

Chapter 6. The trade in counterfeits during the pandemic

The ongoing COVID-19 pandemic has triggered an enormous crisis that has had and will continue to have a significant impact on the illicit trade in counterfeit goods. Closures of some businesses and disruptions in transport methods have led to significant distortions in supply chains. In all these cases, criminals have leveraged these opportunities to make illicit profits.

The situation is dynamic, and it is too early to conclude the overall effect the pandemic has had on the illicit trade in fake goods. However, exchanges with enforcement officials and industry representatives, plus ongoing reports, have allowed to tease out certain trends:

- an intensified misuse of the online environment because of lockdowns and broken supply chains
- a change in the structure of trade in fakes
- a change in enforcement priorities.

Channels of transmission

As for the short-term effects, several COVID-related factors have shaped the landscape of the illicit trade in fakes. These include heavy restrictions imposed on global transport and a disruption in distribution chains due to lockdowns and health concerns.

At the same time, COVID-19 has also resulted in changes in customs control priorities (e.g. a focus on COVID-19-related products) and labour shortages among law enforcement officials. Unfortunately, these factors have reduced enforcement efforts to counter the illicit trade in many counterfeit products.

Customs and police have continued to enforce borders during the crisis. However, rapidly changing illicit networks have made informative risk profiling very difficult for customs. This shows further efforts are required to raise awareness among enforcement officials.

Effects

Several areas where the COVID-19 pandemic has already had a short-term effect on the trade in counterfeit goods have been scoped. These include the emergence of new routes for illicit trade, a boom in the misuse of the online environment and growth in counterfeiting in several sectors.

In the medium and longer terms, the COVID-19 pandemic will likely have a number of other effects on illicit trade. The economic downturn and continued disruptions in supply chains will undoubtedly create additional opportunities for criminals and will most likely lead to a substantial change in illicit trade volumes, routes and the composition of goods in the medium term. A rise in cybercrime will keep shifting attention to the online environment. In addition, limits on air transport and more compliance that is expected in global value chains will re-shape the trade routes and patterns for illicit trade, which might also lead to increased

misuse of FTZs. Moreover, this may lead to the emergence of more secured and compliant major trade lanes and so-called trade super highways.

New trade routes

Criminal networks have reacted quickly to the crisis and have adapted their strategies to take advantage of the shifting landscape. Counterfeiters have continued to supply counterfeits during the lockdowns in the EU and the US. It shows that these well-organized criminal networks foresaw the disruptions of some transport routes and have managed their operations accordingly. Of course, these criminal groups also benefited because different world regions were not all affected by the pandemic simultaneously. Consequently, they could draw lessons from those regions hit first (e.g. East Asia).

Abuse of the online environment

Another observed trend is a substantial shift towards further misuse of the online environment. There is robust growth in the supply of fakes on all types of online platforms, including those that used to be relatively free from this risk (OECD, 2021^[12]).

Due to lockdowns in many countries, people have been using the Internet more than ever before, with the overall rate of digitization skyrocketing. The intensity of the misuse of the online environment keeps growing, and fakes tend to be increasingly found on new online sites and platforms, including social media. For example, between 2020 and 2021 e-commerce activity in the US has grown by almost 40%. This has resulted in a massive growth in the supply of all sorts of counterfeits online ((OECD, 2020^[10]), (UNICRI, 2020^[11]).

Lockdowns have led to e-commerce becoming one of the main means of procuring fake and substandard medicines. Enforcement officials also highlight that counterfeit medical products related to COVID-19 are often bought online and shipped by air cargo in small parcels. Most of these products are produced in China and India, while Hong Kong and Singapore remain the main transit hubs ((OECD/EUIPO, 2020^[7]), (OECD, 2021^[12]).

Key sectors targeted

Criminals are clearly taking advantage of the global pandemic. Pharmaceuticals, medical supplies, fast-moving consumer goods (FMCG) and sectors such as tobacco or alcohol, which criminals frequently singled out before the pandemic, are all potential targets of counterfeiters.

Pharmaceuticals

The pandemic triggered a dramatic growth in the demand for pharmaceuticals and personal protective equipment (PPE) such as gloves or sanitizers. This demand was sometimes not met due to closures of borders, distortions in supply chains or insufficient production capacities. Criminals entered this niche, not only offering fake PPE but also counterfeit equipment to produce PPE or spare machine parts. Counterfeiters tend to brand fake PPE, even when the rights holder does not supply the PPE in question. Such fakes can lead to significant health and safety risks ((OECD/EUIPO, 2020^[7]).

According to industry experts, the illicit trade in fake medicines keeps growing. Interviews with industry experts point to an overall growth of 5% in the average seizure value in 2020 compared with 2019. Considering the overall drop in enforcement, this suggests that the trade in illicit medicines has grown by 25% from 2019. Of these 45% are counterfeits and 55% are stolen. These findings are confirmed by the results of enforcement operations. For example, the Europol-coordinated operation SHIELD resulted in massive seizures of counterfeit medicines and doping substances.¹

The introduction of substandard or counterfeit products into the legitimate supply chain poses grave threats to public health and safety and the efforts to combat the spread of COVID-19. This collateral damage might grow in the future, as the pandemic's economic fallout is likely to reduce patients' purchasing power worldwide.

Food, tobacco and alcohol

Additional volumes of illegal food, tobacco and alcohol have been entering markets during the COVID-19 pandemic through vulnerable supply chains and porous borders. Closures of some businesses and disruptions in transport methods have led to significant distortions in supply chains. These distortions have been generating both excess supplies of goods (e.g. closures in the food industry) and unsatisfied demand (e.g. limited access to existing suppliers). In all these cases, criminals have exploited these opportunities for illicit profits.

