

What's your poison?

**The true cost of fake
alcohol and how to
catch the culprits**

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In late October 2022 the Fraud Advisory Panel hosted an expert discussion on the harm caused by alcohol fraud – a poorly understood and largely hidden area of crime. This special report delves more deeply into the extent of the problem and the front-line work of the people trying to tackle it.

The Panel would like to thank everyone who participated in the discussion and agreed to be interviewed, in particular:

Maureen Downey – the Sherlock Holmes of wine fraud; founder of Chai Consulting and winefraud.com; mastermind of Chai Vault, a blockchain-supported anti-fraud tool, providing bottle-level proof of authenticity and provenance to the wine and spirits industry.

Isabel Graham-Yooll – auction and private client director of www.whisky.auction; consumer champion against fakes and frauds.

Kerri McGuigan – associate in the business crime team at Peters & Peters, specialising in cross-border crime and regulation; solicitor (England & Wales) and attorney-at-law (New York and California).

David Richardson – regulatory and commercial affairs director of the Wine and Spirit Trade Association (WSTA); former HM Customs and Excise prosecutor.

The price we all pay

Each year fake wine, beer and spirits are estimated to cost UK business some **£200m in lost sales and almost 3,000 lost jobs.**¹

Victims range from producers to retailers (large and small), and from high-end investors to general consumers who cannot be certain that the bottle of wine or spirits they have purchased in their local shop is actually the real deal.

 **25%**

The proportion of world alcoholic drinks believed illicit and possibly dangerous.²

€3bn

EU sales lost due to counterfeit wine and spirits resulting in:

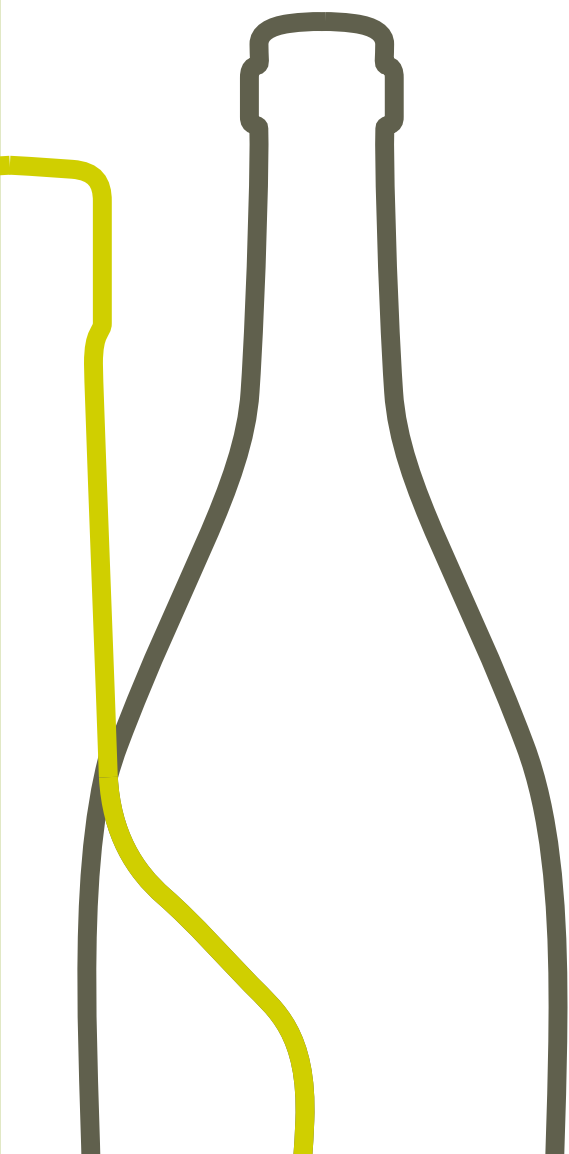
- 23,400 lost jobs
- €1.2bn lost government revenue.³



800%



The decline in HMRC alcohol seizures since 2016-17.⁴



A parallel world

FINE WINE OR FINE FAKE?

