

## Smoking Dragon, Royal Charm

A Tale of Four FBI Agents, 62 Chinese Smugglers, and a Billion Bogus Cigarettes

By Te-Ping Chen | October 20, 2008

Here in California, it's possible to pass within a mile of the Los Angeles-Long Beach port complex and never once suspect it's there. East of the Palos Verdes Hills, the port's surrounding warehouses easily obscure the mass of steamers that daily arrive studded with stacks of containers bearing international cargo.

Yet the complex is the busiest in America, the arrival point for nearly half the volume of all U.S. imports. And it's here that, like so many other smugglers, Charles and May Liu first struck gold.

By all accounts, the Lius were not extraordinary. After emigrating from China around 1980, the pair settled into the Washington, D.C., suburb of Gaithersburg, Maryland. Charles was quiet, a student in political science at New Jersey's Seton Hall University, where he received a master's degree. At age 67, he had a professorial look, with chinos and sweaters his preferred attire. May was a romantic, someone the agents who arrested her would later describe as a "true lady," one who loved ballroom dancing, wore pantsuits, and fastidiously watched her weight.



Counterfeit Marlboros arrived in the Los Angeles-Long Beach port complex, hidden in shipping containers falsely labeled "toys" and "wicker furniture." Credit: Te-Ping Chen.

But the pair wasn't quite what they appeared. 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.

Like drug trafficking, the trade in fake cigarettes is big money. While in China it costs as little as \$125,000 to manufacture a 40-foot container of

cigarettes (or 10 million individual sticks), here in the United States, such a container's contents can be sold for as much as \$2 million. Historically, several U.S. multinational tobacco companies, notably R.J. Reynolds and Philip Morris, dominated the global cigarette smuggling trade alongside British American Tobacco. Yet since a series of exposés and multibillion-dollar lawsuits in the European Union and the U.S. clamped down on such activities after 2000, the United States has itself become a target for a new wave of smugglers who have stepped in to fill the industry's shoes.

Today, with less scrutiny from law enforcement than drug trafficking and lighter penalties for those caught, the cigarette smuggling business is a bonanza for organized crime syndicates, everyday crooks — and even terrorist cells.

As with drug smugglers, cigarette smuggling rings are difficult to penetrate, with networks insular and compartmentalized. “The person in a warehouse who’s responsible for receiving the containers [of cigarettes] only knows what they need to know,” said Kevin Kozak, deputy special agent in charge of the U.S. Immigration and Customs Enforcement investigations office in Los Angeles. “Try coming in with a warrant then, and you have no case.”

“You have to be patient,” he said.

Undercover FBI agents Lou Calvarese, Jack Garcia, and Tom Zycowski know a lot about being patient. For six years, the trio painstakingly worked to cultivate Charles and May Liu’s confidence. Over the course of some 1,000 meetings, their investigation — dubbed “Operation Royal Charm” — would pull the agents deep into a tangled Chinese underworld spanning coasts and continents. Together with a parallel California case, “Operation Smoking Dragon,” the twin investigations would result in 10 indictments, with 87 individuals charged, mostly ethnic Chinese.

“We really got to see a network of cigarette smugglers up close,” said Garcia — who, like the other agents, has since retired and is sharing his full story with a reporter for the first time. “It’s sophisticated, the way it works. And these guys are like hookers,” he said. “There’s a lot of them.”

Calvarese, Garcia, and Zycowski — based out of Atlantic City, New Jersey — first heard from an Italian informant about Charles and May Liu in 1999. The informant had fingered the pair as cigarette smugglers, wheelers and dealers who’d been sneaking counterfeit smokes into the Los Angeles and Long Beach ports. But authorities had lately intercepted a few of their containers. The couple might be receptive to an offer of assistance at the ports, the informant intimated — that is, from the right kind of individuals.

At a formidable 6 feet 4 inches and 375 pounds, Zycowski (or “Z-man,” as his targets knew him) thought he could play the part. A longtime undercover agent, he was used to adopting the braggadocio needed to pose as a member of the Italian Mob. Some shiny suits, a pair of Cadillacs retrieved from the FBI’s stock of impounded vehicles, and a purple Porsche Carrera — seized from a drug dealer with only 7,000 miles on it — gave him and his fellow agents all the other panache they needed.



Undercover G-men Lou Calvarese (left) and Tom Zycowski (right) celebrate with their “fellow smugglers” just prior to Calvarese’s faux weekend wedding.

As it turned out, the ruse was easy. The Lius, evidently, had never dealt with the Italian Mafia before. When the agents assured them that as mobsters, they knew corrupt officials at the Newark

port, the couple easily absorbed the story. After their containers had been seized in California, the Lius figured they’d try their luck elsewhere. A deal was made: For \$60,000 per container, the agents would guarantee delivery of their cigarettes.

