

## **A Massive Underground Industry Makes China the World Leader in Counterfeit Cigarettes**

By Te-Ping Chen

On first approach, Yunxiao seems like any other Chinese backwater caught in uneasy industrial transition. Faded advertisements line the streets downtown, where motorcyclists wearing bamboo-frond hats determinedly vie for passengers in a riot of honking. A cheerful red banner in the city center exhorts citizens to develop the local economy — and yet the message seems ironic. After all, since the 1990s, Yunxiao has already sprouted its own league of millionaires, famous throughout China.

But you won't find their activity downtown.

Ringed by thickly forested mountains, illicit cigarette factories dot the countryside: carved deeply into caves, high into the hills, and even buried meters beneath the earth. By one tally, some 200 operations are hidden in Yunxiao, a southwestern Fujian county about twice the area of New York City. Over the past ten years, production of counterfeit cigarettes in China has soared, jumping eightfold since 1997 and making China the world leader in fake smokes. Chinese counterfeit cigarette factories now churn out an unprecedented 400 billion cigarettes a year, enough to supply every U.S. smoker with 460 packs a year. Yunxiao — once famed for its bright yellow loquat fruit — is the trade's heartland: the source of half such production, officials say.

Today, China's fake cigarettes fuel a multi-billion dollar black market and are even more hazardous for smokers, yet the industry is little-known. From New York delis to London storefronts, China's brand rip-offs are now sold in cities around the world. While a pack of fake Marlboros costs \$0.20 to make in China, in the United States, it can fetch up to twenty times that amount, even when sold at cut rates. Spurred by global crime rings, the counterfeit trade has exploded, propping up addiction and robbing governments of billions in annual tax revenue.

Officials can only guess at the size of the industry here in the United States, but to give a sense of scale, from 1999-2005, one ring smuggled a billion fake cigarettes into Los Angeles and New Jersey. Fully 99 percent of the U.S. counterfeit market is supplied by China, and up to 80 percent of that in the European Union. Meanwhile, Chinese government efforts to stop the trade are met by street riots, machete-armed manufacturers and retaliation killings.

“Most factories are underground,” confides a Yunxiao cigarette broker in hushed tones. “They’re under buildings, unimaginably well-hidden, with secret doors from the basements.” Even the village temple — topped with a lilting red roof and twisting, frescoed spires — conceals a factory below, she says.

### Sixty Versions of Marlboro

Though a nearly invisible industry, cigarette counterfeiting is an immensely lucrative one, with profits rivaling those of the narcotics trade, officials say. While one 40-foot container of cigarettes (containing 10 million sticks) can be produced in China for just \$100,000, the street value of such a container smuggled into the United States is up to \$2 million. And though a drug trafficker might land a life sentence if caught, a cigarette counterfeiter receives a comparative slap on the wrist — a handful of years in jail, or possibly a fine.



**credit: ICIJ** Interviews with law enforcement officials, tobacco industry investigators, and the smugglers themselves reveal the Chinese business is booming, with no shortage of groups vying to enter the trade. The Chinese diaspora plays a major role in distribution, with groups particularly active around New York City, Vancouver, Rotterdam, Le Havre, Valencia and Hamburg. The industry has also attracted a sprawling network of middlemen and smugglers, notably from the Middle East and Eastern Europe.

“In the last few years, pretty much every market has been targeted,” says Andrew Robinson, who directs the brand integrity division for Philip Morris International (PMI). In 2001, Chinese manufacturers were producing eight different varieties of counterfeit Marlboros. As of last year, though, PMI reports, Chinese counterfeiters were manufacturing separate versions of Marlboro tailored for some 60 countries — down to the specific detail of tax stamps and regional health warnings.

“Ten years ago, [there were] almost no counterfeit cigarettes,” says Austin Rowan, who heads cigarette fraud investigations for the EU’s Anti-Fraud Office, known as OLAF. Last September, though, the tide of fake smokes flooding the European Union — most of them Marlboros from China — prompted OLAF to post its first-ever officer to Beijing. In the United Kingdom alone, the illicit trade costs the government nearly \$5 billion a year. “People are hungry for these products,” says Rowan.

