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Cheap designer knockoffs come at a high price

Counterfeit-hunters seek out fake goods that cost the economy \$250 billion and 750,000 jobs, and may finance terror groups

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Parked outside a strip mall in Tempe, Jerry Howe removes his sunglasses and skims through a file. This shop has been selling counterfeit handbags for months.

In his hand is a cease-and-desist letter, neatly folded into a little white envelope, stamped with a brown Coach logo.

He's ready to go in.

The Fountain Hills investigator is on a mission to fight counterfeit, a worldwide crisis marked as "the crime of the 21st century" by the U.S. Patent and Trademark Office.

"It's a multibillion-dollar business," said Howe, 62. "Terrorists make more money selling counterfeit than selling dope."

Counterfeit merchandise, from handbags to extension cords to prescription drugs, drains the nation's economy of up to \$250 billion and 750,000 jobs a year, according to the U.S. Chamber of Commerce. U.S. Customs and Border Protection reported that the number of seizures in 2006 climbed more than 72 percent from the same period last year.

And Interpol warns of an ever-strengthening link between the sale of counterfeit goods and financing for terrorist groups such as al-Qaida.

The effects have hit home, said Travis Johnson, associate council for the International AntiCounterfeiting Coalition in Washington, D.C. Counterfeiters don't pay taxes or licensing fees, affecting local funding.

"That money could have improved access to health care or improved public schools," Johnson said.

Selling rampantly today are fake handbags. They can be made cheaply, often through sweatshop labor, and can reap high profits, especially when real bags can cost more than a month's rent at a two-bedroom Phoenix apartment.

And with no law against personal possession of counterfeit goods, label-craving ladies are delighted to find designer styles at a fraction of the price they would pay at department stores and boutiques.

The consumer can be the worst offender of all, said Barbara Kolsun, senior vice president and general counsel of 7 For All Mankind and previously of Kate Spade.

"You can't complain about the budget deficit or the war in Iraq when your money is

going into the pockets of the bad guys," Kolsun said. "People say, 'I really want a bag that has a logo.' Well, we can't always afford what we really want."

Johnson said law enforcement is doing what it can to help stop the problem but is often limited by resources.

That's when Howe steps in.

Enforcement

Hired by companies such as Coach, Dooney & Bourke, Nike, General Motors and Louis Vuitton, Howe, a former FBI agent, is one of about 20 private investigators in the nation dedicated to stopping counterfeit.

For retailers, it's not so much that counterfeit goods cut into their sales (some say that those who buy \$30 fake Louis Vuitton bags would never shell out \$900 for the real thing, anyway), but that they devalue their image.

"If it falls apart, who gets blamed? Not the counterfeiter, but the designer," Kolsun said.

For example, Dooney & Bourke receives an average of 60 counterfeit purses each week from people requesting warranty repairs, according to Michigan-based Loss Prevention Concepts Ltd., an investigation service.

Nestled in a strip mall in Tempe is a shop called Livin N Hip Hop, which sells T-shirts screen-printed with Bob Marley, scenes from *Scarface* and athletic team logos.

Howe walks into the store with the letter from Coach's legal department and a fake Dooney & Bourke handbag and begins questioning.

Owner Robert Preston said he doesn't know much about the Dooney bag, just that "some guy" dropped it off the other day. The boutique is bombarded with solicitors asking that he sell their merchandise, which is how he got the fake Coach bag a couple of months ago. He no longer carries it.

At department stores, Dooney & Bourke handbags can cost more than \$200. Preston, 27, was selling this one for \$90 (rather expensive for a fake, Howe mentions, especially considering the quality).

Howe hands owner Preston a voluntary surrender form. He has had them re-printed in Spanish, Chinese, Vietnamese and Korean, in case the seller claims that he or she doesn't read English.

"What can't I sell?" Preston asked, flustered. "Now, it's my responsibility to tell if it's counterfeit? If I was aware that the stuff was counterfeit, I wouldn't have bought it."

As a private investigator, Howe cannot issue search warrants or make arrests ("I do everything but put them in handcuffs," he said), but he can ask storeowners to surrender their counterfeit goods and warn them of the consequences of repeated offenses. The goods often are sent back to the manufacturer or destroyed.

The law

In Arizona, convicted counterfeiters could face at least six months in prison, but

realistically, Howe said, they would need to be caught more than once. It is considered a felony if the violation includes more than 100 items or \$1,000 worth of counterfeit goods.

Lieutenant Chuck Williams of the Phoenix Police Department said he didn't realize how prevalent the problem was until working with Howe. Without Howe's expertise, Williams said, enforcement would be minimal in the Valley.

"We are typically reactive in nature," Williams said. "Counterfeit handbag sales are a property crime and, until recently, it was a rather nebulous area of enforcement."

In the past year, the department has made more than eight arrests for counterfeiting, Williams said.

The federal government has tightened its belt on counterfeiting since 9/11, and this year, President Bush signed HR 32, the "Stop the Counterfeiting in Manufactured Goods Act," the most aggressive anti-counterfeiting legislation in more than 20 years.

The highlights: mandatory forfeiture, restitution and up to 20 years in prison and \$15 million in fines for repeat offenders.

It also closes a loophole that allowed counterfeiters to import counterfeit goods and their labels separately as the crime continues to thrive.

