

**United States Senate  
Committee on Homeland Security and Governmental Affairs**

**Testimony of John C. Stedman , Lieutenant  
County of Los Angeles Sheriff's Department  
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**“Counterfeit Goods: Easy Cash for Criminals and Terrorists”**

My testimony today will address the enforcement efforts of the Los Angeles County Sheriff's Department regarding Intellectual Property Right (IPR) crimes and the involvement of organized crime groups operating in Los Angeles County.

My experience with IPR crimes dates to the late 1980's when my unit was approached by members of the Latin American Music Association. They were experiencing large revenue losses due to the proliferation of unauthorized and illegal duplication of music onto cassette tapes. The Music Association was seeking cooperation from local law enforcement to enforce a State of California statute that makes it a crime to illegally duplicate copyrighted or trademarked materials. Over the next two years, my unit investigated dozens of these cases resulting in the seizure of hundreds of thousands of cassette tapes and incarceration of many suspects.

With the advent of the video-cassette rental business during the same time period, we began to see the illegal duplication of motion pictures as a high-return, low risk, criminal enterprise. During the 1990's, The Motion Picture Association of America (MPAA) also requested the services of local law enforcement to enforce the same copyright or trademark statutes of California. Detectives under my supervision completed many of these investigations seizing thousands of illegally duplicated motion pictures. Many of these videos were of films not yet released to the theaters.

In 2003, I was assigned to supervise the Criminal Investigation Section of the Emergency Operations Bureau. It was at this time that I gained a full realization of the pervasiveness of IPR crimes in Los Angeles County. We concentrated our investigative resources on IPR crimes and have uncovered significant organized criminal enterprises operating within Los Angeles County. Victims of these organized criminal groups include the tobacco industry, luxury goods manufacturers, clothing companies, and the music and motion picture industries. Information in open sources indicates that across the globe anything that has a decent profit margin is being counterfeited. Items such as motorcycles, auto parts, memory chips, software, consumer electronics, and of most concern, pharmaceuticals, are being manufactured.

While there are no local statistics on the magnitude of the problem, I can relate what my small team of one sergeant and six investigators has accomplished in little more than one year. We have served 60 search warrants which have yielded 125 arrests and 16 million dollars in seized counterfeit products. An additional 3.5 million dollars in cash has been seized and is currently in forfeiture proceedings.

Within the Sheriff's Department there are units designated to combat organized criminal enterprises and we are represented on nearly every task force created to investigate these groups. These units have similar experiences with IPR investigations, noting that the profits are enormous with minimal criminal exposure. Russian Organized Crime, Eurasian Organized Crime, Asian Organized Crime and Lebanese Organized Crime groups all profit from IPR crimes. Additionally, we believe that there may be a trend developing for local gang involvement in IPR criminal activity. Recently, we have investigated several individuals who have strong gang ties and extensive criminal records. During interviews, these suspects have admitted that IPR crime is attractive because of the high profit and minimal jail sentences. In the parlance of one suspect, "It's better than the dope business, no ones going to prison for DVDs."

There are also indicators that some associates of terrorist groups may be involved in IPR crime. During the course of our investigations, we have encountered suspects who have shown great affinity for Hezbollah and its leadership. The following are just two examples: during the search of a residence pursuant to an IPR related search warrant, I saw small Hezbollah flags displayed in the suspect's bedroom. Next to the flags was a photograph of Hassan Nasrallah whom I recognized as the leader of Hezbollah. The suspect's wife asked me if I knew the subject of the photograph. I identified Nasrallah and the wife said, "We love him because he protects us from the Jews". Also in the home were dozens of audio tapes of Nasrallah's speeches. During the search, one of my detectives also found a locket which contained a picture of the male suspect on one side and Sheik Nasrallah on the other.

In 2004, detectives served an IPR search warrant at a clothing store in Los Angeles County. During the course of the search, thousands of dollars in counterfeit clothing was recovered as were two unregistered firearms. During the booking process, the suspect was found to have a tattoo of the Hezbollah flag on his arm.

