
Viral marketing

Counterfeits, substandard goods and intellectual property crime in the COVID-19 pandemic

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FOREWORD

Counterfeit goods sold during the corona crisis do not meet the required quality standards and pose a real threat to public health and safety. People who buy these fake products have a false sense of security, while they are in fact left unprotected against the virus. Therefore, we should not only go after the criminals behind these scams, but also, through prevention work, inform potential victims who are putting themselves and others at risk by using such fake goods.

CATHERINE DE BOLLE
Executive Director, Europol



INTRODUCTION

Criminals trading in counterfeit goods, particularly counterfeit pharmaceutical and healthcare products, have been quick to exploit the COVID-19 pandemic. The widespread demand for various products has fuelled their criminal enterprises and they have been quick to adapt their product portfolios to exploit shortages of genuine products and the fear and anxieties of regular citizens. Some of the counterfeit products distributed risk lives and the safety of frontline workers in healthcare and other essential sectors. The profits generated by these criminals during this time of crisis are likely very substantial.

Europol has been monitoring the activities of counterfeiters during the ongoing COVID-19 pandemic since the beginning of the current crisis and can present an updated threat picture. The threat from counterfeit products related to COVID-19, especially those aimed at the healthcare sector, emerged quickly and created a notable impact. However, this threat is likely to subside once the current unique situation and its circumstances have passed.

Europol continues to support Member States and other partner law enforcement authorities to counter threats during this difficult situation.

KEY FINDINGS

● The production and distribution of COVID-19-related counterfeit pharmaceutical and healthcare products closely followed the spread of the COVID-19 pandemic to markets in the European Union (EU).

- › After the widening outbreak and introduction of restrictive measures to contain the outbreak, these types of products rapidly appeared on the market in all Member States.
- › It is expected that with an end or with the diminishing impact of the pandemic, criminals will shift to alternative goods.

● The organised crime groups (OCGs) involved in the production and distribution of counterfeit goods have once again proven highly adaptable in terms of shifting product focus, marketing and packaging to suit or shape current demand.

- › However, the main countries of production have remained the same. This also applies for modi operandi, routes and the nationalities of suspects involved.
- › The estimated profits from the trade of these goods are assessed to be substantial.

● While some product offers for counterfeit goods related to the COVID-19 pandemic have appeared on the dark web, the product offerings available there remain limited compared to the surface web, which continues to host the primary distribution platforms for counterfeit goods.

● Demand for these types of counterfeit products has surged and will continue throughout the current crisis despite potentially significant detrimental consequences for the health of consumers. It is essential to continue to invest in prevention and awareness to disrupt the business model of these types of criminal profiteers.

COUNTERFEIT AND SUBSTANDARD GOODS



The COVID-19 pandemic has presented ideal opportunities for criminals seeking to produce and distribute counterfeit and substandard goods.

The distribution of these goods has been widely reported by law enforcement and the media. In the context of the COVID-19 pandemic, counterfeiters particularly have focused on goods used in the fight against the pandemic including:

- › medical equipment (especially face masks, fake corona test kits, disposable latex gloves, etc.);
- › sanitisers and disinfectants (alcohol-based gels, soaps, disinfectant cleaning wipes, etc.);
- › pharmaceuticals (antivirals, medication for arthritis and malaria, herbal remedies, etc.).

Some criminals also distribute substandard food.



Operational successes

French law enforcement authorities identified several websites offering the sale of COVID-19 blood spot screening tests, which claimed to be able to deliver a result within two minutes. The websites were taken down by French authorities and further investigations targeting the individual managing the websites are ongoing.

The Fraud Investigation Unit of the Romanian Police seized a total of 1 900 masks for medical use. The masks were labelled with the brand of a company based in Rio de Janeiro, Brazil. The masks appeared not to meet the required standards.

The distribution of these types of counterfeit or substandard products threatens the health and safety of medical staff and the general public while generating significant illicit profits for the criminals involved. In many cases, counterfeit medical equipment produced in China and sold in the EU will lack the required CE markings and certifications. However, even where these certificates are provided, they may still be counterfeit or have been fraudulently obtained.

