked by the use of counterfeit safety marks intended to mislead well-intentioned buyers regarding the safety of the products they are purchasing.

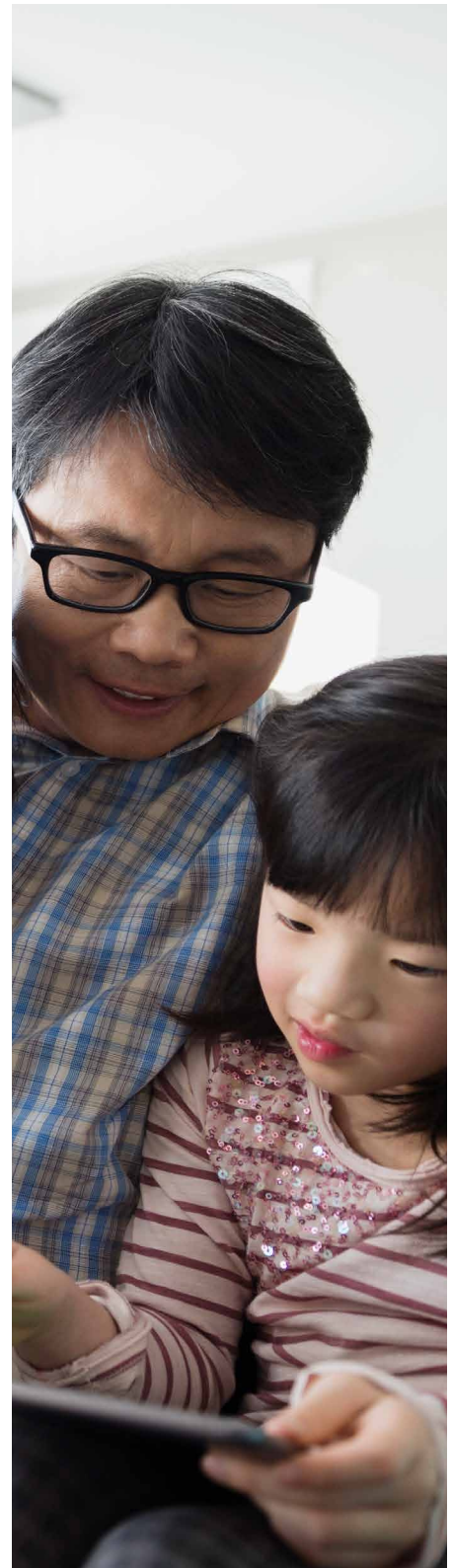
While there are few statistics available on injuries directly connected to counterfeit products, there is considerable anecdotal evidence of the increased safety risk associated with their use. For example, in the area of counterfeit pharmaceuticals, the World Health Organization (WHO) reportedly estimates that more than 120,000 people die each year in Africa alone as a result of fake anti-malarial drugs (the WHO has recently replaced the term “counterfeit” with “falsified” when referring to quality-compromised medications).³ In a case of counterfeit food, melamine-tainted milk formula was identified as the principal cause of the illness of thousands of babies in China, according to the United Nations Office on Drugs and Crime (UNODC).

Melamine is banned from use in food and food products, but is often added to watered-down milk products to make them appear higher in protein when tested.⁴

- **WORLD HEALTH ORGANIZATION**
120,000 people die each year in Africa due to counterfeit pharmaceuticals
- **UNITED NATIONS OFFICE ON DRUGS AND CRIME**
Melamine-tainted milk formula was identified as the principal cause of illness for thousands of babies in China
- **UL INVESTIGATION OF COUNTERFEIT PHONE CHARGERS**
Nearly all (99 percent) of 400 samples tested failed a simple safety test

Other instances of safety risks associated with counterfeit products include fake Apple iPhone™ adaptors or chargers, which have been identified as the cause of at least two deaths^{5, 6} and untold injuries. A UL investigation of counterfeit phone chargers determined that nearly all (99 percent) of 400 samples tested failed the dielectric strength test, a basic assessment of electrical safety.

More recently, the widespread introduction and use of self-balancing scooters (also known as hoverboards) displaying counterfeit or misleading safety marks contributed to at least 150 injuries during the second half of 2015 alone among patients at one U.S. healthcare partner network.⁷





ADDITIONAL CONCERNS FOR MANUFACTURERS, RETAILERS AND ECONOMIES

In addition to safety considerations, counterfeit products present other concerns for legitimate manufacturers and retailers. Unsafe or unreliable counterfeit products can negatively impact the market perception of the legitimate products that are being copied, thereby reducing potential sales of those products. In some cases, the adverse publicity surrounding unsafe or unreliable counterfeit products can also extend to companies manufacturing or selling legitimate products, damaging their overall reputations and ensnaring them in legal actions targeted against counterfeit producers. Successfully addressing such actions can take years and may be beyond the financial resources of smaller businesses.

