



CONSUMABLES - Faking hell

Counterfeit consumables are making life a misery for everyone concerned. But is the industry doing enough to stamp them out?

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Deep in the heart of Hong Kong's Wan Chai district used to be Johnerned. But is the industry doing enough to stamp them out? Chan's Double Happiness Computer Supplies shop. Until last month, that is, when the authorities got tired of the overt flouting of copyright laws by Wan Chai dealers and shut them all down. Chan was one of many outlets selling counterfeit products. The walls of his tiny shop were crammed with software and PC products in plain boxes, bearing a recognised brand logo with the name written in Chinese and prefixed with a character that meant 'cheap'.

Unlike Western suppliers, Chan has no qualms about discussing his dealings in dodgy software or consumables. His customers, many of which were big-name Hong Kong companies, did not mind buying the products even though they knew they were fakes. 'They buy because it is cheaper than buying the real thing and it works. They know it's not the real thing but they don't care. Both they and I need to make a dollar,' he says.

Most of Chan's supplies came from the Philippines or mainland China, where undercover factories, often backed by Western money, produced consumables free from development costs and with the benefit of cut-price labour.

Chan says the goods were shipped in plain white boxes. As far as customs were concerned, the goods were legitimate and the importer even paid duty.

Later, once the goods were landed, Chan and his son would stick on the scanned logos and sell the product at about a third of the original price.

If you thought such an overt operation could never happen in Europe, you'd be wrong. Counterfeiters over here use similar unsophisticated techniques.

The only difference is that in Europe, the suppliers of counterfeit consumables go to greater lengths to make their products look like the real thing.

Packaging is lovingly recreated and the items sometimes have identification stickers that mimic the genuine article so well, even the original manufacturer has difficulty telling the difference.

According to a survey conducted by the Imaging Consumables Coalition of Europe (ICCE), the organisation charged with fighting counterfeiters, more than 85 per cent of companies have fallen victim to bogus packaging.

ICCE, whose members include Epson, Hewlett Packard, Lexmark, Oki and Tally, believes more than \$200 billion each year is lost in the US and \$9.6 billion in Europe due to counterfeit consumables.

Hewlett Packard anti-fraud legal expert Jag Gill says one in every 20 consumable sales in the UK market is counterfeit. 'One major manufacturer of printer consumables recently learned it had lost more than £250 million in revenue through the activities of a single counterfeiting operation based in Europe,' he says. 'New information indicates this operation was part of a ring with links to four other countries, causing a £1 million loss to the dealer.'

Like the Hong Kong operation, counterfeit products sold into the UK market are often made elsewhere. According to Gill, the big counterfeit exporters are Middle Eastern and Eastern Bloc countries. 'Consumables are low-tech and easy to manufacture,' he says. The organisations that are setting up consumable scams are often small, operating with the intention of making a fast buck.

Gill dismisses the picture of counterfeiters as latter-day Robin Hoods, working for the good of consumers who have fallen foul of profiteering companies.

'Often, the price of fake products is only slightly below the cost of the real thing. There are very few consumer benefits cost-wise but the fraudsters are making big profits,' he says.

Gill believes the manufacture and distribution of counterfeit consumables is often organised by large criminal syndicates trying to raise money quickly for other projects. Is his theory far-fetched? Not according to Bull Information security guru Neil Barrett, who says the Mafia has set up similar operations for the sale of illegal RAM chips. 'Counterfeit computer equipment has a higher profit mark-up than crack-cocaine and is a lot easier to distribute,' says Barrett. 'The syndicates use the same distribution chains they would use for drugs. They bring in a shipment and then sell a franchise in the shipment to bent dealers.'

Often, fraudsters do not need to look outside their own country for raw materials. One of the most used tricks is to buy empty toner cartridges cheaply, refill them and sell them as new. The ICCE survey found 62 per cent of respondents had fallen for this particular scam.

Sometimes, counterfeit suppliers do not even bother with bogus packaging and palm the goods off as genuine, convincing customers with their slick telesales patter. Gill says: 'A common technique is an unsolicited fax that offers the products at a reduced rate, particularly for bulk purchase. Customers are given the impression that they have to buy the goods quickly, or lose the discounted price.'

Resellers often fall for these techniques because they buy in bulk. If the counterfeiter is good, the product will pass down the channel without anyone being aware that it was a fake. 'It is only when a product goes wrong and a customer sends it back to

the company they believe manufactured it, that anyone realises it is a fake,' Gill says.

Not surprisingly, resellers contacted by PC Dealer were reluctant to say on the record that they had ever supplied suspect stock. 'A public statement that we had been conned by these people would be seen as an admission that the rest of our stock was suspect, when this is not the case,' says one reseller.

What he will admit is that he once bought a load of bulk printer ribbons in what he was told was a closing-down auction. 'It was a professionally organised, public sale that was advertised in the local newspaper, so I knew the stuff wasn't stolen. But I didn't think it might have been fake. I think I must have sold about half of them before we realised. I don't think we were alone - every dealer has one or two of these stories.'

