

# COUNTERFEITS PREVENTION

## INTRODUCTION

Our military, government and commercial customers count on Lockheed Martin's products to work each and every time. Whether it is a satellite, airplane, weapon system or security system, our customers trust that our products will achieve their mission.

The inclusion of sub-standard and unreliable parts in a Lockheed Martin product presents a serious threat to our goal of producing mission critical hardware our customers rely on. One cause of sub-standard and unreliable parts is counterfeit components. Industry reports have increased over the past several years of counterfeit electronic parts infiltrating the aerospace and defense supply chain.

## EXPECTATIONS FOR SUPPLIERS

Lockheed Martin requires its suppliers to take steps to eliminate the risk of introducing both counterfeit electronic parts as well as non-electronic parts and materials. We define Counterfeit Work as items that are or contain unlawful or unauthorized reproductions, substitutions or alterations that have been knowingly mismarked, misidentified or otherwise misrepresented to be an authentic, unmodified part from the original manufacturer or a source with the express written authority of the original manufacturer or the current design activity, including an authorized aftermarket manufacturer. Unlawful or unauthorized substitution includes used items represented as new or the false identification of grade, serial number, lot number and date code or performance characteristics.

Industry reports the most common type of counterfeit electronic parts are used, but then modified under uncontrolled conditions and made to appear new. The longevity of aerospace and defense products often exceed the life cycle of commercially available parts. The aerospace and defense industry is particularly vulnerable to this type of counterfeiting scenario. Needed parts may be out of production and no longer available directly from the manufacturers.

With an increasingly complex supply chain, extra diligence must be given to identification, tracking, inspection and management of parts throughout the supply chain to ensure the authenticity of critical parts and materials is not compromised. Lockheed Martin depends on you, our supply base, to be partners with us in our efforts to combat counterfeit part infiltration into our products. Suppliers must have robust counterfeit part control plans that meet and or exceed industry and any applicable government standards. Always reference your Lockheed Martin purchase order for your specific requirements.

The regulatory landscape in regard to counterfeit part prevention continues to evolve. Based on the National Defense Authorization Act of 2012, Section 818, the United States Department of Defense (DOD) released a regulation dictating requirements for counterfeit electronic part detection and avoidance systems. Currently the DOD Federal Acquisition Regulation Supplement (DFARS) requires that contracts with prime contractors and their subcontracts or contain provisions requiring counterfeit prevention processes for DOD suppliers of electronic parts address the following elements:

- Training for the detection and prevention of counterfeit parts.
- Risk based processes for inspection and test to aide in the detection of counterfeit items.
- Processes to abolish the counterfeit parts proliferation.
- Processes that ensure traceability of procured items back to their manufacturer.
- Procurement processes that utilize original component manufacturers or their authorized distributors.
- Reporting to the Government Industry Data Exchange Program suspected counterfeit part incidents and processes to keep suspect or confirmed counterfeit parts quarantined.
- Methodologies to identify suspect counterfeit parts and to work toward confirmation of the counterfeit condition.
- The design, operation and maintenance of systems to detect and avoid counterfeit electronic parts.
- The flow-down of counterfeit detection and avoidance requirements to sub-tier suppliers.
- Processes for keeping continually informed of current counterfeiting information and trends.
- Processes for monitoring GIDEP or other credible sources of counterfeiting information to avoid the purchase or use of counterfeit electronic parts.
- Processes to control and address obsolescence issues.

On Aug. 2, 2016 the DOD issued a final rule under DFARS Case 2014-D005 making further changes to the DFARS to address the detection and prevention of counterfeit parts. The focus of the new rule is on establishing rules for sourcing electronic parts to mitigate the risk of introducing counterfeit parts in the defense supply chain. The rule modifies the existing clause at DFARS 246-7007 Contractor Counterfeit Electronic Part Detection and Avoidance System and adds a new clause at 252.246-7008 Sources of Electronic Parts, both of which are mandatory flow-down provisions. As have past rules on this subject, the rule will impact Lockheed Martin in how it selects suppliers and actions it must take to mitigate counterfeit parts risk and became effective upon its publication.

For the full text of these requirements and changes, we urge our suppliers to review the DFARs 252.246-7007 clause in its entirety which can be found on the [Defense Procurement and Acquisition Policy](#) website.

