

# Wines & Spirits - Anti Counterfeit & Brand Protection

<https://marketpublishers.com/r/W4A79149905EN.html>

Date: November 2015

Pages: 250

Price: US\$ 3,580.00 (Single User License)

ID: W4A79149905EN

## Abstracts

Wines & spirits are:

Widely counterfeited

Subjected to various forms of tampering, refilling and / or dilution

Targeted by smugglers (particularly between countries with contrasting high & low excise tax regimes).

Counterfeiting operations in particular can be scaled up and can be highly lucrative and are known to be often linked to organised crime networks and in some cases terrorist groups.

### LOOK-ALIKE COUNTERFEITS VERSUS REFILLING OF GENUINE EMPTY BOTTLES

The problem of copy or look-alike products is widespread for spirits and also wines. Such copy and Look-alike products aim to perform the same function as a genuine product but are produced by an independent manufacturer under a similar name, and nearly always are of inferior quality.

The products are sold in markets where consumers are vaguely familiar with Trade Marks and international brands but often have little comprehension of English - All major spirits brands are vulnerable to such attacks. Nonetheless it is clear that such challenges have by no means deterred counterfeiters in China.

Unfortunately, no matter how sophisticated the on-bottle devices may be and how many steps are taken to protect a genuine empty glass bottle to prevent illicit copying or

reproduction of a particular glass bottle, the widespread practice of obtaining empty genuine bottles and refilling them tends to subvert this type of approach brand protection. This practice is particularly prevalent in China and needs to be factored in to any brand protection strategy.

Counterfeiters are generally compelled to rely on either:

Look-alike counterfeits using standard bottles which can only approximate to the appearance of custom made bottle

Collecting and re-filling empty used bespoke proprietary bottles and this generally means that the original genuine label is still attached to the bottle.

All major wines & spirits brands are vulnerable to such attacks and both approaches are widely used by criminals today.

## LOOK-ALIKE SPIRITS BOTTLES

Such copy and look-alike products aim to perform the same function as a genuine product but are produced by an independent manufacturer under a similar name, and nearly always are of inferior quality. The products are sold in markets where consumers are vaguely familiar with trademarks and international brands.

## THE FINE WINE EMPTY BOTTLE TRADE

Increasingly, counterfeiters have been finding that it can be easier to obtain and refill genuine empty bottles of high end wines & spirits than to try to replicate original glass bottles. With this approach the original genuine label is usually still attached to the bottle.

China's booming wine market has created an extraordinary demand for empty bottles of famous wines (primarily from prestigious French vineyards) with fraudsters willing to pay up to \$475 USD (or even more for something really special) for a good bottle that can be re-filled with something less expensive.

Fine wine counterfeits in China range from the glaringly obvious to the very subtle (for example by refilling a Chateau Lafite '82 labelled bottle with Chateau Lafite '85 wine (which is quite a lot less expensive). In a country where, for example a highly desirable

Chateau Lafite Rothschild 1982 can command as much as US\$5,900, the empty bottle can fetch as much as \$1,500 USD on the black market (the condition of the empty bottle is of course critical and affects the price).

For fine wines, an important skill for the counterfeiter is in the re-corking and re-capsuling. In fact fine wines (pre-1965 or so) often tend to have been re-corked anyway and this plays right into the counterfeiter's hands.

In response, some European wine exporters have been campaigning for restaurants to:

Smash the bottles after the genuine wine has been consumed so that they cannot be re-filled

Also ensure that capsules are destroyed so that they cannot be illicitly re-used.

## SHALA ONE – THAI WINE WITH A SIMILAR LABEL TO HIGH END OPUS ONE FINE WINE

A wine bar in Thailand called Shala One has been offering for a number of years a house wine with a label design that is uncannily similar to the label used by leading Napa Valley Opus One high end fine wine.

## POTENTIALLY DEADLY - INDUSTRIAL SCALE PRODUCTION OF COUNTERFEIT SPIRITS

Raids on a series of illegal counterfeit spirits distilleries over the last several years have also highlighted the terrible conditions in which counterfeit alcohol is manufactured, typically in filthy, back-street factories. Such counterfeit spirits usually contain a variety of lethal chemicals.

