Department of Labor & Economic Growth
Michigan Liquor Control Commission
7150 Harris Drive
PO Box 30005
Lansing, Michigan 48909

Legislative Committee Report

Illegal Importation of Alcohol into Michigan

An assessment of the issue and recommendations

January 15, 2008

ILLEGAL IMPORTATION OF ALCOHOL

Department of Labor & Economic Growth
Michigan Liquor Control Commission
7150 Harris Drive
PO Box 30005
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Executive Summary

Alcohol revenue is consistently one of the top five sources of income for the State of Michigan. Conservatively, illegal importation of alcohol into Michigan strips the State of at least $14 million each year including product cost, mark-up and specific taxes but not including sales tax or business income tax.

The 2008 budget for the Department of Labor & Economic Growth contained in Senate Bill 234 (Public Act 118 of 2007) requires in Section 376 that the Michigan Liquor Control Commission (MLCC) and Authorized Distribution Agents (ADAs) accomplish the following tasks:

> *By January 15, 2008, the liquor control commission, in conjunction with the authorized distribution agents shall submit a report to the subcommittees with an estimate on how much state revenue is lost due to spirits being purchased from other states and brought into Michigan for individual consumption or illegal resale. The report shall include the estimated cost of increasing the number of law enforcement officers needed, or other technological methods to be used, to reduce the amount of out-of-state spirits being transported and sold in Michigan illegally.*

The MLCC and the ADAs began collecting information on the history of the issue; surveyed a variety of industry participants to assess the extent to which illegal importation is happening in Michigan; and interviewed manufacturers, retailers, vendors and law enforcement agents in an attempt to determine the extent of the problem and effectively recommend actions to reduce illegal importation into the state.

The following four recommendations were drawn from the survey responses, industry experience, and approaches used in other states and countries to reduce illegal importation.

1. **Increase penalties for the illegal importation of alcohol and appropriations for law enforcement**. The current penalty for the illegal importation of alcohol into Michigan is a felony punishable by imprisonment for not more than 1 year or by a fine of not more than $1,000 or both. However, this felony is **not** included in "racketeering" activity, as are tobacco product taxes, which is a felony punishable by imprisonment for not more than 20 years or a fine of $100,000 or both. Additionally, it is noted that a person convicted of a racketeering felony can be ordered to pay court costs, investigation and prosecution costs, and their property is subject to criminal forfeiture. Increasing penalties in and of itself would not be a sufficient deterrent without increasing available law enforcement agents to investigate and gather evidence for successful prosecutions. Six additional MLCC Enforcement agents working in teams of two with local law enforcement agencies would cost approximately $480,000 or 3.5% of the conservative $14 million loss estimate. A return on investment in excess of 1461% could be realized with the hiring of six agents.

2. **Partner with local law enforcement agencies to reduce the illegal importation of alcohol**. To motivate local law enforcement agencies to devote time and resources to preventing the illegal importation of alcoholic beverages for the benefit of the state, an incentive program could be considered. Memorandums of Understanding could be entered into with local law enforcement agencies for use of technology provided by the State and with enhanced penalties local law enforcement agencies could receive compensation for investigation and prosecution costs as well as any proceeds from property subject to criminal forfeiture.

3. **Utilize available technology to reduce illegal importation of alcohol**. Purchase available X-Ray and barcode scanning equipment (if barcodes are added to deposit containers as contemplated in Senate Bill 821) to be utilized in investigations and surveillance with local law enforcement agencies under the Memorandum of Understanding. Roughly $500,000 in funding would be necessary for the purchase of X-Ray scanning technology and about $1,000 would be needed for each UPC bar code scanner.

4. **Education and training of law enforcement officers and retail licensees**. The MLCC could coordinate its education and training efforts with local law enforcement agencies and trade associations that offer and support training programs.

MICHIGAN LIQUOR CONTROL COMMISSION

The Michigan Liquor Control Commission (MLCC) is a five member board created to control the alcoholic beverage traffic within the State of Michigan. The five members of the board, not more than three of whom shall be members of the same political party, are appointed by the Governor with the advice and consent of the Senate. Two of the members, one from each political party, are designated by the chairperson as Hearing Commissioners, to hear violation cases and to perform other functions and duties as assigned by the chairperson. The remaining three members are designated as Administrative Commissioners and have the responsibility for administering the provisions of the Liquor Control Code of 1998 relating to licensing, purchasing, enforcement, merchandising, and distribution. The Administrative Commissioners also act as the appeal board to the decisions rendered by the Hearing Commissioners.

The members of the Commission are:

Nida R. Samona, Chairperson
Patrick M. Gagliardi, Administrative Commissioner
Donald B. Weatherspoon, Administrative Commissioner
Virgie M. Rollins, Hearing Commissioner
Judith M. Allen, Hearing Commissioner

Preliminary figures for the fiscal year ending September 30, 2007 reflect that the MLCC, as the sole wholesaler for all spirit products, brought in gross sales of $889.9 million. The MLCC appoints authorized distribution agents to engage in the warehousing and delivery of spirits to retail licensees throughout Michigan. The MLCC is also responsible for the collection of excise and specific taxes on beer, wine, distilled spirits and mixed spirit drinks. In fiscal year 2006-2007, the preliminary figures indicate that the MLCC collected over $172 million in these excise and specific taxes. In fiscal year 2006-2007 the MLCC contributed $88.8 million to the General Fund for general purposes, $49.8 million to the General Fund for restricted purposes, $35.7 million to the School Aid Fund and $147.3 million in Liquor Purchase Revolving Fund revenue for a total of $321.6 million in total revenue collected.

The authorized distribution agents are:

NWS Michigan, Inc.
General Wine and Liquor Company, Inc.
Trans-Con Co consisting of:
- Fabiano Bros., Inc.
- Henry A. Fox Sales Company
- J. Lewis Cooper Co.

Chinese Import and Export Company

The Lansing office of the MLCC is located on the second floor of the General Office Building at the Secondary Complex. The address is 7150 Harris Drive, PO Box 30005, Lansing, Michigan 48909

ACKNOWLEDGEMENTS

This report was a collaborative effort by many enforcement, alcohol industry partners and authorized distribution agent representatives and MLCC staff as indicated below. The primary authors of this report, Angela Simpson and Julie Wendt, also wish to thank Chairperson Nida R. Samona and Commissioner Donald B. Weatherspoon for their assistance.

Lieutenant Darrel Archambault	Michigan State Police
Ronald Blair	Michigan Department of Treasury
Susan Broughton	MLCC Finance Division
Michael Brown	Carlin, Edwards, Brown & Howe
Lieutenant Martin Bugbee	Michigan State Police
J. Lewis Cooper III	J. Lewis Cooper Co.
Kurt Cox	MLCC Enforcement Division
Detective Sergeant Paul DiPietro	Michigan State Police
Kim Eddie	Prosecuting Attorneys Coordinating Council
Scott Ellis	Ellis & Associates
Lieutenant David Ford	Michigan State Police
Thomas Healy	MLCC Enforcement Division
Tyson Howard	Department of Treasury
Phoenix Hummel	Michigan Judicial Institute
Michael Lashbrook	Michigan Beer & Wine Wholesalers
Don McGehee	Assistant Attorney General
Lieutenant Richard Nawrocki	Grand Rapids Police Department
Spencer Nevins	Michigan Beer & Wine Wholesalers
Detective Maureen O'Brien	Grand Rapids Police Department
Ricky Perkins	MLCC Enforcement Division
Brian Pizutti	NWS Michigan, Inc.
Brendan Ringlever	Michigan Legislative Consultants
Steve Robinson	MLCC Finance Division
Sydney Ross	General Wine and Liquor Company, Inc.
Barbra Subastian	MLCC Enforcement Division
Mike Thompson	Joseph Young & Associates
Sheriff Joseph Underwood	Cass County Sheriff
Melissa Powell Weston	Iron County Prosecuting Attorney
Greg Whittet	Michigan Department of Treasury
George Zryini	Michigan Liquor Vendors

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Illegal Importation of Alcohol into Michigan

An assessment of the issue and recommendations

Introduction

Commonly referred to as "smuggling" or "bootlegging" the illegal transport and sale of alcohol products has been occurring in large scale since the early days of U.S. Prohibition in the 1920's. See Appendix One for further background information. Smuggling reduces the State's sales and tax revenue, hurts social programs funded by this revenue and puts drivers and delivery agents at greater risk for bodily harm. Recently, hijacking for product, cash, and delivery vehicles has become a serious matter of life and death. In the past few years, several delivery drivers have been held up or shot in attempts to steal alcohol.

The 2008 budget for the Department of Labor & Economic Growth contained in Senate Bill 234 (Public Act 118) requires in Section 376 that the Michigan Liquor Control Commission (MLCC) and Authorized Distribution Agents (ADAs) accomplish the following tasks:

> *By January 15, 2008, the liquor control commission, in conjunction with the authorized distribution agents shall submit a report to the subcommittees with an estimate on how much state revenue is lost due to spirits being purchased from other states and brought into Michigan for individual consumption or illegal resale. The report shall include the estimated cost of increasing the number of law enforcement officers needed, or other technological methods to be used, to reduce the amount of out-of-state spirits being transported and sold in Michigan illegally.*

The MLCC and the ADAs began collecting information on the history of the issue; surveyed a variety of industry participants to assess the extent to which illegal importation is happening in Michigan; and interviewed manufacturers, retailers, vendors and law enforcement agents in an attempt to determine the extent of the problem and effectively make recommendations to reduce illegal importation into the state.

The data collection methodology, analytic techniques and the results of investigations comprise the remainder of this report. As a service to participants, the report will be posted in early 2008 to the Michigan Liquor Control website at www.michigan.gov/lcc.

Data Collection: Survey and Interviews

A twenty-two question survey was constructed to investigate the issue of illegal importation. A copy of the survey is included in Attachment One. The survey was distributed electronically using an internet survey tool as the primary construction and data collection tool and was also faxed, and hand distributed in paper form in other cases. A telephone interview option was offered using industry representatives as collection agents who then passed

responses anonymously to the MLCC staff for data entry. The survey was available for completion from December 1 to December 16, 2007 and was given to the following trade associations for distribution:

- Michigan Liquor Vendors Association
- Michigan Restaurant Association
- Associated Food & Petroleum Dealers Association
- Michigan Grocers Association
- Michigan Licensed Beverage Association
- Michigan Beer and Wine Wholesalers Association
- Michigan Sheriff's Association
- Michigan Association of Chiefs of Police
- Michigan Petroleum Association

The goal of the survey and the research project as a whole was to assess the breadth and depth of the illegal alcohol importation problem in this state and to offer the Michigan Legislature legitimate, productive remedy options taken directly from invested members of the industry. To that end, the MLCC staff conducted a review of national and international news services using the Internet to form a global image of the problem, and reviewed video footage for background information. Industry meetings and a public forum meeting was held to discuss the issue, how it affects revenue to the state and how other issues like illegal redemption of cans and bottles, and pricing discrepancies between states influence the bigger smuggling/tax evasion picture. Interviews with 23 individuals (reflected in the Acknowledgements at the beginning of this report) provided valuable information in the research of this issue.

