

EDITED BY SUZANNE DEFFREE

supplychain

LINKING DESIGN AND RESOURCES

Counterfeiting continues to grow, but the industry fights back

The problem of counterfeit components in the electronics supply chain continues despite increased law enforcement. The problem increased last year because of the lengthening leadtimes on many parts. To ensure continued production, many OEMs turned to the open market, in which counterfeit parts are plentiful. Yet, even as the flow of counterfeit parts increases, players in the industry have adopted mitigation strategies.

"When the market gets tight, counterfeiting goes up," says Ed Smith (photo, left), president of Avnet Electronics Marketing Americas (www.avnet.com). "Customers miss the forecast, and they start buying from unauthorized outlets. When the leadtimes come into line and the market stabilizes, counterfeiting comes down." In the past year, though, counterfeiting has become more pronounced in both the ups and the downs of the market. "Counterfeiting is higher than it was during the last stable period," says Smith. "The counterfeiting is worse than the last good times, and it's also worse than the last bad times."

Counterfeiters clean and remark scrap parts. "Some of the counterfeiters remove used parts from electronic scrap," says P Steve Gregory, president and chief executive officer of PC Components (www.pc-components.com). "They clean



up and resurface the parts so they look like new; they then remark the parts with identical date codes and lot numbers so they can pass them off as new."

Some counterfeiters are manufacturing their own parts. The manufacturing of parts sometimes occurs during downtime in the Asian plants where the original contracts occurred. "These counterfeiting manufacturers are getting better," says Gregory. "It used to be just generic capacitors, but now they're manufacturing more complex parts."

China is still the culprit in much of the electronics counterfeiting, but that situation could change if the Chinese government cracks down on counterfeiters. "Most of the counterfeit parts are still coming from China," says Mark Snyder, president of ERAI (www.eraonline.org), which offers risk-management services. "We expected to see an insurgence from India, but it hasn't happened yet."

Cracking down on China won't necessarily curb the problem, he adds. "As we work with the government to get a handle on the counter-



feit parts coming out of China, it will just go to another part of the world."

One of the fears in the electronics industry is that counterfeit parts could find their way into the DOD (Department of Defense) or NASA (National Aeronautics and Space Administration) and compromise weapons or space systems, with catastrophic results. DOD and NASA are driving a lot of the law enforcement, according to Robin B Gray, Jr (photo, right), president and chief executive officer of ECIA (Electronic Components Industry Association, www.eciaonline.org). "They have concerns about counterfeit products entering their supply chain," he says. "They seem to be on the verge of either regulation or maybe even legislation that would mandate that, whenever possible, manufacturers must buy components from an authorized source."

The recent practice in the military of buying outside authorized channels has heightened concern about counterfeit parts in the military-supply chain. "The military should be

nervous," says Avnet's Smith. "Your risk is negligible if you buy everything from an authorized distributor. The military used to buy only from authorized distributors. Now, they do some contracting at the lowest cost. Sometimes they don't have a good forecast, so sometimes they're buying outside the authorized market."

Law enforcement in this area has improved, and federal law-enforcement agents are arresting counterfeiters. "[The Customs Department] is beginning to develop policies, and those policies are working," says Smith. "They are making us sign agreements that we buy from the manufacturer and not the third parties, and they're asking us to test the products to make sure they come from the OEMs."

Companies are reluctant to reveal that they've run into counterfeit parts because it may be bad for business. "Law enforcement is doing a reasonable job, but they have to deal with companies that don't want to expose the fact that they bought counterfeit parts," says Smith.

Although counterfeiting is still a major problem in the electronics industry, vigilance and improved law enforcement are helping to curb the damage. "Counterfeiting is not going away anytime soon," says ERAI's Snyder. "Everyone in the supply chain is doing a better job. When we find a real counterfeiter, we send it to the federal authorities, and they chase it down."

—by Rob Spiegel