THE COUNTERVAILING EFFECTS OF COUNTERFEIT CIGARETTES

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Background: TPSAC Remiss by Not Considering Health Effects of Counterfeit Cigarettes

- **TPSAC Required to Consider the Health Effects of Counterfeit Cigarettes**. The Family Smoking Prevention and Tobacco Control Act required the TPSAC to consider the "countervailing effects" a contemplated menthol ban would have with a particular emphasis on the health effects from a ban on the health of adolescent tobacco users, adult tobacco users and non-tobacco users.

  It is important to emphasize that the statute did not direct the TPSAC to make an economic assessment of the contraband issue. Instead, it placed a non-discretionary duty on the committee to evaluate and report on the additional adverse health effects from an increase in demand for contraband cigarettes resulting from a menthol ban.

  The issue of the health effects of counterfeit cigarettes is of particular importance since their lower price and availability to youth help fuel demand.[1] Additional demand for counterfeit cigarettes from a menthol ban means that the TPSAC and the FDA fail in their duty to protect public health unless they study the health effects of these counterfeit products that are smoked by the billion.[2]

  The scientific literature has already warned that

  > ***Any investigation of the harmful effects of commercial tobacco products must take into account potential differences between genuine bona fide brands and the illicit market....***[3]

- **TPSAC Ignores Statutory Mandate to Consider the Countervailing Health Effects of a Menthol Ban**. Despite the clear Congressional directive to the TPSAC, and relevant peer reviewed public health research in the record, the committee's report ignored the health effects of counterfeit cigarettes.

- **CRE Letter to FDA Chief Counsel**. CRE wrote to the FDA's Chief Counsel highlighting the TPSAC's refusal to adhere to a key component of their Congressional charge to investigate and report on the health effects of menthol flavor cigarettes. The letter requested that FDA legal staff

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[1] *See*, CRE Monograph, "An Inquiry into the Nature, Causes and Impacts of Contraband Cigarettes," pp. 21-24, *available at* http://www.thecre.com/ccsf/?p=165.

[2] *See*, Te-Ping Chen, "Smoking Dragon, Royal Charm," October 20, 2008, *available at* http://www.thecre.com/ccsf/?p=105.

[3] W. Edryd Stephens, Angus Calder, and Jason Newton, "Source and Health Implications of High Toxic Metal Concentrations in Illicit Tobacco Products, Environmental Science & Technology Vol. 39, No. 2, 2005, p. 479 *available at* http://www.thecre.com/ccsf/?p=78.

"clarify for TPSAC its legal responsibility to address in its report to FDA the likely public health impacts that could arise from a contraband market for menthol cigarettes as a result of a ban on menthol cigarettes."[4]

- **CRE Advises TPSAC to Issue Interim Report**. CRE "informed TPSAC that the advisory committee can not issue a final report on menthol until they study the health effects of contraband cigarettes" and advised that the committee issue an interim report to meet the March deadline.

- **CRE Establishes the Counterfeit Cigarette IPD**. To serve as a focal point for information and discussion about diverse counterfeit cigarettes issues, CRE established the *Counterfeit Cigarettes: An Enforcement Forum* Interactive Public Docket *available at* http://www.thecre.com/cc/.

Counterfeit Cigarettes: An Enforcement Forum

CRE's Counterfeit Cigarettes IPD provides and analyzes information which falls into four main categories:

- Health effects of counterfeit cigarettes;

- The global trade in counterfeit cigarettes;

- Counterfeit cigarettes and terrorism; and

- Enforcement actions against counterfeit cigarettes by law enforcement authorities and private parties.

The manufacture and distribution of counterfeit cigarettes is a global criminal business with many, but not all, of the counterfeit tobacco products originating in China and North Korea. Therefore, the Counterfeit Cigarettes forum provides data, news, and analysis from the US, UK, Canada, Australia, Brazil, South Africa, China and other affected countries.

Materials posted on the Counterfeit Cigarette IPD include scientific studies, government reports, and in-depth analyses of counterfeit tobacco issues along with accounts from major media sources and comments by readers.

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[4] CRE's letter to the FDA may be found on the Counterfeit Cigarette Enforcement Forum at http://www.thecre.com/ccef/?p=37.

Because some key information sources, particularly the Chinese government and Chinese media, are often not in English, CRE provides translations of Chinese-language texts as warranted. For example, a detailed article from the Shandong Provincial Tobacco Monopoly Bureau discussing many aspects of the production and distribution of counterfeit cigarettes ranging from law enforcement challenges to financial losses to health effects is available at http://www.thecre.com/cc/?p=69.

Regarding the health problems specific to counterfeit cigarettes, the article states,

> *Many counterfeit cigarettes manufacturers use mostly tobacco waste, poor, substandard tobacco even moldy leaf tobacco. Counterfeit cigarettes in the filter paper use inferior quality products even waste or contaminated waste products. Studies show that a counterfeit cigarette combustion will produce a large quantity of 3.4-benzopyrene and other carcinogenic substances. The tar content significantly exceeds the national standard. Counterfeit cigarettes contain "bemisia tabaci" eggs that, once inhaled, will be like "pork tapeworm" as chronic parasitic in humans, the large population of which will cause very great harm to the nervous system and, in severe cases, can lead to necrosis of the brain. Second, industrial dyes and industrial flavors used counterfeit cigarettes, and their combustion products, will produce severe damage to the reproductive system and visual system, resulting in "my eyesight is getting worse and even blindness" and*

> *other symptoms of toxic amblyopia and including sexual dysfunction. More seriously, is that residual sulfur ingredients used in curing smoked harm the respiratory system and even pose a direct threat to life.*
>
> *For example, national legislation expressly limit the content of hazardous substances in tobacco, tar content should be limited 15-25 mg. According to the tests, the tar content of counterfeit cigarettes can be more than 50 mg. Inhalation of large amounts of tar in the smoke, will substantially increase various forms of cancer and the possibility of cardio-pulmonary and cerebral-vascular disease.* [Emphasis added.]

