

Impact of counterfeit products



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According to Paradise (1999), “ product counterfeiting is a form of consumer fraud: a product is sold, intended to be something that it is not. This is different from the crime of copyright violation, which involves the unauthorized transfer of licensed material, such as the sharing of music or video files electronically. It is a product counterfeiting is typically an organized group activity, because the manufacturing of goods takes people and time, and the goal is invariably profit. As a result, most product counterfeiting would be considered organized crime under the convention.”

Many organizations are still trying to determine the range and scale of this forgery problematic and more significantly, determine how it can affect them. In reality, imitation has being globally pervasive, since it’s starting it has only increased every year.

Could outsourcing be increasing this type of practice?

Developed countries are in charge for the creation, innovation, advertising and design of the product while the actual manufacturing of the good takes places in countries like China, India, Indonesia, Estonia and Singapore just to mention some, these countries have a very productive and inexpensive labor.

These developing countries have generally a low per capita income, in other words are considered poor, and have a lower capacity for oversight. This same lack of supervisory capability is what makes illegal manufacture possible.

Products in high demand can be mass-produced based on the similar or identical designs, often packed and branded in such way that makes it look

like a duplicate. Sometimes it is impossible for a buyer to distinguish one from the other. Even the fake goods can then be sold through equivalent markets, or even penetrate the legal supply chain with lower prices which makes the counterfeit product to ultimately prevail. Without the additional costs of the legitimate goods, these forgeries can be priced exceptionally low while remaining much more lucrative. Due to this economical advantage, in some markets in some parts of the world, forged goods are far more available and common than the real one.

Effect of counterfeiting on consumer

Counterfeit products are often unsafe goods. Counterfeit toy manufacturers need do not pay attention to any type of choking hazards, paint poisonousness, the small parts rules which can be dangerous for babies, flammability of hard and soft parts, flammability of clothing textile, they do not have standards for stuffing cleanliness. False automobile parts are not exposed to the demanding safety testing, so pretty much anything can happen. These auto parts can bring serious consequences ranging from defective parts not fitting, parts not performing as expected, which can cause accidents and/or ensure expensive repairs at the end of the road. Due to inexpensive constituents and workmanship, fake batteries and lighters have a high chance to explode.

According to Toscano (2011) “ The dangers of counterfeit drugs are two-fold. First, counterfeit drugs may contain an incorrect amount of active ingredient or no active ingredient at all. The public health risk for this type of counterfeit drug is significant, since users of these medications intend to treat an illness or a disease. By using counterfeit medicines, they may be

going untreated. This can result in treatment failure, increased resistance to treatment, and even death, according to the WHO.

Toscano also mentioned that “ Some counterfeits have little or no active pharmaceutical substance – many contain innocuous ingredients, although nothing an individual would want to ingest when expecting medication. These ingredients have included chalk, flour, vitamins, talcum powder, or sugar, which, when taken with the expectation of having a pharmacological effect, can be fatal.”

On the other hand, Toscano points out that, “ many more noxious ingredients have been found in counterfeit drugs. INTERPOL reports that rat poison has been found in fake medicines, while Patrick Ford, Pfizer’s head of global security for the Americas region, says substances such as floor wax have been found in seized counterfeit products. The FDA has reported cases in which consumer’s ingested tablets they believed to be Ambien or Xanax that, in reality, were counterfeit. These pills contained the anti-psychotic haloperidol; ingesting them resulted in the need for hospitalization.”

However, as Pitts of the Center for Medicine in the Public Interest, points out, “ It’s generally bad business to kill your consumer, and it’s not in the interest of counterfeiters to hurt you outright.” Counterfeiters are more likely to produce drugs containing inert substances, he says.

Nearly a third (32. 1 percent) of reported counterfeits contained no active ingredient, according to an analysis done by the WHO in 2000. Another 20. 2 percent had incorrect quantities of active ingredients; 21. 4 percent contained the wrong ingredients; 15. 6 percent had the correct ingredients,

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but fake packaging; 8.5 percent contained high levels of impurities; and 1 percent was copies of an original product.”

