

JUNE 5, 2007

When Fakery Turns Fatal

By DAVID BARBOZA

WUDI, China — They might be called China's renegade businessmen, small entrepreneurs who are experts at counterfeiting and willing to go to extraordinary lengths to make a profit. But just how far out of the Chinese mainstream are they?

Here in Wudi in eastern China, a few companies tried to save money by slipping the industrial chemical melamine into pet food ingredients as a cheap protein enhancer, helping incite one of the largest pet food recalls ever.

In Taixing, a city far to the south, a small business cheated the system by substituting a cheap toxic chemical for pharmaceutical-grade syrup, leading to a mass poisoning in Panama. And in the eastern province of Anhui, a group of entrepreneurs concocted a fake baby-milk formula that eventually killed dozens of rural children.

The incidents are the latest indications that cutting corners or producing fake goods is not just a legacy of China's initial rush toward the free market three decades ago but still woven into the fabric of the nation's thriving industrial economy. It is driven by entrepreneurs who are taking advantage of a weak legal system, lax regulations and a business culture where bribery and corruption are rampant.

"This is cut-throat market capitalism," said Wenran Jiang, a specialist in China who teaches at the University of Alberta. "But the question has to be asked: is this uniquely Chinese or is there simply a lack of regulation in the market?"

Counterfeiting, of course, is not new to China. Since this country's economic reforms began to take root in the 1980s, businesses have engineered countless ways to produce everything from fake car parts, cosmetics and brand name bags to counterfeit electrical cables and phony Viagra. Counterfeiting rings are broken nearly every week; nonetheless, the government seems to be waging a losing battle against the operations.

Dozens of Chinese cities have risen to prominence over the last two decades by first specializing in fake goods, like Wenzhou, which was once known for selling counterfeit Procter & Gamble products, and Kaihua in Zhejiang province, which specialized in fake Philips light bulbs.

For a time, people even derided the entire province of Henan as the capital of substandard or fake goods, like medicines that could make you miraculously grow taller.

But the discovery of dangerous ingredients in foods and drugs has raised more serious questions.

One such operation is centered here in Wudi, about five hours southeast of Beijing. This is where the trail of the American pet food recall leads.

Regulators came to Wudi in early May and shut down one of the region's biggest feed exporters, the Binzhou Futian Biology Technology Company. They also detained its manager, Tian Feng, after American officials identified Binzhou Futian as one of two Chinese companies responsible for shipping contaminated pet food ingredients to the United States.

Chinese authorities said that Binzhou Futian and a company in bordering Jiangsu province had intentionally doctored feed ingredients to generate bigger profits. Regulators in China called it an isolated incident.

But agricultural workers and experts in this region tell a different story. They say the practice of doctoring animal and fish feed with melamine and other ingredients is widespread in China. And Wudi, they say, has long been known as a center for such activity.

"Wudi became famous for fake fish powder almost 10 years ago," said Chen Baojiang, a professor of animal nutrition at the Agricultural University of Hebei. (Fish powder is used as a protein additive to animal feed, including fish feed.)

"All kinds of fillers have been used. At the beginning it was vegetable protein, then urea. Now it's feather powder."

In small village workshops on the outskirts of Wudi, residents say hundreds of workers make animal feed doctored with fish scraps and cheap ingredients that are then packaged for sale to unsuspecting farmers and fish farms.

Much of the fish scrap comes from the nearby Bohai Bay area or imported from Peru and then blended with cheap fillers to bolster profits.

"About 90 percent of the fish powder on the market is fake," said Xue Min, who works at the Feed Research Institute, a division of the China Academy of Agricultural Sciences in Beijing. "When it reaches the customer, he doesn't know how many kinds of filler have been added."

But recently, residents say more buyers have turned skeptical of Wudi's fish powder. And that has forced some local manufacturers to switch to vegetable protein and search for new buyers.

"Customers are now suspicious about fish powder," says Sun Hong Qiang, who operates a fish scrap supplier in Wudi. "Everyone knows there's some fake fish powder out there."

To reach bigger customers, feed producers from Wudi recently began calling themselves "technology" companies that sell protein powder. And they are using online trading Web sites like Alibaba.com to sell their goods.

But few companies here were as successful as Binzhou Futian, which in 2006 won contracts to ship pet food ingredients to major suppliers in the United States and South Africa.

The American and South African middlemen say that they found Binzhou Futian

through online advertisements and commodity-trading Web sites. The companies did not bother to visit Binzhou's factories or to investigate its background or its export record.

"I'm not sure of the introduction, but I think it was through Google search," said Leon Ekermans, a marketing director at Bester Feed and Grain, a South African grain trader. "We were told by an intermediary that they were once a government company and made good feed."

Asked whether Bester had researched the supplier's record or visited China, Mr. Ekermans acknowledged that the answer was no. "We tested samples," he said, "but it was very difficult to test for melamine."

When investigators from the United States Food and Drug Administration visited China in early May, hoping to determine why melamine ended up in pet food ingredients, they saw little more than a shuttered Binzhou Futian factory.

"They've all been closed down, machinery dismantled, nothing to get access to," said Walter Batts, an F.D.A. official.

Binzhou Futian was run by Tian Feng, a small-town entrepreneur who started out producing fish powder but later moved into vegetable protein, according to local residents.

Mr. Tian's company shared a building with the county government's cereal and grains bureau, an indication of its close ties to the government.

"Futian didn't have any actual factory here," said a guard who works at the Binzhou headquarters. "They hung a banner here because they wanted to look good in front of visitors. They had countless suppliers from the countryside."

A spokesman for the county cereal bureau, however, denied having any relationship with Binzhou Futian and Mr. Tian, who has been detained by the authorities. Mr. Tian has denied knowing anything about melamine or how it got into the feed he exported.

And while the government said that it had not found any other companies exporting melamine-tainted goods overseas, regulators shut dozens of fish feed producers near Wudi.

Investigators say Mr. Tian's company engaged in fraud: it mislabeled its feed exports as nonfeed goods, possibly to avoid food inspection; it also exported tons of pet food ingredients labeled as corn gluten and rice protein concentrate. Actually, they say, it was low-protein wheat powder. Analysts say Binzhou's case is not unusual. This is how the counterfeiting system often evolves, they say.

For decades, small entrepreneurs have started out counterfeiting in emerging industries in China, seeking an early advantage and their first pot of gold.

Often, they try to get around regulations, or simply believe small-time cheating that involves adding cheap substitutes or low-grade ingredients will not cause much harm.

“Basically, for entrepreneurs, if something is not explicitly banned — it’s not banned,” said Dali Yang, who teaches at the University of Chicago and has studied China’s food safety regulations. “As long as people are not sick or dying, it’s O.K.”

Experts say counterfeiters are now moving to outlying areas of the country, where it is easier to evade regulation. The counterfeiters are also moving into food and agriculture, which are difficult to monitor because they involve small farmers and entrepreneurs.

Small-time entrepreneurs have played the same game over and over with other products, experts say, adding cheap substitute chemicals to toothpaste; using lower-grade materials to produce car parts, batteries and cellphones; and creating factories that specialize in counterfeit goods.

Last year, for instance, pirates were caught faking an entire company, setting up a “branch” of the NEC Corporation of Japan, including 18 factories and warehouses in China and Taiwan.

“We have to bear in mind they probably don’t think about the consequences at all,” said Steve Tsang, a China specialist who teaches at Oxford University. “They’re probably only thinking of making a fast buck.”