And, gradually, a friendship was struck. “From the time I first met her, May actually started to kind of fall in love with me,” Zycowski said. “Well, not me, exactly. It was the Italian wise guy she liked.” Those feelings, Zycowski said, had real roots — though nothing ever came of them. “Charles was often away in China, always focused on their business,” Zycowski said. “I think she was lonely. In some ways, I think she just wanted companionship.”

## “CHINESE BEVERLY HILLS”

Fifteen miles east of Los Angeles lies the San Gabriel Valley: a cluster of low-slung, palm-lined suburbs variously nicknamed Little Taipei, New Chinatown, and the “Chinese Beverly Hills.” The area is heavily immigrant, its streets lined with stores bearing bleached Chinese characters advertising everything from dentists to dumplings. Around here, Chinese so heavily dominate the valley that one auto shop worker quips, “The best way to learn English is to go to jail.”

Like his counterparts in Atlantic City, FBI agent Bob Hamer knew little about the Chinese trade in counterfeit cigarettes. But by the time he was tapped to become the West Coast undercover agent in “Smoking Dragon,” he’d heard about it. Since the late 1990s, when Chinese counterfeiters first developed the ability to mimic the holograms used to indicate legitimate packs, the industry has accelerated. “In China, counterfeiters provide

economic benefits [such as jobs]," said former tobacco industry consultant Tai-Ming Cheng, "so there's always been a disincentive to crack down." And greased by the generous amounts of official payoff (the cost to bribe a container out of China runs about \$20,000), the trade is flourishing. Today, China is the world's biggest producer of counterfeit cigarettes, churning them out at a rate of roughly 200 billion sticks per year, according to smuggling experts.

That was mostly news to Hamer. Nevertheless, with his over 20 years of experience infiltrating groups from La Cosa Nostra to the Russian Mafia, Hamer's supervisors assured him he was the man for the job. "Asians respect age," they told him. "We need you."

"At the time, I was only 52," Hamer recalled, hardly flattered. But in September 2002, he adopted a tottering gait and a cane, and with good grace went to meet his first target: Willon Kow Szeto. A 68-year-old father from Rosemead, one of the San Gabriel Valley's majority-Asian towns, Szeto had been smuggling containers of cigarettes into the Los Angeles-Long Beach port complex along with several associates living in the San Gabriel Valley, including Dong Jie Li, 31, from China, and her 52-year-old Taiwanese boyfriend, Giashian Lin.

Apart from the occasional container customs managed to confiscate, business was good. "If they sent 10 containers over and could get half of them through, they were happy," Hamer said. "And overall [customs] really inspected so few anyway." Nationally, about 22 percent of containers entering U.S. ports undergo some level of inspection upon arrival — either an X-ray scan or a random-box search. But while port-by-port numbers aren't released to the public, one customs officer at the Los Angeles-Long Beach ports estimates the local figure is considerably lower: somewhere closer to 13 percent. After all, every day, over 15,000 containers stream into the port complex — or one every six seconds.



John Tung Wu, pictured here with FBI agent Bob Hamer, was one of many smugglers importing Chinese counterfeit cigarettes into the Los Angeles-Long Beach ports.

Even so, one of Szeto's associates — Lin — had lately been arrested. Not because one of his containers was detected. Instead, a couple flying into the Los Angeles airport in April that year were the ones to give the tipoff. When security officials discovered that their suitcases contained 2 million phony California cigarette tax stamps from Xiamen, China — to be affixed on likewise phony packs — they also discovered the name of their intended recipient: Lin. Upon raiding Lin's apartment, they found shipping documents linking him to 16 million counterfeit cigarettes that had turned up at the ports listed as furniture and chinaware. Lin surrendered his passport and was detained that afternoon, though not for long. Much to the chagrin of his sister-in-law, Lin's brother agreed to put up \$50,000 secured by their

\$248,000 Monterey Park home for bail.

Five months later on September 16, 2002, FBI agent Hamer sat in a posh Beverly Hills restaurant with Szeto, eating campanelli puttanesca and talking about his supposedly corrupt port "contacts." After some negotiations, Hamer promised to guarantee Szeto's shipments for \$60,000 per container.

That same day, Lin strode into the gleaming Los Angeles International Airport with a substitute passport he'd obtained from the local Taiwanese Consulate. He went to the counter and bought a one-way ticket to Shanghai. He boarded a plane an hour later.