The risks posed by the sale of counterfeit goods are well acknowledged. At the end of the road, the inexpensively made good may be more costly when you find out that you made a mistake it requires to be changed. Not only do buyers risk being ripped off when they aren't sure of the value or materials used on the merchandises they are acquiring, but they may naïvely be boosting the spread of organized delinquency. Here is a chart showing the top 10 goods seized by Customs Agents in the year 2009, it has not changed much since then.(1)

(1) The following chart depicts the breakdown by percentage of the types of counterfeit goods seized by Customs Agents in the Year 2009. U. S. Customs & Border Protection, U. S. Immigration & Customs Enforcement, Intellectual Property Rights: Seizure Statistics: Fiscal Year 2009, 7, 10, 12 (2009),

[http://www.cbp.](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/fy09_stats.ctt/fy09_stats.pdf)

[gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/fy09_stats.](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/fy09_stats.ctt/fy09_stats.pdf)

[ctt/fy09_stats.pdf](http://www.unc.edu/courses/2010spring/law/357c/001/ACG/chartcommoditybreakdown.jpg). [http://www.unc.](http://www.unc.edu/courses/2010spring/law/357c/001/ACG/chartcommoditybreakdown.jpg)

[edu/courses/2010spring/law/357c/001/ACG/chartcommoditybreakdown.jpg](http://www.unc.edu/courses/2010spring/law/357c/001/ACG/chartcommoditybreakdown.jpg)

Effect on the original brand

Product imitation poses a severe worldwide defy. The branding of merchandise implied high quality and a legitimate responsibility that buyers have come to take for granted. With no brand to look after, counterfeiters have no motivation to produce anything but shallow quality. Where it becomes impossible to differentiate the actual from the fake, low quality

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goods destroy the image of the copied product, and the cheaper goods will unsurprisingly take over. The crucial risk of imitating has been realized in some parts of these economically emergent countries: the real product, high-quality merchandises have been basically priced out of the marketplace.

Consumers could have a wrong opinion of the luxury product because of poor quality in durability and design details. Moreover, counterfeiters of prestige merchandises inflict a negative outlook on consumers of genuine articles, as counterfeit products damage the personal satisfaction related with a given product. We are not talking about the consumers that are aware that they are buying a forged product, as a Louis Vuitton purse bought from black market for example, we are rather talking about the one misled by a false appearance that are not cognizant that they are buying a fake product.

According to Gosline (2010) “ The purse-party scene turns a lot of otherwise law-abiding women into enthusiastic and guilt-free law-breakers—initially. Most purse party attendees have never owned the real or the fake version of the brands and revel in the thrill of getting luxury product for a fraction of the price they’d be asked to pay in department stores. Sure, most of my fellow party-goers had the funds to purchase the real product. But these upper-middle-class women repeatedly remarked that they would not pay “ just for a label,” and that, unlike consumers of the real products, they had their priorities in order.”

Gosline's researcher mind wondered, " what could cause these women to embrace illegal behavior so enthusiastically? Only later would I learn that the phenomenon was short-lived."

Gosline mentions that " I decided to follow purse parties as they traveled through these social networks for two and a half years. And I was able to observe and document changes in 112 party-goers' attitudes toward the real brands over time. Much to my surprise, and perhaps theirs, these consumers experienced increased attachment to the real brands. The fake products were a gateway. As my subjects' knowledge of the luxury-handbag brands increased, they began to go into stores to check out the real thing—something they had never done prior to attending these purse parties."

Gosline conclusion was that " The fakes hadn't turned potential Gucci customers away from the brand. The opposite was true."

