

GAO Highlights

Highlights of [GAO-18-21](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Since the 1970s, U.S. agencies have recognized that high-volume cigarette sales at duty-free stores near the U.S.-Mexico land border, although lawful, could be related to illicit activity. In 1988, U.S. law limited the quantity of duty-free tobacco products an individual can purchase at stores located in airports, restricting the sale of tobacco products to quantities consistent with personal use. This requirement, however, does not apply to land border duty-free stores.

GAO was asked to review information on sales of cigarettes at duty-free stores along the southwest border. CBP identified 88 such stores and warehouses. This report describes (1) requirements that govern the lawful sale and export of cigarettes from duty-free stores on the southwest border and schemes for illicit trade in such cigarettes, (2) U.S. agency observations about these exports and efforts to counter illicit trade, (3) the extent to which selected cigarette transaction data submitted by duty-free stores indicate compliance issues. GAO analyzed Census data on these exports; reviewed CBP, ICE, and Department of the Treasury documents; and interviewed agency officials in Washington, D.C., and in several ports along the southwest border, including Laredo, Texas, and the San Diego, California, area.

What GAO Recommends

CBP should take steps to strengthen compliance with export reporting requirements for duty-free cigarette sales on the southwest border, such as issuing guidance to all duty-free store operators. DHS agreed and noted CBP plans to address the recommendation.

View [GAO-18-21](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

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TOBACCO TRADE

Duty-Free Cigarettes Sold in Unlimited Quantities on the U.S.-Mexico Border Pose Customs Challenges

What GAO Found

Duty-free stores at the southwest border may sell tax-exempt cigarettes in any quantity to passengers departing the United States for Mexico; agencies have identified schemes associated with duty-free cigarette sales used to evade U.S. and Mexican taxes. U.S. Customs and Border Protection (CBP), an agency within the Department of Homeland Security (DHS), regulates duty-free stores. U.S. regulations require the stores to have procedures to provide reasonable assurance of export of cigarettes and the exporter to report export information on transactions valued at over \$2,500. U.S. Census Bureau (Census) data show that about 18,500 such transactions involving cigarettes occurred from 2010 to 2015. According to information from U.S. and Mexican officials, the Mexican government limits the amount of duty-free cigarettes that can be brought into Mexico (see figure). U.S. agencies identified three schemes to evade U.S. and Mexican cigarette-related tax and other laws: (1) diversion from a duty-free store into U.S. commerce; (2) smuggling into Mexico through U.S. ports; and (3) smuggling back into the United States after export to Mexico.

Allowances for Exporting U.S. Duty-Free Cigarettes and Importing Them into Mexico

 U.S. export	<ul style="list-style-type: none">No U.S. export restriction on quantities of duty-free cigarettes purchased at land port stores by travelers departing the United States.Reporting of information on transactions valued at over \$2,500.
 Mexico import	<ul style="list-style-type: none">Depending on place of residence, one carton allowed per adult entering Mexico, tax-exempt, and up to three additional cartons may be allowed in with tax payment.No amount allowed for Mexican border-zone residents.Individuals with more than the quantities above must register as commercial importers and receive authorization from Mexican health and customs agencies.

Source: GAO compilation of information from U.S. Customs and Border Protection and Mexican customs officials. | GAO-18-21

U.S. agency officials said that some smuggling of duty-free cigarettes across the southwest border has links to organized crime, supplies the illicit tobacco market in Mexico, and poses oversight and enforcement challenges. U.S. Immigration and Customs Enforcement (ICE) officials said they have identified links between the smuggling of large quantities of duty-free cigarettes and transnational criminal organizations that use the smuggled cigarettes to launder money and generate revenue. Inexpensive cigarettes made in the United States are part of the trade in duty-free cigarettes along the southwest border, including brands that a Mexican official stated are prohibited for sale in Mexico. U.S. officials reported that their efforts to counter the illicit trade in duty-free cigarettes face challenges, primarily due to the ability to buy unlimited quantities of duty-free cigarettes at the land border.

According to CBP, in many cases, duty-free stores on the southwest border are filing noncompliant information that they are required to report on cigarette exports valued at more than \$2,500. For example, officials had compliance concerns with filings in which stores identify themselves, and not the purchaser, as the exporter. CBP and Census have met with representatives of one of the largest operators of duty-free stores on the southwest border to clarify regulatory requirements. However, CBP officials said that this duty-free store operator continues to make incorrect filings. CBP has not issued guidance to all operators to clarify the correct procedure. Without accurate export data, agencies may lack the information they need to enhance their enforcement and intelligence efforts.