

Cigarette counterfeiting in the People's Republic of China

Until about 10 years ago, most cigarettes sold on black markets worldwide originated from legal sources. Major tobacco manufacturers were accused of wittingly or unwittingly supplying smugglers on a grand scale. Since then, under pressure from various governments, the tobacco industry has apparently become much more careful in choosing customers down the chain of distribution, leaving a void on the black market to be filled by counterfeit cigarettes. One country is frequently mentioned in this context: China.

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CHINA IS GENERALLY BELIEVED to be the main source for counterfeit cigarettes worldwide. Most counterfeit cigarettes seized in the European Union and in the United States during the past few years have been traced back to China, although the most recent data shows a declining share.¹ Overall, according to recent estimates, between 93 and 400 billion counterfeit cigarettes are produced in China per year which would constitute about seven percent of the global (legal and illegal) cigarette market.² Governmental agencies, media and tobacco manufacturers portray cigarette counterfeiting – just as other illegal tobacco-related activities – as the business of serious ‘organised criminals’ and of threatening ‘criminal organisations’,³ and the authorities paint a pessimistic picture as far as measures against the cigarette counterfeiting business are concerned. China’s leading role in cigarette counterfeiting, however, cannot be understood without considering some broader social and economic facts about the importance of tobacco in this country:

- China has the largest smoking population in the world reaching approximately 300 million.
- Cigarettes (and other tobacco products) have a powerful cultural meaning in Chinese society. Tobacco is a commodity that is often associated with success and affluence, and has been used as a lubricant of social relationships and an ‘instrument’ of bribery.
- China is the biggest tobacco producer and exporter in the world.
- The tobacco industry contributes significantly to the Chinese economy and provides substantial revenues for the central government and local governments, although at a declining rate.
- Tobacco provides income for millions of Chinese people.
- Despite China’s shift to a market economy 30 years ago, the tobacco industry in the country is highly regulated by the central government, and specifically the State Tobacco Monopoly Administration (STMA). The regulation provides numerous impediments to individual entrepreneurs wishing to be involved in the legal business.

Features of the cigarette counterfeiting business

Counterfeit cigarette manufacturing and trading originated from the southern coastal provinces of mainland China, Fujian and Guangdong, which borders Hong Kong and Macao, and where most of the special economic zones of China are located.

The counterfeit cigarette production phase can be divided into three stages: (1) acquiring raw materials; (2) manufacturing counterfeit cigarettes; and (3) packing counterfeit cigarettes. It is worthwhile paying some additional attention to each phase:

1. Acquiring raw materials

In China, counterfeit cigarettes can be produced from tobacco of various levels of quality, second-hand tobacco or even waste. Generally, low quality tobacco, directly and regularly bought from tobacco farmers is used to make counterfeit cigarettes. Counterfeiters also obtain their tobacco from ‘irregular’ channels. In a case uncovered by the authorities in Liaoning province, counterfeiters used dumped materials and *lajijian* (‘rubbish tobacco’) to make cigarettes. In some cases counterfeit cigarettes are also made of non-tobacco waste such as sawdust, wood shavings and rotten vegetable leaves. In such cases, the

cigarette wrapping paper, filters and other material are collected from the waste sites. That said, it is not unusual for counterfeit cigarettes to be made of good quality tobacco.⁴

2. Manufacturing counterfeit cigarettes

The actual manufacturing of counterfeit cigarettes requires rolling machines. In the past, purchasing cigarette rolling machines was extremely expensive. In order to bring costs down, counterfeiters bought used rolling machines from state-owned cigarette factories. With the development and expansion of cigarette counterfeiting businesses, counterfeiters – like their legitimate counterparts – have started to invest in more advanced equipment. Prior to 2004 only 30 per cent of the cigarette machines seized were automatic; current figures for the counterfeit cigarette production line suggest that it is 90 per cent automated.

3. Packing of counterfeit cigarettes

There are different methods used for the packing of counterfeit cigarettes:

- *‘Pick ‘n’ mix’* – genuine cigarettes are mixed with counterfeit ones in each pack. This is a rare packing method.
- *Genuine packs* – counterfeit cigarettes are packed in used genuine packaging. This guarantees that health warnings are not misspelled, images are clear and other giveaways are not present.
- *Counterfeit packs* – counterfeit cigarettes are placed in packaging resembling that of genuine brand cigarettes.
- *Unique format of counterfeit packs* – In order to attract prospective customers’ attention, some unique packaging – which may not even exist for the genuine cigarettes – has been designed for counterfeit cigarettes of the most popular brands.

There is a large and diverse set of venues used for the production of counterfeit cigarettes. These include legitimate factories producing other commodities, warehouses, farms in rural and semi-rural areas, martial arts training schools, temples and private homes. A number of illicit production facilities have also been discovered in underground chambers and in mountain caves.

