

United Nations Office on Drugs and Crime

Background Guide



Counterfeit Goods Funding Terrorism and Organized Crime

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Introduction to the Topic

Counterfeit goods are identical replicas of luxury or expensive items, that are usually sold for a fraction of their original market price. To most people, these items aren't much more than a cheap handbag or inexpensive car parts, but what most people don't know is that the counterfeit goods industry is closely related to organized crime and terrorism. The production and sale of counterfeit items is widely criminal, seeing as it is not only intellectual property theft, but it also supports human and drug trafficking, child labor, money laundering, and is known to fund terrorism and organized crime. As a business that combines high profitability and ambiguous penalties, it is only natural for

counterfeiting to become progressively appealing in the eyes of delinquents, therefore, it is no surprise that terrorist organizations have turned to the counterfeit business for relatively easy income.

The UNODC has made important efforts towards demolishing the counterfeit good industry, even implementing a global campaign against counterfeit retail in 2014. However, as counterfeiting becomes an increasingly attractive option for organized crime to vary their product range, generate funds and diversify their approach towards societal integration, it has become harder to abase.

History of the Committee

The United Nations Office on Drugs and Crime, commonly known by its acronym, UNODC, has been a global leader in the fight against crime and illicit drugs since its establishment in 1997. It was created through a merger between the United Nations Drug Control Program and the Center for International Crime

Prevention, with the intention of assisting the United Nations with issues related to illicit drugs, crime and terrorism.

This subsidiary of the UN works through an extensive network of over 20 field offices and approximately 500 staff members, in over 150 countries. It is headquartered in Vienna, with liaison offices in New York City and Brussels.

The UNODC is requisitioned to support Member States through three preeminent pillars of its task program that serve as a guide for the delivery of their work and development, these pillars being:

1. “Field-based technical cooperation projects to enhance the capacity of Member States to counteract illicit drugs, crime and terrorism.”
2. “Research and analytical work to increase knowledge and understanding of drugs and crime issues and expand the evidence base for policy and operational decisions.”
3. “Normative work to assist States in the ratification and implementation of the relevant international treaties, the development of domestic legislation on drugs, crime and

terrorism, and the provision of secretariat and substantive services to the treaty-based and governing bodies.” (unodc.org)

In the pursuit of reaching the objectives, the UNODC works towards honoring and integrating social and gender perspectives. Funding for this branch of the United Nations is mainly provided by contributions from the members states, nonetheless, multilateral organizations and donations from the private sector also offer important support. Predictable and dependable funding remains an issue for the UNODC, the budget necessary to approach the 2030 agenda will most likely fall short.

Since its foundation in the late 90’s, the UNODC has compiled several admirable achievements and recognitions, amongst the most commendable, the work done alongside the Islamic Republic of Iran that began in 1999 and extended through 2015, which included the “NORUZ” Program and UNODC involvement in Drug Supply Reduction and Drug Addiction Treatment, as a part of the general Cooperation on Drugs and Crime in the Islamic Republic of Iran.

Topic Areas

Counterfeiting is a multibillion-dollar industry, based on the illegal manufacturing and distribution of consumer goods produced in exact imitation of more valuable items. Counterfeit goods have a tendency of being cheaper than their original counterparts and of inferior quality. Designer apparel and designer leather goods such as handbags and footwear, jewelry and watches, electronics, pharmaceuticals and automotive/aerospace parts are amongst the most counterfeited products on the market.

Not only is counterfeiting illegal, but it also poses many risks and implications. Health concerns are a big issue, because the cheap manufacturing of counterfeit items neglects health regulations in order to save money. The production of counterfeits also has a serious environmental impact, which is also due to disregard towards quality and safety of production.

The production and sale of counterfeit items is illegal worldwide, as it is intellectual property theft. However, the process of counterfeiting is linked to many other criminal practices and is known to

fund the works of organized crime and terrorist groups. The high profits, mild penalties and social disregard make trafficking and selling counterfeit goods easier to execute than other crimes, therefore, counterfeiting is an appealing source of income for criminal groups.

Organized crime and terrorist enterprises acquire significant funds from trafficking imitation items. However, most people don't acknowledge magnitude and power of the industry. The French Unifab report called *Counterfeiting and Terrorism* presents estimates that indicate counterfeiting represents around 10% of world trade. UNODC research demonstrates that the counterfeit business generates approximately \$250 billion a year, excluding profits from pirated digital items and domestic counterfeit sales, which generate billions more.

Counterfeiting has important links to other illicit crimes. Evidence reported by Europol has suggested that criminal networks employ similar methods of operation and use similar routes to smuggle counterfeit goods as they do to traffic arms, weaponry, people and narcotics.

Traditional organized crime groups such as the Mafia, the Camorra, the Triads and the Yakuza, which are spread trans continentally, have been involved in the production and distribution of imitation goods for decades, and have since then been relying on the “easy” profits that the business generates. For example, the Neapolitan Camorra crime syndicate is well known for its counterfeit business, which was started off decades ago with the sale of fake products made by the same manufactures that made the original items. Nowadays, the Camorra has enlarged its counterfeit business and has established relations with counterfeit manufacturers and importers across Asia, especially in China.

Former secretary general of the International Criminal Police Organization (Interpol), Ronald K. Noble, disclosed that terrorist groups as powerful as Al Qaeda, the Taliban and Hezbollah have found important financial support in the trafficking of counterfeits. Products such as “knock-off” Nike shoes, Sony sound systems and Calvin Klein jeans are some of the main items that these groups have been distributing. Noble also mentioned that intellectual property

theft has become a prime method of funding for these groups.