Counterfeiting fine wines is easier than you might imagine, says Maureen Downey, the Sherlock Holmes of wine fraud: 'Emptying and refilling legitimate bottles with lower quality wine is easily done using a special tool which doesn't disturb the cork.'

'A simple label swap can turn a US\$1,000 bottle from 2004 into a US\$10,000 bottle from 2005 without touching the contents. Legitimate wine producers' shift to digital printing has also made labels much easier to replicate. Sometimes all these things are being done by corrupt operators inside the legitimate supply chain.'

And then there's the creation of full-on replicas of fine or rare wines – sometimes small batches made in a domestic kitchen, sometimes mass-produced in criminal factories. The very best of these use high-quality replicas of bottles, labels, caps and packaging – right down to the tissue paper – making them very difficult to spot.

Even the wine used in a high-end fake will be of exceptional quality, blended to approximate the real thing. Downey explains: 'If the wine isn't plausible, you can't dupe enough people. No one can taste for authenticity – if they could, wine fraud wouldn't be the global problem it's become – but you can taste for quality.'

The most notorious wine fraudster of modern times, Rudy Kurniawan,⁵ was brought to justice in 2014 but many of his counterfeits remain in circulation worldwide. His decade-long deception finally cost him eight-and-a-half years in prison (of a 10-year sentence), \$20m in seized property and \$28.4m in restitution,⁶ along with deportation to his native Indonesia in 2021.⁷

Among Kurniawan's fakes were fine wines with impossible vintages. Laurent Ponsot is reported to have intervened personally to halt a 2008 auction of suspicious versions of his own Clos St Denis wines, including a 1945 vintage of a wine first made by his father in 1982.⁸

ORGANISED CRIME

So where is all this happening? Certain parts of the world are famous in the drinks industry for having entire trade fairs dedicated to promoting fake wines. But some of the best counterfeiting is done in Europe.

Downey says: 'The most sophisticated fakes are almost perfect replicas because the fraudsters buy everything they need from professional suppliers, just like legitimate producers. The organised crime groups are so well-funded they can afford the same half-million-dollar label printing machines the legitimate producers use. A six-figure sum isn't a big investment when a single counterfeit bottle sells for £5,000. This happens in Asia as well as Europe, and now we are also seeing lots of cooperation between the crime groups on different continents.'

Clearly the criminal structures at work are very complex. The illicit supply chain is very much like the legitimate one; with specialist manufacturers, wholesalers, retailers and logistics. Alongside the fine wines, there is a strong FMCG (fast-moving consumer goods) market supplying cheaper fakes. According to David Richardson, from the Wine and Spirit Trade Association, criminals can make £3–£5 a bottle selling cheap wine dressed as a popular brand while paying no tax. When one brand gets too hot, the criminals simply switch to another.

HEALTH WARNING

The most sinister aspect of the counterfeit alcohol trade is not wine but spirits, says Richardson: 'Counterfeit wine tends to be poor quality but seldom dangerous. Fake spirits can be far more worrying. Fake "vodka" often contains dangerous additives, and includes methanol (rather than ethanol), which can quickly kill you.'

- **Toxic alcohol kills about 1,000 people each year in India.⁹**
- **In 2015 fake 'Jack Daniels' which was in fact 60% methanol killed more than two dozen people in Russia.¹⁰**
- **When HMRC investigators raided an illegal distillery in Glasgow in 2021 they seized 400 litres of fake vodka and 12,000 litres of industrial spirit.¹¹**
- **An explosion in a bootleg vodka distillery in Lincolnshire in 2011 killed five workers and critically injured a sixth.¹² A similar blast killed five people in Leicester in 2018.¹³**

WHISKY GALORE?

The trade in fine whisky includes lively secondary and investment markets, which have inevitably become compromised by counterfeiting techniques similar to those found in fine wines.

Isabel Graham-Yooll is a director and fraud specialist at www.whisky.auction where every bottle is authenticated by experts before being accepted for auction: 'Most whisky counterfeits do contain whisky but not of the quality, age or provenance that the bottle, label and cap promise. Pyramid-style investment frauds are also a problem - fuelled by online chatter and hype. Ordinary casks, of little or no investment value, are being traded at highly inflated prices.'

