

# China Tobacco 'Very Discreetly' Becomes Leaf-Buying Powerhouse in Brazil

 Credit: Svetlana Tiourina

by Naira Hofmeister (The Intercept), Luiz Fernando Toledo (OCCRP)

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**China is complying with recommendations under a global treaty to decrease the amount of land under tobacco cultivation — but its massive state-owned conglomerate is shifting production overseas. Brazil has become a major supplier, with farmers working under difficult conditions to grow tobacco for Chinese cigarettes.**

## Key Findings

Despite significant growth since it launched in 2014, China Brasil Tabacos Exportadora has largely escaped scrutiny by government authorities tasked with enforcing labor standards — even when they have taken action against one of its parent companies, Alliance.

The Labor Prosecution Service, which initiated penalties against Alliance for labor violations at a facility in Brazil, was unaware of CBT's relationship with the firm — even though the facility also serves as CBT's center for operations.

CBT and Alliance have donated to politicians in tobacco-growing areas who have lobbied against the WHO global tobacco control treaty and in favor of opening up direct tobacco exports to China.

The sun had not yet risen, but Lizimeri Weber was already tending shoulder-high tobacco plants in southern Brazil, which would eventually end up filling Chinese-manufactured cigarettes. She wouldn't be able to rest until well after sunset.


"We work from five in the morning, more or less, until about 10 p.m., including Saturday and Sunday, and holidays," said Weber, as she prepared lunch at her house of exposed brick, which sits amid a rippling green sea of tobacco leaves at the farm she runs with her husband.

Like many of their neighbours in São Lourenço do Sul, a coastal municipality near the frontier with Uruguay, the Webers sell under contract to China Brasil Tabacos Exportadora SA (CBT), a relative newcomer to Brazil's centuries-old tobacco industry.



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Officially launched in 2014, the firm is a joint venture between local subsidiaries of the state-owned China National Tobacco Corporation (CNTC) and North Carolina-based Pyxus International Inc., a global leaf-trading giant that changed its name in 2018 from Alliance One International.

As a signatory to the global World Health Organization's Framework Convention on Tobacco Control, China has pledged to find alternate income streams for tobacco farmers. But as the amount of land under tobacco cultivation declined at home, CNTC has been looking to other countries to make up for the shortfall, raising questions about China's commitment to the convention.

"It is neither desirable, nor is it expected, that countries party to the treaty act contrary to the convention," said Silvana Rubano Barretto Turci, coordinator of the Observatory on Strategies of the Tobacco Industry in Brazil.

As the world's second-biggest tobacco producer, Brazil is an important country for CNTC's global expansion. And CBT is a key part of the strategy there.

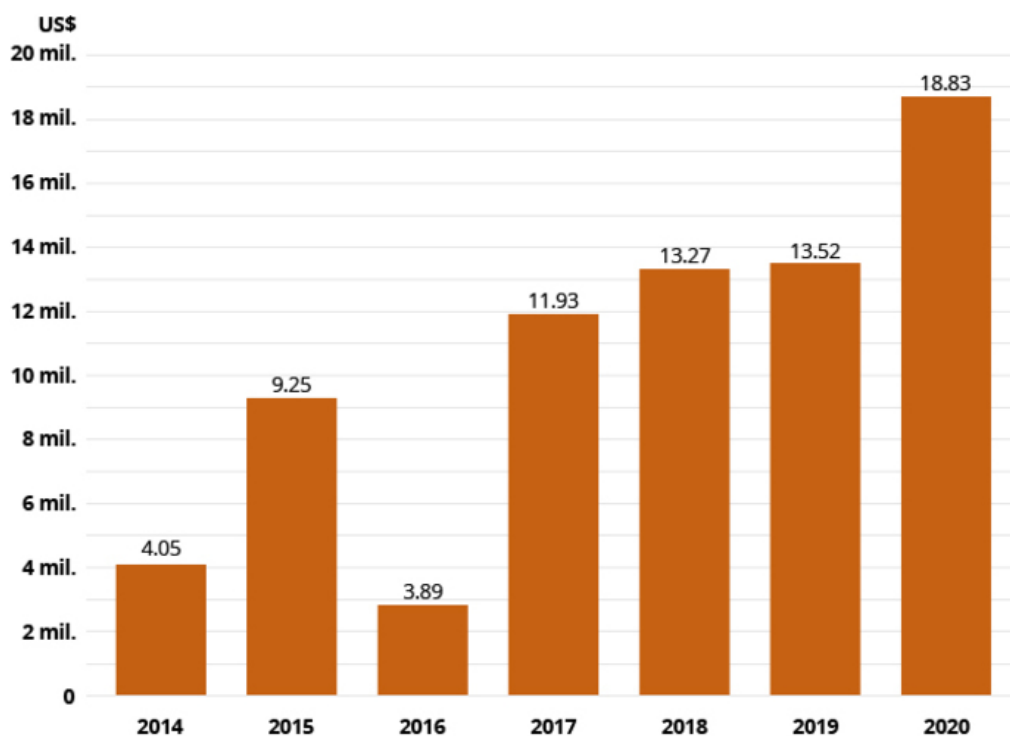
In a 2015 statement, CNTC's general manager at the time, Ling Chengxing, pointed to the success of its "Brazil company." He cited it as a strategy to emulate in other countries as part of CNTC's push to "go global," which he linked to the Belt and Road initiative, China's ambitious plan to develop its trade and infrastructure overseas.

