

IEEE-IAS Atlanta

The background of the slide is a blue gradient with a complex pattern of overlapping, semi-transparent white lines and circles. These lines and circles form a web-like structure. Various brand names are scattered throughout this pattern, including 'CUTLER-HAMMER', 'WRIGHT', 'KLÖCKNER MOELLER', 'POWERWARE', 'BILL', 'MOELLER', 'HOLEC', 'CHANGSE', 'OFFICE PROTECTION SYSTEMS', 'STINGHOUSE', 'SANTAK', 'FELTEN & GUILLEAUME', and 'MERM'. The Eaton logo, consisting of the word 'EATON' in a bold, white, sans-serif font with a dot over the 'O', is centered in the middle of the slide.

EATON

Black Market and Gray Market Electrical Equipment

Safety Implications and Prevention

September 21, 2015

Counterfeit and Gray Market Awareness

Agenda

- Impact of Counterfeiting on Global the economy
- Definitions and the proliferation Counterfeit products
- What is Gray Market and Why it IS the channel for distribution of counterfeit products
- What Eaton is doing to Combat Counterfeit products
- Global Counterfeit Operations and Actions to Stop Counterfeiting
- Call to ACTION!

Gray Market and Counterfeit

How does it affect YOU?

What is the Impact of Counterfeiting on the Global Market?

- Globally counterfeiting is estimated to be \$1.77T
- In the U.S. counterfeiting is estimated to be \$200B - \$250B
- The loss of 750,000 jobs annually in the U.S. can be attributed to the lost revenues of counterfeiting
- The domestic value of IPR seizures for 2014 was \$1.2B
- 538% Growth in value of seizures (MSRP) since 2010 with electrical products representing 12% of all seizures
- More than 80% of seized counterfeits seized by U.S. Customs originate in China

The Timing has never been better to attack this Global Problem

What is Counterfeit?

Counterfeit:

An imitation intended to be passed off fraudulently or deceptively as new or genuine.

Related:

- Bargain priced knock-offs; common with watches, handbags, golf clubs and now becoming prevalent with electrical products.
- Counterfeits may be newly manufactured fakes or refurbished genuine products with counterfeit packaging, marks, or labeling.
- **Counterfeits are unsafe electrical products that are especially risky for channel partners, contractors, and especially end users.**
- **Unauthorized dealers tend to be the source of counterfeit products, knowingly or unknowingly, due to questionable product sourcing practices.**

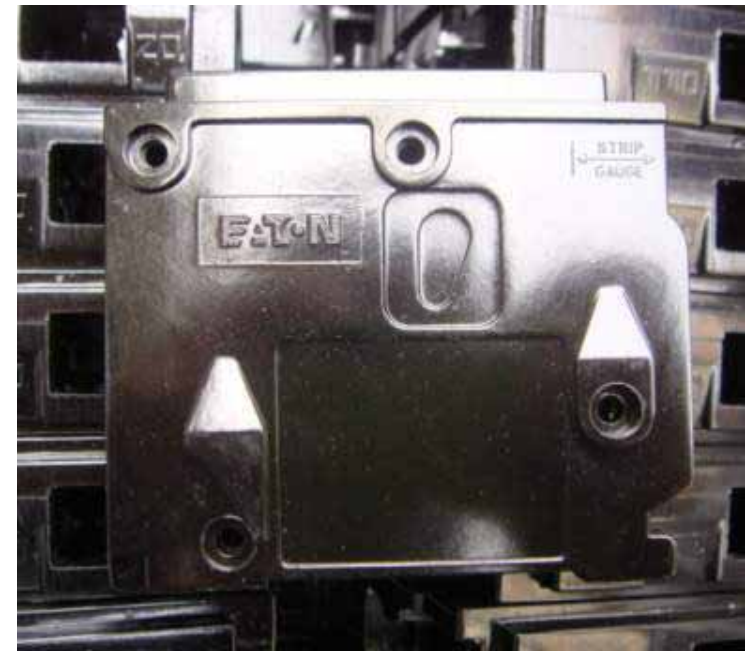
Detection is increasingly complicated

- Counterfeits have improved cosmetically, however they continue to be extremely dangerous.
- Use inferior internal parts that are not built to OEM specifications.
- Increased risk of product failures, fires, injuries, loss of life, and loss of production due to counterfeits.



