

# THE GLOBAL ILLICIT TRADE IN TOBACCO: A THREAT TO NATIONAL SECURITY



**“Criminal networks are not only expanding their operations, but they are also diversifying their activities, resulting in a convergence of transnational threats that has evolved to become more complex, volatile, and destabilizing.”**

*— President Barack Obama, Strategy to Combat Transnational Organized Crime*



# **THE GLOBAL ILLICIT TRADE IN TOBACCO: A THREAT TO NATIONAL SECURITY**



## **TRAFFICKING IN ILLICIT TOBACCO PRODUCTS IS A GROWING THREAT TO NATIONAL SECURITY**

### **Cigarette Smuggling:**

- Is a low-risk, high-reward criminal activity; traffickers can make millions, with little risk of detection or harsh punishments
- Allows traffickers and their networks to circumvent borders; proceeds can be used to finance insecurity and instability
- Enables corruption and undermines good governance
- Is a lucrative crime for some terrorist groups and a potential revenue source to finance acts of terror
- Facilitates other crimes and provides funding for additional criminal activities, including money laundering, bulk cash smuggling, and the trafficking in humans, weapons, drugs, antiquities, diamonds, and counterfeit goods
- Expands black markets and encourages a convergence between organized crime, terrorist groups, and other threat networks
- Can be transnational, with proceeds earned domestically and sent overseas to finance attacks against U.S. interests, or earned domestically by foreign actors who can operate more easily from within the country
- Deprives governments of tax revenues, causing approximately \$3 to \$7 billion in tax losses annually to individual states and localities<sup>1</sup>
- Undermines government health policy objectives by increasing the use of tobacco products and depriving funds for anti-smoking campaigns and healthcare costs
- Impacts health; may introduce products to consumers that do not meet the health regulations of the destination country, including some with ingredients not fit for human consumption.

## WHY COMBATING CIGARETTE SMUGGLING MATTERS

Like other forms of illicit trade, the illicit trade in tobacco products, commonly referred to as cigarette smuggling, is a growing threat to U.S. national interests. Internationally, it fuels transnational crime, corruption, and terrorism. As it converges with other criminal activities it undermines the rule of law and the licit market economy, and creates greater insecurity and instability in many of today's security "hot spots" around the world. Illicit tobacco provides a significant revenue stream to illicit actors without the high risks and punishments associated with trafficking in narcotics or humans.

**The illicit trade in tobacco products remains a lucrative revenue stream for many criminal actors and illicit networks. It deprives governments of billions in tax revenues while funding illicit activity. The trade is often both domestic and international in scope, requiring cooperation between local, state, federal, and international entities to combat it.**

This guide provides practical information on the illicit trade in tobacco and how the United States Government combats this through law enforcement, diplomatic efforts, and other initiatives.

### What Is Illicit Tobacco?

**Illicit tobacco is the trade in tobacco products that are illegally manufactured, distributed, or sold.** As defined by the U.S. Family Smoking Prevention and Tobacco Control Act, the term "illicit trade" means "any practice or conduct prohibited by law which relates to production, shipment, receipt, possession, distribution, sale, or purchase of tobacco products including any practice or conduct intended to facilitate such activity."

Some tobacco products are never legal in the U.S. market, including illegally manufactured and smuggled tobacco. Other tobacco products are diverted from the supply chain in the legal market to the black market before all the appropriate Federal, state, and local excise taxes and fees are collected.



**Cigarette smuggling, trafficking in contraband cigarettes, and tobacco diversion are common names for this type of illicit trade.**

Illicit actors deal in several types of tobacco, such as contraband cigarettes, counterfeit products, illicit or cheap whites, gray market cigarettes, and loose tobacco. While all types of tobacco products can be trafficked, cigarettes are the most common tobacco product found on domestic and international black markets.

