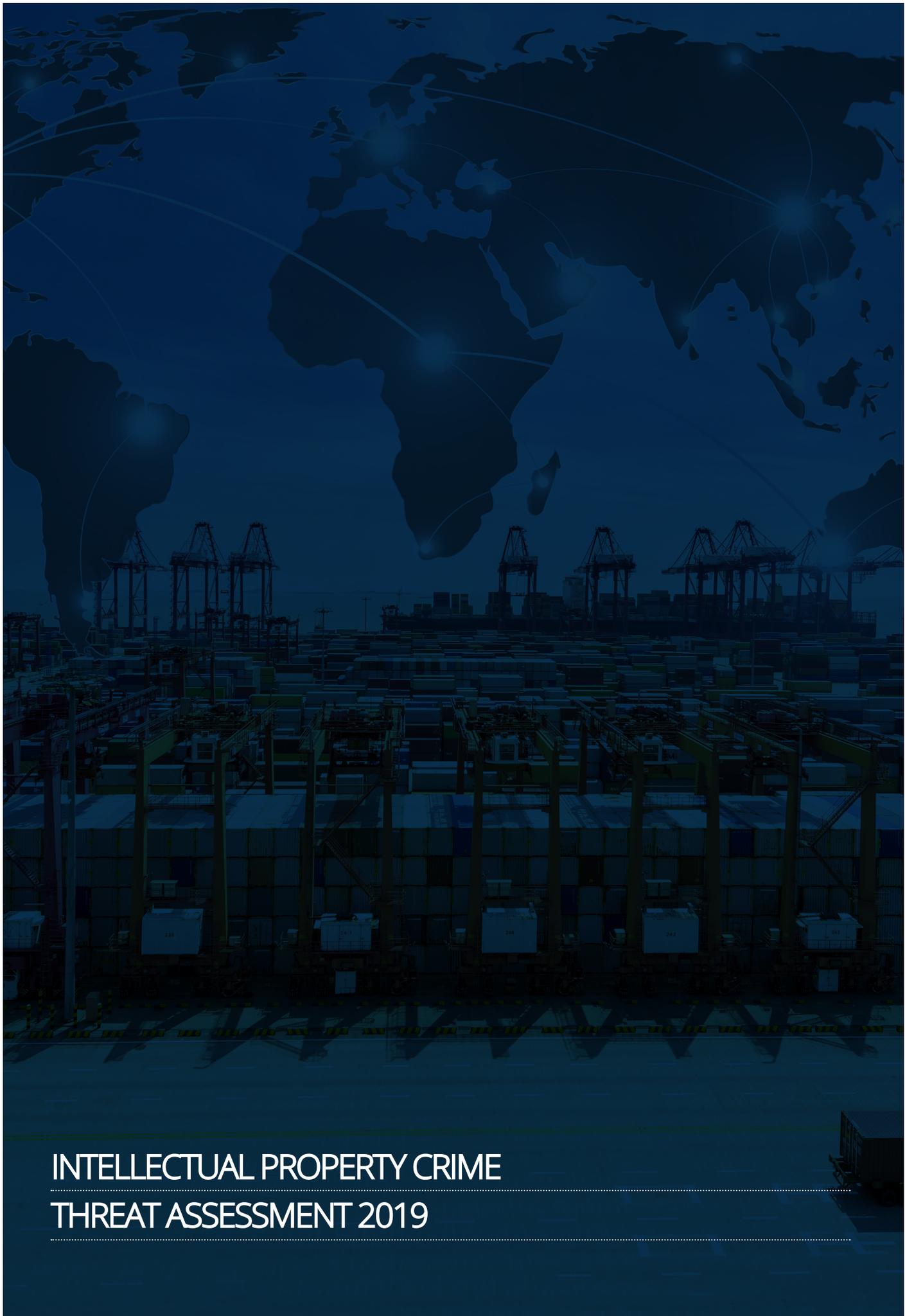


# INTELLECTUAL PROPERTY CRIME THREAT ASSESSMENT 2019





INTELLECTUAL PROPERTY CRIME  
THREAT ASSESSMENT 2019

---

## FOREWORD

This threat assessment, prepared by Europol and the European Union Intellectual Property Office (EUIPO), provides a unique assessment of the emerging threats and impact of intellectual property crime in the European Union (EU). It builds upon the jointly developed situation reports of 2015 and 2017, continuing the excellent cooperation between the two agencies in the fight against counterfeiting and piracy.

The report highlights how intellectual property (IP) crime has further evolved and now covers nearly every product sector imaginable. It also puts the spotlight on the ever evolving influence of the online environment on the trade in counterfeit goods and piracy, including the increased use of social media. In many cases, increasingly sophisticated organised crime groups are behind the counterfeiting and piracy activities, illustrating the growing threat arising from this type of crime. Many of these organised crime groups are also involved in other criminal activities, including, in a limited number of cases, terrorism.

Whereas the economic impact of counterfeiting and piracy is widely documented, the harm to consumers' health and safety, as well as the environment, are less well known. However, the current report demonstrates how counterfeit goods, such as cosmetics, food, medicines and pesticides, present serious dangers that go beyond the economic damage.

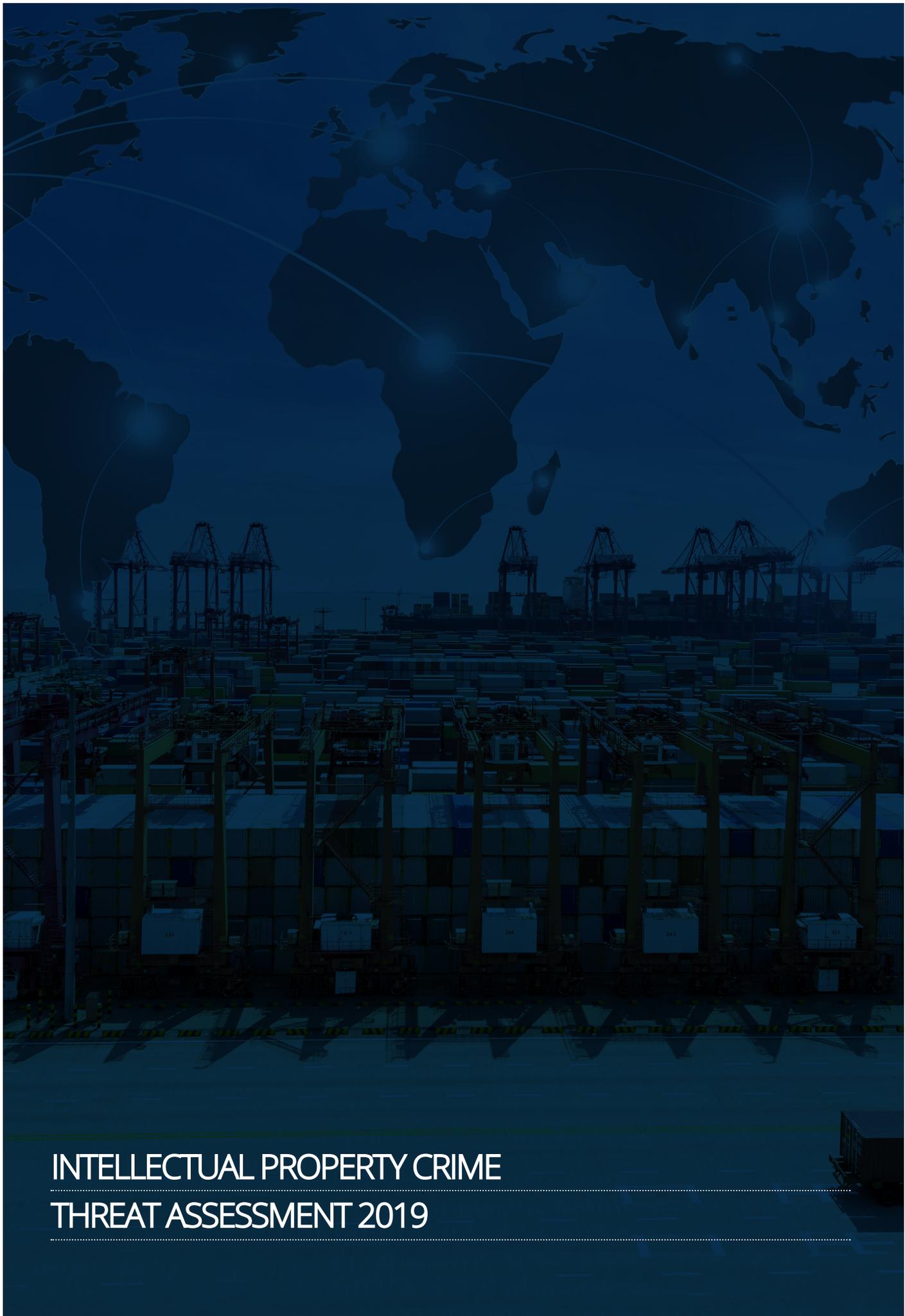
While all of this poses considerable challenges for law enforcement authorities in the EU, a number of operational successes have shown that the organised crime groups behind the counterfeiting and piracy in the EU cannot expect to operate with impunity. These operations highlight the importance of transnational cooperation between law enforcement authorities and partners in both the public and private sector to provide an effective response to this serious criminal threat.



**Catherine De Bolle**  
*Executive Director*  
EUROPOL



**Christian Archambeau**  
*Executive Director*  
EUIPO



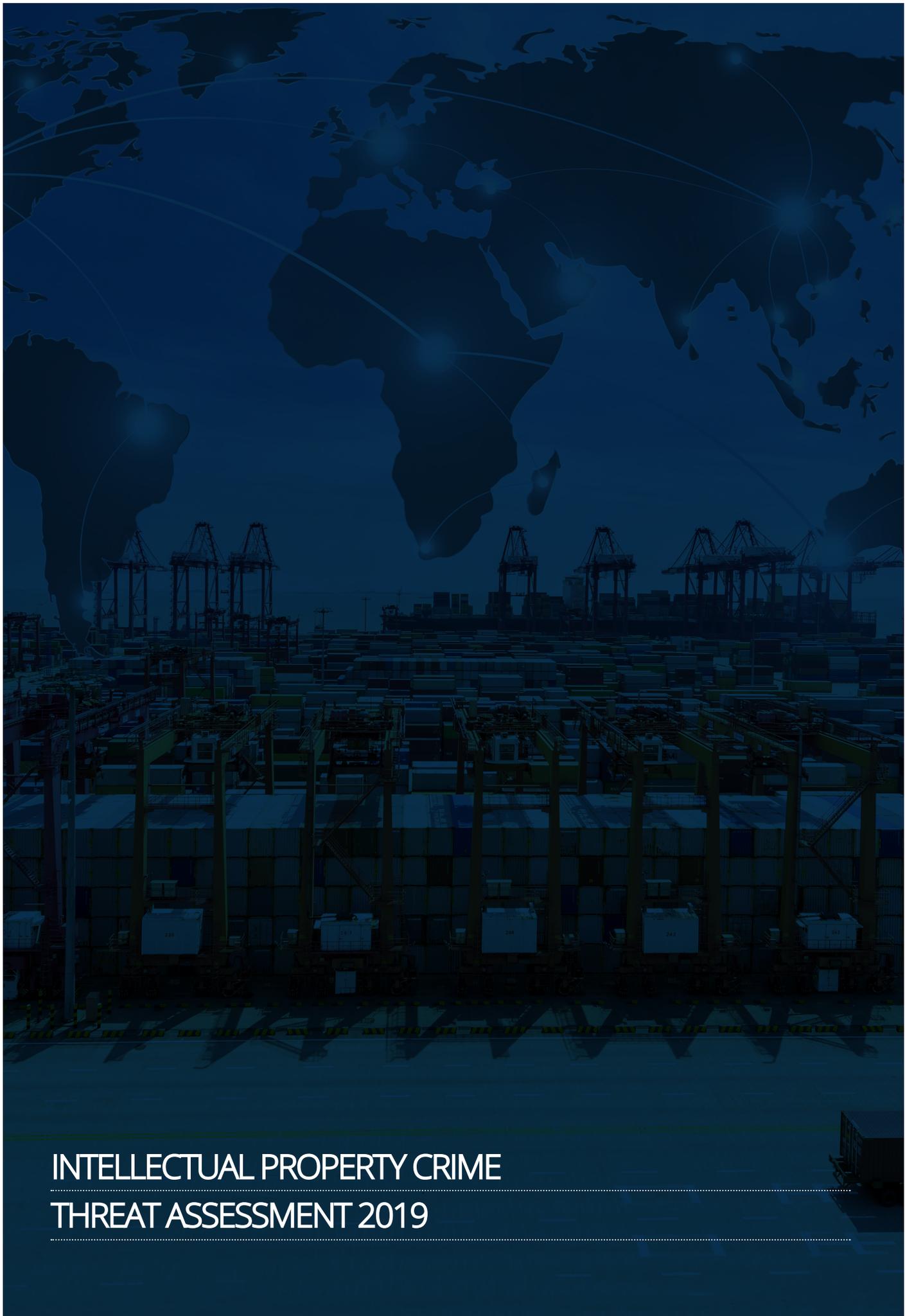
INTELLECTUAL PROPERTY CRIME  
THREAT ASSESSMENT 2019

---

## CONTENTS

---

EXECUTIVE SUMMARY .....	07
INTRODUCTION .....	11
1 BACKGROUND .....	11
2 KEY PRODUCT SECTORS .....	14
3 ROUTES, KEY LOCATIONS AND TRANSPORTATION METHODS .....	33
4 ONLINE COUNTERFEITING .....	37
5 CONCLUSION .....	40
ACKNOWLEDGEMENTS .....	41



INTELLECTUAL PROPERTY CRIME  
THREAT ASSESSMENT 2019

---

## EXECUTIVE SUMMARY

This threat assessment is drawn up in partnership between Europol and the European Union Intellectual Property Office (EUIPO) and is intended to update policymakers, law enforcement authorities and the public in general about the latest trends and the current impact of intellectual property crime within the EU. The report focuses on the counterfeiting and piracy affecting the EU and provides an assessment of the threat posed by this counterfeiting and piracy in several product sectors, as well as cross-cutting factors that influence or impact the criminal area. It builds upon two previously developed joint situation reports, published in 2015 and 2017.