Inhaling the knock-off cigarettes, however, may do even more damage than their legitimate counterparts. Lab tests show that Chinese counterfeits emit higher levels of dangerous chemicals than brand-name cigarettes: 80 percent more nicotine and 130 percent more carbon monoxide, and contain impurities that include insect eggs and human feces. And by targeting smokers with cheap cigarettes, health authorities fear the counterfeit influx diminishes incentives to quit. (Centers for Disease Control studies show that every 10 percent increase in cigarette prices causes a 4 percent drop in consumption.)

Back in the 1990s, counterfeit packs from China often came riddled with easy giveaways: misspelled health warnings, blurred lettering. These days, OLAF reports that sophisticated industry forensics are needed to identify China’s counterfeits. In the United Kingdom, where authorities in some areas report that up to one-third of all cigarettes sold are fake, mostly from China, customs officers have deployed a trained dog to try and sniff out counterfeits on the streets.

When it comes to the source of top-quality fakes like these, all roads lead back to Yunxiao. The area’s cigarettes are so renowned that Yunxiao has become a watchword among China’s counterfeiters, with manufacturers from other regions even claiming their cigarettes originate in the area — a kind of double-layer decoy.



## A Flood of Fakes

It's hard to overstate the ubiquity of tobacco in China, a country home to one of the world's most elaborate and entrenched smoking cultures. Here, the introductory exchange of cigarettes is as ritualized as a handshake, while expensive packs moonlight as everything from wedding gifts to bribes — even offerings on ancestors' tombs.

As an official from the tobacco company Rothmans once put it, "Thinking about Chinese smoking statistics is like trying to think about the limits of space." Every year, China's smokers consume one-third of the world's tobacco: an overwhelming 2.2 trillion cigarettes.

Cigarette-related mortality levels, too, are equally staggering, with fully one-third of all Chinese men under age 30 predicted to die from the pandemic.

Like anything else related to tobacco in China, the number of counterfeits flooding the domestic market is similarly off the charts. "Each of us has come up with our own strategy to deal with it by now," says one Beijing smoker, who personally refuses to buy at locations where he doesn't know the owner. The problem is so bad that on trains, conductors roam the aisles, industriously hawking 75 cent keychain lights that purportedly reveal fake packs.



James Bond and Pig Pens



In China, as elsewhere, a successful business relies on more than just technology — it requires serious support from investors and brokers. Men, for example, like Tony Tung.

Originally a fishmonger from Fujian, for the past 15 years, Tung — square-jawed, middle-aged, with a thick coil of black hair — has ranked among China's most notorious cigarette dealers. Tung, though, didn't start out smuggling fakes. In the early 1990s, he found gold in the genuine product: Marlboros and 555s smuggled into China from abroad.

For years, the Chinese government has worked strenuously to keep foreign cigarette companies at bay, capping imports and levying tariffs as high as 430 percent. That, though, didn't deter companies like British American Tobacco from smuggling their products into China — or Chinese enterprisers like Tung, who made millions smuggling legally produced cigarettes in the Philippines into China.



**From his humble origins as a Fujian fishmonger, Tony Tung has become a top dealer in contraband cigarettes, financing counterfeit factories in China, the Philippines and North Korea. credit: ICIJ** But when China cracked down on the trade in the 1990s, Tung turned his sights to the next industry bonanza: counterfeiting. Tung built up factories in Fujian, as well as in the Philippines (closed by authorities in 2005) and the free-trade zone of Rajin, North Korea. In recent years, his enterprise has reportedly shipped up to 50 containers a month — or 500 million cigarettes — to markets throughout the United States, Europe and Asia. Tung continues to elude authorities, shuttling between Singapore and nearby countries, according to a tobacco industry source familiar with Asia. Recently, his syndicate has started using fishing boats to smuggle its product around Asia, the better to dodge inquisitive customs officials.

Tung and his fellow counterfeiters employ an impressive bag of tricks to avoid scrutiny. One manufacturer (arrested in 2001) constructed a factory that masqueraded as a People's Liberation Army compound, complete with 20 laborers — dressed in cast-off military uniforms — who would conduct faux-army drills and sing the national anthem in the yard every morning. Other machines have been lodged on ships, inside concrete bunkers, and even under a lake.

“Finding these guys is like a James Bond movie,” says Keith Tsang of the [China Association of Industry Security Professionals](#). “You’d never believe it was for real.”

