

156,000

Cigarette orders, packaged for delivery to recipients across the United States, that were taken in ATF's largest seizure involving sales of illicit cigarettes.





Illegal Trafficking of Alcohol and Tobacco Products

ATF

enforces Federal criminal statutes that address the diversion of alcohol and tobacco products in avoidance of local, Federal, State, and/or foreign tax revenue, including the Contraband Cigarette Trafficking Act. Criminals, including organized crime groups and individuals with ties to terrorist organizations, have increasingly engaged in illegal trafficking of alcohol and tobacco products. The proliferation of large-volume trafficking across international borders and in interstate commerce to avoid taxes provides funding to terrorist organizations and more traditional criminal enterprises.

To address these problems, ATF conducts criminal and financial investigations and collabo-

rates with other law enforcement entities.

Moreover, ATF provides training to other Federal, State, local, tribal, and foreign law enforcement entities to increase their proficiency in investigating these criminal groups.

Enforcing Laws That Prohibit the Diversion of Alcohol and Tobacco Products From Legitimate Commerce

ATF is responsible for enforcing Federal criminal laws as they relate to alcohol and tobacco diversion. ATF's investigative efforts are directed at reducing the source of funding to criminal and

terrorist organizations. ATF's efforts stem the increasing loss of revenue to affected States and the Federal government. In 2005, ATF conducted the largest tobacco seizure in its history, measured in volume and value. Overall, in FY 2005, ATF achieved the highest level of seizures in its history, seizing currency valued at \$7.3 million and real property valued at \$2.1 million.

Alcohol and Tobacco Diversion Programs

The incentive to evade cigarette taxes has risen dramatically along with tax rates, resulting in billions of dollars of lost revenue from cigarette smuggling, cigarette diversion, stamp counterfeiting, and Internet sales (currently more than

500 known sites). Current investigations have identified instances of terrorist groups forming alliances with tobacco traffickers to generate monies used to support their organizations and activities. Diversion activities often generate tremendous cash profits that are then laundered to disguise the origin of the money and to further other unlawful schemes. Criminal organizations also use these profits to fund other criminal activities, such as smuggling illegal immigrants and trafficking narcotics, firearms, and stolen property.

Although not as common as tobacco diversion, the smuggling of illegal alcohol is a part of the moneymaking schemes used by organized criminal enterprises. The encroachment of organized crime and other groups played a pivotal role in moving alcohol through illegal channels. Enforcement efforts on both the domestic and

international front have contributed to a reduction of illicit trade associated with tobacco and alcohol diversion.

ATF has nearly doubled the number of alcohol and tobacco diversion investigations initiated over the past five years, from 78 in FY 2000 to 151 in FY 2005. Meanwhile the number of defendants referred for prosecution has increased nearly fourfold over this same time period. To make the best use of limited resources, ATF collaborates with other Federal, State, and local law enforcement and tax agencies for assistance in investigating alcohol and tobacco matters.

Illegal Sales of Cigarettes over the Internet

Both domestic and international tobacco industry members have encouraged and supported ATF's investigations of cigarettes sold via the Internet.

ATF gained cooperation from major credit card companies, who have agreed to take affirmative action to prevent the illegal sale of cigarettes over the Internet by prohibiting and investigating the use of their credit cards for online cigarette sale transactions.

Otamedia Limited was the largest tobacco seizure in ATF's history. ATF investigated the unlawful sales of cigarettes through a single Internet site that resulted in Federal and State tax revenue losses estimated in excess of \$425 million. ATF seized approximately 156,000 cigarette orders packaged for delivery to persons across the United States. ATF worked with the U.S. Attorney's office to conduct property seizures and to initiate forfeitures and prosecutions.

Providing Federal, State, Local, and Foreign Agencies With the Tools Needed to Identify Trafficking Schemes

ATF collects, evaluates, analyzes, and disseminates alcohol and tobacco intelligence and information. Intelligence information and support is both national and international in scope. During FY 2005, ATF had 452 active tobacco investigations. Some of these multi-jurisdictional investigations involved multi-million dollar trafficking schemes.

ATF maintains a constructive working rela-

Alcohol and Tobacco Diversion						
	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Investigations Initiated	78	91	160	162	161	151
Defendants Referred for Prosecution	68	52	81	218	212	336
Defendants Convicted	37	45	20	26	72	67

Note: Statistics do not have direct corresponding relationship in the same fiscal year because the time period from the initiation of an investigation until conviction may span several years



(Left) An ATF Special Agent assists State and local law enforcement with a vehicle search. (Center) An ATF Forensic Chemist examines tobacco. (Right) ATF Industry Operations Inspectors conduct an inventory of seized tobacco products.

tionship with State and local governments and with members of the tobacco industry. ATF continues to work with them on matters of mutual concern, including counterfeit cigarettes, Internet cigarette sales, and counterfeit tax stamps.

In 2005, ATF employees provided regular briefings on cigarette trafficking trends and schemes to local, State, and Federal law enforcement and regulatory entities. In addition, ATF conducted training sessions on the value and application of intelligence sources and resources to assist agents in alcohol and tobacco investigations.

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