

**Statement of Kris Buckner
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Before the U.S. Senate
Homeland Security and Governmental Affairs Committee
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“Counterfeit Goods: Easy Cash for Criminals and Terrorists”

I would like to thank Chairman Collins, Senator Lieberman, and all other Members of the committee for the opportunity to appear before you today. Intellectual property crime is an important topic, and I am very pleased that the committee is holding this hearing to discuss how intellectual property crime affects our country, including the possibility that proceeds from counterfeiting fund terrorism.

For the record, my name is Kris Buckner. I am the President of Investigative Consultants, a licensed private investigation firm based in Southern California. I have been a private investigator for over ten years, and specialize in investigations involving the manufacture, distribution, and sale of counterfeit goods.

Investigative Consultants began as a single person operation in 1994. The company now employs fourteen full-time employees and several part-time and contract employees. Ninety-five percent of the company's time is spent investigating intellectual property matters, and we currently represent over eighty different brand owners.

The company plays a vital role in the fight against counterfeiting and piracy on behalf of the world famous brand owners we represent. We are the front line for identifying and investigating the counterfeiters and pirates who victimize brand owners. Our efforts include investigating all types of criminal counterfeiters, from small time street vendors to large, highly organized manufacturers, importers, smugglers, and sellers of counterfeit and pirated merchandise.

The job of our company is to work on behalf of brand owners to uncover evidence of counterfeiting activities. When we find concrete evidence that some person or group is substantially engaged in the counterfeit goods market, we contact the appropriate law enforcement agency and provide them with the evidence. If, in the course of their investigation, law enforcement seizes the counterfeit goods, our company assists them, on behalf of the brand owner, in the identification, inventory, and storage of the counterfeit items. In sum, we represent victim companies and assist law enforcement to ensure that counterfeiters are brought to justice.

The Scope of the Problem

How big is the problem of counterfeit goods? Let me answer that question in three words - "out of control." In only ten years, my company has conducted over 9,000 intellectual property investigations that have resulted in the recovery and seizure of over one billion dollars worth of counterfeit and pirated merchandise. Over the past ten years, our investigations helped law enforcement arrest over 3,000 people for counterfeiting and piracy. Last year, in California alone, our investigations helped law enforcement arrest over 600 people for movie piracy. There is no end in sight - my business continues to grow.

The counterfeiting problem is not just limited to handbags, watches, and other luxury goods. I have been involved in cases involving DVD movies, music CDs, glue, children's toys, sunglasses, food items, computer equipment, toner products, and numerous other items. I have also seen cases where brake pads, aircraft parts, baby formula, and even cough syrup have been counterfeited. You name it, and criminals can and will counterfeit it. As long as counterfeiters are making money, they do not care who they hurt or kill.

Most brand owners go to great lengths to combat the problem. One of the ways in which they do this is to hire people like me to serve cease-and-desist notices on people we know to be engaging in the sale of counterfeit merchandise. In my hand is what I call our "subject book." This is just one of five such binders, all of which are as big or bigger than this, that are kept in my office. These binders contain photographs of vendors that my company has served with cease-and-desist notices. As you can see, the binder contains a massive amount of photographs. Ninety percent of these vendors continued to sell counterfeit merchandise - even after we advised them that what they were doing was illegal. They continue their operations because of the large amount of money they make. And make no mistake about it, counterfeiting is profitable. I have participated in multiple law enforcement operations in which huge sums of cash have been recovered. During one such raid, officers found over \$370,000 in a decrepit warehouse. That money was just some of the profits enjoyed by a subject who had merely been selling counterfeit blankets.

Counterfeiting is out of control, and I believe the problem will continue to grow until the public realizes that counterfeiting is not a victimless crime, and until the laws which penalize counterfeiters are strengthened. Keep in mind that counterfeiting is just as, if not more, lucrative than selling drugs. A counterfeiter can sell counterfeit handbags and make as much money as someone selling cocaine. However, today, there is little chance that a counterfeiter will ever see the inside of a prison. We need to do a better job protecting the intellectual ingenuity that has made our country so great. We can no longer allow criminals to so easily profit from the sale of counterfeits.

How a Counterfeit Goods Operation Works

Some counterfeit goods are manufactured in the U.S. While assisting law enforcement, I have seen California factories involved in the large-scale manufacture of counterfeit merchandise. I have been involved in cases in which the owners of factories routinely locked employees inside the manufacturing facilities. Law enforcement had to call the fire department, which used the “jaws-of-life” to cut open the doors and free the employees. If there had been a fire, the employees would have died. Counterfeiters value cash more than human life.

The vast majority of counterfeit merchandise is manufactured outside of the United States, in countries like China, South Korea, Taiwan and Mexico. The merchandise is often manufactured under unsafe conditions, and there have been cases where the counterfeiters used child labor to make the products.

After counterfeit goods are manufactured overseas, the merchandise is loaded into containers and exported to the United States. Counterfeiters will often pack the counterfeit merchandise in the rear of the container and pack authentic merchandise at the front of the container. Thus, customs inspectors would have to unload the entire container to find the counterfeit merchandise. Once the counterfeit merchandise passes customs, it is taken to warehouses for distribution. The distributors then sell the merchandise to various sized wholesalers and retailers, who, in-turn, sell it to consumers.

Counterfeiters often smuggle goods into the U.S. Several times, I have come across brand-name counterfeit handbags sewn inside the linings of generic handbags. Once the generic handbags pass customs, counterfeiters cut open the generic handbags and remove the counterfeit ones. It may seem like a lot of work just to smuggle counterfeit handbags, but keep in mind that a counterfeiter can make approximately \$500,000, in cash, per container.