Why are electrical products the target of counterfeiters?

- Highly **recognized** brand
- **High volume** Products
- High **demand** items
- Large **installed base**
- Complex, **loosely controlled** supply and distribution chains
- **Internet** access to customers



All recognized brands in the electrical industry are being counterfeited

Circuit Breakers

Protecting Property and Lives



Circuit breakers are designed to provide safe power by protecting installed wire and connected devices against overloads and short circuits.

They protect property and lives

Counterfeits compromise what's more important... safety and protection

Why are counterfeit products being proliferated?

- Consumers **desensitized** by bargain priced knock-offs
- Counterfeits **not fully understood as a major threat** to safety
- Easy **access** to **illicit** manufacturing and distribution via the **internet**
- **Laws** exist in many countries and **lack of** enforcement is still an issue



Can you spot the counterfeit?

Actual customer



!!!Counterfeit breakers are hard to spot!!!

What is Gray Market?

Gray Market:

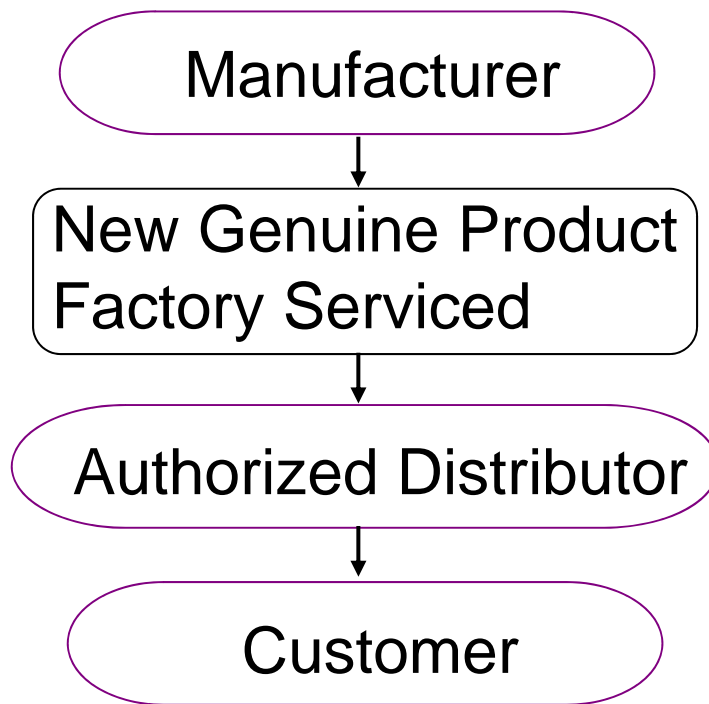
The resell of genuine products by unauthorized, independent resellers or brokers.

Related:

- Products sourced by a variety of methods and sold as new but without a formal relationship with the manufacturer, support, or warranty.
- Gray market goods may be new but have been acquired through means outside of normal authorized distribution channels and policies.
- Gray market resellers frequently misrepresent surplus, used or refurbished goods as new, genuine, product.
- Gray market resellers have the highest risk for counterfeit, sub-standard, or fraudulent goods due to sourcing practices.

