



Piracy

The True Cost of Forgery

It's Friday afternoon on Santee Alley, in the heart of Los Angeles Fashion District, as the city has officially dubbed it and as one Street sign boldly announces, "The Center for Style." In fact, Santee Alley is an open-air marketplace that looks like a cross between a Middle Eastern souk and a Mexican mercado and specializes in T-shirts, confirmation dresses and knockoff Gucci, Chanel, Louis Vuitton and Burberry wallets, knapsacks and handbags. This is where soap-opera costumers come to pick up luxury logoed "leather" goods to dress up their actors at a fraction of the cost, where peddlers buy sackloads of the stuff to sell door-to-door at day spas in Beverly Hills, where Pasadena housewives stock their "purse parties." "Everyone from the rich and affluent to the people who can't really afford [to buy luxury brands]," says Kris Buckner, a Los Angeles-based private investigator. "Whoever wants it and demands it."

Like you. There you are, walking down the street, wandering through a flea market or passing through a New York subway station, when you see a table of tempting goods. You slide your fingers across the faux leather of a rip-off Louis Vuitton Murakami, inspecting the handsome hardware and glimmering gold plating. It doesn't have that same rich softness of an actual LV, but it might just pass for the real thing. You ask yourself, Should I really? But then the vendor at this cardboard-table boutique tells you the bag is only \$25, and you think, What harm could it do?

Plenty. "If women were aware that [the production of] these bags means employing illegal labour,

including children, I don't think they would be having Tupperware-style parties to sell them," says Andy Spade, CEO and creative director of Kate Spade and Jack Spade. "If they knew there was child labour involved, I don't think they would buy into the sale of counterfeit goods." Counterfeiting of luxury goods causes great harm indeed: to the brands that spend millions combating it, to the citizens who lose the benefit of taxes that would be paid on legitimate sales, to the children who work in factories that do not meet basic safety standards and to anyone at the mercy of terrorists. Yes, terrorists.

The Abuses

Dig a little and the stories behind the counterfeit goods trade are horribly disturbing. Many tales begin in China, where certain factories are devoted to producing knockoff Gucci handbags or Burberry bags and raingear or Prada everything. Workers, many under the age of 16, are drafted into sweatshops. These children are often separated from their parents, and the only education they receive is the skills required for assembly-line work. They sew and put together goods day and night in the counterfeit factories, where many also live, in squalor, some sleeping on the rotten wooden floors. They eat what they are given, usually rice.

Similar conditions exist right here on our own doorstep as well, with immigrant workers filling the demand. At the first raid that lawyer Barbara Kolsun, now general counsel for Kate Spade, went



on— to a sweatshop in Brooklyn eight years ago on behalf of a variety of luxury-goods manufacturers— “the illegal workers were hiding in a filthy cellar,” she recalls. “It was impossible to know how old they were,” because they didn’t have any papers.

Kolsun’s experience isn’t unusual. When police arrive for a raid (investigators are sometimes able to gather enough evidence for law enforcement to secure a search warrant), the doors are often padlocked and the fire exits sealed, so police can’t get in and workers can’t escape. These places can be rat holes:

Criminal bosses don’t necessarily conform to building regulations.

Where Does the Money Go?

So who benefits from these human-rights abuses? Who is making money from the counterfeiting of luxury goods, and how are these funds being spent?

Ronald K. Noble, secretary general of Interpol, the international police agency, told the House Committee on International Relations in 2003 that law authorities are “seeing the connection in areas between terrorist financing and intellectual property crime.” Trademark infringement (for example, that fake Murakami) is an important part of that. He testified that profits from sales of counterfeit goods have gone to organizations associated with Hezbollah, an anti-Israel Shiite terrorist group, and to paramilitary groups in Northern Ireland; even supporters of Al-Qaeda have been caught with large amounts of fakes. “If you find one Al-Qaeda operative with [counterfeit goods], it’s like finding one roach ... or one rat in your house,” Noble told committee members. “It should be enough to draw your attention to it.” Committee chairman Henry Hyde noted that comments like Noble’s “should make you think twice before buying that knockoff purse.”

