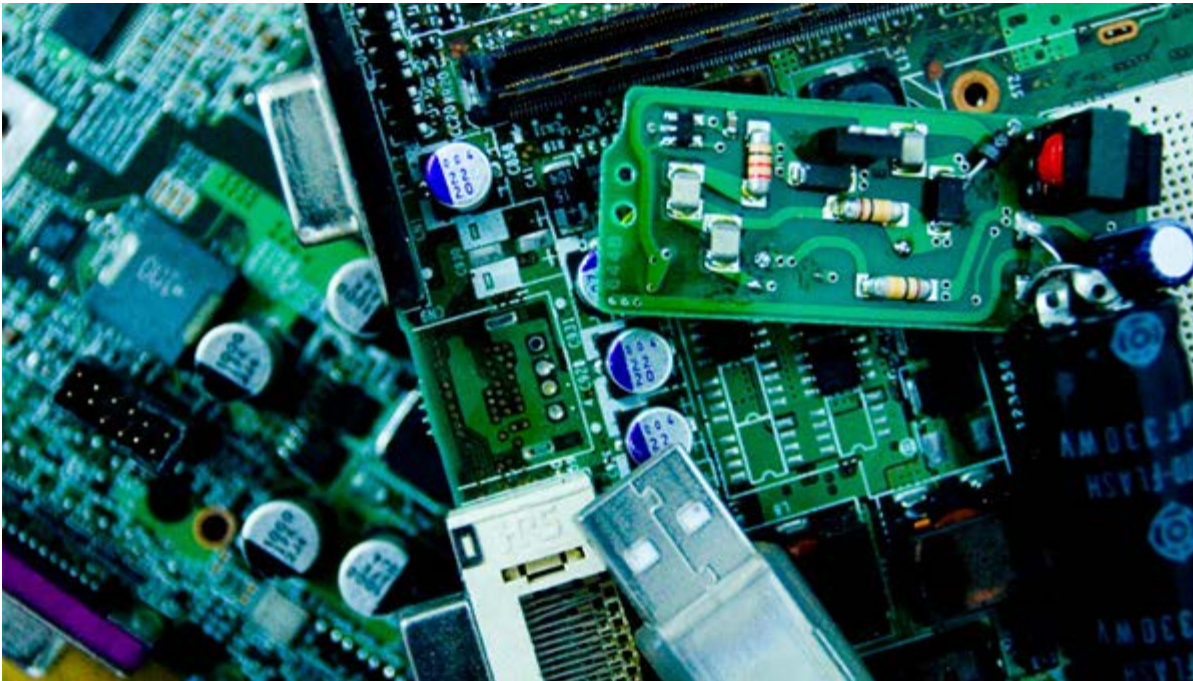


Anti-Counterfeit Update: Traceability, Software Rank as Top Issues

Mon, 2015-06-01 11:38

Suppliers grapple with ongoing anti-counterfeit efforts, as the need to change behaviors in the buying community grows. ECIA's Robin Gray offers insight on these and other issues.



It has been about a year since the most recent Defense Federal Acquisition Regulation Supplement (DFARS) took effect, outlining new measures suppliers must take to help keep counterfeit electronic parts out of the government's supply channel. Manufacturers and distributors of electronic components continue to adjust to the new requirements, and debate continues

over reporting and traceability issues. There is also growing concern over software and how the industry will deal with the potential for malicious or faulty software in devices and components.

Global Purchasing asked Robin Gray, chief operating officer and general counsel for the Electronic Components Industry Association, to weigh in on these and other issues in the ongoing fight against counterfeit electronic parts. Gray is responsible for government and legal issues concerning ECIA and the electronic components industry, and also oversees the association's authorized electronic components search engine www.ECIAAuthorized.com.

Global Purchasing: Many companies spent much of last year digesting the most recent Defense Federal Acquisition Regulation Supplement (DFARS), which outlines measures suppliers must take to help keep counterfeit electronic components out of the government supply channel. How would you gauge awareness of the issue and what is the industry comfort level with the new requirements?

Robin Gray: The awareness is certainly there, particularly with respect to the military and aerospace aspects of the counterfeit issue. I'm not so sure the general public is aware of the prevalence and danger of counterfeit products, though. Think about pharmaceuticals, for instance—I don't think the public gets it. They think of counterfeit Rolexes, pirated movies and music, but I don't think they realize the danger of counterfeit products everywhere—especially in pharmaceuticals and electronics. To that extent, I don't think there has been



Robin Gray

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much progress.