Authorized Distribution – Reliable and Traceable

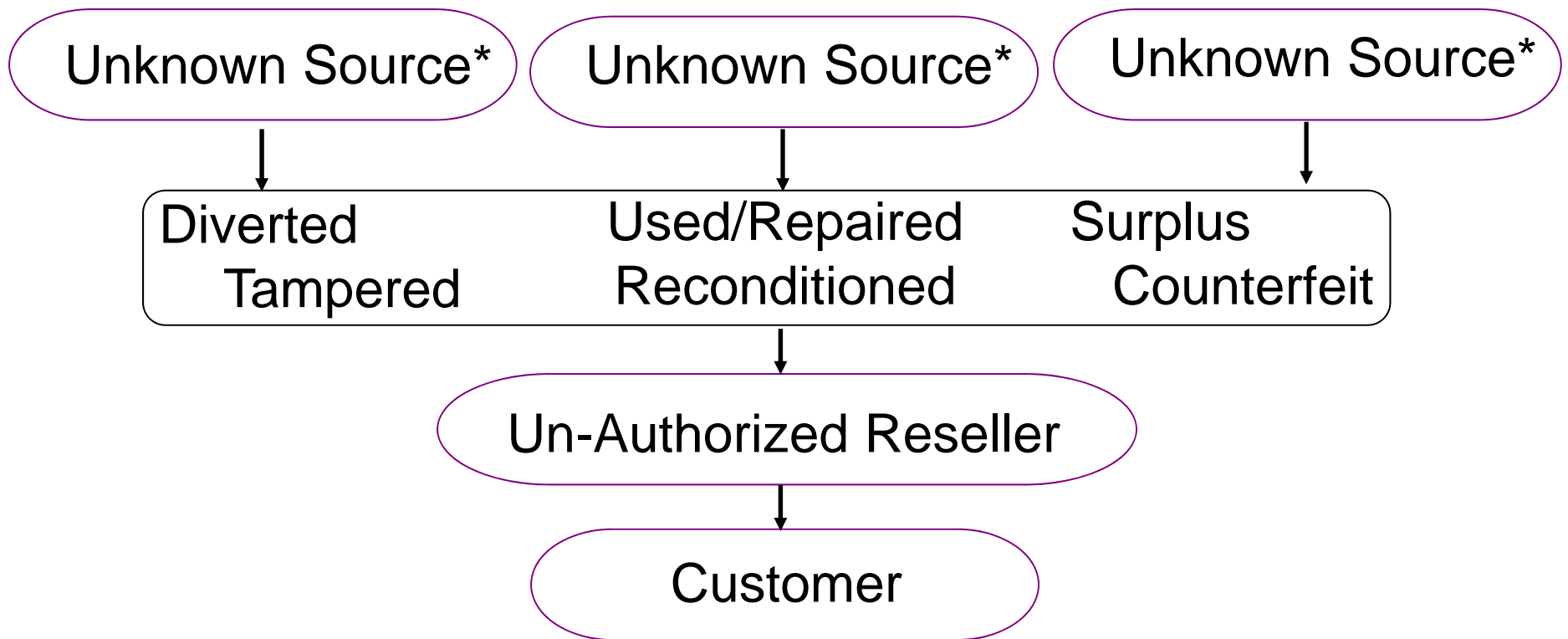
Authorized Distribution



Purchasing from an authorized distributor ensures product is new, genuine, and fully warranted directly from the manufacturer

Independent Distribution – Gray Market, Suspect, Increased Risk

Independent “Gray Market” Reseller



Products sourced through unauthorized channels could be counterfeit, damaged and misrepresented as new.



U.S. Immigration and Customs Enforcement

December 8, 2011

Jacksonville, FL

Business owner pleads guilty to trafficking in counterfeit circuit breakers

JACKSONVILLE, Fla. – A Texas business owner pleaded guilty in federal court Wednesday to one count of mail fraud and one count of trafficking in counterfeit circuit breakers, following an investigation by U.S. Immigration and Customs Enforcement's (ICE) Homeland Security Investigations (HSI).

Elod Tamas "Nick" Toldy, 62, of Austin, Texas, owner and operator of Pioneer Breaker & Control Supply in Austin, and Nick's Sales, the business' online sales and marketing component, is scheduled to be sentenced in April.

"This individual, motivated only by greed, has allowed these potentially dangerous counterfeit circuit breakers to be bought and used in homes and businesses around the country. These items, which have not been properly manufactured or tested, could lead to costly repairs, property damage, and even serious injury or death," said **Susan McCormick**, special agent in charge of the ICE HSI office overseeing Jacksonville. "Together with our law enforcement partners, HSI will continue to engage in an unrelenting pursuit of those companies and individuals who attempt to profit from the illegal trafficking of counterfeit products."