Such counterfeit operations can be scaled up from cottage industry to semi-automated / automated industrial production operations. One of the largest counterfeit spirits operations uncovered in the UK in recent years boasted lines for automated filling of bottles of illicit vodka at industrial speeds at 24 bottles / minute. Eastern European workers slept on concrete floors as the operation ran 24/7. The plant is thought to have produced 1.3 million litres of counterfeit vodka. The 6-man gang who ran the operation were eventually jailed for a total of 56 years.

In a previous case, UK customs investigators uncovered another large illegal vodka-making factory also in the UK. Some 10,000 bottles of illegal vodka were seized by customs officers at a bottling factory concealed at a remote farm. The raid which also uncovered 35,000 litres of pure alcohol (sufficient to produce 100,000 bottles of the 35% proof spirit). The counterfeit alcohol was found to contain high levels of methanol.

The counterfeit bottles labelled with the Glen's vodka brand along with semi-automated / automated production & filling equipment including stills. A variety of packaging components were also seized including glass bottles, professionally printed labels, duty stamps and bottle closures - All of which were counterfeit. Such criminal operations typically have links through crime networks to infrastructure able to distribute large quantities of counterfeit vodka throughout the UK.

## MARKET OVERVIEW

### ESTIMATES OF FINANCIAL LOSSES

Growth rates of financial losses due to counterfeiting and related activities globally have been accelerating at an alarming rate since around 2013 and forecast to continue to grow at an annual rate of around 15.6% through to 2019, up from 6.8% over the previous 5 year period, according to the International Chamber of Commerce / Organisation for Economic Co-operation and Development.

This is a big change for the worse and the ramifications are sure to be far reaching - But still the brand protection industry has yet to really take off – With the global market for brand protection solutions has been estimated to be running at less than 0.5% of related global financial losses which are at an estimated \$1,020 billion USD in 2014. Best estimates put forecast growth of brand protection solutions at 12.6% in 2014 and projected to continue at around this level for the next few years.

### ILLICIT & COUNTERFEIT ALCOHOL

Estimates for illicit alcohol vary somewhat, although a clear pattern emerges:

Some 30% of the alcohol consumed globally is reckoned to be counterfeit according to the International Center for Alcohol Policies

The World Health Organization has estimated that in Southeast Asia, home-brew or other illegally procured beverages account for 70% of overall alcohol

consumption (indeed the bulk of this non-commercial alcohol is made and consumed in less developed and emerging countries)

Best estimates of volumes of unrecorded consumption of illicit alcohol in North America and Western Europe run at a more conservative though still high level of between 10 & 15%.

Note: A distinction must be drawn between mass market branded wines and high-end collectible wines, as the dynamics of these markets are entirely different.

The majority of the World's counterfeit goods originate in China (70 to 80%), making it the counterfeit capital of the world - Indeed, the counterfeiting industry accounts for an estimated 8% of China's GDP.

Not only is a significant proportion of the World's counterfeit wines & spirits physically produced in China but a significant proportion of this output is then consumed within China, the rest being exported all over the World.

## SMUGGLING

Smuggling is an age old occupation and has evolved over the centuries. Smuggling takes many forms in the modern World from the white van or family car on a cross channel ferry from mainland Europe to the UK to the crossing of deserts with camels and asses from Iraq to Iran. The dangers and penalties range from fines and possible imprisonment to death (as in China).

## IDENTIFICATION OF HIGH RISK PRODUCT CATEGORIES

Certain types of product tend to be more attractive to counterfeiters than others – Wines & Spirits meet both key criteria:

Premium Pricing / Strong Brands

High levels of Taxation.

Notes:

When one or both of the above factors are present, in a single product category, for example the wines & spirits sectors, then this can prove a powerful draw for the counterfeiter

Wines & spirits tend to have the highest unit prices in the drinks sector and generally the highest margins

Wines & Spirits are also widely targeted by smugglers (in a similar to cigarettes particularly for countries with high excise duty).

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