



# Fakes Are Not Fashionable: A BBB Study of the Epidemic of Counterfeit Goods Sold Online

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## Introduction

**B**etter Business Bureau (BBB) has received thousands of complaints from people who have shopped for goods online and received counterfeits instead of what they ordered. Sales of counterfeit goods have exploded worldwide in recent years, and many of them pose significant health and safety risks. Organized criminals operating out of China are behind the vast majority of this fraud. These fraudsters are supported by a large ecosystem of groups that arrange for credit card processing. Without access to the payment cards system, most of this fraud could not operate.

**Online sales in the U.S. reached \$430 billion in 2017 and grew 15% annually for the previous three years**, according to a [New York University \(NYU\) study](#). Roughly **eight-in-ten Americans shop online**, according to a [Pew Research Center study](#).

The internet has revolutionized how people buy goods by allowing them to quickly find multiple sellers, compare prices and read reviews on the reliability of online sellers. But sites, goods and reviews can all be faked. Anyone shopping online is eventually likely to encounter fraudulent sellers. [Studies](#) have found that one in four people have bought something online that turned out to be counterfeit.

Many counterfeit goods are shipped directly from China to consumers in the U.S., but goods also may be sent to the U.S. to be reshipped domestically.

Brand names for products are important indicators of quality and reliability. While many companies protect their products through

trademarks and by copyrighting their products' pictures and descriptions, illegal trademark and copyright use is a growing issue.

A massive number of deceptive web-sellers illegally use copyrighted pictures of brand-name goods, and then send fake items, low-quality substitutes or nothing at all. One expert, Barry Elliott, a senior fraud investigator with the Royal Canadian Mounted Police, estimates this happens in 70% to 80% of online orders.

Some fraudsters advertise with photos of goods, such as handmade quilts, that are not copyrighted or trademarked. They charge the consumer for the item, then send



something substantially different than depicted on the site— or they may send nothing.

“Counterfeiting by Chinese criminal gangs is a far larger problem than most people recognize, but concerted efforts against the credit card processing network that funds them can make a real difference,” Elliott says.

Almost anything that can be shipped can be counterfeited and sold online, including everyday products such as

printer ink, headphones, phone chargers, athletic shoes, cosmetics, and even car parts. It is difficult for the general public to know if a site is real or is selling counterfeit goods. Moreover, the prices offered are no longer a signal that the product is counterfeit, since counterfeit sellers often use selling prices that are close to the price of the real product.

This BBB study examines how widespread this problem is, who is behind it, how scammers market their products to the public, how criminal organizations behind this fraud get money from victims, and what can be done -- and is being done currently -- to combat this issue. The study focuses mainly on counterfeit consumer goods purchased online.



## Counterfeit goods industry

### What goods are counterfeited?

When people think of counterfeit goods, they tend to think of knock-off luxury purses and similar goods sold at flea markets. In reality, any shippable item with a reputation for quality and sizable mark-up is a candidate for counterfeiting.

Pirated intellectual content -- such as music, movies, books or software -- is also a large and important issue, as is the theft of trade secrets, but these are beyond the scope of this study.

A [General Accountability Office \(GAO\) study](#) issued in February 2018 notes that the market has changed significantly over the last 10 years or so. Now a wide variety of counterfeit goods are sold to the public online. Websites use photos and graphics for products that they claim are authentic. Their prices may be lower than the real ones, but the price point is close enough to that of authentic products that price does not signal that the goods are counterfeit.

GAO bought four different kinds of goods online to learn which were counterfeit. They went to a variety of sites, and 20 of the 47 products they purchased were counterfeits. They found that all the Air Jordan sneakers they bought were real; however, six of the nine Yeti travel mugs were counterfeit, all 13 of the Urban Decay cosmetics they bought were counterfeit, and one of the 10 phone chargers was a fake. Interestingly, all of these goods were shipped from U.S. addresses.

Today, common products that are sold by counterfeiters include brand-name sunglasses, designer clothing, sports jerseys and other equipment such as golf clubs, athletic shoes, watches, jewelry, handbags, insulated mugs, cosmetics, consumer electronics and dozens of other kinds of products. Customs officials said that in 2017, the top three categories of counterfeit goods that they seized were apparel/accessories, watches/jewelry and footwear. But they also detected and seized sizable quantities of computer accessories, shoes, light fixtures, kitchen appliances, toys and other goods.

The [EU Intellectual Property Office](#) also tried to break down counterfeiting losses by different types of industries in Europe.

#### **SPORTS GOODS:**

(items such as rackets, golf clubs, and exercise equipment, but not sports jerseys/memorabilia): 6.5% of sales lost by the sector due to counterfeiting; with €500 M lost

