

Africa - 'dumping ground' for counterfeit goods

Focus On Africa Magazine

By Pamela Whitby
BBC World Service

It is early morning in the Kenyan capital, Nairobi, and a small independent wholesaler is doing a roaring trade. The city's street traders and small independent retailers have come to stock up on household products, one of which is toothpaste.

This wholesaler stocks two brands. The first, the so-called genuine article, is manufactured by Unilever, one of the world's biggest consumer goods businesses. The other, the wholesaler describes as "Chinese" - Unilever calls it fake.

" Africa has become a dumping ground for the world's unwanted goods. "

Darren Olivier Bowman Gilfillan attorneys

By close of business this wholesaler is justifiably pleased. He has sold more tubes of counterfeit toothpaste than the genuine article, which is excellent news for the bottom line.

On the genuine product he has made a 13% mark-up, on the counterfeit an impressive 50%. Fair play to him, some might say - after all it is only toothpaste.

No joke

Fake toothpaste ranks low down the list of priorities for the continent's law enforcement agencies.

According to Roberto Manriquez, a criminal intelligence officer in Interpol's intellectual property crime unit, counterfeit medicines are the number one priority of the world's biggest police organisation.

According to the World Health Organization (WHO), 30% of medicines sold in developing countries are fakes and a major problem is that high numbers of drugs bought by the state for use in public hospitals are being illegally obtained and then sold on for profit in the private sector.

For Unilever, whose claim to fame is that "160 million times a day, someone somewhere chooses one of its products", the growing trade in counterfeit goods is no joke.

Copycat toothpaste can compromise a consumer's health, says Nick Hart, Unilever's brand protection director.

In the United States in 2007 counterfeit toothpaste labelled "Colgate" was found to contain a chemical known as diethylene glycol which is used in anti-freeze and is said to pose a low-grade health risk.

As a global multinational, jeopardising a consumer's health or safety is not a risk Unilever can afford to take.

On the other hand, for the counterfeiter - who has no brand to protect, has invested nothing in research and development, has probably paid no import duty or VAT and in all likelihood has used cheaper ingredients - there is much less to lose and far more to gain.

Indeed with the rising number of direct trade routes between Africa and China, together with porous border controls, outdated legislation and weak enforcement mechanisms, the continent has become fair game for counterfeiters - and the recession has made it worse.

"Africa has become a dumping ground for the world's unwanted goods," says Darren Olivier, head of brand enforcement and a director at Bowman Gilfillan attorneys in Johannesburg.

As manufacturing techniques have become increasingly sophisticated, everything from electrical products to software and antibiotics can be counterfeited.

In many cases even the packaging is replicated. So the consumer is tricked into buying a fake product which, at best, might be a second-rate radio set but, at worst, a pesticide with the capacity to wipe out entire crops, or an anti-retroviral without active ingredients.

Vastly inferior

This raises an important question: Do brand owners like Unilever have a responsibility to lower prices to the point where there is no market for counterfeit goods in Africa?

For Unilever's Mr Hart, price is not the issue.

"One of the biggest problems we face is the misconception that counterfeiting is a problem associated with luxury items like handbags, DVDs and music."

But these goods, he adds, are sold at substantially reduced prices and the brand-savvy consumer is generally making a conscious decision.

" Just think of the hospitals, roads and schools that could be built. "

Omari Issa Investment Climate Facility for Africa

By contrast, fake household goods and consumer hygiene products are increasingly sold at prices on a par with the genuine item.

"The consumer pays the normal price, believes she is buying the genuine article but is actually buying something that may be vastly inferior," he says.

But would a drop in prices not at least start to address the problem?

"We can drop our prices but they [the counterfeiter] have much more margin to work with than we do because they haven't paid import duties and so on. Not in our wildest dreams could we lower prices to the same degree," Mr Hart says.

The result is that many multinationals, but also small local companies, are being forced to shut up shop.

For instance, Eveready East Africa, the battery company, has lost 70% of market share to counterfeit goods.

The implications are staggering, says Omari Issa, chief executive of the Investment Climate Facility for Africa (ICF)- a pan-African body that works with the public and private sector to remove barriers to doing business in Africa.

"If you consider that each employed person in Africa supports between 10 and 20 people, then continent-wide this is affecting millions of people."

Recent research by ICF found that in the East African Community (EAC), \$500m (£310m) in revenues from unpaid taxes was lost to counterfeit goods.

"Just think of the hospitals, roads and schools that could be built," says Mr Issa.

Other "shocking data" from the study was that in Kenya over 30% of medicines on sale were counterfeit and fake electrical goods had caused numerous fires.

Challenges ahead

So what is being done about it?

Some headway has been made in the EAC which is expected to become a common market this year (thus allowing the free flow of goods across borders).

This was one of the reasons that sparked discussions, driven by the ICF, about the need for an EAC-wide policy and common legislation to combat counterfeiting and piracy.

FOCUS ON AFRICA MAGAZINE

- This article is taken from the latest issue of

It is hoped that this will be in place in 12 months.

But, as Mr Issa points out, there are significant challenges ahead and replacing existing outdated legislation is the easy bit.

"It must then be enforced and consumers, government officials and even heads of state will have to be educated," he says.

If it works, however, the hope is that an EAC policy will be used as a benchmark for the rest of Africa.

Mr Issa also notes that the problem is much worse in West Africa which is home to some of the world's poorest countries.

Many of these are located on illicit trafficking routes and governance is weak.

The result is that the region has become a dumping ground for counterfeit goods, especially pharmaceuticals.

A UN report published in July 2009 reveals that revenues gained from 45 million counterfeit anti-malarial medicines were worth \$438m - more than the annual gross domestic product of Guinea-Bissau.

West Africa is the next destination for Interpol, which to date has conducted three operations in East and southern Africa under the umbrella of the International Medical Products Anti-Counterfeiting Taskforce set up by the WHO.

Complex pressures

So far Interpol has checked 549 premises including wholesalers, pharmacies and clinics. It has closed 45 of these and opened 80 cases which local organisations must follow up.

Part of the process is training and Interpol works with local police, as well as bodies like customs and immigration, drug regulatory authorities and the private sector.

"Our strategy is to go into a country for a week, provide two days training and three days operational support," says Mr Manriquez.

He adds: "Co-operation from local authorities has been excellent."

Still, this remains a multifaceted and complex problem.

In Kenya, for example, pressure to implement anti-counterfeit legislation has been delayed because public health campaigners have argued that the definition of what constitutes a counterfeit product is too vague and could be used to prevent access to generic drugs.

Clearly Africa needs access to cheaper medicine. But it does not need fakes.

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Story from BBC NEWS:
<http://news.bbc.co.uk/go/pr/fr/-/2/hi/africa/8424403.stm>

Published: 2010/01/13 18:36:11 GMT

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