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Department of the **TREASURY**

**NEWS**



**BUREAU OF ALCOHOL, TOBACCO & FIREARMS**

Washington, D.C. 20226

202-566-7268

REMARKS

BY

G. R. DICKERSON

DIRECTOR

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

A PROGRAM TO CURB INTERSTATE  
CIGARETTE SMUGGLING

PREPARED FOR DELIVERY BEFORE THE NATIONAL ASSOCIATION OF  
TAX ADMINISTRATORS, MADISON, WISCONSIN, JUNE 11, 1979.

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ACQUISITIONS

THANK YOU PRESIDENT HUFF:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOUR ASSOCIATION AND DISCUSS WITH YOU THE RECENTLY ENACTED FEDERAL LAW TO COMBAT CIGARETTE SMUGGLING. TODAY, THIS IS A MATTER OF GREAT IMPORTANCE TO ALL STATE LAW ENFORCEMENT AGENCIES AND TAX ADMINISTRATIONS.

EVEN IN GOOD TIMES, IT IS A CHALLENGE FOR THE STATES TO MAINTAIN WHAT THEY CONSIDER AN ADEQUATE LEVEL OF PRIMARY SERVICES. THE CHALLENGE IS COMPOUNDED IN THIS TIME OF FISCAL AUSTERITY AND THE PROPOSITION 13 ENVIRONMENT. IN THE MIDST OF THIS MONETARY CRISIS, CIGARETTE SMUGGLERS HAVE RIPPED OFF 400 MILLION OF YOUR TAX DOLLARS AND USED THE MONEY TO BANKROLL DRUGS, EXTORTION AND PROSTITUTION.

(MORE)

ATF HAS A PRIMARY MISSION TO ENFORCE PUBLIC LAW 95-575, WHICH WAS PASSED BY THE CONGRESS AND SIGNED BY THE PRESIDENT AS A VEHICLE TO BREAK THE BACK OF THE MULTI-MILLION-DOLLAR CIGARETTE SMUGGLING RACKET. THIS NEW LAW SUPPORTS THE INTERESTS OF TAXPAYERS, LOCAL AND STATE GOVERNMENTS, THE FEDERAL GOVERNMENT, AND THE TOBACCO INDUSTRY.

THERE IS A SWARM OF THIEVES AND OUTLAWS, CALLED CIGARETTE SMUGGLERS, WHO ARE DOING A JOB ON THE STATES, ROBBING YOUR TREASURIES OF \$400 MILLION A YEAR AT MINIMUM. THE TRUE TAKE IN THIS SHELL GAME -- WHICH SETS UP STATE AND LOCAL GOVERNMENTS AS THE 'MARK' -- THE TRUE TAKE IS PROBABLY A LOT HIGHER THAN THE CONSERVATIVE \$400 MILLION-A-YEAR FIGURE CITED IN RECENT CONGRESSIONAL HEARINGS.

WE CALCULATE THAT 50 PERCENT OR MORE OF THE ILLICIT PROFITS FROM THIS TAX DODGE GO TO FINANCE ORGANIZED CRIME ACTIVITIES. THIS ALSO IS THE VIEW OF DISTINGUISHED STATE OFFICIALS WHO TESTIFIED ON CIGARETTE SMUGGLING BEFORE CONGRESSIONAL COMMITTEES.

CIGARETTE SMUGGLING, THEN, BANKROLLS ARSON, BUNKO, CONSPIRACY, DOPE, EXTORTION, FRAUD, GRAFT, MURDER, PROSTITUTION, ROBBERY -- YOU NAME IT. WE PAY FOR CIGARETTE SMUGGLING, ALL OF US, MANY TIMES IN MANY WAYS.

(MORE)

AT THE STATE LEVEL, TOBACCO TAXES PRODUCED \$3.6 BILLION LAST YEAR. NOW CONSIDER THIS: WITHOUT CIGARETTE SMUGGLING, STATE TOBACCO TAX REVENUES WOULD HAVE EXCEEDED \$4 BILLION IN 1978.

