

Shadow Networks: Unveiling Illegal Trade, Counterfeits, and Organized Crime in Our Communities

Crime Stoppers U.S.A. | 2023 Annual Training Conference
Denver, CO
November 4, 2023

ABOUT USA-IT



United to Safeguard America from Illegal Trade

- Confronting illegal trade through public-private sector partnerships
- Launched 2021 - Led by Philip Morris International (PMI)
- +85 Member Organizations
- 15 States

Members: Brand Protection Experts
Law Enforcement
Academia
Business Organizations

Purpose: Raise Public Awareness
Provide Training
Media Engagement
Recommend Policy



ABOUT USA-IT



SUMMITS & TRAININGS

- **+200 briefings** delivered to state & local elected officials.
- **+36,000 law enforcement officers** trained.
- **+3,200 media** articles generated
- **650M viewers** reached through communication campaign
- **State & National Summits (2022-2023):**
 - Arizona State Summit
 - Michigan State Summit
 - Tennessee State Summit
 - Texas State Summit
 - Beyond Borders: A Call to Action Against Human Trafficking
 - 2022 National Summit (Washington D.C.)



IMPACTS OF ILLEGAL TRADE

LANDSCAPE

- \$2.2T/Year Industry
- Fuels transnational crime & terrorism
- Not a 'victimless' crime

TRADE FRAUD: Endangers the health & safety of the American consumer, threatens our economy, puts our national security at risk, facilitates forced labor and endangers wildlife.

DRIVERS



Low Risk - High Reward

Highly profitable business with very low risk



Criminal Organizations

A major source of illegal income for transnational organized criminal groups



Lack of Awareness and Demand for cheaper products

Many people are attracted to counterfeits because they are cheaper than the authentic version and/or they are unaware of the consequences for their health and safety of acquiring these products



E-Commerce

The rise of online marketplaces has made it easier for counterfeiters to sell their goods to a global audience

HSI: MISSION & PARTNERSHIPS



HSI is the principal investigative arm of the U.S. Department of Homeland Security, responsible for investigating transnational crime and threats, specifically those criminal organizations that exploit the global infrastructure through which international trade, travel and finance move.

COUNTERFEIT PRODUCTS

ECONOMIC IMPACT

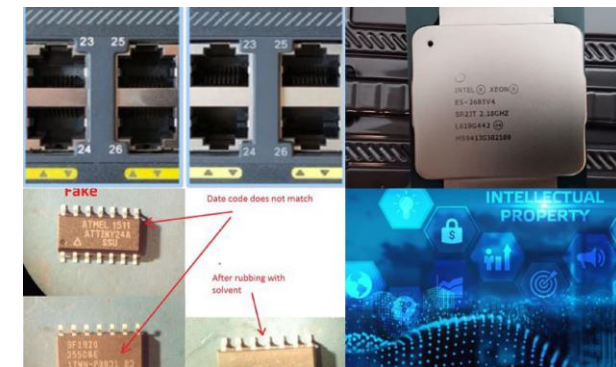
- Loss of **\$131B** & **325,500 jobs** in 2019
- Average U.S. company lost **\$101.9M in revenue** and spent **\$1.4M** on identifying & enforcing IP rights

INDUSTRY LOSSES

- **\$162B**: Biopharmaceutical products
- **\$40-50B**: Tobacco products
- **\$26.3B**: Footwear and apparel
- **\$12B**: Autoparts
- **\$4.7B**: Cosmetics and personal care

NATIONAL INITIATIVES-IPR

- OPERATION CHAIN REACTION
- OPERATION SURGE PROTECTOR
- OPERATION BODY ARMOR



NATIONAL INITIATIVES-IPR

- OPERATION IN OUR SIGHTS
- OPERATION TEAM PLAYER
- OPERATION APOTHECARY
- OPERATION ENGINE NEWITY
- TOBACCO SMUGGLING



TARGETING COUNTERFEITERS

E-Commerce Working Group

- Data anonymization

Anti-Counterfeiting Exchange (ACX)

- Joint council
- Future partners



Through the IP Protect initiative, HSI and its partners can provide IP assistance with the following:

- Requesting an in-depth intellectual property rights briefing conducted by one of HSI's special agents.
- Direct points of contact for assistance or reporting tips related to IP theft, fraud, cyber intrusions, website fraud, and trade secret violations.
- Information concerning cyber-attack security & data breach protection and response.
- Brand protection best practices.
- Guidance on trademark and copyright registration steps and resources.