## **OPERATION BLACK POSEIDON (INTERPOL)**

***Operation Black Poseidon*** targeted the illicit tobacco trade in Eastern Europe and led to the discovery of a complete covert cigarette production factory in Sumy, Ukraine which was hidden in an underground complex. The manufacturing capacity of the production line is estimated to be between 100,000-125,000 individual packs of cigarettes per day. Seizures included machinery used for manufacturing, 30 tons of cut tobacco, 350,000 of ready-to-sell individual cigarettes packs with an estimated value of USD 560,000, 1.5 million counterfeit excise stamps, and vehicles.

Source: INTERPOL

## Common Forms of Illicit Tobacco

**Contraband:** Under U.S. criminal law, refers to large quantities of cigarettes that do not bear required state or local tax stamps.

**Counterfeit:** Under U.S. criminal and health laws, refers to tobacco products with unauthorized trademarks or trade names.

**Cheap Whites:** Also known as “illicit whites,” these are cigarettes legally produced in one jurisdiction for the sole purpose of being exported and illegally sold in a jurisdiction where they have no legitimate market. These cigarettes may not meet the health and manufacturing regulations of the destination country, or any applicable duties and taxes have been evaded.

**Gray Market:** Tobacco products are produced by a legitimate manufacturer for consumption in one jurisdiction, but along the supply chain the product has been diverted to another jurisdiction. Diversions frequently occur in Free Trade Zones (FTZ) with the tobacco manufacturer often unaware that its product has been diverted.

**Loose Tobacco:** A term applied to tobacco that is often used for cigarettes. Loose tobacco may be used to illegally manufacture cigarettes or other tobacco products, such as roll-your-own tobacco, without payment of tax. Illicit loose tobacco can be misbranded or adulterated and may not meet regulatory standards.

Criminals will use any means possible to smuggle cigarettes, with traffickers hiding illicit tobacco in vehicles, hollowed out logs, luggage, boats, tires, etc. Bootlegging, a common term for this type of smuggling scheme, is the purchase of cigarettes and their transport from a low-tax or no-tax jurisdiction for resale in a higher tax jurisdiction without the appropriate taxes being paid. These schemes can be simplistic and involve cartons of cigarettes or complex operations with warehouses full of illicit tobacco products.

Large-scale smuggling operations are common and involve commercial size consignments of tobacco products. The cigarettes tend to be moved by 40-foot shipping containers and may or may not include a cover load, such as household materials, toys, furniture, textiles, charcoal, timber, and even legal cigarettes. FTZ can facilitate large-scale smuggling operations with cigarettes entering the FTZ and repacked and/or given duplicate container numbers to hide the illegal nature of the shipment.

## **CIGARETTE SMUGGLING IS NOT A VICTIMLESS CRIME**

The illicit trafficking of tobacco is a multibillion-dollar business today. It fuels organized crime and corruption, robs governments of needed tax money, helps expand the global illegal economy, and assists some terrorists by financing their operations. According to the Financial Action Task Force (FATF), “Large-scale organized smuggling likely accounts for the vast majority of cigarettes smuggled globally.”<sup>2</sup> Often, illicit tobacco is trafficked through the same routes as drugs, weapons, and other illicit forms of trade.

Trafficking in illicit tobacco is not a victimless crime. When cigarettes and tobacco products are smuggled into a jurisdiction, the lost tax revenue means that governments cannot pay for health and education programs, government services, and the law enforcement efforts required to combat this crime and the criminals behind the smuggling schemes. Often, the products do not meet the various health regulations, and are in violation of numerous other laws and regulations.