Analysis

Highlighted data taken from Appendix Three reflects a total of 264 survey responses were received; 190 responses came via the internet web tool and 74 people submitted paper responses.

Survey Responses	Response Count
Manufacturer / Supplier	14
Wholesaler / Salespersons	107
Retailer	73
Law Enforcement Officer	47
Other (Clubs, Baseball Team Manager, Consumer)	23

Fifty-seven percent of the survey responders were located in the Detroit area; 15% were located in the Grand Rapids area; 9% were located in the Traverse City area; 8% were located in the Lansing area; and 4% were located in the Escanaba area.

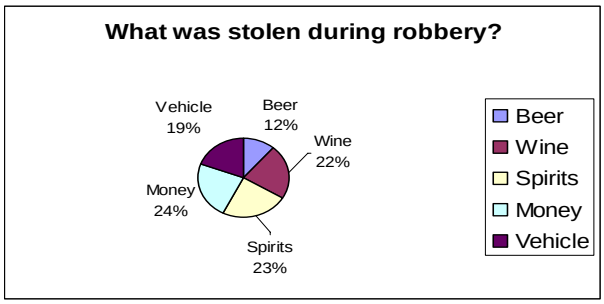
For those responders who were aware of product being smuggled into Michigan in their area of the state, spirit products, as expected, were the primary smuggled alcohol beverage into this state. This is most likely based on generous profit margins, especially for expensive spirit products such as Grey Goose Vodka. See Attachment Three to view comparisons of retail licensee profit and lost revenue if smuggled product is purchased by retailers.

Over 95% of responses indicated that licensees are not transporting product themselves into Michigan but rather purchasing it from an unlicensed third party. A number of responders (10) knew MORE THAN 20 licensees that had purchased spirits, beer, or wine from an unlicensed third party and an even larger number (32 responders) reported knowing

1 to 10 licensees who purchased smuggled alcohol products. These responses clearly suggest that even if the licensee responding does not purchase smuggled product, he or she knows anywhere from 1 to over 20 other licensees who ARE purchasing smuggled product! Anecdotal information further supports this statement. Playing a hunch, one wholesaler, who obtained an illegal importation order form, lowered the price on a champagne product to the same price being shown on the form to see what would happen to sales. After lowering the price, the product showed a significant spike in sales! This illustrates that a large number of licensees have knowledge of "bootleg pricing" and are purchasing illegal product from outside of the State.

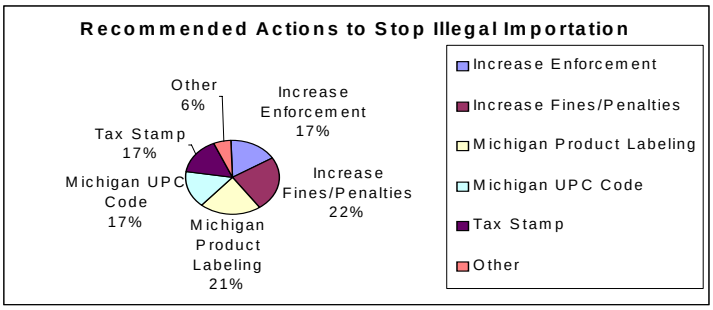
In addition to knowing a number of licensees who purchase illegally imported products, over half (54%) of those responders stated that smuggled products were PRE-ORDERED. MLCC Enforcement staff members and other law enforcement agencies have seen and recovered several different styles of lists believed to be used as preorder sheets. The preorder sheets are a combination of high-end premium products, mid-range and low end products. Copies of the pre-order sheets can be found in Attachment Two.

The survey also reflected that 38 supplier and wholesaler responses stated that a delivery agent or agents had been robbed while making a delivery of alcohol product.



Suppliers, wholesalers, and delivery agents are making changes to the way they do business in order to increase safety and minimize loss. Some report requiring payment by EFT, Money Order or Certified Check, or changing the hours of delivery times, or changing the day of delivery and adding more delivery agents to dangerous routes causing significant increases in personnel costs. These increased costs are in addition to hiked insurance premiums following payouts for claims for losses of product and vehicles and thus corresponding to higher prices that must be passed on to clients.

Responders to the survey had an opportunity to specify actions to stop the illegal importation of alcohol into Michigan. The following chart indicates support for the structured responses.



Other responses included such things as education for law enforcement and retail licensees, creating a task force of officers from State Police, MLCC, and Canadian agencies, revoking the license of a retail licensee on the first offense of purchasing from an unauthorized source if the alcoholic beverages come from out of state, and lowering taxes so that it is not profitable to purchase from neighboring states.

Impact on State Revenue

Recent arrests suggest that people smuggling alcohol into Michigan typically carry approximately $30,000 worth of product making two or three trips per week across state lines into Michigan. At $30,000 product value, 3 times per week for 50 weeks out of the year, Michigan State Police (MSP) and MLCC staff estimates this revenue loss to be between 1 and 2 million dollars per year per smuggler. This translates to a conservative annual estimate of $14 million dollars in loss to the state. Authorities postulate that 3 or 4, two-person enforcement teams strategically positioned in Michigan border communities could greatly reduce revenue lost to alcohol smuggling. Based on dollar figures from the 2007 arrest in Southeast Michigan, estimates from the MLCC Finance Division place the total loss at over $14 million with a break apart of individual taxes, profits, and product cost in Appendix One, Page 13.

In Michigan there are currently 933 Manufacturer/Suppliers licensed; 7,110 Wholesalers and Salespersons licensed with 2,770 licensed delivery vehicles; 13,356 retail licensed businesses that sell beer, wine and spirits and 3,850 licensed businesses that sell beer and wine only. See Appendix Two for further information on the Michigan licensees and fiscal year revenues collected. Over the past twenty years, the MLCC Enforcement staff has been reduced by approximately 40% with the number of Enforcement agents being 72 as of 12/31/1988 and 43 as of 12/31/2007. The reduction of MLCC Enforcement agents contributes to increasing lost revenues to the state due to reductions in investigations and prosecutions creating an environment conducive to smuggling activities.

Three approaches to consider in reducing the impact of the illegal importation of alcohol into Michigan are increasing enforcement and penalties, developing targeted education and training programs for law enforcement and retail licensees, and providing for the revocation of the sales tax license in addition to the liquor license. Limited law enforcement resources and ineffective penalties lead to high crime and brazen offenders. Other considerations might be to increase penalties by confiscating vehicles and revoking driver's licenses in combination with additional law enforcement officers and criminal prosecutors as the state of Alaska did when confronted with this problem (Appendix One, page 4). This combination of Enforcement and Education could be effective in addressing this issue on all levels of the problem.

The State of Michigan could also consider using scanning technology not only for detecting smuggled alcohol but also for smuggled cans and bottles, cigarettes and other illegal items. *Today's Wholesaler*, a Michigan Beer and Wine Wholesalers Association (MB&WWA) newsletter, reported in their November 2007 issue that a Michigan State Police (MSP) team broke up an Ohio-based ring that was illegally smuggling and redeeming millions of out-of-state cans and bottles in Michigan. Thirteen people were arrested and $500,000 in cash was recovered. MSP Director Col. Peter Munoz estimates that the smuggling of cans and bottles costs Michigan approximately $13 million in lost revenue each year. Mike Lashbrook, President of the MB&WWA, said "Michigan businesses and taxpayers are doing the right thing, while out-of-state smugglers are robbing us of millions of dollars a year. We must put a lid on this serious fraud, protect Michigan jobs, and safeguard our environmental clean-up programs. X-Ray scanning technology that can view truck cargo contents and density by photographic quality shape and form currently being used at the Ronald Reagan Federal Office Building in Washington D.C. could be considered for use in Michigan. Already nine fixed site inspection stations have been set along the Mexican border to scan trucks for illegal immigrants, drugs, alcohol, and weapons. Sixteen additional mobile search systems are being used by U.S. Customs to scan rail based cargo cars. U.S. Coast Guard officials add that scanning and other types of technology are also needed at sea as well as international cooperation in policing to monitor the flow of people and goods for collateral benefit of all.

This estimate of $13 million lost from illegally redeemed bottles and cans, coupled with the loss of $10 to $14 million in smuggled alcohol products and at least as much in smuggled cigarette tax loss according to a report prepared by The Michigan Distributors and Vendors Association, Inc., (Polly Reber, President), when added to illegally redeemed returnable bottles and cans, and Bridge Card fraud, etc. translates into nearly $200 million dollars in annual lost tax revenues and incalculable losses due to robberies, shootings, beatings, terrorism funding, and a multitude of unsavory crimes associated with illegal importation.

Estimates of lost revenue due to illegal activity

Smuggled Liquor	14 million
Bridge Cards	25 million
Redeemed Cans	13 million
Smuggled Tobacco	120 million
Potential lost revenue	**$172 Million**

Recommendations

The following four recommendations were drawn from survey responses, industry experience, and approaches used in other states and countries to reduce illegal importation.

1. INCREASE PENALTIES FOR THE ILLEGAL IMPORTATION OF ALCOHOL AND APPROPRIATIONS FOR LAW ENFORCEMENT

The current penalty for the illegal importation of alcohol into Michigan for a person required to be licensed under the Code is being charged with a felony under Section 909, being MCL 436.1909, which is punishable by imprisonment for not more than 1 year or by a fine of not more than $1,000, or both. However, this felony is **not** included in "racketeering" activity, as are tobacco product taxes, which is a felony punishable by imprisonment for not more than 20 years or a fine of $100,000 or both. Additionally, it is noted that a person convicted of a racketeering felony can be ordered to pay court costs, investigation and prosecution costs, and their property is subject to criminal forfeiture.

Increasing penalties in and of itself would not be a sufficient deterrent without increasing available law enforcement agents to investigate and gather evidence for successful prosecutions. Six additional MLCC Enforcement agents working in teams of two with local law enforcement agencies would cost approximately $480,000 or 3.5% of the conservative $14 million loss estimate.

A return on investment in excess of 1461% could be realized with the hiring of six agents.