CASE EXAMPLES

CAKAR CASE

Federal law enforcement officials conducted the “largest-ever seizure of cryptocurrency” connected to terrorism.

The third case links Murat Cakar, another Turkish national who the government described as an “ISIS facilitator who is responsible for managing select ISIS hacking operations,” to a COVID-19 fraud.

According to the criminal complaint, Cakar operated a website called FaceMaskCenter, which purported to sell N95 face masks that had been approved by the Food and Drug Administration, when in fact they had not.



BABINCHENKO CASE

Five family members sentenced to prison and ordered to forfeit a combined \$51.9 million dollars in proceeds from their fraudulent sale of counterfeit trademarked cellular phones and accessories operated a multi-million dollar scheme wherein they sold counterfeit cellphones and cellphone accessories on Amazon.com and eBay.com that the defendants misrepresented as new and genuine Apple and Samsung products.

The counterfeit cellphones and cellphone accessories were obtained in bulk from manufacturers in Hong Kong, repackaged in the Treasure Valley, and then individually resold to consumers online as genuine and new.



OPERATION SPOILED EDEN

Tens of thousands of unsafe counterfeit pieces of apparel and gear were sold to the U.S. military to be issued to active duty airmen

A Brooklyn, NY, clothing and goods wholesaler who directed the development, manufacture, and importation of \$20 million worth of Chinese-made counterfeit U.S. military uniforms and gear that were passed off as genuine American-made products has been sentenced to forty months in federal prison and ordered to forfeit the \$20 million in proceeds that he obtained from the sale of the counterfeit goods.



AKSOY (CISCO)

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Onur “Ron” Aksoy allegedly ran at least 19 companies formed in New Jersey and Florida as well as at least 15 Amazon storefronts, at least 10 eBay storefronts, and multiple other entities (collectively, the “Pro Network Entities”) that imported tens of thousands of fraudulent and counterfeit Cisco networking devices from China and Hong Kong and resold them to customers in the United States and overseas, falsely representing the products as new and genuine.

The operation allegedly generated over \$100 million in revenue, and Aksoy received millions of dollars for his personal gain.

Customers of Aksoy’s fraudulent and counterfeit devices included hospitals, schools, government agencies, and the military.

Pro Network Amazon Storefronts	Approximate Date of Earliest Known Activity
Albus Trade Hub	January 2014
EasyNetworkUS	March 2014
Get Better Trade	July 2015
Mercadeal	February 2017
Netech Solutions	February 2018
Netkco LLC	September 2014
NFD Trading LLC	January 2018
Palm Network Solutions	June 2017
Renewed Equip	August 2017
Servtaur	August 2019
Smart Network	July 2017
SOS Tech Trade	August 2017
Target-Solutions	September 2020
TeamTech Global	March 2016
TradeOrigin US	August 2015

ORGANIZED RETAIL CRIME

LANDSCAPE

- External theft reached **\$94.5B** in 2021
- In 2021, retailers saw an average **26.5% increase** in ORC incidents from 2020