**Consumers, retail outlets, manufacturers, and governments all are harmed by the illicit trade in tobacco products.**

**When consumers purchase illicit tobacco they undermine their own security.**

## **NATIONAL SECURITY HARMS: COMBATING ILLICIT TOBACCO**

**Cigarettes are one of the most smuggled ‘legal’ products in the world, and cigarette smuggling is a form of transnational organized crime (TOC).** Moreover, the illicit trade in tobacco, including cigarettes, has been linked to the financing of terrorist organizations. In some cases, smugglers deal in cigarettes and other illicit commodities, such as drugs, weapons, bulk cash smuggling, stolen antiquities, diamonds, and counterfeit goods. In most cases, the criminals also engage in identity theft, money laundering, and bulk cash smuggling to either continue their illicit enterprises, or to use their illegal profits.

TOC poses a significant and growing threat to national and international security, with potentially dire implications for public safety, public



health, democratic institutions, and economic stability across the globe. Not only are criminal networks expanding through the trafficking in illicit tobacco products, but they also are diversifying their activities, resulting in the convergence of previously-distinct threats that have potentially explosive and destabilizing effects.

*Operation Royal Charm* and *Operation Smoking Dragon* are operations that highlight the convergence of illicit markets and national security issues directly related to the United States. Other cases have shown specific links between cigarette smuggling and terrorist organizations, such as the Irish Republican Army (IRA), the Kurdistan Workers' Party (PKK), and Hizballah. Mokhtar Belmokhtar – a former Al-Qa'ida operative and Islamic Maghreb (AQIM) senior commander and the founder of the Signed-in-Blood Battalion – is known as “Mr. Marlboro” because of his involvement in cigarette smuggling as a means to raise funds for his terrorist organization.

### **For decades, cigarette smuggling has been a sizeable and dependable revenue stream for organized crime.**

Estimates for the annual state and local U.S. tax loss caused by the illicit trade in tobacco products range from \$2.95 to \$6.92 billion.<sup>3</sup> For the European Union, proceeds from the illicit trade in tobacco products range from €7.8 and €10.5 billion annually.<sup>4</sup> The most recent estimate of the global tax lost, conducted in 2006, estimates the tax loss due to the black market between \$40-50 billion annually, with illicit actors often the beneficiary.<sup>5</sup>

On July 25, 2011, the White House released its *Strategy to Combat Transnational Organized Crime: Addressing Converging Threats to National Security*. By carefully following strategic and emerging markets for indicators of criminal interest, the United States has the ability to detect, disrupt, and reduce the economic power of TOCs. To do so, the United States works with international partners to disrupt and dismantle crime-state alliances; raises awareness to alert businesses that may be unwitting facilitators for criminal enterprises; and continues to develop appropriate safeguards to protect the legitimate flow of trade and investment. By targeting criminal assets, the United States and its allies can markedly reduce the profitability, growth, and evolution of TOC networks.

## U.S. EFFORTS TO COMBAT ILLICIT TOBACCO

The United States' effort to combat illicit tobacco involves local, state, and Federal agencies. The Federal government has numerous regulatory and law enforcement entities that combat illicit tobacco. In addition to their law enforcement and regulatory functions, many entities provide training to domestic and foreign government officials, and raise awareness through participation in national and international events and conferences.

### Department of State

- Places combating transnational organized crime and corruption internationally among its top foreign policy and national security priorities.
- Advocates for countering illicit trade in tobacco products, TOC, and corruption as the United States Government representative in international forums, including the Conferences of the Parties to the World Health Organization Framework Convention on Tobacco Control; United Nations Convention Against Corruption (UNCAC); and the United Nations Convention Against Transnational Organized Crime (UNTOC).
- Partners with intergovernmental agencies, such as the Organisation for Economic Co-operation and Development (OECD) and INTERPOL, to combat the illicit trade in tobacco products.
- Partners with other U.S. Federal agencies and foreign partners to increase information sharing and capacity building abroad.
- Forms public/private partnerships with parties interested in combating the trade of illicit tobacco products.
- Through the Bureau of Diplomatic Security, the Department's security and law enforcement division conducts investigations to help defend the United States from terrorists, drug traffickers, members of organized criminal groups, and others who seek to harm the United States and its interests.
- Agency Contact: Bureau of International Narcotics and Law Enforcement Affairs (INL), Office of Anti-Crime Programs (INL-C-TeamLeads@state.gov)