Many of these products are distributed online via platforms and shops on the surface and dark web. Prices for these products vary and may be higher or lower than the price of similar items on physical markets depending on demand or the desire of vendors to attract new customers.

Europol has been monitoring social media platforms to follow the spread of conversations around the distribution of counterfeit goods online throughout the developing pandemic in Europe. Unsurprisingly, conversations on platforms such as Twitter about counterfeit goods related to COVID-19 closely follow more widespread outbreaks and the introduction of restrictive measures to prevent the spread of the virus in different Member States (Fig. 1).

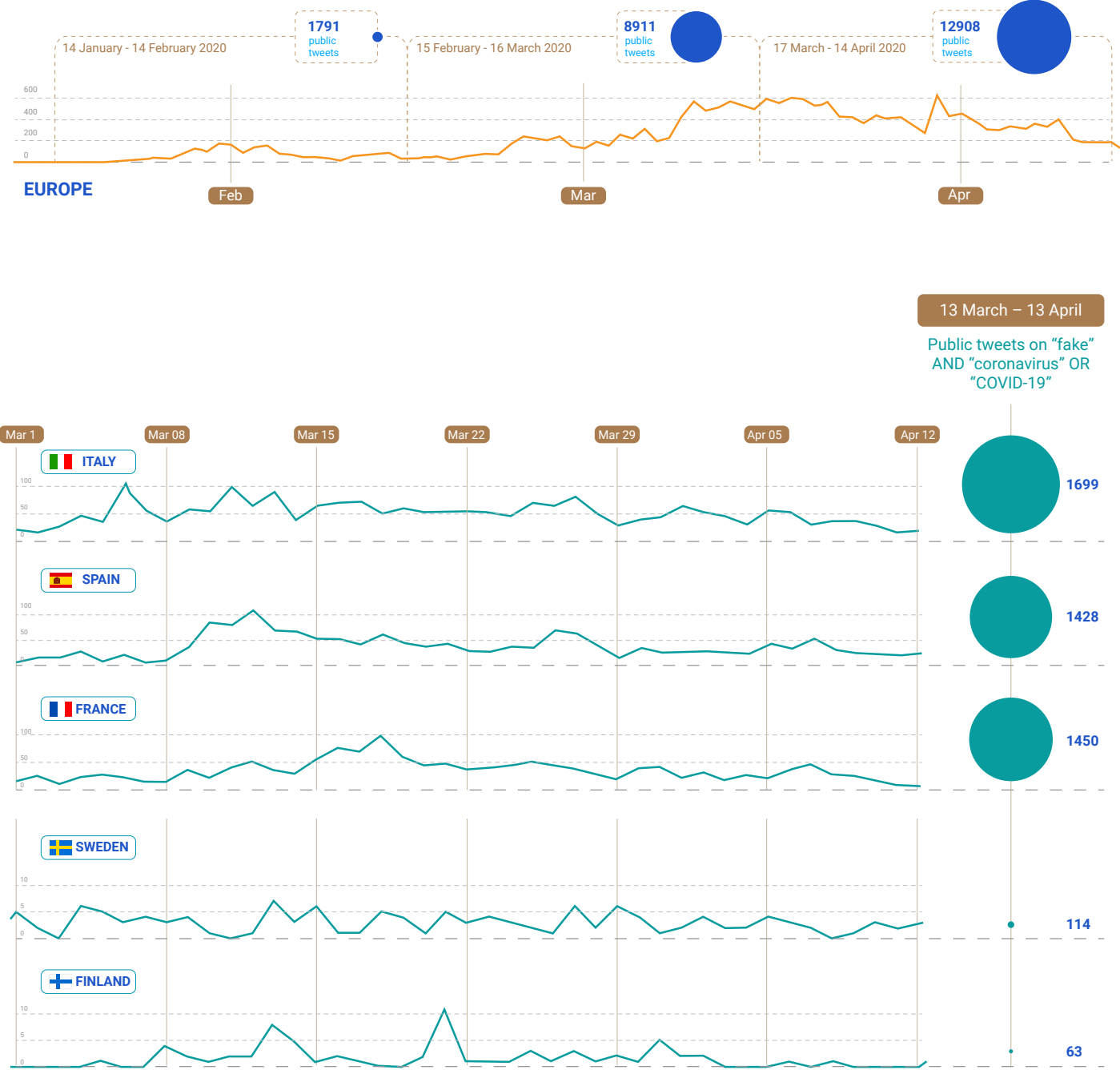


Fig. 1: Posts on Twitter referencing both counterfeit goods and COVID-19.
 Note: Europol monitoring only captures a limited share of social media conversations online. However, initial results can provide alerts to the distribution of counterfeit goods related to COVID-19.
 Source: Europol monitoring

Counterfeit pharmaceutical products

The counterfeiting of pharmaceutical products has been one of the most insidious forms of profiteering during a global pandemic. Counterfeiters have seized the opportunity to exploit the demand for drugs offering potential as treatment options in fighting COVID-19 infections.



Chloroquine

The pharmaceutical product chloroquine is normally used in the treatment of malaria and has shown some promise as a treatment for some COVID-19 cases. However, this is yet to be confirmed by clinical studies.

Counterfeiters and fraudsters quickly started offering chloroquine either to distribute counterfeits of the substance or as part of scams. Most of these offers were made online. An analysis of the websites and companies offering suspected counterfeit chloroquine revealed recurrences in the telephone numbers used to advertise, almost all had the dialling code of the United States.

Chloroquine is also offered via instant messaging apps.

Private sector companies legally producing the substance are working with law enforcement authorities to detect counterfeits of the drug.