INFORM ACT PASSAGE- EFF. 6/27

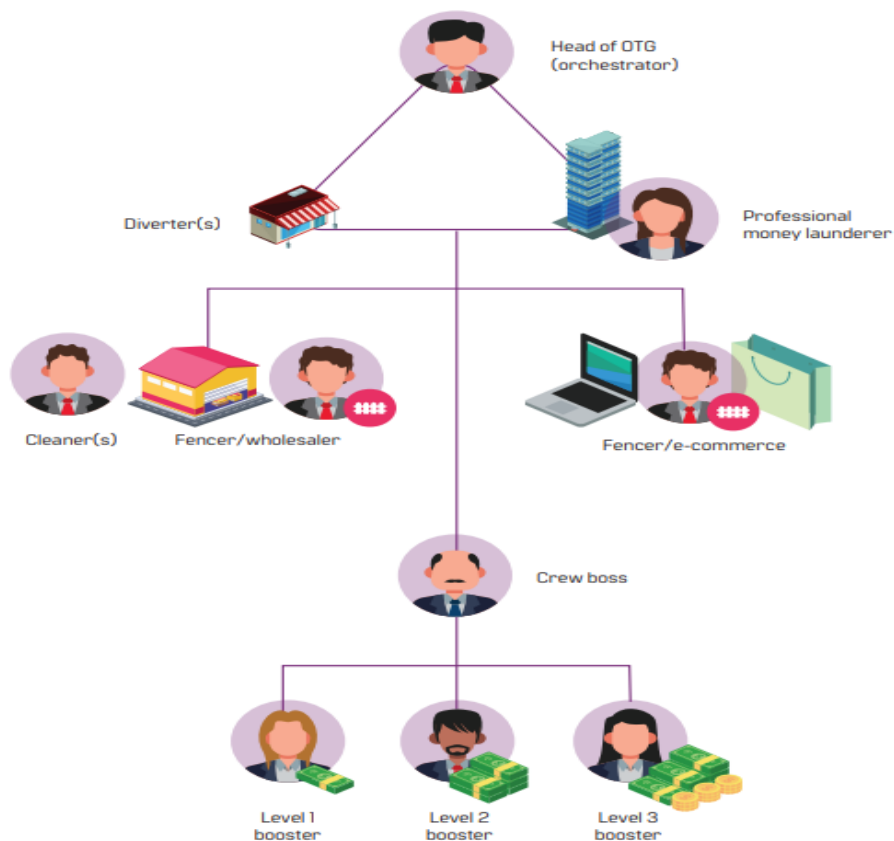
- Challenges
- Way forward

TRENDS

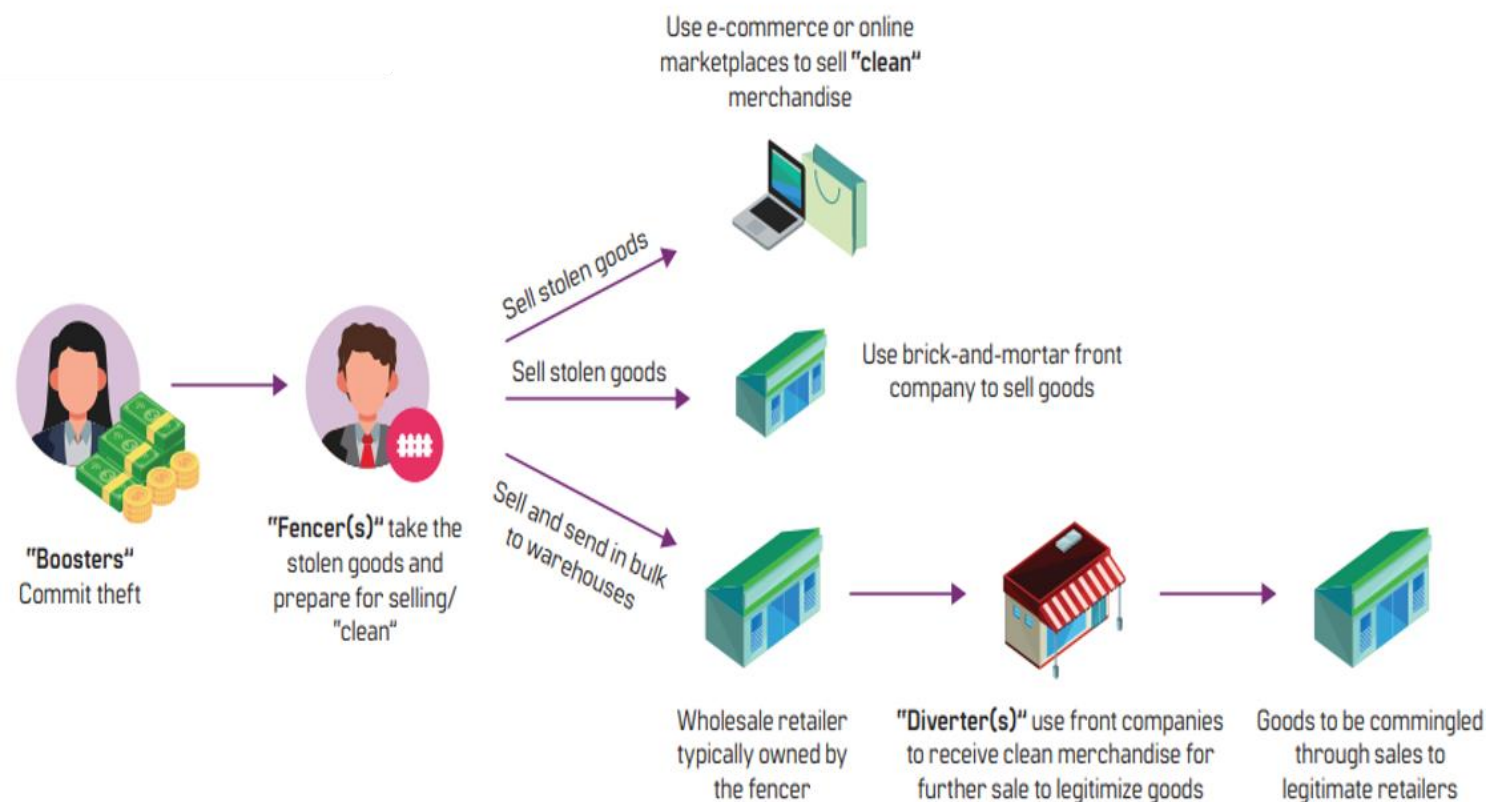
- Gift card scams
- Romani OTG utilizing stolen EBT info to purchase goods
- Gang recruitment
- Friends & family
- Links to cartels
- Chinese money laundering organizations