## Department of Homeland Security, U.S. Customs and Border Protection (CBP)

- CBP is the unified border agency within the Department of Homeland Security charged with the management, control, and protection of our nation's borders at and between the official ports of entry.
- Charged with keeping terrorists and terrorist weapons out of the country while enforcing hundreds of U.S. laws.
- Responsible for conducting law enforcement activities and operating at and between United States ports of entry to combat the trafficking of illicit tobacco products imported into and exported from the United States.
- Collects the Federal excise tax on imported tobacco products along with customs duties and fees as part of its customs revenue functions.
- Agency Contact: Commercial Targeting & Enforcement (commercialanalysis@cbp.dhs.gov)

## Department of Homeland Security, U.S. Immigration and Customs Enforcement (ICE) Homeland Security Investigations (HSI)

- ICE HSI is the investigative arm of the Department of Homeland Security and is a vital U.S. asset in combating criminal organizations illegally exploiting America's travel, trade, financial and immigration systems. ICE HSI has broad legal authority to enforce a diverse array of federal statutes.
- ICE HSI leverages this authority to investigate all types of cross-border criminal activity, including illicit tobacco violations and related trade fraud and financial crimes. ICE HSI uses a versatile approach to conducting its operations to achieve the best results for the nation and its people.
- The National Intellectual Property Rights Coordination Center (IPR Center), a division of ICE HSI, operates as a joint task-force

organization led by HSI and consisting of 23 partner agencies – including 19 U.S. agencies and 4 international agencies. This task-force structure enables the IPR Center to effectively leverage the resources, skills and authorities of each partner agency and provide a comprehensive response to traditional customs fraud and the trafficking of various types of contraband, including tobacco products.



## OPERATION SMOKEOUT (ICE/HSI)

In 2011, over a three month period, U.S. Immigration and Customs Enforcement's (ICE) Homeland Security Investigations (HSI) led an investigation at New York's John F. Kennedy airport called **Operation Smokeout**. The operation resulted in criminal charges, and the seizure of more than 4,000 cartons of untaxed cigarettes, 22,000 untaxed cigars and nearly \$400,000 in cash and property. Tobacco products seized entered the United States via international mail or with passengers arriving from China, South Korea, Pakistan, Uzbekistan, Haiti, and Guyana. The cigarettes were destined for New York City streets, evading local, state, and federal taxes and duties. ICE/HSI was joined in this investigation by Customs and Border Protection (CBP), U.S. Postal Inspection Service, the Queens District Attorney's office, the Port Authority Police, and the New York State Department of Taxation and Finance.

Source: ICE/HSI

- The IPR Center's Trade Enforcement Unit (TEU) manages the Tobacco Program, providing program oversight, technical expertise, training, and reference materials to ICE HSI special agents and intelligence analysts, as well as coordinating with state and local law enforcement, other Federal agencies and international governments on illicit tobacco investigations and related enforcement actions.
- These investigations include the alleged smuggling of cigarettes (counterfeit or genuine) into the United States, in-bond diversion, domestic interstate trafficking of tobacco, the smuggling or transshipment of cigarettes into foreign countries in violation of U.S. law, and international money laundering investigations where one of the underlying crimes is customs fraud, such as smuggling goods into the United States.
- To report violations of illicit tobacco crimes to the National IPR Coordination Center: <https://www.iprcenter.gov/referral/>
- Agency Contact: National Intellectual Property Rights Coordination Center ([www.iprcenter.gov](http://www.iprcenter.gov)), HSI Trade Enforcement Unit ([HSITradeEnforcementUnit@ice.dhs.gov](mailto:HSITradeEnforcementUnit@ice.dhs.gov))