#### **COSMETICS AND PERSONAL CARE ITEMS:**

7.8 percent of sales lost, €4.7B annually; 50,000 jobs



#### **PHARMACEUTICALS:**

4.4 percent of sales lost annually; €10.2 billion; 37,700 jobs lost

#### **TOYS AND GAMES:**

12.3 percent of sales lost; €1.4B/year

#### **HANDBAGS AND LUGGAGE**

12.7 percent of sales lost; €1.6B lost annually

#### **JEWELRY AND WATCHES**

13.5 percent of sales lost; €1.9B lost annually

#### **CLOTHING, ACCESSORIES AND FOOTWEAR**

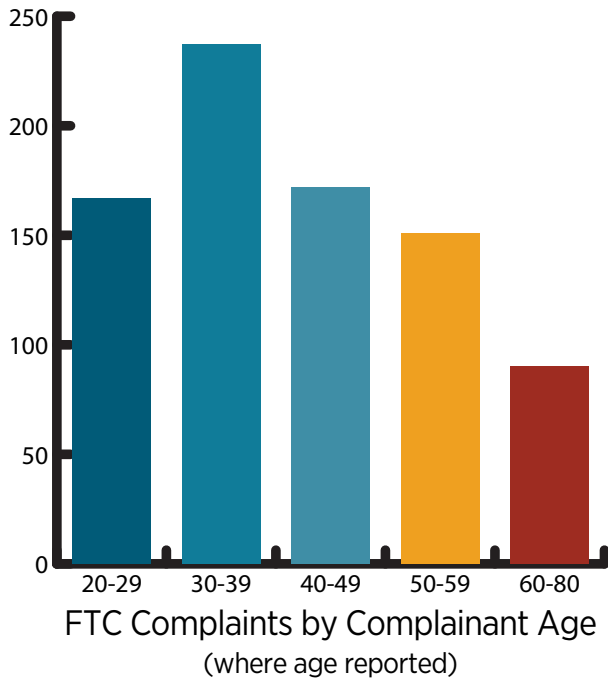
9.7 percent of sales lost; €26.3B annually

According to a recent article published in [Associations Now](#), for decades, the Imaging Suppliers Coalition (ISC) has targeted the growing sale and manufacture of counterfeit printer accessories, particularly ink. ISC says that more than \$3 billion is lost annually on such goods and now the White House may get involved.

### Who is behind the fake products?

Most of the counterfeit goods come from China and Hong Kong. In fact, the GAO study found that 88 percent of counterfeit goods come from China and Hong Kong. There is broad agreement that these are operated by international organized crime groups. The [U.S. Joint Strategic Plan on Intellectual Property Enforcement notes](#): "The growth of illicit trade is being fueled by smart and organized criminal networks ..." while [Interpol states](#), "The link between organized crime groups and counterfeit goods is well established."

It is apparent that operating large-scale sales and marketing of counterfeit goods requires central coordination. Someone must develop the deceptive websites and post them where victims are likely to see them. And the credit card system that provides the money



is organized and difficult to identify and combat. Finally, there must be methods developed to ship products into the U.S. and Canada and to attempt to evade customs.

The Strategic plan notes that international organized crime groups, such as the Mafia and the Japanese Yakuza groups, also are involved heavily in counterfeiting, and there is a significant concern that at least some of the proceeds are used to fund terrorist groups.

### How common and costly is fraud involving fake merchandise?

Although the sale of counterfeit goods is a massive problem, many victims do not file complaints, making it a challenge to get a firm grasp on just how often people pay for goods that are counterfeit or different from those ordered. Many people may not recognize at the outset that the goods are counterfeit. Also, there are those who intend to buy counterfeit goods and, therefore, would not complain.

There are, however, government estimates on the size of this problem, consumer complaints about receiving such goods, data on the number of goods seized by customs officials, and other research suggesting the scope of the problem.

Two different international surveys, each done in the UK, have found that a quarter of online shoppers have bought a product that turned out to be fake: [Global Consumer Shopping Habits Survey 2015](#) and [Counterfeit products are destroying brand value](#).

A [study](#) by the Organization of Economic Cooperation and Development (OECD) found that the U.S. is hit harder by counterfeit goods than any other country. The [OECD found](#) that counterfeiting went up 80% between 2008 and 2013, and is expected to continue to grow. A [consumer](#)

[guide](#) issued by the International Trade Administration at [stopfakes.gov](#) estimated in 2016 that counterfeiting and piracy cost the U.S. economy, annually, between \$200 billion and \$250 billion and 750,000 jobs. There are roughly 251 million adults in the U.S., translating to losses of roughly \$1000 per person every year. This includes not only the direct cost of a counterfeit purchase, but also lost jobs and lost sales.

The Government Accountability Office (GAO) says that in fiscal 2016, customs agents seized 31,560 shipments with a value of \$1.38 billion. That number dropped slightly [in 2017 to \\$1.2 billion](#). Figures for 2018 are not yet available.

The International Trademark Association (INTA) and the International Chamber of Commerce released a [report](#) on the Economic Impacts of Counterfeiting and Piracy in February 2017. It found that in 2013, the total international trade in counterfeit and pirated goods was \$461 billion and was projected to reach \$991 billion by 2022. The report also looked at secondary effects from counterfeiting. For example, it estimates that in 2013, this resulted in the loss of as many as 2.6 million jobs. They also found an additional loss in 2013 for digital piracy in movies, music and software.

BBB has received 2,003 complaints about counterfeit products and an additional 513 BBB Scam Tracker reports over the last three years. This does not necessarily include situations where an order was placed at a site offering counterfeit goods, but victims never received anything.

The Federal Bureau of Investigation (FBI) Internet Crime Complaint Center (IC3) and the Federal Trade Commission (FTC) have each attempted to identify complaints specifically mentioning counterfeit goods.



The Canadian Anti-Fraud Centre (CAFC) has made some innovative efforts to fight counterfeit goods, which may account for a recent drop in complaint numbers in Canada. The CAFC says that over the last five years they have helped 42,000 victims of counterfeit fraud recover \$14,700,000, and in 2018 they helped 12,130 victims recover approximately \$4.2 million.

