

A Counterfeit Story: Operation Gridline

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Photo: Lighthousebay – Getty Images

Abstract

In 2019, the counterfeiters responsible for the production of a group of high quality \$50 and \$100 counterfeit banknotes were sentenced. From first detection at the Reserve Bank's Counterfeit Examination Laboratory, through police investigation, arrest and finally prosecution and sentencing, this counterfeit episode was resolved reasonably quickly. This experience highlighted the benefits of collaboration between the Bank, federal and state police and legal authorities, and how such a collective effort can be very effective in the disruption of counterfeit production and distribution in Australia.

Introduction

The Reserve Bank is responsible for all aspects of the production and issuance of Australian banknotes. It works to ensure that the public has confidence in their banknotes as a means of payment and a secure store of wealth. Accordingly, the Bank aims to prevent counterfeiting, which can damage the public's confidence in physical currency, leading to social and economic costs. To that end, the Bank operates a Counterfeit Examination Laboratory (CEL) to examine and monitor counterfeit currency in Australia. All counterfeit banknotes seized and detected in Australia are sent to the CEL for examination, and the CEL works closely with the Australian Federal Police and state police around

Australia to support the investigation of counterfeiting crimes.^[1]

Counterfeiting is governed by the *Crimes (Currency) Act 1981*, which prescribes a number of offences, including, but not limited to, making, possessing and passing (technically known as 'uttering') counterfeit money.

Law enforcement intervention has successfully shut down many counterfeiting operations and, over the past few years, has been an important contributor to the decline in counterfeiting rates (Ball 2019).^[2] Most recently, in July 2019, the 2 counterfeiters responsible for the production of a group of high quality \$50 and \$100 counterfeit banknotes^[3], were sentenced for a range of crimes, including

possessing, passing and making counterfeit currency. Known as ‘Source 37’ to the Bank and ‘Operation Gridline’ to other stakeholders such as New South Wales Police and the Australian Federal Police (AFP), this investigation was a good example of successful collaboration with the state police forces, the AFP and the Commonwealth Director of Public Prosecutions (CDPP) which allowed each agency involved to utilise their specialised skills.

High-level timeline of events

Counterfeits from Source 37 were first detected in small numbers at the beginning of 2017, with the number detected then picking up in April and May. The source was however quickly shut down, with the counterfeiters responsible having been arrested by August of that year (Figure 1). If it had not been shut down when it was, the impact would have been significantly greater.

In the months prior to the arrest of the counterfeiters, the Bank saw more than 3,000 counterfeits from Source 37, with a notional face value of \$290,000. The numbers of counterfeits from Source 37 were rising rapidly month on month (Graph 1). The Bank formally designated the counterfeits it was receiving as having come from the same counterfeiting source in May 2017. Following this designation, a technical analysis report was prepared by the counterfeit examination team. This involves an in-depth analysis of the security features the counterfeiters have attempted to replicate, as well as techniques and materials used to produce the counterfeits. These reports are provided to law enforcement to aid investigations.

Due to both the speed at which the number of counterfeits detected escalated, and their high quality, by June 2017, the Bank considered the matter to be significant enough to warrant being referred to the AFP for investigation (see Box A:

Crimes (Currency) Act 1981 and Relationship between the RBA and AFP). Shortly after, in August 2017, NSW Police, who were subsequently in contact with the AFP, made the arrests. Both agencies worked together to prosecute the offenders in conjunction with the CDPP.

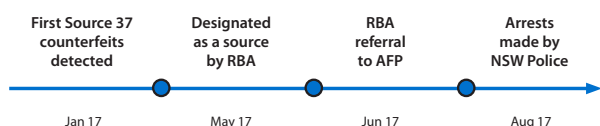
While the rapid increase of these counterfeits alone was of concern, at the time of the arrests, the police also seized enough counterfeiting material to produce more Source 37 counterfeits than the total face value of all counterfeits detected in Australia in 2019.