Counterfeit products have made a significant impact on the economy. A 2017 report on the theft of American intellectual property estimates that at least 20% of the total amount of counterfeit and pirated tangible goods displace the sales of the legitimate products. That figure does not include other counterfeit-associated costs such as the loss of a company's research and development investments, nor does it include digital goods. When pirated software and trade secret theft are factored in, the total value of economic damage to the U.S. economy alone is believed to be between \$225 and \$600 billion annually.⁸

These and other factors account for the increased activity by both corporations, governments and law enforcement officials to combat the spread of counterfeit products. One notable example is Amazon™ which filed multiple lawsuits in 2016 against suppliers suspected of selling counterfeit products through the Amazon platform.⁹ And Alibaba™, China's premier online shopping platform, has joined the fray, filing suit in early 2017 against counterfeit watch sellers for "contact" and "goodwill" violations,¹⁰ and petitioning Chinese officials to strengthen laws, enforcement and penalties against sellers of counterfeit goods.¹¹

"THE ANNUAL COST TO THE U.S. ECONOMY CONTINUES TO EXCEED \$225 BILLION IN COUNTERFEIT GOODS, PIRATED SOFTWARE AND THEFT OF TRADE SECRETS AND COULD BE AS HIGH AS \$600 BILLION. "

-IP COMMISSION REPORT

FACTORS THAT INCREASE THE RISK OF PRODUCT COUNTERFEITING

While every type of product is theoretically susceptible to counterfeiting, there are a number of product-related factors that increase the risk. Those factors include:

PRODUCT-RELATED FACTORS*	
High-volume, low-cost products	Popular, low-cost products that can be easily copied and sold in large numbers are frequently a target for counterfeiters. The high volume of potential sales can help offset relatively low profit margins.
Products in high demand	A product that's in demand, regardless of its price, will attract the attention of counterfeiters. Counterfeiters can exploit the marketing and branding efforts of legitimate manufacturers by selling look-alike versions of popular products.
Products with large market share	A product or group of products with a large market share is an ideal target for counterfeiters. If customers are looking for a top brand name, counterfeiters will see an excellent market for counterfeit versions of those products.
Luxury products	Often, the best counterfeiters will focus on the production of expensive luxury products. The higher profit margin potential available with luxury products offsets the smaller number of units available for sale.
Products that lack security features	Security features, such as holographic labels or custom colors, deter counterfeiters since they make counterfeit products difficult to replicate and easier to identify. Legitimate products without such security features are easier to counterfeit.
Products produced through lengthy supply and distribution chains	Companies with a long and complex supply or distribution chain present multiple opportunities for counterfeiting, since there are multiple points at which a counterfeiter can infiltrate or manipulate the chain.
Components and materials offered at artificially low prices	Often, product components and parts are targets for counterfeit producers. Lower-priced components may be attractive to legitimate manufacturers, but counterfeit components can introduce the same safety risks as counterfeit finished products.
Products sold on the Internet	Selling products online means a potential loss of control over distribution, making it easier for counterfeiters to sell counterfeit products without a manufacturer's knowledge.

*Factors are not mutually-exclusive

ESSENTIAL ELEMENTS OF AN EFFECTIVE BRAND PROTECTION STRATEGY

A formal brand protection program is a vital component of a company's overall effort to protect itself and its products from counterfeiters. This is certainly true for companies whose products fall into one of the risk categories previously identified. However, even companies whose products have not been the target of counterfeiters can greatly reduce their potential future risk by establishing such a program.

At a minimum, an effective brand protection program should encompass the following seven essential activities:



1. ANALYZE POTENTIAL COUNTERFEITING RISK

The foundation of any brand protection program is a thorough understanding of the counterfeit risks to which a given business has potential exposure, as well as the likelihood of occurrence. Based on this analysis, a company can develop a brand protection program that is tailored to their unique requirements and which effectively addresses the key areas of exposure.



2. INTEGRATE ANTI-COUNTERFEITING AND SECURITY FEATURES INTO PRODUCT DESIGNS

Depending on the product, there are a range of product security features that can be reasonably and economically implemented, including holographic labels, overt and covert security coding and radio frequency identification (RFID) tracking. In addition, authenticating features such as packaging materials, labels and inks can be used in a variety of ways.



3. PROTECT INTELLECTUAL PROPERTY AND CONFIDENTIAL INFORMATION

Companies should take the necessary steps to register their patents, trademarks and copyrights in accordance with the intellectual property laws in every jurisdiction in which they anticipate conducting business, including product manufacturing and production. In addition, employee and supplier policies should provide clear, unequivocal limits regarding the disclosure of proprietary or confidential information.