Prescription fraud to obtain various types of pharmaceuticals is a known phenomenon. However, more recently, criminals have tried to carry out prescription fraud using fraudulent prescriptions to obtain chloroquine.

Criminals offering counterfeit pharmaceuticals appear to particularly target European and North American markets and often maintain multiple online sales platforms for the distribution of these goods simultaneously.

Some of the platforms used to advertise and sell these goods predate the COVID-19 pandemic and have been monitored by law enforcement authorities.

In addition to these established platforms, a significant number of new websites were established for the express purpose of profiting from the pandemic. These websites sell fake COVID-19 home test kits and offer unconfirmed and often false advice on the treatment of COVID-19. The websites offering counterfeit and substandard COVID-19 related products on the surface web and the dark web accept various payment methods including the use of payment platforms, credit cards, cryptocurrencies and even payment on delivery. Some vendors distributing their goods via telegram and other instant messaging applications also accept Western Union transfers to receive payment in addition to the previously mentioned methods.

It is suspected that the majority of counterfeit pharmaceutical products and active ingredients sold in the EU originate from China and India, which both host significant licit and illicit pharmaceutical and chemical industries. Counterfeiters distributing counterfeit pharmaceutical products originating from Asia in the EU rely on complex illegal distribution chains to obscure the origin of the counterfeit drugs using several Member States as transit countries (Figure 2). Turkey and Ukraine are also frequently used as transit countries for these illegal goods before they enter the EU.

These types of products are typically trafficked in bulk using maritime containers as well as parcels transported via air freight. Counterfeit pharmaceutical products are likely shipped to all Member States. It is expected that this pattern has not changed since the breakout of the pandemic in Europe.