In 2017 France's largest bottling company was caught selling cheap wine from other regions as Côtes du Rhône and labelling modest local wine as premium Châteauneuf-du-Pape. Between 2013 and 2016 some 15% of the entire region's output - 66.5m bottles - was counterfeit.¹⁴

Since 2021 the UK has seen an 'epidemic' of fake wine masquerading as famous Australian consumer brand Yellow Tail. The bottles and labels (but not the contents) are almost indistinguishable from the real things.¹⁵ Industry experts believe that this fraud is an example of cooperation between organised crime groups in China (bottles) and Europe (the wine).

Hardy Rodenstock, a famously charismatic merchant with a reputation for so-called unicorn wines, auctioned several bottles allegedly from Thomas Jefferson's personal cellar for hundreds of thousands of dollars each.¹⁶ But the engraving on the unlabelled bottle was too regular to have been made with the contemporary tool, a copper wheel.¹⁷

In 2020 Italian police and Europol took down a network of wine counterfeiters refilling empty fine-wine bottles with cut-price plonk. The bottles were gathered for the purpose from restaurants by employees in the food industry. The refilled fakes sold all over Europe and in the US for as much as 1,000 each.¹⁸

Dodgy and dangerous

Losses from alcohol fraud take many forms because it plays such a big part in our cultural, economic and social life.

- Legitimate businesses lose sales and employ fewer people.
- Governments lose revenue, from reduced excise duty and VAT (the 'alcohol tax gap') but also from lower income and corporation taxes.
- Shoppers have their pockets picked by mass-market counterfeiting.
- Counterfeit spirits, laced with dangerous chemicals, can kill.
- Investment frauds range from Ponzi schemes (portfolios faked or overvalued) to one-off counterfeits sold at auction.

£1.2bn

The estimated UK alcohol tax gap in 2020-21 (VAT and excise duty).¹⁹



A perfect storm

INSTITUTIONALLY VULNERABLE

Experts believe the structure of the modern alcohol industry makes it particularly vulnerable to fraud. News stories about fake alcohol often feature corner shops and convenience stores paying cash to a man in a van. But Downey warns that supermarkets are not immune, citing her own recent purchase of a bottle of premium-brand gin which froze when kept in a hotel icebox – a tell-tale sign of a counterfeit.²⁰

The sheer size of the market, the numerous supply channels, the churning of online sales lists without anyone inspecting the wine, a very large number of small- and medium-sized operators (SMEs), and a modern consumer mindset more concerned about price than authenticity – all of these things conspire to make it very easy to feed fakes into the legitimate supply chain.

‘We see everything from part-pallets swapped on the dockside to individual employees switching single bottles as they box the wine on the bottling line,’ says Downey. ‘My frozen gin probably sneaked onto the shelves of a supermarket when someone told a plausible story about spare capacity or a cancelled order and offered the buyer a great price.’

CARELESS PEOPLE

As in other areas of fraud-fighting, secrecy is a perennial problem. The producers don’t want to damage the beauty of what they do. Many auction houses (with some honourable exceptions) long remained in denial about counterfeiting and have only slowly become proactive in recent years. Supply chain businesses keep quiet to safeguard their reputation or brand. Fine wine (and whisky) investors knowingly move-on their suspect bottles rather than

blow the whistle and destroy the value. (During the Rudy Kurniawan investigation only seven victims came forward.²¹)

Billionaire wine collector Bill Koch – the highest-profile victim of Rudy Kurniawan – has accused the wine industry of ‘a code of silence’ regarding wine fraud.²²

In 2017 Isobel Graham-Yooll helped to uncover a cottage industry of fine whisky counterfeiting in West London: ‘The ringleader was a kind of Rudy Kurniawan of whisky fraud, with a level of sophistication that had never been seen before in fake spirits production, but all done from a tiny rented apartment.²³ It became a big news story mainly because we chose to go public, and that decision attracted a fair amount of criticism from inside the industry. Big spirits brands do devote a lot of resources to tracking down frauds but they are terrified publicity will undermine consumer confidence.’

