

Illicit Trade in Consumer Electronics

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This briefing provides an overview of the illicit trade of consumer electronics, using data on U.S. seizures. Concentrating on counterfeiting and piracy, the principal types of illicit trade in consumer electronics, it summarizes the scope of this trade and outlines some key factors driving it.¹ Although counterfeiting and piracy of components and intermediate goods are also problematic, this briefing focuses on final goods, which comprise the vast majority of seizures.

Consumer electronics rank as the fourth leading category of illicit goods seized by U.S. Customs and Border Protection (CBP) at U.S. borders, behind watches and jewelry, wearing apparel, and handbags and wallets. To a large extent, illicitly traded consumer electronics include computers and accessories, mobile phones, video game consoles, and a wide range of other consumer devices.²

What Do Available Data Show?

Data on illicit trade are scarce. Because official trade statistics do not identify illicit goods, most estimates rely almost exclusively on seizure data, understanding that CBP examines only a small percentage of goods entering the country, data only capture a small fraction of illicit trade, and data reflect CBP enforcement activities and not changes in illicit trade flows.³ CBP reports that, together, China and Hong Kong have consistently been the primary sources of all counterfeit consumer electronics; they were the producer or transit country for over 96 percent of the value of all consumer electronics seizures in FY2020.⁴

What Is Driving Illicit Trade?

Two key factors are driving illicit trade:⁵

- E-commerce and internet marketplaces enable counterfeiters to move from local streets to global online platforms. At low cost, and alongside growing numbers of third-party sellers, counterfeiters gain an air of legitimacy and access to millions of potential customers.⁶ The sheer volume of small

¹ “Counterfeit” refers to physical goods that violate trademarks, design rights or patents; “pirated” describes physical goods that violate copyrights. This briefing uses the term “counterfeit” for both counterfeit and pirated goods.

² Estimates exclude domestically produced-and-consumed counterfeit and pirated goods, and pirated digital goods distributed via the internet. CBP, *Intellectual Property Rights: Fiscal Year 2019, 2020*, [20](#).

³ The totality of the problem is being studied. The European Union Intellectual Property Organization (EUIPO), Organization for Economic Cooperation and Development (OECD), and World Customs Organization base analyses of illicit trade on two sources of information: international trade statistics and customs seizures of counterfeits. The U.S. government regularly cites relevant OECD-EUIPO reports, which draw on the most comprehensive and reliable information that exists on counterfeits. OECD-EUIPO, *Trends in Trade in Counterfeit*, March 18, 2019, [3](#); GAO, *Intellectual Property: CBP Has Taken Steps*, September 2020, [4](#); USTR, *2019 Review of Notorious Markets*, 2020, [6](#).

⁴ Government official, telephone interview by author, Washington, DC., May 3, 2021.

⁵ For further discussion of factors that have driven illicit trade, see *Trends in Trade in Counterfeit*, 2019, chapter [1](#).

⁶ In 2019, third-party sellers accounted for 60 percent of Amazon merchandise sales, and consumer electronics were the largest category, with 44 percent of U.S. Amazon shoppers purchasing a consumer electronic on the site. Digital Commerce 360, “U.S. Amazon Marketplace,” July 22, [2020](#).

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parcels of e-commerce and the complex routes of illicit goods present challenges to detection and interdiction.⁷ Routes often entail multiple intermediary points that may falsify documents, re-label and repackage goods, making them difficult to trace to the country of provenance.⁸

- o The globalization of supply chains: U.S. manufacturers have offshored and outsourced production, especially to China, gaining efficiencies but losing visibility and control of manufacturing processes and supply chains.⁹ The increasingly intricate supply chains have multi-tier, interrelated suppliers, each with associated risks for counterfeiting.

What Is the Problem?

The illicit trade of consumer electronics has a range of negative impacts. Typically manufactured with inferior components, counterfeit devices such as phone chargers and televisions often malfunction or pose safety dangers, including a propensity to overheat and catch fire.¹⁰ Fake electronics can also present security risks; they may contain malware designed to capture sensitive personal information, damage devices, or gain unauthorized access to a network. Counterfeits also harm intellectual property holders and businesses; they not only lose sales and brand reputation but incur additional costs defending against fakes. The diminished profit margins and reduced resources to invest in research and development undercut innovation to make products cheaper, better, and market competitive.¹¹

Counterfeits have become so problematic that industry and government are expanding efforts to detect them and those who sell them. Apple has a team dedicated to identifying and removing fake accessories, such as the AirPods Pro, for its devices sold on social media platforms, while Amazon has a counterfeit crimes unit to help block listings of fake products on its website.¹² The U.S. government has also been undertaking numerous efforts to interdict illicit trade that occurs, in general, and via e-commerce, in particular.¹³ Both industry and government recommend establishing public-private partnerships to share information across brand sellers, online marketplaces, and national enforcement agencies and suggest that advances in data analytics and artificial intelligence may ultimately help identify and respond to counterfeiters' strategies and tactics.¹⁴

⁷ It is harder to detect fakes in small parcels than in cargo containers as the latter provide more information that can help identify shipments of fake goods. OECD, *Trade in Counterfeit ICT Goods*, 2017, [43](#); CBP requires the same resources to seize a small parcel with a few counterfeit items as to seize a cargo container with hundreds of counterfeit items; GAO, *Intellectual Property: Agencies Can Improve*, January 2018, [20](#).

⁸ OECD-EUIPO, *Mapping the Real Routes of Trade*, 2017, [105](#).

⁹ EPS News, "The Electronics Supply Chain," November 9, [2020](#).

¹⁰ Bloomberg, "If Your iPhone Charger Blows Up," March 16, [2021](#); CBP, "CBP Officers Seize Counterfeit Televisions," May 6, [2020](#); Consumer electronics were the second leading category seized for health, safety, and security risks, after sporting-guns and gun parts, in FY2019. CBP, *Intellectual Property Rights: Fiscal Year 2019, 2020*, [28](#).

¹¹ OECD-EUIPO, *Trends in Trade in Counterfeit*, March 18, 2019, [13](#); DHS, *Combating Trafficking in Counterfeit and Pirated Goods*, January 24, 2020, [18-19](#).

¹² Apple Insider, "Apple Sought Removal of 1M Counterfeit," March 16, [2021](#); Forbes, "Amazon Establishes Counterfeit Crime Unit," July 6, [2020](#); Both Apple and Samsung have consumer outreach to identify fake and dangerous accessories. [Apple](#); [Samsung](#).

¹³ DHS has taken steps, such as updating e-commerce enforcement, and the White House issued an executive order. DHS, *Combating Trafficking in Counterfeit and Pirated Goods*, January 24, 2020, [32](#); Exec. Order No.13904, 85 Fed. Reg. 6725-6729, January, 31, [2020](#).

¹⁴ Center for Data Innovation, *How Data-Sharing*, March 2021, [13-15](#); National Association of Manufacturers, *Countering Counterfeits*, July 2020, [6-17](#); GAO, *Intellectual Property: Agencies Can Improve*, January 2018, [40](#).

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