

NEWS

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Christopher J. Christie, U.S. Attorney

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FOR IMMEDIATE RELEASE
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Contraband Cigarette Ring Busted; Sold Tens of Millions of Untaxed Cigarettes

(More)

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NEWARK – Five individuals were charged today – three were arrested – on charges that they purchased at least \$4.5 million in untaxed contraband cigarettes and resold them for significant profits to Chinese restaurants, retailers and others in New Jersey, U.S. Attorney Christopher J. Christie announced.

A criminal Complaint alleges that the group purchased tax free at least 150,000 cartons – or 30 million cigarettes – and defrauded the State of New Jersey of at least \$3 million in cigarette sales taxes.

The defendants, from Newark, West New York and Passaic, were purchasing tax-free cigarettes from companies claiming to be affiliated with Native American tribes in New York, according to the Complaint. Charged in the criminal Complaint are:

- Xiao Z. Qi, who used two birth dates, one in 1972, the other in 1975, and numerous aliases; and Zhi H. Lin (a women), 31, both of the same address in West New York.
- Rong Chen, 30, and Song D. Xu, 33, both of Newark and owners of a Chinese restaurant on South Orange Avenue in Newark, according to the Complaint.
- Yu Wang, 37, of Passaic, owner of a Chinese restaurant on Broad Street in Newark.

Wang, Xu and Lin were arrested today. During court-authorized searches, including of a safe deposit box in Chinatown in New York City, residences and restaurants of some of the defendants, agents seized approximately \$100,000 in cash and cases of contraband cigarettes.

The defendants in custody are expected to make initial appearances before a U.S. Magistrate Judge in federal court in Newark sometime tomorrow. Each are charged with conspiracy to possess and distribute contraband untaxed cigarettes, which carries a maximum penalty of five years in prison and a \$250,000 fine.

“This ring operated in a lucrative underground market for contraband cigarettes,” Christie said. “Our investigation is continuing.”

The contraband cigarettes were believed to be distributed to Chinese restaurants throughout northern New Jersey. The Newark Police Department Vice Squad was conducting searches today of Chinese restaurants in Newark that were alleged to have been receiving and reselling the contraband cigarettes. The New Jersey Treasury Department was also doing searches in Paterson, Jersey City and elsewhere..

Native American-owned or affiliated companies in New York State can purchase cigarettes tax free from distributors, as long as the cigarettes are sold on a reservation to

tribal members for personal consumption. Cigarette packs sold in New Jersey must have official state stamps on them showing that they were taxed. Records kept by the State of New Jersey reveal that no sales taxes were paid by any of the defendants.

Between about May 2004 and May 2006, the defendants allegedly received approximately 1,500 parcels of tax-free cigarettes via the mail and common carriers from discount cigarette distributors claiming to be affiliated with Native American tribes. From about June 2006 to March 2007, the defendants traveled to New York to purchase large quantities of tax-free cigarettes.

The cigarettes were then distributed to Chinese restaurants or sold in the defendants' restaurants. Other times they were placed in self-storage units, including in North Bergen and Secaucus, for later distribution.

The cigarettes were sold in bulk quantities to Chinese restaurant owners or directly to smokers. According to the Complaint, federal agents witnessed several of these sales and tracked their shipments through the mail. Often the cigarettes were transported in large black plastic bags to conceal their contents.

For example, in March 2006, Qi allegedly accepted 20 C.O.D. boxes of the illegal cigarettes from a U.S. letter carrier at the residence he shared with Lin in West New York. In February 2006, Xu brought other boxes of cigarettes to his and Chen's restaurant in Newark. Wang also received boxes of cigarettes at his Newark restaurant. Cigarettes were delivered to other Chinese restaurants in Jersey City and Plainfield, as well as other places, according to the Complaint.

Christie credited Postal Inspectors of the U.S. Postal Inspection Service in Newark, under the direction of the Inspector in Charge Thomas C. van de Merlen; Special Agents of the IRS Criminal Investigation Division, under the direction of the Special Agent in Charge William P. Offord; and Special Agents of the Bureau of Alcohol, Tobacco, Firearms, and Explosives, New York Field Division, under the direction of the Special Agent in Charge William G. McMahon.

The investigation also was assisted by agents of the New Jersey Treasury Department, Division of Taxation, Office of Criminal Investigation, under the direction of Acting Director Maureen Adams.

Christie also thanked the Newark Police Department Vice Squad, under the direction of Director Garry F. McCarthy, for their assistance in the investigation, as well as the police departments of West New York, Passaic and Newark for their assistance with the arrests today.

The case is being prosecuted by Assistant U.S. Attorney Maureen Nakly of the U.S. Attorney's Office Government Fraud Unit in Newark.

A criminal Complaint is merely an accusation. The defendants are presumed innocent unless and until proven guilty beyond a reasonable doubt in a court of law.

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