Sales of fake goods on the streets of New York are thought by some U.S. intelligence agencies to have partially financed the bombing of the World Trade Center in 1993 and may have even contributed to the September 11 attacks. Says Timothy Trainer, president of the Washington, D.C.-based International Anti-Counterfeiting Coalition, “One

of our investigators was doing a raid on behalf of a company in New York, and he found flight manuals for the same type of planes [used in the attacks], with Arabic notations.” One of the suspects in the Madrid train bombings last year was a known counterfeiter, according to the U.K.-based Anti-Counterfeiting Group (ACG).

Unfortunately, many shoppers aren’t aware of the link to organized crime and terrorism. After all, counterfeit bags are often sold in the open just a few yards away from the real things.

The Battle Against Counterfeiting

Clearly, authorities face a huge challenge in trying to stamp out counterfeiting, which is, in fact, drastically on the rise. Worldwide production of counterfeit goods has reportedly jumped by 1700 percent since 1993, according to Indicam, an Italy-based anti-counterfeiting coalition, and the number of fakes seized in the European Union has increased 10 times in the past five years, according to the ACG. Complacency among buyers is also a concern. In China, counterfeiting is so accepted that a full-fledged shopping mall featuring stalls exclusively devoted to the sale of ersatz designer items from Chanel, Balenciaga and Prada exists about an hour outside Hong Kong. It’s not hard to imagine something similar evolving here.

To fight this phenomenon, Louis Vuitton— one of the most knocked-off brands in the world— has 40 full-time lawyers and 250 freelance investigators and will spend 15 million euros (about \$19.5 million) to fight counterfeiting this year. Cartier will devote \$4 million to combat knockoff goods— primarily watches— and is currently pursuing 2500 anti-counterfeiting cases. Virtually all of the major brands have investigators perusing Internet retail websites, looking for fakes. “It’s not an option to fight counterfeiting,” says one industry expert. “It’s an absolute necessity; you have to do it for your clients. They choose to wear the product for its exclusivity; and it’s your duty to defend their choice.”

Everyone involved in the battle against counterfeit fashion agrees that the best way to stop it is at the source, and that means China. In the aftermath of negotiations by the U.S.-China Joint Commission

on Commerce and Trade in 2004, the Chinese government has announced the formation of a new counterfeiting task force to attack the problem—but the decision raises some surprising ethical dilemmas. When a factory has been raided and shut down, for instance, the workers, especially children, sometimes have no other place to live. However, humanitarian aid is on the way. For instance, when Frederick Mostert, a lawyer and anti-counterfeiting expert, learned of a factory raid in China three years ago that left several children homeless, he co-founded a charity, the Teacher of Ten Thousand Generations Foundation, named in honor of Confucius (confuciusfoundation.org). The purpose of the foundation is, Mostert explains, “to approach children and their families to see if the children want to go back to school, and we sponsor them so that they are able to do so, as far as university when possible.” The organization recently placed its first group of children in school.

Bringing the Fight Home

To abolish the counterfeit trade successfully, the battle can't be fought only on the other side of the world, of course. It also needs to happen closer to our shores, as well as right here at home.

In France, where anyone found guilty of producing, importing or exporting fakes as part of an organized gang can receive up to five years in prison and a fine of 500,000 euros (about \$650,000), the government is taking the lead in these efforts; it is also targeting shoppers like you and me. A recent poster campaign, spearheaded by the French luxury-goods organization Comité Colbert, is warning that now even tourists passing through with counterfeit goods bought elsewhere risk a maximum fine of 300,000 euros (around \$390,000) and up to three years in jail.