ORGANIZED RETAIL CRIME

OTG ORG CHART



FINANCIAL FLOWS



ORGANIZED RETAIL CRIME



	ORC Activity	Targeted Product	Retail Victims	Level of Violence	Scope	Financial Impact (per case)	Collateral Crimes
Severity ↑	National Criminal Organizations (Control Pricing and Disrupt Infrastructure)	OTC medicines Razor blades Health and beauty aids	Pharmacies, big box, and grocery stores	Low Purposely non-violent	Transnational, national interstate theft across large geographic areas (includes e-commerce)	US\$10 - 200 Million	Interstate stolen goods, ML/wire fraud, international crimes/counterfeiting, large scale financial fraud (gov), drug trafficking, human (labor) trafficking, terrorism financing
	E-Commerce High Level Sell Nationally	Tools, electronics, health and beauty aids	Home improvement, electronic stores, grocers, pharmacies, big box	Moderate	Product stolen regionally; same state or neighboring states	US\$500k- 2 Million	Interstate stolen goods, narcotics trafficking, ML/wire fraud
	E-Commerce Local Level Sell Nationally	Tools, cosmetics, clothing and accessories	Home improvement, electronic stores, grocers, pharmacies, and big box	Moderate	Product stolen and listed locally	US\$25K- 500K	Interstate stolen goods, narcotics trafficking, ML/wire fraud
	Local ORC Flea Markets, Small Illicit Businesses	Laundry detergent, hand and body lotions; personal hygiene and some clothing	Dollar stores, big box, soft lines, pharmacies	High probability for violence	Product stolen and sold locally in public forum	US\$10k- 200K	Interstate stolen goods, robbery/assault, narcotics trafficking, ML/wire fraud
	Smash and Grabs	High dollar designer goods, jewelry, clothing	High end, soft lines, jewelry, small businesses	Very violent	Local gangs	US\$5K- 100K	Robbery/assault, burglary, narcotics trafficking
	Retail Theft Personal Use	All retailers	All retailers	High potential for violence	Local homeless or drug addicted	Low dollar	Narcotics, robbery/assault