Last month, federal agents in Tucson seized thousands of pairs of counterfeit Nike sneakers, with a value of about \$16 million.

Six men were charged in what is being called one of the largest smuggling rings in recent history.

Counterfeit patrol

Ninety percent of Howe's job is spent on "counterfeit patrol," hours of driving and pacing through Valley neighborhoods in search of fake goods.

Sometimes, he'll check up on tip from a designer's legal department. Other times, he'll step foot into familiar stores for compliance checks, months or years after catching them. Back in his office, he keeps an estimated 2,000 files.

When he started working in Arizona, Howe would most often visit swap meets and flea markets, known as centers for poor-quality counterfeit goods. Now, he said, fake purses are displayed in shopping center kiosks throughout the Valley. He has discovered counterfeit goods at ethnic supermarkets and on display at upscale salons.

Recently, Howe spotted counterfeit handbags in a shop at Metrocenter in Phoenix. He acted like a customer and asked the owner if there were any others in stock. Howe was led into a backroom, where he was astonished at the sight of fake Chanel, Louis Vuitton, Dooney & Bourke and Coach.

The owner told him that he purchases the bags in China, the largest producer of counterfeit handbags, and then ships them to the U.S., Europe and South America through Croatia. Howe sent the bags he purchased back to the design companies, received affidavits and returned to the store with a cease-and-desist letter.

"You never know," Howe said. "If I can find counterfeit in big Westcor malls, I can find it anywhere. All you have to do is look."

Stopping a retailer is just the beginning, Howe said. His ultimate goal is to get to the source: the supplier.

To do this, Howe asks the sellers where they bought the merchandise, and then searches there. Counterfeit goods in the Valley often come through Los Angeles, where fake handbags are everywhere in downtown pockets such as Santee Alley.

In the Valley, finding counterfeit takes more digging, Howe said.

Many times, he'll go undercover. Pretending to be a buyer, he once called two wholesalers, a husband and wife, and asked to purchase all of their Louis Vuitton handbags in stock. Soon, a U-Haul trailer filled with counterfeit merchandise rolled into Quartzsite, where police arrested the couple on the spot.

Purse parties

A modern suburban trend is the purse party, sort of like a black market Tupperware party, where planners rally women into selling fake purses in the privacy of their homes. Guest lists are often limited to trusted friends and relatives.

Jennifer Shu, 29, of Scottsdale, said she once found a flier taped to her door announcing a designer purse party. It was being held at a conference room in a nearby apartment complex. Out of curiosity, she decided to check it out. She owns some real designer bags and a couple of fakes.

"There were these really, really horrible fakes," said Shu, an insurance billing specialist. "I thought, 'Who would want to buy these?'"

The craze has a sales-pyramid effect. Top distributors profit from sales made by hosts, whom they often find on Web sites such as craigslist. Hosts are usually paid in free handbags or other merchandise but can earn cash if they find people to host their own parties later.

Inside a Tempe leasing office, during an apartmentwide luau, college student Drew Nestler, 19, perused a table covered with imitation handbags: Louis Vuitton totes with metallic gold accents, oversized D&G shoulder bags and white wristlets with the signature Chanel logo in baby blue.

The handles were wrapped in plastic and strung with handwritten price tags, ranging from about \$50 to \$80.

"I would never shop at the designer boutiques," said Nestler, carrying her own replica Dior bag. "Here, you get for a hundred bucks what you would get for a grand."

Spotting a fake

When purchasing a handbag, Shu said she knows what to look for. She rattles off ways to spot a fake: the color is off, the lining is wrong, the exterior is too shiny, the tags hang on the outside.

One of the most widely replicated collections is Louis Vuitton's Monogram Multicolore, designed by Takashi Murakami a few years ago and recognized by the

rainbow spectrum of LV logos splashed against white or black leather.

"Did you know that it actually has 33 color variations? The fake probably has five," Shu said.

But when it comes to counterfeit, Howe said it's not necessarily about the quality. That can range dramatically. Some bags have bleeding colors and tattered stitching, while others look nearly flawless and sell for hundreds of dollars.

If the item for sale bears an "unauthorized reproduction" of a trademark, according to Arizona law, it is grounds for punishment.

"I don't want knockoffs, stuff that looks like counterfeit," Howe said. "I don't want Coach bags that say 'Coad.' I want the good stuff."

On the corporate Web sites of many high-end handbag designers, including Louis Vuitton and Kate Spade, there is detailed information on how to report fakes and warnings stating that their products are never legitimately sold at parties, through online auctions or on the street.

Driving slowly along the streets of Glendale, Howe makes a sharp turn into a strip mall parking lot to get a closer look.

"I'm like a compass," Howe said. "I can normally tell just from the storefront. There are certain keywords I look for like 'fashion' and 'discount' and 'deals.' "

Hanging on the wall behind the cash register at a discount clothing boutique that he said has a history of selling fakes, is a cluster of knockoff Coach bags with G logos instead of the trademark C's. But no counterfeit, this time.

Howe shrugs and walks back to his car.

"I guess that's a victory for us," Howe said. "For the trademarkers, anyway."

Valley storeowners know he is out there, and maybe that helps.

But as the problem with counterfeiting continues, he doesn't expect to be out of a job anytime soon.

The next big trend, he said, is belt buckles.

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