THE PRIMARY INVOLVEMENT OF ATF IN TOBACCO MATTERS, PRIOR TO THE ENACTMENT OF RECENT LEGISLATION, WAS TO ASSURE COLLECTION OF FEDERAL TOBACCO EXCISE TAXES. UNTIL NOW, ATF HAS NOT BEEN INVOLVED IN ENFORCEMENT AIMED AT CURBING VIOLATORS WHO TRAFFIC IN CIGARETTES WITH THE EXPRESS PURPOSE OF EVADING STATE AND LOCAL TAXES. THIS KIND OF TAXPAYER RIP-OFF WAS VIEWED PRIMARILY AS A STATE PROBLEM.

NO LONGER. CIGARETTE SMUGGLING IS NOW A FEDERAL CRIME, AND IT IS THE MISSION OF MY BUREAU TO COORDINATE THE JOINT STATE-AND-FEDERAL TASK FORCES THAT WILL TRACK DOWN THESE CROOKS.

THE NEW LAW RECOGNIZES THAT CIGARETTE SMUGGLING IS, IN THE MAIN, AN INTERSTATE PROBLEM. THE VIOLATION OCCURS WHEN CIGARETTES ARE TRANSPORTED FROM A STATE WITH A LOW TOBACCO EXCISE TAX AND MARKETED ILLEGALLY IN STATES HAVING A HIGH TOBACCO TAX. THE RESULT IS A HEAVY LOSS, IN THE HUNDREDS OF MILLIONS OF DOLLARS AT MINIMUM, TO AFFECTED JURISDICTIONS.

IT IS NOT PRACTICAL FOR THE STATES TO COLLECT THEIR CIGARETTE TAXES AT THE FACTORY FOR REASONS THAT INCLUDE LOGISTICS, SUPPLY AND DEMAND, AND VARIABLE REVENUE REQUIREMENTS. YOUR CIGARETTE TAXES ARE COLLECTED WITHIN STATE BORDERS.

(MORE)

NOW, WE COME TO THE CORE REASON FOR CIGARETTE SMUGGLING. STATE CIGARETTE TAX RATES, FREELY IMPOSED BY VOTERS AND LAWMAKERS, RANGE FROM A FEW CENTS A PACKAGE IN SOME STATES TO MORE THAN 20 CENTS A PACKAGE IN OTHERS. SMUGGLERS EXPLOIT THIS DIFFERENTIAL BY BUYING CIGARETTES IN LOW-TAX STATES AND SELLING THEM ILLEGALLY IN STATES WITH HIGHER TOBACCO TAXES.

ILLICIT PROFITS FROM ONE TRUCK LOAD OF SMUGGLED CIGARETTES CAN BRING \$50,000 OR \$100,000 DEPENDING ON THE STATE DEFRAUDED AND THE SIZE OF THE TRUCK. IT DOES NOT TAKE LONG TO ADD UP REVENUE LOSSES IN THE HUNDREDS OF MILLIONS OF DOLLARS.

THIS IS THE REALITY OF CIGARETTE SMUGGLING, WHICH IS A SERIOUS PROBLEM IN 20 STATES, POSES A THREAT TO SEVERAL OTHERS, AND IMPACTS ON CRIME EXPENDITURES IN ALL OF THE STATES.

ACTING ALONE OR IN CONCERT, STATE AND LOCAL GOVERNMENTS FOUND IT DIFFICULT TO COMBAT THE WAVE OF INTERSTATE VIOLATIONS BROUGHT ON BY CIGARETTE SMUGGLING. THE SORTING OUT OF JURISDICTIONAL TANGLES WAS COMPOUNDED BY PROBLEMS OF COORDINATION AND INTELLIGENCE GATHERING.

TO OVERCOME THESE DIFFICULTIES, THE CONGRESS PASSED LEGISLATION (LAST YEAR) THAT CALLS UPON THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS TO COORDINATE A JOINT STATE-AND-FEDERAL CAMPAIGN AGAINST CIGARETTE SMUGGLING. THE LEGISLATION BECAME EFFECTIVE WHEN THE PRESIDENT SIGNED PUBLIC LAW 95-575 ON NOVEMBER 2, 1978.