## Food and Drug Administration (FDA)

- The Family Smoking Prevention and Tobacco Control Act, commonly referred to as the Tobacco Control Act, gives FDA the authority to regulate the manufacture, distribution, and marketing of tobacco products to protect public health. This includes the prevention of illicit trade in tobacco products through regulations concerning recordkeeping for tracking and tracing legally produced products and records inspection. FDA is the agency notified when a manufacturer or distributor has knowledge that the product has left the legitimate supply chain.
- In 2011, the FDA Office of Criminal Investigations created the Tobacco Enforcement program, which is now the lead referral agency for misbranded, adulterated, and counterfeit tobacco enforcement under the authority of the U.S. Food, Drug, and Cosmetic Act.
- Agency Contact: Office of Criminal Investigations ([tobacco.crime@fda.hhs.gov](mailto:tobacco.crime@fda.hhs.gov)).

## OPERATIONS SMOKING DRAGON AND ROYAL CHARM (FBI)

*Operations Smoking Dragon and Royal Charm* were multi-year operations conducted in the United States. They were led by the Federal Bureau of Investigation (FBI) in cooperation with numerous American and Canadian law enforcement agencies. ***Smoking Dragon*** was primarily conducted on the west coast of the United States, while ***Royal Charm*** was conducted on the east coast. Smugglers shipped approximately \$40 million worth of counterfeit cigarettes and other illegal commodities into the United States from China and North Korea. Smugglers also shipped ecstasy, methamphetamines, counterfeit pharmaceuticals, millions of dollars in “supernotes” (highly deceptive counterfeit U.S. currency), and Chinese military-grade weapons, including the QW-2 surface-to-air missiles.

The operations led to the indictment of 87 individuals from the United States, Canada, China, and Taiwan. Most of the defendants pled guilty or were convicted, one of whom was convicted under a 2004 anti-terrorism statute that outlawed the importation of missile systems designed to destroy aircrafts.

The route ran from China directly to United States ports, such as the Port of Newark in New Jersey and ports located in Los Angeles and Long Beach, California. Once the goods reached U.S. shores, they were distributed throughout the United States and Canada. False bills of lading for toys, rattan furniture, wicker baskets, and other goods were used as an attempt to conceal the cargo inside 40-foot shipping containers which included counterfeit cigarettes, goods, and currency, as well as drugs and weapons.



These operations were not the only cases linked to North Korea. From 2002 to 2005, counterfeit Marlboro® cigarettes, originating from North Korea, were detected in 1,300 incidents within U.S. jurisdiction.

During this same time period, the U.S. Department of Justice, the U.S. Secret Service, IRS, and other U.S. law enforcement agencies investigated a group engaged with North Korea to manufacture and distribute counterfeit Marlboro® cigarettes. During the investigation, these individuals provided agents with counterfeit pharmaceuticals and “supernotes” manufactured in North Korea and smuggled through China. This case culminated in the arrest and conviction of three individuals for criminal conspiracy, smuggling, distribution of counterfeit cigarettes, conspiracy to distribute U.S. securities, and money laundering.

In addition to the FBI, the U.S. Secret Service; the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); U.S. Immigration and Customs Enforcement (ICE) and Department of Homeland Security’s U.S. Customs and Border Protection (CBP); the Royal Canadian Mounted Police; the U.S. Postal Inspection Service; the Department of Labor’s Inspector General, and several state and local law enforcement agencies contributed to the investigation.