Greater than 95 percent of reported counterfeit issues are the result of procuring parts from distributors or brokers who are not authorized by the Original Component Manufacturer. The simplest and most effective way of combating counterfeit items is to know you are using a manufacturer-authorized supply chain. If you “buy the parts right,” your risk of receiving counterfeit product is minimized. We require Lockheed Martin suppliers to ensure strict procurement policies are in place and ensure traceability for all items that you incorporate into our products back to the manufacturer. Always refer to your Lockheed Martin purchase order terms and conditions, also called “Corpdocs” and the quality clauses for your specific requirements.

Thank you for helping us prevent counterfeit items from infiltrating our supply chain and thank you for the role that you play in helping us jointly be successful in meeting our most important missions.

## FREQUENTLY ASKED QUESTIONS

### **What constitutes "counterfeit work"?**

"Counterfeit Work" means work that is or contains unlawful or unauthorized reproductions, substitutions or alterations that have been knowingly mismarked, misidentified or otherwise misrepresented to be an authentic, unmodified part from the original manufacturer or a source with the express written authority of the original manufacturer or current design activity, including an authorized aftermarket manufacturer. Unlawful or unauthorized substitution includes used work represented as new or the false identification of grade, serial number, lot number, date code or performance characteristics.

### **Does this apply to me if I provide services only?**

Contracts for services also often include the acquisition of parts, such as repair and maintenance services. All Lockheed Martin purchase orders contain terms and conditions via the CorpDocs that contain counterfeit mitigation provisions. Counterfeit avoidance processes that are in compliance with these requirements should be implemented that are appropriate for the products and services being provided.

### **Where do counterfeit parts come from?**

The majority of counterfeit parts enter the supply chain through independent distribution, i.e. brokers. While Lockheed Martin requires that acquisitions begin with the Original Component Manufacturer (OCM)/Original Equipment Manufacturer (OEM)/Authorized Distributors, often suppliers have to go outside that circle for parts. Independent distributors should always be the last resort and used only used with Lockheed Martin prior approval.

### **Does counterfeit affect more than EEE parts?**

Counterfeiting occurs in almost all commodities. That is why it is vitally important to "know your source" and where the parts/materials originate.

### **Is the process for preventing counterfeit parts the same for all types of parts including EEE, fasteners, etc.?**

The first defense against the procurement of any counterfeit part is to know your source, regardless of commodity. Approved sources for counterfeit mitigation are the OCM, OEM or their authorized distributors.

### **What resources are available so I can become better educated on counterfeit issues?**

Your purchase order requirements and industry standards such as AS5553 and AS6174 require training for relevant personnel that is appropriate to their function. Functions that should be considered for training include procurement, quality assurance, inspection, receiving, manufacturing and engineering activities as a minimum.

Many training resources are also available such as the [IAQG Supply Management Handbook \(SCMH\)](#) provides counterfeit parts prevention guidance in section 3.5. Included in the guidance are many industry training resources that can be used. Additionally, Lockheed Martin provides an online counterfeit parts prevention webinar at <https://embastion.external.lmco.com/qis/Supplier/Resources/CounterfeitWebinar.htm>

### **How does legislation/regulations apply to counterfeit work?**

Section 818 of the 2012 NDAA (National Defense Authorization Act) established the DOD requirements for counterfeit avoidance for electronic parts. DFARS 252.246-7007 was issued on May 2014 to implement the NDAA provisions. Since the original passage in 2012, subsequent legislation has made revisions to the original section 818. These revisions have resulted in a continuing number of DFARS cases to implement the revised requirements.

**Why does Lockheed Martin apply these counterfeit avoidance requirements to all part types when the government only requires it on electronics?**

All types of product can be counterfeited and given the crucial nature of our products Lockheed Martin cannot tolerate potential risks that could be posed to safety or the mission by the inclusion of substandard parts or materials of any type.

**We only sell COTS parts; does this legislature apply to me?**

Yes. The DFARS counterfeit rules flow-down to suppliers irrespective of whether the supplier is providing a commercial item or a commercially available off-the-shelf (COTS) item. COTS items are just as vulnerable to counterfeiting as other types of parts.

**As a supplier to Lockheed Martin, what are my responsibilities?**

The supplier's responsibilities are to implement counterfeit avoidance processes compliant to the Lockheed Martin counterfeit requirements contained in the CorpDocs, individual purchase order text notes and industry counterfeit mitigation standards such as AS5553 for electrical parts and AS6174 for all other commodities.