2. PARTNER WITH LOCAL LAW ENFORCEMENT AGENCIES AND PROVIDE INCENTIVES TO DEVOTE RESOURCES TO APPREHENDING AND PROSECUTING PERSONS INVOLVED IN THE ILLEGAL IMPORTATION OF ALCOHOL

To motivate local law enforcement agencies to devote time and resources to preventing the illegal importation of alcoholic beverages for the benefit of the state, an incentive program could be considered. Memorandums of Understandings could be entered into with local law enforcement agencies for use of technology provided by the state and with enhanced penalties local law enforcement agencies could receive compensation for investigation and prosecution costs as well as any proceeds from property subject to criminal forfeiture.

3. UTILIZE AVAILABLE TECHNOLOGY TO REDUCE ILLEGAL IMPORTATION OF ALCOHOL

Purchase available scanning equipment to be utilized in investigations and surveillance with local law enforcement agencies under the Memorandum of Understanding. Roughly $500,000 in funding would be necessary for the purchase of each customized X-Ray van.

Additionally, if bar codes are added to containers (as contemplated in Senate Bill 821), scanning technology could also be purchased at about $1,000 per scanner and utilized by MLCC Enforcement agents and local law enforcement agents to identify Michigan alcoholic beverages.

4. EDUCATION AND TRAINING OF LAW ENFORCEMENT OFFICERS AND RETAIL LICENSEES

The education and training of law enforcement officers on techniques and procedures to apprehend smugglers is a key component to stop the illegal importation of alcoholic beverages into Michigan. The education of retailers on the penalties of selling illegally purchased products, especially if those penalties are increased, could likely have a positive impact on the decision of the retailer not to purchase illegally imported alcoholic beverages.

The MLCC could coordinate its efforts with local law enforcement agencies and trade associations that offer and support training programs.

APPENDIX ONE: Smuggling Background Information

Alcohol smuggling in the US and around the world

The earliest recorded connection between alcohol and revenue was 1690 when the Bank of England was formed for the primary purpose of helping England fund wars with revenue from taxes on alcohol (www.digitalhistory.uh.edu). Almost immediately, smuggling began as a way to escape paying taxes and it continues today in mammoth proportions all around the world. Beginning with Michigan history in the early 1900's, the paragraphs below describe specific situations and cases along with the estimated revenue lost.

This photograph, from the Michigan History, Arts & Libraries stock (www.michigan.gov/hal) displays rows of confiscated alcohol and vehicles from a 1918 rum running arrest with Michigan State Police (MSP) only a few months into Prohibition which went into effect in Michigan on May 1, 1918. The heaviest smuggling traffic ran between Detroit and Toledo along Dixie Highway (U.S. 25) which soon became known as "the Avenue de Booze."

A February 22, 1919, *New York Times* column reported that the single day toll in smuggling arrests at the Michigan-Ohio border town of Toledo was 30 arrests, four barrels,

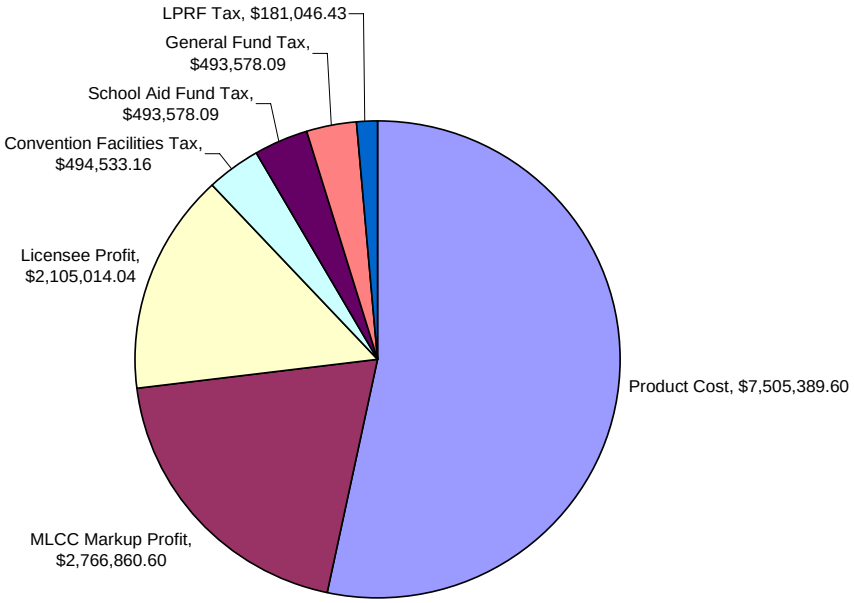
305 cases, 20 gunnysacks, 25 suitcases, 68 jugs and 150 bottles of whiskey – all in a day in 1919. The 2007 quantity equivalents would be semi-truckloads full and include significant amounts of cash, tobacco, and firearms – whatever can be smuggled to bring in the most money.

In the 1920's, the Billingsley Brothers (owners of the confiscated cars pictured above) were the biggest, most famous smugglers. They opened a grocery store as a front for their smuggling activity and bought a garage in Detroit and a warehouse in Toledo which they kept stocked with liquor, that they then transported north using a fleet of vehicles. According to the history document posted on the History Arts and Libraries website, the Billingsley brothers even bribed police officers to keep their cars from being stopped and were only stopped when the smaller-time smugglers who were put out of business by the Billingsley's began to give information to the police. Michigan's Prohibition ended in February 1919 but well organized smuggling rings had already been established and continue operating to this day. In fact just recently (December 2007), the biggest single alcohol robbery ever recorded in Ireland took place at the Guinness Brewery in Dublin according to an NBC World News blog. A lone man is reported to have driven a truck into the brewery and hitched up a trailer loaded with 450 kegs and drove off through security gates and into rush-hour traffic! The retail value of the product was $235,000 U.S. Dollars.

Closer to home, an August 2007 video interview with WDIV TV in Detroit reporter Karen Drew, in her "*Rescue 4 Undercover"* segment caught a smuggler at home to discuss his arrest crossing the Michigan border with a small van filled with booze. According to the smuggler's confession and corresponding evidence, he was making 2 or 3 trips per week illegally carrying roughly $30,000 in alcohol product across state lines into Michigan. He stated that he sold the product on street corners out of the back of his van. At $30,000 product value, 3 times per week for 50 weeks out of the year, Michigan State Police (MSP), and Michigan Liquor Control Commission staff estimate this revenue loss to be between 1 and 2 million dollars per year per smuggler or an annual estimate of at least $10 million

dollars revenue lost, conservatively. Authorities postulate that 3 or 4, two-person enforcement teams strategically positioned in border communities across the state could greatly reduce revenue lost to alcohol smuggling. Based on dollar figures from the 2007 arrest in Southeast Michigan, estimates from the MLCC Finance Division place the total loss at over $14 million with a break apart of individual taxes, profits, and product cost outlined in the pie chart below.

Estimated Revenue Lost from the Smuggling of $14,040,000 of Liquor



The State of Alaska is facing a similar problem. According to Alaska State Troopers, the primary substance of abuse in Alaska is alcohol (Alaska Review of Social & Economic Conditions, April 1999). As of 1999, 120 communities had voted for local option statutes that prohibit the sale, importation, and/or possession of alcohol; as a response illegal sales and bootlegging is staggering. A bootlegger can purchase a 750ml bottle of spirits for $10 in an urban store then turn around and sell it in a rural location for $50; in more remote locations,

that bottle could bring as much as $150 – without ever leaving the state or crossing any borders other than communities with limited enforcement power. Corresponding profit margins for other illegal products are nowhere near that of alcohol (See Table 1 below) thus alcohol resale growth is exponential.

TABLE 1. Alaskan comparison of illegal product profit margins.

Substance	Investment	Return
Cocaine	$1.00	$1.50
Marijuana	$1.00	$4.00
Alcohol	$1.00	$15.00

Obviously, the profit margin makes bootlegging alcohol very tempting, and until recently, bootleggers faced only local penalties as the Alaska Alcoholic Beverage Control Board controls the manufacture, sale, and possession of alcohol in Alaska then tracks the status of community statutes under local option law.

In 2004, the Alaska Legislature and Governor Murkowski passed SB 170 – the Omnibus Crime Bill. The legislation provided communities the option of lowering the amounts of alcohol allowed to be possessed or imported for personal use with assistance from state law enforcement authorities to impress lowered limits. It also raised the penalty for furnishing alcohol to a person under 21 to a felony, unless locals optioned out of the stiffer penalty, and made a marked improvement to the forfeiture laws allowing money, vehicles, watercrafts, aircrafts, snow mobiles, quads, all to be confiscated if used to bootleg alcohol (unless the vehicle is the only transportation for a family and the family can be shown innocent or that they could not prevent the bootlegging). The law allows the state to share in the proceeds from the sale of confiscated property with municipal law enforcement agencies that participate in the arrest or conviction of bootleggers.

Resources for Alaska Departments of Law and Public Safety were provided in part by a FY 2005 appropriation and operating budget for 20 new state troopers and 6 new criminal

prosecutors. Also in 2005, the Alaska Department of Law received a $2 million grant from the U.S. Department of Justice to create an Anchorage-based team comprised of 3 prosecutors, one victim-witness paralegal, and one law office assistant.

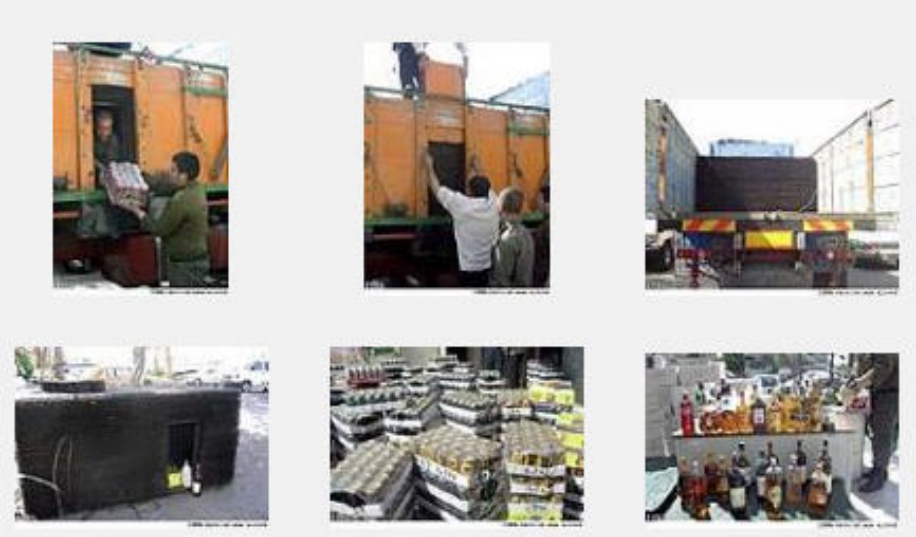
The smuggling problem has grown beyond sneaking into rural villages within a single state like Alaska or creeping along back roads in order to cross state lines into a neighboring state. In fact in 2001, the U.S. Attorney for the District of Maryland and the Acting Special Agent in charge of the Bureau of Alcohol, Tobacco and Firearms (BATF) convicted three men from New York of Wire Fraud in connection with smuggling large quantities of liquor from Maryland to upstate New York and then into Canada. Four other men, one from Westland Michigan, were also associated with the operation. Each of the three Wire Fraud charges carries a maximum penalty of five years imprisonment and a fine up to $250,000. All of the subjects have also been indicted in Canada for violations of Canadian Law.