Also in 2004, detectives served a multi-location IPR related search warrant. During the course of the investigation, detectives located a photo album. Within the photo album were dozens of pictures of attendees at a fund raising event for the Holy Land Foundation. When questioned about the album, the suspect said that the Holy Land Foundation was not a terrorist funding operation. When I informed the suspect that the United States government had shut down the charity because of its alleged support of Hamas, the suspect replied that the United States government was stupid and would do anything the Jews told them.

When confronted with these indicators, we pass the information immediately to the Los Angeles Joint Terrorism Task Force (JTTF) for further review. As a result of this kind of information sharing, we enjoy an outstanding relationship with the JTTF as well as with the other three FBI offices located in Los Angeles County.

As I have stated, the financial rewards of IPR crimes are immense. Many times the biggest issue for the criminal or his group is how to disperse the money generated from the crimes committed. It is difficult to use traditional banking practices to account for the huge profits generated. In one of our cases, we discovered over \$800,000 in cash located throughout the

suspect's residence, hidden in trash bags under beds, stuffed in trash cans, and stashed in the attic. In fact, more than \$10,000 was found in a child's piggy bank. On other occasions, we have seen activity consistent with money laundering and structuring occurring between similar businesses.

Another of our cases began with the stop of a suspect at LAX by U.S. Customs Officers. Strapped to the suspect's body was more than \$230,000 in cash. The suspect told the Customs Officers that she was enroute to Lebanon for "vacation." Information was developed that the suspect owned a chain of cigarette shops. Service of search warrants led to the seizure of more than 1,000 cartons of counterfeit cigarettes, an additional \$70,000 in cash as well as wire transfers to banks throughout the world.

The financial cost of IPR related crimes to the State of California is significant. As an example my small team has seized about 40,000 cartons of counterfeit, untaxed, cigarettes. The California State Tax on cigarettes is eight dollars and seventy cents per carton, representing a loss to the State of \$348,000. It should not be a surprise to anyone that suspects involved in IPR crime do not concern themselves with paying appropriate taxes whether federal, state or local. Our experience has been that suspects claiming twenty or thirty thousand dollars on their income tax forms routinely keep tens of thousands of dollars in cash at their homes.

The World Customs Organization estimates counterfeiting accounts for lost sales to legitimate companies worldwide at over 500 billion dollars. The United States accounts for nearly \$300 billion of this total. Official estimates are that between five and seven percent of products produced worldwide are counterfeit. Despite these numbers, large, multi-national corporations, big tobacco, and the pharmaceutical industry are not generally seen as sympathetic victims; retail purchasers seek out these goods with little appreciation for the ramifications of such a purchase. There must be the understanding that this crime affects all citizens through fraud, the diversion of tax revenue, and the empowerment of the criminal element.

The Los Angeles County Sheriff's Department has, like most local agencies, suffered cutbacks in personnel over the past several years due to severe budget curtailments. There has not been a mechanism to address IPR crimes other than that based on interest from small units or individual investigators. We believe there is a critical void in personnel to mount an effective campaign against the criminal enterprises that utilize IPR as a revenue stream. It is well documented that organized criminal enterprises engage in IPR crimes. There are mounting indicators of the involvement of terrorist groups and their supporters.

In Los Angeles County we believe there should be task force commitment in order to combat this problem. Members of the Sheriff's Department have begun to explore different sources of revenue to fund such a task force in our region. The private sector has shown interest in contributing to such an effort. In fact, the private sector, comprised of manufacturers and companies such as Investigative Consultants, whose president, Kris Buckner, is speaking today, plays a vital role in our enforcement efforts. Without this cooperative public/private sector relationship, the Sheriff's Department, because of limited personnel resources, would quickly be overwhelmed and would not be able to maintain our investigative pace.

We also believe there should be legislation to enact or increase the levy on containers shipped through the Ports of Los Angeles and Long Beach. These levies would fund intensified IPR enforcement efforts. It is my hope that by drawing more attention to this crime, we can reinforce the American dream of having an idea, bringing it to market, and profiting from its success without interference from the criminal element.

On behalf of Los Angeles County Sheriff Leroy D. Baca, I wish to thank the Committee for this opportunity to represent our County in discussing this important topic.