**How do we avoid counterfeit parts?**

The best way to avoid counterfeit work is to know your sources by only using the OCM, OEM or their authorized distributors combined with appropriate testing and inspection processes.

**How do I know if a part is counterfeit?**

At times it is extremely difficult to detect counterfeit work. A certificate of conformance cannot be relied on to confirm a part is genuine. Appropriate tests and inspections are therefore required when procuring parts from high risk sources. Contact your supply chain representative if assistance is needed to define the best tests and inspections.

**What does Lockheed Martin require me to do in order to prevent counterfeit parts?**

Lockheed Martin requirements are to always procure from the OCM/OEM or their authorized distributors. If an occurrence arises where that is not possible, prior approval from Lockheed Martin is required. When requesting approval through your supply chain representative a risk mitigation plan will be needed which details the inspections and tests that will be performed to authenticate the product, including acceptance criteria.

**What if there is not a defined distribution chain for the item I need to procure for the end product?**

Buy direct from the OCM/OEM. In some cases the OCM may issue a letter of authorization to a reseller rather than utilizing distributorship agreements. Such conditions should be reported to your Lockheed Martin procurement representative.

**How can I tell if a distributor is "authorized"?**

When a distributor is distributing product within the terms of an OCM contractual agreement they are considered "authorized." The contractual terms include, but are not limited to, distribution region, distribution products or lines and warranty flow-down from the OCM. These distributors, authorized by the OCM, are found on the OCM's website. The OCM's website should be examined during the placement of each purchase order to assure the list of authorized distributors has not been revised since the last order was placed.

**What do I do if I have a suspect or confirmed counterfeit part?**

If you identify a suspect or confirmed counterfeit part the first step is to immediately notify your Lockheed Martin supply chain representative with the pertinent facts, including if any counterfeit work has been delivered. All

suspect/confirmed counterfeit work shall be segregated from production hardware and the work quarantined in a secure location. Steps for a further investigation will then be identified to confirm if suspect counterfeit work is in fact counterfeit. DFARS 252.246-7007 also requires that a GIDEP Alert is issued within 60 days of identifying a part as suspect counterfeit. Notices we receive from suppliers will trigger notice by Lockheed Martin to the customer and potentially other organizations.

**Who do I contact at Lockheed Martin if I suspect I have a counterfeit part?**

The point of contact for any question is always the supply chain representative identified on the face of your purchase order/contract issued by Lockheed Martin.

**How can I use an independent distributor/broker?**

The use of an independent distributor/broker requires Lockheed Martin prior approval before placing the order. The approval process will require a risk analysis that includes the appropriate tests and inspections, along with acceptance criteria. These tests and inspections will be designed to mitigate risks based on application and source in order to provide the best assurance that the parts in question are authentic.

**What is needed in a counterfeit prevention plan?**

Typical control plan requirements are defined in industry standards such as AS5553 for electrical parts and AS6174 for all other materials. As a minimum the plan shall address the 12 quality criteria contained in DFARS 252.246-7007. The criteria addresses personnel training, inspection and testing of work, processes to abolish counterfeit work proliferation, traceability, use of authorized suppliers, reporting and quarantining of suspect/confirmed counterfeit work, processes to determine if a suspect counterfeit part is indeed counterfeit, implementation of processes to detect and avoidance counterfeit work, counterfeit avoidance flow-down requirements, continuing education of counterfeit trends and processes, GIDEP report screening and obsolescence control. Each of these areas should be addressed as it pertains to the work being delivered to Lockheed Martin.

**Am I responsible for my sub-tiers?**

It is required that counterfeit avoidance requirements be flowed down to the lowest level of the supply chain. Each supplier is responsible to flow the requirements to their sources and also assure that their sources are in compliance.

**How can I be aware of parts that are suspected counterfeit by other businesses?**

Reporting requirements in industry standards are meant to provide databases that can be used to inform industry of counterfeit occurrences and enable suppliers to take appropriate actions to avoidance the purchase of these reported parts or to use suppliers that are known to have supplied counterfeit work in the past. DFARS 252.246-7007 requires screening of GIDEP reports and other credible sources to accomplish this. It is important that the supplier develop the capability to both screen and report counterfeit occurrences to GIDEP.