CASE EXAMPLES

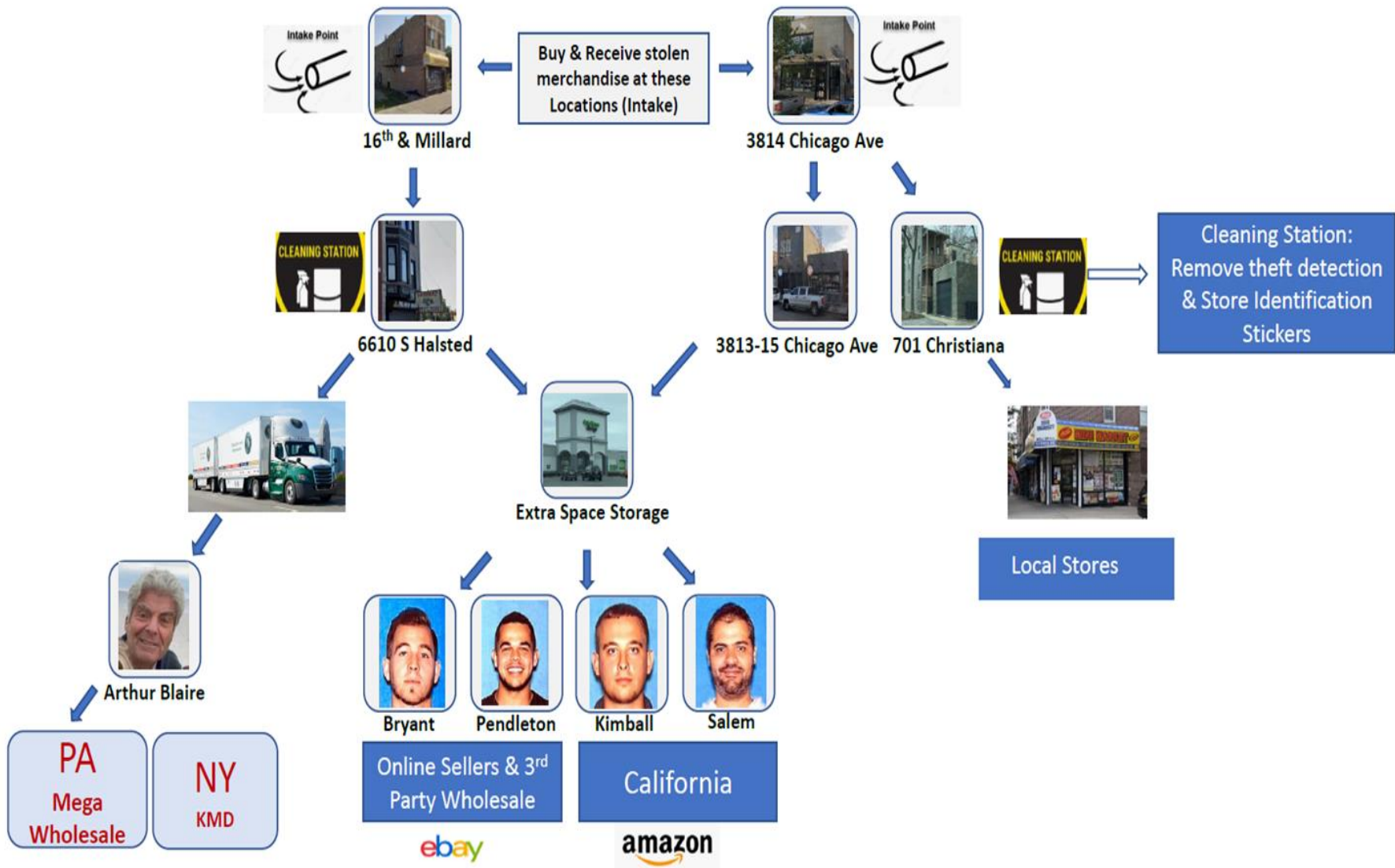
ORC CASE EX. #1

Retail thieves, often those dealing with substance addictions are recruited to steal specific products from multiple retail sources. The stolen items are then brought to various “fence” locations posing as legitimate business. The thieves sell the stolen goods for a fraction of the retail cost.