Enforcement agencies worked together on a three year investigation that led to the arrests. The criminals would order large quantities of certain brands of alcohol from seven Maryland liquor retailers and then would transport the liquor from Maryland to upstate New York by vans and rental vehicles, placing the product into various storage locations until smuggled into Canada. For example, a 1.75 liter bottle of vodka purchased in Maryland for $10 might sell for as much as $40 in a Canadian liquor store. The scheme involved smuggling more than 39,000 cases into Canada resulting in a loss of duty and excise taxes totaling over $5.8 million Canadian dollars. In addition, the BATF Diversion and Smuggling Program officials find that the lucrative black market *"66 Profit"* has attracted organized crime groups from both sides of the border who are actively participating in diversion activity (U.S. Department of Justice, Bureau of Alcohol, Tobacco, Firearms).

Perhaps the most alarming connections this issue makes are those linking smuggling to terrorist groups such as al Qaeda and Hezbollah. Currently, the focus is being taken primarily by cigarette profit and other black market tobacco products (in June 2004 BATF had over 300 open cases of illicit cigarette trafficking including several with terrorist support links),

but a posting on September 21, 2005 to www.ISNA.IR the Iranian Students News Agency website (see photo next page) http://isna.ir/main/newsview.aspx?ID=news-586391 displayed a train car and truck in Tehran both loaded to the brim with alcohol products intended for an illegal market according to the student news group.

Iranian Student News Agency - Smuggling Activity In Tehran.



The photos are not great quality but it is obvious, given the way product is hidden inside fake flats of wire fencing, that the delivery of this product is being disguised.

Authorities note that a number of challenges face enforcement teams trying to discover these types of activities including accessing ethnically or criminally based terrorist networks, targeting high-risk financing mechanisms that the adaptable terrorists use, and sharing data on charities with state officials. The Internal Revenue Service (IRS) is in the process of establishing procedures for data sharing that would improve at least the communication portion of this issue.

In Cambodia, $22 million U.S. dollars in tax revenue were lost to beer smuggling in 2006 according to an article from Phnom Penh, Agence France-Presse. Millions of bottles and cans of

beer imported from Singapore and Thailand mysteriously disappeared at the Cambodian border before being taxed, the Economic Institute of Cambodia said in a report commissioned by two local breweries. The article continues to say that Nestle Food Company ended up closing its factory in Cambodia last year because the price of its locally produced products could not compete with smuggled goods. The $22 million loss represents about 3% of the total Cambodian budget revenue but when coupled with other types of smuggled products, corruption costs the Cambodian government about $400 million in lost tax revenue and robs struggling businesses of about $330 million annually.

Nowhere in the world, even with a revenue loss of $400 million dollars in Cambodia, is alcohol smuggling getting bigger media coverage than the United Kingdom thanks in large part to BBC News and www.bbc.co.uk. In 1998, it was discovered that a bootlegging mastermind had amassed 23 million pound sterling (about $47.6 million US dollars) from a beer, cigarette, and spirit empire operated from behind the bars of prison! The discovery revealed bank accounts, storage facilities, and investments dotted all around the world. Customs and excise spokesman Ranald MacDonald said,

> *"Martin was one of the biggest players in the country's fastest growing crime. He was driven by greed and genius, and was simply not prepared to let prison bars get in the way of his crime-driven ambitions."*

In 1999, another BBC report stated that duty-free smuggling across the English Channel was the fastest growing retail business of 1999. According to figures compiled by the Brewers and Licensed Retailers Association, more than 100,000 heavily laden vans will have made the journey from Calais in Northern France during the year. In Michigan terms (assuming a "heavily laden van" carries $30,000 worth of product similar to the August 2007 arrest situation), this volume of smuggling would translate into an annual loss of $591 million dollars! Hopefully, Michigan's ability to initiate some limited enforcement actions have been able to keep losses below this incredible amount but it is not too difficult to imagine an increase in lost revenue to the state if enforcement initiatives are not increased. What's

worse is that importation of beer is not an offense for Britons – or South Carolina residents – who may bring in an unlimited quantity of beer if it is for personal use. Only the resale of imported beer is prohibited. Thus, enforcement watch groups are witnessing "van man" trades where a truck full of beer imported for personal use is being traded, not sold, for a variety of products from furniture to hardware to electronics.

The black market is well organized and is cheating states and countries out of large monetary amounts in tax and sales revenue. But it isn't just the big time sellers making money, small time cowboys like "Joe" and "Martin" in the BBC's Documentary, "*Secret World of the Smuggler"* published in 2004, are siphoning off small amounts of revenue as well. Joe and Martin admit to making about $400 per month of unrecorded income in addition to welfare and low income health benefits they receive. Like North Carolina's beer policy, Britons can bring back an unlimited quantity of tobacco and alcohol providing that it is for personal use. Martin staggers trips to France and Belgium every other day so as not to appear suspicious and brings back roughly 60 pouches of tobacco each trip. His motto is, "smuggle small amounts as often as you can" and he views himself as a modern day Robin Hood providing the working poor with cheap tobacco.

While the small-time cowboys don't individually swindle much revenue, economists suggest that crime is a slippery slope that starts with something small like smuggling a case of booze then escalates to bigger and more profitable (more damaging) crime. A look at the bigger economic picture shows the unemployed and retired being organized into smuggling for money, collectively doing significant damage to the economy. The more smugglers a state or country deals with, the less tax revenue is generated and the more the rest of us suffer in losses to social security benefits, schools, recreation and economic development programs not to mention the loss of sales legitimate businesses lose as a result of black market sales.

Essentially, two approaches to reduce the impact of the illegal importation of alcohol into Michigan that should be considered are Enforcement and Education. Limited law

enforcement resources and ineffective penalties lead to high crime and brazen offenders. Alaska added 20 state troopers and 6 criminal prosecutors as well as beefing up penalties like confiscating vehicles and revoking driving licenses. The Ronald Reagan Federal Office Building in Washington D.C. is using X-Ray technology to view truck cargo contents and density by photographic quality shape and form for easy identification of contraband, weapons, or trade fraud. Nine fixed site inspection stations have been set along the Mexican border to scan trucks for illegal immigrants, drugs, alcohol, and weapons. Sixteen additional mobile search systems are being used by U.S. Customs to scan rail based cargo cars. U.S. Coast Guard officials add that scanning and other types of technology are also needed at sea as well as international cooperation in policing to monitor the flow of people and goods for collateral benefit of all.

The State of Michigan could consider using the scanning technology not only for detecting smuggled alcohol but also for smuggled cans and bottles, cigarettes and other illegal items. Using a tool like the *Z Backscatter Van* described in a www.boston.com news article titled, "Developing a global vision: Billerica firm's X-Ray technology helping to counter transportation terror threats" would cost roughly $500,000, a small percentage of potentially lost revenue listed below.

Today's Wholesaler, a Michigan Beer and Wine Wholesalers newsletter, reported in their November 2007 issue that a Michigan State Police (MSP) team broke up an Ohio-based ring that was illegally smuggling and redeeming millions of out-of-state cans and bottles in Michigan. Thirteen people were arrested and $500,000 in cash was recovered. MSP Director Col. Peter Munoz estimates that the smuggling of cans and bottles costs Michigan approximately $13 million in revenue each year. The illegal redemption issue as well as illegal alcohol importation might be reduced by using specific bar codes that indicate the containers (and product) are intended for Michigan market. Specialized Universal Pricing Code scanners, at a cost of roughly $1,000 each could then be used by law enforcement officers.

The $13 million loss to illegal redemption estimate, coupled with $10 to $14 million in smuggled alcohol products and at least as much in smuggled cigarette tax loss according to a report prepared by the Michigan Distributors and Vendors Association, Inc. (Polly Reber, President), when added to illegally redeemed returnable bottles and cans, and Bridge Card fraud, etc. translates into nearly $200 million dollars in annual lost tax revenues and incalculable losses due to robberies, shootings, beatings, terrorism funding, and a multitude of crimes associated with illegal importation.

Estimates of lost revenue due to illegal activity

Smuggled Liquor	14 million
Bridge Cards	25 million
Redeemed Cans	13 million
Smuggled Tobacco	120 million
Potential lost revenue	**$172 million**

APPENDIX TWO: Stakeholders

The people, or stakeholders, involved in the smuggling process include 1) Sources of alcohol, Vendors, Manufacturers, and 2) Distributors namely ADAs, Wholesalers and delivery companies, and 3) Legitimate licensed buyers of product i.e., Michigan Retailers both on and off-premises sellers of alcohol. Michigan operates under a three-tier system for the distribution of alcoholic liquor. Which essentially establishes three distinct and independent tiers for the distribution of alcoholic beverages – a manufacturer or supplier tier (producers and importers); a wholesale tier; and a retailer tier. The division and separation of the manufacturing, wholesaling and retailing of beer, wine, and spirits was primarily created through MCL 436.1603 of the Liquor Control Code being PA 58 of 1988 as amended. This statute prohibits specific licensees at the supplier (manufacturing) level and the wholesale level of the distribution system from holding an interest, directly or indirectly, in the business of another licensee (tied house) and protects the profits and business structure at each of the three levels.

Three-tier separation is a common feature of liquor laws and regulations in virtually all states, whether they be control or open (license) states, as well as in Federal regulations. In Michigan, it is not only MCL 436.1603 that creates the three-tier system but other statutory references that imply a tiered structure. For example, MCL 436.1609 prohibits aid and assistance between licensees at the various levels of the distribution system. Advocates of a tightly regulated three-tier system would also argue that the creation of exclusive sales territories for wholesalers, cash payment for alcohol beverages, price posting requirements, franchise laws and bans on cooperative advertising – all standards of Michigan law – are vital components in maintaining the separation between the three tiers.

