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Highlights

Highlights of [GAO-04-641](#), a report to the Chairman and Ranking Minority Member, Committee on Government Reform, House of Representatives

Why GAO Did This Study

Illegal trafficking in cigarettes can generate enormous profits and is purportedly a multibillion dollar a year enterprise. As cigarette taxes increase, so do the incentives for criminal organizations to smuggle cigarettes into the United States. Cigarette smuggling results in lost tax revenues, undermines government health policy objectives, can attract sophisticated and organized criminal groups, and could be a source of funding for terrorists.

Because of these concerns, GAO examined

- the nature and scope of the problem of smuggled cigarettes entering the United States, including federal tax revenue losses and potential health risks;
- federal law enforcement agencies'—U.S. Immigration and Customs Enforcement (ICE), U.S. Customs and Border Protection (CBP), and Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)—efforts to thwart the smuggling of cigarettes into the United States; and
- legal initiatives being pursued to enhance law enforcement efforts to thwart the smuggling of cigarettes into the United States.

www.gao.gov/cgi-bin/getrpt?GAO-04-641.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Paul L. Jones at (202) 512-8777 or jonespl@gao.gov.

CIGARETTE SMUGGLING

Federal Law Enforcement Efforts and Seizures Increasing

What GAO Found

Because of its clandestine nature, the extent of cigarette smuggling into the United States is impossible to measure with any certainty. According to ICE and ATF, investigations and intelligence collected indicate cigarette smuggling is a significant problem, particularly the smuggling of counterfeit cigarettes. According to ATF, illegal cigarette trafficking worldwide is a multibillion dollar a year crime phenomenon, with some cigarette smugglers having ties to terrorist groups. Moreover, because smuggled cigarettes are not taxed, federal and state revenues are lost. Smuggled cigarettes, which include counterfeit and genuine brand cigarettes, also pose a public health risk as all cigarettes do, but no studies have been done to determine whether counterfeit cigarettes pose any additional health risk.

ICE and ATF have been conducting more cigarette smuggling investigations in recent years. Their investigations are generally larger, more complex, and longer-term than previous investigations. Also, CBP and ICE have been seizing an increasing number of cigarettes, particularly counterfeit cigarettes, as criminals attempt to smuggle them into the United States.

Two proposed legal initiatives are intended to enhance law enforcement efforts to thwart the smuggling of cigarettes into the United States. For example, a bill known as the Prevent All Cigarette Trafficking Act would lower the threshold for a cigarette smuggling violation (a felony) from 60,000 to 10,000 cigarettes, increase ATF's authority to enter premises to enforce federal cigarette laws, and provide ATF the authority to use money generated during undercover sting operations to offset investigative expenses. In addition, the Framework Convention on Tobacco Control, a proposed international treaty, includes provisions that seek to eliminate the illicit trade in tobacco products, including cigarette smuggling.

The Departments of Homeland Security and Justice reviewed a draft of this report and had no substantive comments. Technical comments were incorporated as appropriate.

Smuggled Counterfeit Cigarettes Disguised as Legitimate Merchandise



Source: CBP.