On April 21, 2010, ICE HSI special agents from Jacksonville and Austin executed a search warrant at Pioneer Breaker & Control Supply's warehouse in Austin, resulting in the **seizure of approximately 19,000 counterfeit electrical components and label making equipment. The manufacturer's suggested retail price (MSRP) of the electrical components was more than \$1.7 million. A subsequent search of another warehouse in Laredo, Texas, by ICE HSI special agents there lead to the seizure of an additional 77,000 counterfeit circuit breakers with an MSRP of more than \$3 million.**

According to court documents, beginning on or around December 2008 until April 2010, Toldy devised and executed a scheme in which he traveled to the People's Republic of China with sample circuit breakers produced in the United States and met with manufacturers there to produce products bearing the counterfeit trademark name "Stab-Lok." Toldy then imported the counterfeit circuit breakers into the United States bearing this counterfeit trademark and also "Zinsco," "Telemecanique," "ABB" and "Siemens."

Toldy would also affix labels bearing the counterfeit trademark of "UL" for "Underwriters Laboratories" on the circuit breakers and other electronic products. **He then used his companies, Pioneer Breaker & Control Supply and Nick's Sales, to market and sell the counterfeit goods as legitimate products manufactured by the respective trade-holders and tested by United Laboratories.**

Counterfeit Breakers are an industry problem and prevalent across the major brokers

- TAMAS TOLDY OF **PIONEER BREAKER** PLEADS GUILTY TO TRAFFICKING COUNTERFEIT CIRCUIT BREAKERS
- JURY FINDS **BREAKERS UNLIMITED** GUILTY OF SELLING COUNTERFEIT CIRCUIT BREAKERS
- **NORTH AMERICAN BREAKER CO.** RECALLS COUNTERFEIT CIRCUIT BREAKERS DUE TO FIRE HAZARD
- **CONNECTICUT ELECTRIC** RECALLS COUNTERFEIT SQUARE D CIRCUIT BREAKERS DUE TO FIRE HAZARD
- SQUARE D® OBTAINS INJUNCTION AGAINST **MIAMI BREAKER** AND **GENERAL BREAKER & PANEL** TO PREVENT THE SALE OF COUNTERFEIT PRODUCTS
- SQUARE D® COMPANY OBTAINS INJUNCTION AGAINST **MAINE CIRCUIT BREAKER** TO PREVENT THE SALE OF COUNTERFEIT PRODUCTS
- SQUARE D® COMPANY SETTLES WITH **SPECIALTY LAMP INTERNATIONAL** TO PREVENT THE SALE OF COUNTERFEIT PRODUCTS
- **NORTH AMERICAN BREAKER COMPANY** PERMANENTLY ENJOINED FROM SELLING COUNTERFEIT SQUARE D® PRODUCTS
- **CES LIQUIDATING AND TES LIQUIDATING** PERMANENTLY ENJOINED FROM SELLING COUNTERFEIT SQUARE D® PRODUCTS
- **SCOTT ELECTRIC** PERMANENTLY ENJOINED FROM SELLING COUNTERFEIT SQUARE D® PRODUCTS

How is the industry combatting Counterfeiters and the Gray Market

What Do We Do to Fight Counterfeits?

- Work closely with US Government & other agencies
- Monitor internet for companies offering counterfeits
- Investigate sales of counterfeits
- Conduct raids, seize counterfeits, support criminal prosecution
- Train Customs & other authorities globally to recognize counterfeits
- Educate customers & the public on the dangers on counterfeits
 - Web page on <http://www.schneider-electric.us/sites/us/en/support/product-support-resources/counterfeiting/counterfeiting.page>
 - Encourage reports of counterfeits with report (& reward in USA) program

What Do We Do to Fight Counterfeits? (cont.)

- Filed 13 civil lawsuits against 28 companies (US, Mexico, South America, China)
 - Insist on permanent injunctions
 - Insist on CPSC-administered recall as part of settlements
- Cooperated with US federal authorities in criminal investigation & indictment of Texas counterfeiter resulting in 1 year jail term (just released in Dec 2013)