## A COUNTERFEIT GOLD MINE

Meanwhile back in New Jersey, Calvarese, Garcia, and Zycowski were getting impatient. Intent on expanding the case, the agents continued to bring in more cigarettes for the Lius — 10 shipments by September 2003, or some 100 million sticks, mostly counterfeit Marlboro and Newport. Each time, the agents helped route the cartons to the Lius' various contacts in southern California, Pennsylvania, Canada, Illinois, and New York before receiving payment (usually in paper grocery bags stuffed with \$20 bills).

But at this point, the FBI wanted more. They'd met the Lius' partners, including a pair from the San Gabriel Valley, Cheng Ming Hsu and Taiwanese national Tina Huang. They'd met the Lius' buyers and distributors. Now, they wanted to know who else the Lius knew — and what else their networks could provide them.

In particular, the FBI was interested in the Lius' rumored ties to Chinese weapons dealers. But the Lius weren't giving them up.

**Today, China is the world's biggest producer of counterfeit cigarettes, churning out 200 billion sticks a year.**

"The cigarettes were just such a gold mine for them," Garcia said. "That was all they were interested in." Even when customers complained about the cigarettes' poor quality, their distributors had their tricks. In run-down neighborhoods, the Lius' contacts would mix fakes with real Marlboros and sell them on the streets, three sticks for a dollar.

"The numbers were astronomical, and it was all very well-organized," remembered Calvarese, who early on became the primary agent in "Operation Royal Charm." For each shipment the Lius made, they could net over \$1 million. And by the time a container crossed U.S. soil, every carton inside — usually about 900 cases of them — already had a buyer set up and distribution pre-arranged.

Finally, Garcia-the-mobster issued an ultimatum. "If you don't kick it up a notch, we said, we're out of here," Garcia said. His drug contacts in Colombia, he told them — local freedom fighters — were getting antsy, demanding that Garcia produce weapons before they moved ahead with any cocaine deals.

"It was frustrating," Garcia said. "But worth it. Because in the end, they led us to Keith."

Co Khanh Tang, or Keith, as the agents knew him, was a Vietnamese-born Chinese who immigrated to the United States in 1975 and eventually settled in the San Gabriel Valley to work the Asian tables at a local casino. An avid golfer, rarely without his Tiger Woods cap, Tang was quiet — in the words of one agent, a real "family man." Modest and discreet, even at the gambling table. When he flew out to visit with agents at casinos in Atlantic City, he'd win thousands of dollars. But when management offered him special dinners and hotel perks, he'd shake his head and simply walk away.

"He wasn't at all cocky," Garcia said. "He seemed like the kind of guy you could be friends with."

But at least according to agents, Tang also had a murkier past as a former member of a Chinese gang, with the blue-inked tattoos running down his back to prove it. At the very least, from his days working at the casino, he had all the connections he needed to draw on to make him the FBI's next primary target.

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.

"We showed them to the Secret Service and the FBI," Garcia recalled. "And suddenly, everyone was in uproar."

Still more was to come. A month later, Tang invited the agents to Phuket, Thailand, to meet with his supernotes contact, who also dealt in heroin and weapons. It would be a good time, Tang reportedly promised. Food, beaches — and girls. As many as the agents wanted, and all day if they so desired.

"At this point, I'm telling you, everything just mushroomed, out of control," Calvarese said. At home, he kept three separate phone lines: one for each of his major Chinese contacts. And every day, the phones continued to ring.

## TRICKS OF THE TRADE

Three thousand miles away in California, Bob Hamer was finding himself suddenly popular. Since his initial meeting with Szeto, word of his port contacts had spread among other local Chinese eager for his assistance. Apart from Szeto, there was Dong Jie Li, a pretty 31-year-old with a penchant for yaotouwan, or what the Chinese call "shake-head-pills," ecstasy. There was John Tung Wu, a heavy-set Taiwanese who dealt in crystal methamphetamine as well as cigarettes. There was Alan Hwang, who sold counterfeit Nikes alongside fake Marlboros, and more smugglers besides. "Eventually, it was all I could do to keep them off my back," Hamer said. And the Chinese were selling to a dizzying array of characters that kept popping up, as well: Armenians from Brooklyn, Middle Easterners from southern California.



Giashian Lin, who supplied counterfeit cigarettes to California smugglers implicated in Operation Smoking

Hamer knew who the Chinese were getting cigarettes from: Giashian Lin. Since fleeing to China in late 2002, Lin had again assumed his position as a magnate of the trade, arranging for the shipment of Guangzhou-produced cigarettes out of the Ningbo, Shanghai, and Dalian ports.

Dragon, is currently a fugitive in China. Credit: Interpol.