Financial information published by CBT this April showed major growth. The company declared a profit of 97,560,000 Brazilian reals (US\$18,833,977) — up from just around 55 million reals the year before.

"Today it is one of the largest companies in the sector in Brazil," said Roque Danieli, a fiscal agricultural auditor at the Ministry of Agriculture.



## China Brasil Tabacos Exportadora SA - Annual profits



Values converted from Brazilian real using Banco Central do Brasil historical exchange rates

Credit: Edin Pašović

Despite its major role, CBT has kept a low profile, largely escaping scrutiny by government authorities tasked with enforcing labor standards — even when they have taken action against one of its parent companies, the Pyxus subsidiary Alliance One Brasil Exportadora de Tabacos.

An official from the agency that initiated penalties against Alliance for labor violations told OCCRP and The Intercept they were unaware of CBT's relationship with the American-owned firm. One case involved discrimination against pregnant workers at an Alliance facility, which also serves as CBT headquarters.

Since 2014, the Ministry of Economy has handed out 34 fines to Philip Morris Brasil Indústria e Comércio Ltda for safety, hygiene and other violations. British American Tobacco's local subsidiary, Souza Cruz, was hit with 23. Alliance was fined 15 times. CBT received only four fines during this period, all of them in 2014.

A search of a database on activities of companies maintained by the tobacco industry observatory turned up only 15 documents related to CBT — far fewer than for other companies. Rather than in-depth reports or legal files, the records were mainly short news clippings that mentioned CBT.

“They are really very discreet,” said Turci, coordinator of the observatory, which is based at the Oswaldo Cruz Foundation, a public health research institution in Rio de Janeiro.

In that respect, CBT appears to follow the model of its Chinese parent, which is often referred to simply as China Tobacco. Although China Tobacco is actually the world's biggest tobacco company — mostly due to a massive market for cigarettes at home — far more is known about other global giants like British American Tobacco, Philip Morris International, Japan Tobacco International, and Imperial Brands.

Together those four firms are commonly referred to as “Big Tobacco,” a club that does not include China Tobacco, even though the conglomerate is far more profitable than any of its competitors, and produces one-third of the world's cigarettes.

Brazil has emerged as an important source of tobacco to fill those cigarettes.

In 1997, China imported US\$12 million worth of Brazil's tobacco, amounting to just 1 percent of the South American country's exports. By 2019, China accounted for more than 19 percent of Brazil's tobacco exports, valued at almost \$386 million.

The big increase began not long after CNTC entered Brazil in 2002, setting up China Tabaco Internacional do Brasil to buy the leaf. Starting in the early 2010s, through its joint venture with Alliance, China Tobacco was able to secure supplies more directly by signing contracts with Brazilian farmers.



Credit: Daniela Xu

A tractor loaded with tobacco leaves in the tobacco-growing area of São Lourenço do Sul, Brazil.

## ***Modern Day Slavery***

While CBT has largely flown under the radar, its co-owner has attracted considerable attention from Brazilian authorities.

In 2018, Alliance was ordered by a Labor Court judge to pay 50,000 reais (about \$15,500) to compensate for discrimination against female employees at its tobacco leaf processing plant.

Women at the facility in Venâncio Aires — a tobacco-growing municipality in the state of Rio Grande do Sul — were coerced into resigning after informing their bosses they were pregnant, which violates Brazilian law.

But it turns out that investigators from the Labor Prosecution Service, or Ministério Público do Trabalho (MPT), had no idea that the facility was also CBT's center for administrative, buying and processing operations. Nor did the prosecutor.