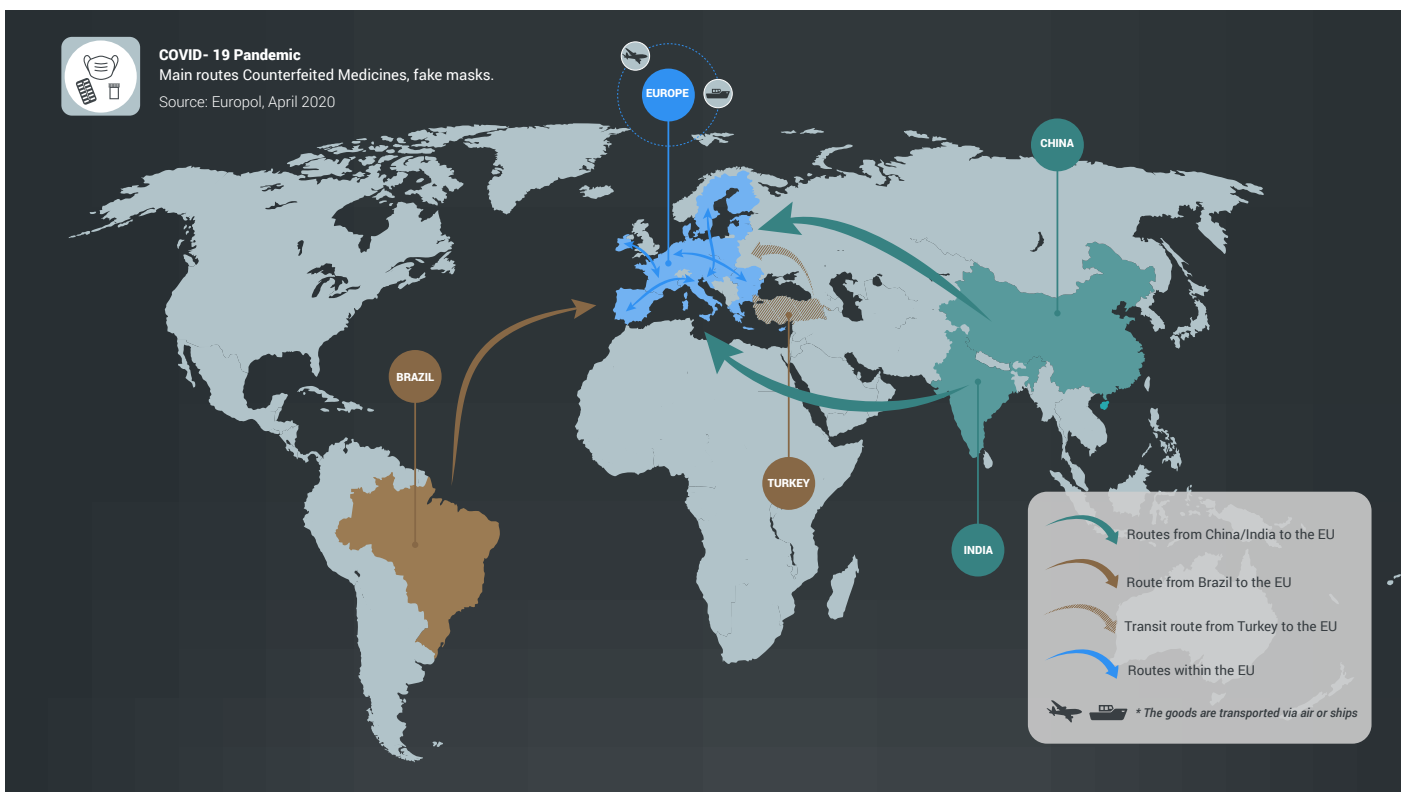


Fig. 2: Main routes for counterfeit pharmaceutical and healthcare products trafficked to the EU.
Source: Europol information.

Parcels containing these illicit goods tend not to exceed 15 to 20 kilograms and are dispatched from various frequently changing addresses in Asia, which makes the detection of parcels and identification of the original sender difficult. The production of counterfeit pharmaceuticals in Asia is often carried out by otherwise legally operating chemical companies. The OCGs involved in the trade of counterfeit goods in the EU and originating in Asia typically maintain links to diaspora communities in the EU, which they also used for complex money laundering schemes. In many cases, these criminals operate as companies blurring the line between legal and illegal activities. However, the distribution of these counterfeit goods in the EU is typically handled by domestic EU-based OCGs (Figure 3).