In Michigan, the number of licensees in each tier of the system are as follows:

Wholesale Tier	
Delivery Vehicles	2,770
Salespersons	6,979
Wholesalers	131
Total	**9,880**
Manufacturer/supplier Tier	
Brewer	22
Manufacturer of Spirits, Mixed Spirits, Brandy	15
Outstate Sellers of Beer, Wine, and Mixed Spirit Drink	594
Vendor of Spirits	172
Winemakers and Tasting Rooms	130
Total	**933**

	Sale of Beer, Wine and Spirits	Sale of Beer and Wine Only	Total
Retail Tier			
Off Premises Licensees	4,263	3,674	7,937
On Premises Licensees	9,093	176	9,269
Total	13,356	3,850	**17,206**

The relevance of the three-tier system to smuggling operations becomes evident when considering the actual dollar figures associated with each level. Preliminary figures for fiscal year (FY) 2006-2007 reflect that gross spirit sales totaled $894.9 million dollars. A total of approximately 69 million liters of wine and 6.6 million barrels of beer were sold by Michigan Brewers, Outstate Sellers of Beer, Wine and Mixed Spirit Drink, and Wineries to licensed wholesalers. In Michigan, beer, wine, and spirit sales are big business! It isn't surprising that

smugglers would desire a tax free piece of that revenue. Preliminary figures reflect that in FY 2006-2007, $147.3 million dollars generated from spirit sales to retailers was contributed to the State General Fund for operations. Alcohol revenue is consistently one of the top five sources of income for the state and a table of FY 2006-2007 Revenue is provided below to display each group benefiting from respective taxes.

Tax revenue and income from the sale of spirits to retail licensees in FY 2006-2007.

Schedule of Revenue Collected FY 2006-2007
Major State Revenue accounts impacted by
Illegally imported and sold alcohol products

Revenue Type	**2006-2007 Amount**
Excise Tax, Beer	$41,711,031
Specific Tax, Liquor	$35,688,791
Excise Tax, Wine	$9,767,318
Excise Tax, Mixed Spirit Drink	$487,255
Specific Tax, Tourism & Convention Facility Fund	$35,765,849
Specific Tax, School Aid Fund	$35,688,791
Specific Tax, LPRF 1.85%	$13,133,121
Income from Operations	$133,904,230
TOTAL	**$273,957,086**

APPENDIX THREE: Methodology and Descriptive Statistics

A twenty-two question survey was constructed to investigate the issue of illegal importation. A copy is attached at the end of this report. The survey was distributed electronically using an internet survey tool as the primary survey construction and data collection tool and was also faxed and hand distributed in paper form in other cases. A telephone interview option was offered using industry representatives as collection agents who then passed responses anonymously to the Michigan Liquor Control Commission staff for data entry. The survey was available for completion from December 1 to December 16, 2007 and was given to the following trade associations for distribution:

- Michigan Liquor Vendors Association
- Michigan Restaurant Association
- Associated Food & Petroleum Dealers Association
- Michigan Grocers Association
- Michigan Licensed Beverage Association
- Michigan Beer and Wine Wholesalers Association
- Michigan Sheriff's Association
- Michigan Association of Chiefs of Police
- Michigan Petroleum Association

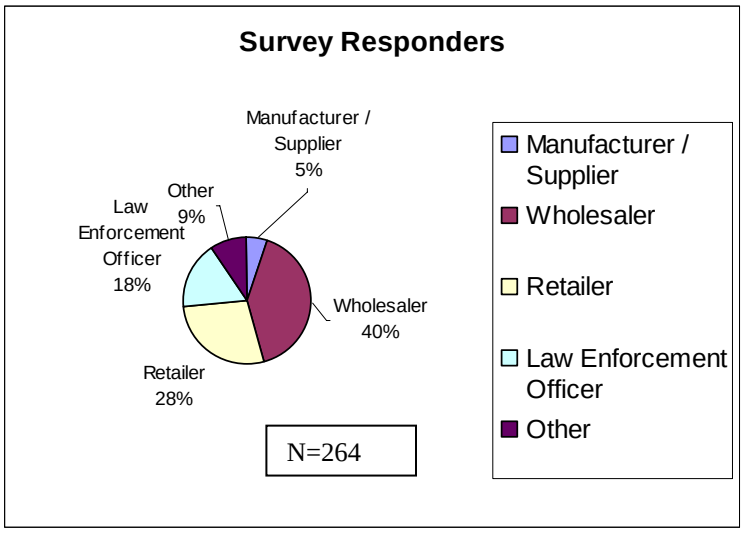
The goal of the survey and the research project as a whole was to assess the breadth and depth of the illegal alcohol importation problem in Michigan and to offer the Michigan Legislature legitimate, productive remedy options taken directly from invested members of the industry. To that end, MLCC staff conducted a review of national and international news sources using the Internet to form a global image of the problem. Staff also organized interviews and arranged for the posting of an online survey to collect current information on the topic.

Descriptive Statistics

A total of 264 survey responses were received; 190 responses came via the internet web tool and 74 people submitted paper responses. Dozens of websites were reviewed and video footage was evaluated for background information. Industry meetings, personal interviews, and a public forum meeting was held to discuss the issue, how it affects revenue to the state and how other issues like illegal redemption of cans and bottles, and pricing discrepancies between states influence the bigger smuggling/ tax evasion picture. The next section of this report presents the survey data.

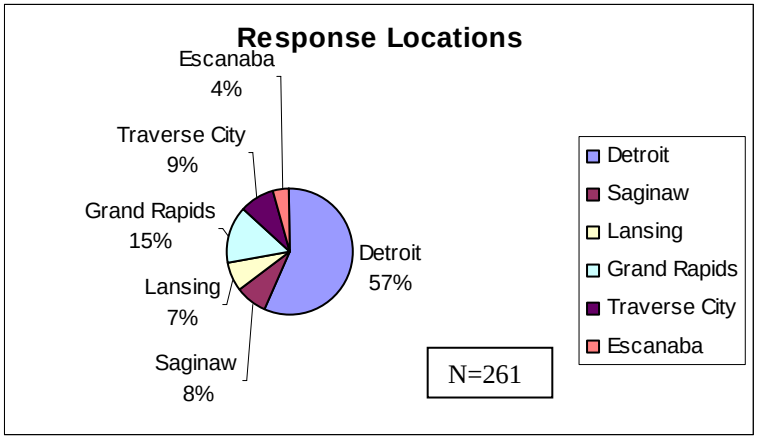
Survey Responses – A total of 264 survey responses were collected.

	Response Count
Manufacturer / Supplier	14
Wholesaler / Salespersons	107
Retailer	73
Law Enforcement Officer	47
Other (Clubs, Baseball Team Manager, Consumer)	23



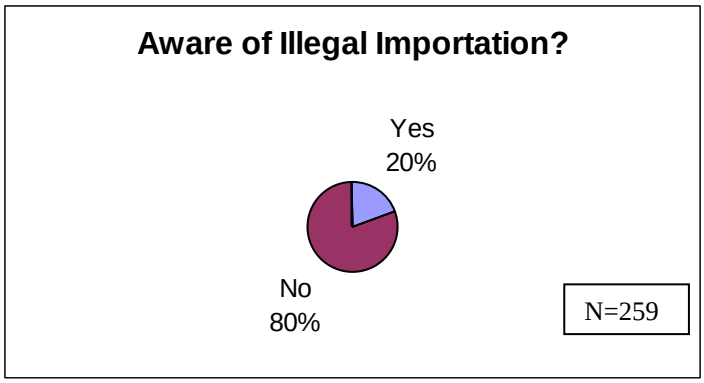
Locations – General area of Michigan they are located

	Response Count
Detroit	147
Saginaw	21
Lansing	19
Grand Rapids	39
Traverse City	24
Escanaba	11

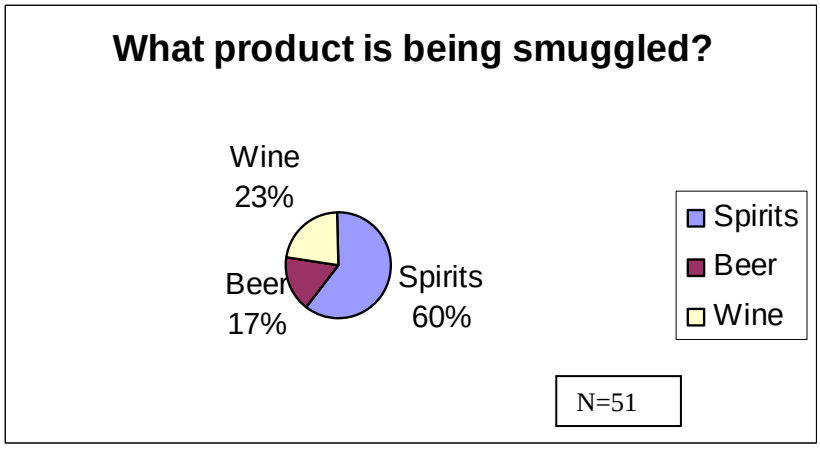


Aware of Illegal Importation?

This question asked responders if they were aware of any illegally imported alcohol in their area. 208 people responded that they did not know of any illegal importation in their area. Five people did not respond to this question and 51 people responded that they were aware of illegal importation going on in their area of the state. Of those who responded that they were aware of illegal importation in their area of the state, 76% of them (39 out of 51) were from the Detroit area, which is useful enforcement information. The second largest reported smuggling group was in Southwest Michigan (Grand Rapids) with 8 out of 51 responses, or 16%, coming from that region.



For those responders who were aware of products being smuggled into Michigan a follow up question asked what type of product was being smuggled. Spirits, as expected, were the primary answer most likely based on generous profit margins especially for expensive bottles. The spreadsheet at the back of this report is a revenue-lost calculator based on entering different case loads and selling prices. The items listed were taken from an actual illegal import order form recovered from a Southeast Michigan smuggling arrest. The total number of responses regarding smuggled products was: Beer 12, Wine 16, Spirits 42 responses.



To put this graph in profit terms, refer to the first item in Appendix three, Seagram's Distiller's Reserve Gin 375ml. The smuggled cost per case is $120.00; the cost to purchase a case from the state is $180.00. For each case, the licensee pays $60.00 less and makes at

least that back in profit even if he or she sells the product at the minimum shelf price set by the MLCC ($180.00). In 2004, Michigan retail licensees were permitted to mark a product up to whatever shelf price the market will bear as long as it is not below the minimum price set by the MLCC ($180.00 in this example) but if a licensee were able to get $250.00 per case from a customer then his or her profit becomes $130.00 instead of $60.00.

Half of the responders (50.8%) did not know if smuggling was a problem in their area and twenty-one percent felt that smuggling was not a problem. Seventy one responders felt that illegal importation is a MINOR (40 responses) or MAJOR (31 responses) problem in the state.

Who is smuggling - Licensee or Third Party?