Counterfeit and pirated goods could make up as much as 6.8 % of EU imports, amounting to EUR 121 billion. In recent years, this amount has significantly increased. The annual number of detentions of counterfeit goods by customs authorities in the EU has gradually decreased since 2013, even if the number of items seized and their estimated value has decreased at a lower pace, with a temporary recuperation in 2015 and 2016. This slightly decreasing trend hides a sustained increase in the effectiveness of the operations, as shown by the number of items seized and their value per case or per procedure. Most counterfeit items still come from China, although for some specific categories of products other countries are also significant.

Counterfeiters often use complex trade routes to transport their goods from the production country to the destination markets. Although shipment of counterfeit goods to the EU still occurs largely in bulk by freight transport, in recent years there has been a strong increase in express transport. This sharp growth in trade via small parcels is related to the growth in online marketplaces selling counterfeit goods. New land routes that have opened in recent years, in particular the growing number of rail connections between China and the EU, may provide counterfeiters with the possibility of diversifying their routes and transportation methods.

The advent of better technology has had a profound impact on the nature and extent of counterfeiting. Counterfeiters exploit existing and emerging platforms that have made it easier to advertise, sell and distribute counterfeit and pirated goods to a growing number of consumers. This increase in sales of counterfeit goods via online marketplaces is not new, but rather a continuing trend. In recent years, social media marketplaces especially have emerged as a key platform from which counterfeiters can access high numbers of consumers with a generally low risk of law enforcement detection. Trade in counterfeit and pirated goods on the darknet remains a relatively limited phenomenon.

Intellectual property crimes have considerable economic consequences, depriving legitimate businesses of revenue and governments of tax revenue. Besides economic harm, counterfeit goods can have a serious impact on the health and safety of consumers, as well as negative environmental consequences. In recent years, counterfeiting has affected an increasingly diverse number of goods.

Besides the traditional luxury items, a wide range of everyday goods are targeted by counterfeiters. This includes cosmetics, electronic components, food and drinks, pesticides, pharmaceuticals, tobacco products, toys and vehicle parts.

**Electronics** are an increasingly counterfeited category of goods. Common examples of this are mobile phones and parts, especially chargers and computer equipment. These are often sold online and shipped directly from several Asian countries to consumers in the EU. In recent years there have also been a high number of detections of counterfeit semiconductors. As these goods are commonly used in the transport sector, but also in hospitals as part of surgical instruments, they pose considerable dangers to health and safety.

**Food and drinks** remain highly popular items for counterfeiters, with the EU consistently emerging as a major destination market for counterfeit food and drinks. Detected counterfeit food products include baby milk powder, stock cubes, cheese, coffee, olive oil and pasta. Several of these goods have been found in groceries and supermarkets, illustrating that they also infiltrate the legal supply chain. As the counterfeit goods are almost always of substandard quality and produced in unhygienic environments, they can pose a serious risk to the health and wellbeing of consumers. In some cases, counterfeit food has even been found to contain dangerous or hazardous ingredients. Law enforcement authorities regularly detect other types of counterfeit goods alongside counterfeit food and drinks, highlighting how organised crime groups are frequently involved in trading an ever wider range of different counterfeit goods. In general, there appears to be an overall professionalisation of the organised crime groups involved in food counterfeiting.

Besides food, counterfeit alcoholic beverages pose a considerable risk to EU consumers. Spirits and wine are especially popular goods targeted for counterfeiting by organised crime groups. They frequently place cheap wine in bottles containing fake expensive wine labels, sometimes even adding pure alcohol on counterfeit spirits. Production methods have become increasingly sophisticated in recent years, with some organised crime groups operating their own production lines, including the packaging and labelling of the product. Another method is to use legitimate production lines one day a week or month for the production of counterfeits.

**Luxury products, clothes and accessories** are traditionally among the most popular product categories for (and are still among the most commonly detected) counterfeit goods. This is primarily the result of a large number of small orders via the internet, which are subsequently shipped via postal or courier services. At the same time, there appears to be an increase in production of counterfeit clothes within the EU, with organised crime groups attaching counterfeit labels onto imported, unbranded clothing. In this way, they reduce the risk of detection during the shipping of the clothes.

As **pesticides** are one of the most regulated products in the world today, it is not surprising that a wide range of counterfeits are traded in the EU. A strong increase in seizures in recent years is indicative of the growth of the problem, and of the industry's and the competent authorities' awareness. These goods have not usually been tested and authorised by the authorities, and may contain less active or

more toxic ingredients. They can destroy crops and fields and seriously affect the health of farmers and consumers. Organised crime groups involved in counterfeiting pesticides sell their products by placing false brand labels on the product or by using labels in non-EU languages, frequently abusing the parallel trade system. In a growing number of cases, they import only the component ingredients and subsequently produce the counterfeit pesticides within the EU.

Counterfeit **pharmaceuticals** pose a growing threat to the EU, affecting a large number of Member States. A wide and increasingly diverse range of medicines is targeted by counterfeiters. Erectile dysfunction medicines are traditionally among the most common type of counterfeited medicines, but increasingly counterfeited performance enhancing drugs, such as anabolic steroids and doping substances are also detected. Obviously, these pharmaceuticals can have serious effects on the health of consumers. The increased detection of counterfeit medicines for the treatment of serious illnesses, and the growing number of incidents affecting the legal supply chain, are particularly worrisome trends.

Organised crime groups might produce counterfeit pharmaceuticals in clandestine laboratories, import counterfeit medicines or sell illegally diverted medicines using falsified branding and packaging. In terms of production, medicines and packaging can be produced in one place, at separate sites, or even by separate organised crime groups. Some of the organised crime groups involved in producing counterfeit pharmaceuticals also produce different types of synthetic drugs. Counterfeiters are growing in sophistication, employing highly skilled workers and setting up their own production lines. A growing number of counterfeit pharmaceuticals are detected in small parcels, facilitated by a continuous expansion of unauthorised and unregulated online pharmacies.

The growth of the internet has given counterfeiters unique opportunities to get involved in **piracy**, selling and distributing unauthorised books, games, movies and music. This illegal digital content is distributed via BitTorrent portals and peer-to-peer networks, but increasingly also via cyberlockers. The owners of these platforms generate profit through digital advertisements, which often include mainstream adverts from major brands. In many cases, these websites are also used to target consumers with phishing attempts or for disseminating malware. In recent years, there has also been an increasing number of detections of the illegal use of Internet Protocol Television (IPTV) technology. In many of these cases, the servers are located in different countries to those where the subscriptions are sold, making it particularly complicated for law enforcement authorities to detect the criminals behind them.

The number of counterfeit **tobacco products** detected, mostly cigarettes, has been decreasing for 4 years in a row. Nonetheless, in 2017, cigarettes were still third place in the list of most commonly detected counterfeit goods. Whereas detections of imported counterfeit cigarettes showed a decrease, over the last few years, the production of counterfeit cigarettes in the EU has seen a considerable increase. These illicit factories are becoming increasingly sophisticated and modern, capable of producing up to 2 million cigarettes a day. Intense law enforcement activity in eastern European countries seems to have diversified the locations of illicit tobacco production sites in the EU. Although most of the counterfeit cigarettes are still sold on the street, there has been an increase in online trade and shipment via small parcels.

Finally, in recent years, the number of counterfeit **vehicle parts** detected has considerably increased. Counterfeiters produce a wide range of different car parts, including brake pads, airbags and filters. The increase in counterfeit car parts is driven by the growth in the online trade of these products. Most of these goods do not comply with recognised safety standards, which can result in potentially fatal failures of the vehicles. Besides car parts, counterfeited high-end road bikes and bicycle parts, such as helmets, have also been detected.

The market for counterfeit goods remains highly profitable, providing criminals with opportunities to generate huge profits while running few risks. Most criminal activity involving counterfeiting is undoubtedly performed by organised crime groups and there appears to be an overall professionalisation of these groups. An increasingly wide array of different counterfeit and pirated goods are available on the EU market, ranging from luxury goods to mundane, everyday items. Besides economic damage, many of these items can pose a serious threat to the environment and the health and safety of consumers, thus providing a clear demonstration of the need for strong efforts to tackle this criminal activity.

# INTRODUCTION

Counterfeiting and piracy are used to describe a range of illicit activities, normally relating to registered trade marks and patents (for counterfeit goods) and copyright and design (for piracy). Together, these constitute IP offences. The value and usage of intellectual property rights (IPR) continues to expand, providing growing incentives for criminals to exploit and infringe these rights.

Counterfeiting and piracy are lucrative criminal activities, while at the same time generating relatively low detection risks. Criminal sentences for counterfeiting are also considerably lower than for many other criminal activities, such as drug trafficking. Moreover, several EU Member States have in recent years decreased their focus on fighting IP crime, in favour of other criminal activities that are deemed more serious and harmful, such as drugs trafficking, migrant smuggling, trafficking in human beings, and terrorism. At the same time, organised crime groups have become increasingly involved in the production and distribution of counterfeit and pirated goods and have adopted increasingly sophisticated and complex modi operandi, facilitated by technological advancements and complex global distribution channels. Online marketplaces are increasingly becoming an important source of income for criminal groups engaged in the sale of counterfeit and pirated goods.

## 1. BACKGROUND

### 1.1 AIM AND SCOPE

The joint Europol/EUIPO threat assessment is a strategic document providing an assessment of the latest trends and current impact of IP crime within the EU, as well as the involvement of organised crime groups. It aims to inform decision makers at strategic, policy-making and tactical levels in the fight against IP crime, with a view to informing the operational focus for EU law enforcement. The report seeks to highlight emerging threats and provides recommendations to align and strengthen the joint efforts of EU law enforcement and its partners in preventing and fighting IP crime.

The focus of the report is on counterfeiting and piracy affecting the EU. It includes an assessment of the threat posed by counterfeiting and piracy in several product sectors. In addition, it discusses cross-cutting factors that influence or impact the criminal scene, such as online trade and the use of small parcels. The report also examines some of the main challenges for law enforcement authorities.

Europol and the EUIPO (formerly OHIM) produced joint situation reports on counterfeiting and piracy in the European Union in 2015 and 2017. The current threat assessment builds upon these reports to present an assessment of the criminal threats and trends related to counterfeiting and piracy since the period covered by the last report published in 2017.

## 1.2 DATA AND METHODOLOGY

The report was drafted by a team of analysts and specialists from Europol and the EUIPO. It draws on contributions received by Europol from Member States, EU Agencies and third parties for the purpose of strategic intelligence analysis. In addition, it uses the operational data covering IP crime available at Europol, in particular the Analysis Project (AP) COPY. This includes data on large operations coordinated or supported by Europol. It also relies on the statistical data collected by the Directorate-General for Taxation and Customs Union (DG TAXUD) on seizures of counterfeit items by EU customs authorities in 2017. Furthermore, it takes into account the strategic and thematic reports produced or received by Europol or the EUIPO since the 2017 situation report. Finally, where appropriate and verified, open source information has been used to complement the primary data.