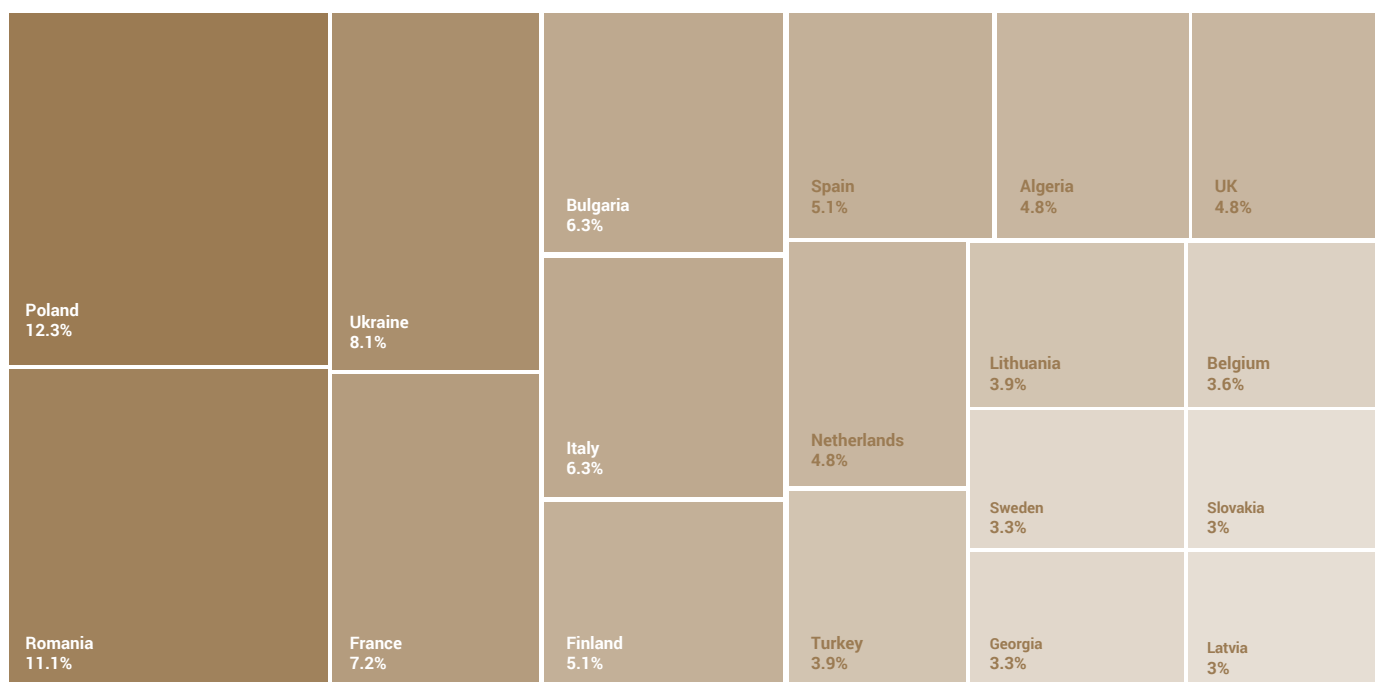


Fig. 3: Percentage of nationalities of suspects held by Europol's Analysis Project on counterfeit goods (AP COPY) as of 31 March 2020. Source: Europol AP COPY, March 2020.

Some production of these products is also thought to take place in the EU. Illicit laboratories producing illegal steroids have been detected in Czechia, France, Greece, Italy, Poland and Spain. However, so far no significant increase in the production of counterfeit medicines in relation to COVID-19 in the EU has been detected.

Some Member States host illicit laboratories used for the production of synthetic drugs on a significant scale. These laboratories have equipment used for chemical synthesis and tableting that could be used for other chemical production processes. Persistent demand for some types of counterfeit pharmaceutical products may prompt these producers to expand their production portfolio to include food supplements and counterfeit pharmaceuticals in the future. However, this development depends on the availability of source materials to European producers.