As for the United States, in October 2004 the Bush administration launched an international anticounterfeiting program that includes a toll-free hot line for companies; a “name and shame” list of businesses that produce or sell counterfeit designer goods is in the planning stages. In New York City in 2003, Mayor Michael Bloomberg stood before a mound of fake Louis Vuitton and Chanel bags that had been seized from a warehouse on Broadway and announced the formation of a task force to

fight counterfeiting in Gotham. “Make no mistake,” he said. “This is only the beginning.”

Today, the New York City Police Department's Organized Crime Investigation Division has a squad devoted to trademark infringement. “We do not target the person on the street selling bags or clothing or CDs or watches; we leave that to the regular patrol force,” says Brian O'Neill, the division's deputy inspector and commanding officer. “We target distributors and manufacturers. If the patrol unit makes an arrest, we'll debrief prisoners and do a full investigation, using undercover detectives if we have to.” Once they have enough evidence, they obtain a search warrant, hit the wholesale locations, seize the goods and arrest those on site.

All of these efforts are beginning to produce results. Several of the biggest New York busts took place in 2004. In June, officials halted a multimillion-dollar, multi-brand counterfeiting operation (which included faux Vuitton goods) that was reportedly laundering funds to, among others, China. Seventeen members of Chinese groups that rule the Canal Street knockoff trade were also charged with various crimes, and millions of dollars of fake merchandise was confiscated. And in a two-day sweep in November, authorities charged 51 members of two violent gangs (most of them illegal immigrants) and seized \$150,000 in cash and \$4 million worth of fake products from a number of warehouses around Manhattan.

But many operations are still going strong. Down the basement stairs of certain stores along Manhattan's Canal Street, padlocked doors admit entry into what you could call the VIP room—underground tunnels of grimy lairs furnished with nothing but counterfeit goods. Still tempted? Maybe not.

Perhaps the most effective way to stop counterfeiting is through educating those of us who love fashion and a bargain and are vulnerable to unscrupulous counterfeiters. “If the woman buying a purse in Chinatown knew that it was probably made by children,” says Kolsun, “she might think twice about buying it.”•

CRIME WATCH

The Sad Truth Behind Your Bargain Timepiece

By: Desmond Butler

“We have seen children in counterfeiting operations who have had their legs broken and improperly reset so they cannot leave or go to the streets to play,” one private investigator says. “There are no days off or vacations in this business.”

One morning in the summer of 2003, he and other private detectives, lawyers for a large luxury-goods company and a dozen or so Chinese police burst through an inconspicuous alley door in the city of Guangzhou, deep in China's industrial heartland.

For a moment, the 11 noticeably young children inside, who were assembling the tiny watch parts labeled Rolex, Panerai, Breitling and Bulgari, did not notice. Then one glared at the police, probably with the knowledge that he was out of a job.

It was a typical scene, according to the investigator who led the raid: These workers are prized for their small hands.

On the same day as the raid, at a local market specializing in fake components, a group of Nigerian men said they flew in monthly to place orders. Hundreds of stalls sold the smallest parts, some to be assembled into fake watches by local children for export.

China's rise as a manufacturing powerhouse has coincided with a giant leap in the volume and quality of counterfeits, according to luxury-industry insiders. The Guangzhou area has been responsible for a dominant share of the finest luxury fakes.

“It is distressing to see the people who come to our aftersales-servicing with fakes,” says Stanislas de Quercize, president and CEO of Cartier North America. “We have to say, ‘I am very sorry, but we have to confiscate your watch because it is not real. Some burst into tears; maybe it was a gift and they feel that someone close has taken advantage of them.’”

How You Can Help

Harper's Bazaar and the International Anti-Counterfeiting Coalition (IACC) are proud to announce the creation of a hot line (866-NOTFAKE) that allows consumers to report counterfeit activity anonymously. Harper's Bazaar and the IACC will also distribute 866-NOTFAKE information cards with purchases from our anti-counterfeiting section advertisers. Put a stop to counterfeiting: Call 866-NOTFAKE.