## 1.3 SCOPE AND IMPACT OF THE PROBLEM

A recent study conducted by the OECD and the EUIPO estimated that in 2016, counterfeit and pirated goods could make up as much as 3.3 % of total world trade. This is a considerable increase compared to the previous study, which used the same methodology for 2013 and arrived at 2.5 % for that year. The EU, where IP-intensive industries generate, on average, 42 % of gross domestic product (GDP), is hit particularly hard by counterfeiting. In 2016, up to 6.8 % of EU imports constituted counterfeit and pirated goods, amounting to as much as EUR 121 billion. Compared to 5 % in 2013, this is a sharp increase in three years<sup>1</sup>.

1 - [OECD & EUIPO \(2019\). Trends in trade in counterfeit and pirated goods.](#)

2 - [European Commission \(2018\). Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

Over the last four years, the total number of seizures of counterfeit items by customs authorities in the EU has gradually decreased. At the same time, the number of articles seized and the total estimated value of these seizures increased in 2015 and 2016, only decreasing in 2017. The number of articles per seizure and the average value per seizure has gone up considerably<sup>2</sup>.

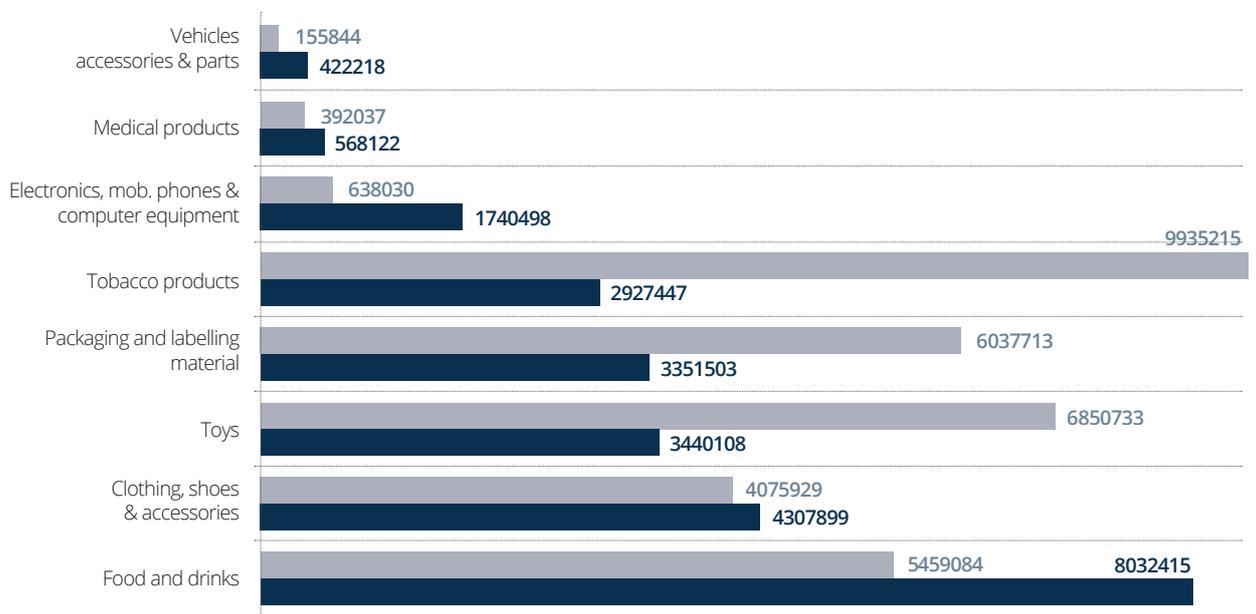
**Table 1: Trends in seizures based on EU customs figures.**

	2014	2015	2016	2017
Number of seizures	95 194	81 098	63 184	57 433
Number of articles	35 568 982	40 728 675	41 387 132	31 410 703
Estimated value (€)	617 046 337	642 108 323	672 899 102	582 456 067
Articles per seizure	374	502	655	547
Value per seizure(€)	6 482	7 918	10 650	10 141

Often perceived as a victimless crime, for many law enforcement authorities in the EU, IP crime is not among their top priorities. Similarly, on an EU level, counterfeiting was removed as a priority for the EU Policy Cycle on Serious and Organised Crime 2017 — 2021. It is likely that this has resulted in a decrease in the number of investigations and operations carried out.

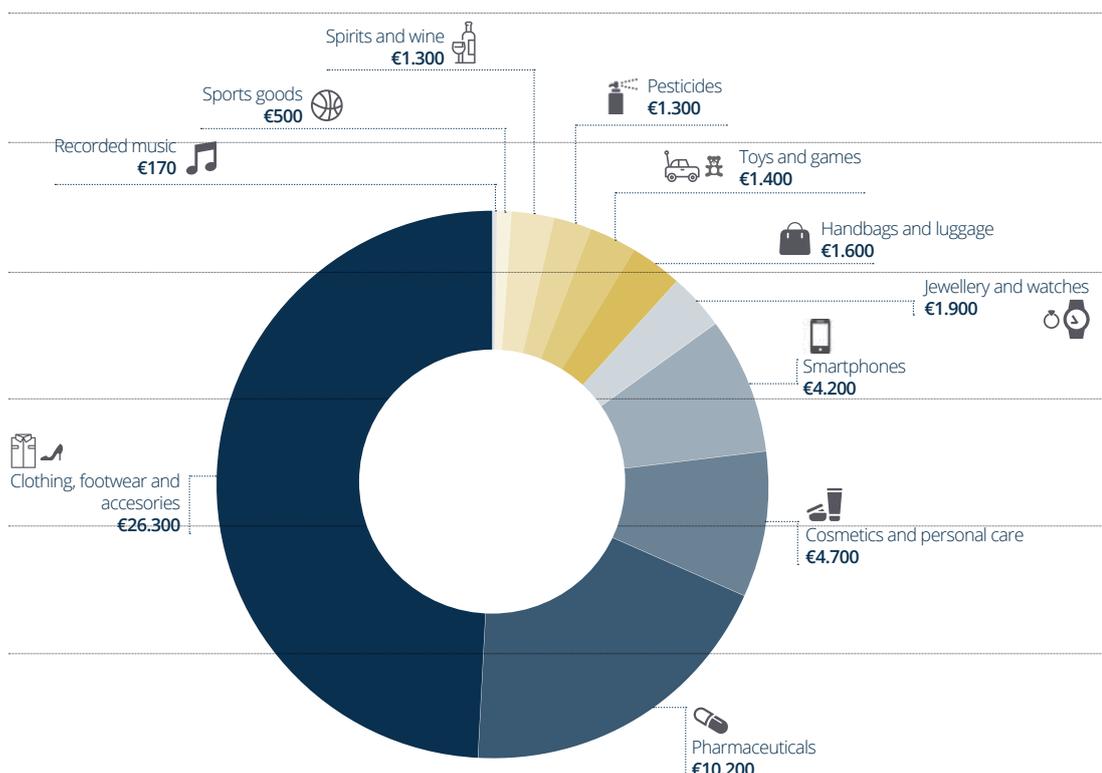
Counterfeiters are no longer only involved in producing fake luxury items. Instead, driven by cheaper production methods and improved technology, a wide range of everyday goods are counterfeited nowadays. Car parts, cosmetics, electronic components, food and drinks, pesticides, pharmaceuticals and toys are but a few of the items targeted for counterfeiting. Any product with a brand that has value can be, and is, targeted for counterfeiting. This increasingly wide range of counterfeit goods not only has significant negative economic consequences, but also impacts on the health and safety of consumers and can damage the environment.

**Fig. 1: Number of IP infringing articles seized per product category, based on EU customs figures for 2016/2017.**



The economic consequences of IPR infringements are considerable. Counterfeit and pirated goods decrease revenue for legitimate businesses, negatively affect their reputation and deprive governments of tax revenue. It also hampers innovation and leads to job losses, as manufacturers produce less as a result of the fake goods. In a series of studies conducted by the EUIPO over the last few years, the direct annual losses of 13 market sectors that are particularly vulnerable to counterfeiting have been estimated. Collectively, these sectors lose EUR 60 billion a year, or 7.5 % of their total sales.

**Fig. 2: Economic loss per industry sector in million Euros, based on EUIPO figures.**



Besides economic harm, counterfeit goods can have a serious impact on the health and safety of consumers, as well as negative environmental consequences. Reliable quantitative assessments of this type of harm are generally not available<sup>3</sup>, but customs and law enforcement authorities in the EU frequently detect counterfeit goods that could pose considerable dangers to consumers or the environment. In recent years, there has been an increase in common consumer items targeted by counterfeiters, many of which are posing considerable risks to the health and wellbeing of consumers. These common consumer items are wide-ranging and include cosmetics, electronics, food and drinks, pharmaceuticals, spare vehicle parts and toys<sup>4</sup>.

## 2. KEY PRODUCT SECTORS

### 2.1 ELECTRONICS

Counterfeit electronics, such as mobile phones, parts and accessories, are increasingly being detected. In particular, the number of computer equipment items seized by EU customs authorities increased significantly, from 187 093 in 2015 to 1 433 883 in 2017. At the same time, the number of seizures was considerably lower in 2017, highlighting the increase in large shipments containing these types of goods. EU customs authorities also seized an increasing number of mobile phones in 2017 compared to 2015, while the number of counterfeit parts and technical accessories decreased<sup>5</sup>.

3 - Eurostat (2018). [Handbook on the compilation of statistics on illegal economic activities in national accounts and balance of payments.](#)

4 - OECD & EUIPO (2019). [Trends in trade in counterfeit and pirated goods.](#)

5 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

Significant safety issues arise from the use of counterfeit electronic goods and accessories, as in many cases these goods are manufactured without testing to check that they meet industrial safety standards. They also frequently lack the safety features that are needed to protect users from shock or fire hazards. Furthermore, customers are often misled by the use of counterfeit safety marks on these goods.

Besides ready-to-use electronic goods, in 2017 there were also a high number of detections of counterfeit semiconductor devices, imported into the EU from China and Hong Kong by postal and express courier services. This included counterfeit diodes, LEDs, transistors and integrated circuits. These fake parts are used in many everyday electronic devices and can harm not only the devices, but also the consumers.

As the semiconductors in question were not produced by the genuine manufacturers, their use in electronic goods could have led to the failure of computer systems and caused serious malfunctions of sensitive infrastructures, whether civilian or military. As some of the counterfeit semiconductors seized may have been destined for the transport sector and ended up in cars or aeroplanes and may even have made their way into hospitals as part of surgical instruments, their use could have directly endangered human lives.

6 - [European Commission \(2018\). Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

Counterfeit electronics detected in the EU come almost exclusively from China and Hong Kong<sup>6</sup>. It is estimated that in the EU, EUR 4.2 billion was lost in 2015 alone as a result of counterfeit smart phones<sup>7</sup>.

## EMERGING THREATS

7 - ITU & EUIPO (2017). [The economic cost of IPR infringement in the smartphones sector.](#)

Counterfeit mobile phones and accessories, such as chargers, are frequently among the detected items sold on online marketplaces. In some Member States, they rank among the most frequently detected counterfeit items in recent years by law enforcement authorities. Often these goods are shipped directly from one of several Asian countries to consumers in the EU. Due to poor design and construction, counterfeit phone adapters can be fire and shock hazards and, in extreme cases, even pose a risk of electrocution.

8 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

## 2.2 FOOD AND DRINKS

Food and drinks remain highly popular items for counterfeiters. The EU consistently appears as a major destination for illicit food and drinks. Moreover, compared to other parts of the world, this includes relatively high percentages of goods that infringe intellectual property rights, possibly because of the well-developed intellectual property system for foodstuffs (see also the box on page 25).

Foodstuffs accounted for almost 25 % of all goods detained by EU customs authorities in 2017, making this the number one category of articles. This was primarily the result of the detection of large shipments of counterfeit sweets and bubblegum. The number of detained articles has increased every year between 2014 and 2017 ( ). Leading source countries for counterfeit food and drinks are China, Hong Kong, India, Moldova, Syria, Thailand, Turkey, and Ukraine.

The counterfeiting of food and drinks causes serious risk to the health and wellbeing of consumers, as the counterfeit goods are almost always of substandard quality. In some cases, counterfeit food even contained dangerous or hazardous materials. The wide range of detected counterfeit foodstuffs and drinks demonstrate that organised crime groups will counterfeit any item, as long as they can make profit on it, with no thought for the potential harmful consequences to human health. Moreover, an estimated EUR 1.3 billion of revenue is lost on an annual basis in the EU spirits and wine sector because of counterfeit goods in the marketplace<sup>9</sup>.