4. ACTIVELY MONITOR SUPPLY CHAIN ACTIVITIES FOR POTENTIAL BREACHES

Companies must also ensure that all parties involved in the supply chain are actively involved in efforts to maintain the integrity of product security features. A manufacturer of a finished product can implement anti-counterfeiting measures at the product level, but any benefit can be reversed through the use of counterfeit components and materials from suppliers.



5. ESTABLISH REGULAR COMMUNICATIONS CHANNELS WITH ALL STAKEHOLDERS

Continuous communication with and between employees, supply chain partners, customers and the general public can provide important channels for the early detection of potential counterfeiting threats and for promptly disseminating vital information about verified counterfeit activity.



6. AGGRESSIVELY PURSUE VIOLATIONS OF INTELLECTUAL PROPERTY INFRINGEMENT

Companies should vigorously pursue any and all legal avenues available against parties involved in the development, marketing, or sale of counterfeit products or any form of intellectual property infringement. Taking an aggressive stance against counterfeiters not only minimizes their impact, but can also serve as a deterrent against other would-be players.



7. HELP SUPPORT LAW ENFORCEMENT AUTHORITIES ON COUNTERFEITING ISSUES

Finally, a successful brand protection program cannot function in a vacuum. Companies should provide relevant law enforcement agencies with access to information, training and other resources that can help field officers distinguish between genuine and counterfeit products.

UL'S APPROACH TO SUPPORT BRAND PROTECTION EFFORTS

UL has long been in the forefront of the fight against counterfeit products and the theft of intellectual property. In an effort to support activities that combat counterfeiting, pirating and other forms of intellectual property theft, UL's Global Security and Brand Protection (GSBP) group has developed a comprehensive, multi-dimensional strategy based on three essential tenets: education, enforcement and partnerships.



EDUCATION

UL has worked extensively to support and expand efforts to educate industry and law enforcement on counterfeit products and strategies for reducing their impact.

As an example, the "International Intellectual Property Crime Investigators College" is a joint initiative of UL and INTERPOL that has trained thousands of law enforcement officials and agents to recognize and identify legitimate safety certification Marks. UL also partners with INTERPOL to host the annual "International Law Enforcement IP Crime Conference," which brings together hundreds of delegates from countries around the world to share case studies, methodologies and best practices.

In addition, UL GSBP personnel regularly participate in regional intellectual property crime seminars. These individuals also organize and conduct in-house training programs for UL clients. And a new quarterly journal

"The Brand Protection Professional," a collaboration between the Michigan's State Center for Anti-Counterfeiting and Product Protection (A-CAPP) and UL, provides industry professionals with access to information about best practices for combating product counterfeiting, as well as current news on efforts to address counterfeiting globally.

ENFORCEMENT

Under its global "Border Protection Program," UL experts processed more than 1,200 product authentication requests from law enforcement and customs officials in 2015 to identify counterfeit UL Marked products. UL also works closely with law enforcement, customs and border protection officials to remove counterfeit products from the stream of commerce and to hold accountable those responsible for their manufacture and distribution. For example, a UL investigation led to raids by enforcement authorities in California

and Mexico that resulted in the seizure of more than 100,000 counterfeit UL Marked Apple adapters. Separately, in coordination with UL investigators, border protection officials at 31 ports in 22 states in the U.S. seized more than 52,000 self-balancing scooters bearing counterfeit UL Marks.

PARTNERSHIPS

Finally, UL has established important partnerships with global law enforcement agencies, industry and other relevant parties. In addition to INTERPOL and U.S. Customs and Border Patrol, UL has worked extensively with the International AntiCounterfeiting Coalition (IACC) and the Michigan State's A-CAPP Center to support research on counterfeiting and to develop programs to reduce its impact. UL has also worked with China's General Administration of Customs to identify and prevent counterfeit UL Marked products from entering commerce channels in that country.



SUMMARY + CONCLUSION

Counterfeiting is a serious crime that affects all industries, reduces profitability and exposes the public to potential safety hazards and concerns about product reliability. Companies should actively and aggressively work to combat counterfeiting, but the benefit that individual companies derive from any brand protection program depends on how much they are willing to invest in its success. A comprehensive approach and a zero-tolerance attitude toward counterfeit products can protect a company from the risks of counterfeit products and help to stop their spread.

UL's multi-faceted approach to brand protection helps to stop counterfeiting, enhances the safety of consumers around the world and protects the integrity of the UL family of safety Marks. We work closely with law enforcement agencies to remove counterfeit products from the stream of commerce and to hold accountable those responsible for their manufacture and distribution. And we collaborate with UL customers and other global partners to stem the flow of illegal and potentially dangerous goods.

For further information about UL's efforts to combat counterfeiting and UL's brand protection services, please visit: **[UL.COM/ANTI-COUNTERFEITING](https://ul.com/anti-counterfeiting)**



END NOTES



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