



Preliminary Data Shows Technology Counterfeiting Is Rampant

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By [Jason Miller](#)
Executive Editor
FederalNewsRadio

The Commerce Department will issue a report in mid-2009 detailing just how bad the problem of agencies buying counterfeit technology is.

And from the preliminary data Brad Botwin presented Thursday, the final survey results will be eye-opening.

Botwin, the director of the Commerce Department's Bureau of Industry and Security, offered a glimpse into the data collected so far, at a public meeting in Washington about the advanced notice of proposed rulemaking on how the government needs to address counterfeit technology.

"Navy Air Systems Command asked us to look at this about a year ago," Botwin says. "Why are we grounding systems for parts that are very cheap? Parts are making it into our supply chain and what can we do about this. This really is a national issue."

Commerce surveyed more than 300 companies--chip manufacturers, distributors, prime and subcontractors--and several federal agencies, asking at least 80 questions about their buying habits and supply chain oversight.

And Commerce's initial findings are striking:

- 9,128 reported incidents in 2008;
- Biggest areas of counterfeit are used products that are being sold as new or fake products;
- Customs and Border Protection notifications rose to 473 from 120 between 2008 and 2007;
- 90 percent of all counterfeit products are sold by companies, including 30 percent from brokers and 20 percent from individual distributors;
- China and Taiwan counted for 141 and 38 cases of confirmed or suspected counterfeit technology in 2007, respectively--the most of any two countries.
- Only 17 percent of the time do companies report findings of counterfeit technology to federal authorities; and only 15 percent of the time to industry associations.

"We wanted to get some trend data," Botwin says. "Over time the number of incidences of counterfeits has been going up."

Botwin says the average price of counterfeit component is less than \$100.

The survey is finding that most vendors are not doing a very thorough job of analyzing products to see if they are counterfeit.

Most respondents say they do a visual inspection of the packaging and the paperwork, but only 13 percent say they do any kind of electronic testing and 22 percent say they do any kind of physical evaluation.

"Touching and feeling it must be good [enough] ," Botwin says with sarcasm.

About half of the distributors say they audit their inventory to look for counterfeit technology, while only 21 percent of the prime and subcontractors, 18 percent of the circuit board assemblers and 16 percent of the original content manufacturers analyze their existing stock.

He says even though many vendors say they do not take returned products, most do. And that is where counterfeits can easily enter the supply chain.

"This needs to be focused on," Botwin says. "You need to have better screening than taking it and putting it in the bin."

Too many agencies and vendors buy from online only providers. Botwin says this practice is a huge part of the problem.

"People are making purchases off the Internet for parts and assuming it is good product," he says. "Some of the buying habits have to stop. You have to know who these companies are. Instead of doing low bid all the time, you do qualified supplier."

Botwin says not doing low bid may solve some of these counterfeit problems.

The survey also shows that vendors are recognizing this issue. The companies are assigning people to do quality control work, and 63 percent say it is easier to identify counterfeit products today than it was five years ago.

Botwin says Commerce will develop a series of best practices based on vendor recommendations. This advice and the final survey results will be available by mid-2009, he adds.

Vendors also offered some suggestions for how the federal government could help, including training, more prosecutions for selling counterfeit technology and apply more pressure to countries where counterfeit technology is coming from, such as China.

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