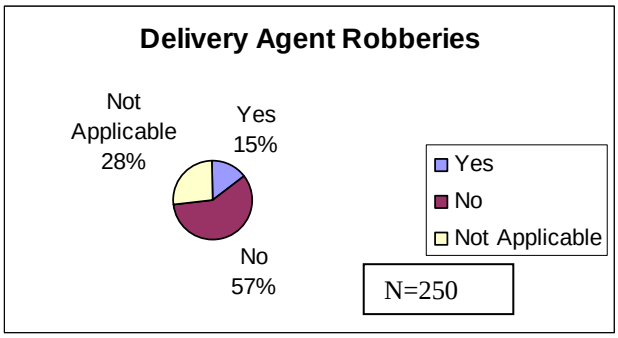
Over 95% of responses indicated that licensees are not transporting product themselves but rather purchasing it from an unlicensed third party. Ten responders knew MORE THAN 20 licensees that had purchased spirits, beer, or wine from an unlicensed third party and an even larger number (32 responders) reported knowing 1 to 10 licensees who had purchased smuggled alcohol product. These responses clearly suggest that even if the licensee responding does not personally purchase smuggled product, he or she knows anywhere from 1 to over 20 other licensees who ARE purchasing smuggled product! Anecdotal information further supports this statement.

Playing a hunch, one wholesaler, who obtained an illegal importation order form, lowered the price on a champagne product to the same price being shown on the form to see what would happen to sales. After lowering the price, the product showed a significant spike in sales!

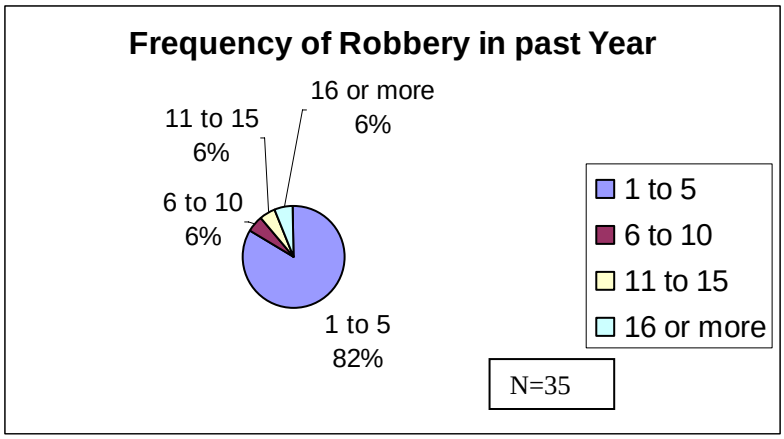
This illustrates that a large number of licensees have knowledge of “bootleg pricing” and are purchasing illegal product from outside of the State.

In addition to knowing a number of licensees who purchase illegally imported products, over half (54%) of those responders stated that smuggled products were PRE-ORDERED. MLCC Enforcement has recovered several different styles of lists believed to be used as preorder sheets (see Attachment two). The preorder sheets are a combination of high-end premium products, mid-range and low end products.

The next few questions of the survey asked how business practices have changed because of illegal importation. Responses ranged from fewer sales in their licensed establishment or sales territory to costs for products increasing and one commented that the smuggling activity was creating a "seedy impression of the business district." No one responded with a positive result to their business from smuggling activity. A total of 38 supplier and wholesaler responses stated that a delivery agent or agents had been robbed while making a delivery of alcohol product. The total range of robberies in the past year ran from 90 to 218.

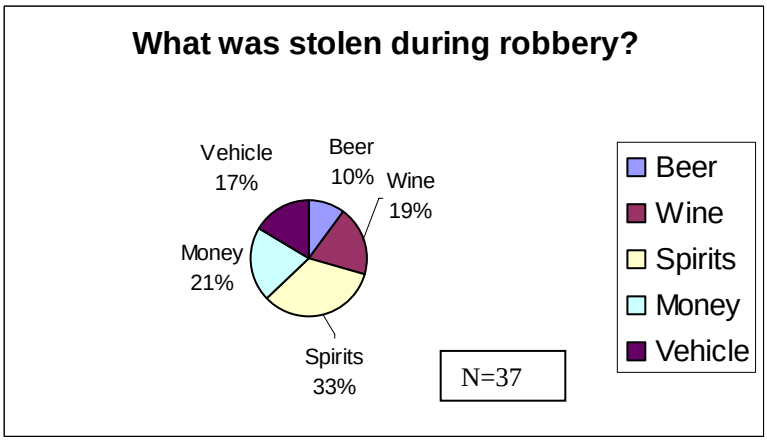


Thirty responses stated that delivery agents being robbed 1 to 5 times in the past year while the other three categories each received two responses (below).



Items taken from Robbery

	Response Count
Beer	8
Wine	15
Spirits	26
Money	16
Vehicle	13

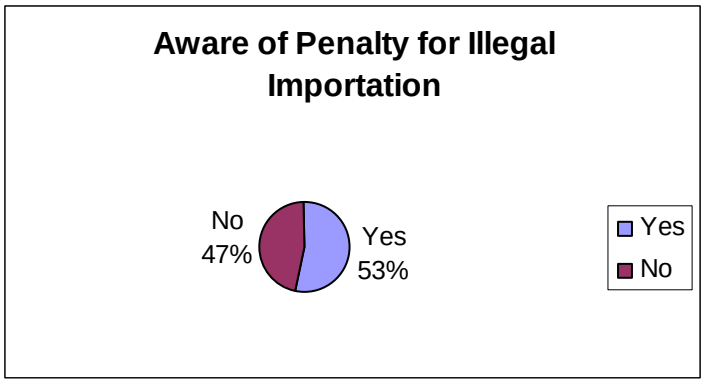


Suppliers, wholesalers, delivery agents are making changes to the way they do business in order to increase safety and minimize loss. Some report requiring payment by Electronic Fund Transfer, Money Order or Certified Check, or changing the hours of delivery, or changing the day of delivery and adding more delivery agents to dangerous routes causing significant increases in personnel costs. These increased costs are in addition to hiked

insurance premiums following payouts for claims for losses of product and vehicles and thus corresponding higher prices that must be passed on to retailers.

Overall, 42% of those who responded to the survey feel that both beer/wine and spirit smuggling has increased slightly over the past few years but that spirit smuggling has increase slightly more. Fifty-eight percent felt that smuggling had not increased.

The second to last question asked if responders were aware of the penalty for illegally importing alcohol products into Michigan. A little over half of those responding indicated that they do know what the penalties are which could mean that more publicity regarding the penalty structure is needed.



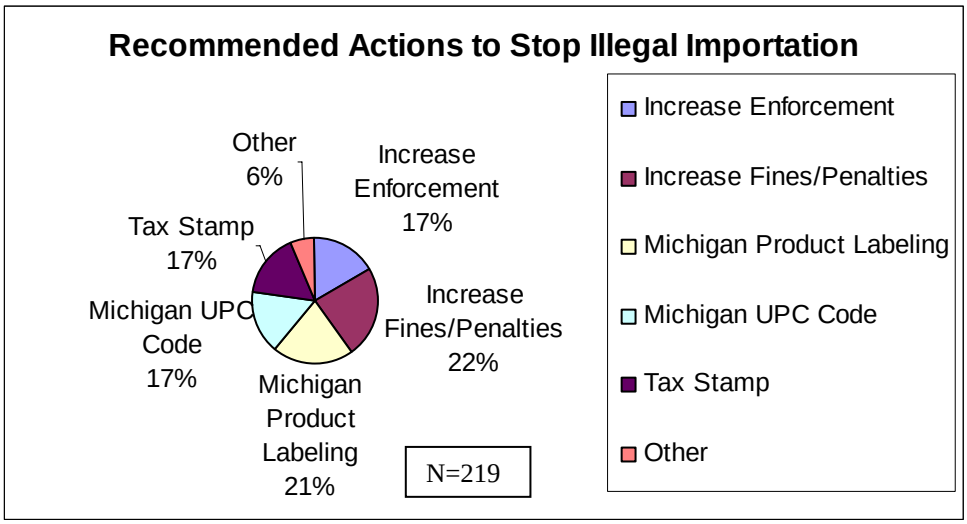
Generally, violations of the Liquor Control Code of 1998 (Code) are considered misdemeanors. However, a person required to be licensed under the Code is guilty of a felony if he/she illegally sells, delivers, or imports alcoholic liquor (beer, wine, and/or spirits) into Michigan under Section 909, being MCL 436.1909, which is punishable by imprisonment for not more than 1 year or by a fine of not more than $1,000, or both. In Michigan, the State is the exclusive wholesaler of spirits; therefore, all manufacturers, suppliers, and/or importers of spirits sell spirits to the State for warehousing and delivery by the authorized distribution agents to Michigan retailers. Beer and wine is legally brought into the State by licensed Outstate Sellers of Beer, Outstate Sellers of Wine, and/or Outstate Sellers of Mixed Spirit

Drink, and sold to licensed Wholesalers who distribute to Michigan retailers. All the smugglers bringing beer, wine and spirits into Michigan would be guilty of a felony; however, as previously indicated, the maximum penalty is imprisonment for one year and $1,000 fine. When compared to penalties for cigarette or drug charges, it is clearly less painful to smuggle alcohol than to commit other types of felonies.

A licensed Michigan retailer who is found to have obtained beer, wine, and/or spirits from illegal sources would be cited for purchasing from an unauthorized source under R 436.1033 of the Michigan Administrative Code. Any violation of the Liquor Control Code and/or the Michigan Administrative Code for which a licensee is cited and found responsible may be assessed a penalty of not more than $300 for each violation in addition to or in lieu of suspension or revocation of the liquor license. However, it should be noted that even if a liquor license is revoked, the retailer may continue to operate their business without the sale of alcoholic beverages.

Recommended Methods for Stopping Illegal Importation/Sales

Question twenty-three of the survey asked responders to select one or more of the following methods for stopping illegal importation: Increased Law Enforcement, Increased Fines/ Penalties, Michigan Specific Product Labeling and Universal Pricing Code (UPC), Tax Stamps Adhered to Product, and Other. Thirty-one responders selected “other” and offered solutions that are listed after the chart below.



"OTHER" RESPONSES:

- Create a task force of officers from State Police, MLCC, and Canadian agencies.
- Do not offer fine, revoke license at first offense.
- Education needed for law enforcement
- State should audit purchase records and look for spikes
- Lower taxes so it is not profitable to purchase from neighboring states (nine "other" responses listed this as a recommendation).
- All of the above
- Seven "other" responses stated that they did not know what the best method for eliminating smuggling would be.
- Tax Stamps are a stupid idea
- Periodic surveys such as this one are helpful.
- The problem is limited to Metro Detroit, do more sting operations just in that area of the state.
- Prosecute everyone involved, not just the smuggler or licensee.
- Increased enforcement would help a lot.
- More sting operations
- Make the delivery system the same as it is in Chicago.
- Deliveries should be through a certified vendor with invoices going to the MLCC for audit.
- Show licensees that they aren't making much profit on some items and the overall harm smuggling has done to the entire state economy.

