



Global Counterfeit Awareness Discussion Group

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Discussion Group Objective

Most international supply chain intermediaries are aware of the numerous counterfeit escapes that have made their way into US Government, DOD, Mil-Aero applications.

The objective of this discussion group is to bring together subject matter experts representing various nations to address the following specific to your region/country:



How has the UK been impacted by counterfeit parts?

- 47% of shipments of counterfeits cited in the survey were returned to the supplier for credit, not only returning them into the supply chain to be supplied elsewhere but also, probably innocently, committing a criminal offence in the UK by knowingly 'trading' in counterfeits.
- Only 11% of incidents were reported to the police or to Trading Standards and only 50% of companies who had been victims of counterfeiting have revised their policies and procedures to minimise the risk of counterfeits.
- Other highlights from the survey were:
 - • Respondents who stated that they have discovered counterfeits in the last twelve months reported an average of 1.58 incidents per respondent during that period
 - • Of these, 84% were semiconductors, an average of 1.33 incidents per respondents per year, and 16% were passive products, 0.19 per respondent. Even though respondents were specifically asked if they had detected any other types of counterfeit parts, no other types were cited
 - • Respondents were asked to state where in their process the counterfeits had been detected. Of the cases cited, 58% were detected in goods in, 5% during assembly (5.3%), 21% during testing and 16% by the end user or customer
 - • 65% of respondents stated that the counterfeits were 'easy' to detect, by visual inspection or acetone wipe while 35% stated they were 'difficult' to detect, requiring X ray inspection or electrical testing. This is fairly consistent with responses citing where in their process counterfeits were detected, probably the 'easily' detected counterfeits being picked up by goods in or at assembly and the 'difficult' ones being found on test or by the end user on operation
 - • Of the incidents cited, 79% were supplied by UK based suppliers, 16% by US based suppliers and 5% by suppliers in Asia. 100% of counterfeits cited were supplied by either an independent distributor or a broker highlighting the problems of sourcing in the grey market
 - • Price is not a reliable indicator of counterfeits. 84% were sold at a price similar to the market price and only 16% were below the market price.
 - • Recipients of counterfeits contacted the original manufacturers in 84% of cases. Of these, in 37% cases, the original manufacturer was not helpful or gave help reluctantly and 63% were very helpful, but this should be seen in the context that in every one of the cases cited, the parts had been sourced from either a broker or independent distributor.

Source: UKEA 16th November 2011



What is the UK's level of concern as a result of identified risk?

- Extremely high, but the approach is different to the US.
 - UK Government has expressed the opinion that UK plc should be at the forefront of protecting the industry. Currently this is being addressed at the Prime corporate level.





What steps are being taken by the UK/Europe to deal with counterfeit parts?

- Within the UK we have organisations such as: UKEA, COG, the MOD has recently created a Counterfeit Avoidance Working Group which involves some Primes.
- Other drivers: Primes and their strategic suppliers, such as Astute Electronics.
- **Europe (including the UK):**
CTI are doing seminars, ChipCheck:

ChipCheck is a collaborative project involving the following partner organisations: Innospexion APS, Accent Pro 2000 s.r.l, Computerised Information Technology Ltd, Semicon Sp. z o. o., Kentro Erevnas Technologias Kai Anaptyxis Thessalias, Surface mount and related technologies Ltd, Elektronikas un datorzinatnu instituts. The project is coordinated and managed by [TWI Ltd](#). The research leading to these results has received funding from the European Communitys [Seventh Framework Programme](#) managed by [REA-Research Executive Agency](#) ([FP7/2007-2013] under grant agreement no 262212.





How have counterfeit parts affected your organization's ability to be identified as a "trusted source"?

- In the UK, our position has been enhanced and strengthened as the leading supplier in the Mil/Aero sector, as the customers become more aware and in need of our capabilities and knowledge.
- We are also seeing customers reduce their vendor base and using a small group of key/core suppliers.