Downey strongly believes that complacency is another key factor in the wine world: ‘The UK industry wants to believe that this is a one-bottle-in-10,000 problem but it isn’t. Our authenticators find trouble at all levels in the supply chain but too many entities care more about plausible deniability than protecting consumers. In my experience, less than a handful of vendors have begun any systematic counter-fraud oversight or staff training. Even someone with 40 years in the business won’t necessarily have a detailed understanding of what a very rare bottle should look like, or be able to recognise forged security devices like invisible ink and micro writing.’

Maureen Downey's top tips to avoid fake wine²⁴

- 1 Put provenance before price:** or prepare to be ripped off.
- 2 Chose reputable vendors:** if they don't like you asking questions, move on.
- 3 Verify, verify, verify:** if there's no proof of provenance, move on.
- 4 Think logically:** would you trust a photograph of Winston Churchill holding an iPhone?
- 5 Don't be a soft touch:** ask hard questions and demand thorough answers. Don't be fooled by special prices, secret productions, special offers or fantastic tales.

6 **Consistency:** does the condition of the bottle fit the provenance? Is each part consistent with every other – pristine capsule but battered label? Do bottles with the same provenance, or which shared a box for many years, show consistent glass, labels, capsules and conditions?

7 **Hire an expert:** would you purchase a home or used car without expert advice? Why should fine and rare wines and spirits be any different?

8 **Be patient:** hold out for authentic, healthy bottles.

9 **Be prepared to walk away.**

10 **Trust your instincts:** if the offer or deal is too good to be true, it probably is.

And remember, wine is for drinking; your health could be as much at risk as your money.

CYBER-WINE

Globalisation and the internet have transformed the landscape of the market to the advantage of the criminals. Counterfeiters have easy access to a vast consumer market, are able to exploit slick global supply chains to source the materials they need, and all the while remaining anonymous and remote from their victims. Consumers, meanwhile, seek out the most highly rated wines at the best price without much thought for their authenticity; happy to buy wines from anywhere in the world, through entities about whom they know nothing, even though they may not see the wines for six months to two years.

Richardson agrees that many businesses aren't taking fraud prevention seriously until it's too late: 'People with experience of fraud know how draining it is to deal with the regulators and repair a damaged reputation. Everyone else is more focused on the bottom line and can't see fraud prevention as material ... until HMRC seizes their illicit stock, that is.'

Both Downey and Richardson emphasise that there needs to be a much greater focus on educating the supply chain, especially SMEs. 'They lack the resources, never mind the inclination, to be proactive,' says Richardson. 'But they are also most vulnerable to manipulation, infiltration or takeover by organised crime groups. It's certainly not enough for businesses to say they are doing something. We need to help them do everything they can.'

GETTING AHEAD OF THE CROOKS

So how can we take the fight to the counterfeiters? Using technology is tricky. Definitive chemical testing of the wine itself mostly requires the bottle to be opened, destroying the value.

In Graham-Yooll's long experience, technology solutions to fraud have been 'a bit of a circus'. 'New counter-fraud ideas are pitched to me regularly but once I've explained the complexity of the problem I hardly ever hear from them again. Often, they didn't really understand the problem. The rest were probably fraudsters themselves.'



Four bottles, one wine? All different, all counterfeit. Photo courtesy of WineFraud.com, part of Chai Consulting.

Richardson adds: 'It's often hard to assess whether an anti-fraud product will deliver what it promises, so businesses need to do more to develop specifications against which these things can be tested.'

Consumers, meanwhile, are also difficult to incentivise, says Downey: 'People who generally care more about a great price than authenticity are wide-open to fraud. Until consumers rise up and demand better, they are going to keep being exploited.'

Creating more transparent markets with better-informed consumers always makes it harder for the crooks. But, as Graham-Yooll, warns, 'You need to do an awful lot of research to buy safely on the secondary market - most people simply don't do enough.'