GE's Position

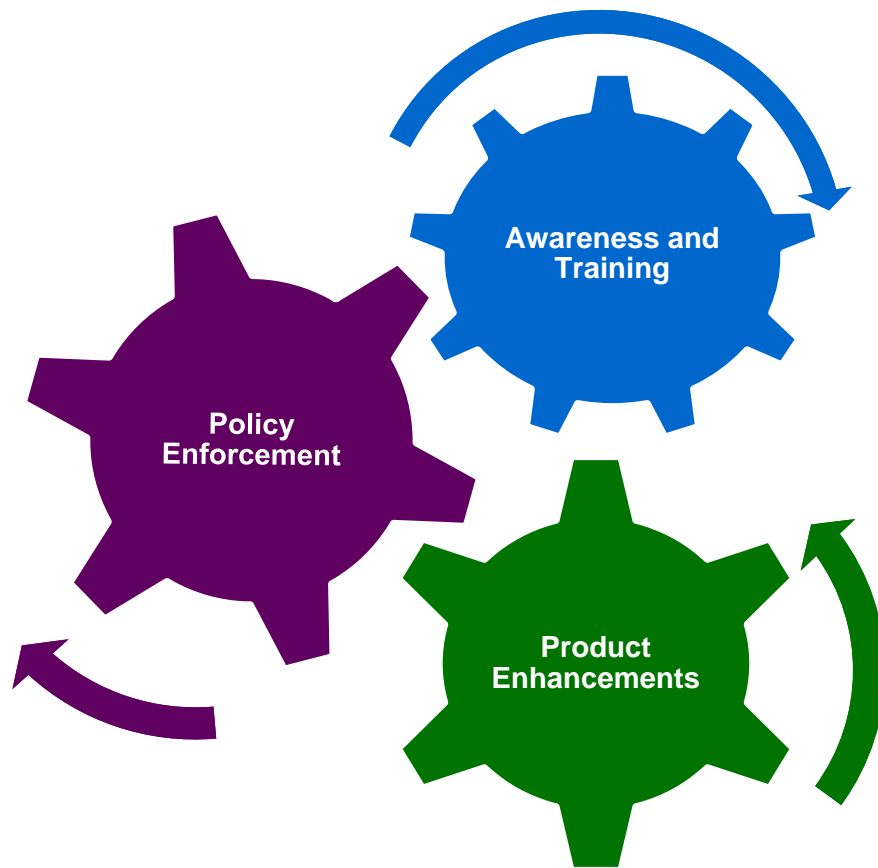


Counterfeiting in the electrical products industry has been a **growing problem** for over a decade. More recently, there has been an increase in the number of incidences of counterfeit residential circuit breakers appearing in the marketplace.

This raises significant concerns, and NEMA, in public comments to the proposed Anti-Counterfeiting Trade Agreement, observed that industry experience with counterfeit electrical products is that they almost always are **substandard and pose risks of harm to persons or property.**

GE takes the threat of counterfeit products very seriously and wants to spread the word regarding the risk of purchasing counterfeit products. We are working with industry organizations like NEMA to **educate the public** about the issues presented by the existence of counterfeit electrical products in the marketplace. We also **work with governments and agencies around the world** where counterfeits have been identified and are **committed to the prosecution of manufacturers and sellers of counterfeit GE products.**

Components of Brand Protection



Awareness

- Focused media and marketing campaign
- Partner with industry associations
NEMA, NECA, IEC, ESFi
- Law enforcement and customs training

Product Enhancement

- Serialization
- Authentication tools, eTool, tracking
- Embedded marks in molds
- Technology enhancement

Enforcement

- Strengthen internal policies
- Global enforcement of Eaton IP
- Active market investigations

Strengthen the message of “Zero Tolerance” policy

“ I didn't Know” Ad Campaign

- Helps to educate audience to the overall risks, liabilities, and dangers associated with non-authorized purchased products
- Educates the audience about the tools, solutions and commitment to safety that Eaton offers
- Messaging promotes authorized distributors as the only source for genuine products



Target Audiences and Trade Advertising

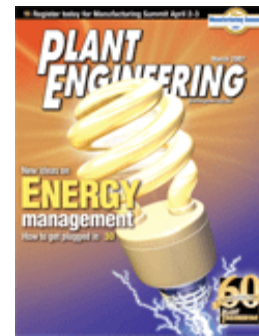
Awareness and Results

Audiences

End Users
Consultants
Plant Managers
Supply Chain Managers
Electrical Contractors
OEMs, Distributors
Industry Associations (NEMA, UL, etc.)
Government Agencies
Building Owners; Facility Managers

Media Segments

Electrical and Distribution Trades
Commercial Construction Trades
Supply Chain Trades
Select National media markets



4 Things You Should Know

The counterfeiting of brands and goods is an issue facing nearly every industry and every well-known brand. When it comes to electrical products, the issue can quickly become dangerous. Here are 4 things about counterfeits you should know.