"The prosecutor responsible for following up on the case told us that the action was exclusively about this one company (Alliance)," an MPT press officer said by email. "If they somehow share facilities or have joint activities, this was not highlighted during the process."

A spokesperson for CBT declined to answer questions about its activities at the shared facility.

Prosecutors who dealt with a different labor abuse case four years earlier was also unaware of the company's relationship with CBT. Investigators found that "workers were degraded [and] deprived of dignity" when they inspected a farm in Santa Catarina state that was contracted to Alliance in 2014.

That was the same year the joint venture was announced between China Tobacco's subsidiary, China Tabaco Internacional do Brasil, which owns 51 percent, and Alliance One Brasil Exportadora de Tabacos.

CBT had actually been operating since 2011, according to financial information published in April 2021. It already had 9,500 farmers under contract by the time of the official 2014 launch, Alliance said in a press release at the time.

"We are honored that China Tobacco selected Alliance One for its first international joint venture in the tobacco leaf supply segment," Alliance CEO Pieter Sikkel said in the announcement. "Our partnership aligns Alliance One's strategy of profitable growth with meeting customers' unique individual requirements through our sustainable model."

Eight months after Sikkel made that statement, MPT inspectors visited the farm contracted to grow tobacco for Alliance in the municipality of Grão Pará. They issued 16 notices of infractions, including several citing the "slave labor" of some workers who did not receive salaries from the owner of the farm.

"We noticed that Mr. Savalagi used accommodation in the storehouse as a payment for the services of the group of workers," the inspectors wrote in their report.

"The employment relationship of the workers found at the site was not formalized."

Alliance argued in court, citing a law passed in 2016, that its contract with the producer meant the company was not responsible for labor violations that occurred on the farm. The Labor Court agreed, and in 2018 cancelled the infraction notices against the company, and chose not to include it on the federal government's Lists Suja do Trabalho Escravo, which is known as the "dirty list" of companies involved in slave labor.

"Alliance One doesn't hire workers in rural areas and is not responsible for the management of properties owned by our producers," said Bráulio Staub, a spokesperson for the company.

The Santa Catarina prosecutor, Bruno Martins Mano Teixeira, who dealt with Alliance, said he had no idea the company was in business with CBT.

"It turns out to be a gigantic group. In my mind they were individual companies," said Teixeira, adding that he only found out about the relationship after being asked about it by OCCRP and the Intercept.

"Even though there are a couple companies within the same joint venture, they have different lawyers," he said. "They do not even show that it is the same management."

Corporate affairs manager Deise Kanitz first told reporters that Alliance represented CBT, and would provide comment "as soon as the Chinese position themselves." A month later, Staub said Alliance could not comment on behalf of CBT, which "has its own management."

Ricardo Jackisch, a director of CBT, noted that Alliance had received "no penalties for slave labor."



“CBT does not have workers in plantations, and its operation is focused on the purchase and processing of tobacco,” Jackisch said in an email, adding that the company “cannot impose practices of management, but only guide and carry out constant quality assessment of its suppliers.”

Credit: Daniela Xu

A farmer holding tobacco leaves in São Lourenço do Sul, Brazil.

## ***The Politics of Tobacco***

Labor abuses, as well as extreme debt and disease, have long been known to plague Brazil’s tobacco industry, yet the problems persist. Insiders say this is at least partly due to the close relationships between politicians and the industry.

Municipal authorities, including mayors, have been known to put pressure on inspectors, according to one official involved in enforcing labor laws, who spoke on condition of anonymity because he did not want to harm his relationship with local authorities. He said there have been cases of an inspector refusing to do a job, “because he is afraid of persecution within the municipality.”

Officials from tobacco-growing areas are often strong supporters of the industry, as it makes up the backbone of the local economy, pointed out Turci, coordinator of the tobacco strategies observatory. This means they are reluctant to force growers to implement measures against problems like pesticide exposure, green leaf disease, or child labor.

Instead, Turci said, they often “turn a blind eye” to abuses.

“Defending the production and commercialization of tobacco is defending a way of life for this group,” she said.

“Many mayors and secretaries of the cities that grow tobacco end up occupying positions in the state congresses and or in the federal congress.”

When Alliance successfully argued that it should not be penalized for “slave labor” on a farm owned by one of its producers, the company based its case partly on a law that had been proposed by former senator Ana Amélia Lemos in 2011. The legislation, which removes the responsibility of the company for conditions of workers on farms under contract, was passed in 2016 — a year and a half after inspectors found the labor violations.