### FBI's Internet Crime Complaint Center

*(includes pirated goods)*

Year	Complaints
2015	1931
2016	2572
2017	2644
2018	2249

### Federal Trade Commission

Year	Complaints	Losses
2016	505	\$147,178
2017	567	\$1,611,904
2018	552	\$752,377



In some complaints, victims are charged but never receive anything. These complaints often involve websites by counterfeit gangs from China. Because the complainants do not know that the goods they paid for were sold to them by counterfeiters, they do not include that fact in their complaints.

The FTC has a category called “Shop at Home/Catalog Sales” where these types of complaints reside along with many other scams. Every year it is one of the largest overall complaint categories. It was the seventh largest fraud complaint category in 2017.

### FTC Shop at Home/Catalog Sales Complaints

Year	Reports
2015	104,861
2016	120,654
2017	133,072
2018	149,707

BBB Scam Tracker has a similar category for “online purchases” and has received 20,543 such reports since 2015. This includes many complaints about goods different from those promised or that never arrived at all. The 2018 [BBB Scam Tracker Risk Report](#), published by BBB’s Institute for Marketplace Trust, found that online purchases were the second riskiest scam in 2018.

There’s reason to believe that crimes involving counterfeit goods are underreported. Some studies suggest that less than 10% of fraud victims ever take the time to complain to BBB or law enforcement.

### Who are victims of counterfeit goods fraud?

Anyone shopping online faces the risk of buying counterfeit goods. For the complaints that the FTC was able to identify, **the most common age group registering complaints was 30-39**. The [U.S. Joint Strategic Plan on Intellectual Property Enforcement](#) suggests that **those in their 20’s are at the most risk**. The CAFC states that **53% of the victims it encounters are female, while 47% are male; the average loss is \$350**.

### Consumer Narratives

Myra, from the Dallas area, is a fan of the television show Yellowstone. While watching the show, she noticed the jacket one of the main characters, Rip Wheeler, was wearing, and she thought it would be nice to have one.



She did an internet search for a Rip Wheeler jacket and found [celebjacket.com](#). The site does not list an address or phone number and does not have a privacy policy.

She paid \$109 for the jacket through her PayPal account. The jacket she received came from Pakistan. She says it looked nothing like the photo and was made from thin cotton with poor stitching. Because there is no contact information on the seller’s website, she contacted PayPal to return it. The company told PayPal that they wouldn’t give a refund or accept a return because the jacket was made specifically for her.

She still has the jacket, though she has never tried to wear it. She eventually got her money back from PayPal. She reached out and complained to BBB to try and warn others about this company.

Andrew, from St. Louis, saw a Facebook ad for a Mavic Pro drone. He is not a drone hobbyist, but he says it looked like something that would be fun to have, and he knew Mavics were very good and popular drones. He went to the website being advertised, which he thought was run by DJI, a well-known drone company. The site was very professional, with pictures and videos that he now believes were taken from the real DJI site. The site also had many positive comments and reviews. The drone he was interested in was listed as part of a clearance sale, so the price was enticing. He paid about \$200 with his credit card.



A week later, he received a package from Bakersfield, California. It contained a cheap plastic toy drone, which Andrew estimates was worth about \$10. He sent an email to complain, but never got a response. Andrew then contacted BBB.

Jennifer, from Oakland, California, was interested in purchasing two Hydro Flask water bottles for herself and her daughter. She had done a bit of online searching to see where she could get them.

She saw an Instagram ad for Hydro Flask at a discount. She clicked on the website being advertised, which looked very professional, and ordered two mugs for \$72. After a couple of weeks, they had not arrived. She went back and looked at the website again, and she saw that it was actually hydroflsak.com, a misspelling. And when she clicked on the “about” section of the site, the explanation was in poorly written English.

When she received the products, which were shipped from China, she was very disappointed. The mugs were not insulated. When she put cold water in one of them, the exterior quickly showed condensation. The lids were low-quality plastic, and the rubber rings that stop leaks from the inside would fall out. She compared them to her authentic mugs and saw that they had different finishes and different logos.



Jennifer emailed the company to ask for a refund. The company at first refused to take them back, then said that she would have to pay shipping herself, and finally offered a refund of \$9.99 if she returned them. She filed a complaint with BBB. Jennifer advises consumers to always look at websites carefully before buying.



Pam, from Chicago, saw an ad on Facebook for a peasant blouse with a peace sign print. The ad directed her to a site was called Kohlsheart.com, which she assumed was operated by Kohl's Department store. She ordered the shirt, paying about \$30 via PayPal.

After nearly two months, the shirt had not arrived, so Pam emailed the seller. The shirt later arrived, shipped from an apartment in New Jersey. The shirt she received was made of cheap fabric and did not resemble the shirt that was pictured. It had a tag saying "Made in China." She didn't even try it on.

Pam did some research online and found 10 other sites that she thinks are connected, with many other unhappy customers. She called BBB to complain about this company and is trying to work with PayPal to obtain a refund. Pam has decided to simply not shop online anymore.

Carolyn, from Nebraska, and her family are farmers. Late in 2018, she saw a Facebook ad for handmade quilts from Ameliacquilts.com. She thought they would make great Christmas gifts for her grandchildren, so she ordered six quilts. She paid \$360 with Paypal, which was tied to her credit card.

Although she did not receive the quilts by Christmas, she eventually received all six, shipped separately, during January and February. They were nothing like the website described; each was made from only two pieces of cloth sewn together, and they were very thin. She emailed the

company to complain but got no answer.