4 Things you should know about counterfeits

Know counterfeits pose danger



Using counterfeit electrical products can result in a **higher risk for failure or malfunction**. Such failures may result in electrical shock, overheating or short circuits, leading to equipment failures, fires or explosions that can cost workers their lives and cause considerable property damage.

Know counterfeits are hard to spot



All well-known brands face the issue of counterfeiting. Counterfeit product manufacturers rely on deception, the Internet, and prices below market level to find their way into our homes, businesses, and commercial and industrial facilities. The more sophisticated counterfeiters become, the more difficult counterfeit products are to identify.

Know you can help



Buy from authorized resellers. The best way to avoid counterfeit electrical products is if you can trace the path of commerce to the original manufacturer. If every individual along a product's supply chain played an active role in stopping counterfeit products from being bought and sold, the demand for counterfeit electrical products would decrease. Reducing the spread of counterfeit electrical products can help to ensure maximum electrical safety protection.

Know how to report a counterfeit



If you identify a counterfeit in the field, **report it to the brand owner**. This will allow authentication of the suspect product and ensure that it is removed from the marketplace.



If you cannot find brand contact information, contact the IPR Center who will disseminate the information for appropriate response. Contact the IPR Center at IPRCenter@efsa.gov or 1-800-495-2566.

Counterfeits by the numbers

Counterfeiting of well-known brands is estimated to cost the most worldwide in 2015. In the U.S., alone, counterfeiting is estimated to cost businesses \$250 billion each year (IACC).

Number of jobs lost every year in the U.S. due to the counterfeiting of counterfeit brands (IACC): 750,000

MSRP value of 23,100 seized counterfeit shipment seizures by U.S. Customs and Border protection in 2014: \$1.77 billion



MSRP value of counterfeit seizures has grown by the most since 2010 (U.S. Customs and Border Protection): 538%



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Circuit Breaker Authentication Tool

The screenshots illustrate the following steps in the authentication tool:

- Step 1: Selection and Scanning** - The user selects 'MCCB tools' and uses the 'QPC Barcode Reader' to scan the circuit breaker's barcode.
- Step 2: Information Retrieval** - The app displays 'Commercial information' for the scanned device, including:
 - QPC code : 12678789457890
 - Catalog : #12678789
 - Style number : #17459697
 - APMG : 30
 - Ambient : 40C
 - AC : 50/60Hz
 - UL listed : CSA listed
- Step 3: Authentication Result** - The user can choose to 'Authenticate', view 'Product information', or 'Distributor information'. A successful scan results in an 'Authentic' status with a green checkmark and the message: 'The information provided for this circuit breaker has been authenticated.'
- Step 4: Suspect Result and Support** - An unsuccessful scan results in a 'Suspect' status with a red X and the message: 'We are unable to authenticate this circuit breaker from the information provided. Please confirm QPC code, style number, and date code and re-submit. If the information is correct please complete the following form for assistance.' The form includes fields for:
 - Email address
 - Name
 - Phone number
 - Comments
 - QPC code : 12678789457890
 - Style number : #12678789
 - Date code : 4789564

Laser Marking Molded Case Circuit Breakers

Product
Enhancements

- Intended to create high quality markings on molded case breakers
- Reduces risk of label damage or tampering preventing relabeling
- Supports brand protection and traceability
- 9/15/2014 Production begins for 2-Pole F-Frame MCCB Line



Tamper resistant markings for the life of the breaker!