Lemos said the legislation was designed to clearly define the responsibilities of those buying and those growing tobacco, and to protect the interests of both.

“If one of the parties commits illegalities, it must answer in court for them!” she said by email, although she did not mention how the law would protect the rights of laborers who work for producers.

It should go between the para that ends: “The legislation, which removes the responsibility of the company for conditions of workers on farms under contract, was passed in 2016 — a year and a half after inspectors found the labor violations.”

And right before the para that begins: “Lemos does not support tobacco control and has used her position to defend the industry, according to the tobacco strategies observatory.”

Lemos does not support tobacco control and has used her position to defend the industry, according to the [tobacco strategies observatory](http://cetab.ensp.fiocruz.br/index.php/Ana_Am%C3%A9lia) ([http://cetab.ensp.fiocruz.br/index.php/Ana\\_Am%C3%A9lia](http://cetab.ensp.fiocruz.br/index.php/Ana_Am%C3%A9lia)). She received a donation of 80,000 reais (\$34,877) from PMI for her unsuccessful campaign for governor of Rio Grande do Sul in 2014.

Sometimes, politicians are also members of lobby groups.

Giovane Wickert was vice-mayor of Venâncio Aires in 2014, when CBT established its operations in the Alliance facility that was later fined for discriminating against pregnant workers. He has also received funding from tobacco companies including CBT and Alliance, and he was until last year a prominent member of the lobby group Association of Tobacco-Producing Municipalities (Amprotabaco).

Amprotabaco has opposed a bill that would remove branding from cigarette packs and impose fines for smoking in cars carrying a passenger under age 18.

“There is no conflict of interest, as the mayor’s role is to represent the economic and social interests of the municipality,” Wickert said in response to questions about accepting tobacco industry funding while in office.

“For these municipalities, the tobacco agenda is of the collective interest, both in the generation of jobs and income, as well as the social well-being in guarantee of essential services.”



Public records show that Wickert received 30,000 reais (\$12,395) from CBT to help fund his campaign for state congress in 2014, the last year Brazilian law allowed companies to donate to political candidates. Alliance gave him 71,250 reais (\$28,594), and he received an additional 28,500 reais (\$11,507) from Philip Morris Brasil. Wickert failed in his run for congress, but was elected mayor of Venâncio Aires two years later.

In total, CBT donated 180,000 reais (\$74,000) in 2014 to eight congressional candidates, six state and two federal. All were running in either Paraná, Santa Catarina, or Rio Grande do Sul, the southern states where Brazil's tobacco industry is concentrated.

One of those candidates, Elton Weber, is still a state congressman in Rio Grande do Sul. He also serves as deputy coordinator of the Parliamentary Front in Defense of Producers in the Tobacco Supply Chain, a lobby group made up of politicians that opposes the WHO global tobacco control treaty.

“At no time did the producers, through their representatives, have the opportunity to speak out during the construction of the global agreement,” Weber said in an email, referring to the treaty. “They simply did not have a say in decisions that affect their lives and their business.”

Alliance was even more generous than CBT in 2014. It donated 630,000 reais (\$256,334) to 23 candidates in the three southern states. One of them, Raimundo Colombo, received 50,000 reais and was elected governor of Santa Catarina. He went on to work with the lobby group Union Interstate Tobacco Industry, known as SindiTabaco.

In particular, Colombo pushed for a change in policy to allow direct exports to China from his state. At the time, Santa Catarina and other tobacco-producing states were blocked from exporting because there had been an outbreak of blue mold disease, a fungus that can severely affect tobacco crops.

“We cannot be stuck with these growth constraints. Therefore, I am very interested in exports,” Colombo said [in a 2014 post on the state government website \(https://www.sc.gov.br/index.php/noticias/temas/agricultura-e-pesca/santa-catarina-podera-exportar-tabaco-para-china\)](https://www.sc.gov.br/index.php/noticias/temas/agricultura-e-pesca/santa-catarina-podera-exportar-tabaco-para-china), following a meeting with the president of SindiTabaco.

Seven months after that meeting, the Ministry of Agriculture lifted its ban on exports. Colombo did not respond to a request for comment.

Politicians were also involved in preparing the ground for the launch of CBT. In December 2013, the government of Rio Grande do Sul announced that it had sent a delegation to CNTC's subsidiary in China “with the aim of continuing negotiations aimed at forming a joint venture between the Chinese state-owned company and Alliance One.”



Credit: Rocco Rorandelli

Guards at the entrance of the headquarters of China Tobacco subsidiary Yuxi Hongta in China.

***The World's Largest Buyer***







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