Key characteristics of Source 37 counterfeits

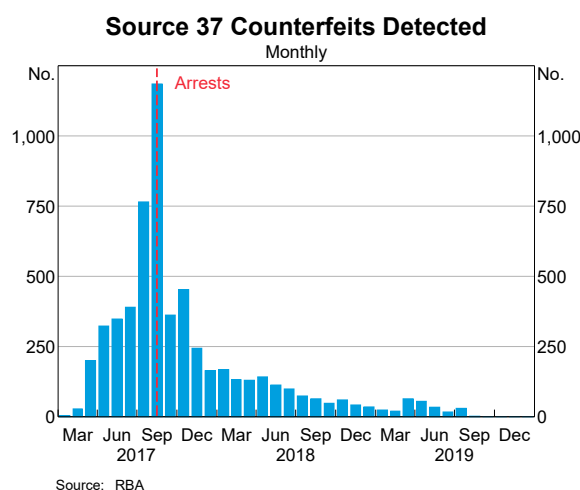
Quality and quantity

An important task of the Bank’s CEL is to analyse the counterfeit banknotes it receives and rate their quality. These ratings give the Bank and police an indication of how closely the counterfeiters have successfully (or otherwise) replicated a genuine banknote. The overall quality of Source 37 counterfeits was rated highly. They were printed on plastic, had a very similar look and feel to genuine banknotes and all overt – or visible – banknote security features had been simulated (see Box B: Counterfeit Detection Guidance). It was also clear that they had been produced using techniques that were capable of producing large volumes of counterfeits. Based on the quality, quantity, and methods used, the counterfeits

Figure 1: Timeline of Source 37 milestones



Graph 1



Box A: Crimes (Currency) Act 1981 and Relationship between the RBA and AFP

The *Crimes (Currency) Act 1981* is Commonwealth legislation which specifies crimes and responsibilities relating to counterfeit currency. Under this legislation, all state, territory and federal police are authorised to investigate counterfeiting offences. As such, the Bank supports all police to pursue counterfeit currency related investigations.

Beyond the legislation however, the Bank and the AFP have also formally agreed the collaborative working arrangements for the centralised management of counterfeit banknotes in Australia. The Bank is responsible for the majority of the administration, examination and analysis of suspect and confirmed counterfeit banknotes, while the AFP is responsible for most of the police liaison and engagement as well as undertaking all law enforcement duties.

The arrangement between the Bank and the AFP provides a clear process for the suppression of counterfeiting in Australia and has led to the successful disruption of a number of counterfeit operations over the years. At the same time, in some circumstances, state police may be better placed to undertake investigations related to counterfeit currency, especially where they are concentrated within a particular state or territory. Therefore the Bank and the AFP also regularly engage with state and territory police to support their counterfeit currency related investigations and bring about successful legal proceedings.

appeared to have been produced by professional-level counterfeiters, with a distribution network and sufficient funding to start up an illegal high-volume counterfeiting business.

The number of Source 37 counterfeits increased rapidly soon after they were first detected, with 4 counterfeits detected in January, 28 in February and 200 in March. At its peak in the month of August, 1,200 Source 37 counterfeits were detected in circulation and sent to the CEL for processing and examination (Graph 2).^[4] The initial estimates suggested that monthly detections of Source 37 were largely in line with the monthly detection rates seen from previous large-volume counterfeiting sources produced using comparable techniques (Graph 3). This implied that Source 37 detections were likely to follow the same path as these previous counterfeiting episodes and continue to rise rapidly. As such, if NSW Police and AFP had not shut down the operation in such a timely manner, it is very likely that the overall quantity and subsequent financial loss to businesses and the community at large would have been significantly greater.

To date, there have been around 5,800 Source 37 counterfeits detected, with a face value of

\$540,000. Although this seems modest (especially compared to the largest source in Australia, which totals over 32,000 and with a face value of \$1.6 million), at the time of the arrests, police also seized enough materials to produce around another 17,500 Source 37 counterfeits. This would have totalled over than \$1.7 million, more than the total face value of all counterfeits detected in Australia in 2019 (\$1.3 million).

Unsurprisingly, the number of counterfeits detected steadily declined after the counterfeiters were

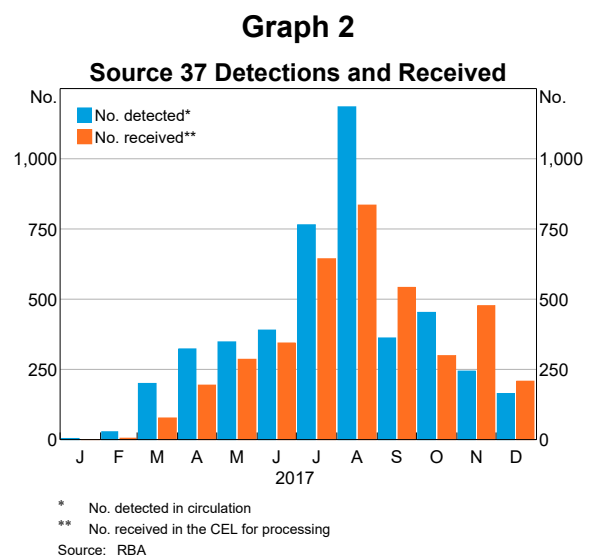


Table 1: Source 37 Counterfeits by State

	NSW	VIC	QLD	SA	ACT	WA	NT
Detections	5,180	321	180	20	15	15	1
Share of total (%)	89	6	3	0.3	0.3	0.3	0.02

arrested and the counterfeiting source was shut down. Notwithstanding this, the CEL has still received, on average, around 50 Source 37 counterfeits per month over the past 12 months, with more than 2,500 received since the August 2017 arrest.