Another dealer says: 'We don't do consumables, but one of my staff bought some colour inkjet cartridges that were supposedly kosher and they had the ink in the wrong containers. When we rang the manufacturer, it turned out their product numbers were fictitious and they had been recycled.'

Manufacturers are reluctant to reveal how they spot fakes, because they would be giving away secrets to counterfeiters who could then build them into the products. The real items have stamps sealed where they are hard to detect, serial numbers or quirks in the design that are hard to duplicate.

Sometimes the fraudsters identify them anyway - in a recent case, a fake was discovered because the factory had stamped its country of origin on the bottom. 'For the first time, many consumable manufacturers are considering putting security holograms on their products in much the same way as video companies,' Gill says.

But while many users think that writing off the occasional dud ribbon is worth the savings made, some fakes have proved to be dangerous. Sometimes, the inks and toners used are toxic enough to cause burns. 'Fraudsters often make mistakes when mixing potentially deadly chemicals, a problem that is compounded by leaky counterfeit canisters,' warns Gill.

So how can dealers avoid buying counterfeit goods? According to ICCE, there is only one way and that is to buy either direct from manufacturers or through authorised distributors. Gill says: 'There is no other way to avoid it. You just have to ignore all those 'too good to be true' deals.'

But the cheats have not been getting things their own way. Manufacturers backed by ICCE have recently celebrated high profile successes after launching a 'zero tolerance' campaign, according to ICCE chairman Phil Scrase. Recent successes include:

Hewlett Packard, working with trading standards bodies, seized 3,500 in a raid on a UK warehouse. The case resulted in HP retaining the cartridges and getting damages from the supplier peddling them.

Silver Office Systems, a small UK dealer, was successfully sued by Oki after an investigation revealed the company had been passing off counterfeit ribbons.

Epson discovered 5,600 counterfeit ribbon cartridges on a container ship in Hamburg Harbour. ICCE expects criminal charges to be laid against firms in England and Germany.

Investigations in Barcelona have led to 39 dealers being investigated by police after complaints by Epson over the use of its trademark.

But ICCE members are hamstrung in the UK by police, who have a tendency to leave the prosecutions to its members. Gill comments: 'The chilling thing about the Silver Office Systems case was that the perpetrators knew the goods were counterfeit.' But Oki only used a civil action to prevent the counterfeiters from supplying the goods, rather than criminal law that would have seen the counterfeit suppliers before a crown court and possibly facing a term in jail.

Gill admits that suppliers often have difficulty convincing the police that to take action and ICCE members often find it easier to take the offenders to court themselves. 'The Trading Standards Office has been particularly useful, but we are still establishing a relationship with the law enforcement authorities,' he says.

Bull's Barrett says it was the attitude of the police that helped organised crime move away from drugs and gun running towards illegal consumables.

'People realise that if they carry out more socially acceptable crimes, they are not going to go to prison. In some cases their dealers will face civil actions but will often still be trading,' he says. He adds that customs, geared to tackling drugs, would often waive a consignment of illegal consumables because they looked genuine.

However, a Metropolitan Police representative says: 'The Computer Crimes Unit has received no complaints of this nature. We take such crimes very seriously.'

Barrett counters: 'The reality is that there are no victimless crimes. Dealers lose out, the legitimate manufacturers lose out and, at the end of the day, so do users.'

When the might of a manufacturer and the ICCE combines with the police, the result can be effective. In the past few weeks, Hungarian police, who had been working with ICCE and Hewlett Packard, raided a counterfeiter who had been passing off refilled HP cartridges as new since 1996. The same operation, run by the Hungarian fraudster's relative in Los Angeles, is still to be resolved as HP has had to take a civil action in the US.

Gill admits that ICCE still has its work cut out, researching criminal operations before it can take the war to the criminals but, in the meantime, it is up to the dealers to make a difference by saying no.

ABOUT ICCE

ICCE was formed eight months ago by consumable OEMs Epson, Hewlett Packard, Lexmark, Oki and Tally and is looking to recruit more members. Its main functions are:

- Conducting educational programs for distributors and consumers
- Liaising with enforcement agencies
- Links with the Image Supplies Coalition in the US and the European Printer Manufacturers and Importers body
- Acts as a lobby group for improved protection laws
- Keeps a central database of fraudsters
- Shares anti-counterfeit technology among members
- Links organisations already taking legal action against fraudsters

WHAT CONSTITUTES A COUNTERFEIT?

ICCE uses the following criteria to define a counterfeit product:

- Both the packaging and the product are imitation
- Refilled toner and/or inkjet cartridges are passed off as new by lookalike packaging or, in the case of telesales fraud, verbally.

Counterfeit involves the unauthorised copying or use of trademarks, copyrights, patents, trade dress or name. Intellectual property infringements invariably allow the manufacturer to seize the goods in question and seek damages.

Dealing in counterfeit goods is a criminal offence which can result in a prison sentence.

<http://www.pcmag.co.uk/features/57350>