The Health Effects of Counterfeit Cigarettes

Study: ***Smokers of illicit tobacco report significantly worse health than other smokers*** by Campbell K. Aitken, Tim R. L. Fry, Lisa Farrell, & Breanna Pellegrini, Nicotine & Tobacco Research, Vol., No. 8 (Aug. 2009), pp. 996-1001 *available at* http://www.thecre.com/ccsf/?p=7.

The Aiken study is the only one in the literature that compares the health of illicit tobacco smokers with the health of smokers of legal cigarettes. The term "chop-chop" is Australian nomenclature for illicit, domestically-grown tobacco. Although the chop-chop study examines only Australian smokers, the authors note that chop-chop is "is similar to contraband tobacco in Canada sourced from domestic production by illegal manufacturers."

Key findings of the study include:

- **Contraband Smokers Have Worse Health**. "Current and lifetime users of chop-chop report significantly worse health than smokers of licit tobacco." p. 996.

- **Contraband Smokers Start Smoking at and Earlier Age**. "In multivariate analysis, relative to smokers of licit tobacco, current users of illicit tobacco had significantly greater odds of beginning smoking at younger than legal age, 60% greater odds of reporting below-average social functioning on the SF-8, and nearly twice the odds of reporting a measurable disability." p. 998 [Emphasis added].

- **Contraband Cigarettes are Even More Harmful Than Licit Cigarettes**. "Our results imply the existence of a relationship between illicit tobacco smoking and decreased mental and physical health." p. 998.

- **Contraband Cigarettes Are A Public Health Threat**. "The public health message that emerges from our data is that people who smoke or have smoked illicit tobacco report significantly worse health than smokers of licit tobacco (who, of course, already have worse health than nonsmokers — Begg et al., 2007)." p. 999 [Emphasis added].

Study: ***Source and Health Implications of High Toxic Metal Concentrations in Illicit Tobacco Products*** by W. Edryd Stephens, Angus Calder, and Jason Newton, Environmental Science & Technology Vol. 39, No. 2, 2005, pp. 479-488 *available at* http://www.thecre.com/ccsf/?p=78.

The Stephens study analyzed the concentrations of heavy metals in counterfeit cigarettes in the UK (supplied by a government agency) compared with the concentrations of heavy metals in their legitimate counterparts. The study found that counterfeit cigarettes had significantly elevated levels of heavy metals and concluded that "habitual smokers of counterfeits may be risking additional harm from high levels of cadmium and possibly other metals."

Key findings of the study include:

- **Public Health Officials Need to Consider the Differences Between Licit and Illicit Cigarettes**. "Any investigation of the harmful effects of commercial tobacco products must take into account potential differences between genuine bona fide brands and the illicit market, especially in countries where the latter has a significant market share." p. 479. [Emphasis added].

- **Protecting Public Health Requires Analyzing Counterfeit Cigarettes**. "There is evidence that counterfeit sales have grown both proportionately and in absolute terms and may now exceed the best-selling brands. Given their substantial market share and the fact that they evade all statutory controls, it is in the interests of public health to determine whether these counterfeits have any characteristics that render them more harmful than their genuine equivalents." p. 479. [Emphasis added].

- **Counterfeit Cigarettes are Riskier than Legal Cigarettes**. "We identify potential harmful consequences to human health from these heavy metals and conclude that the typical counterfeit product adds significantly to the risks normally associated with smoking cigarettes." p. 479. [Emphasis added].

- **Counterfeit Cigarettes are Primarily Purchased by Younger and Lower Income Smokers**. "The main purchasers of counterfeit cigarettes are dominantly those on low incomes, either young people who then become addicted to smoking or the socially disadvantaged for whom so many other factors impact negatively on their state of health that the addition of another factor is potentially very serious. The extent of the U.K. market share now claimed by counterfeits means that an issue once considered marginal is rapidly becoming a major problem. The health risks described above as well as social implications means that early awareness of these issues is important if remedial action is to have significant impact." p. 486. [Emphasis added.]

Study: ***Cadmium, lead, and thallium in smoke particulate from counterfeit cigarettes compared to authentic US brands*** by R.S. Pappas, G.M. Polzin, C.H. Watson, D.L. Ashley, Food and Chemical Toxicology 45 (2007) 202–209, pp. 202-209 *available at* http://www.thecre.com/ccsf/?p=81.

The Pappas study compared the concentrations of three heavy metals in mainstream smoke of counterfeit cigarettes seized in the US with the metal concentrations in the mainstream smoke of genuine brand cigarettes. The study determined that "counterfeit cigarettes potentially result in a markedly greater exposure to toxic heavy metals than authentic brands...."