Companies involved in the distribution of counterfeit pharmaceutical products and equipment

An analysis of the operational data provided to Europol reveals that the companies targeting the EU for distribution of counterfeit pharmaceutical products and equipment are registered to addresses both within the EU (Bulgaria, Germany, Netherlands, Poland) and outside the EU (China, India, United States).

The companies trading in counterfeit goods are highly diverse and suspects are very quick at establishing additional front companies to obscure their activities.

Company name and address registration details are often only used for a very short period of time, which presents challenges for law enforcement investigations and obscures international links between investigations. Company names often only feature in a single investigation and generally do not occur twice in other investigations.

Counterfeit and substandard food

Panic buying in some parts of the EU during the initial phase of the COVID-19 pandemic highlight that some citizens may expect a shortage of certain goods and may turn to criminals offering counterfeit and substandard food such as meat and milk, which can be easily replaced with substandard alternatives.

Food and vitamin supplements are also counterfeited or may contain harmful ingredients. Multiple packages containing counterfeit food supplements were seized during a recent investigation in the EU. The parcels had originated from Brazil, China (mainland and Hong Kong), Germany, Sweden and the United Kingdom. The parcels were falsely declared as confectionary or as a specific or generically-named dietary supplement.

Food and other related counterfeit and substandard products are offered via dedicated websites as well as through listings on other platforms including social media platforms. These products are also found on the dark web marketplace.

Italian mafia-style criminal organisations have been traditionally involved in the trade of counterfeit and substandard goods including food and other products. The groups may seize opportunities during the COVID-19 crisis to offer such items more widely due to increased demand following some citizen's fear of perceived food insecurity.

OUTLOOK

The OCGs involved in the production and trafficking of counterfeit goods, especially counterfeit pharmaceutical products, have remained the same as prior to the pandemic. However, criminals and OCGs previously uninvolved in the distribution of counterfeit goods are exploiting opportunities related to the distribution of such goods in the EU during the current crisis. These suspects cannot rely on established networks and structures, but their operations may evolve and professionalise over time.

Particular attention should be paid to developments and criminal innovation if a genuine vaccine for COVID-19 is developed as this will likely prompt a wave of offers for counterfeit vaccines. However, the development of a vaccine will also likely result in an immediate drop in demand for counterfeit pharmaceutical and healthcare products. Criminals involved in the trade of counterfeit products prior to the outbreak of the COVID-19 pandemic will turn to other commodities to counterfeit and distribute.

DOCUMENT FRAUD, CRIMINAL PROFITS AND MONEY LAUNDERING



The use of document fraud, the extent of criminal profits derived from the distribution of counterfeit and substandard goods and money laundering schemes to convert these illicit proceeds all present significant intelligence gaps.

The profits obtained from the trade of these goods are likely substantial. However, little information is available on the illegal money flows associated with these activities. There are indications that a significant proportion of the profits flow back to countries of production such as China or India. In the EU, the money obtained from the trade of these illegal goods is laundered in cash-intensive business. Some of these are likely associated with diaspora communities originating from countries of production and present inside the EU.

The production of the goods is primarily carried out in source countries outside the EU, which hampers investigative efforts by Member State law enforcement authorities. However, tracing money flows and profits to EU-based distributors can reveal investigative leads to producers based outside the EU.

Fraudulent documents are widely used to traffic counterfeit pharmaceutical products and other counterfeit goods from source countries to the EU. This includes fraudulently obtained and falsified documents such as the mislabelling of packages.

DISTRIBUTION OF GOODS AND SERVICES ON THE DARK WEB



Since the beginning of March 2020, Europol has observed the appearance of COVID-19-related articles on many different marketplaces and hidden services. These items range from obvious scam offers (such as for a corona antivirus) to counterfeit items, masks, test kits and medication such as chloroquine. Although the number of sales of these items appears to be relatively low, it seems that the number of sales and the number of vendors offering these items is slowly increasing.