ATTACHMENT ONE: Illegal Importation Survey

Illegal Importation of Alcohol

1. Survey Questions

1. I am a

- ◯ Manufacturer/Supplier
- ◯ Wholesaler
- ◯ Retailer
- ◯ Law Enforcement Officer

Other (please specify)

2. Of the five general areas of the state listed which are you located in?

- ◯ DETROIT (Southeast Michigan)
- ◯ SAGINAW (Northeast Michigan)
- ◯ LANSING (Central Michigan)
- ◯ GRAND RAPIDS (Southwest Michigan)
- ◯ TRAVERSE CITY (Northwest Michigan)
- ◯ ESCANABA (Upper Peninsula)

3. Are you aware of any illegally imported alcohol in your area?

- ◯ Yes
- ◯ No

4. If you answered "Yes" to question 3, what type of alcohol is being illegally imported into your area (check all that apply)?

- ☐ Spirits
- ☐ Beer
- ☐ Wine

5. In your opinion, how much of a problem is illegal alcohol importation?

- ◯ It is a MAJOR problem in my area.
- ◯ It is a MINOR problem in my area.
- ◯ It is NOT a problem in my area.
- ◯ I DON'T KNOW if it is a problem in my area.

6. Do you know one or more licensees who have purchased illegally imported spirits from an unlicensed third party for sale at their establishment(s)?

- ◯ Yes
- ◯ No

Page 1

Illegal Importation of Alcohol

7. Do you know one or more licensees who have purchased illegally imported beer/wine from an unlicensed third party for sale at their establishment(s)?

- ◯ Yes
- ◯ No

8. If you answered "Yes" to question 6 or 7, indicate the number of licensees that have purchased spirits, beer, and/or wine from an unlicensed third party:

- ◯ 0-1
- ◯ 2-5
- ◯ 6-10
- ◯ 11-15
- ◯ 16-20
- ◯ More than 20

9. If you answered "Yes" to question 6 or 7, has the licensee preordered specific spirits, beer, and/or wine from an unlicensed third party for sale at their establishment(s)?

- ◯ Yes
- ◯ No

10. Do you know one or more licensees who have transported spirits into Michigan for sale at their establishment(s)?

- ◯ Yes
- ◯ No

11. Do you know one or more licensees who have transported beer/wine into Michigan for sale at their establishments?

- ◯ Yes
- ◯ No

12. If you answered "Yes" to question 10 or 11, indicate the number of licensees you know that have transported spirits, beer and/or wine into Michigan for use at their establishment(s):

- ◯ 0-1
- ◯ 2-5
- ◯ 6-10
- ◯ 11-15
- ◯ 16-20
- ◯ More than 20

Illegal Importation of Alcohol

13. How has the illegal importation and resale of alcoholic beverages impacted your business?

- [ ] There are fewer sales/customers in my sales territory/ establishment
- [ ] My costs for spirits, beer and/or wine are increasing
- [ ] Unlicensed establishments that illegally allow the sale, service or consumption of alcoholic beverages are starting up and operating without consequences
- [ ] It has not impacted my business

Other (please specify)

14. Have you or any of your delivery agents ever been robbed while making a delivery?

- ( ) Yes
- ( ) No
- ( ) Not Applicable

15. If you answered "Yes" to question 14, indicate the frequency of the robberies within the past year:

- ( ) 1-5
- ( ) 6-10
- ( ) 11-15
- ( ) 16 or more

16. If you answered "Yes" to question 14, what was stolen (check all that apply)?

- [ ] Spirits
- [ ] Beer
- [ ] Wine
- [ ] Money
- [ ] Truck/Van

Illegal Importation of Alcohol

17. If you answered "Yes" to question 14, how has this changed the way you do business (check all that apply)?

- [ ] Require payment by EFT, Check, Certified Check or Bank/Postal Money Order
- [ ] Change hours of delivery times
- [ ] Change days of product delivery
- [ ] Change the number of personnel assigned to routes

Other (please specify)

18. In your opinion, has illegal importation of spirits increased over the past few years?

- ( ) Yes
- ( ) No
- ( ) Somewhat

19. In your opinion has illegal importation of beer/wine increased over the past few years?

- ( ) Yes
- ( ) No
- ( ) Somewhat

20. Are you aware of the penalty for selling illegaly imported alcohol?

- ( ) Yes
- ( ) No

21. What methods would you recommend to stop the illegal importation and resale of alcoholic beverages (check all that apply)?

- [ ] Increased law enforcement
- [ ] Increased fines and penalties
- [ ] Product labeling that indicates it is a Michigan product
- [ ] UPC Code on the product that indicates it is a Michigan product
- [ ] Tax stamp on the product that indicates Michigan

Other (please specify)

Illegal Importation of Alcohol

22. Any other comments you would like to make:

ATTACHMENT TWO: Illegal Importation Survey

Product	Size	Price	QTY	Total
Hennessy	1.75	345		0
	LTR	370		0
	750	270		0
	375	265		0
	200	305		0
	100	370		0
Henn vsop	750	380		0
	375	395		0
	200	430		0
Henn XO	750	115		0
Martell	1.75	320		0
	LTR	380		0
	750	255		0
	375	240		0
	200	270		0
Remy vsop	LTR	540		0
	750	365		0
	375	365		0
	200	400		0
	100			0
Remy VS	750	260		0
	200	310		0
Remy XO	1.75			0
	750	115		0
	375	840		0
	200	900		0
	0.5	650		0
Courvoisier	750	260		0
	200	290		0
Absolute	1.75	200		0
	LTR	250		0
	750	200		0
	375	210		0
	200	245		0
Belvedere	750	290		0
	375	310		0
Grey Goose	LTR	345		0
	750	290		0
	375	310		0
	0.5	320		0
Tanq Vodka	750	185		0
	375	190		0
	200	210		0
Skyy Vodka	750	165		0
stoli Vodka	750	190		0

Product	Size	Price	QTY	Total
Seag Vodka	1.75	100		0
Smirnoff	1.75	115		0
	LTR	140		0
Popov	1.75	75		0
	LTR	95		0
	750	75		0
Bombay sapph	750	210		0
	375	220		0
Tanq Gin	LTR	235		0
	750	190		0
	375	210		0
	200	250		0
Armandale	750	325		0
C.B Brandy	1.75	110		0
	750	105		0
	200	120		0
C.B VSOP	375	120		0
	200	140		0
E&J Brandy	1.75	105		0
	750	105		0
	375	110		0
	200	120		0
E&J VSOP	750	115		0
	375	120		0
	200	145		0
P.M Brandy	1.75	110		0
	750	105		0
	375	105		0
	200	120		0
Alize red&yell	750	185		0
	375	200		0
	200	220		0
Jack Daniels	1.75	190		0
	LTR			0
	750			0
	375	210		0
	200	235		0
Kahlua	LTR	275		0
	750	195		0
	375	215		0
Jagermeister	LTR	265		0
	750	200		0
	375	210		0
Baileys	LTR			0
	750	210		0

Product	Size	Price	QTY	Total
Grandmarnier	750	350		0
JW Black	1.75	350		0
	750	320		0
	375			0
	200	420		0
Cuervo Gold	LTR			0
	750	190		0
	375	195		0
Cuervo 1800	LTR	300		0
	750	260		0
	375	270		0
Hpnotiq	750	250		0
	375	275		0
Remy 1738	750			0
Moet B	750	310		0
Moet W	750	310		0
JW Red	1.75	210		0
Chivas Regal	1.75	340		0
	750	295		0
	375	340		0
	200	380		0
Crown Royal	750			0
	375			0
	200	275		0
White lable	1.75	210		0
	200	280		0
Seag Gin	1.75	105		0
	750	110		0
	375	120		0
	200	135		0
Absolute	50ml	185		0
Seag Vodka	750	110		0
	375	120		
Smirnoff	750	115		
	375	120		
1800 silver	750	250		
	375	270		
Patron Silver	750	470		
Ciroc Vodka	750	290		
Grand Total				

These products are for personal use and consumption only

Product	Size	Price	Qty Case/bottle	
Hennessy	1.75	315		
	Ltr	345		
	750	250		
	375	245		
	200	285		
	100	350		
	50	306		
Hennessy VSOP	750	370		
	375	378		
	200	428		
Hennessy XO	750	102		
Martell	1.75	255		
	Ltr	336		
	750	220		
	375	225		
	200	242		
(48B)	100	164		
	50	260		
Remy VSOP	1.75	480		
	Ltr	522		
	750	340		
	375	338		
	200	358		
	100	234		
Remy VS	750	230		
	375	250		
	200	275		
Remy XO	750	102		
	375	55		
	200	34		
	50	9		
Hpnotiq	750	235		
	375	255		
Courvoisier	750	215		
	375	235		
	200	268		
Remy 1738	750	478		
Cuervo 1800	Ltr	280		
	750	232		
	375	240		
1800 Silver	750	232		
	375	240		
Cuervo Gold	Ltr	210		
	750	165		
	375	180		
	200	202		
Patron Silver	375	410		
	750	420		
Anejo	375	490		
	750	500		
Repos	375	460		
	750	440		

Product	Size	Price	Qty Case/bottle	
P.M. Brandy	1.75	90		
	750	88		
	375	92		
	200	108		
	100	63		
	50	80		
X-Bros	1.75	90		
	Ltr	114		
	750	83		
	375	95		
	200	108		
X-Bros VSOP	750	100		
	375	105		
	200	118		
E & J Brandy	1.75	90		
	Ltr	114		
	750	86		
	375	95		
	200	108		
	50	84		
E & J VSOP	1.75	100		
	750	100		
	375	104		
	200	132		
	50	84		
Seagrams Gin	1.75	92		
	Ltr	140		
	750	94		
	375	105		
	200	120		
	50	100		
Tanqueray Gin	750	160		
	375	174		
	200	194		
Bombay Saphire	750	170		
	375	188		
J.W. Black	1.75	305		
	750	274		
	200	355		
	50	270		
J.W. Red	1.75	175		
	750	200		
	200	262		
Dewars	1.75	187		
	750	204		
	200	256		
Crown Royal	750	224		
	375	234		
	200	260		
Jack Daniels	1.75	188		
	Ltr	264		
	750	200		
	375	202		
	200	225		
Moet Rose	750	385		
Moet Black	750	295		
Moet White	750	289		

Product	Size	Price	Qty Case/bottle	
Grey Goose	1.75	310		
	Ltr	334		
	750	265		
	375	290		
	50	260		
Belvedere	1.75	270		
	750	272		
	375	280		
Armandale	750	290		
Stoli	750	180		
Tang Sterling	750	150		
	375	165		
	200	180		
Skyy Vodka	750	150		
Smirnoff	1.75	98		
	Ltr	130		
	750	105		
	375	108		
	200	126		
	50	81		
Popov	1.75	58		
	Ltr	80		
	750	60		
	375	70		
	200	86		
Three Olives	1.75	116		
Seagrams Vodka	1.75	92		
	750	94		
	375	105		
	200	120		
Seag Vodka 100	750	114		
	375	118		
	200	150		
Seagram Apple	750	94		
	375	105		
	200	120		
Finlandia	1.75	140		
	750	160		
Absolut	1.75	170		
	Ltr	230		
	750	187		
	375	187		
	200	228		
	50	163		
Ciroc	750	260		
	375	280		
Jagermeister	1.75	180		
	Ltr	222		
	750	170		
	375	190		
	200	228		
Baileys	750	185		
Grand Marnier	750	315		
Kahlua	750	175		

ATTACHMENT THREE: The Effects of Liquor Smuggling on Revenue

THE EFFECTS OF LIQUOR SMUGGLING ON REVENUE

Based on 20 of the top 50 products sold in Michigan, and also found on the Illegal Importation Order Sheet.