Key findings of the study include:

- **Counterfeit Cigarettes Have Far Higher Levels of Heavy Metals**. compared mainstream smoke cadmium, thallium, and lead deliveries from counterfeit and authentic brands. Mainstream smoke levels of all three metals were far greater for counterfeit than the authentic brands, in some cases by an order of magnitude. Significant differences still existed even after normalizing mainstream smoke metal levels with nicotine delivery; the counterfeits typically delivered much higher levels of all three analytes" Abstract. [Emphasis added].

- **Heavy Metal Concentrations in Counterfeit Cigarettes are Higher by an Order of Magnitude**. "Mean smoke particulate cadmium levels from counterfeit cigarettes were 2.0–6.5 times higher than the authentic brands and the differences were all statistically significant ($p < 0.05$). Mean smoke particulate thallium levels from counterfeit cigarettes were 1.4–4.9 times higher than the authentic cigarettes. The thallium level differences between counterfeits and the corresponding authentic cigarette brands were statistically significant for all but the two lowest delivery counterfeit Marlboro light brands ($p = 0.1$, $p = 0.06$), which also had much larger relative standard deviations. Mean smoke particulate lead levels from counterfeit cigarettes were 3.0–13.8 times higher than the authentic brand cigarettes. Particulate lead levels also showed statistically significant differences from the respective authentic cigarettes." p. 205. [Emphasis added].

- **Counterfeit Cigarette Smokers are Exposed to Much Higher Levels of Toxic Metals**. "These data suggest that smokers could receive significantly higher exposures to various toxic and carcinogenic metals from counterfeit cigarettes than from the comparable authentic cigarettes, even when accounting for possible nicotine compensation habits among smokers of different tar delivery group cigarettes (Kozlowski and O'Connor, 2002)." p. 207. [Emphasis added].

- **Non-Smokers are Threatened by Counterfeit Cigarettes**. "The potential health impact from smoking cigarettes that deliver high levels of toxic metal is not limited to active smokers. In indoor environments, cadmium, lead, and other metals from sidestream smoke are readily available from passive exposure (Chang et al., 2005; Landsberger and Wu, 1995; Wagner et al., 2001)." p. 207.

- **Children are Threatened by Counterfeit Cigarettes**. "Thus, it is probable that exposure of children or adults to tobacco smoke with higher particulate levels of cadmium and lead such as those found in these counterfeit cigarettes could translate to higher heavy metal blood levels." p. 207.[Emphasis added].

Study: ***Trace Metals Analysis of Legal and Counterfeit Cigarette Tobacco Samples Using Inductively Coupled Plasma Mass Spectrometry and Cold Vapor Atomic Absorption Spectrometry*** by Kamal Swamia, Christopher D. Judda, John Orsinia, Spectroscopy Letters 42:479–490, 2009 *available at* http://www.thecre.com/ccsf/?p=85.

The Swami study used advanced spectrometry techniques to analyzed the concentration levels of 17 metals in counterfeit cigarettes and compare them to their legally-produced counterparts. The study found that the concentrations of metals including arsenic, mercury, cadmium and lead were higher in the counterfeit cigarettes.

Key findings of the study include:

- **Eight Metals are Present in Higher Levels in Counterfeit Cigarettes**. "Table 8a shows that the amounts of Be, As, Mo, Cd, Sb, Tl, Pb, and Hg are higher in counterfeit cigarettes, while the amounts of V, Cr, Mn, Co, Cu, Zn, Se, and Ba, are comparable among legal and counterfeit cigarettes; unexpectedly, Ni is several-fold (mean 2.7-fold) higher in the legal ones." p. 488.

- **Arsenic, Molybdenum and Antimony Concentrations are 2-3 Times Higher in Counterfeit Cigarettes**. "As, Mo, and Sb are all toxic elements and their amounts were about two to three times higher in the counterfeit cigarettes than in the legal cigarettes with mean values 0.620 versus 0.250, 0.646 versus 0.382, and 0.117 versus 0.045 $\mu g g^{-1}$, respectively. Tobacco may contain a substantial amount of As if arsenical insecticides have been used in the growing process. Arsenic and many of its compounds are especially potent poisons. Overexposure to As has been associated with increased risk of skin, liver, bladder, kidney, and lung cancers." p. 489. [Emphasis added].

- **Mercury and Lead Concentrations are Much Higher in Counterfeit Cigarettes**. "The mean Hg concentration in the counterfeit cigarettes was much higher than in the legal ones, 0.049 versus 0.020 $\mu g g^{-1}$. Hg and most of its compounds are extremely toxic. It can be inhaled and absorbed through the skin and mucous membranes. Of all the elements analyzed, Pb showed the greatest enhancement in counterfeit cigarettes relative to the legal ones. The amount of Pb in counterfeits was nearly 10 times higher than in legal cigarettes with a mean value of 5.69 versus 0.606 $\mu g g^{-1}$." [Emphasis added].

Study: ***Smoking behaviours, access to cigarettes and relationships with alcohol in 15- and 16-year-old schoolchildren*** by Sara K. Hughes, Karen Hughes, Amanda M. Atkinson, Mark A. Bellis, Linda Smallthwaite, The European Journal of Public Health Advance Access published February 9, 2010 *available at* http://www.thecre.com/ccsf/?p=97.

The Hughes study, using a survey conducted in North West England, concluded that "Strategies that restrict commercial access to cigarettes among adolescents may increase their reliance on social methods of access, and use of fake, foreign and single cigarettes."