Regarding the illicit trade in food, enforcement officials have provided illustrative examples of new, sometimes unexpected mechanisms that have generated an additional influx of illicit food in markets. Recent targeted actions in Europe have revealed many cases of criminals infiltrating legal supply chains with substandard or counterfeit food products. Enforcement officers from the European Union Agency for Law Enforcement Cooperation (Europol) working as part of operation OPSON ("food" in ancient Greek) confiscated 12 thousand tonnes of substandard food and stopped operations of nine organized criminal groups in 2020.

For example, criminals froze large volumes of excess milk and dairy products, which resulted from lower demand, and then sold them on the market. Another example is counterfeiters adding chlorophyll and beta-carotene to substandard seed oil and then selling it as extra virgin olive oil. Horsemeat from illegal horse slaughtering, involving forging of transportation documents for animals, was also confiscated. In all these cases the illicit food was substandard and could have posed significant health risks to consumers.

Officials have highlighted a recent sharp increase in seizures of fake cigarettes, including seizures of containers filled with illicit cigarettes. There were also seizures of tobacco production equipment in several EU countries. For example in Spain, the Guardia Civil has dismantled large, clandestine factory producing and supplying counterfeit tobacco products.² These instances point to preparations made by criminal gangs to increase the supply of illicit tobacco. ,

Lastly, the evidence also points to strong growth in the trade and production of illicit alcohol, wine. Demand for alcohol has remained relatively stable throughout the pandemic. Nonetheless, the supply of licit alcohol is limited: supply chains are often broken, a lot of retail shops were closed during lockdowns, and policymakers often limit alcohol consumption. This gap between demand and supply is exploited by criminals who continue to supply counterfeit alcohol that is often substandard (TRACIT, 2021). For example, in Europe the production of substandard wine has been booming. Enforcement officials reported the forging of labels or production of inferior quality wine.

References

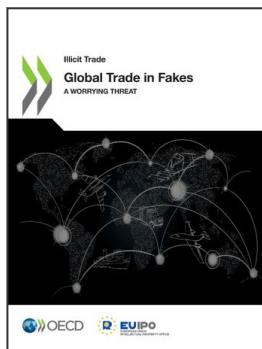
- OCDE (2008), *The Economic Impact of Counterfeiting and Piracy*, Éditions OCDE, Paris, [9]
<https://doi.org/10.1787/9789264045521-en>.
- OCDE/EUIPO (2021), *Misuse of Containerized Maritime Shipping in the Global Trade of Counterfeits*, Éditions OCDE, Paris,, [8]
<https://doi.org/10.1787/e39d8939-en>.

- OECD (2021), *COVID-19 vaccine and the Threat of Illicit Trade, Chair's Summary Note*, [12]
<https://www.oecd.org/gov/illicit-trade/summary-note-covid-19-vaccine-and-the-threat-of-illicit-trade.pdf>.
- OECD (2020), *Illicit Trade in a Time of Crisis. Chair's Summary Note*, [10]
<https://www.oecd.org/gov/illicit-trade/oecd-webinar-illicit-trade-time-crisis-23-april.pdf>.
- OECD (2020), *Trade in Fake Medicines at the Time of the Covid-19 Pandemics. Chair's Summary Note*, [14]
<https://www.oecd.org/gov/illicit-trade/oecd-fake-medicines-webinar-june-10-summary-note.pdf>.
- OECD (2018), *Governance Frameworks to Counter Illicit Trade*, OECD Publishing, Paris,, [13]
<https://doi.org/10.1787/9789264291652-en>.
- OECD/EUIPO (2020), *Trade in Counterfeit Pharmaceutical Products*, Illicit Trade, OECD Publishing, Paris, [7]
<https://dx.doi.org/10.1787/a7c7e054-en>.
- OECD/EUIPO (2019), *Trends in Trade in Counterfeit and Pirated Goods*, OECD Publishing, Paris,, [3]
<https://doi.org/10.1787/g2g9f533-en>.
- OECD/EUIPO (2018), *Misuse of Small Parcels for Trade in Counterfeit Goods: Facts and Trends*, OECD [6]
 Publishing, Paris, <https://doi.org/10.1787/9789264307858-en>.
- OECD/EUIPO (2018), *Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends*, [4]
 OECD Publishing, Paris/EUIPO, Alicante, <https://doi.org/10.1787/9789264289550-en>.
- OECD/EUIPO (2018), *Why Do Countries Export Fakes?: The Role of Governance Frameworks, Enforcement and Socio-economic Factors*, OECD Publishing, Paris/EUIPO, Alicante, [5]
<https://doi.org/10.1787/9789264302464-en>.
- OECD/EUIPO (2017), *Mapping the Real Routes of Trade in Fake Goods, Illicit Trade*, OECD Publishing, [2]
 Paris, <https://doi.org/10.1787/9789264278349-en>.
- OECD/EUIPO (2016), *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact, Illicit Trade*, [1]
 OECD Publishing, Paris, <https://doi.org/10.1787/9789264252653-en>.
- UNICRI (2020), “*Cyber-crime during the COVID-19 Pandemic*”, [11]
<http://www.unicri.it/news/cyber-crime-during-covid-19-pandemic>.

Notes

¹ See <https://www.europol.europa.eu/newsroom/news/medicines-and-doping-substances-worth-%E2%82%AC73-million-seized-in-europe-wide-operation>

² See <https://www.lavanguardia.com/sucesos/20200220/473667314907/fabrica-clandestina-underground-europa.html>



From:
Global Trade in Fakes
A Worrying Threat

Access the complete publication at:
<https://doi.org/10.1787/74c81154-en>

Please cite this chapter as:

OECD/European Union Intellectual Property Office (2021), “The trade in counterfeits during the pandemic”, in *Global Trade in Fakes: A Worrying Threat*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/4dca391b-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.