For example, the number of individual vendors offering chloroquine has been increasing across several markets over the last two weeks. However, the number of vendors is still very low ranging from one to a maximum of six vendors across individual markets. Some vendors are active on multiple marketplaces. The listings vary from 1-9000 pills per order and chloroquine appears to be the most frequently offered medication. Prices and quantities differ per listing¹. Chloroquine listings have been seen on: Empire, Dark Bay, Bitbazaar, White House Market (now prohibited), CanadaHQ, Yellow Brick and Europa Market (Figure 4).

Some vendors also list offerings of favipiravir, lopinavir/ritonavir, azithromycin and remdesivir on Empire Market and favipiravir on Bitbazaar

Empire Market is currently the most popular and largest marketplace. It has the largest amount of COVID-19-related items for sale. White House Market recently banned the selling of 'coronavirus cures'. Monopoly market allegedly also prohibited the sale of COVID-19 related items.

The current number of COVID-19 medication and masks listings on Empire Market is 1 and 19 respectively. The number of test kits that had been sold on Empire market was 10. However, in recent weeks there have been at least 19 sales of multiple chloroquine items, 5 recorded sales of masks listings and 3 recorded sales of COVID-19 test kits on Empire Market. There was one recorded sale of a COVID-19 antibody test kit on Dark Market, but no recorded sales of masks or test kits on other markets. One vendor on Torrez Market offers oxygen concentrator/ventilators. There are no recorded sales to date.

Listings for masks have been seen on Empire Market, Yellow Brick Road, Torrez, Cypher Market, Big Blue, Europa Market and Openbazaar.

COVID-19 test kits have been seen on Empire Market, Dark Market and Yellow Brick.

¹ Please note that not all marketplaces provide accurate statistics (when a vendor status is changed to vacation mode the numbers can be reset to 0, vendors can often manipulate these statistics themselves and sometimes the statistics change per login session).

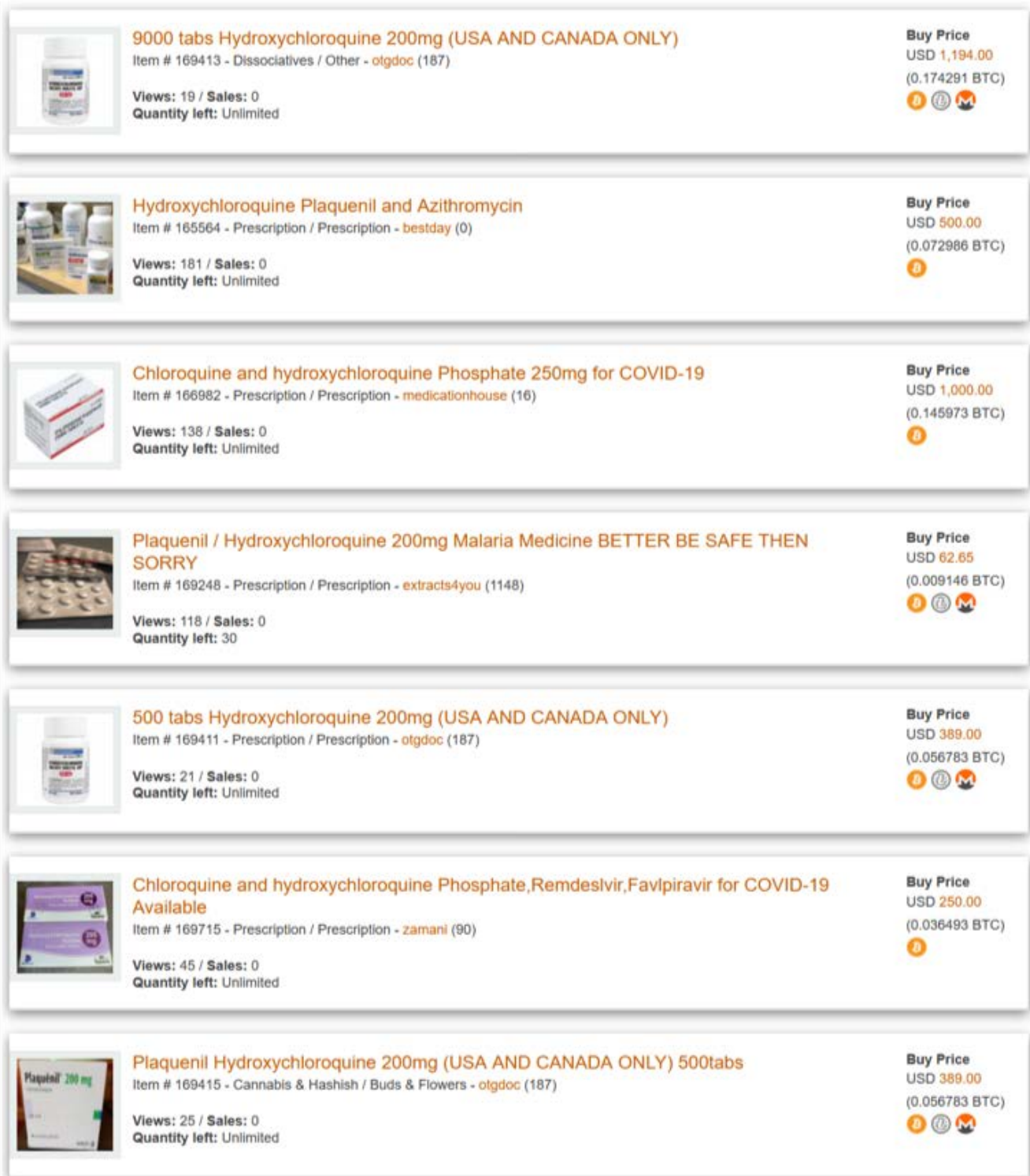
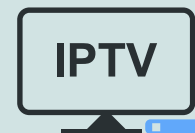