Gosline found out that " There were various reasons why. Women who'd bought bags at a purse party began to notice the inferior quality of the fakes—and envy the real thing. They also reported feeling compelled to admit to other that their purchases were fakes. This caused them to experience a tension between their positive private self-images and their dishonest public behavior. If my possessions are fake, they eventually reasoned, what does that say about me?"

I am not pro counterfeit but based on my researches I can say that a savvy luxury brand manager could influence social networks to pull the purse-party or the counterfeit product users to their stores, as counterfeit consumers find out that their purchases are not alternatives for the real product. They can

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show people the advantages they have against counterfeit products and explain them why counterfeit will never be able to replace the brand product.

How does it affect in the economy?

The Organization for Economic Co-operation and Development or (ECODC) estimates that the international trade in counterfeit and pirated goods was worth around \$250 billion in 2007. The International Anti-Counterfeiting Coalition (IACC), a lobby group, says the true figure is actually closer to \$600 billion, because the OECD's estimate does not include online piracy or counterfeits that are sold in the same country as they are made. Counterfeit goods make up 5-7% of world trade, according to the IACC.

These countries suffer both tangible and intangible losses. First, foreign manufacturers of reputable products become indisposed to manufacture their goods in countries where forging is widespread as they cannot rely on the application of their intellectual property rights. Hence, such countries not only lose DFI but also do not acquire this savoir-faire from these reputable manufacturers. We are talking about an economic loss in large scales. Most developing countries rely on FDI to increase jobs and grow economically.

Second, if many goods from such nations, including the licit ones, gain a status of being of poor value, this will cause trades losses which in turn indicate a loss in available jobs and foreign exchange. It is true that the illicit industry creates jobs but they are often poorly remunerated, often implicate substandard working settings this includes child labor. They do not need to worry about an image; they want to make a profit.

Third, the basis for entrepreneurial development in a nation is the presence of a legal system to defend the privileges of a new enterprise and to encourage reasonable competition. Counterfeiters in a market is the complete opposite of this situation, counterfeiters discourage ingenuity since it prevents this entrepreneurs from investing in innovation and development. Furthermore, companies that do not want their products to be counterfeited have an extra cost which in time translate in a rise in prices and rise in the companies costs.

Last but not least, it also represents a direct loss for the governments of countries. A tax loss is an example, since the forgeries are usually traded through clandestine channels and fraudsters usually evade paying taxes because they want to get the most out of this business.

Ultimately, it is the purchaser who pays the price of unfair competition. Although many consumers consider they are getting a bargain when they purchase imitations, the authentic value of the merchandise is typically much inferior. Hence, they end up paying a higher price for a mediocre product.

Despite this, counterfeit goods seized in the U. S. from 2001-10 are in constant increase (see chart 2), this only increases the strength of these counterfeit businesses, ultimately making them more powerful and more difficult to eliminate or reduce.

Chart of counterfeit goods seized in the U. S. from 2001-10. U. S. Customs and Border Protection agency, Dept. of Homeland Security

(2)http://upload.wikimedia.org/wikipedia/commons/e/e2/Counterfeits_chart.jpg

According to the OECD (1998) “ Counterfeiting has attracted both organized and petty criminals who have not only derived huge profits from this trade but have also used it, both as a means to invest the proceeds of crime and to finance other crimes.”

Counterfeiting and piracy will cause global economic and social losses of \$1. 7 trillion by 2015 and put 2. 5 million legitimate jobs at risk each year, the International Chamber of Commerce said in a report published at the 6th Global Congress on Combating Counterfeiting and Piracy in Paris.”(Noble, 2010)

The economic and social impact of counterfeit and pirated products, which includes lost tax revenue and higher government spending on law enforcement and health care, is valued at as much as \$775 billion every year, the ICC said. The cost is estimated to more than double to \$1. 7 trillion by 2015, partly because of the “ rapid increases in physical counterfeiting and piracy” measured by reported customs seizures as well as increased access to high-speed Internet and mobile technology, the ICC said. In 2008, the World Customs Organization, reporting on data collected from 121 countries, found that 65% of the total of counterfeit shipments detected departed from mainland China, accounting for some 241 million pieces seized globally. (See chart 3) (Noble, 2010)

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(3)

TOCTA Report 2010.