The Chinese cigarette trade is powered by people like Lin: brokers who connect overseas Chinese from Los Angeles to Manila to distributors in mainland China, where illicit manufacturers churn out vast quantities to meet overseas demand. Last year alone, for example, the central Chinese government seized 9.3 billion cigarettes and rounded up 7,026 people in connection with their manufacturing, mostly in the southeastern provinces of Guangdong and Fujian.

And yet more sites continue to spring up. The cigarette counterfeiting business is something of a cottage industry in China, with mobile manufacturing sites hidden in caves, barns, or even underground. Meanwhile, since counterfeiting consists largely of “just-in-time” production, it’s difficult for authorities to make substantial one-time seizures. Often, the cigarettes aren’t packaged until “very late, possibly just prior to shipment,” said Daniel Chow, an Ohio State University law professor whose research has focused extensively on Chinese counterfeiting. That way, counterfeiters don’t run the risk of maintaining warehouses full of brand-name contraband. Once Tang placed an order, he told Hamer, it took just four days for the cigarettes to be manufactured for shipment to Los Angeles.

Over the investigation’s course, Hamer learned the tricks of the smuggling trade. At the ports, smugglers relied on the names of humdrum, low-duty products for use on phony bills of lading: wicker furniture, for example, baskets, or paper products. Frequently the packers would assemble a false wall of boxes containing decoy goods to be loaded in the back end of the container, the better to dupe any inquiring port official making a cursory physical inspection of the goods.



Dong Jie Li, a 31-year-old cigarette smuggler from China, is currently serving a 46-month sentence in a Dublin, California, federal prison.

He was also struck by the fierceness of the competition.

“Everyone had competitors, and they were always bugging me to get their product off the ships to them faster,” Hamer said.

“It functions just like a business,” said Kozak, the Immigration and Customs Enforcement agent. “There are investors here in the states — street gangs or career criminals — who pool their money to purchase and contract the containers for a very calculated payoff. It’s a big pie, and everyone wants a piece of it.”

By this time, Hamer was enjoying himself, riding out this strange wave of smugglers anxious for his attentions. In the car as he drove with them around the San Gabriel Valley, he had a particular soundtrack he liked to play for his newly made friends. He’d turn up Charlie Daniels’ “Uneasy Rider,” so they could all hear the lyrics and maybe sing along: *You may not know it but this man is a spy. He’s an undercover agent for the FBI.*

## BY THE ANDAMAN SEA

There were just two Mercedes available for rent on the tiny Thai island of Phuket, and upon arrival in July 2004, Lou Calvarese’s hosts had managed to procure both of them. Though Calvarese dodged Tang’s offer to arrange easy female companionship by bringing along another FBI agent to pose as his girlfriend, his hosts now seemed intent on lavishing the pair with all kinds of other hospitalities. Only after a whirlwind Bangkok tour did the business meetings begin — at the extravagant resort Le Meridian, situated in a brilliantly colored cove by the Andaman Sea.

Jyimin Horng was the star of the trip, Tang’s contact and the man that Calvarese had come to see. A short, stocky judo expert from the gambling enclave of Macao, China, Horng was rumored to have competed in the Olympics in the 1980s. Now he served as a go-between for the North Korean government and various clientele, peddling supernotes and arms. There in Phuket, between bouts of swimming and beneath swaying palm fronds, Calvarese and Horng began negotiations that eventually led to the purchase of \$1 million in supernotes and a contract for 1,200 AK47s, 75 anti-tank rockets, 50 rocket launchers, and 100 machine guns with silencers — all through Horng’s North Korean contacts.

“Everything was on the table, and everything was for sale,” Calvarese said.



**“Cigarette smuggling functions just like a business....It’s a big pie, and everyone wants a piece.”**

— *Kevin Kozak, ICE official*

Phuket, he remembers — with its bare stretches of beach and languid air — was a dream. It also was the beginning of the end for Operations “Royal Charm” and “Smoking Dragon.” After Calvarese returned to the United States, the evidence continued to pile up: a weapons catalogue Horng sent to Calvarese, a half-inch thick, translated from the Chinese, more shipments of cigarettes, and over \$3 million in supernotes that arrived into the Newark port, the bills tucked and carefully hidden in boxes of toys. Meanwhile out on the West Coast, Hamer’s subjects had likewise begun to tempt him with offerings of supernotes, crystal meth, and even surface-to-air missiles.

By the time terrorists bombed the London subway in July 2005, the agents were ready to take the group down. Their targets were spooked by the attacks, afraid that law enforcement would be on heightened alert. And besides, as

Zyckowski said, “It just got to a point where there was no way we could control it anymore.”

