

## Most used counterfeit trade routes revealed as pressure on enforcement authorities continues to rise

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New research has revealed that counterfeiters are using Hong Kong, the United Arab Emirates and Singapore as their main global trading hubs, importing containers of fake goods which are then sent on by post or courier in smaller consignments. While providing useful intelligence for rights holders and enforcement officials, the report also highlights a worrying conundrum facing Customs authorities.



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The *Mapping the real routes of trade in fake goods* report, published by the European Union Intellectual Property Office (EUIPO) and the Organisation for Economic Co-operation and Development (OECD), was unveiled at today's International IP Enforcement Summit in Berlin. For its analysis, the study focused on 10 industries (a more detailed overview of the flow of goods across these sectors is presented at the end of this blog) and amongst its key findings were:

- Around three quarters of counterfeit products are transported by sea.
- In nine of the ten sectors analysed, most counterfeit goods were produced in China.
- Several locations in the Middle East — including the UAE, Saudi Arabia, and Yemen — are key transit points for sending fake goods to Africa.
- Albania, Egypt, Morocco and Ukraine are the key transit points used for introducing fakes into the European Union
- Panama remains an important transit point for counterfeit goods en route to the United States.
- Courier services and regular post are emerging as common ways to move smaller items - shipments of less than ten items accounted for 43% of all counterfeit shipments in 2013.

The move towards shipments of smaller items has long been a thorn in the side of enforcement authorities – making it harder to track, trace and stem the flow of illicit goods. Today's report further evidences how “small shipments and parcels tend to dominate numerous trade routes, reflecting the shrinking costs of postal and courier shipments and the increasing importance of Internet and e-commerce in international trade”. This is further backed up by a second report unveiled today, the 2017 Situation Report on Counterfeiting and Piracy in the European Union. Issued by the EUIPO and Europol, it similarly noted that products sold on the internet, usually distributed in small parcels via postal and express freight services, are hampering the ability of authorities to detect them.

Given this, it is natural – and right – that enforcement authorities evolve their methodologies to reflect the changing strategies of counterfeiters. Indeed, the research itself calls for more in-depth analysis for the development of efficient enforcement frameworks to tackle the problem posed by small shipments. However, it is also clear that this should not come at the expense of attention to larger-scale shipping, which is frequently where the transit chain first commences. Specifically, the report notes that products often arrive in transshipment centres in large quantities, and are then sent on to their end market in small parcels by post or courier services.

Speaking at today's summit in Berlin, Meena Sayal, director of global brand protection at Unilever, emphasised the finding that, while production and delivery models are indeed changing, counterfeiters do continue to utilise traditional transportation routes – adding that many of these routes are gearing up for increased loadage: “The Suez canal doubled its capacity in 2015, and the Panama canal did so in 2015. Ports in the US and other countries are now rebuilding to accommodate larger vessels, and China and its partners are aiming to invest trillions in the ‘one belt, one road’ initiative.” The latter – which combines the land-based Silk Road Economic Belt and oceanic Maritime Silk Road - will have a significant impact on the flow of goods across Eurasia. The large-scale maritime transportation of counterfeit goods, then, is more likely to increase than decrease.

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This is something rights holders are acutely aware of and Sayal characterises a recent declaration of intent on the issue – in which global shipping companies, logistics firms, anti-counterfeiting organisations and companies pledged to work together to tackle the issue of counterfeit goods on shipping vessels – as “a significant achievement”. However, she continues to advocate that the focus on tackling small shipments should not come at the expense of fighting the larger-scale movement of goods, stressing: “It must not be forgotten that counterfeiters continue to rely on maritime routes for the flow of large shipments.”

Of course, this will not be news to Customs officials, who toil on the front line daily. It does present them with a fundamental conundrum though. Given finite resources, how should attention be split between monitoring large scale shipments and fighting the rising tide of small consignments? It isn't strictly an 'either/or' proposition but where both are possible (and the report does acknowledge that goods in transit often fall outside the remit of customs) resources are unlikely to support a war-winning strategy on both fronts.

As much is acknowledged in the 2017 Situation Report, which warns that positive progress in the effort to prevent fakes hitting the European market is unlikely in the immediate term: “The number of overall detentions at the external borders has remained relatively stable in recent years, indicating that customs administrations may be working close to their maximum capacities allocated to IPR enforcement. However, an overall reduction in customs resources, along with the fact that they are facing the challenge of processing ever-increasing numbers of small packages, could cause the total amount of counterfeit products entering the EU to remain stable.”

In an environment where Customs are often being asked to do more with less, data and intelligence on the flow of counterfeit goods becomes ever more important in terms of targeting enforcement efforts. However they also need the funding, resources and tools that will enable them to truly turn the tide and claim victory over better-resourced, less constrained foes.

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The key trends of trade in fake goods, by sector, is presented below:

### **Clothing and fabrics**

- China is the main producer of counterfeit clothes and textile fabrics. Vietnam, Thailand, Cambodia and Malaysia also appear to be important producers, exporting them across the globe, either directly, or via Hong Kong and Singapore.
- India, Pakistan and Bangladesh are important producers of counterfeit textile articles, which they ship to the EU, the US, Kuwait and Saudi Arabia.
- The main transit hubs for the trade in fake clothes and fabrics include Hong Kong, Singapore and the United Arab Emirates.
- Fake clothes and fabrics enter the EU and the US from producing economies and transit hubs mostly in the post (with air and sea transport used for exporting fake clothes and fabrics from producing economies to these transit points).