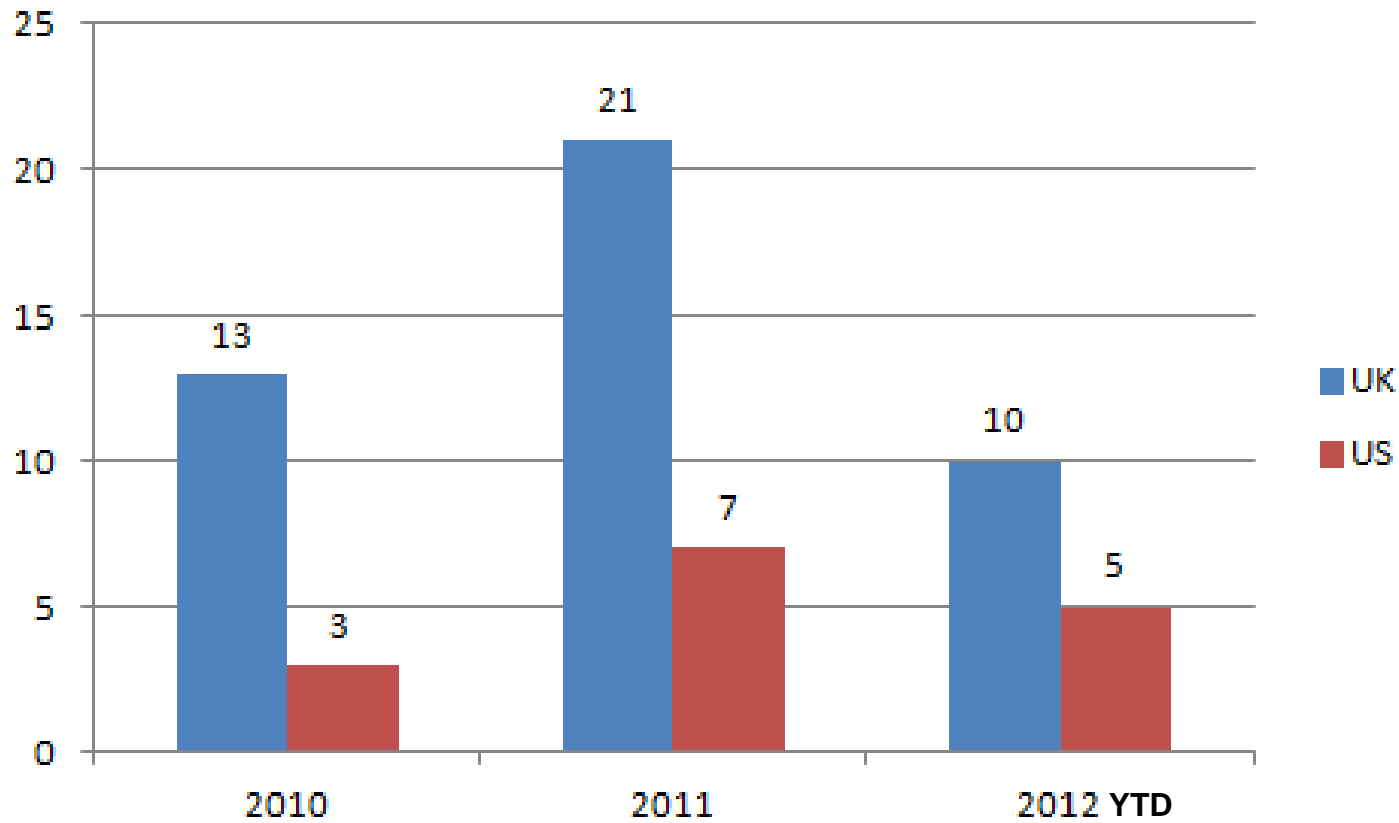


- Do customers come to your place of business to conduct audits of your processes? Has the audit process become more stringent? Are quality management systems (ISO Certification, etc.) now a prerequisite for being a supplier where before this was not a requirement? How have customer expectations and requirements changed or has there been no change?