9 - EUIPO (2016). [The economic cost of IPR infringement in the spirits and wine sector.](#)

Not only expensive and luxury food is targeted by counterfeiters, but also everyday food products. For example, in 2017, French customs authorities seized a large quantity of counterfeit stock cubes, bearing the false trade mark of a major company. Other types of food detected in recent years that have violated a registered trade mark include cheese, coffee, tea, olive oil and pasta. In several cases, these goods have been found in grocery stores, highlighting the fact that these goods also infiltrate the legal supply chain.

## CASE STUDY — OPERATION OPSON VII

Operation OPSON is a global operation run jointly by Europol and Interpol that has been running annually since 2011, targeting counterfeit and substandard food and beverages. The operation thus has a wider scope than only IP infringements, which usually comprise only a small percentage of all seizures. However, nearly all IP infringements are usually detected in the EU. Since its inception, the operation has been growing each year.

Operation OPSON VI ran from December 2017 — March 2018 and involved the participation of 67 countries, 24 of which were EU countries. It resulted in the seizure of 3 620 tonnes of fake and substandard food and 9 700 000 litres of fake and substandard drinks. Moreover, 66 illegal factories were dismantled and 49 organised crime groups disrupted.

Among the goods seized in the EU were mislabelled and rotten meat, chemically coloured canned tuna (in order to make it look like fresh tuna) and fake milk powder for babies. The organised crime groups involved were particularly associated with food crimes related to alcoholic beverages, meat and meat products, cereals, grains and derived products and olive oil. In many cases concerning IP infringement there was some element of organised crime group involvement.

One of the most sensitive counterfeit food products continues to be baby milk powder, driven by the high market prices for this product. In many cases, the counterfeit baby milk formula is produced in Europe and subsequently shipped to China via train. During Operation OPSON VII, four people were arrested and eight tonnes of forged baby milk were seized. The counterfeiters bought the product in bulk from a Polish website for one euro per kilo and had it delivered to a delivery point in Barcelona. In a factory in nearby Girona, they put the product in cardboard boxes branded with the names of well-known international brands. They used different packaging formats and brands to match the

differences in these goods between countries. 600 gram boxes were sold for EUR 10 each. Most of the product was sent to China via a Polish transportation company. It was primarily sold to Chinese consumers via intermediaries located in various Member States and belonging to Chinese diaspora communities. Although the product itself was not harmful, it lacked the nutrients needed by infants and was made in an environment that did not comply with food health and safety standards. As a result, the product posed serious risks to the health of babies.

In some cases, organised crime groups produce food products that infringe a protected geographical indication. For example, one organised crime group was detected producing ham that was marketed as Italian prosciutto, but in reality came from Denmark. The criminals operated their own slaughterhouse and used falsified documents, fake stamps and industrial tattoos to pass the pork meat off as a local Italian breed. They also fed the animals forbidden products and used forged documents to obtain a EUR 900 000 subsidy from the Italian state to renovate their slaughterhouse. Organised crime groups have also been found to use false invoices to certify olive oil coming from Greece, Morocco and Spain as the more desirable extra virgin olive oil with the label 'made in Italy'.

### PROTECTED GEOGRAPHICAL INDICATION

A geographical indication (GI) is a distinctive sign used to identify a product whose quality, reputation or other characteristic is linked to its geographical origin. The EU supports better protection of GIs internationally, due to the increasing number of violations throughout the world. Therefore, product names can be granted with a GI if they have a specific link to the place where they are made. The GI recognition enables consumers to trust and distinguish quality goods while also helping producers to market their goods better.

Recognised as intellectual property, GIs play an increasingly important role in trade negotiations between the EU and other countries. There are three different types of GI assignable to goods:

- **Protected designation of origin (PDO).** Product names registered as PDOs are those that have the strongest links to the place in which they are made (food, agricultural goods and wines).
- **Protected geographical indication (PGI).** This type emphasises the relationship between the specific geographical region and the name of the product, where a particular quality, reputation or other characteristic is essentially attributable to its geographical origin (food, agricultural goods and wines).
- **Geographical indication (GI) of spirit drinks and aromatised wines.** The GI protects the name of a spirit drink or aromatised wine originating in a country, region or locality where the product's particular quality, reputation or other characteristics are essentially attributable to its geographical origin.

The law enforcement authorities who detect counterfeit food and drinks regularly detect other types of counterfeit goods at the same time, highlighting how organised crime groups are frequently involved in trading a wide range of different counterfeit goods. Over the last two years, alongside counterfeit food and beverages, law enforcement authorities in the EU seized counterfeit car parts, clothing and shoes, cosmetics, electronic goods, mobile phones and accessories, pharmaceuticals, tobacco products and toys. This illustrates how organised crime groups involved in the production and distribution of counterfeit food and drinks often use the same networks and routes that are used for other types of counterfeit goods.

Besides food, counterfeit alcoholic beverages pose a considerable risk to EU consumers. The number of alcoholic beverages detected by EU customs authorities in 2017 increased by more than 50 % compared to 2016. This was primarily the result of the detection of a large shipment of counterfeit alcohol from Moldova<sup>10</sup>. Alcohol is also consistently the most seized product during the annual OPSON operation, although this also includes illicit and substandard products. The main direction of smuggled illicit alcohol is from eastern Europe and Russia towards western Europe. However, detections of production sites for counterfeit wine have been particularly prevalent in Italy.

10 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

Spirits and wine are goods that are particularly popular targets for counterfeiting organised crime groups. A common modus operandi for counterfeit wine involves placing cheap wine in bottles containing fake labels for expensive wine brands. In some cases, pure alcohol is added to wine of low quality to increase the alcohol percentage. Counterfeiters either reuse original bottles or print counterfeit labels to place on empty bottles. In recent years, several sophisticated EU-based organised crime groups, consisting of individuals with specific tasks related to production and distribution of the wine, have been disrupted.

Organised crime groups are also involved in counterfeiting a wide range of non-alcoholic beverages, with detections ranging from popular types of soda to mineral water and even coconut water.

## CASE STUDY — COUNTERFEIT ITALIAN WINE

In February 2019, Europol supported an operation coordinated by the Italian Carabinieri against a sophisticated organised crime group involved in counterfeiting the trade marks and distinctive labels of a famous winery in Florence, Italy. The organised crime group counterfeited at least 11 000 bottles of red wine.

The bottles claimed to belong to the high-quality group of *indicazione geografica tipica* (typical geographical indication — IGT) wines, protected by the Italian government. In reality, they contained a wine of lower quality. The organised crime group filled bottles with this low-quality wine and subsequently placed counterfeit wine labels, ordered from China, on them. The fake wine was sold on the Italian market, as well as in Belgium and Germany.

During the investigations, the Carabinieri discovered at least 3 000 corks and around 10 000 laminate caps, as well as a bottling and capping machine. Nine people were investigated and three were arrested.

## EMERGING THREATS

The organised crime groups involved in food counterfeiting seem to have become more and more complex, their activities becoming increasingly layered and specialised. Law enforcement authorities regularly find fake packaging materials, security rings and counterfeit labels, as well as advanced production tools. Together with the different marketing and distribution strategies, including online marketing and sales and infiltration of the legal supply chain, indications point to a growing professionalisation.

Similarly, the organised crime groups involved in producing counterfeit drinks have, in recent years, become increasingly sophisticated in their production methods. Traditionally, they would primarily refill original bottles with counterfeit produce. However, they are now increasingly operating their own production lines, including the packaging and labelling of the product. In some cases, legitimate alcohol production lines dedicate one day a week or month to producing counterfeit alcoholic beverages. Law enforcement authorities regularly seize production tools and packaging supplies, such as bottling machines, fake corks and security rings for bottles. Moreover, the quality of the counterfeit goods appears to be improving.

### 2.3 LUXURY PRODUCTS, CLOTHES AND ACCESSORIES

Clothing, footwear and personal accessories remain among the most popular types of product for counterfeiters. Any fashion item that contains a brand is subject to counterfeiting. Clothing and shoes were the most commonly detected counterfeit items in terms of number of customs' seizures at the external borders of the EU in 2015, 2016 and 2017<sup>11</sup>. This is primarily the result of a large number of small orders via the internet, which are subsequently shipped via postal or courier services. However, despite the large number of counterfeit clothes and shoes that are sold online, they are also still commonly sold on the streets of certain cities and in popular tourist areas.

Jewellery and watches are luxury goods that are commonly counterfeited. Specifically, watches were the fourth largest category of goods in terms of number of seizures by EU customs authorities in 2017. This is probably due to a relatively high number of small orders via the internet. In terms of domestic retail value, it was the number one category of goods, accounting for almost 30 % of the total value of all counterfeit items detained by EU customs authorities in 2017. Jewellery was third, accounting for slightly less than 10 % of the domestic retail value in 2017. Both can be explained by the high value of the luxury brands involved<sup>12</sup>.

The economic impact of counterfeit clothing and personal accessories is particularly high. It is estimated that counterfeiting causes losses of around EUR 26 billion per year to the clothing, footwear and accessories sector<sup>13</sup> and around EUR 2 billion a year to the jewellery and watches sector in the EU<sup>14</sup>.

11 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

12 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

13 - EUIPO (2015). [The economic cost of IPR infringement in the clothing, footwear and accessories sector.](#)

14 - EUIPO (2016). [The economic cost of IPR infringement in the jewellery and watches sector.](#)

## CASE STUDY — OPERATION PINAR

Europol supported the Spanish National Police and Spanish tax authorities in dismantling an international criminal organisation involved in IP crime and money laundering. In total, almost 265 000 goods infringing intellectual property rights — textiles, footwear, watches, sunglasses, leather goods, jewellery and more — were seized, with an estimated black market value of EUR 8 million.

The criminal group used a sophisticated network of fictitious companies and front men to launder the proceeds of their criminal activities, which are thought to have exceeded EUR 9 million. A total of 71 individuals were arrested, 6 premises were searched and 41 inspected, including warehouses. The operation also led to the seizure of 30 high-end vehicles, 150 bank accounts, around EUR 13 000 in cash, two stamping plates and documents related to the illicit activities. In some of the premises, investigators discovered the existence of secret warehouses hidden behind false walls, used by the criminals to conceal the latest illicit merchandise in case of a police raid.

The gang operated in the areas of La Junquera and El Perthus in Spain, a historic European black spot for infringing intellectual property rights. The criminal organisation consisted of three homogeneous groups, with no clear hierarchical leader and it operated in a perfectly coordinated way to share supply channels, warehouses and money laundering mechanisms. The criminals imported goods from different companies and different countries, in particular China, Portugal and Turkey. Other products, mainly leather goods and belts, were counterfeited in Spain through the acquisition of 'white label' products to which they applied logos and recognised brand names.

Most of the goods detected in these categories come from China, Hong Kong and Turkey. Other source countries are Albania, Georgia, Iran, Singapore, and Vietnam<sup>15</sup>. Recently, counterfeit fashion items have been transported from Turkey to Bulgaria and Greece by public bus as unattended parcels, without a link to any of the passengers. Once the bus arrives at its destination, the goods are shipped to other European countries. There have also been cases involving the transport of counterfeit fashion goods via trucks from Turkey to Greece.

15 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

A particularly worrisome development is that some of the jihadist terrorist attacks in the EU in recent years were partially financed by selling counterfeit clothing and shoes, although the most prominent example of this already stems from 2015. The Kouachi brothers, responsible for the terrorist attack on the Charlie Hebdo office, had been involved in selling counterfeit sports shoes. They had paid for the shoes via international payment services and imported them via parcel service from China.

## EMERGING THREATS

There appears to be an increase in production of counterfeit clothing within the EU, illustrated by detections of clothing and counterfeit labels, marks and distinctive features. It is highly likely that the organised crime groups subsequently glue or stitch these onto the clothes. In this way, they reduce the risk of seizures during the shipping of the clothes



## 2.4 PESTICIDES

Pesticides are one of the most regulated products in the world today and can only be traded and used in the EU if they are authorised and proven to be safe. It is no surprise then that a wide range of different counterfeit pesticides are traded in the EU. With six Member States in the top 10 countries for agricultural exports, this issue disproportionately affects the EU. The trade in counterfeit and other illegal pesticides is facilitated by different laws and regulations in different EU Member States.

Counterfeit pesticides include goods that infringe trade marks and patents. These goods are generally placed on the market without having been officially tested and authorised by the authorities. In many cases, the product contains cheaper ingredients that are less active, while in other cases the ingredients may be more toxic than is recommended. These goods can have a serious impact on the environment, affecting the ground, air or water for a long period of time. Counterfeit pesticides can also destroy crops and fields. Finally, they can have serious effects on the health of farmers using these types of pesticides and on consumers eating the food products resulting from the use of the counterfeit pesticides.