Source: FBI and the U.S. Department of Justice

## Department of Justice, Federal Bureau of Investigation (FBI)

- Combats transnational/national criminal organizations and enterprises.
- As an intelligence-driven and a threat-focused national security organization with both intelligence and law enforcement responsibilities, the mission of the FBI is to protect and defend the United States against terrorist and foreign intelligence threats, to uphold and enforce the criminal laws of the United States, and to provide leadership and criminal justice services to Federal, state, municipal, and international agencies and partners.
- The FBI combats crime through its 56 field offices located in major cities throughout the United States, approximately 360 smaller offices called resident agencies in cities and towns across the nation, and more than 60 international offices called legal attachés in U.S. Embassies worldwide.
- Supports Federal, state, local, and international investigations and training requests through multi-agency partnerships, national law enforcement partnerships, international partnerships, partnerships with Federal agencies and organizations, and public/private partnerships.
- Investigates contraband tobacco cases, especially those linked to terrorism, threat financing, and organized crime – within the United States and abroad.
- The FBI has jurisdiction over the illicit trade in tobacco products through numerous statutes, including but not limited to: Racketeer Influenced and Corrupt Organizations (RICO) violations; theft from interstate shipments; the transportation, sale, or receipt of stolen goods, securities, moneys, fraudulent state tax stamps, or articles used in counterfeiting; trafficking in counterfeit labels; money laundering; and interference with commerce by threats or violence.
- Agency Contact: SSA Eric B. Ives (eric.ives@ic.fbi.gov)



## Department of Justice, Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)

- Seeks to reduce violent crime, reduce contraband cigarette trafficking activity, divest criminal and terrorist organizations of monies derived from illicit tobacco, and significantly reduce revenue losses to states.
- Works with other Federal, state, local, and international law enforcement and revenue agencies.
- Focuses on reducing the trafficking of contraband tobacco products, preventing the encroachment of organized crime into legal tobacco industries, combating organized criminal groups and gangs, deploying tobacco trafficking investigating group leads, coordinating with partners, and expanding contraband cigarette trafficking training programs.
- ATF's primary jurisdiction over the black market in tobacco products is derived from the Contraband Cigarette Trafficking Act and the Prevent All Cigarette Trafficking Act.
- ATF also investigates violations of counterfeit tax stamps, RICO violations, money laundering, mail and wire fraud, and the distribution of illegally imported cigarettes.
- Agency Contact: Mr. Joseph Fox (Joseph.A.Fox@usdoj.gov)

## Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau (TTB)

- Responsible for administering the provisions of the Internal Revenue Code of 1986 that impose Federal excise taxes on tobacco products and cigarette papers and tubes, and establish a comprehensive civil and criminal framework to protect the revenue. Among other issues, TTB investigates illegal production, under-reporting of production, smuggling or unlawful importation, and diversion of domestic tobacco products intended for export.
- Works to combat illicit trade by a variety of means, including background checks on potential permit-holders, regular audits and investigations of existing industry members, and risk models to identify the greatest risk of non-compliance.



- Collaborates with foreign counterpart tax administrators to share information and best practices in tobacco excise tax administration and enforcement. Areas of possible technical assistance include setting up an auditing system and permitting regime, as well as conducting investigations.
- Represents the United States Government at international fora, including the Conference of the Parties to the World Health Organization Framework Convention on Tobacco Control.
- Conducts tobacco investigations with other Federal and state agencies.
- Agency Contact: International Affairs Division (IAD@ttb.gov) or Intelligence Division (IndustryAnalyst.Tobacco@ttb.gov)

## Department of the Treasury, Internal Revenue Service – Criminal Investigation (IRS-CI)

- Administers and enforces U.S. tax laws, but also investigates money laundering, Bank Secrecy Act violations, terrorist financing, and other financial crimes.
- Field office personnel work with other Federal, state, and local law enforcement and revenue agencies to investigate cigarette smuggling cases.
- Within the IRS Headquarters International Operations, Narcotics, and Counter Terrorism office, IRS-CI supports illicit tobacco investigations through agency coordination and uncovering the financial flows of the proceeds and profits of TOC groups and terrorist financing operations which threaten national security.
- Agency Contact: Mrs. Karen Gaughan (Karen.Gaughan@ci.irs.gov)