She called her credit card company to complain when the quilts did not arrive, but even though she was initially successful in disputing the charge, the credit card restored the charge once the quilts arrived. She also complained to PayPal, and she has not yet received a refund.

Carolyn filed complaints with BBB and the Nebraska Attorney General's office. She hopes those behind this fraud can be stopped.

## What are the consequences of counterfeit goods purchases?

### Lost money

The greatest harm to those buying counterfeit goods is the money victims lose paying for goods that are different from those advertised. Victims pay almost as much for fake products as they would for authentic ones, but the quality may be very different from the authentic goods. And these products will not have a valid warranty.

In addition, there is a substantial risk that either the victim will receive nothing at all or that what they are shipped is dramatically different from what they ordered. The CAFC recounts situations where people paying for a snow blower received only an ice scraper, or those buying cordless drills received only a screwdriver.

### Health and Safety Risks

In addition, GAO notes that consumers may face health or safety risks from counterfeit contact lenses, perfume, hair removal devices, condoms or skin cleaning products. They note that of the products seized by customs officials in 2016, 16% posed potential threats to health and safety. For example, counterfeit cosmetics may contain ingredients that can cause problems with the eyes or skin. In December 2015, U.S. Customs and Border Protection (CBP) seized 1,378 counterfeit lithium batteries for hoverboards that carried a serious risk of bursting into flame. As another example, phone chargers may carry the UL label even though they do not meet safety standards for electrical power.

A representative for watch company **Fossil Group, Inc.** says she is worried about those who buy the counterfeits, because while watch cases and metal bands by Fossil are mainly made of stainless steel, they have seen counterfeits that use metals that contain unsafe levels of cadmium and lead. These are potential health hazards because they are in direct contact with the skin.





## Lost jobs, sales and other costs

In addition, there are large secondary effects from this type of fraud. Legitimate businesses want to protect the reputation of their brands. Businesses spend a great deal of time improving the quality of their products and advertising those features to the public. They hope to recover those costs through product sales. But if a significant portion of their sales is diverted to counterfeiters, it can have a serious effect on their willingness to invest in innovation or to remain profitable.

The presence of counterfeit goods also inhibits consumers' trust in authentic branded products. One [study](#) found that those who have encountered counterfeit goods are 34% less likely to buy the actual goods, and 65% said they had lost trust in that brand.

Businesses spend significant time identifying those selling counterfeit versions of their products. It can be expensive to identify counterfeit sites and to hire lawyers to take action. In addition, lost sales also reflect lost jobs in the U.S. and Canada for those who make these goods.

## Online counterfeiting fraud practices

### How are counterfeit goods marketed to the public?

Most people find fake products from internet searches. Thousands of deceptive websites inundate the internet. They are not easy to detect and remove. Even trademark holders or brands may have difficulty determining legitimacy unless they actually buy the goods from the websites to determine their authenticity.

There are also counterfeit goods that find their way into brick-and-mortar stores and businesses. Some stores may be aware that they are selling counterfeits, while others may not realize that the products they have purchased for resale are counterfeit. Customs has noted that car repair and body shops may themselves obtain counterfeit brake pads or other counterfeit products that pose real safety

dangers. However, these sales are beyond the scope of this study.

To set up a deceptive website, someone must first develop the content, which typically involves photos and descriptions taken from the sites of authentic sellers. Counterfeit gangs typically use false names and contact information to disguise who is really behind the site. These sites look professional, and it is difficult for the average consumer to tell if they are legitimate.

So how do counterfeiters get consumers to visit their website and make a purchase? How do they market their goods? There are a wide variety of methods of drawing traffic to websites.

## Internet searches

Many people use an internet search to locate products they are interested in. Counterfeit gangs employ methods of increasing the chances that their goods will appear in a search by gaming the algorithms used by the search engines, a process known as "Black Hat SEO." These complicated tricks are often effective in exposing victims to sites where counterfeit goods are sold.

Another method of attracting consumers is to pay for sponsored links - paid ads that show up at the top of the results in search engines like Google. However, major brands have detected and reported these types of ads to the search engines which have policies prohibiting sales of counterfeits and rapidly remove them. Thus, there has been some success in fighting this tactic. However, this problem has not been eliminated. Jon Liney, vice president of the [American Bridal and Prom Industry Association \(ABPIA\)](#), says that anyone looking at the thumbnail photos that appear near the top of search engine results for prom or wedding dresses is almost assured of finding a counterfeit.

### Facebook and Instagram:

Perhaps the most common place to find sites selling counterfeit goods is social media, particularly Facebook and Instagram. A [study](#) by two Italian cybersecurity experts found that 24 percent of all Facebook ads for fashion and luxury goods are linked to websites

selling counterfeits. [INTA has warned](#) about social media. Many counterfeit online goods are sold through ads on Facebook and Instagram, which share the same ad network. [Researchers](#) report difficulty in distinguishing real from fake items based on Instagram images.

Additionally, Facebook also maintains Facebook Marketplace, an online destination for buying and selling goods from other Facebook users. This is another portal





that can be used to sell counterfeit goods.

Both [Facebook](#) and [Instagram](#) have online complaint forms for people who encounter counterfeit goods.