16 - <https://www.ecpa.eu/stewardship/counterfeit-illegal-pesticides> The European Crop Protection Agency estimates that nearly 14 % of pesticides on the EU market are counterfeit or otherwise illegal, and up to 25 % in some individual countries<sup>16</sup>. Counterfeit pesticides pose a growing threat to the EU. A strong increase in seizures in recent years is indicative of the growth of the problem, and of the industry's and competent authorities' awareness. The active ingredients most often detected in counterfeit pesticides are captan and folpet (fungicides), tribenuron-methyl and glyphosate (herbicides) and deltamethrin and lambda-cyhalothrin (insecticides). These goods fall in the middle range of the pesticides market in terms of their marketable value.

### CASE STUDY — OPERATION SILVER AXE III

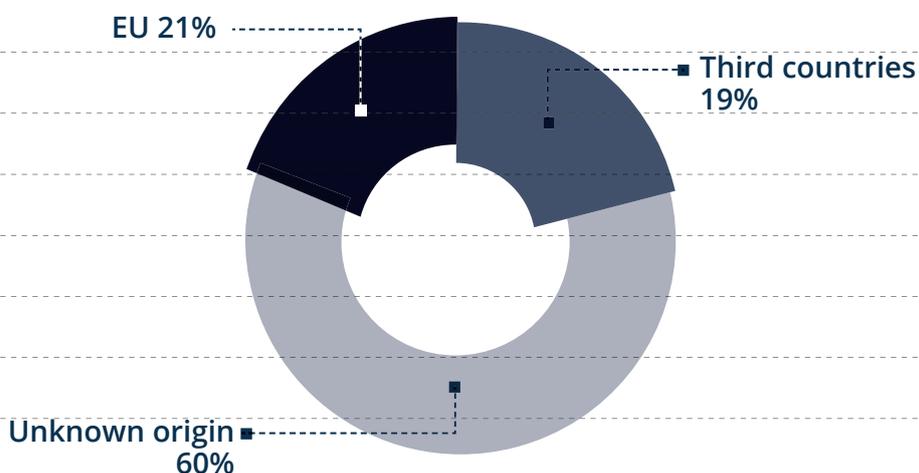
Operation Silver Axe is an annual operation coordinated by Europol's IPC3 with the support of the European Anti-Fraud Office (OLAF). The first edition of this joint operation took place in 2015 and resulted in 190 tonnes of pesticides being seized. In 2017, Silver Axe II resulted in 122 tonnes being seized. The third edition of Silver Axe saw a sharp increase in the amount of counterfeit pesticides seized: 360 tonnes. This is enough to spray 48 000 square kilometres of land.

Operation Silver Axe III took place over the course of 20 days during April and May 2018. Checks were carried out at major seaports, airport and land borders, as well as production and repacking facilities within the territories of the participating countries. In total, 27 countries participated in the largest coordinated operation against counterfeit pesticides to date, as well as 43 private companies and other European and international bodies.

The organised crime groups involved in counterfeiting pesticides place false brand labels on their goods or labels in non-EU languages. The goods are subsequently imported by relying on fraudulent transport documents, or are smuggled across the EU's external borders. Another common modus operandi is to import the product in bulk with fraudulent import declarations, and subsequently pack and label the product within the EU. In other cases, the trade mark-bearing goods, such as bottles or bottle caps, are sent separately from the chemicals.

During operation Silver Axe III, most of the pesticides detected originated from China and India. In many cases, the shipments were declared as being in transit in the EU or declared for export from the EU to third countries, such as Moldova, Russia, Turkey and Ukraine. Other common source countries of counterfeit pesticides are North Macedonia and Serbia.

**Fig. 3: Operation Silver Axe 2018, seized pesticides by origin, based on Europol data, 2018.**



Counterfeit pesticides are regularly smuggled by car from Turkey to Bulgaria and Greece, sometimes together with counterfeit cigarettes. Increasingly these goods are also ordered online and arrive in small parcels.

- 17 - EUIPO (2017). [The economic cost of IPR infringement in the pesticides sector.](#) On an annual basis, the EU pesticides sector loses an estimated EUR 1.3 billion because of counterfeit pesticides that are introduced into the marketplace. In absolute terms, Germany, France and Italy especially, as the major producers of pesticides in the EU, see huge losses in legitimate sales<sup>17</sup>.

### EMERGING THREATS

- 18 – European Commission (2015). [Ad-hoc study on the trade of illegal and counterfeit pesticides in the EU.](#) In an increasing number of cases, criminals import only the component ingredients and subsequently produce the counterfeit pesticides in the EU. This makes it harder to detect the counterfeit pesticides and requires an adaptive change in law enforcement agencies' investigative approaches.

The organised crime groups increasingly abuse the parallel trade system, selling goods across borders outside official distribution systems and without the authorisation of the owner of the IP rights, to place counterfeit pesticides on the EU market. This is enabled by differences between EU Member States regarding the requirement to link the parallel-traded product to the reference product batch that is sold<sup>18</sup>. The ability to legally repack products after importation into the EU makes it complicated to verify the content and the nature of the product.

## 2.5 PHARMACEUTICALS

Counterfeit pharmaceutical goods pose a growing threat to the EU, affecting a large number of Member States. A wide and increasingly diverse range of different medicines are targeted by counterfeiters. Erectile dysfunction medicines are traditionally among the most common type of counterfeited medicines, but counterfeited performance-enhancing drugs, such as anabolic steroids and doping substances, are also increasingly being detected.



Although strict regulations and enforcement in EU Member States mean that counterfeit medicines are not as common as in some other parts of the world, there has been a considerable growth in the trade in counterfeit medicinal goods in recent years. The number of seizures of counterfeit medicines and other goods by EU customs authorities increased from 1 554 in 2015 to 1 835 in 2017, although the number of items seized actually decreased from 895 324 in 2015 to 568 122 in 2017. This illustrates the growing trend in the trade in counterfeit medicines, to use parcel and postal services<sup>19</sup>.

The Pharmaceutical Security Institute (PSI), a non-profit pharmaceutical industry association, in its annual situation report, claimed that an increasing number of counterfeit medicines had been detected in 2017 compared to 2016, particularly in small parcels. Moreover, an increased number of incidents affecting the legal supply chain had taken place. Within the EU, especially Germany, reports of a high number of counterfeit medicines were detected. The number of arrests for the production and distribution of illegal medicines in Europe also went up from 65 in 2016 to 175 in 2017, in part driven by a considerable number of arrests by the Guardia Civil in Spain<sup>20</sup>.

Counterfeit medicines can have very serious effects on the health of consumers. They are often produced in unhygienic conditions and by unqualified personnel, leading to dangerous changes in the molecular structure of the medicine. In some cases, the medicines contain high levels of toxic ingredients, causing serious illnesses or even death. Counterfeit medicines may contain the wrong active ingredient, the wrong amount of the active ingredient, or no active ingredient at all. They may also be authentic medicines repacked in counterfeit packaging.

In the United Kingdom, increasing use of counterfeit versions of Xanax, a drug used to treat anxiety and panic attacks, have caused numerous deaths over the last years. Due to a scarcity of the drug in the United Kingdom, criminals have turned to manufacturing their own pills with powder imported from China<sup>21</sup>. In many cases, counterfeit Xanax is bought on the Dark Web and often contains other dangerous substances<sup>22</sup>.

Each year, the EU pharmaceutical sector loses an estimated EUR 10.2 billion because of counterfeit medicines in the EU marketplace<sup>23</sup>. This estimate is based on manufacturing alone and does not include retailers, such as pharmacies.

The organised crime groups may have their own production line, manufacturing counterfeit medicines in their own clandestine laboratories. Alternatively, they import counterfeit or illegal medicines from countries outside the EU and repack and distribute these within the EU. A third option for organised crime groups is to sell legitimate medicines that are illegally diverted from the legal supply chain and repacked as a different type of medicine, using falsified branding and packaging. Diversion can take place in many different ways, including through corrupt health care professionals, theft or prescription fraud.

19 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

20 - Pharmaceutical Security Institute.

21 - [https://www.bbc.co.uk/news/resources/idt-sh/fake\\_xanax\\_the\\_uk\\_s\\_largest\\_ever\\_dark\\_net\\_drugs\\_bust](https://www.bbc.co.uk/news/resources/idt-sh/fake_xanax_the_uk_s_largest_ever_dark_net_drugs_bust)

22 - <https://www.bbc.com/news/health-47055499>

23 - EUIPO (2016). [The economic cost of IPR infringement in the pharmaceutical industry.](#)

### CASE STUDY — OPERATION PANGAEA XI

During an international week of action (9–16 October) in Operation Pangea XI, coordinated and supported jointly by Interpol and Europol, police, customs and health regulatory authorities from 116 countries targeted the illicit online sale of medicines and medical products, resulting in 859 arrests worldwide and the seizure of USD 14 million-worth of potentially dangerous pharmaceuticals.

Almost one million packages were inspected, with 500 tonnes of illicit pharmaceuticals seized worldwide, including anti-inflammatory medication, painkillers, erectile dysfunction pills, hypnotic and sedative agents, anabolic steroids, slimming pills and medicines for treating HIV, Parkinson's and diabetes. Additionally, more than 110 000 medical devices including syringes, contact lenses, hearing aids and expired cardiac surgery instruments were also seized.

There are different *modi operandi* when it comes to the production of counterfeit medicines. In some cases, the medicines and packages are produced in the same clandestine laboratory, while in other cases production is done at separate sites or even by separate organised crime groups. In one case, an organised crime group was found to have sent samples of branding to China, where stickers were produced on a large scale and sent back to be placed on the packaging. Finally, there are also filler sites, where medicines and packaging manufactured elsewhere are put together.

One of the trends observed in this area is the importation of raw materials in order to proceed with local production. In recent years there have been regular seizures of pill presses, mixers, blister machines, bottles and labels. Raw materials are illegally brought into the EU from countries such as India and China, usually using fake documents under a fictitious brand. Illegal medicines are then manufactured in laboratories that have all the necessary infrastructure to produce fake and illicit medicines. In some cases, counterfeit medicines are produced by the organised crime groups that are also involved in producing and trading synthetic drugs, such as MDMA, LSD and ketamine.

### CASE STUDY — OPERATION REAPARECER

During a Spanish-led investigation involving five different countries and supported by Europol, house searches in several Spanish cities resulted in the seizure of 500 000 doses of different medicines, seven litres of testosterone, two machines for manufacturing pills, as well as an encapsulation machine and a sealer. The organised crime group members imported raw ingredients from China and produced anabolic steroids in clandestine labs located in Spain. International distribution was arranged by a Dutch organised crime group member who transported the product with vans and other vehicles. The product was further distributed through several gyms.

The poly-criminal organised crime group was also involved in international drug trafficking. The searches resulted in the seizure of 17.5 kilograms of heroin, speed, crystal methamphetamine, ketamine, hashish and cocaine, as well as 3 500 doses of LSD, 42 500 MDMA pills and 5 kilograms of marijuana.

Organised crime groups are finding increasingly creative ways to smuggle counterfeit medicines, possibly in response to growing awareness among customs and law enforcement authorities. During Operation Pangea XI, Polish authorities found counterfeit contraceptive pills hidden inside DVD boxes, while Irish authorities found counterfeit sleeping pills inside a hollowed-out book.

Besides counterfeit medicines, organised crime groups are also involved in the sale of illicit medical devices, such as dental devices and implants, condoms, syringes, medical testing strips and surgical equipment. During Operation Pangea X in 2017, these illicit devices worth an estimated USD 500 000 were recovered.

The most common source countries for counterfeit medicines are China and India, while Singapore is increasingly becoming a key transit point used by organised crime groups for the shipment of counterfeit medicines. In recent years Turkey has also emerged as an important source country of counterfeit medicines, especially hormonal substances, although it is not clear whether this is the result of increased domestic production or import and further distribution. Moreover, Russian and Ukrainian organised crime groups target primarily western European countries with a range of different counterfeit medicines, primarily via the internet. Within the EU, Bulgaria is a leading source and transit country for fake steroids and hormonal products, often introduced into the legal parallel trade system in Europe with Bulgarian packaging. Greece and Slovenia are among the top five source/transit countries for counterfeit hormonal products<sup>24</sup>.

24 - Pharmaceutical Security Institute.