Astute Customer Audits





- Discuss regulations or enhanced requirements that are being flowed down through the supply chain relative to sourcing, supplier selection, counterfeit identification, material control, etc., and if so...is what is being requested feasible. Are suppliers in Europe, Israel, etc., being subjected to similar regulatory controls soon to be applied to US Distributors?
- AS9120 preferred
- SC21 preferred
- Customers bespoke mitigation program linked to AS5553 being flowed down the supply chain
- Corporate policy not being fully understood and implemented at all levels
- Israel prefer supply chain to have in-house test capabilities
- Elbit following AS5553 recommendations





Do you believe the issue of counterfeit identification and avoidance is as significant in your region/country as it is in the US?

Different approaches, same aim:

➤ US:

- Higher awareness of Counterfeit Techniques
- Creating industry standards
- Reporting
- Testing methodology
- Focussed legal enforcement
- Government driven

➤ UK:

- Emphasis on supply chain quality
- Long term partnerships:
 - Regular Audits
 - Continuous improvement programmes (SC21)
 - Innocent until proven guilty
- Industry led
- Transparent exchange of counterfeit knowledge





Customer behaviors: How are independent distributors viewed in your region/country?

- Suppliers/Distributors are not labelled in the UK as either a Broker or an Independent. They are often labelled as ‘Preferred’ and seen as a key supplier within the supply chain.
- A partnership approach to identify root cause and preventative actions applied.





Is your region/country following what is happening in the US?

- Due to the US influence within the Mil/Aero industry and the relationship that exists between the two countries, it is likely the NDAA requirements will be adopted.
- We see this as being implemented via Terms & Conditions and contractual obligations.





Do you believe it is important for all regions/country to be operating from a single “rule book” to ensure there is consistency in the way parts are bought, sold, inspected, and controlled when a counterfeit is identified?

- Yes, this should be controlled by international standards, such as: AS5553, AS6081, AS6171, ARP6178





What is required of you relative to material control?

Astute Electronics reserves the right to quarantine suspect counterfeit, fraudulent and counterfeit parts. Payment in this case will be held until OCM or appropriate body provides conclusive results whereupon parts will be destroyed. At this point no payment will be issued to seller. In cases where payment is made in advance, full reimbursement will be required including any 3rd party testing charges incurred by Astute.

Definitions:

Suspect – Evidence exists that the part may be Fraudulent or Counterfeit.

Fraudulent – Part was misrepresented as meeting customer requirements; includes used parts represented as new parts.

Counterfeit – Fraudulent part that has been confirmed as being a copy, imitation or substitute that has been represented, identified, or marked as genuine, and/or altered by a source without legal right with intent to mislead, deceive or defraud.

- As per the above Astute Electronics Purchasing Terms & Conditions and internal processes, Astute will seize, quarantine, destroy.





What are the criminal and financial penalties for shipping a counterfeit part?

➤ UK law focusses on IP infringement:

- There may be criminal offences committed by the supplier of the components under Section 92 of the Trade Marks Act 1994, for selling goods which bear, or the packaging of which bears a sign identical to or likely to be mistaken for a registered Trade Mark. Law enforcement may wish to launch criminal proceedings against that supplier. Note that, if you identify components as being counterfeit and return them to your supplier, you are also committing an offence under the same Act. You should therefore retain possession of the components, withhold payment and advise your supplier that you are reporting to the matter to Trading Standards. **Fines, at present, can be up to \$80,000 and imprisonment can be up to 10 years.**
- Counterfeit components that do not confirm to the specification of the original part may be inherently dangerous or render the equipment in which they are a component dangerous. In many instances this can be the case, where the definition of 'counterfeit' differs from that relevant to Section 92 of the Trade Marks Act 1994. This may constitute offences under safety legislation such as the General Product Safety Regulations 2005.





What do you think can be done to unify the supply chain on a global level?

- Increased global industry awareness
 - Shared knowledge
 - Global forums
 - Webcasts

- Adoption of international standards



Summary

- Key suppliers need to continue to evolve, invest & engage
- Customers need to engage with those demonstrating the above
- To achieve this, both parties need to have regular interaction, share knowledge, work together and demonstrate commitment to the long term partnership
- We are all in this together, by forming trusted partnerships we will all come out stronger