**eBay:** This has traditionally been a major way to sell counterfeit goods, but eBay has been taking strong measures to keep fake products off of its site. The [U.S. Joint Strategic Plan on Intellectual Property Enforcement](#) (page 72) says that social media has overtaken online auction sites as the channel of choice for counterfeiters. eBay has a [policy](#) against counterfeiting and works hard to keep such goods off its site. eBay has a [money back guarantee](#) itself.



**PayPal:** No longer owned by eBay, PayPal is still a major payment system at the site.

[Refunds are available](#) to consumers who use PayPal when goods are “Significantly Not as Described”.

This covers not only counterfeit goods, but also goods that do not carry a trademark but are advertised deceptively.

**Amazon:** Many people believe that Amazon is a safe place to shop online.



In 2018, nearly half of all online sales in the U.S. [took place at Amazon](#).

Some goods are acquired by Amazon for resale and shipped or fulfilled by the company. However, Amazon also allows third-party sellers to advertise on its site and ship themselves. Over half the goods sold by Amazon are by third parties. Amazon collects payments and then reimburses the third parties. There are [reports](#) that Amazon gets 15 percent of sales by these third-party sellers.

In February 2019, [Amazon announced Project Zero](#), a new effort that may help stem counterfeit sales on its platform. In a [CBS interview](#) announcing these efforts, Amazon conceded that counterfeiting is a problem on its site. According to CBS, “the company caught 3 billion suspicious listings last year before buyers even saw them but can’t say how many counterfeits actually made it onto the site.”

Retailers are adding new codes to their products that can be scanned when they arrive at an Amazon warehouse. When this is implemented, Amazon should have a high degree of confidence that the goods it fulfills itself are genuine.

Amazon is working with trademark holders to address this problem. Brands will be allowed to log in to Amazon’s system and take down sites selling counterfeits. They have tested this with 15 brands and are in the process of expanding it to many others. There are appeal rights for third parties that believe they have been removed unfairly.

## Made in the USA

One way for consumers to try and be sure that goods are not counterfeit is to look for a “Made in USA” label. According to [FTC guidelines and standards](#) for marketers and manufacturers, it is deceptive for goods to be promoted with an unqualified “Made in USA” (MUSA) claim unless they are “all or virtually all” made in the U.S. with domestic materials. Unfortunately, crooked retailers sometimes cheat, importing products but advertising and labeling them as “Made in USA”. In September 2018, the FTC announced [enforcement actions against three companies](#) violating these standards by importing goods from China and labeling them “Made in USA”:

- **Sandpiper/PiperGear USA:** Sandpiper/PiperGear USA (“Sandpiper”) built its brand of military-themed backpacks and gear on patriotism. In reality, Sandpiper imported the vast majority of its products from China or Mexico.
- **Patriot Puck:** Patriot Puck claimed it had “The only American Made Hockey Puck!” In reality, Patriot Puck imported all of its pucks from China.
- **Nectar Sleep:** Nectar Sleep falsely represented to consumers that the mattresses it sold were assembled in the US. However, its mattresses were wholly imported from China, with no assembly operations in the U.S.

On April 12, 2019 the FTC [announced a settlement](#) with a Georgia water filtration company over claims that its products were “Made in USA” even though they were imported from China.

The FTC encourages people who know of false MUSA claims to report them.







**Other internet marketplaces:** [Walmart](#), [Sears](#), and [Newegg](#) also sell goods online and permit third-party sellers to operate and market goods on their platform, so they also pose a risk of counterfeiting. These other online markets are sizable, but they have a much smaller share of the market than Amazon. A study found that eBay processed 6.6% of all online sales; Walmart had 3.7%; Home Depot had 1.6%; and Best Buy had 1.3%. Each has policies against counterfeiting.

**Shopify:** Recently, a new business model has been developed by Canadian company Shopify. It allows people to set up simple web-based stores and have goods customers purchase drop-shipped directly to consumers, often from China. Obviously this has the potential for sales by counterfeiters. Shopify reports that it investigates and takes action when it learns of problems, and victims can [complain online here](#).

**Affiliate advertising:** One common deceptive marketing method, explored in BBB's 2018 [investigative study](#) on free trial offer scams, involves hiring affiliates to place ads on popular websites, such as the ubiquitous "one trick to a tiny belly." However, [a study of the counterfeit area](#) found that this method is not commonly used by counterfeit gangs.

## How do counterfeit goods get to the United States and Canada?

There are clever and complicated methods of smuggling counterfeit goods. These include creating false bills of lading, hiding goods inside other items like air conditioning units, and shipping goods through transit points like Hong Kong and Singapore. Counterfeit goods travel by routes similar to those used for smuggling drugs, firearms and people. All of these tactics create big challenges for customs officials.

Customs has seen a large increase in small packages sent through

express shipping companies or the mail. These now account for the majority of seizures. Moreover, these inspections also have found that [large numbers of parcels coming from China contain opioids](#) such as fentanyl.

In addition, there has been a recent increase in counterfeit goods shipped from U.S. addresses. Some counterfeit goods are shipped to the U.S., and separate shipments contain counterfeit tags and packaging. The tags and labels are attached, and the counterfeit goods are then sent domestically. This practice helps evade customs inspections and reduces the likelihood that the recipient will realize that the products they receive are counterfeit.

## How do people pay for fake merchandise?

**Researchers at NYU** note that counterfeit goods are almost always paid for with a credit card. Therefore, the bogus websites selling these goods must have access to the credit card and banking system. The research shows that almost all of these transactions are handled by a small number of banks in China.