There is a continuous expansion of unauthorised and unregulated online pharmacies, selling a wide range of counterfeit, illicit and substandard pharmaceutical goods. These online pharmacies capitalise on the increasing self-medication trend and consumer demand for cheap medicines. Some of these online shops advertise with the slogan 'original preparation at low prices', but are in reality operated by criminal groups. In recent years, law enforcement authorities have also detected a growing number of counterfeit medicines in postal packages, often ordered on social media pages and other online marketplaces. There are also indications that counterfeit medicines are being traded via mobile instant messaging platforms.

There have been considerable attempts in recent years to counter the problem of falsified medicines. In 2011, the European Parliament and the Council adopted the Falsified Medicines Directive, which required all Member States to implement effective penalties for individuals involved in the production and distribution of falsified medicines. A recent report by the European Commission found that all Member States had adopted satisfactory measures against the trade in falsified medicines, with prison sentences for the falsification of medicinal goods of up to 15 years.

The Directive also introduced mandatory safety features on prescription medicines from February 2019 onwards, which involves tracking each pack of prescription medicine through a unique identifier uploaded to a central European database. While this is expected to prevent the sales of illegal medicines through the legal supply chain, the system will not be able to counter the illicit trade taking place outside the legal supply chain. Drugs not complying with the new packaging requirements will also need to be decommissioned, which might lead to the

increasing availability of empty packages with organised crime groups looking to refill these with counterfeit medicines.

## EMERGING THREATS

Two trends are particularly worrisome. First, the increased detection in recent years of counterfeit medicines meant for the treatment of serious illnesses. For example, there have been regular detections of counterfeited, or otherwise unauthorised, types of cancer medication. Second, a growing number of counterfeiting incidents impacting the legitimate supply chain, facilitated by organised crime groups compromising the legal parallel trade system. Whereas traditionally, the well-regulated distribution channels in the EU meant there were relatively few incidents of counterfeit medicines detected in the legal supply chain, the number of incidents has significantly increased in the last few years.

In addition to these, and based on the results of the recurrent Pangea operations, it seems that medical patent violations are also on the rise. Counterfeiters are employing workers with higher skill sets to be able to set up their own production lines; these two facts combined might lead to a continued increase of these violations in the future.

### 2.6 PIRACY

The infringement of copyrights online is easily achieved without the need for a specific geographic location. Ongoing improvements in internet speed continue to enable ever larger files to be shared and accessed instantly, through illegal downloading or streaming. At the same time, growing availability of legal streaming opportunities has resulted in a decrease in illegal downloading in recent years.

25 - EUIPO (2017). [European citizens and Intellectual Property. Perception, Awareness and Behaviour. Institute for Information Law \(2018\). Global online piracy study.](#)

Many consumers are attracted to accessing illegal digital content, not only because it is free, but also because of availability. Indeed, studies have found that 52 to 95 % of consumers using illegal sources also use various lawful services to access content online<sup>25</sup>. Young Europeans in particular do not feel any compunction about accessing and downloading illegal content when this is cheap or free, and legal content is hard to access<sup>26</sup>.

26 - EUIPO (2017). [European citizens and Intellectual Property. Perception, Awareness and Behaviour.](#)

The growth of the internet has given counterfeiters unique opportunities to sell and distribute pirated digital content. Besides illegal books, movies and music, consumers are also seeking out pirated computer games. For that purpose, circumvention devices that enable users to play unauthorised copies of computer games are offered for sale both on the physical and virtual markets. They are often sold in a bundle with circumvention software to crack or circumvent the technological protection measures of the game producers.

Illegal digital content is distributed via BitTorrent portals and peer-to-peer networks, but increasingly also via cyberlockers, online platforms where content can be stored and shared. Distribution through social media is becoming increasingly common. For digital music, stream ripping is now the most

dominant method of piracy, although music is also illegally distributed through preloaded USB sticks and SIM cards, which are sold online, in street fairs and in local marketplaces.

A significant source of revenue for the owners of platforms distributing digital content comes from digital advertising. In many cases, the advertisements found are mainstream adverts, often from major brands. From the top 100 global companies, 46 were found to have at least one brand advertisement on a copyright-infringing website.

While consumers are attracted to these kind of websites by the free content they can find there, in many cases these same websites are used to target exactly those types of consumers with phishing attempts or the dissemination of malware. It is estimated that one in four persons who stream illegally through a box or stick are affected by a virus or malware. Different kinds of malware and potentially unwanted programmes (PUPs) have been found on suspected websites sharing copyright-infringing content for free, which use deceptive techniques and social engineering to trick consumers into sharing sensitive personal information or even payment card details. This includes many PUPs for the Android OS, reflecting the growing popularity of mobile devices<sup>27</sup>.

27 - EUIPO (2018). [Identification and analysis of malware on selected suspected copyright-infringing websites.](#)

In recent years there has been an increasing number of detections of misuse of Internet Protocol Television (IPTV) technology, or the delivery of television content via the internet. Criminals offer high-quality subscription TV channels to consumers in a wide range of EU Member States from data centres located in different countries, using legally established internet service provider companies. These services are offered via retailers throughout the EU, with illegal subscriptions being sold for prices well below the market rate. Criminals have also been found to use illegal IPTV set-top boxes to mine cryptocurrencies and distribute malicious software applications in the internal network of customers.

Due to the transnational nature of this crime, with servers often being located in countries other than where the subscriptions are sold, it is particularly complicated for law enforcement authorities to detect the criminals behind it. Some of these organised crime groups are large global networks, consisting of individuals located in different countries distributing illicit IPTV packages.

In 2017 and 2018, Europol supported six operations against organised crime groups involved in IPTV crime, resulting in 24 arrests. During one of these operations, 500 counterfeit medicinal doses were also seized, while another organised crime group was also found to be involved in money laundering.

## EUROPEAN POLICE AUTHORITIES, EUROPOL AND AAPA JOIN FORCES TO SHUT DOWN ILLEGAL STREAMING NETWORK

A crime group suspected of hosting a large-scale illegal IPTV streaming business was shut down following a collaborative investigation led by the Cypriot police, with the support of the Cybercrime Division of the Greek police, the Dutch Anti-Fraud Police (FIOD), the Cybercrime unit of the Bulgarian police and Europol, as well as members of the Audiovisual Anti-Piracy Alliance (AAPA).

Following coordination of the Greek and Cypriot police authorities' investigations, raids were conducted in Cyprus, Greece and Bulgaria, during which 17 house searches took place, four suspects were arrested and two servers used to provide illegal access to the channels were shut down. The investigation also uncovered installed machine sites that work with the central server to relay subscriber channels.

The raids involved cooperation with local police authorities and were supported by Europol as well as AAPA members providing technical and forensic expertise. Europol supported the countries involved from the start of the investigations providing criminal analysis and coordination. It also provided on-the-spot support during the raids with operational tools.

In some cases, the organised crime groups go as far as to develop the application needed to illegally stream films, television series and sports events. One organised crime group designed both the application and developed the decoder, which was produced in China and sold to clients for EUR 120. In this way, it offered illegal online television signals from more than 14 000 international points of sale. Clients received instructions on how to access the illicit content and which firmware should be downloaded in a specialised forum environment. While the business was controlled from Spain, the server used to transmit the illegal signal was hosted in France. The organised crime group was estimated to have earned EUR 1.5 million in 6 months, highlighting the highly profitable nature of this crime.

### EMERGING THREATS

The modi operandi used by IP criminals who provide access to digital content that infringes copyrights continues to grow in sophistication. A wide range of circumvention methods are used, from decoders to hosting the content on servers in countries other than where they are physically located themselves. Moreover, site owners increasingly use consumer details to set up new sites and hide their identity and location. New technology does not require peer-to-peer sharing, but simply provides a link to online locations where pirated material can be accessed.

The extent of online piracy is expected to continue increasing in the future. As streaming devices become increasingly integrated, illegal content can be accessed more easily through applications using legitimate technology, such as smart televisions, instead of through illegal streaming devices.

## 2.7 TOBACCO PRODUCTS

The number of counterfeit cigarettes detained by EU customs authorities has decreased for 4 years in a row, with the figures for 2017 going down significantly compared to 2016. Nonetheless, cigarettes were still third place in the list of the most commonly detected counterfeit products. Large quantities of counterfeit cigarettes are still shipped via sea to the EU, as well as overland via the eastern EU external border. Most counterfeit cigarettes detected come from China, followed by Vietnam<sup>28</sup>. Closer to the EU, illicit cigarettes originate from Ukraine, Belarus and Moldova.

Counterfeit cigarettes cause considerable economic damage, as governments miss out on substantial tax revenues and cigarette brands lose profits. Moreover, illegally produced cigarettes are not subject to quality controls and are often produced in unhygienic environments. This means they may have even more negative health consequences than legal cigarettes. Finally, in some cases, workers in clandestine factories are exploited by the organised crime groups running the factories.

Whereas detections of imported counterfeit cigarettes decreased, in the last few years the production of counterfeit cigarettes in the EU has seen a considerable increase. Production of counterfeit cigarettes takes place in at least 14 EU Member States. In 2017 and 2018 alone, 74 illicit factories were dismantled in the EU, leading to the arrest of 244 suspects and the seizure of 429 million counterfeited cigarettes. It appears that intensive law enforcement activity in Member States in central and eastern Europe over the past few years has at least partially displaced illicit tobacco production activity to western Europe.

Clandestine factories in the EU range from single machines with a low capacity and a limited range of products to large-scale facilities producing a range of counterfeit brands, using specialised machinery and equipment, as well as trained workers or technicians. In many cases, the factories detected are run by large and well-established organised crime groups that are able to gather considerable criminal profits that are then reinvested in further criminal activities or in the legal economy. Some of the organised crime groups involved in the illicit tobacco trade are also involved in migrant smuggling, drug trafficking, forgery of documents, tax offences and money laundering. Weapons are also often confiscated from illegal factory sites and the organised crime groups controlling them.

Occasionally, these groups are also known to use their criminal profits to fund terrorist activities. For example, law enforcement authorities in Northern Ireland recently seized almost five million illicit cigarettes, including a substantial number of counterfeits, during an operation against loyalist paramilitaries.

Producing counterfeit cigarettes within the EU has several advantages for the organised crime groups involved. In particular, it decreases the risk of seizure during border checks. X-ray machines cannot distinguish raw tobacco from other raw agricultural products, whereas

28 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

cigarettes have a typical x-ray image. Importing an entire container of raw tobacco is therefore less risky than importing the end product — cigarettes. Branded cigarette packages are produced in large numbers in China and Hong Kong and subsequently shipped to the EU. Other materials, such as raw tobacco, cigarette filters, cigarette paper and cigarette making equipment, are then shipped separately. Moreover, within most EU Member States, these other materials are not subject to licence obligations or restrictions.

Counterfeiters obtain the tobacco via several means. Some counterfeiters possess industrial-scale processing machines to turn tobacco leaf into useable tobacco. Tobacco leaf is widely available to purchase via online networks, and can be easily shipped and transported to the EU often with little or no duties being applied. In recent years there have been several seizures of large quantities of tobacco leaves in several EU countries. Other counterfeiters buy cut rag tobacco, either directly from small-scale legitimate factories or in wholesale volume from suppliers all over the world. However, this last option requires them to have access to industrial storage conditions and controlled environments. Finally, in some cases, counterfeiters use so-called waste tobacco, usually a by-product of the legitimate manufacturing process consisting of tobacco dust, stem and other tobacco constituents. Used as a cheap alternative to cut rag tobacco, it lacks moisture and its structure makes it a poor substitute.

Although most of the counterfeit cigarettes are still sold on the street, there has been an increase in online trade and shipment via small parcels. Organised crime groups publish advertisements for tobacco products online, increasingly also on social media. Trade via the darknet is still only a very limited phenomenon.

On 25 September 2018, the protocol to eliminate the illicit trade in tobacco products to World Health Organization Framework Convention on Tobacco Control came into force in the EU. The European Commission has issued implementing acts requiring traceability and security features on all tobacco products, starting on 20 May 2019 for cigarettes and hand-rolled tobacco and on 20 May 2024 for all other tobacco goods. As a result, all tobacco products in the EU will be marked with identifiers in order to be able to trace them throughout the supply chain. Whereas this will increase control over the legal supply chain, it will not affect the illicit trade in tobacco-related goods outside the legal supply chain.

## **EMERGING THREATS**

Illicit factories are becoming increasingly sophisticated and modern. Recently detected illicit factories can produce up to 2 million cigarettes a day, seven days a week. Moreover, production lines are becoming increasingly mobile, enabling organised crime groups to move them from one location to another to decrease the risk of detection. One of the consequences of this is that the different stages of production might be situated in different areas or even countries. For example, the cigarette production line could be located in a different place to the packaging and distribution lines. In recent years, an increasing number of small quantities of counterfeit and illicit tobacco-related goods have been detected, especially on the eastern EU border. These may be subsequently

repackaged by the organised crime groups for transportation elsewhere in the EU. This trend of smuggling small quantities but at a higher frequency, facilitated by parcel and postal services, decreases the risk to the organised crime groups of losing large quantities of counterfeit cigarettes because of a seizure.

