

LATE



Oahu  
680 Iwilei Road, Suite 575  
Honolulu, HI 96817  
Tel: (808) 537-5966  
Fax: (808) 537-5971  
lung@ala-hawaii.org

Kauai  
2992 Umi Street  
Lihue, HI 96766  
Tel: (808) 245-4142  
Fax: (808) 245-8488  
alahkauai@ala-hawaii.org

Maui  
95 Mahalani Street,  
Suite # 28-1A  
Wailuku, HI 96793  
Tel: (808) 244-5110  
Fax: (808) 242-9041  
alahmaui@ala-hawaii.org

Hawaii  
39 Ululani Street  
Hilo, HI 96720  
Tel: (808) 935-1206  
Fax: (808) 935-7474  
alahbi@ala-hawaii.org

Website:  
[www.ala-hawaii.org](http://www.ala-hawaii.org)

E-mail:  
[lung@ala-hawaii.org](mailto:lung@ala-hawaii.org)

Lung HelpLine  
1-800- LUNG-USA  
(586-4872)

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**TO: Senate Committee on Health**

**FOR: Hearing Scheduled for 3:00 pm  
Monday, March 16 2009**

**RE: TESTIMONY IN STRONG SUPPORT HB 1175, HD 2  
RELATING TO TAXATION**

Chair Ige, Vice Chair Green and Members of the Committee:

The American Lung Association in Hawaii strongly supports HB 1175, which increases the cigarette tax from \$0.10 per cigarette to \$0.20.

Some say that increasing the tax on cigarettes will result in a decreased income stream from this source, however most are not concentrating on how much this action will reduce annual smoking-related health care costs. **THIS IS ACTUALLY WHAT WE WANT TO SEE!**

As we know, most smokers begin in their youth also a time when they have access to fewer disposable dollars. Raising the cost of cigarettes makes is much less attractive to buy them.

ALA in Hawaii believes adoption of HB 1175, HD2 is an important step in leading to a smoke-free, healthy Hawaii.

Respectively submitted,

Jean Evans, MPH  
Executive Director  
American Lung Association in Hawaii

**Improving Life**

**One Breath at a Time**

Founded in 1904, the  
American Lung Association  
includes affiliated associations  
throughout the U.S.

[washingtonpost.com](http://washingtonpost.com)

## Cigarette Smuggling Linked to Terrorism

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By Sari Horwitz  
Washington Post Staff Writer  
Tuesday, June 8, 2004; Page A01

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.

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Jolyn Tenn  
45-532 Halekou Road  
Kaneohe, Hi 96744

LATE

Senate Committee on Health

Testimony in Strong Opposition RE: HB 1175 Tobacco Tax Increase

Honorable Chair Ige and Senate Health Committee Members:

According to a CS News article, New York State applied a similar tax increase in 2007, and this was the result.

“While cigarette tax revenue rose 27%, increasing to \$73 Million during the 3 month period, due to the tax hike, the 5.5 million fewer taxable cartons sold translate to a net loss of around \$22 Million Dollars in state and local sales tax revenue”.

Continuing to try and pick the same pocket’s result in a massive uprising and can lead to very unsavory alliances. Prohibition was a dire failure and taxation into a pseudo prohibition will accomplish the same inevitable end game.

The equation is simple:  $\text{Higher Taxes} = \text{Lower Sales} = \text{Less Revenue}$

Just look at the new SCHIP Bill that has been passed. It is ironic that for the bill to be solvent, a brand new crop of smoker’s to the tune of 22.4 Million (Washington Post) in number will need to be indoctrinated into the smoking genre. You see even though you think there are far too many of us big bad smokers, they have **to hope to create** more to pay for this debacle. And you all have the nerve to say BIG BAD TOBACCO? HOW ABOUT BIG BAD GOVERNMENT, Which is PROFITING AT LOAN SHARK RATES, OFF A LEGAL PRODUCT? The substance that just happens to be the world’s most smuggled Legal Product, to no one with any brains surprise is: TOBACCO.

Another aspect of how untimely this proposed increase: Destruction of small business and further UNEMPLOYMENT GROWTH. In these uncertain times, a additional tax increase would cause business closure and employee layoffs of unknown proportion. Haven’t we all suffered enough already, why would you knowingly burden Hawaii residents with something that is proven to DECREASE NET REVENUE?

In business and taxation circumstances it all boils down an old saying that my mother told me... Less is more. Or penny wise pound poor. The wise businessman knows that keeping a lower price strategy while capitalizing on mass quantities is paramount in running a lifelong sustainable business. Overprice you goods, and watch your company go up in flames. I strongly urge you to defer HB 1175.

Thank you for your Time

March 13, 2009

Testimony: HB 1175

HTH Committee

Submitted by: Kawika Crowley

If I were to die today, I would like to be remembered for just one line of the many lines I've come up with over the years..."Lawmakers pass unjust laws for one simple reason....THEY DO NOT FEAR A PARTICULAR VOTING BLOC".

The Smoker Voting Bloc has been non-existent in the history of mankind. That's until the recent primaries here in Hawaii where The Great American Smoker Voting bloc gave birth. We rallied and campaigned for Rep. Alex Sonson's bid for Sen. Clarence Nishihara's senate seat. Sen. Nishihara was a 2 to 1 favorite and opposed to any smoking exemptions for bars. In a near major upset, Sonson lost by just under 200 votes. In America, registered smoker voters number over 20 million, and you will begin to see our united voting power being felt in every election to come. So what does this have to do with this outrageous tobacco tax increase? Everything.

Our statewide constituency is growing by the hundreds every month, and by the way 20% of our members are NON SMOKERS, who are fed up with excessive government regulation, intrusion, and tax increases. We 40,000 registered smoker voters in Hawaii have had enough of your unfair laws and WILL remember this tax increase come 2010. Our websites will insure that.

In closing, I'm a cigar and pipe smoker, and occasionally I enjoy a pack of cigarettes. If you pass this tax, along with the coming Federal tax starting in April, an average pack of cigarettes will cost \$10.....do you know how much this pack costs to produce to market?...Just \$1.54. THAT'S LIKE PAYING \$50,000 FOR A \$10,000 VW. Go ahead and tax us to smithereens...we're just 20% of your constituency, but never forget 80% of all elections have been won by a margin of 20% or less. NO WE WON'T FORGET THIS.