## LEGAL FRAMEWORKS TO FIGHT ILLICIT TOBACCO

Within the United States, the main Federal laws that address illicit tobacco are the Internal Revenue Code of 1986<sup>6</sup>, the Jenkins Act<sup>7</sup>, the Contraband Cigarette Trafficking Act<sup>8</sup>, the Prevent All Cigarette Trafficking Act<sup>9</sup>, and the Family Smoking Prevention and Tobacco Control Act<sup>10</sup>. In addition, Federal law enforcement can use several related laws against illicit tobacco traffickers that fall under Commerce and Trade (Title 15)<sup>11</sup> and Crimes and Criminal Procedure (Title 18)<sup>12</sup> sections of the U.S. Code, such as those related to counterfeit tax stamps, RICO, money laundering, mail fraud, and wire fraud. In addition, individual states have their own laws concerning the illicit trade in tobacco products.

The international community has several treaties and agreements in place that assist nations combating the illicit trade in tobacco products. This includes:

- The United Nations Convention on Transnational Organized Crime<sup>13</sup>
- The International Convention for the Suppression of the Financing of Terrorism (Terrorist Financing Convention)<sup>14</sup>
- The Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>15</sup>
- The World Health Organization's Framework Convention on Tobacco Control (FCTC)<sup>16</sup> and the corresponding Protocol to Eliminate Illicit Trade in Tobacco Products<sup>17</sup>. While the United States is not a party to the FCTC or its Protocol, United States' practice is consistent with the requirements imposed on parties to the FCTC.

## INTERNATIONAL EFFORTS AND COOPERATION

Partnerships and international cooperation are essential to effectively combating illicit tobacco and TOC. The United States works with several public and private partners to combat the illicit tobacco trade.

## INTERPOL

- Combats the illicit cigarette trade through training, operational support, information exchanges, and public awareness campaigns.
- Works to identify, disrupt, and dismantle the transnational organized criminal networks behind the illicit tobacco trade.
- Dedicates analysts to combat illicit tobacco via INTERPOL's *Trafficking in Illicit Goods and Counterfeiting* program.
- Through a global campaign, *Turn Back Crime*, highlights the dangers of organized crime and its effect on our day-to-day lives through various forms of illicit trade, including the illicit trade in tobacco products.
- Provides guidance for policy-makers and law enforcement authorities on the effective implementation of key international instruments and legal frameworks for illicit tobacco through their handbook, *Countering Illicit Trade in Tobacco Products: A guide for Policy-Makers*, available at: <http://www.interpol.int/Crime-areas/Trafficking-in-illicit-goods-and-counterfeiting/Legal-assistance/Legal-publications>

## The European Anti-Fraud Office/Office de Lutte Anti-Fraude (OLAF) and the European Commission

- Works in close cooperation with national law enforcement agencies and customs services both inside and outside the European Union (EU) to prevent, detect, investigate, and collect evidence so that evaded duties can be recovered and perpetrators prosecuted.
- Implements a strategy to fight cigarette smuggling and other forms of the illicit trade in tobacco.
- Partners with the United States to combat the illicit trade in tobacco. For example, the U.S. Department of Justice and U.S. Immigration and Customs Enforcement partnered with OLAF in an illicit tobacco case that spanned sixteen countries and led to the seizure of 43 million cigarettes.

## Europol

- Collects and disseminates criminal intelligence and provides operational support and analysis to its EU Member States.
- Implements “Focal Point SMOKE” at the request of Member States to address tobacco smuggling, given their significant tax losses.
- Provides detailed operational analysis, including social networks, and predicts potential trafficking routes for illicit tobacco shipments.
- Collaborates with the U.S. law enforcement agencies, including through the assignment of Federal law enforcement agents to “Focal Point SMOKE.”