Geographic spread

The majority (90 per cent) of total detections occurred in NSW, although the counterfeits were detected in almost every Australian state and territory (Table 1).

We know little about the distribution network that was used by the counterfeiters, or how the counterfeits were being transported around the country. However, the AFP believe it is likely the majority of the counterfeits were sold to other networks to manage the larger distribution.

Targeted organisations

To date, more than half of all Source 37 counterfeits have been detected by cash-in-transit companies (CITs)^[5] (Graph 4). The remaining counterfeits were largely detected by banks and retail organisations. While we would typically expect more counterfeits to be detected in transactions at retail outlets, the

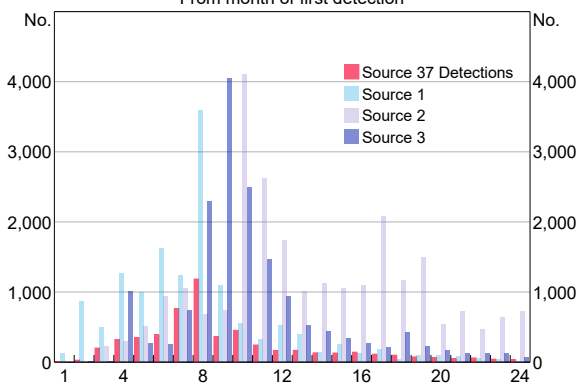
higher-than-average quality of Source 37 counterfeits meant that they were less likely to be noticed at the point of sale and were only detected after being received by a bank or CIT. Banks and CITs are more likely to detect high-quality counterfeits than the general public because they process cash using machines that are able to detect counterfeits and their staff tend to be very experienced in handling cash.

Information collected about the organisation that *first received* the counterfeit indicates that retail businesses were most often recorded as the first *entry point* where the counterfeit officially entered circulation. The first entry point of a counterfeit can differ from its first detection, if the person who first accepted the counterfeit banknote did not realise it was counterfeit at the time and subsequently uses it in another transaction. Four categories of retail organisations – gaming, liquor and hospitality, clothing and department stores, and supermarkets – have accounted for the vast majority of retailers where Source 37 counterfeits were first passed (Graph 5).^[6] The retail organisation breakdown is similar to what we typically see with other counterfeits.

Graph 3

Comparable Counterfeit Sources

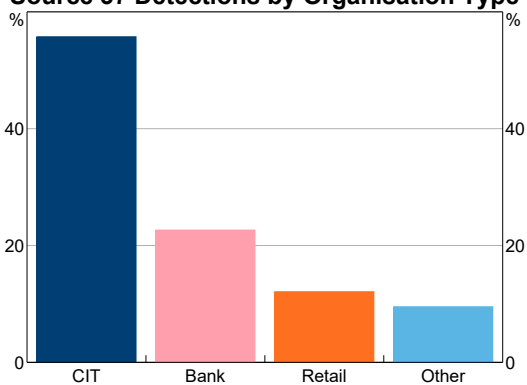
From month of first detection



Source: RBA

Graph 4

Source 37 Detections by Organisation Type






Source: RBA

Box B: Counterfeit Detection Guidance

Australian banknotes are printed on polymer, a type of plastic, and they have a distinctive feel.

Banknotes from the same series have similar security features, though their location and design can vary.

First polymer series	Second polymer series
	
 <p>Coat of Arms Hold the banknote up to the light to see the Australian Coat of Arms.</p>	 <p>Flying bird Tilt the banknote to see a bird move its wings and change colour in the top-to-bottom window.</p>
 <p>Federation Star Hold the banknote up to the light to see the diamond patterns form a seven-pointed star.</p>	 <p>Reversing number Tilt the banknote to see a number change direction within the building in the top-to-bottom window.</p>
 <p>Clear window Check that the clear window is part of the banknote and that the white ink cannot easily be rubbed off.</p>	 <p>Rolling colour effect Tilt the banknote to see a rolling colour effect. On one side of the banknote it is a prominent patch near the top corner. On the other side it is within a bird shape.</p>
Shared features	
<p>Intaglio print</p>	<p>Feel the distinctive texture of the dark printing. The slightly raised print can be felt by running a finger across the portraits and numerals.</p>
<p>Microprint</p>	<p>Look for tiny, clearly defined text in multiple locations on the banknote.</p>
<p>Fluorescent Ink</p>	<p>Look at the banknotes under a UV light to see features fluoresce.</p>

It is an offence to knowingly possess counterfeit banknotes. Suspect banknotes should be given to State or Federal police. It is important to note that counterfeits have no value – you will not be reimbursed. If they prove to be genuine banknotes, you will receive full value for them.

