

Highlight of the Month – August 2016

This month's "Highlight of the Month" is provided by our colleague Ambassador Adam Blackwell, Chairman of the World Economic Forum's Meta Council on the Illicit Economy and Chairman of our Advisory Board.

Why the Devil Wears Fake Prada:



Now that I have your attention, it is important that we all understand our collective responsibility regarding the severity and importance of the vast and growing counterfeiting business. We are all appalled when we hear of unsafe factories, forced labor or sweat shops; however, counterfeiting poses an even greater danger.

- 1) The **first myth** that we need to burst is that it only hurts greedy big business. Terrorists are increasingly turning to counterfeiting as a source of revenue as it is high profit and low risk. Some examples according to (2016 UNIFAB) http://www.unifab.com/wp-content/uploads/2016/06/Rapport-A-Terrorisme-2015_GB_22.pdf
 - RA – veterinary drugs, CDs, DVDs, cigarettes, branded clothing
 - ETA – clothing, bags and cigarettes
 - FARC – pirated discs
 - Hezbollah – medicines, CDs
 - Hamas – food, drugs
 - Al-Qaeda – clothing
 - D-Company (India) – CDs, DVDs
 - Lashkar-E-Taibe (Pakistan) – cigarettes
 - Islamic State – cigarettes, oil, mobile phones, false documents

So the fake products that you think might be cool are directly funding violent criminal and terrorist organizations.

- 2) The **second myth**, that this is a small fraction of the real economy! According to the International Chamber of Commerce estimates, in 2015 the global value of counterfeit and pirated goods could be \$1.77 trillion. Metaphorically this is the size of a G7 country; it obviously pays no taxes, is not regulated and is an engine of corruption. This lost tax revenue undermines emerging economies disproportionately and creates a situation in which legitimate governments cannot properly support their constituencies. This leads to decreased economic opportunities for the citizens, which in turn helps drive them to crime, such as counterfeiting. This is a non-virtuous, positive feedback cycle.
- 3) The **third myth**, that this is not dangerous. So I ask, do you really want to be ingesting fake or counterfeit pharmaceuticals, food or alcohol. According to the WCO the counterfeit/fake pharmaceutical business is growing faster than the official industry and is estimated at around \$200 billion per year. According to a study published by The Lancet of 2,634 malaria drug samples, more than one-third failed as substandard after chemical analysis, and about 20% were found to be wholly counterfeit. The International Policy Network estimates that over 700,000 people die from fake tuberculosis and malaria drugs every year.

- 4) The **fourth myth**, that it has no linkage to cyber security. The world of connected and communicating things offers unprecedented access into our lives, businesses and health. Ubiquitous mobility through smart phones, increasingly popular wearables in the form of smart watches, glasses and even textiles will not only be able to receive and analyze data sent by the smart packages, but produce and communicate individual information. Do we really want to make life easier for the hackers by using technology products, apps and software that have been copied or altered? In addition, malware can be insidiously installed on devices through for example apps on an app store. Online authentication services are continually bombarded by attacks ranging from data mining to denial of service attacks.

Obviously we are not going to shut down this illicit business overnight but there are 3 things that we can do to start;

- 1) Probably the most difficult but with potentially the greatest gain is the need to harmonize legislation, regulation and law enforcement efforts. The world is decidedly unflat, and trans-jurisdictional differences are almost guaranteed to be exploited. Most counterfeiting operations extend across multiple nations and minimize exposure by performing illicit actions where the penalties are the least onerous. Law enforcement may be content with disruption of these networks rather than destruction and prosecution due to the cross border nature of much of these businesses and their supply chains.
- 2) We can and should use technology to our advantage. Security packaging with anti-counterfeiting technologies plays also a vital role in fighting the \$200 billion counterfeit drug industry. Smart packaging will alleviate health risks associated with adulterated drugs, the catch-all term for contaminated, unsterile, unsafe, spoiled or expired products. Today's packaging design goes far beyond material quality but helps to focus on improved barrier properties to moisture, UV light, oxygen, shock and carbon dioxide. Mobile-based product verification or the ability to authenticate user, device, location and package/label gives law enforcement a powerful hybrid means of countering counterfeiting.
- 3) We need to raise awareness; you can't outsource responsibility or pretend that the counterfeit product that you are buying really is not hurting anyone! Smarter consumers, armed with mobile tools should very soon be able to trace and track the authenticity of products that they are buying. Large online retailers, E-Bay, Amazon and Alibaba must be held accountable for provenance of their products.