It is wrong to think that counterfeit merchandise is only sold on street corners. Counterfeit merchandise regularly ends up in all types of stores, including large chain department stores, hotel gift shops, upscale boutiques, swap meets, flea markets, and other retail locations. There is a shopping district in Los Angeles called Santee Alley where counterfeit merchandise is openly sold. On any given day there are over 75 vendors in Santee Alley selling all kinds of counterfeit merchandise.

Do Organized Criminal Groups Engage in the Sale of Counterfeit Goods?

I am frequently asked whether I believe organized criminal groups engage in the sale of counterfeit and pirated merchandise, and my answer is, “yes.” Sometimes an organized counterfeiting operation profits primarily from the sale of counterfeit goods, whereas in other instances, counterfeiting is just another revenue stream for the crime syndicate.

Sophisticated counterfeiting operations often mirror other sophisticated criminal and terrorist operations. Counterfeiting operations are divided into operating cells, often according to their manufacturing, distributing, or selling functions. By operating in cells, counterfeiters lessen the possibility that their entire operation can be taken-down by law enforcement.

In Los Angeles, the various criminal groups profiting from the sale of counterfeit goods are extremely well organized. They hire look-outs and utilize counter-surveillance techniques to track my employees' activities and the activities of law enforcement. The groups use two-way radios, and have also developed elaborate warning systems to alert vendors to impending enforcement actions. During heavy enforcement periods, counterfeiters have placed look-outs near the Los Angeles Police Department's Central Division to monitor the movements of law enforcement. Counterfeiters have surveilled my team of investigators. They have also been spotted surveilling our office location. During counterfeit good raids, I have found lists containing the names of my employees, their physical descriptions, and descriptions of company vehicles, including license plate numbers.

Because we often act as expert witnesses for the prosecution in counterfeit good cases, counterfeiters have hired private investigators to try to discredit me and my team of investigators. Counterfeiters are making so much money that they will do anything to disrupt our efforts. My investigators have been assaulted by counterfeiters. Counterfeiters have slashed the tires of our vehicles. A counterfeiter injured one of my investigators when he broke out the window of the investigator's vehicle - while the investigator was driving it.

Many groups engaging in the sale of counterfeit goods also sell drugs. We have worked on cases in which counterfeiters were selling powder cocaine, crack cocaine, and marijuana. One individual, who was awaiting trial on a counterfeit goods charge, was arrested by Immigration and Customs Enforcement agents for smuggling drugs from the Middle-East into the U.S. We have also come across counterfeiters in possession of loaded firearms.

There is clear and convincing evidence that street gangs have begun to profit from the sale of counterfeit merchandise on the streets of Los Angeles. Not only do the gangs place their "soldiers" on the street to sell pirated movies and music, they "tax" other street vendors who want to sell counterfeit merchandise on their turf. It only stands to reason then that proceeds from the sale of counterfeit goods are used to buy drugs and guns.

More and more organized criminal groups are engaging in the sale of counterfeit merchandise to raise money. The great profits and the limited risk of prosecution make it an extremely attractive enterprise. For these criminals, it is simply a matter of business: if they get caught selling drugs, they go to prison, whereas if they get caught selling counterfeit goods, they get probation.

Do Terrorists Engage in the Sale of Counterfeit Goods?

I am also frequently asked if terrorist groups profit from the sale of counterfeit goods. I do not know the answer to that question. What I do know is that while working with law enforcement to conduct counterfeit good raids, I have been in homes and businesses in which photos of Hezbollah leader Sheik Nasrallah have been prominently displayed. On several occasions during these same raids, I have heard subjects make anti-Israeli and anti-Jewish statements. I have also observed evidence indicating that counterfeiters send large amounts of money to places such as Lebanon and Paraguay.

Is the Sale of Counterfeit Goods a Victimless Crime?

My company is hired by major corporations, and I know that many people don't have any sympathy for "big businesses." However, the public needs to understand that they are forced to pay higher prices for brand name products because of counterfeiters. It has been estimated that counterfeiting costs brand owners billions of dollars a year in lost revenue. Brand owners must raise their prices to recoup these losses.

In my opinion, the general public has no appreciation for how many "Mom and Pop" retail establishments are driven out of business every year by counterfeiters. As everyone knows, there is great demand for brand name products. How can a legitimate small retailer compete when consumers have the option of buying a \$20.00 pair of generic sunglasses in their store or a \$20.00 pair of brand name counterfeit sunglasses in the store next door. Far too many consumers buy the counterfeit brand name sunglasses.

Time and again I receive calls from legitimate small business owners begging me to investigate their "counterfeit competitors." These people know that they will be quickly driven out of business, if the seller of counterfeit goods is allowed to continue to operate next door to them. There is nothing more rewarding than receiving a congratulatory phone call from these same small business owners, after participating in a counterfeit goods raid with law enforcement.

The public also needs to understand that millions of dollars in tax revenue is lost every year to counterfeiters. Counterfeit good sales are primarily conducted in cash, and sellers of counterfeit goods don't pay governments the sales taxes that are supposed to be generated from the sales of products. With budgets tight, especially in California, the economic cost of the lost tax revenue is staggering. In closing, I would just like to say that I am not an expert on organized crime and I am not an expert on terrorism. But, I do know how counterfeit good operations work - I live and breath counterfeit goods. And every day, in the course of my

investigations, I see many things that concern me. It only takes common sense to believe that proceeds from counterfeiting benefit terrorist groups. The opportunity is there and the indicators are there. The sale of counterfeit goods is not a victimless crime.

I again want to thank the committee for holding this hearing, and I would like to acknowledge the outstanding efforts of the law enforcement agencies in California, especially the Criminal Investigative Section of the Los Angeles County Sheriff's Department and the Los Angeles Police Department. They understand the importance of aggressively pursuing counterfeiters.

Thank you.