The NYU study looks at how credit card payments are processed for counterfeit goods. Over two years, they purchased 424 branded products. All of the goods were drop-shipped from China, and all were of poor quality. They concluded that the criminal gangs that produce counterfeit goods outsource fulfillment and payment processing.

The study tried to determine who handled the credit card processing. They found that 90% of the purchases were processed by either the Bank of China or the Chinese Bank of Communications. The researchers found that five intermediary payment processors were responsible for 68% of the payments. Seven payment processors confirmed to the undercover researchers that they were willing to handle processing for counterfeit goods. The study concludes that these are criminal operations, and that the companies are very organized – they were affirmatively attempting to identify test buys undertaken by the researchers.

## What is being done to stop counterfeiting practices?

Active efforts are being made to fight the flood of counterfeit goods. BBB attempts to identify and report on bogus businesses, especially if they claim to be located in the U.S. and Canada. Trademark holders also do a great deal of work and spend a considerable amount of money trying to fight counterfeits. This is a major priority for customs enforcement as well.

## Better Business Bureau

BBB tries to identify businesses, evaluate them and post information about them online. To check out a business or website, go to [bbb.org](#) and do a free search. BBB notes whether there are complaints and

### BBB Scam Tracker<sup>SM</sup>

Report to you for the BBB Institute for Marketplace Trust.  
Spot a business or offer that sounds like an illegal scheme or fraud? Tell us about it.  
Help us investigate and warn others by reporting what you know.

[Report a Scam](#)

**Search for Scams**  
Search using any or all of the fields below:

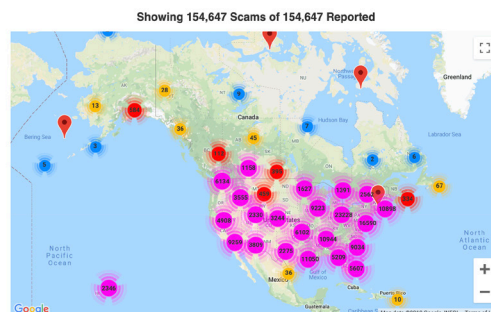
Keyword:

Scam Type:

Country:

Date Reported:

[PROTECT YOURSELF](#)  
[Learn more about scams](#)





how they are resolved. In addition, BBB takes fraud reports in its Scam Tracker system and shares them with the FTC's Consumer Sentinel database. Tracker has a category specifically on counterfeit goods. As noted earlier, BBB receives thousands of complaints about goods that are counterfeit or misrepresented or that are never delivered.

For example, BBB Northwest-Pacific has received nearly 2,000 complaints and Scam Tracker reports since October 2018 about [bogus quilts](#) sold online. They have identified more than a dozen related websites offering "handmade" quilts for sale. In most cases, victims saw these offered on social media. Most victims never receive anything, and those who do say that the products were drastically different from the ones pictured on the sites. This enterprise claims to be located in Salem, Oregon, but BBB could find no actual business in that state, and victims say that their emails to the company are answered from China. As of this time, at least one of these [websites is still active](#). BBB warnings about this enterprise have been the subject of stories in the [news media](#).

A BBB Accredited Business also can display the BBB seal on its website, so shoppers may want to look for that as a way of determining whether they are dealing with an honest business. The BBB seal is trademarked and can only be used with permission, usually by BBB Accredited Businesses that agree to BBB's standards of conduct. BBB finds hundreds of cases every month where there is unauthorized use of its seal. If companies do not respond to BBB's request to remove the seal, BBB notifies the company that hosts the internet content for the website, and in the majority of cases this is effective in getting the seal removed. Clicking on a legitimate seal will take the viewer to the business's BBB Business Profile. If this link is not live, the seal is probably a fake.

## Trademark Holders/Brands

Counterfeit goods are a big problem for those manufacturing consumer products. Victims who unknowingly receive shoddy counterfeit goods may blame the manufacturer. In addition, the brands that invest in innovation and quality find that they lose substantial sales to those selling counterfeit products, and this can have a real effect on their bottom-line ability to keep making goods and their ability to hire people to make them.

It is expensive to track and fight counterfeiters. Amber Barnes, a brand protection specialist at Fossil Group, reports that they regularly do internet searches for counterfeits of their watches and other products and do test buys.

As with BBB, brand holders can try to shut down websites, but this is difficult to do if they are hosted by companies outside the country. In addition, shutting down websites may require going to court and getting a court order, which can take time and is also expensive.

One area that has had a serious counterfeiting problem is the prom and wedding dress industry. There are legitimate sellers that market these items on websites, but counterfeits

## Danger from counterfeit medicine

People also have turned to the internet in an attempt to save money on their prescription drugs. It should be no surprise that popular medicines are a flourishing area for counterfeiters who can create websites and product packaging that may be difficult to distinguish from legitimate sites and products. The World Health Organization [says](#): "In more than 50% of cases, medicines purchased over the internet from illegal sites that conceal their physical addresses have been found to be counterfeit." And the [Strategic Plan on Intellectual Property Enforcement](#) (page 35) suggests that as few as 3% of websites selling medicine online are legitimate pharmacies.

These drugs may contain none, too much or not enough of the active ingredient. Some contain Fentanyl, which is highly addictive, or other harmful substances. And unlike drugs manufactured in the U.S., the labs are not supervised or tested by the FDA. Companies based in China, Hong Kong, Singapore or India shipped 97% of the counterfeit medicines seized in the U.S.