In terms of law enforcement and government attention, we have made a lot of progress on the counterfeit electronic components issue. The next challenge is to change buying or procurement practices within OEMs so that they understand they run a huge risk of getting counterfeit product. There is a complacency in the procurement community based on the premise that buyers are rewarded on being able to get the product at the right price. The risk of getting a counterfeit product and having a failure is low compared to having a shutdown because they can't get the product. There also is a widespread misconception that products from authorized sources are frequently not available, and that [buyers] *have* to go to the gray or black market to get them. The fact of the matter is, buyers have limited their sources to a small pool. If they would expand their search or consider authorized aftermarket sources,

they would not have to turn to the gray or black market so frequently.

When it comes to comfort level, the industry in general is well attuned to counterfeit avoidance. We have been discussing it in the industry for years and years now, and with the standards crystalized people are beginning to realize [its importance] and customers are asking "are you in compliance with these standards?" The question is really about government regulations and the flow-down requirements and how onerous they will become.

GP: In relation to those issues, what are some of the newest developments in the anti-counterfeit fight?

Gray: There are several forces at work. One is that the prime contractors have a little uneasiness about how they are going to comply with the DFARS and the regulations in the statute. As a result, there has been a series of meetings between prime contractors and the government—in particular the [Department of Defense]—regarding differences in industry standards and the DFARS and how the prime contractors will comply. As a result of that, they have pretty much reached agreement to most everyone's satisfaction except for two areas: traceability and reporting counterfeits. Those are the two hot topics in the anti-counterfeit field.

Regarding reporting, no one can seem to find an acceptable resolution to what to do with the reporting requirement in the law—specifically, how to comply with the reporting requirement. That remains in limbo and to the best of my knowledge there has not been a lot of progress on it. But the law says you have to do it and the industry and government are trying to figure out how to do that.

Regarding traceability, the statute and the law were pretty clear that you have to buy from authorized sources, and if you can't then you have to do a variety of things to prove that the product is genuine. You have the requirement that the [prime contractors] buy directly from an authorized source, and if they can't do that, they can go elsewhere but they have to comply with certain issues. The primes have now proposed that they want to add a third option: if the seller can trace the product to an authorized source, then it's okay. That has created a huge controversy within the prime contractor, government, and electronic component communities.

[Standard-setting agency] SAE facilitated an industry meeting about this topic in May. There was no specific agreement, but there was some conceptual agreement on the issue. The next step is for an SAE standards committee to develop specific language regarding traceability.

GP: The DFARS update raised the issue of software—essentially expanding the definition of an electronic part to include "any embedded software or firmware." How does this affect the electronics supply channel?

Gray: That is a main topic. One of the things we are hearing—particularly from prime contractors—is that where this will

be most significant is with returned programmable devices and components. They do not want any returned programmable devices; the government won't purchase them.

Because [the software issue] was a last-minute addition it really hasn't been discussed at length yet. To the best of my knowledge, although it is being discussed there is nothing substantive to report. [This issue] primarily centers on returns, but not entirely. For the authorized chain, returned programmable [devices] is the key issue. It will be a long discussion, that's for sure.

GP: Have you made any changes or updates to ECIA's search engine for electronic components, ECIA Authorized?

Gray: The newest issue is that we have enabled manufacturers to place a parts search box on their site, allowing customers to search on the manufacturer's site for a particular part through our database. The data comes from our website, but the search results appear on the manufacturer's site, letting the customer know which distributors have the parts.

Overall, the site has been very successful and it continues to grow. We get more than a million page views per month and more than 300,000 visitors per month.

GP: The fight against counterfeits aside, what is your outlook for the electronic components industry?

Gray: The industry remains in a good place in the sense that there are so many ways that electronic components can be used, and usage is only limited by the entrepreneurial spirit and creativity. Just look at consumer products such as the Apple watch. Then think about cars and how many electronics are in them today. Then think about the [Internet of Things] and how many electronic components are embedded in consumer and industrial items. Also, the growth of robotics in manufacturing and elsewhere, and the need for electronics in medical applications. You are hard-pressed to find a place where electronics don't drive opportunity, creativity, and new industry. Long-term, things look very bright. Short-term, we're all concerned about the global economy and how economic downturns affect us because our economic cycle is in sync with the global economic cycle. But overall, the outlook is good.

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