Key findings of the study include:

- **Underage and Lower Income Smokers are Most at Risk From Counterfeit Cigarettes**. "In this study, a high percentage of smokers had bought fake, foreign or single cigarettes, with heavier smokers most at risk of use. This gives cause for concern; such products are more affordable than commercial cigarettes for young people on restricted incomes, and fake cigarettes are known to contain higher levels of tar, nicotine and carbon monoxide, as well as high toxic metal concentrations that could be damaging to health." p. 5. [Emphasis added. Notes omitted.]

- **Counterfeit Cigarettes are a Significant Source of Tobacco for Underage Smokers**. "However, we identified that many smokers relied on friends and family to obtain cigarettes, and had bought foreign, fake or single cigarettes; methods of access that are much harder to control through government intervention." p. 6. [Emphasis added.]

Study: ***'THE DRAGON BREATHES SMOKE' – Cigarette Counterfeiting in the People's Republic of China*** by Anqi Shen, Georgios A. Antonopoulos and Klaus Von Lampe, The British Journal of Criminology (2010) *available at* http://www.thecre.com/ccsf/?p=15.

The Shen study, which makes use of information available only in Chinese, includes discussion of the nature of counterfeit cigarettes made in China.

Key health-related findings in the study include:

- **Tobacco in Counterfeit Cigarettes is Often Treated with Poisonous Chemicals**. "In China, counterfeit cigarettes can be produced from tobacco of various levels of quality, second-hand tobacco or even waste. Some of the chemicals that are used to process the low-quality tobacco, such as sulphur and carbamide, are poisonous and may cause health problems to cigarette consumers. ... Poor-quality tobacco includes the totally unprocessed raw tobacco and musty/rotten tobacco that has to go through a process with sulphur and carbamide in order to look better." p. 245.

- **Cigarette Butts and Other Waste Materials are Used in Counterfeit Cigarettes**. Counterfeiters obtain their tobacco from 'irregular' channels as well. In a case that the authorities came across in Shenyang (Liaonin province), counterfeiters used dumped materials and 'lajiyan' ('rubbish tobacco') to make cigarettes. In addition, the counterfeiters disguised themselves as professional recyclers and bought damaged packaging, 'unusable' wrapping paper and unsellable cigarettes from legitimate cigarette companies. Simultaneously, they employed 'workers' to collect cigarette butts from the rubbish bins (Shidai Shangbao 2002). p. 245. [Emphasis added.]

Report: ***New Responses to New Challenges: Reinforcing the Tackling Tobacco Smuggling Strategy*** by HM Treasury and HM Revenue & Customs *available at* http://www.thecre.com/ccsf/?p=88.

The British government's report discussing its national strategy for countering tobacco smuggling discusses the particular health dangers from counterfeit cigarettes.

Key findings in the report include:

- **Counterfeit Cigarettes Have Higher Levels of Heavy Metals**. "A toxicologist at the Department of Health states that these counterfeit cigarettes have the potential to deliver consistently high levels of heavy metals to the lungs of those who habitually smoke them. Many of these accumulate in the body over time. This phenomenon has only recently been recognised, and the long-term health risks of these heavy metals are presently uncertain." p. 14. [Emphasis added].

- **Counterfeit Cigarettes are Higher in Tar, Nicotine and Carbon Monoxide**. "Additionally, an independent laboratory has tested a representative seizure sample and its results indicate that counterfeit cigarettes contain up to:

  • 160 per cent more tar;

  • 80 per cent more nicotine; and

  • 133 per cent more carbon monoxide than their genuine counterparts." p. 14.

Report: ***Counterfeit Cigarette Information Sheet*** by HM Revenue & Customs *available at* http://www.thecre.com/ccsf/?p=93

The UK government report contains summary information on the particular hazards of counterfeit cigarettes including miscellaneous contaminants.

- **Counterfeit Cigarettes Contain Excrement**. "They [counterfeit cigarettes] have also been found to contain rat droppings, camel dung, sawdust and tobacco beetles."

The Global Trade in Counterfeit Cigarettes

Investigative Journalism: ***Smoking Dragon, Royal Charm*** by Te-Ping Chen for The Center for Public Integrity's International Consortium of Investigative Journalists, October 20, 2008 *available at* http://www.thecre.com/ccsf/?p=105.

The report, one of a series of articles by the Center for Public Integrity on the global trade in contraband tobacco, discusses an FBI investigation into a Chinese-based smuggling operation that brought over a billion counterfeit cigarettes into the US.

- **One Smuggling Ring Brought Over A Billion Counterfeit Cigarettes Into the US**. "By the time the FBI arrested them in August 2005, the Lius had led a team of agents straight into the heart

of a vast Chinese smuggling network — one that sold, among other goods, counterfeit pharmaceuticals, fake $100 bills, and weapons from North Korea. And then there was their real gold mine: cigarettes. Low-grade, brand-name counterfeits. Over a billion of them, all told — more than enough to supply every man, woman, and child in America's 50 largest cities with a pack."

- **Cigarette Counterfeiters are Able to Reproduce High-Tech Anti-Counterfeiting Materials**. "Since the late 1990s, when Chinese counterfeiters first developed the ability to mimic the holograms used to indicate legitimate packs, the industry has accelerated."

