



Cigarette Smuggling Linked to Terrorism

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Smugglers with ties to terrorist groups are acquiring millions of dollars from illegal cigarette sales and funneling the cash to organizations such as al Qaeda and Hezbollah, federal law enforcement officials say, prompting a nationwide crackdown on black market tobacco.

The federal Bureau of Alcohol, Tobacco, Firearms and Explosives has more than 300 open cases of illicit cigarette trafficking — including several with terrorist links — up from only a handful five years ago, ATF sources said.

“This is a major priority for us,” said Michael Bouchard, assistant director of the ATF. “The deeper we dig into these cases, the more ties to terrorism we’re discovering.”

The lucrative trafficking of cigarettes, known as cigarette diversion, is a simple scheme but difficult to stop, law enforcement officials say. The traffickers purchase a large volume of cigarettes in states where the tax is low, such as Virginia and North Carolina, transport them up Interstate 95 to states such as Maryland, New York, Pennsylvania

and New Jersey and then sell them at a discount without paying the higher cigarette taxes in those states.

With huge profits — and low penalties for arrest and conviction — illicit cigarette trafficking now has begun to rival drug trafficking as a funding choice for terrorist groups, said William Billingslea, an ATF senior intelligence analyst who has studied the issue extensively.

Although black market cigarette sales have been around for decades, the link to suspected terrorist groups is a new and growing phenomenon.

“The schemes provide terrorists millions of dollars which can be used to purchase firearms and explosives to use against the United States and others,” said ATF Director Carl J. Truscott, who was appointed to head the agency two months ago after 22 years in the Secret Service.

Several major cases of illicit cigarette trafficking with terrorist links have involved the purchase of cigarettes in Virginia and are currently under investigation, federal law enforcement sources

said, adding that there are other cases nationally with links between the traffickers and Hamas, Hezbollah and al Qaeda.

“The money is so lucrative,” Billingslea said.

In New York City, for example, where the combined state and city tax on cigarettes is \$3 a pack, a carton can sell for about \$75. The trafficker can buy a carton for about \$20 in Virginia, where the tax is 2.5 cents a pack, and then sell it to a mom-and-pop store in New York at a profit of about \$40 a carton, ATF officials said.

A smuggler can make about \$2 million on a single truckload of cigarettes. A truckload contains 800 cases, or 48,000 cartons.

“People go shopping for a bargain,” Billingslea said. “Why pay \$75 for a carton of cigarettes when I know someone down the street who will sell me a carton for \$15 less out of the back of a car?”

The first large-scale cigarette trafficking case tied to terrorism was prosecuted in North Carolina in 2002. A federal jury in Charlotte convicted Mohamad Hammoud, 28, of violating a ban on providing

material support to terrorist groups by funneling profits from a multimillion-dollar cigarette-smuggling operation to Hezbollah.

The jury also found Hammoud, whom prosecutors described as the leader of a terrorist cell, and his brother guilty of cigarette smuggling, racketeering and money laundering. The two men, natives of Lebanon, were accused of smuggling at least \$7.9 million worth of cigarettes out of North Carolina and selling them in Michigan. Hammoud was sentenced to 155 years in prison.

Prosecutors were able to prove that profits from the venture were funneled to high-ranking Hezbollah leaders. And Hammoud was caught on wiretaps speaking on the telephone with Hezbollah's military commander in Lebanon, Sheik Abbas Harake, according to trial testimony.

In another case in September, Hassan Moussa Makki, 41, a key player in a multimillion-dollar interstate cigarette smuggling ring, pleaded guilty in Michigan to providing material support for terrorism and participating in a racketeering conspiracy. Prosecutors said he also funneled money to Hezbollah.

Makki, a native of Lebanon, was one of 12 people indicted last year in the scheme to buy low-tax cigarettes in North Carolina and sell them in Michigan. He was sentenced to 57 months in prison.

Law enforcement sources said the terrorist links are established in these and other ongoing investigations through wiretaps and background intelligence investigations and by running the

traffickers' names and those of their associates through CIA, FBI and Homeland Security databases. When a terrorist tie is suspected, the cigarette-trafficking probe becomes a joint investigation with one of 66 Joint Terrorism Task Forces across the country. The task forces, run by the FBI, are composed of federal, state and local law enforcement officials.

Paul J. McNulty, the U.S. attorney in Alexandria, last year charged 10 people with possession and distribution of contraband cigarettes, wire fraud and money laundering as part of a scheme to smuggle more than \$2 million in cigarettes bought in Virginia to New York. A man whose name came up in that investigation was arrested in Detroit carrying hundreds of thousands of dollars in wire transfer receipts showing payments to people associated with Hezbollah.

In an interview, McNulty declined to comment on terrorist links in that case. But he said the ATF and other law enforcement agencies are taking cigarette smuggling "more seriously than ever."

"We are pursuing cases such as cigarette smuggling because of the possibility that proceeds from that crime could end up in the hands of terrorists," McNulty said.

He added that the Charlotte case made law enforcement officials more attentive to cigarette smuggling as a key source of financial support for terrorists.

"There are other sources, but this is the one that has gotten the attention of law enforcement," McNulty said.

Cigarette trafficking is difficult to stop, partly because tobacco is a legal commodity. Smuggling cigarettes becomes a federal crime only when more than 60,000 cigarettes, or 300 cartons, are purchased to avoid payment of state tax, said Jerry Bowerman, chief of the ATF alcohol and tobacco enforcement branch.

McNulty said catching the suspects is extremely labor-intensive.

In his case, he said, New York tax authorities placed advertisements in various newspapers and magazines in the New York City area offering Virginia cigarettes for sale. The ads for A&A Tobacco Wholesale listed a Virginia telephone number to place orders. A Virginia post office box was set up as a billing address. Incoming calls were switched to and recorded by an agent with the New York office of tax enforcement.

An undercover storefront location was established for A&A Tobacco Wholesale by law enforcement personnel in King George County in Virginia, where investigators from the New York tax office posed as employees and filled the cigarette orders.

When prospective cigarette purchasers telephoned the advertised number and placed orders, they were told that the cigarettes being sold would bear counterfeit joint New York State and New York City tax stamps.