There has been a considerable increase in the smuggling of illicit tobacco-related goods by railway across the eastern EU border. In some cases, sophisticated concealment methods have been used, including in loads of coal, wood, potash fertiliser and in locker constructions under the wagons. There has also been the occasional detection of the use of drones to transport relatively small quantities of illicit cigarettes across the eastern EU border.

## 2.8 VEHICLE PARTS

In recent years the number of detected counterfeit car parts has increased considerably. For example, the number of counterfeit cars and car parts seized by customs authorities in the EU increased from 382 638 in 2015 to 422 218 in 2017, making it one of the product types that have seen the biggest increase<sup>29</sup>. Several law enforcement agencies from EU countries have also reported an increase in counterfeit car parts.

Counterfeit car parts can pose considerable risks to the health and safety of consumers. They are usually of inferior quality and can result in potentially lethal failures within a vehicle. They can also have a significant environmental impact as the materials used may not comply with environmental protection standards and waste management regulations<sup>30</sup>.

Counterfeiters produce a wide range of car parts. Some of the most common counterfeit parts being airbags, alloy rims, brake pads, cables, filters, fuel pumps, grills, master cylinders, radiators and tail lights. However, even counterfeit sound systems for cars have been detected. Due to increases in the online sales of car parts, it has become easier for counterfeiters to sell their products directly to the customer. Many of the counterfeit car parts detected originated from China and Turkey<sup>31</sup>.

## **CASE STUDY — OPERATION RENEGADE**

Over 70 000 counterfeit auto spare parts, including grills, oil and air filters and fuel pumps, along with 590 cylinders of CFC refrigerant commonly used in air conditioning and refrigeration systems were seized in a large-scale Joint Customs Operation coordinated by the European Anti-Fraud Office (OLAF). These fake items could not only be harmful to the environment, but also potentially dangerous to the health and safety of consumers.

Operation Renegade particularly targeted the international trade of counterfeit spare auto parts by sea container. Under the coordination of OLAF, the EU and Asian customs authorities

29 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

30 - EUIPO (2018). [The economic cost of IPR infringement in the tyres and batteries sector.](#)

31 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

carried out targeted physical checks on more than 400 containers. Most of the European ports were involved in the operation, which, over the course of two weeks, uncovered a wide array of counterfeit goods, cigarettes and prohibited goods.

A number of vehicle manufacturers also provided valuable input when targeting the goods covered by the operation, which led to several successful seizures. The exchange of information in real time allowed the experts involved to identify suspicious consignments of counterfeit goods within ordinary commercial

32 - [http://news.cityoflondon.police.uk/r/993/man\\_sentenced\\_for\\_selling\\_counterfeit\\_airbags](http://news.cityoflondon.police.uk/r/993/man_sentenced_for_selling_counterfeit_airbags)

In a case in the United Kingdom, counterfeit airbags from a variety of vehicle brands were sold online for considerably lower prices than the genuine ones. The airbags were produced without meeting any recognised safety standard, resulting in significant risks to the safety of users<sup>32</sup>.

Besides car parts, counterfeiters have also been found to be involved in counterfeiting high-end road bikes, bicycle parts and bike safety equipment, such as helmets. The counterfeiters targeted road bikes in particular and equipment that is used by professional road racing teams. The parts were detected in the Netherlands and Spain and originated from China. In many cases, vendors were found offering a limited number of goods on online marketplaces and social media, pretending that they were original old stock equipment from racing teams. As these items are produced without respecting mandatory safety regulations, they can form a significant threat to the safety of consumers. For example, in an impact test using a genuine helmet and a similar counterfeit model, the counterfeit helmet was cleaved in two, while the authentic helmet maintained its structure.

## EMERGING THREATS

In 2018, a large number of counterfeit oil, fuel, pollen and air filters were detected. Oil and fuel filters are intended to protect the vehicle's engine by filtering dirt and other material from the fuel and oil. As these filters need regular replacement, they are attractive targets for counterfeiters. These counterfeit filters can seriously affect a vehicle's performance and cause considerable damage, but can be hard to detect. As consumers increasingly order these filters directly online, this problem is likely to grow. In October 2018, AP Copy issued an early warning notification on this issue to all EU Member States and other countries involved in Europe. The IPR owner thought that the parts originated from Turkey and was aware of shipments to France, Germany, Romania and the United Kingdom, with a high likelihood of more shipments to other EU Member States.

## 3. ROUTES, KEY LOCATIONS AND TRANSPORTATION METHODS

China remains the main source country of counterfeit items for almost every type of counterfeit goods. In 2017, 73 % of all counterfeit items seized by EU customs authorities originated from China. This is followed by Hong Kong, Turkey and Vietnam. These source countries have remained relatively stable throughout recent years. In 2017, the top five was completed by Syria, primarily due to a large quantity of detained counterfeit sweets. In terms of value, Hong Kong is the number one source

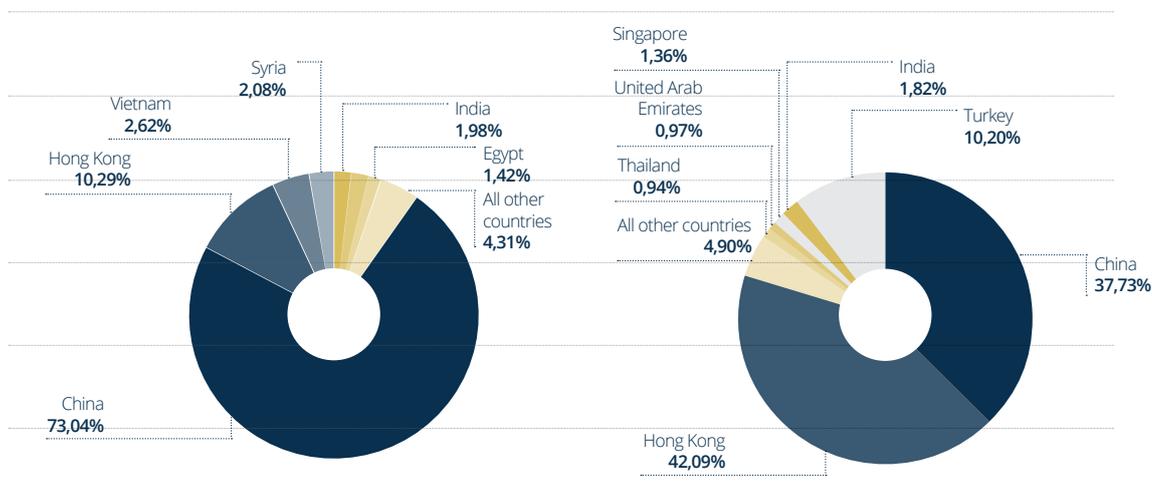
country, accounting for 42 % of the domestic retail value of all detained counterfeit items in 2017. This is primarily the result of a relatively high number of luxury items<sup>33</sup>.

**Fig. 4: Country of provenance by articles (EU customs, 2017).**

**Fig. 5: Country of provenance by value (EU customs, 2017).**

#### COUNTRY OF PROVENANCE BY ARTICLES

#### COUNTRY OF PROVENANCE BY VALUE



Counterfeiters often use complex trade routes to transport their goods from the production country to the destination markets. Albania, Morocco and Ukraine are key transit points for the large number of counterfeit goods coming from Asia into the EU. Free Trade Zones have in recent years been identified as key locations for criminals engaged in counterfeiting. They provide exemptions from duty and taxes, simpler administrative procedures and the duty-free import of raw materials, machinery, parts and equipment<sup>34</sup>.

Shipment of counterfeit goods to the EU still occurs largely by commercial movement of goods in bulk. In 2017, this accounted for 97 % of all seizures by EU customs authorities, compared to 3 % involving passenger traffic ( ). The vast majority of counterfeit goods detected reaching the EU, around 20 million in 2017, are shipped via container ships. However, both the number of seizures and the number of seized items via sea transport decreased compared to 2015. Air transport comes a distant second, accounting for less than five million seized items.

In terms of number of seizures, postal transport remains the most common, although this has been decreasing significantly since 2014. In recent years there has been a strong increase in express transport, both in terms of number of seizures and number of seized articles. Customs seizures at EU borders illustrate the growth in small parcels as a means of distributing counterfeit items directly to consumers, mimicking developments in the legitimate economy<sup>36</sup>. This is directly related to the growth in online marketplaces selling counterfeit items directly to the customer.

33 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

34 - OECD & EUIPO (2017). [Mapping the real routes of trade in fake goods.](#)

35 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

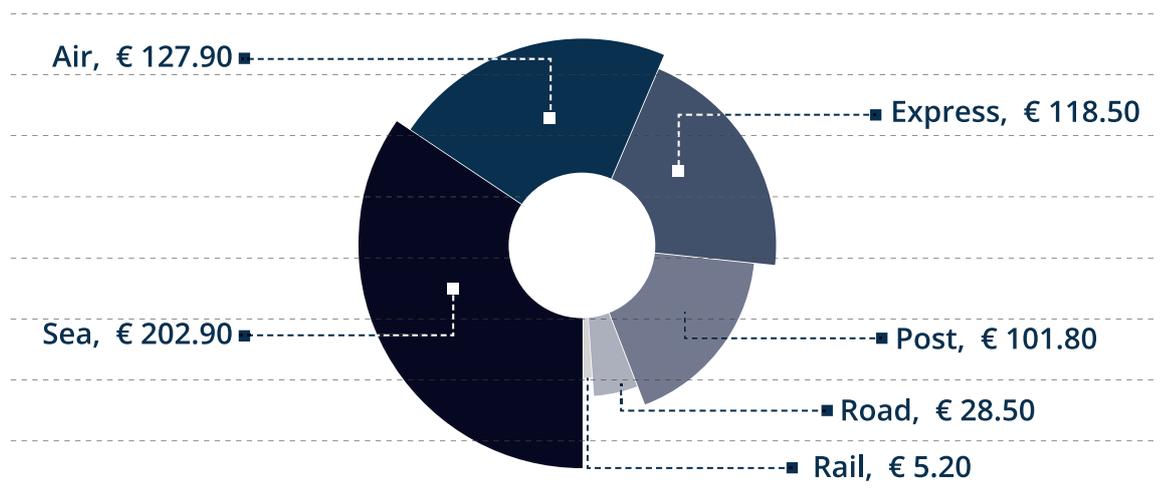
36 - European Commission (2018). [Report on the EU customs enforcement of intellectual property rights: results at the border, 2017.](#)

37 - EUIPO (2018). [Synthesis report on IPR infringement 2018.](#)

Counterfeiters employ a range of practices to evade capture of their goods. By using high volumes of small packages instead of shipments in bulk, they try to evade the interception of a large number of their goods<sup>37</sup>. Another common modus operandi to avoid the detection of counterfeit items is to label the goods as being 'in transit' instead of labelling their destination, as this decreases the likelihood of an inspection by customs authorities. There is also an increasing reliance on more sophisticated concealment methods, as well as multiple changes of destination of the goods in transit, and deliberate routing through countries not associated with counterfeiting while hiding the source country.

**Fig. 6: Retail value of goods seized within EU borders by types of transport (EU customs statistics, 2017).**

**MEANS OF TRANSPORT AND RETAIL VALUE (MILLION €) (2017)**



38 - EUIPO (2018). [Synthesis report on IPR infringement 2018.](#)

In recent years, new land routes have emerged that enable fast and cheap global shipping via lorries and trains. New and improved transportation links, in particular the growing number of rail connections between China and the EU, open up possibilities for counterfeiters to diversify their routes and transportation methods (.). Transporting goods by rail is considerably faster than transport via sea and considerably cheaper than transport by plane. Cargo trains are now connecting an increasing number of cities in China and Europe, with route options that are diverse, improved in performance and based on updated customs protocols. In spite of this, to date, the number of rail-borne seizures is still very low. It is nonetheless thought likely that increasing numbers of counterfeit goods may arrive at the eastern EU external borders by train and then distributed throughout Europe. Due to the relatively short travel time, this will put a considerable strain on customs authorities.