- **Counterfeiters Also Trade in Other Illegal Goods**. "Like the Lius, Tang wanted the agents' help importing the real moneymaker: counterfeit cigarettes, which he would fly out to the southeastern city of Xiamen, China, to procure. But the agents kept pushing for other products, too, and finally he caved. Through a friend in Taiwan, he managed to obtain "green paper," or what are more commonly known as "supernotes." That is, near-perfect imitations of U.S. Treasury bills, manufactured in North Korea and delivered to the dumbfounded agents in stacks at a rate of $0.30 on the fake dollar. [Emphasis added].

Investigative Journalism: ***China's Marlboro Country*** by Te-Ping Chen for The Center for Public Integrity, June 29, 2009 *available at* http://www.thecre.com/ccsf/?p=112.

The report, part of the series of articles by the Center for Public on the global trade in contraband tobacco, provides an in-depth look at counterfeit cigarette factories in China.

- **The Supply of Counterfeit Cigarettes is Unlimited**. "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."

- **Counterfeit Cigarette Smuggling is Growing Rapidly**. "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." [Emphasis added.]

- **Counterfeit Cigarette Smuggling Offers Huge Rewards and Low Risks**. "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."

- **Cigarette Smuggling is a Global Plague**. "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."

- **Cigarette Smuggling is Rapid Increasing, Costing Governments Billions**. "'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. [Emphasis added.]

- **Counterfeiters Accurately Reproduce the Latest Tax Stamps**. "This December, when Irish authorities seized a shipment of 20 million counterfeit cigarettes, they found the made-in-China packs bore exact replicas of Ireland's latest tax stamps, which had been in circulation only a few months. [Emphasis added.]

Congressional Research Service Report to Congress: ***North Korean Crime-for-Profit Activities*** by Raphael Perl and Dick K. Nanto, February 16, 2007 *available at* http://www.thecre.com/ccsf/?p=117.

- **North Korea Is a Major Source of American Brand Counterfeit Cigarettes**. "According to the Wall Street Journal, U.S. authorities seized more than a billion of the "fake smokes" in California in 2005. Millions more packs of fake Marlboros, Mild Sevens, and other cigarettes made in North Korea have been seized in Taiwan, the Philippines, Vietnam, and Belize."

- **Chinese Crime Gangs and the North Korean Government Produce Counterfeit Cigarettes in North Korea**. "One of the main hubs of such activity is reportedly Rajin, a free trade zone port city on North Korea's east coast. Many of the cigarette factories in Rajin are reportedly owned and financed by Chinese criminal groups. According to the report, the DPRK regime allows specific deep-sea smuggling vessels to use its ports for such smuggling and provides the gangs with a secure delivery channel. North Korean state-owned enterprises, mostly located in the Pyongyang area, also reportedly produce contraband cigarettes." [Notes omitted.]

Peterson Institute for International Economics Working Paper: ***North Korea's External Economic Relations*** by Stephan Haggard and Marcus Noland, August 2007 *available at* http://www.thecre.com/ccsf/?p=127.

- **Cigarette Smuggling Assists Other North Korean Smuggling**. "Raphael Perl, who indicates that drug sales are declining, believes that cigarette counterfeiting is actually increasing. This trend is notable because illicit activities are sometimes connected; cigarette counterfeiting helps to keep

smuggling in and out of North Korea viable, and the same boats that move cigarettes allegedly have also moved supernotes and drugs." [Emphasis added. Note omitted.]

Senate Testimony: ***North Korea: Illicit Activity Funding the Regime*** by Peter A. Prahar, Bureau for International Narcotics and Law Enforcement Affairs, Department of State, before the Senate Homeland Security and Government Affairs Committee, April 25, 2006 *available at* http://www.thecre.com/ccsf/?p=131.

- **North Korea Produces Large Quantities of Counterfeit Cigarettes for the US Market**. "There are reports of as many as twelve such factories, some of which appear to be owned and operated by North Korean military and security organizations, while others appear to pay the DPRK for a 'safe haven' and access to transportation infrastructure to conduct their criminal activities. These factories have the capacity to produce billions of packs of counterfeit cigarettes annually, some of which enter the U.S. market."

- **Cigarette Smuggling Is Lucrative for North Korea at the Expense of the US Government**. "Counterfeit cigarette manufacture and trafficking are very profitable. Cigarettes made from low-grade tobacco can be produced cheaply and packaged in cartons made to mimic well-known brands, like "Marlboro©". The cigarettes are then imported surreptitiously into markets where the cigarettes are taxed heavily. Counterfeit tax stamps are also produced, adding to profits by eliminating the need to pay taxes. Cigarettes, which cost the criminals very little to manufacture and ship, are then ready to be sold to witting and unwitting consumers for an excellent profit. The global scale of cigarette smuggling is large: billions of counterfeit cigarettes are sold illegally in the United States and abroad. One cigarette company estimates that the U.S. federal government and state governments lose about $736,000 (weighted average) in revenue for each 40-foot shipping container of illicit cigarettes entering the United States."

- **Cigarette Smuggling Supports the Flow of Narcotics**. "It is likely that the relationship between criminal elements in the DPRK and organized ethnic Chinese criminals operating in the region could facilitate the flow of narcotics and other contraband across the Chinese- DPRK border. Furthermore, industry investigators have identified a vessel named the "Chu Xing," which makes regular ferry-like trips between Chinese ports near Najin, at Najin proper -- where DPRK counterfeit cigarettes are manufactured -- and Pusan, South Korea. There have also been several seizures of methamphetamine in Pusan in containers loaded on this vessel in China. As these containers subsequently transited Najin, it is quite possible that narcotics cases in which the drugs are thought to originate in China represent, in fact, cases where the drugs originated in the DPRK and were introduced into the cargo in Najin.
  . . .
  We will continue to be on guard against the possibility that DPRK origin narcotics could enter the United States, perhaps through criminal networks that are already trafficking in counterfeit cigarettes to the United States." [Emphasis added].