If you come across a banknote that you suspect is counterfeit:

- handle the suspect banknote as little as possible and store it in an envelope;
- note any relevant information, such as how it came into your possession; and
- report the matter immediately to State or Federal police.

You are well within your rights to refuse to accept a banknote if you have concerns about it. Additional information about the security features on Australian banknotes can be found at banknotes.rba.gov.au/counterfeit-detection/list-of-security-features/

Law enforcement and Bank coordination

Source 37 counterfeits were referred to the AFP in June 2017. The Bank listed some main areas of consideration in the referral:

- The counterfeits were of high quality and unlikely to be detected by the public or even trained cash users.
- A scalable production process was used and volumes were expected to escalate due to suspected links to crime groups.
- It is often observed that counterfeiting becomes more widespread once the counterfeiters have established that their operation is successful.
- Public confidence in the currency could be adversely affected.

The AFP accepted the referral and began to investigate under the name ‘Operation Gridline’.

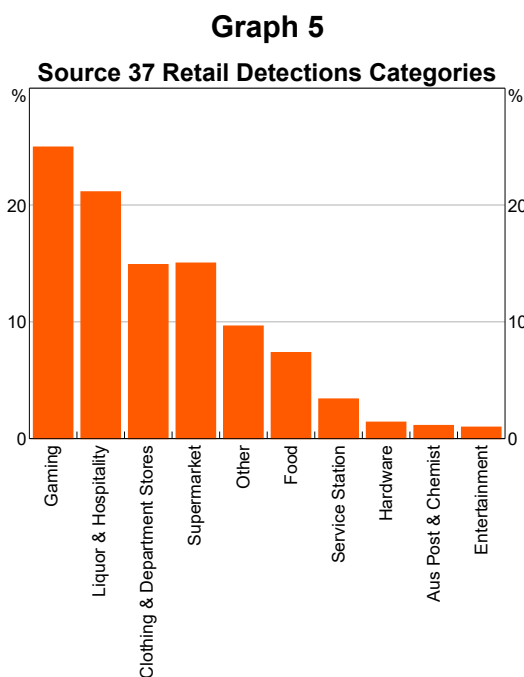
Arrest

In August 2017, NSW Police executed a search warrant at a property in an inner Sydney suburb. Among other items, they seized 301 counterfeit banknotes (some of which had not been completed), various materials and equipment that could be used to produce counterfeit banknotes as well as drugs and a small amount of ammunition. Following extensive investigations by NSW Police over a number of months, the tenants of the property and alleged counterfeiters, a husband and wife, were charged with a number of crimes including possess, utter (or pass) and make counterfeit currency.

Expert witness statements and advice

An expert witness statement is a legal document prepared by the Bank’s document examiners to assist the courts in matters relating to counterfeiting prosecutions and to provide an opinion on if the banknotes in question are counterfeit. An expert witness statement was completed in November 2017 in relation to the 301 counterfeits that were seized by NSW Police during the search warrant. Over the life of Source 37, the CEL completed 29 expert witness statements relating to more than 400 Source 37 counterfeits, for both NSW and Queensland state police and both NSW and Victorian branches of the AFP. State police are typically responsible for prosecuting the offenders in their local areas, but these case files were then fed back to the AFP (and later NSW Police) as additional intelligence during their investigation into the primary production source.

During the investigation the Bank also provided regular reports about Source 37, including, serial number checking, volume totals, geographical information and advice relating to materials,



products, printers and other inputs being used. This allowed NSW Police to pursue leads in a timely manner and to invest time and effort in investigating all aspects of the counterfeiter's operations and connections. The AFP also provided intelligence and expertise to this investigation.

Legal proceedings

The Commonwealth Director of Public Prosecutions (CDPP) is responsible for prosecutions under Commonwealth legislation, with the point of contact in this case being the NSW Police.