Since most fine wines and whiskies are purchased 'sight unseen' - internet, online auction, 'futures' investment - any tool to help the buyer identify counterfeits must also work remotely.

DAVID RICHARDSON'S TOP TIPS FOR INDUSTRY SMEs

Know your fraud risks: write them down; think about how vulnerable you are to each and how much of it you can bear; decide what you are going to do about each one.

Keep good paperwork: be systematic and thorough about the information you expect from suppliers. Always expect clarity and proof of authenticity and legality.

Insist on proper contracts: no more deals on a handshake. The sector is a great, sociable place to work - but handshakes are not a sound basis for business.



Deal or no deal? This cork should have its lettering branded, not inked. Photo courtesy of WineFraud.com, part of Chai Consulting.



Reading a label? The devil is in the detail. Photo courtesy of WineFraud.com, part of Chai Consulting.

A SPECIAL CASE

The scalability and flexibility of any technology is a big concern at the FMCG end of the market, explains Richardson: 'The sheer variety of the industry, a long-lived product that can sit about, lots of producers, lots of large shipments being broken down and repackaged into small deliveries – the audit trails are horrendous. When we think about how to digitalise we have to consider the cost for small businesses as well as data standards and integration with their existing systems.'

One response to these complex issues is Downey's Chai Vaults system, combining a highly secure blockchain ownership and provenance ledger with proprietary RFID chip technology to track individual bottles through the supply chain.

'This is a solution with many layers,' she explains. 'For the primary market there's the tracking chip under the capsule, which also stops emptying and refilling through the cork without apparent damage. Then there's the blockchain ledger, with a photo of the actual bottle, its current condition, and lots of other secure information – we look at more than 90 data points when we physically inspect a bottle. Most importantly, the ledger is available online to potential buyers prior to purchase, thereby protecting their investment.'

CAVEAT EMPTOR?

The glamour, romance and conviviality of the drinks industry make it an attractive place to trade and work, and make its fine and rare products very appealing to collectors and investors, expert and otherwise. The predominance of relatively small-scale operations up and down the chain of production and supply can also contribute to an appealing culture of informality and trust.

Unfortunately, those same qualities leave the sector wide open to criminal exploitation, infiltration and fraud. As in other sectors, technology is steadily making it harder for fraudsters. But until such tools are widespread there is no substitute for our own due diligence. As Richardson puts it: 'If you have to call the cops, it's already too late.'

Graham-Yooll agrees that for sellers in the internet age 'caveat emptor' is (or should be) completely out of date, but she also cautions that buyers must make good forensic use of whatever information is available to them (such as photos) as part of the sales process ... and think hard about buying from any auction that doesn't have a fraud policy.

But it is Maureen Downey who puts it most succinctly: 'Don't trust, verify – if it looks too good to be true, then it is.'

Isabel Graham-Yooll's tips for spotting fake whisky²⁵

FILL LEVEL:
is it suspiciously high or low? Levels vary and change over time, so compare yours to an identical bottle filled at the same time by the same process.

COLOUR:
whiskies from the same cask/batch should have the same colour. Compare bottles side by side.

USE TECHNOLOGY:
some brands use label holograms, readable RFID chips in the cap, or the Bubble Seal system.

FUNNY FONTS:
typefaces are often proprietary and not easily reproduced. Look closely at word spacing, line gaps, number formats and punctuation.

REFILLS:
has the cap or cover been tampered with? Are there tool marks or is the cap too loose? Has the wax seal been clumsily applied or is the stopper the wrong size?

SPELLING MISTAKES:
typos on the labels of authentic bottles are extremely unusual.

EXTRA LABELS:
watch out for the extra stickers some fraudsters attach to make a real bottle seem older and rarer.



End notes

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The Fraud Advisory Panel is the voice of the counter-fraud profession, committed to tackling fraud and financial crime. We aim to strengthen fraud resilience by championing best practice in fraud prevention, detection and response. We do this through education, advice and research.

Our members come from a wide range of professions and sectors and are united by their determination to counter fraud.

We were founded in 1998 by ICAEW which continues to support our work.

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