Distribution patterns

Medium to large quantities of counterfeit cigarettes are sold in shopping centres, department stores, hotel-owned luxury shops and various legitimate small businesses such as groceries and kiosks. Most of these premises are licenced cigarette retailers that sell counterfeit cigarettes as well. There is also a number of floating street-sellers, who trade counterfeit cigarettes outside night clubs, discos, restaurants and other night-time economy establishments, or along the street and in other public spaces. Counterfeit cigarettes are often sold in village marketplaces. These marketplaces meet the demand of villagers who have very little disposable income and cannot afford to buy quality, genuine cigarettes. Of great relevance here is the reluctance of legitimate cigarette sellers to trade in cheap legal cigarettes, due to the small profit margin and the subsequent reduction or even cessation of production of cheap (or ‘low class’) cigarettes by authorised cigarette factories. Finally, counterfeit cigarettes are sold outside mainland China by mainland Chinese peddlers in Hong Kong, Macao and Taiwan and through global illicit distribution channels on North American, European, Australian, Asian and African markets.⁵

Organisation of the cigarette counterfeiting business

The cigarette counterfeiting business requires a degree of sophistication and management of resources and labour. Consequently, counterfeiting networks tend to have a naturally defined horizontal ‘structure’. In fact, there appear to be independent, autonomous ‘entities’ involved in the production of counterfeit cigarettes and in the sale of the merchandise, as well as a constellation of actors who are subcontracted around these two particular stages of the counterfeit cigarette business. In many cases – and in contrast to other contexts – the structures involved in the production of counterfeit cigarettes are hierarchical, and this is most probably a result of the fact that the production of counterfeit cigarettes involves someone who owns the (unauthorised) factory or workshop and workers are employed by him. In essence, a counterfeit cigarette factory is almost identical to a legal cigarette factory.

A number of individuals act as intermediaries who assist in the introduction of the merchandise into the market or who identify persons that can be subcontracted by the counterfeit cigarette producers and offer specialised services (e.g. packers or transporters). It is also important to note that in many cases the production phase of the business is ‘demand-based’. Counterfeit cigarette production is based on orders and the people who order the counterfeit cigarettes should be viewed as the ‘initiators’, or the initial customers of the business rather than the ‘organisers’ of the process.

Corruption of Chinese public officials also plays a significant role in the cigarette counterfeiting business. We have identified three

forms of corruption, the most extreme form of which involves officials being actively engaged in the business. In such cases, public officials take advantage of their position, specialised knowledge and social networks to establish cigarette counterfeiting manufacturing sites. In addition, public officials may act as a ‘protective umbrella’ (*‘baohusan’*) for cigarette counterfeiters and intervene when cigarette counterfeiters are arrested. This ‘protective umbrella’ usually means that any suspension of the illegal business is limited and often the business can continue, virtually uninterrupted, irrespective of the number of detections. Finally, public officials may not be directly and actively engaged in cigarette counterfeiting or in providing a ‘protective umbrella’ to participants in the counterfeit cigarette business; however, some of them may ‘turn a blind eye’ to the activities of cigarette counterfeiters in exchange for financial rewards. In some cases a financial reward may not even be needed. This appears to be the case in relatively small, primarily rural and semi-rural settings in which there are pre-existing social relationships between counterfeiters and public officials.

Unlike other contexts, in China a higher prevalence of violence in the cigarette counterfeiting business has been observed. Within this context, gangs are hired by counterfeit cigarette manufacturers to attack informants who are rewarded by law enforcement authorities for providing relevant information. Violence and threats of violence are sometimes used towards law enforcement officials and tobacco authority officials by cigarette counterfeiters and, occasionally, even buyers protesting about the quality of cigarettes. However, the cigarette counterfeiting business and cigarette counterfeiters can also themselves be victims of violence or extortion.⁶

Conclusion

Unlike popular representations, cigarette counterfeiting in China, just as with illegal tobacco-related activities in other contexts, is characterised by a high degree of heterogeneity. There appear to be independent ‘entities’ involved in different parts of the business, as well as actors who are subcontracted to provide commodities and services for the process. There is a relatively high level of sophistication in the business in terms of the technology necessary for the production of counterfeit cigarettes; less so in relation to the links between actors or stages of the business. Relationships between actors in the business are very often based on a customer-supplier relationship. The role of corruption and violence in the cigarette counterfeiting business should not be underestimated. Corruption, although not present in all counterfeiting cases we encountered, seems to be at least a facilitating factor in a large part of the business. In addition, violence is more prevalent in the counterfeit cigarette market in China than in other contexts.

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