In [March 2019](#), Europol announced the results of a seven-month effort to combat illegal medicine, seizing 13 million doses or 1.8 tons of counterfeit medicine with a value of €168 million. They also arrested 435 people. Products seized included opioids as well as cancer and heart medications.



Europol noted that this type of counterfeiting is on the rise, saying, "Organized crime groups are increasingly turning to this crime area as it provides very high profits for perpetrators and relatively low risk regarding detection and criminal penalties."

The [Food and Drug Administration](#) (FDA) has serious concerns about counterfeit medicine. They [issued a warning](#) about buying online, noting that even if the seller claims to be in Canada, that does not mean that they really are, and that there are major risks to these purchases.

Counterfeit medicine is a huge problem for developing countries. The [World Health Organization](#) [says](#) fake or substandard drugs are often sold to pharmacists in sub-Saharan Africa, with large volumes of counterfeit malaria and pneumonia drugs. They say this has resulted in tens of thousands of deaths.



are a huge problem for the industry. ABPIA says that the industry engages in active (and expensive) efforts to fight this scourge, filing court cases and taking down thousands of sites at a time. Liney, the ABPIA vice president, estimates that they have removed 25 million URLs and says all of these sites were selling from China and located on servers there. The same sites also sell goods that aren't delivered or are completely different from what was ordered. He says that through this work, the industry has reduced counterfeiting of these products from China from \$400 million per year to about half that amount.

However, dress counterfeiting still remains a serious problem. Liney says that instead of copying and posting a photo of a brand-name dress (the photos are copyrighted), the counterfeiters now simply find a photo of a woman wearing a brand-name dress on social media and use those on their websites. He notes that it is difficult to tell if a site is selling counterfeit goods, but suggests that if a site doesn't list a phone number, or if it lists a large number of different color options for a dress, these are good signs that it is selling deceptively.

Liney says that his association regularly hears from victims. People reach out to ABPIA asking for help, particularly in getting refunds when they receive nothing or receive a dress that is very different from what was offered online. The association recommends to victims that they seek chargebacks on their credit cards.

There are services that can be hired to search for counterfeit sites and attorneys who can shut down bogus sites. [One website that had deceptively advertised Ray-Ban sunglasses was recently closed](#) after a lawsuit was filed in Chicago.

## Law Enforcement

Intellectual property issues, including copyright, trademark infringement and theft of trade secrets, are priorities for the U.S. government. In Canada, these issues are handled by the [Canadian Border Services Agency](#).

The White House issued an [executive order](#) on April 3, 2019, focusing on the problem of counterfeit goods. The

President directed government agencies working with brands to prepare a report in seven months examining this area, making it an enforcement priority, and to make recommendations. This Order also asks for an examination of "third party online marketplaces, carriers, customs brokers, payment providers, vendors and others..."

The two main U.S. agencies involved in enforcement are Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE). Both are part of the Department of Homeland Security. CBP is mainly in charge of bulk cargo coming into the country at seaports and other points of entry. The agency is responsible for 11 million containers entering the country on ships each year, as well as 10 million arriving by truck and 3 million by rail. CBP seizures of counterfeit goods are up 125% over the last five years.

ICE typically handles packages coming into the country by mail or package delivery businesses, with some 260,000 such packages entering the U.S. every year. Eighty-nine percent of counterfeit seizures in 2017 involved small packages entering the country.

A number of other agencies handle intellectual property issues. The White House has a [U.S. Intellectual Property Enforcement Coordinator](#), which has issued a [U.S. Strategic Plan on Intellectual Property Enforcement](#). In addition, there is a National Intellectual Property Rights Coordination Center (IPR Center) where 23 different agencies, including the Postal Inspection Service and the FBI, work together with partners from Interpol, Europol, Canada, and Mexico to share intelligence, develop cases, and combat counterfeiting and other intellectual property issues. The IPR Center works with private industry in its efforts and issues a monthly newsletter and yearly enforcement statistics. They have a website with consumer and business education materials at [stopfakes.gov](http://stopfakes.gov).

In 2017, the most recent year for which data is available, U.S. customs agencies seized \$1.2 billion in counterfeit goods. They also arrested 457 individuals and secured 242 convictions. More than 80% of the goods seized came from China or Hong Kong.

Many prosecutions target people in the U.S. that have goods shipped from China and then sell them online. For example, in March 2019 a man was sentenced to prison in Mississippi after investigators searching his home found more than \$2 million in counterfeit Yeti-branded products, LifeProof and OtterBox phone cases, RayBan sunglasses, Beats by Dre, and Apple and Bose products. These items were sold online and from a brick-and-mortar store.

In April 2019, two Chinese men attending college in Oregon were arrested for fraud involving counterfeit goods. They were having counterfeit iPhones sent to them from China, which they sent to Apple with repair requests. Apple usually sent them new, genuine phones in return, which the pair sent back for resale in China. Apple estimates that they gave these men 1,493 new phones, with a value of roughly \$895,000.





## Tips for consumers

### How to spot counterfeit goods

It is difficult for the general public to identify websites selling counterfeit goods. Bogus websites may use real photos and descriptions of actual products so it may be difficult to spot fake or substandard products before you receive them. Here are some tips to help identify suspicious websites and to see if the goods received are real.

**Know who you're buying from.** Check the website with BBB or do an internet search of the URL. Look in the "About" section for typos, grammatical errors and information about the business or website location. Fraudulent sites often do not provide physical addresses. If the site does not list a phone number, that is often another red flag that fraud is afoot.