ADMINISTRATIVE ACTIONS

Wenzhou, China

Administrative Actions

Policy
Enforcement





E-T-N | **MEM**

321DCP GF/30

CIRCUIT BREAKER WITH
GROUND FAULT PROTECTION
32A M3 240V AC50-60HZ, 30mA
QTY 20

Made in Malaysia
Perniagaan Elektrik Sdn Bhd

Weight
4.2kg



E-T-N | **MEM**

321DCP GF/30

CIRCUIT BREAKER WITH
GROUND FAULT PROTECTION
32A M3 240V AC50-60HZ, 30mA
QTY 20

Weight
4.2kg



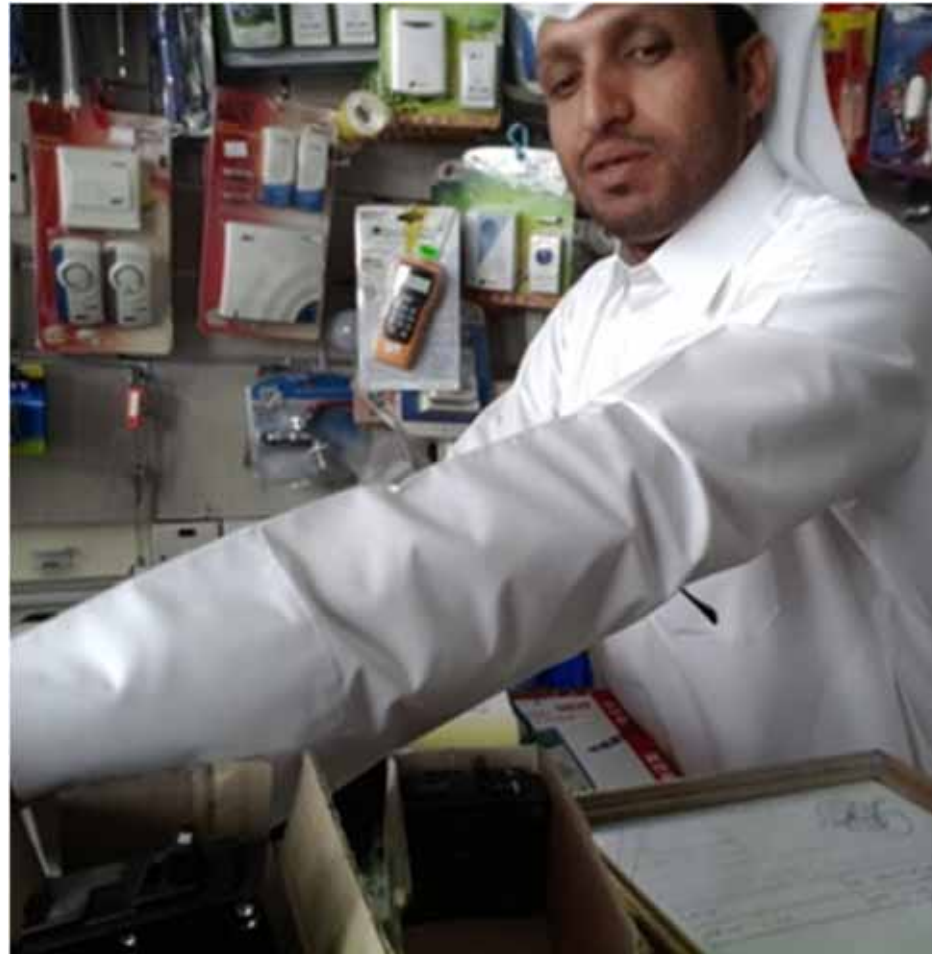


ADMINISTRATIVE ACTIONS

Qatar

Anti-Counterfeiting Working Group

Middle-East - Qatar



Anti-Counterfeiting Working Group

Middle-East - Qatar



Anti-Counterfeiting Working Group

Middle-East - Qatar



Anti-Counterfeiting Working Group

Middle-East - Qatar



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Middle-East - Qatar



Anti-Counterfeiting Working Group

Middle-East - Qatar



Anti-Counterfeiting Working Group

Middle-East - Qatar



Anti-Counterfeiting Working Group

Middle-East - Qatar

- 14 inspectors divided into
- 2 shifts over two day's operations.
- 20 companies and showrooms were raided
- 12,250 counterfeit items and products were seized

F&G, MEM, BILL, Cutler-Hammer, Legrand, ABB,
HAGER, Square D and Merlin Gerin



Criminal Actions

Scarbo, WV

Counterfeit Mining Breaker



Your role in preventing counterfeit electrical products

- You should always be able to track a product to the original OEM
- You can easily become an unsuspecting accomplice to trafficking counterfeit products
- Don't put your business at a legal or financial risk
- Don't put your customer's safety at risk
- Alert the OEM of any suspect products that you might encounter
- Alert Eaton at: Report_fakes@eaton.com

Eaton Brand Protection

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