News Report: ***Look How Easy it is to Import Counterfeit Chinese Cigarettes*** by Justin Rohrlich for Minyanville, found here http://www.thecre.com/cc/?p=246.

- **Counterfeit Cigarettes Can Easily be Ordered Over the Internet with Your Choice of Fake Tax Stamps**. "I clicked the 'Live Help' button and I was chatting with a representative on the other side of the planet far faster than I have ever in my life been able to get a Verizon rep on the phone.

  The following is our full, unedited conversation:

  you 2011-6-14 11:0:23
  hello

  SalerN0.1(9108666) 2011-06-14 22:59:15
  hi

  you 2011-6-14 11:0:39
  how long for shipment from china to united states?

  SalerN0.1(9108666)2011-06-14 22:59:35
  4-7days,friend

  you 2011-6-14 11:0:57
  tax stamp for any state available?

  SalerN0.1(9108666)2011-06-14 23:00:10
  which state do u need?

  you 2011-6-14 11:1:34
  ny, nj, florida, california, michigan

  SalerN0.1(9108666)2011-06-14 23:00:46
  no problem, we have all of them

  you 2011-6-14 11:2:15
  and it comes from china direct to united states?

  SalerN0.1(9108666)2011-06-14 23:01:30
  yes, friend

  you 2011-6-14 11:3:11
  no problem with customs?

SalerN0.1(9108666)2011-06-14 23:02:15
no problem, we can guarantee the delivery

you 2011-6-14 11:3:47
and the stamps look real?

SalerN0.1(9108666)2011-06-14 23:02:51
sure

you 2011-6-14 11:4:32
what is the next step for delivery? make a purchase on your website?

SalerN0.1(9108666)2011-06-14 23:04:18
yeh, you can order on our website directly, and then we will ship it out in 24 hours"

News Report: ***Only 5% of Contraband Cigarettes Seized*** by CRE Brazil *available at* http://www.thecre.com/cc/?p=169.

- **Cigarette Smuggling is a Massive Business in Brazil**. "Federal Revenue Specialists estimate that less than 5% of contraband cigarettes to Brazil are seized. Just to have an idea of the amount of illegal products that come into the country, in 2009 the government destroyed 78 million packs."

News Report: ***Scotland's back on the fags as smugglers re-open black market*** by Stephen Stewart, Sunday Mail *available at* http://www.thecre.com/cc/?p=171.

- **Counterfeit Cigarette Smuggling is a Massive Business in Scotland**. "Shocking pictures show crook John Scullion back at Ayr market peddling tobacco after he was named and shamed in a BBC Scotland investigation in January.

  Cheeky Scullion and his cronies openly sold "illicit whites" – tobacco from China with 30 times more lead than normal cigarettes – at Ayr Sunday market on April 17.

  The images were taken by former Metropolitan Police officer Bob Fenton during an undercover swoop on tobacco smugglers, who rob the country of £4billion a year in tax." [Emphasis added.]

News Report: ***Cigarette Lighter*** from Croatian Times *available at* http://www.thecre.com/cc/?p=182

- **Counterfeit Cigarette Smuggling is a Massive Business in Croatia**. "More than 100,000 counterfeit cigarettes went up in smoke when the truck trafficking them through Bulgaria burst into flames, say police."

News Report: ***Millions of fake cigs go up in smoke*** from ECR Newswatch *available at* http://www.thecre.com/cc/?p=258.

- **Counterfeit Cigarette Smuggling is a Massive Business in South Africa**. "Five million counterfeit cigarettes have gone up in flames at Briardene, north of Durban."

News Report: ***Fake smokes worth $3.5m seized in Vancouver*** from MetroNews.ca *available at* http://www.thecre.com/cc/?p=185.

- **Counterfeit Cigarette Smuggling is a Massive Business in Canada**. "For the third time in a year border agents in Vancouver have intercepted a container from China stuffed with counterfeit cigarettes."

News Report: ***Three factories sealed for 'fake cigarettes'*** from The News (PK) *available at* http://www.thecre.com/cc/?p=198.

- **Counterfeit Cigarette Production is a Massive Business in Pakistan**. "On orders of Khyber Agency political agent Safeer Ullah Wazeer, the Barah tehsildar, along with heavy force of Frontier Levies Khassdar Force, raided on and sealed three factories involved in manufacturing fake cigarettes."

News Report: ***Leeds Customs raid uncovers £53,000 illegal tobacco*** from the Yorkshire Evening Post *available at* http://www.thecre.com/cc/?p=232.

- **Counterfeit Cigarette Smuggling is a Massive Business in England**. "A haul with a street value of £53,000 was uncovered after HM Revenue and Customs (HMRC) staff raided three addresses in the Chapeltown area of Pudsey, Leeds. The contraband included 42,000 cigarettes and 150 kilos of rolling tobacco on which £42,000 excise duty and VAT had not been paid."

News Report: ***Cigarette sales get stubbed*** from the Financial Times *available at* http://www.thecre.com/cc/?p=239.