**Watch for quality issues.** It is a good idea to look closely at goods received and make sure they are authentic. Items sold without packaging or with blurry images are red flags.

**Watch out for fake reviews.** Scammers often post fake reviews, even on sites such as Amazon. Don't rely only on reviews. Make sure to look for reviews that report that they are counterfeit goods. BBB accepts and attempts to verify customer reviews, but there are no review sites that can screen out all fake reviews.

### Refunds for victims from their credit cards

Credit card companies offer refunds if goods are counterfeit or sold fraudulently. Those who have received counterfeit goods – or who get either nothing or goods that are very different from those ordered – should call the customer service number on the back of their card to ask for a refund, a process known as a chargeback. Credit card companies have anti-fraud policies. Consumers can find the policies for [Visa](#), [MasterCard](#), and [Discover](#) online.

**Victims should act quickly to dispute charges with their credit card company.** They typically have 120 days (four months) from the date they receive the goods OR from when they learn that they were counterfeit. Those with Visa cards have a maximum of 540 days (18 months) from the original transaction.

However, victims must have some proof that the goods are counterfeit. They can obtain that from the company that sells authentic goods, from customs or another law enforcement agency, or from a neutral third-party expert. Fossil Group, which sells watches, recommends that victims call their customer service number for help with counterfeits. Simply providing the website where the goods were purchased might be enough to get the help needed to obtain a chargeback.



Canadian victims have an easy alternative to getting a chargeback. When victims contact a Canadian bank, the bank will refer victims to the Canadian Antifraud Centre (CAFC). With **Operation Chargeback** the CAFC identifies the website where the victim purchased the counterfeit in question and contacts the brand – that is, the trademark holder – to see if it is an authorized seller. If it is not, the brand notifies the CAFC. The CAFC then provides this

information to the victim in an email, and the victim can then provide that email as proof to their bank and get a chargeback. The CAFC also informs victims that they do not need to return the counterfeit goods; rather, they ask people to destroy them. eBay and PayPal similarly say that they do not require that victims return the goods.

Over the last five years, the CAFC has used this quick and easy process to get chargebacks for

42,000 people and obtain \$14.7 million in refunds. They have also identified 36,000 websites selling counterfeit goods. Similar programs are operating in the UK by the London Metropolitan Police in conjunction with the UK Intellectual Property Office. Other countries have expressed interest, with Italy expected to be the next to try this model. Unfortunately, there is no program like this in the United States.

Through this work, the CAFC has also been able to gather data on 12,000 merchant accounts used to accept payment for counterfeit goods. Those selling these goods must have a merchant account from a bank that allows them to accept credit card payment. The CAFC says that almost all of the counterfeit merchant accounts are linked to four state-run banks in China. In addition, the information on websites and merchant accounts that the CAFC obtains is useful to law enforcers and credit card processors.

## What should victims do?

### Ask for a refund.

Victims who don't receive anything when buying online with their credit card, or who receive goods that are counterfeit or not as described, should call the customer service number on the back of their card and request a refund. They may need to try and contact the seller first, but they should not delay since they only have a limited time to try a chargeback on their credit card. Unless otherwise instructed, they do not need to return counterfeit goods to the seller; they should destroy them.

If the bank requests proof that the goods are counterfeit, victims should call the customer service center for the real



manufacturer, explain the situation, and request that they send an email indicating that the site where the goods were purchased is not an authorized seller. It may help to take a screenshot of the website where the order was placed, as well as a photo of the item actually received.

This process also helps brands and trademark holders identify sites counterfeiting their goods. Notifying the credit card companies helps the payment processors, such as VISA and MasterCard, identify merchant accounts used for illegal conduct.

Those who have a credit card with a Canadian bank and call customer service will be referred to the CAFC, expediting the process of getting their money back.

## Report counterfeit goods.

Contact one or more of the following:

- **National Intellectual Property Rights Coordination Center:** ICE asks victims of counterfeit goods to file a complaint with the [IPR Center here](#).
- **Better Business Bureau:** Victims can [file complaints](#) about online sellers that claim to be in the U.S. or Canada. BBB tries to resolve complaints and may help in getting a refund. There is no cost for this service. BBB also looks for and reports patterns of complaints. Victims can report scams at [BBB Scam Tracker](#).
- **Online markets:** Victims can complain directly to eBay, Amazon, Facebook and Instagram or other online marketplaces. In addition, Amazon has an **“A-Z guarantee”** for goods sold by third parties on their site; victims who have purchased counterfeit items from a third-party seller can seek a refund [here](#).
- **Internet Fraud Complaint Center (IC3):** The FBI takes complaints about counterfeit goods. [Complain here](#).
- **Federal Trade Commission:** You can complain to the FTC by calling 877/FTC-Help or [file a complaint online](#).

## Recommendations

- BBB urges the credit card payment processors to engage their full efforts in combating those that provide merchant accounts to sellers of counterfeit goods.
- U.S. consumers would benefit from a program to help counterfeit victims with chargebacks like the one operated in Canada by the CAFC. Such a program would also help identify crooked credit card merchant accounts, bogus websites, and possibly locations from which such goods are being shipped.
- Law enforcement agencies could make better use of complaint information obtained by BBB, the FTC and IC3.
- More study and investigation is needed for websites in China that deliver nothing or where goods are sold deceptively – even if there is no trademark or copyright involved.

*By Steve Baker, International Investigations Specialist, BBB*