Terrorist groups and organized crime syndicates direct the funds collected from counterfeiting towards their criminal operations, which include drug trafficking, human trafficking, prostitution, money laundering, corruption, fraud, extortion, forms of cybercrime and illegal possession of weaponry, to name a few. Criminals have been known to discreetly slide fake goods into the genuine supply of products, laundering money throughout the process.

Just like counterfeiting supports a plethora of other crimes, proceeds from other criminal activities support counterfeiting. Organized criminal networks invest millions of dollars in the production of imitation goods, as well as in their distribution and sale. Law enforcement agencies have debunked several operations where profits from narcotics trafficking have been channeled into to the “knock-off” business.

Counterfeit products are also common participants of illicit trade encounters, in which illicit valuables are swapped. For example, exchanging narcotics or pharmaceuticals for counterfeit items.

Criminal groups favor using fake goods as a commodity between illicit exchanges, because, by doing so they reduce the amount of capital they need to manage and transfer, which in turn, means they reduce risks and opportunities of exposure.

To prevent counterfeit retail and eradicate its function as funder for organized crime networks and terrorist groups, the UNODC launched a campaign called *Counterfeit: Don't buy into organized crime*. The campaign was introduced in January of 2014, with the intention of raising public awareness on the dark reality behind the sale of counterfeit items, and hopefully reduce their popularity. Nonetheless, the UNODC recognized that this campaign is just the tip of the iceberg when it comes to the efforts necessary for ambushing this criminal practice.

Bloc Positions

USA: As the nation with the largest trade market in the world, welcoming over 13% of global imports, the United States is bound to have serious encounters with the illegal process of counterfeiting. In 2017 U.S. Customs and Border Protection seized about 34,143 shipments of fake goods. Ironically

enough, major U.S. cities like New York, Los Angeles and Miami are universally known for counterfeit retail. Nonetheless, as the number one leader in the global fight against terrorism and organized crime, the United States is extremely interested in destroying the counterfeiting business that criminal budgets are relying on.

China: China is the world's largest counterfeit good producer, making billions on a year on the sale of "knock off" items, despite having implemented laws to counter and penalize the imitation industry, as recently as 2018. Chinese transnational organized crime groups are some of the largest in the world and they are banking on the trade of counterfeit goods, making millions to support external criminal affairs.

Italy: This Mediterranean country is "home-base" to some of the most powerful and oldest organized crime groups in the world. The Camorra, originally from southern Italy, is widely known for trading counterfeit items and establishing relations with Asian manufacturing companies to import counterfeits. Efforts to halt these groups have been made in the past, but the instability and above all, the corruption in the

government have not allowed for changes to be made.

Mexico: Mexico leads the Latin American region in terms of organized crime, as it has historically been a hub for drug trafficking. The *World Economic Forum* (WEF) rated this country as a 2.6 out of 7 in its security index, placing the nation as the 4th country in the world with the most organized crime issues. Counterfeits are extremely common in Mexico, especially since law enforcement is weak and brand registration is very unorganized. Custom authorities have been able to halt certain shipments, but with such a corrupt government, little has been done to stop counterfeiting.

Russia: Russia hosts many criminal groups in its territory, and as the online black-market continues to grow in this country, counterfeiting becomes easier for these networks, and so does funding for their practice

Japan: The Yakuza are a transnational organized crime syndicated in Japan. This organization as well as the Camorra and Triad groups, is involved in counterfeiting goods throughout the country and banking

on their profits to fund further operations of theirs.

France: As the fashion capital of the world, counterfeit goods are very popular in France. African immigrants are globally known for selling fake items, just outside of the high-end stores, where the original items retail. However, the country has planted strict counterfeiting laws, and with the recent terrorist attacks that the nation has suffered, attacking this issue is a priority for France.

Countries heavily influenced by terrorist groups and nations with a lot of organized crime such as Syria, Iraq, Nigeria, Chad, Pakistan and Afghanistan, are the most vulnerable to the criminal operations that the profits from counterfeiting fund.

Possible Solutions

Work done towards preventing counterfeiting in the past has led to the idea of globalizing penalizations towards the crime and having the UNODC or other subsidiaries of the United Nations supervise and nurse the execution of the charges. However, so far this has been nothing more

than an idea. It would be favorable for the committee to address and discuss this project as a potential solution to the problem.

It would also be advantageous for the committee to consider attacking the issue from its roots as a potential solution. Defining tactics to understand how organized crime and terrorist networks manipulate the proceeds from the counterfeit industry, and seemingly redirect them towards criminal operations. Utilizing other crimes, such as drug trafficking, associated with the same delinquent groups, as a channel to better understand the role of counterfeiting in the activities of the terrorist groups.

Strengthening the programs, campaigns and legal procedures that are currently in place against counterfeiting and their criminal directors.

Points the Debate/Resolution Should Address

- What are the undisclosed and strategic links that bind

counterfeiting and organized crime syndicates or terrorist groups?

- How are criminal groups circumventing the laws that are in place to prevent counterfeiting? Why are the laws failing? Corrupt governments?
- How exactly are proceeds from counterfeiting supporting other crimes and vice versa?
- How is e-commerce facilitating counterfeiting and how are criminal groups taking advantage of this?
- What can be done by the UNODC, governments and NGOs to intercept the production and trade of counterfeits?
- How can efforts previously done by the UNODC be bettered to attack counterfeiting and its criminal derivatives more precisely and effectively?

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