## World Customs Organization (WCO)

- An independent international organization whose mission is to enhance the effectiveness and efficiency of customs administrations. The United States is one of 180 countries that participate in the WCO and has Federal law enforcement agents detailed to the WCO.
- In 2013, the WCO launched *Operation Gryphon*, the first global customs operation focused on the illicit trade in tobacco, which involved 93 national customs administrations. Seizures included genuine branded cigarettes, counterfeit cigarettes, and brands associated with the illicit “cheap whites” category of cigarettes. The largest quantities of illegal cigarettes were transported in sea containers, trains or trucks, with smaller amounts from cars, air passengers’ luggage, and postal shipments. *Operation Gryphon* confirmed that FTZ also play an important role in the illicit smuggling of cigarettes and that those shipments are often destined for conflict areas such as Afghanistan and Syria.

## The Organisation for Economic Co-operation and Development (OECD) Task Force on Charting Illicit Trade

- The OECD is an international organization that works with governments to understand what drives economic, social, and environmental change, and provides a forum in which governments can collaborate on key issues and seek solutions to common challenges. The United States is a founding member.
- The Task Force on Charting Illicit Trade, a part of the OECD High Level Risk Forum, is chaired by the United States and coordinates international expertise in the quantification and mapping of the illegal economy. It aims to provide a fuller understanding of the connections between different forms of illicit activities so governments may enact policies to counter these threats and increase the economic and societal resilience to these threats. Illicit tobacco is one of the Task Force's subgroups. The Task Force brings together illicit tobacco experts from the government, academia, and the private sector to measure, map, and identify new threats and continuing threats related to the trade in illicit tobacco.

### **NON-GOVERNMENTAL INITIATIVES**

Industry and academia both play a critical role in combating illicit tobacco. Academia conducts research on a variety of aspects of the illicit trade in tobacco. Industry assists law enforcement by authenticating products, providing training, and providing information to assist governments and law enforcement.

## **AL QAEDA MISSILE LEADS TO DISCOVERY OF LARGE SCALE CIGARETTE SMUGGLING RING**

In September 2013, Garda Síochána (Irish National Police) seized nearly one million individual plain-packaging packs of cigarettes, when the Asia Cosco, a cargo ship, docked in Ireland. This illicit shipment, estimated to be worth \$55,370,000, was uncovered when al Qaeda operatives launched two rockets at the vessel as it sailed along Egypt's Suez Canal. The rockets caused a fire, which required authorities to board the vessel and inspect damaged containers. Upon detection, the ship's owners notified INTERPOL. Authorities monitored the shipment for the remainder of its voyage, which ended in Ireland.

The illicit cigarettes were manufactured in Vietnam for the purpose of retail distribution in Ireland. Couriers were sent to Asia to purchase the cigarettes, priced at 20 cents per pack. The shipment's transit ports were in the Netherlands and Singapore. People associated with this seizure included an unidentified millionaire from County Louth, Ireland who set up a complicated corporate structure including multiple layers of bogus companies and bank accounts. Allegedly this individual became wealthy by supplying massive amounts of illicit cigarettes to the United Kingdom and Irish markets and to two men with alleged ties to the IRA.

Source: INTERPOL

## ENDNOTES

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- 3 Reuter and Majmundar (2015), p 4-20.
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- 6 Internal Revenue Code, 26 USC Ch. 52: Tobacco Products and Cigarette Papers and Tubes. Available at <http://uscode.house.gov/view.xhtml?path=/prelim@title26/subtitleE/chapter52&edition=prelim>
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- 9 The Prevent All Cigarette Trafficking Act of 2009, commonly referred to as The PACT Act. Available at <http://www.gpo.gov/fdsys/pkg/PLAW-111publ154/pdf/PLAW-111publ154.pdf>. The PACT Act of 2009, amends the Jenkins Act (15 U.S.C. 375-378) and (CCTA 18 U.S.C. 2341-2346)
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- 11 Title 15, Commerce and Trade. Available at <http://uscode.house.gov/browse/prelim@title15&edition=prelim>
- 12 Title 18, Crimes and Criminal Procedure. Available at <http://uscode.house.gov/browse/prelim@title18&edition=prelim>
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