Following importation into the EU, the goods tend to be stored in fulfilment houses before being further distributed across the EU. Fulfilment houses are similar to warehouses, but are run by a third-party logistics provider who ships the goods to customers, typically after a short period of time. These fulfilment houses play a key role in the growth in transactions, connecting consumers directly

to suppliers on a global level and providing rapid delivery of both legitimate and counterfeit items. They also help in obscuring the identity of individual traders and suppliers, as they can hide behind the fulfilment house. In some cases, counterfeiters create their own fulfilment house to hide behind and avoid law enforcement detection. Organised crime groups have also been found to take out an account with a courier on behalf of multiple customers in order to ship goods around. In this way, the courier will not know the real identity of the customer and this identity will remain hidden in the event of a seizure.

Although it accounts for only a fraction of the overall quantity of counterfeit products, production of counterfeit goods in the EU continues to increase. Lower costs of production and distribution, as well as a lower risk of detection, are the main drivers behind this trend. Unfortunately, a lack of reliable statistical data on internal seizures in the EU hinders a full assessment of the scope of internally produced counterfeit and pirated goods<sup>39</sup>.

Counterfeiters increasingly import unlabelled goods into the EU. Fake authenticity measures, such as labels and packaging, are imported separately and added at a later stage, prior to distribution. EU authorities regularly detect shipments of empty wine bottles, unfinished counterfeit goods, unlabelled products and labels and component parts. These are most likely reworked and used for counterfeit production within the EU. For example, counterfeiters regularly fill empty bottles with cheap wine or adulterated spirits, and then label these bottles as if they contain very exclusive and expensive wine or spirits<sup>40</sup>.

Finally, the use of 3D printing technology is growing fast and could potentially affect all sectors of intellectual property. To date, there is little intelligence to suggest that counterfeiters have started using 3D printing technology on a large scale, possibly because of the high costs involved in obtaining and maintaining a 3D printer. With continuous technological improvements however, it remains to be seen how this will develop in the future, especially with regard to exclusive and luxury goods and spare parts.

## **COUNTERFEITING ORGANISED CRIME GROUPS ARE FREQUENTLY INVOLVED IN OTHER CRIMINAL ACTIVITIES**

Many of the organised crime groups involved in counterfeiting are transnational, operating across borders inside and outside the EU. Counterfeiting operations that occur across multiple jurisdictions pose great challenges for law enforcement authorities. IP crime is rarely the only, or even the chief crime, committed by these organised crime groups. Usually the organised crime groups involved in producing and distributing counterfeit goods also engage in other criminal activities. In some cases, this includes crimes that support counterfeiting crimes, such as document fraud and money laundering. Other criminal acts that are commonly committed by counterfeiting organised crime groups are excise fraud and VAT fraud.

39 - Eurostat (2018). [Handbook on the compilation of statistics on illegal economic activities in national accounts and balance of payments.](#)

40 - EUIPO (2018). [Synthesis report on IPR infringement 2018.](#)

## 4. ONLINE COUNTERFEITING

The advent of better technology has had a profound impact on the nature and extent of counterfeiting. Counterfeiting has always been a global phenomenon, but the continued growth of e-commerce and global distribution possibilities, increases the ease with which counterfeit items can be traded in bulk through online marketplaces and shipped directly to consumers. Counterfeiters exploit existing and emerging platforms that have made it easier to advertise, sell and distribute counterfeit and pirated goods to a growing number of consumers.

The increase in sales of counterfeit goods online is not new, but rather a continuing trend. Online marketplaces remain the chief distribution channels for counterfeit goods in the EU. Here, criminals not only make money by selling counterfeit goods online, they also benefit from the revenues coming from advertisements on the websites used to sell their goods. Sales on online marketplaces and delivery through parcel services will keep increasing in the future, matching developments in the licit economy.

In recent years, social media marketplaces in particular have emerged as a key platform from where counterfeiters can access high numbers of consumers for counterfeit items with a generally low risk of law enforcement detection. Criminals are increasingly offering counterfeit goods through social media networks using specific URLs that can be hard to identify by law enforcement authorities. Vendors advertise counterfeit goods through posts showing the product and price. The details of the transaction are subsequently worked out through other communication channels, such as messaging applications or by telephone under different names. The packages are subsequently delivered by couriers, while payment is usually made via prepaid cards or online payment systems.

### CASE STUDY — OPERATION APHRODITE

A large operation run by Europol, the Italian Guardia di Finanza and the law enforcement authorities of nine EU Member States, led to the shutdown of an illegal online marketplace containing 10 000 shops selling anything you could imagine. On offer were sports articles, medicines, mobile phones, bags, jewellery, sunglasses, clothing, watches, perfumes and cosmetics, illegal IPTV set-top boxes and online piracy over different social media platforms. More than 20 000 packages were seized and over 1 000 social media accounts were closed. The operation led to the preliminary investigation of more than 250 people selling counterfeit goods and pirated content and more than 100 suspects were prosecuted.

IP criminals often use financial services provided through sales platforms, especially online payment systems. Although online payment systems have been used for a long time, the way counterfeiters are using them is becoming more sophisticated. Money is often transferred to other accounts outside the EU, thereby crossing jurisdictions and making it considerably more complicated to trace. Sellers of counterfeit goods also frequently maintain online payment accounts that are only used once or twice, thereby hiding the scale of their activities. In many cases, these accounts are created with false identities.

Operations coordinated or supported by Europol that are aimed at websites and social media pages selling counterfeit items consistently find an almost endless array of counterfeit goods for sale. Some of the most commonly detected types of counterfeit goods are clothing, cosmetics, electronic items, personal accessories, shoes and toys. In many of these operations, counterfeit items are seized alongside other illegal products, including drugs, endangered species and weapons. During one large-scale operation against illicit online trade involving the law enforcement and customs authorities of 25 EU Member States, 12 012 counterfeit goods shipped by mail and express courier parcels were identified and seized, as well as a wide range of counterfeit medicines, tobacco products and narcotics.

### **CASE STUDY — OPERATION 'IN OUR SITES' (IOS) IX**

Operation 'In Our Sites' (IOS) is the continuation of a recurrent joint global operation, which was launched in 2014 and has since increased significantly. In 2018, the ninth edition of this worldwide operation saw an even larger range of anti-counterfeiting associations, brand owner representatives and law enforcement authorities taking part to facilitate international cooperation and support the countries involved in the initiative.

Operation IOS IX saw a remarkable increase from the previous edition, where 20 520 domain names were seized for illegally trading counterfeit merchandise online. This time, Europol's Intellectual Property Crime Coordinated Coalition (IPC3) seized 33 654 domain names distributing counterfeit and pirated items online. The websites distributed items such as counterfeit pharmaceuticals, pirated films, television shows, music, software, electronics and other bogus goods.

In addition to the seized domain names, officials also arrested 12 suspects, blocked hardware devices, identified and froze more than EUR 1 million in several bank accounts, online payment platforms and a virtual currency farm used by the organised criminal groups.

A common modus operandi for online counterfeiters is to re-register previously used legitimate domain names, also referred to as cybersquatting. Domain names that have previously been used for a wide variety of purposes, including those used by commercial businesses, embassies or politicians, are systematically re-registered to operate as e-shops selling counterfeit goods. This reuse of legitimate websites ensures consistent internet traffic towards these e-shops<sup>41</sup>.

In response to attempts to deny known counterfeiters access to domain names, site owners have increasingly taken measures to circumvent these attempts. This not only means that they have become more sophisticated in hiding their identity and location, but in many cases, they have also re-registered with personal data stolen from consumers via other illicit websites.

41 - EUIPO (2017). [Research on Online Business Models Infringing Intellectual Property Rights – Phase 2.](#)

Counterfeiters continue to exploit the anonymity the internet can provide regarding geographical location and real identity. One modus operandi used is to register a number of seller accounts in online marketplaces, and operate these for a certain period of time. After this period, the accounts are deleted and a new set of accounts are opened by the same person. By continuously doing this, it becomes complicated for law enforcement authorities to intervene and disrupt the activities, especially since, in order to set up these types of accounts, identity verification is not required. Investigations into these accounts have shown that many of them were linked to one single online payment system account with the payments going to China.

### IP CRIME AND MONEY LAUNDERING

IP criminals use well-established money laundering methods to make it more complicated to follow the money trails, such as fast transactions between different bank accounts. The profits made by the sale of counterfeit goods are frequently reinvested in legal business structures in order to launder the money and hide its criminal origin. At the same time, money laundering processes are becoming ever more complex and sophisticated, including reliance on online payment services, making financial investigations increasingly difficult. One modus operandi that has become increasingly common in recent years is the use of prepaid cards. Counterfeiters transfer money from online payment accounts onto prepaid cards, which is considered a lower-risk type of money laundering technique. For law enforcement authorities and banks alike, it is complicated to detect money on prepaid cards. Moreover, in some Member States, money on these cards cannot be seized.

- 42 - Europol (2017). [Intellectual property crime on the darknet](#).
- 43 - [http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc\\_157564.pdf](http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157564.pdf)
- While marketplaces on the darknet have been found to offer a wide range of different counterfeit and pirated goods, this still only represents a small proportion of the overall online trade in these illicit goods. It is estimated that between 1.5 % and 2.5 % of listings on the darknet markets consist of counterfeit goods<sup>42</sup>. Counterfeit goods that are less obviously illegal, especially clothing, cosmetics, electronics and pharmaceuticals, continue to be mostly sold on the surface web, on widely available trusted platforms and by online pharmacies, where it is easier to reach a large number of customers. More obvious illegal commodities, such as counterfeit currencies and documents, tend to be traded more frequently on the darknet. In the future, increased regulation and enforcement of online sales websites and social media platforms may drive a number of criminals to increase their trade on the darknet.

In December 2018, the European Commission published its Counterfeit and Piracy Watch List<sup>43</sup>. It names online and physical marketplaces outside the EU that are reported to be involved in counterfeiting and piracy. The non-exhaustive list stems from public consultation processes and focuses on websites providing copyright-protected content, e-commerce platforms, online pharmacies and physical marketplaces. The list is intended to encourage operators, local law enforcement and governments to take action and raise awareness among EU citizens of the risks of purchasing from these marketplaces. The Commission is planning to update the list on a regular basis.

## 5. CONCLUSION

The market for counterfeit goods remains highly profitable, providing criminals with opportunities to generate huge profits while running few risks. An increasingly wide array of different counterfeit and pirated goods are available on the EU market, ranging from luxury goods to mundane, everyday items, posing a serious threat to economic growth, the health and safety of consumers and the environment. Considering the high levels of profit and the continuous attempts of criminals to find new markets, a further diversification of counterfeit goods is to be expected in the future. At the same time, significant intelligence gaps remain. For example, cosmetics and toys are among the most commonly detected counterfeit items by EU customs authorities at the external EU borders, but little intelligence is available regarding the *modi operandi* surrounding the illicit trade in these goods, that is, the trends and developments from a law enforcement perspective.

The economic consequences of IPR infringements are considerable. Counterfeit and pirated goods decrease revenue for legitimate business, negatively affect their reputation and deprive governments of tax revenue. It also hampers innovation and leads to job losses. Besides economic harm, counterfeit goods can have a serious impact on the health and safety of consumers, as well as negative environmental consequences.

China remains a key source country for all types of counterfeit goods. However, although still only representing a minority of the overall quantity of counterfeit goods, production of counterfeit goods within the EU appears to be increasing. Counterfeiters import raw or unbranded materials and ship the branded packaging and labels separately.

The online trade in counterfeit goods continues to increase, facilitated by the growing trade via small parcels. Besides online marketplaces, social media has now become a common platform for the sale of counterfeit goods. Shipment via small parcels decreases the risk of seizures and poses considerable challenges to customs and other law enforcement authorities. Use of track and trace and authentication measures in a more extensive and standardised manner across the EU could help to address this issue in the future.

Most criminal activity involving counterfeiting is undoubtedly performed by organised crime groups. More organised crime groups are specialising in one particular crime, producing better quality counterfeit goods, controlling the whole marketing process from production, to distribution, to the points of sale, most often under the pretence of legitimacy. They have also made better use of their available resources, for example using illegal laboratories and the same skilled workers for synthesising both counterfeit medicines and drugs. This inevitably increases the range of specialised counterfeit goods that can be produced, as well as hindering consumers' and law enforcement's ability to distinguish the fakes from the legitimate goods. Low risks and high profits will continue to drive organised crime groups towards the trade in counterfeit and pirated goods.

## ACKNOWLEDGEMENTS

Europol would like to thank all the law enforcement agencies, as well as its other partners, who contributed to this report. In addition, Europol and the EUIPO would like to thank DG TAXUD and the OECD for their input.

## INTELLECTUAL PROPERTY CRIME

---

## THREAT ASSESSMENT 2019

---