Trafficking countries China, South Asia and European Countries

Are there any organizations that fight against counterfeiters?

Basically, the IACC's mission is to fight against counterfeiting and piracy by endorsing laws, procedures and advices intended to reduce the theft of intellectual property and make it unattractive and non-profitable for criminals to practice. The IACC propose an anti-counterfeiting platform aimed to increase security for copyrights, trademarks, service marks.

Its goal is to make people more aware of all the negative effect of counterfeiting which are: severe public health and safety hazards, as well as economic harm. The IACC initiates activities and backs up government movements that will eventually result in the prosecution of intellectual property infringers, and build a strong prevention to counterfeiters and pirates.

“ In an effort to create conditions under which its members' intellectual property rights are safe from illegal copying, infringement and other forms of theft, the IACC engages in substantive dialogue with governments worldwide. In pursuing its mission, the IACC provides law enforcement officials with information and training to identify counterfeit and pirated products and in the methods of product security to prevent the infringement of its members' intellectual property rights.” (IACC, 2011)

They provide good arguments on why people should not buy counterfeited products; they call them the “ Six Reasons You Should Never Fake It”:

1. Counterfeiting is illegal and purchasing counterfeit products supports illegal activity. (IACC, 2011)
2. Counterfeiters do not pay taxes meaning less money for your city’s schools, hospitals, parks and other social programs. (IACC, 2011)
3. Counterfeiters do not pay their employees fair wages or benefits, have poor working conditions, and often use forced child labor. (IACC, 2011)
4. Counterfeit goods are often made using cheap, substandard, and dangerous components that put the health and safety of consumers at risk. (IACC, 2011)
5. The profits from counterfeiting have been linked to funding organized crime, drug trafficking and terrorist activity. (IACC, 2011)
6. When you purchase a fake, you become part of the cycle of counterfeiting and your money directly support these things you would never want to support. (IACC, 2011)

The way they address this situation is the right approach, since they are trying to reach the consumer, responsible for this increase in counterfeited goods, if there were no buyers then there would be no sellers at all. By making people aware of all this negative effect and by making ads visible to everyone they can diminish this type of activities. Many people including myself were not aware of this dominoes effect that can be triggered just by acquiring a counterfeited good. Here are some of the ads that are making people rationalize about if they should buy counterfeited products.(see ads 4)

(4) Public awareness Campaign.

Ads taken from the IACC website: <http://www.iacc.org/about-counterfeiting/public-awareness-campaigns.php>

<http://www.iacc.org/img/PSA/california1-1.jpg>
http://www.iacc.org/img/PSA/psa_cost.jpg
http://www.iacc.org/img/PSA/psa_child.jpg

Further suggestions to solve this problem:

Create an international entity that is constituted of people from all over the world, and that they have cross-border permission to enforce intellectual property rights.

Create or expand one common law concerning intellectual property rights to every country.

Government in developed countries should put more pressure to enforce intellectual property laws on developing countries, and make an additional clause so that if the country after several tries cannot improve their current situation on counterfeiting then this international entity can enter that country and solve the problem.

Improve the maritime docks, airport and terrestrial security so that counterfeit products are harder to get.

Make law enforcement on stores that sell counterfeited products stricter by fining even to the point of closing them. Track providers and incarcerate them.

Create a software with the best securities available so that every product have a unique serial number linked to the company and available only for verification to this international entity officers, to check if the product is real.

Continue with this public awareness campaign of IACC. And invest more on this program, and make it available to schools for education purposes.

Make people more aware that counterfeited product will never replace the original one.

Make viral videos on social media, showing some circumstances where people have died due to counterfeited products.