ORC CASE EX. #1





ORC CASE EX. #1



ORC CASE EX. #1



ORC CASE EX. #1



RESULTS

- Approximately one year investigation
- 10 indictments and arrest warrants issued
- 12 simultaneous search warrants in Illinois, 3 in California (over 200 law enforcement agents and 40 retail partner employees)
- Simultaneous arrest, interview and proffer of NY target by HSI NY
- 75 grand jury subpoenas issued
- 9/10 targets arrested – day of operation
- 276,000 retail products valued at appx. \$7.5M seized
- Seizure warrants issued for: 22 bank accounts (including out of state banks), 1 crypto wallet, accounts for entities at Coinbase, Robinhood and Fidelity
- Additional seizures of bulk currency and at least 10 vehicles
- Seized assets total estimated value \$11.4M
- Follow-up investigation to date 4 seizure warrants, 5 search warrants, ongoing forensic analysis of over 20 digital devices and tax records

ORC-CASE EX. #2

The latest effort by HSI in the battle against ORC resulted in the takedown of a gang in a rural community 32 miles west of Charlotte, North Carolina. The October 20, 2022, raid resulted in the recovery of \$167,000 in stolen merchandise and 28 firearms including assault rifles, silencers, and 20,000 rounds of ammunition. Over the last three years, HSI estimates the scope of loss from this gang's activities exceeds \$5 million in stolen goods.



CARGO THEFT

IMPACT

- **\$223M** lost in US and Canada in 2022
- **Increase of 15%** from 2021

TRENDS

- Email spoofing
- Vulnerable points
- Fuel advance scams
- Trucker app false identity

CARGO THEFT CASE



Stolen frozen beef leads investigators to multimillion-dollar crime ring

MONEY LAUNDERING

BY THE NUMBERS

- 2 - 5% of global GDP, or **\$800B - \$2T**
- **\$300B** laundered through the U.S. each year

METHODOLOGIES

- Bulk cash
- P2P payment processing
- Stored value cards
- TBML

RED FLAG INDICATORS

- Suspected shell corporations
- Business not commensurate with activity
- Transaction flows
- Layering
- Structuring

SUSPICIOUS ACTIVITY REPORTING

ORC - EVIDENTIARY VALUE



- We should look at where we can get at the fraud chain
- Initial theft of item or currency – this is the beginning of the chain
- Who ended up with the money OR what did the money become (asset forfeiture and money laundering) – this is the end of the chain

Investigating the profits made, and assets acquired with the profits gives us another investigative side to explore.

The Middle Links in the Chain:

- IP addresses, computers, cell phones
- Physical addresses, vehicles, registrations, titles, actual known people
- Insiders - flippers
- Financial instruments – checks, money orders, credit cards, debit cards
- ID's (more correctly – false ID's)
- Financial accounts
- Purchasers (who, where, how contacted, any online presence)
- **Follow the money – assets lead to targets, targets lead to assets**
- **Assets are the lifeblood of the criminal enterprise**
- The profits made – and what they are laundered into

PROSECUTION HURDLES

- Cross jurisdictions
- Forfeiture laws
- Priorities
- Failure to see bigger picture
- Ability to prove item was stolen
- Lack of reporting
- Lack of property identification
- Lack of department education
- Lack of investigation
- Recognizing actual legitimate sources
- Detention/Bond