(MORE)

UNDER THE LAW, IT IS UNLAWFUL FOR ANY PERSON KNOWINGLY TO SHIP, TRANSPORT, RECEIVE, POSSESS, SELL, DISTRIBUTE OR PURCHASE CONTRABAND CIGARETTES. THE TERM "CONTRABAND" APPLIES TO A QUANTITY OF MORE THAN 60,000 CIGARETTES --THAT'S 300 CARTONS -- WHICH DO NOT BEAR EVIDENCE OF APPLICABLE TAX PAYMENT IN THE STATE WHERE SUCH CIGARETTES ARE FOUND.

THERE IS AN IMPORTANT RECORDKEEPING PROVISION IN THE LAW WHICH DOES NOT, I REPEAT "DOES NOT" INTERPOSE BARRIERS IN THE NORMAL, LEGITIMATE COMMERCE THAT EXISTS BETWEEN CIGARETTE PRODUCERS, SHIPPERS, WAREHOUSE PROPRIETORS, EXPORTERS AND OTHER BUSINESSES.

THE LAW DOES, HOWEVER, GIVE ATF ACCESS TO THE RECORDS OF CIGARETTE DEALERS. WE WILL USE THIS ENTIRE TO PENETRATE THE ORGANIZED, INTERSTATE CRIMINAL CONSPIRACIES WHICH DOMINATE CIGARETTE SMUGGLING.

FAILURE TO KEEP NORMAL BUSINESS RECORDS THAT DOCUMENT THE DISPOSITION OF CIGARETTES, ABOVE THE CONTRABAND LIMIT, CAN BRING THREE YEARS IN PRISON AND A \$5,000 FINE. PENALTIES FOR THE CRIME OF CIGARETTE SMUGGLING RANGE UP TO FIVE YEARS IN PRISON AND A \$100,000 FINE.

TO THE FIGHT AGAINST CIGARETTE SMUGGLERS, ATF SPECIAL AGENTS BRING THE TOTAL OF THEIR EXPERIENCE GAINED IN TRACKING DOWN FIREARMS VIOLATORS OF EVERY STRIPE, BOMBERS, ARSONISTS AND CONSPIRATORS.

(MORE)

THE ATF REQUEST FOR RESOURCES TO COMBAT CIGARETTE SMUGGLERS IS VERY CONSERVATIVE WHEN MATCHED AGAINST THE MULTI-MILLION-DOLLAR FRAUD THIS CRIME GENERATES. WE HAVE ASKED THE CONGRESS ONLY FOR 50 POSITIONS AND \$1.7 MILLION. THIS REQUEST IS PENDING.

OUR SUCCESS AGAINST CIGARETTE SMUGGLERS WILL DEPEND ON SUPPORT FROM STATE GOVERNMENTS AND OTHER AGENCIES. HERE I INCLUDE THE SUPPORT OF THE LAW ENFORCEMENT ASSISTANCE ADMINISTRATION. ATF HAS PRESENTED ITS STATE-AND-FEDERAL TASK FORCE CONCEPT TO LEAA. LEAA HAS RESPONDED WITH AN ASSURANCE THAT FUNDING (AT LEAST \$200,000, AND HOPEFULLY MORE) WILL BE MADE AVAILABLE TO THE STATES AND ATF FOR JOINT FEDERAL AND STATE ANTI-CIGARETTE SMUGGLING TASK FORCE.

EVEN BEFORE A REQUEST FOR RESOURCES WENT TO THE CONGRESS WE BEGAN TO TAKE ACTION TO PLAN AND COORDINATE. WHEN THE PRESIDENT SIGNED THE CONTRABAND CIGARETTE LAW, ATF AND STATE AUTHORITIES BEGAN IMMEDIATELY TO DEVELOP JOINT TASK FORCES AND PLANS OF ACTION AGAINST CIGARETTE SMUGGLERS. OUR TRADITION OF WORKING WITH THE STATES DATES BACK MANY YEARS, AND WE QUICKLY WORKED OUT STRATEGIES FOR SHARING INTELLIGENCE AND MOUNTING JOINT OPERATIONS.