After all, as he added, “How do you keep 90 people dangling on a hook?”

## **A B O A R D T H E R O Y A L C H A R M**

The first wedding invitations were mailed out that summer. Addressed to subjects across China, the United States, and Canada in delicate script, the cards announced that Calvarese and his phony FBI girlfriend — Melissa Anderson — were to be wed on August 21. The ceremony would take place aboard a yacht off of picturesque Cape May, New Jersey: a yacht, the invitations declared, named “Royal Charm.” Transportation to the wedding would be provided.

Back in Los Angeles, Bob Hamer readied his own bait: a divorce party. He told his targets that his wife had left him, and invited them all to a massive get-together on August 22 at the Playboy Mansion for some consolatory festivities.

None of the suspects ever made it to either celebration. In Atlantic City, the agents spent the days in the run-up to the wedding with Charles Liu, Tang, and Horng, reveling at different restaurants, hamming it up. At a three-hour rehearsal dinner at Caesar’s the night before the wedding, the agents and their targets ordered a \$4,000 meal: shrimp cocktails, caviar, bottles of Don Perignon. Melissa flashed a 4-karat diamond engagement ring on her finger, on loan from the FBI. Garcia played best man. The room was buoyant with toasts and laughter: *To you, Lou! Big man Jack: How does it feel to see him as a married man?*

The next morning, two limos were ordered to arrive at the Taj Mahal hotel, where about a half-dozen smugglers awaited rides to the ceremony. Agents impersonating drivers sat behind the wheel, arrayed in full tuxedo. As the limos pulled away, the agents told the guests they had to make one more unexpected stop: to be booked.

Meanwhile, across the United States, authorities in other cities were springing into action. All in all that weekend, some 59 targets were arrested in 11 cities during the sweep, including Szeto, Li, Wu, and Chen in California. (Several other targets, including Cheng Ming Hsu and Giashian Lin — overseas in China — were never captured.)

The case had ended. But not without a certain poignancy. A few days before the arrests, Horng and Tang took Calvarese aside to present him with a gift: two gold Rolex watches for himself and his bride. As they watched his face expectantly, Calvarese tried to laugh. “Keith — these aren’t counterfeit, are they?” he asked. “No,” Tang replied soberly, “these are the real deal.”

“It was really nice,” said Calvarese, looking back. “You could see in their faces that this was something they really wanted to do for us. In a way, it was sad.”



A surveillance photo of Willon Kow Szeto, one of the initial targets in Operation Smoking Dragon. Szeto has pleaded guilty to several charges and currently awaits sentencing.

## **A “CLASSY, CLASSY WOMAN”**

This past August, sitting in his living room in San Gabriel, Keith Tang was at first reluctant to talk. While Tang had pleaded guilty, along with many of the 87 charged on both coasts in connection with “Smoking Dragon” and “Royal Charm,” his sentence had not yet been issued. But when his words finally did tumble out, they emerged in a rush.

"We didn't hurt people," he said. "We don't kill people. We just try to bring cigarettes over and make some money. Everyone was doing cigarettes to survive. We're just Asians trying to help each other, and they're calling us a gang." The tattoos on his back, he said, aren't gang-related — they were inscribed on him as a teenager by a Buddhist monk.

"All I wanted to do was cigarettes, to make a living for my kid," Tang said. Across the room, a Guitar Hero game rests on the floor, near a red-lit family shrine festooned with incense and green mangoes. "I told [the agents], 'I don't want to get involved with weapons and counterfeit money, I'm not that kind of guy,'" he said. "But they kept pushing me."

"It's a game," he said. "We're all just chips in the game. And I lost." (In September, Tang was sentenced to six years in prison.)

So far, Dong Jie Li, Jyimin Horng, and Charles Liu have also all pleaded guilty, with Li and Horng sentenced to three-and-a-half and four years, respectively. Charles will be released in 2017. Charges were dropped against May Liu, who suffered a massive stroke in 2004 that paralyzed her entire left side.

Looking back, on some level, Zyckowski said, he does feel bad about what happened to all of them. "You get to like certain people," he said. "You know, they're not monsters — they're businessmen."

For the other agents, a fondness for the smugglers likewise lingers. Garcia, in particular, recalls May as a "classy, classy woman," — gracious, always with a matching pocketbook and immaculately made up. "They were almost like someone's grandparents," he said of the Lius.

"But that's how it was with all of them," he said. "You'd never suspect that they were big-time smugglers. Not in a million years."

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Have a tip on the illicit tobacco trade? Send ideas to [icijtobacco@icij.org](mailto:icijtobacco@icij.org).