

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

***United States Attorney
Laura E. Duffy***

For Further Information, Contact: Assistant U. S. Attorney Timothy C. Perry (619) 546-7966

For Immediate Release

President of San Diego Customs Brokers Association Pleads Guilty to Overseeing \$100 Million Customs Fraud

NEWS RELEASE SUMMARY - November 15, 2012

United States Attorney Laura E. Duffy announced that Gerardo Chavez pled guilty today in federal court before United States Magistrate Judge Karen E. Crawford to overseeing a wide-ranging conspiracy to import Chinese and other foreign-manufactured goods into the United States without paying import taxes (also referred to as Customs duties).

According to court documents, Chavez's scheme focused on purchasing large, commercial quantities of foreign-made goods and importing them without paying Customs duties. Wholesalers in the United States would procure commercial shipments of, among other things, Chinese-made apparel and Indian-made cigarettes, and arrange for them to be shipped by ocean container to the Port of Long Beach, California. Before the goods entered the United States, conspirators acting at Chavez's direction would prepare paperwork and database entries indicating that the goods were not intended to enter the *commerce* of the United States, but instead would be "transshipped" "in-bond" to another country, such as Mexico. This in-bond process is a routine feature of international trade. Goods that travel in-bond through the territory of the United States do not formally enter the *commerce* of the United States, and so are not subject to Customs duties. By claiming that the goods would be transshipped in-bond to another country, the defendants falsely represented that no Customs duties applied.

Instead of completing the in-bond transshipment, Chavez and codefendant Carlos Medina would hire truck drivers to haul the shipments to warehouses throughout Southern California. After generating the false paperwork and database entries, the goods would then be diverted back to Los Angeles and other destinations for shipment throughout the United States. As the conspirators had now effectively imported the goods tax-free, they could in turn sell more merchandise at cheaper prices—and reap greater profits—than their law-abiding competitors, including domestic American manufacturers of the same goods.

As reflected in court records, Chavez's scheme led to the fraudulent importation of more than \$100 million in foreign goods. In entering his plea, Chavez admitted causing more than \$18 million in losses to federal, state and other taxing authorities. He also admitted aiding coconspirators by wiring money out of the United States to a business account in Hong Kong, China.

Pursuant to his plea agreement, Chavez agreed to cancel his individual, local and national Customs licenses, which entitled him to broker imports and exports. He also agreed to forfeit real and personal property—including land in Tecate, California upon which he operated his Customs business. Chavez will also be subject to paying restitution which could be as much as, or more than, \$18 million.

Codefendant Medina also pled guilty today and admitted helping coordinate delivery of the foreign-made goods that Chavez fraudulently imported. Like Chavez, Medina's plea agreement indicates he will also be required to pay restitution. In addition, Chavez's corporation, International Trade Consultants, LLC, entered a plea of guilty and will be required to pay restitution and may be subject to payment of a fine. All of the guilty pleas are subject to final acceptance by United States District Court Judge Michael M. Anello before or at the time of sentencing.

United States Attorney Duffy emphasized that Customs Fraud is not a victimless crime: "In addition to harming businesses that play by the rules, this type of massive Customs Fraud harms all taxpayers – individual and business alike – who pay their fair share of taxes to the United States Treasury." Duffy added that this Customs Fraud investigation was initiated by Special Agents of Immigrations and Customs Enforcement's Homeland Security Investigations, along with Officers from United States Customs and Border Protection, and was assisted by Special Agents and Investigators from the Internal Revenue Service – Criminal Investigations, the Food and Drug Administration, and the Alcohol and Tobacco Tax and Trade Bureau.

"As illustrated by this probe, HSI and our law enforcement partners are cracking down on customs fraud, which often involves a substantial loss of revenue for law abiding companies and the government," said Derek Benner, Special Agent in Charge for ICE HSI in San Diego. "Our focus on trade violations and related criminal activities is crucial to maintaining the integrity of a vital commercial trade center on the San Diego-Tijuana border."

"U.S. Customs and Border Protection (CBP) officers working with ICE HSI, uncovered a complicated commercial fraud operation on the U.S./Mexico border that put law-abiding businesses at a disadvantage," said Pete Flores, director of field operations in San Diego. I commend the work of our officers and import specialist who work diligently to protect the revenue and economic vitality of our nation."

Chavez, Medina and International Trade Consultants, LLC are expected to appear in court before the Honorable Michael M. Anello, United States District Court Judge, on January 14, 2012, at 9:00 a.m., for sentencing.

DEFENDANTS **Case Number: 12CR3137-MMA**

Gerard Chavez

Carlos Medina

International Trade Consultants, LLC

SUMMARY OF CHARGES

- Count 1: Conspiracy to Defraud the United States and to Commit Offenses against the United States, in violation of Title 18, United States Code, Section 371. Maximum penalties: 5 years in prison, 3 years' supervised release, a \$250,000 fine and a \$100 special assessment (**Chavez and Medina**).

- Counts 2-3: Bringing in Goods by Means of False Statements, in violation of Title 18, United States Code, Section 542. Maximum 2 years in prison, one year of supervised release, a \$250,000 fine and a \$100 special assessment per count (**Chavez only**).

- Count 57: Laundering of Monetary Instruments, in violation of Title 18, United States Code, Section 1956(a)(2)(A) and (h). Maximum penalties: 20 years in prison, a \$500,000 fine (or twice the value of the transferred funds, whichever is greater) and three years of supervised release (**Chavez only**).

INVESTIGATING AGENCIES

Immigration and Customs Enforcement's Homeland Security Investigations
United States Customs and Border Protection
Internal Revenue Service – Criminal Investigations
Food and Drug Administration