(MORE)

EACH STATE REMAINS THE PRIMARY BULWARK AGAINST CIGARETTE SMUGGLING CARRIED OUT WITHIN ITS BORDERS. THIS IS IN KEEPING WITH THE INTENT OF THE CONTRABAND CIGARETTE LAW THAT THE RIGHTS AND POWERS OF THE STATES BE PRESERVED. ATF COMPLEMENTS STATE ACTIONS BY CONCENTRATING ON MULTI-STATE CIGARETTE SMUGGLING CONSPIRACIES AND ORGANIZED CRIME CONNECTIONS.

THE RESULT IS AN EFFECTIVE PARTNERSHIP -- WITH THE STATES TAKING THE LEAD ON THEIR HOME GROUND -- AND ATF COORDINATING INTERSTATE ENFORCEMENT EFFORTS.

ENFORCEMENT OPERATIONS ARE UNDERWAY. CONTRABAND CIGARETTE TRAINING SCHOOLS HAVE ASSISTED IN TRAINING PROGRAMS AND STATE-FEDERAL COOPERATION.

THE STATES AND ATF HAVE BEEN MAKING CASES AGAINST CIGARETTE SMUGGLERS FOR ONLY A SHORT TIME, BUT RESULTS TO DATE ARE POSITIVE AND ENCOURAGING.

COURT ACTION HAS BEEN COMPLETED IN TWO CASES BY STATE COURTS IN RHODE ISLAND AND NEW YORK. ATF TRACED EACH ILLEGAL CIGARETTE SHIPMENT IN INTERSTATE COMMERCE; STATE AUTHORITIES CHARGED AND PROSECUTED THE DEFENDANTS. ALL FIVE DEFENDANTS (2 R.I., 3 N.Y.) PLEADED GUILTY.

(MORE)

WE HAVE FOLLOWED THE SAME PLAN OF ACTION IN MAKING CIGARETTE SEIZURES IN WASHINGTON, D.C., MIAMI, BOSTON AND WOOSTER COUNTY, MARYLAND. LET ME ADD ONE SELF-EXPLANATORY NOTE ABOUT THE MIAMI CASE ON APRIL 16. ATF AND FLORIDA LAW ENFORCEMENT OFFICERS DID SEIZE 497 GRAMS OF COCAINE AND 20,000 BARBITUATES ALONG WITH THE SUSPECT CIGARETTES.

ATF HAS ESTABLISHED THE PRECEDENT THAT, WHENEVER POSSIBLE, CONTRABAND CIGARETTES AND SEIZED VEHICLES ARE TURNED OVER TO THE STATES. OUR REASONING IS THAT THE STATES CAN DISPOSE OF THE CONTRABAND AND MAKE IMMEDIATE HEADWAY TOWARD RECOUPING TAX LOSSES.

SUCCESSFUL ANTI-SMUGGLING OPERATIONS THROUGH JUNE 11, EACH CARRIED OUT IN PARTNERSHIP WITH STATE AUTHORITIES, HAVE RESULTED IN THE SEIZURE OF MORE THAN 17,000 CARTONS OF CONTRABAND CIGARETTES AND EIGHT VEHICLES, PLUS 13 ARRESTS.

THE CONTRABAND CIGARETTE BILL IS AN EXAMPLE OF HOW THE FEDERAL GOVERNMENT CAN HELP STATES IN WHAT IS ESSENTIALLY A STATE PROBLEM. BY COORDINATING INTERSTATE ACTIVITIES WITH YOUR ASSISTANCE, ACTING TOGETHER IN A TEAM EFFORT, WE CAN RETURN LOST REVENUES TO THE STATES.

THANK YOU.

**END**