### **Electronics and electrical equipment**

- China is the main producer, with Thailand, Korea, India and Singapore identified as minor producers (Mexico is a regional producer targeting the US market).
- Hong Kong is the largest transit point for counterfeit electronics and electrical equipment produced in China and Thailand and re-exported throughout the globe.
- The United Arab Emirates is also a central transit point for re-exports to Africa through large containers by sea, but also by road to other Middle East economies and by mail and air to the EU. ✓

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- Belize, Guatemala and Panama are key transit points for counterfeit electronic and electrical goods targeting the US.

### **Foodstuffs**

- Globally, China, India and several other smaller Asian economies are the main producers of counterfeit foodstuff. They export directly to the US, the EU, Japan, Western and Northern Africa; or indirectly, through Saudi Arabia, the UAE and Yemen, to other Gulf region economies.
- Turkey is a relatively significant producer of counterfeit food products, and exports them to the EU countries and to Serbia, Yemen, or (indirectly) to Saudi Arabia.
- Ethiopia and Kenya are also identified as producers of fake food products for export to Saudi Arabia and Yemen.
- Most counterfeit foodstuff is shipped in large quantity shipments, either in containers by sea or by air.

### **Footwear**

- China is the main producer of counterfeit footwear, followed by the Philippines, Thailand, Vietnam and Malaysia. Goods from these economies is shipped directly to the EU, the US, Kuwait, Saudi Arabia, Qatar, Australia, Japan, Korea and numerous economies located throughout the African and the South American continents.
- India and Pakistan also appear to be important producers of counterfeit footwear, which is shipped directly to the EU, the US, Kuwait and Saudi Arabia.
- Hong Kong, Singapore and the United Arab Emirates are the main global transit points. Regionally, Panama is an important transit point for fake footwear en route to the US.
- Most counterfeit footwear is shipped by mail in small consignments of up to five items.

### **Jewellery**

- China is the main producer of fake jewellery, followed by Indonesia, Malaysia, Thailand and Vietnam. Counterfeit jewellery is shipped from these economies directly to Europe, the US, Kuwait, Saudi Arabia, Qatar and to large trade hubs: Hong Kong (China), Macau (China) and Singapore.
- The destination economies for fake jewellery exported from China include Australia, Japan, Korea and numerous economies located throughout the African and the South American continents.
- The main transit points for trade in counterfeit jewellery are Hong Kong, Macau and Singapore.
- Morocco is an important transit point for fake jewellery transported to the EU.

### **Leather articles and handbags**

- China is the main producer, with fakes exported across the globe either directly, or using several large trade hubs, such as Hong Kong, Macau and Kuwait.
- Other regional producers of counterfeit leather articles and handbags include Cambodia, the Philippines, Thailand, Indonesia and Malaysia.
- Turkey and Tunisia are viewed as important producers that particularly target the EU.
- Postal parcels were the main conveyance method for fake leather goods used by counterfeiters in producing economies and transit points to ship goods to the US and the EU.

### **Optical, photographic and medical equipment**

- China is the key producer, while several East Asian economies (Bangladesh, Cambodia, Indonesia, Malaysia, Pakistan, Thailand and Vietnam) appear to be significant producers.
- Turkey produces counterfeit optical and photographic equipment targeted exclusively at the EU and Saudi Arabia.
- Uruguay and the Dominican Republic appear to be important transit points for counterfeiters located in China and Hong Kong to the US.

- The lion's share of shipments of counterfeit sunglasses, photographic apparatus, and medical equipment is sent by mail and express services.

### Perfumery and cosmetics

- China is the key producer of counterfeit perfumes and cosmetics preparations that are shipped throughout the globe.
- Counterfeit perfumes and cosmetics produced in Malaysia, Thailand, India and Singapore are generally exported to the EU, the US, Saudi Arabia and Kuwait.
- Turkey is a regional producer exporting counterfeit perfumery and cosmetics almost exclusively to the EU, with goods transported by road.
- Shipments to the Middle East and African economies are carried mostly by sea or air.

### Pharmaceutical products

- India and China are the largest identified producers of counterfeit pharmaceuticals, shipping across the globe, with a special focus on African economies, Europe and the US.
- Hong Kong is one of the most important transit points for counterfeit pharmaceuticals, mainly exporting them by post to the US, Europe, Japan and some South American economies in small parcels.
- Other relevant transit points for fake pharmaceuticals include Yemen, the United Arab Emirates and Iran.

### Toys, games and sports equipment

- China is the main producing economy, exporting globally via a significant number of transit points, such as Hong Kong, Singapore and Macau.
- Other producing economies include India and Pakistan. Regionally, Turkey and Morocco are producers shipping to the EU.
- Saudi Arabia, Kuwait and Bahrain are also notable transit points, with goods from China, India, and Pakistan re-exported to the EU, the US, and North and Central Africa.
- Uruguay and Paraguay are transit points for products made in China and Hong Kong targeted to the US market.

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