Ultimately, in February 2019, the counterfeiters pleaded guilty to all charges. Two of the CEL's expert witness statements were part of this case and were accepted without challenge. One of these related to the examination of the counterfeits and one categorised the quality and quantity of the counterfeits to assist the court in understanding the impact these counterfeits could have in undermining confidence in currency in the community. During sentencing the judge agreed that this was a sophisticated counterfeiting operation and that the quantity and quality of the counterfeits were in the highest range.

The judge highlighted that counterfeiting was a serious crime that impacts public confidence in currency, and that a significant term of imprisonment was appropriate to ensure that there was a deterrent for others who might consider counterfeiting.

In preparing for the legal proceedings associated with Operation Gridline, the Bank identified additional ways to support the legal process and provide a better understanding of the impact or potential impact a high-quality source like this can have on the community. The process also strengthened the Bank's relationship with the CDPP.

Sentencing

The primary counterfeiter's charges of 'make counterfeit currency' and 'possess counterfeit currency' relate to the production of all 301 counterfeit banknotes seized during the search warrant. His charge of 'utter counterfeit currency' related to 3 separate occurrences where he used the counterfeits in transactions (one while on bail).

The maximum sentences that could be imposed for the counterfeiting related offences were:

- Possess counterfeit currency: 10 years.
- Utter counterfeit currency: 10 years.
- Make counterfeit currency: 14 years.

Taking into account the defendants' pleas of guilty and contrition, the judge made the following orders in July 2019:

- The primary counterfeiter was convicted of each offence he was charged with.
- For the 3 counterfeiting offences, the counterfeiter received an aggregate sentence of imprisonment of 4 years, 7 months with a non-parole period of 2 years, 9 months.
- The indicative sentences for the offences were:
 - Possess counterfeit money: 2 years;
 - Utter counterfeit money: 2 years;
 - Make counterfeit money: 4 years.
- The other counterfeiter was convicted of 'make counterfeit currency' and was given an 18-month non-custodial sentence, provided she paid a \$100 fine and was of good behaviour for 18 months. The sentence was considerably less than her husband's and the judge took into consideration her likely deportation as she was a foreign national, her child care responsibilities and the judge's view that she was 'young and impressionable'.

Given the limited number of counterfeits subject to the proceedings, a sentence of 4 years and 7 months is within the range of sentences previously ordered for high-quality counterfeiting in Australia.^[7]

Conclusion

The potential financial losses to businesses and the community in this case were significant, with \$540,000 worth of counterfeits detected in circulation and other material seized indicating that the counterfeiters could have been able to produce more than \$1.7 million in additional counterfeits. The reporting, analysis and forecasting undertaken by the Bank supported timely decision-making for

referral to the police and also supported police investigations and the subsequent prosecution.

The Bank values highly its relationship with both state and federal police and the CDPP. The success of this investigation highlights the importance of

maintaining these relationships and collaborating wherever possible, to utilise each agency's expertise and resources when working to preserve the Australian public's confidence in our banknotes. ✖

Footnotes

- [*] The authors are from the Note Issue Department.
- [1] The Bank's definition of 'seized' is when the police have taken custody of the counterfeit banknotes prior to them entering circulation. A counterfeit is 'detected' if it has been used by a member of the public in circulation and has then been identified as a counterfeit.
- [2] See also Finlay and Francis 2019 for a brief history of currency counterfeiting, detailing the historical counterfeiting incident that led to the federal police taking over primary responsibility for counterfeit investigations.
- [3] These were counterfeits of the first polymer series for which the \$50 and \$100 were released in 1995 and 1996 respectively.
- [4] The monthly numbers of counterfeits detected and counterfeits received differ due to the lag between when a counterfeit is detected in circulation and when it is received by the AFP and CEL.
- [5] In addition to transporting banknotes, CITs also sort banknotes through machines to ensure they are fit for use. They can detect counterfeits in this process.
- [6] The 'original' organisation is defined as the first known point of entry when the counterfeit officially enters circulation.
- [7] While the total number of Source 37 counterfeits made was more than 5,800 (and materials already purchased able to produce significantly more) only those 301 counterfeits seized during the search warrant were included in the charges.

References

Ball M (2019), 'Recent Trends in Banknote Counterfeiting', RBA *Bulletin*, March 2019, viewed September 2020. Available at <<https://www.rba.gov.au/publications/bulletin/2019/mar/recent-trends-in-banknote-counterfeiting.html>>.

Finlay R and A Francis (2019), 'A Brief History of Currency Counterfeiting', RBA *Bulletin* September 2019, viewed September 2020. Available at <<https://www.rba.gov.au/publications/bulletin/2019/sep/a-brief-history-of-currency-counterfeiting.html>>.