

DEFENSE INDUSTRIAL BASE ASSESSMENT: COUNTERFEIT ELECTRONICS

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GENERAL REPORT FINDINGS

There is a lack of dialogue between all organizations in the U.S. defense supply chain about counterfeits. Survey data from the five sectors shows that organizations generally only discuss counterfeit part issues within their individual organizations and, to a lesser extent, with

⁴For the purposes of this study, an incident is a single encounter of a suspected/confirmed counterfeit part. An incident could involve one part or a thousand parts of a component.

⁵their customers and immediate suppliers. This leads to a lack of information sharing throughout the supply chain which could be used to mitigate the risk of counterfeits.

There is an assumption that others in the supply chain are testing parts.

Organizations within every sector rely on others in the supply chain to test and verify the authenticity of parts, and therefore conduct little testing themselves. Based on survey data, this confidence in the testing behaviors of the supply chain is unfounded.

There is a lack of traceability in the supply chain. Procurement organizations at times cannot trace purchased parts back to their points of origin with any degree of certainty. This is further compounded by the fact that many components are provided by offshore suppliers, making verification more difficult.

There is an insufficient chain of accountability within organizations. Few survey participants identified a designated person or office responsible for either addressing the risks posed by counterfeit parts or handling identified counterfeit parts. This can lead to a lack of centralized data within an organization and inconsistent counterfeit avoidance practices.

Recordkeeping on counterfeit incidents by organizations is very limited. Most organizations do not keep records of counterfeit incidents. Those that do keep records track limited data points. This can lead to a lack of institutionalized knowledge about an organization's encounters and problems with counterfeits.

Few know what authorities to contact in the federal government regarding counterfeit parts. The majority of survey participants reported having no knowledge of the federal authorities responsible for investigating counterfeit incidents, either defense- or industry- related, or where to submit reports of counterfeit parts. OTE analysts were able to pinpoint the Defense Criminal Investigative Services (DCIS) and the Federal

Aviation Administration (FAA) as the federal authorities responsible for counterfeits related to defense and commercial aviation, respectively. However, OTE analysts were not able to identify a distinct federal authority responsible for counterfeits related to commercial products, including parts supporting critical infrastructure, or pinpoint legal requirements related to the handling of counterfeits in the supply chain.

Few are aware of legal requirements and liabilities regarding counterfeits. The majority of survey participants were not aware of any legal requirements or liabilities related to the management, distribution, storage, and disposal of counterfeit parts. **Stricter testing protocols and quality control practices are needed.** There are wide differences in the levels and quality of testing undertaken by organizations purchasing and receiving parts. In addition, there are no existing standards for third-party testing facilities. While there are industry standards addressing testing and quality control issues, they have not been systematically embraced or enforced by the supply chain.

Most DOD organizations do not have policies in place to prevent counterfeit parts from infiltrating their supply chain. DOD organizations tend to rely solely on the Defense Federal Acquisition Regulations (DFAR) to guide their procurement practices. At the time the survey was conducted, few had developed additional procurement and testing protocols to address the problems caused by counterfeit parts.

No type of company or organization has been untouched by counterfeit electronic parts. Even the most reliable of parts sources have discovered counterfeit parts within their inventories.

Ultimately, everyone must work together to solve the problem of counterfeit parts. All sectors of the U.S. electronics supply chain need to be more open to dialogue and cooperation in order to address the issue of counterfeit parts. In addition, there needs to be better interaction between federal authorities and the supply chain in order to determine legal requirements and effective counterfeit avoidance activities.