Fig. 4: Listings offering chloroquine on Empire Market: six vendors, no recorded sales. Source: Europol monitoring.

Besides COVID-19-related items being sold on dark web marketplaces, masks and medication are also being offered on Telegram and Openbazaar, which hosts a coronavirus epidemic mask shop hidden service, although the latter appears to be a scam site. Quantities, prices and types of masks can range from €41 for 10 N95 masks to €14 853 for 30 000 FFP masks.

INTELLECTUAL PROPERTY CRIME - INTERNET PROTOCOL TELEVISION (IPTV)



In addition to the distribution of physical counterfeit goods, criminals have also tried to take advantage of the current situation by expanding their activities in the area of intellectual property crime. This is particularly apparent in the form of IP infringements related to the illegal use of Internet Protocol Television (IPTV). Millions of people across the EU are currently in different forms of lockdown and are turning to digital solutions for entertainment and distraction during their time at home.

Due to the transnational nature of this crime, with servers often being located in countries other than where the subscriptions are sold, it is particularly complicated for law enforcement authorities to detect the criminals behind it. Some of these organised crime groups are large global networks, consisting of individuals located in different countries distributing illicit IPTV packages.

Several services illegally delivering streamed content have already re-emerged during the COVID-19 pandemic.

EUROPOL'S RESPONSE

Europol is currently supporting several operations across the EU.

Europol has engaged early with Member States and other partners to combat the distribution of counterfeit and substandard goods during the COVID-19 pandemic. Efforts around this fight against counterfeit goods in the context of the COVID-19 pandemic have been centred around multi-disciplinary operations involving EU Member States and other EU agencies.

These actions involve intensified monitoring of online platforms to possibly tackle online COVID-19-related crimes. Cooperation with private industry stakeholders has been a crucial aspect in countering COVID-19-related criminality in this area. Europol approached some of the main private stakeholders and yielded very good results.





VIRAL MARKETING - COUNTERFEITS, SUBSTANDARD GOODS AND INTELLECTUAL PROPERTY CRIME IN THE COVID-19 PANDEMIC

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