- **Counterfeit Cigarette Smuggling is a Massive Business in Spain: Counterfeit Sales Up Over 900% in Single Year**. "The sale of non-taxed, smuggled or counterfeit cigarettes from China has risen in one year from 0.5 per cent of the total market to 4.6 per cent, while the number of so-called travel and retail sales, or foreigners buying cigarettes to take home, has also dropped."[Emphasis added.]

News Report: ***Sydney flooded with illegal cigarettes*** from the Telegraph *available at* http://www.thecre.com/cc/?p=244.

- **Counterfeit Cigarette Smuggling is a Massive Business in Australia**. "Sydney is flooded with blackmarket cigarettes selling for as little as half the price of a genuine pack, but peddlers are avoiding punishment because it is tobacco companies who catch them."

News Report: ***Fake Marlboro Vendors Sued by Philip Morris International*** from Zacks Research *available at* http://www.thecre.com/ccef/?p=45.

- **Counterfeit Cigarette Smuggling is a Massive Business in the United States**. "Philip Morris says Miami is one of the top three areas and a hotbed of counterfeit cigarettes. The fake business extends from Little Havana to Hialeah to Miami Beach. The company believes more than one million fake cigarette packs are sold in Miami-Dade County every year."

Counterfeit Cigarettes and Terrorism

US Government Report: ***Terrorist Financing -- U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms*** by US Government Accounting Office, November 2003 *available at* http://www.thecre.com/ccsf/?p=140.

Key findings of the report include:

- **Cigarette Smuggling Finances Terrorism**. "Terrorists have earned assets through the highly profitable illicit trade in cigarettes. According to officials from the ATF, Hizballah, HAMAS, and al Qaeda have earned assets through trafficking in contraband cigarettes or counterfeit cigarette tax stamps." pp. 11-12.

DHS House Testimony: ***ICE Authorization for Fiscal Year 2005 and 2006*** by Michael J. Garcia, Assistant Secretary, Immigration and Customs Enforcement, Department of Homeland Security Before House Ways and Means Committee, Subcommittee on Trade, *available at* http://www.thecre.com/ccsf/?p=144.

- **Terrorist Groups Receive Substantial Funds from Smuggling Cigarettes**. "[t]obacco smuggling also provides a lucrative source of funding for terrorists and other criminal organizations. In January of this year, ICE dismantled the largest nationwide tobacco smuggling organization to date and arrested 15 defendants. ... The organization was responsible for the movement of more than 10,000 cases of counterfeit and contraband cigarettes...."

Master's Thesis: ***The Relationship between Criminal and Terrorist Organizations and Human Smuggling*** by Joseph A. Lanzante, Naval Postgraduate School, December 2009 *available at* http://www.thecre.com/ccsf/?p=149.

- **Cigarette Smuggling Funds Terrorism**. "In 1999, Said Mohamad Harb, who was heavily involved in the North Carolina cigarette smuggling ring lead by Mohamad Hammoud that raised millions of dollars for Hezbollah, helped secure three fraudulent visas and foster three sham marriages. p. 6.

Investigative Journalism: ***South Florida Cigarette Smuggling Funds Terrorism*** by Tim Elfrink for the Broward-Palm Beach New Times, July 02, 2009 *available at* http://www.thecre.com/ccsf/?p=153.

- **US-Based Cigarette Smuggling Financed the Murder of Two British Soldiers**. "A gray-haired 57-year-old Cutler Bay man with no criminal history named Roman Vidal sold millions of cigarettes that had been smuggled to Dublin criminals who funded the terrorist group that killed Quinsey and Azimkar, investigators say. The charges are just the latest link between black-market U.S. smokes and violent terrorist groups around the world."

FBI Senate Testimony: ***New Border War: Corruption of U.S. Officials by Drug Cartels*** by Kevin L. Perkins, March 11, 2010 *available at* http://www.thecre.com/ccsf/?p=157.

- **Cigarette Smuggling Supports Drug Smuggling and Human Trafficking**. "the FBI and DEA supported Canadian law enforcement in the arrest of eight people, including a customs agent, suspected of smuggling cocaine and marijuana, contraband cigarettes, and illegal immigrants over the Quebec-New York border. This underground network reportedly ferried hundreds of kilograms of cocaine from Colombia into Canada via the Saint-Bernard- de-Lacolle border crossing. This is one of many investigations along our northern border."

Department of Justice/ATF: Congressional Budget Submission Fiscal Year 2010 May 2009 *available at* http://www.thecre.com/ccsf/?p=161.

- **Narcotics Trafficking, Gun Running and Terrorism are Supported by Cigarette Smuggling.** "Current investigations have identified instances of terrorist groups forming alliances with tobacco traffickers to generate monies used to support their organizations and activities. Diversion activities often generate tremendous cash profits that are laundered and used to further other unlawful schemes, such as narcotics and firearms trafficking. As an example, ATF conducted two contraband cigarette trafficking cases in which individuals were convicted of Material Support to a Terrorist Organization." p. 23.

Enforcement Actions Against Counterfeit Cigarettes

News Report: ***ATF: Counterfeit cigarettes on the rise*** from Daily Press *available at* http://www.thecre.com/cc/?p=265.