In Yunxiao, factories are frequently hidden in dim, bricked-in facilities underground, accessible only via trapdoor and ladder. The turf masks the tobacco scent, while nearby sentries are used to monitor passersby. Workers staff production lines in teams of six or seven, feeding tobacco into large, heavy machines anchored in concrete foundations. Above ground, manufacturers use other ploys to hide the tell-tale aroma: double-paned glass and cotton quilts tacked to the walls, with pig pens sited nearby. In Yunxiao, investigators say, the easiest way to find a factory is often by searching for signs of industrial power sources.

Like many industries, China's counterfeit operations are distributed: tobacco cutting and drying at one site, cigarette rolling at another location, and packing still elsewhere. These days, the packing — usually managed outside port cities, just prior to shipment — is the only process that hasn't yet been mechanized. In major distribution centers like the city of Guangzhou, 300 miles west of Yunxiao, laborers still fill and seal the branded packs by hand. In one city corridor crammed with wholesalers, teenage girls from Fujian stroll arm-in-arm in the quiet pre-dawn darkness, awaiting their next shift.

Twenty-five years ago when multinational tobacco companies' smuggling activities took off, Chinese smokers flocked to foreign brands. Now, cigarette vendors say fake Marlboro and 555s are so common that many Chinese simply choose to avoid them altogether. As one former cigarette smuggler from Shenzhen explains, “Nobody can tell anymore whether they're real.”

## The Mountains Are High

Since its accession to the World Trade Organization, China's lackluster efforts to protect intellectual property rights have attracted sharp criticism. But with regard to tobacco, Beijing has waged a more aggressive war. All legal manufacture and distribution of cigarettes is state-owned, and in a nation of 400 million smokers, that's big business. (Local governments are zealous about defending it, too: until this May, officials in Hubei were required to smoke a collective 230,000 packs of regional brands a year.) With cigarette sales accounting for nearly 8 percent of China's budget in 2007, the state has a strong motive to keep its supply counterfeit-free.



**To dodge official scrutiny, counterfeiters tunnel deep within the mountains to hide their workshops, which helps camouflage the tobacco scent. credit: ICIJ** Certainly the relevant authority, the State Tobacco Monopoly Administration, has spared no resources in trying. By 1995, long before multinational tobacco companies had seriously mobilized on the issue, the STMA had already dedicated \$12 million to combating counterfeiters. The agency today fields 50,000 agents to fight the fakes, according to industry sources. Meanwhile, this year, according to a police officer in the Yunxiao region, the STMA has dispatched some 150 officers directly to the region for up to year-long postings.

Last year, officials say, the STMA raided 3,312 production sites throughout China, apprehending 7,128 people in the process and seizing 8.3 billion counterfeit cigarettes. The STMA also regularly holds public "destruction ceremonies" to demolish seized cigarette equipment, hoisting the machines up into the air by crane before dashing them onto concrete below.



“China devotes a huge amount to enforcement,” agrees Martin Dimitrov, a professor at Dartmouth College who has studied the issue. “The puzzle is that there seems to be little effect.”

It's not that manufacturers don't feel the pressure. One manufacturer reports that local counterfeiters are losing up to \$300,000 a day in seized materials, and phone calls to a handful of different counterfeiters suggest a number are currently laying low, hesitant to expose themselves to new buyers.

But when it comes to Yunxiao's factories, an old Chinese idiom seems particularly fitting: *The mountains are high, and the emperor is far away*. Yunxiao villagers, too, quote their own motto: “Any official can absolutely be bought within half a month.” In some cases, a gift of just \$1,500 can buy a counterfeiter a license to operate and some official breathing room. Last year, 28 officials were [reportedly](#) detained in connection with cigarette counterfeiting on charges such as dereliction of duty, cover-ups, or actually participating in the trade.

From another perspective, the counterfeit industry is also a boon for local employment, which some officials are loath to suppress. “The question for authorities now, with the economic slowdown, is: Do you really want to shut these places down?” says Tim Trainer, who heads the Global Intellectual Property Strategy Center in Washington, D.C.



## The Shanghai Professor

Few in Yunxiao will talk openly about the village's main industry. One knowledgeable resident, a 30-year-old woman and sometimes cigarette broker, tried to explain why the trade flourishes so well in her community. The counterfeiting industry, she told visitors, is more than just a business, it's a brotherhood. Only those whose entire family tree can be traced to the area are permitted to work in production. Regional markets are divided by family, and once established, firmly respected — spurring others, in turn, to develop their own new markets. Unity is fierce, she says: that's why Yunxiao is so well-protected.