Instructions: To observe the effects on revenues you can change the amounts in the two columns headed Smuggled Product Purchased: Cost Per Case and No. Of Cases.

Product Name	Btle. Size	Smuggled Product Purchased: Cost Per Case	Smuggled Product Purchased: No. Of Cases	MLCC Btles. Per Case	MLCC Minimum Shelf Price per Case	Convention Facilities Tax - 4%	School Aid Tax - 4%	General Fund Tax - 4%	Liquor Purch. Revolving Fund Tax - 1.85%	MLCC Net Revenue	ADA Fees	Minimum Legal Licensee Profit	Actual Minimum Licensee Profit If Purchase Smuggled Liquor
Seagram's Distiller's Res. Gin	375ml	$120.00	1	24	$180.00	$6.34	$6.33	$6.33	$2.32	$28.50	$6.97	$26.99	$60.00
Seagram's Distiller's Res. Gin	200ml	$135.00	1	48	$177.60	$6.26	$6.24	$6.24	$2.29	$28.03	$6.97	$26.63	$42.60
Paul Masson Grd Amber Brdy	200ml	$120.00	1	24	$77.52	$5.46	$5.45	$5.45	$2.00	$16.61	$13.94	$23.25	$35.04
Hennessy VS Cognac	375ml	$265.00	1	12	$167.40	$11.79	$11.77	$11.77	$4.32	$52.04	$13.94	$50.20	$69.80
Hennessy VS Cognac	200ml	$305.00	1	24	$191.28	$13.47	$13.45	$13.45	$4.93	$61.45	$13.94	$57.36	$77.56
Martell VS Cognac	375ml	$240.00	1	12	$179.76	$12.66	$12.64	$12.64	$4.64	$56.91	$13.94	$53.93	$119.52
Jose Cuervo Especial Tequila	750ml	$190.00	1	12	$227.64	$8.02	$8.00	$8.00	$2.94	$37.89	$6.97	$34.13	$37.64
1800 Silver Tequila	375ml	$270.00	1	12	$167.40	$11.79	$11.77	$11.77	$4.32	$52.04	$13.94	$50.20	$64.80
Absolut Swedish 80 Vodka	1 L	$250.00	1	12	$323.88	$11.41	$11.39	$11.39	$4.18	$56.85	$6.97	$48.56	$73.68
Absolut Swedish 80 Vodka	750ml	$200.00	1	12	$251.52	$8.86	$8.84	$8.84	$3.24	$42.60	$6.97	$37.71	$51.52
Grey Goose Vodka	1 L	$345.00	1	6	$227.76	$16.04	$16.01	$16.01	$5.87	$75.83	$13.94	$68.30	$110.52
Grey Goose Vodka	750ml	$290.00	1	6	$191.88	$13.52	$13.49	$13.49	$4.95	$61.69	$13.94	$57.54	$93.76
Popov Vodka 80	1.75 L	$75.00	1	6	$85.94	$3.38	$3.37	$3.37	$1.24	$11.94	$6.97	$14.38	$20.94
Popov Vodka 80	750ml	$75.00	1	12	$85.64	$3.37	$3.36	$3.36	$1.23	$11.88	$6.97	$14.34	$20.64
Seagram's Extra Smooth Vod.	375ml	$120.00	1	24	$143.52	$5.06	$5.05	$5.05	$1.85	$21.31	$6.97	$21.52	$23.52
Smirnoff Vodka 80	1.75 L	$115.00	1	6	$143.46	$5.05	$5.04	$5.04	$1.85	$21.30	$6.97	$21.51	$28.46
Smirnoff Vodka 80	750ml	$115.00	1	12	$143.40	$5.05	$5.04	$5.04	$1.85	$21.29	$6.97	$21.50	$28.40
Smirnoff Vodka 80	375ml	$120.00	1	24	$152.64	$5.38	$5.37	$5.37	$1.97	$23.11	$6.97	$22.89	$32.64
Jagermeister Liq	1 L	$255.00	1	12	$335.28	$11.81	$11.79	$11.79	$4.32	$59.10	$6.97	$50.27	$80.28
Jagermeister Liq	750ml	$200.00	1	12	$257.40	$9.07	$9.05	$9.05	$3.32	$43.76	$6.97	$38.59	$57.40
State of Michigan Lost Revenue by Type						$173.79	$173.45	$173.45	$63.62	$784.14			
State of Michigan Grand Total Lost Revenue								$1,368.45					
ADA Total Lost Revenue											$186.19		
Licensee Total Profit - by Legal Purchase or by Purchase of Smuggled Liquor												$739.74	$1,128.92
Licensee Extra Profit Due to Purchase of Smuggled Liquor													$389.18

THE EFFECTS OF LIQUOR SMUGGLING ON REVENUE

Based on 20 of the top 50 products sold in Michigan, and also found on the Illegal Importation Order

Instructions: To observe the effects on revenues you can change the amounts in the two columns headed Smuggled Product Purchased: Cost Per Case and No. Of Cases.

Product Name	Btle. Size	Smuggled Product Purchased: Cost Per Case	Smuggled Product Purchased: No. Of Cases	MLCC Btles. Per Case	MLCC Minimum Shelf Price per Case	Convention Facilities Tax - 4%
Seagram's Distiller's Res. Gin	375ml	$120.00	1	24	$180.00	$6.34
Seagram's Distiller's Res. Gin	200ml	$135.00	1	48	$177.60	$6.26
Paul Masson Grd Amber Brdy	200ml	$120.00	1	24	$77.52	$5.46
Hennessy VS Cognac	375ml	$265.00	1	12	$167.40	$11.79
Hennessy VS Cognac	200ml	$305.00	1	24	$191.28	$13.47
Martell VS Cognac	375ml	$240.00	1	12	$179.76	$12.66
Jose Cuervo Especial Tequila	750ml	$190.00	1	12	$227.64	$8.02
1800 Silver Tequila	375ml	$270.00	1	12	$167.40	$11.79
Absolut Swedish 80 Vodka	1 L	$250.00	1	12	$323.88	$11.41
Absolut Swedish 80 Vodka	750ml	$200.00	1	12	$251.52	$8.86
Grey Goose Vodka	1 L	$345.00	1	6	$227.76	$16.04
Grey Goose Vodka	750ml	$290.00	1	6	$191.88	$13.52
Popov Vodka 80	1.75 L	$75.00	1	6	$95.94	$3.38
Popov Vodka 80	750ml	$75.00	1	12	$95.64	$3.37
Seagram's Extra Smooth Vod.	375ml	$120.00	1	24	$143.52	$5.06
Smirnoff Vodka 80	1.75 L	$115.00	1	6	$143.46	$5.05
Smirnoff Vodka 80	750ml	$115.00	1	12	$143.40	$5.05
Smirnoff Vodka 80	375ml	$120.00	1	24	$152.64	$5.38
Jagermeister Liq.	1 L	$255.00	1	12	$335.28	$11.81
Jagermeister Liq.	750ml	$200.00	1	12	$257.40	$9.07

State of Michigan Lost Revenue by Type $173.79

State of Michigan Grand Total Lost Revenue

ADA Total Lost Revenue

Licensee Total Profit - by Legal Purchase or by Purchase of Smuggled Liquor

Licensee Extra Profit Due to Purchase of Smuggled Liquor

Sheet.

School Aid Tax - 4%	General Fund Tax - 4%	Liquor Purch. Revolving Fund Tax - 1.85%	MLCC Net Revenue	ADA Fees	Minimum Legal Licensee Profit
$6.33	$6.33	$2.32	$28.50	$6.97	$26.99
$6.24	$6.24	$2.29	$28.03	$6.97	$26.63
$5.45	$5.45	$2.00	$16.61	$13.94	$23.25
$11.77	$11.77	$4.32	$52.04	$13.94	$50.20
$13.45	$13.45	$4.93	$61.45	$13.94	$57.36
$12.64	$12.64	$4.64	$56.91	$13.94	$53.90
$8.00	$8.00	$2.94	$37.89	$6.97	$34.13
$11.77	$11.77	$4.32	$52.04	$13.94	$50.20
$11.39	$11.39	$4.18	$56.86	$6.97	$48.56
$8.84	$8.84	$3.24	$42.60	$6.97	$37.71
$16.01	$16.01	$5.87	$75.83	$13.94	$68.30
$13.49	$13.49	$4.95	$61.69	$13.94	$57.54
$3.37	$3.37	$1.24	$11.94	$6.97	$14.38
$3.36	$3.36	$1.23	$11.88	$6.97	$14.34
$5.05	$5.05	$1.85	$21.31	$6.97	$21.52
$5.04	$5.04	$1.85	$21.30	$6.97	$21.51
$5.04	$5.04	$1.85	$21.29	$6.97	$21.50
$5.37	$5.37	$1.97	$23.11	$6.97	$22.89
$11.79	$11.79	$4.32	$59.10	$6.97	$50.27
$9.05	$9.05	$3.32	$43.76	$6.97	$38.59
$173.45	$173.45	$63.62	$784.14		
	$1,368.45				
				$188.19	
					$739.74

Actual Minimum Licensee Profit If Purchase Smuggled Liquor
$60.00
$42.60
$35.04
$69.80
$77.56
$119.52
$37.64
$64.80
$73.88
$51.52
$110.52
$93.76
$20.94
$20.64
$23.52
$28.46
$28.40
$32.64
$80.28
$57.40
$1,128.92
$389.18