- **Extensive Federal Investigations into Counterfeit Cigarette Trafficking Yields Results.** "Federal authorities announced Thursday they had made arrests in Hampton Roads involving people charged with counterfeit and untaxed cigarettes. Local law enforcement also raided stores on Wednesday that were believed to be selling untaxed cigarettes after being tipped off by federal authorities.

  Eight individuals were suspected in the trafficking operation, which the U.S. Attorney's office said originated in New Jersey and New York under two different criminal enterprises. The investigation began in June 2009."

News Report: ***Philip Morris Sues China-Based Websites*** from Wall Street Journal available at http://www.thecre.com/cc/?p=14.

- **Counterfeit Cigarettes Can be Easily Purchased Online.** "The Altria Group Inc. unit, which is the largest U.S. cigarette manufacturer by revenue, said Wednesday that sales of phony Marlboro cigarettes to American smokers through China-based websites is an emerging problem. It said its lawsuit filed this week in a California federal court is the first of its kind by a U.S. company."

BBC Report: ***Reporter smokes out tobacco gangs*** from BBC News, *available at* http://www.thecre.com/cc/?p=44.

- **The Media is Investigating the Counterfeit Cigarette Trade**. Watch the BBC video.

Chinese State News Report: ***Tianjin police uncover a serious counterfeit cigarette case*** English translation *available at* http://www.thecre.com/cc/?p=65.

- **The Chinese Government is Taking Enforcement Actions Against Counterfeit Cigarettes.** "Recently, the Tianjin police cracked the case of large groups trafficking in counterfeit cigarettes with a value of over one million yuan. Police indicated that in recent years, the groups have been taking orders for manufacturing and selling counterfeit cigarettes."

News Report: ***Illegal smokes a threat – RCMP*** from Daily Gleaner *available at* http://www.thecre.com/cc/?p=150.

- **The Royal Canadian Mounted Police Crack Down on Counterfeit Cigarettes**. "On April 8, members of the RCMP's traffic services unit executed a pair of stops on the Trans-Canada Highway in the Edmundston area, resulting in the seizure of hundreds of thousands of illegal cigarettes.

  The checks resulted in 200,000 contraband smokes being taken from one vehicle and 150,000 from another."

News Report: ***Local man faces charges for counterfeit tax stamp cigarettes*** from NorthJersey.com *available at* http://www.thecre.com/cc/?p=153.

- **State Tax Stamps are being Counterfeited.**. "Members of the Bergen County Prosecutor's Office, White Collar Crime Unit developed information regarding the illegal sale of cigarettes bearing a counterfeit State of New Jersey tax stamp. Ligmanowski was found in possession of 59 cartons of cigarettes bearing a counterfeit New Jersey tax stamp. As a result a search warrant was executed at his residence located on Chestnut Street in Garfield, resulting in numerous other cartons from various domestic states being seized as well as a sum of money."

News Report: ***Fake smokes worth $3.5m seized in Vancouver*** from MetroNews.ca *available at* http://www.thecre.com/cc/?p=185.

- **Massive Shipments of Counterfeit Cigarettes from China to North America Common**. "For the third time in a year border agents in Vancouver have intercepted a container from China stuffed with counterfeit cigarettes.

  The Canada Border Services Agency says documents that came with the latest container said it was loaded with clothing, but an examination turned up almost 50,000 cartons of cigarettes worth $3.5 million."

News Report: ***Russia gangs 'help cigarette scams' Fake smokes worth $3.5m seized in Vancouver*** from Belfast Telegraph *available at* http://www.thecre.com/cc/?p=254.

- **Russian Organized Crime Active in Global Counterfeit Cigarette Trade**. "Ireland's organised crime gangs have joined forces with Russian criminals to flood the country with counterfeit cigarettes, it has been claimed. Illegal cigarettes smuggled from China, the Middle East and countries bordering the EU account for about a fifth of tobacco smoked in the country. . . .

  The Revenue Commissioners – who led the detention of seven containers of cigarettes, including two in Northern Ireland and one in Antwerp, Belgium this year – plan to mount a series of 'blitz' operations across the country to target smugglers."

News Report: ***Intensifying the Fight against the Illicit Trade in Tobacco*** from MyMosaik.lu *available at* http://www.thecre.com/cc/?p=194**.**

- **Japan Tobacco International Works with Europe to Combat Counterfeiting and Smuggling**. "On Thursday, Japan Tobacco International (JTI) signed a Memorandum of Understanding with the Luxembourg's Ministry of Finance, represented by the 'Administration des Douanes et Accises' (Administration of Customs and Excise). . . .

Mr Jacques Coffeng, CEO of JTI Benelux explained 'The concerned manufacturers and countries need to combine efforts and cooperate in order to efficiently battle the illegal trade of tobacco products. To stifle this phenomenon, which sullies the reputation of our company and our industry, JTI has concluded Memoranda of Understanding with several European Union member states executing the agreement with the European Union and its member states of December 2007, especially with France, Italy, Switzerland, the United Kingdom, Ireland and Belgium.'"

Conclusions

- The TPSAC has failed to comply with its statutory mandate to study the additional adverse **HEALTH EFFECTS** of counterfeit cigarettes. TPSAC's shunning of their duty endangers the health of the most vulnerable populations – underage smokers, lower income smokers and African American smokers.

- CRE's Counterfeit Cigarettes IPD contains extensive materials including peer reviewed studies, government reports, and other materials documenting the countervailing effects of counterfeit cigarettes. See, http://www.thecre.com/cc/.