ORC - POSSIBLE CHARGES

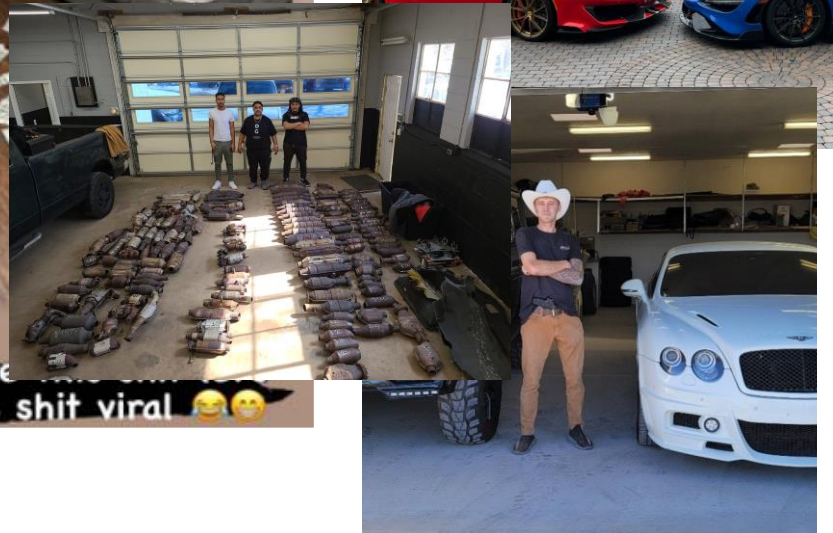
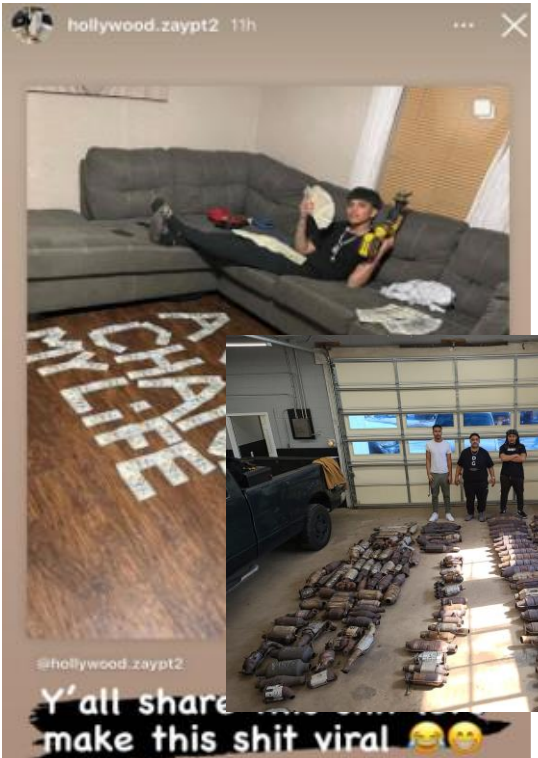


- ID theft
- Unlawful use of encryption
- Burglary (was there a building involved)
- Forgery
- Theft by deception / Theft
- Financial institution fraud
- Computer tampering/computer fraud
- Trespassing
- Obstructing justice – false reports
- Mail fraud /Wire fraud / Computer fraud
- Insurance fraud
- Continuing financial crimes enterprise - ORGANIZER
- Organized retail theft / cargo theft
- Structuring
- Money laundering
- Conspiracy, Solicitation, Attempt – accountability statutes
- Illinois RICO – Gang Omnibus Terrorism Prevention Act
- Tax offenses

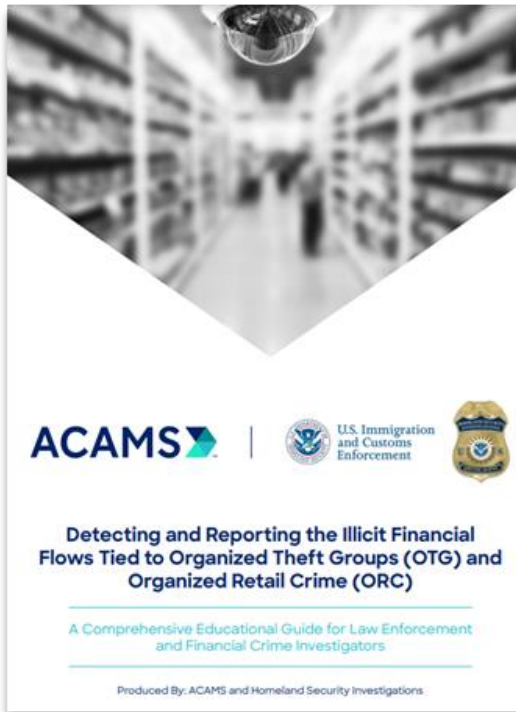
PICTURES - USE THEM



PICTURES - USE THEM



ORC RESOURCES



Homeland Security Investigations

**Operation Boiling Point:
Combating Organized
Theft Groups**

CombatOTGs@hsi.dhs.gov

[HSI National Lead Development Center](#)
[Support Contact](#)

OTGcasesupportNLDC@HSI.DHS.GOV

ORGANIZED RETAIL CRIME ASSOCIATIONS



Questions?

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