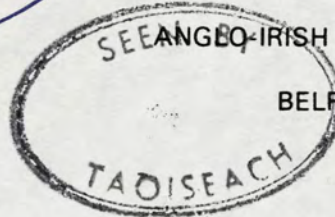




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NOS



Tánaiste

To see please,

These papers support the case for harmonising "border" taxes so as to take the profit from the smuggler - and the paramilitary. Physical controls will never be completely successful in this environment.

SECRET

28 April 1988

Mr. Dermot Gallagher  
Assistant Secretary  
Anglo-Irish Division  
Department of Foreign Affairs

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2/5

Dear Dermot

At the last Conference the British side undertook to provide papers on aspects of smuggling and racketeering involving paramilitary organisations.

The British side have now given me two of the papers, one on observations by the British Army in South Armagh and the second on the general issue of smuggling and racketeering. Copies of these are attached for the information of the Tánaiste.

Yours sincerely

Noel Ryan

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cc Mr Nally ; PSS  
Mr Heathcote / Mr Prosser  
Mr O'Donovan

by hand  
5-5-88

## CROSS-BORDER SMUGGLING AND TERRORIST RACKETEERING

1. The purpose of this paper is to examine the nature and scope of smuggling between Northern Ireland and the Irish Republic. The paper also considers the degree of terrorist involvement. Finally it reviews the effectiveness of current countermeasures before taking a realistic look at what further efforts might be made.

### Background

2. Smuggling has been an established activity in the Border areas ever since partition but a number of recent developments have combined to intensify the concern felt by Government. Firstly, the unsettled conditions in the Border area over the last 18 years have of themselves provided greater scope for such illegal activity to flourish. Secondly, the operation of various Community "green" rates and currency fluctuations between Irish punts and sterling leading to Monetary Compensatory Amounts have regularly provided an incentive to encourage large-scale smuggling. Thirdly the differing fiscal policies pursued within the two jurisdictions have had a similar effect. And fourthly there is the most insidious development of all, the involvement of terrorists in the smuggling activity.

### Terrorist Involvement

3. The actual extent and nature of terrorist involvement is difficult to quantify. An indication of the scale of the smuggling problem was given by an Army report of December 1987 in which a remarkable volume of smuggling was observed over the South Armagh area and documented in detail at one unapproved border crossing point where in one week over one hundred lorries carrying cattle or grain were observed to pass. The terrorist connection is thought to be expressed in two main ways. Primarily it is believed that the Provisional IRA charges a kind of "toll" for the safe passage of goods. They assist this transit by providing intelligence and by

acting as decoys. Generally they have little direct involvement, preferring to minimize the risk to themselves by letting others carry out the actual smuggling, but there is a small number of smugglers who are known or are suspected of being members of paramilitary organisations. Given the scale of smuggling it is clear that the Provisional IRA in particular must be obtaining a significant boost to their funds from this source. And this is irrespective of the loss to the Irish and British exchequers and to EC funds caused by the smuggling.

#### Current Nature of Smuggling

4. Since the various forms of smuggling may entail different responses depending on the legislation and the goods involved, a closer look is now taken at the smuggling itself.

5. The first, and most obvious, point to be made is that the smugglers are extremely versatile people with access to substantial capital to allow for bulk purchases and speedy change of product lines. The actual commodities being smuggled and the direction of travel depend on the relative advantage obtaining at any given moment. Thus, during the late 1970s and early eighties smuggling was largely from South to North for agricultural produce but has since then been the other way about. In terms of other goods smuggling has similarly largely switched directions and significant losses which used to accrue to the British Exchequer are now being suffered by the Irish Authorities.

6. On the agricultural side the most popular items being smuggled are cattle and grain. The cattle leave the North without the exporters having paid the net negative MCA which applies to UK/Ireland trade and which the UK Exchequer should credit to the EC Agricultural Funds and avoiding payments of Irish VAT. The animals may then be presented for immediate slaughter at a Southern meat plant although more recently the traffic has probably switched to store animals which are further fattened on farms. The latter option allows for illegal change of ear tags, and the possibility of

a legally recorded export to Northern Ireland when an MCA payment will be obtained from the Community. Both can lead to further costs to the EC and UK if the beef from smuggled animals is shipped from Ireland to the UK and Variable Premium is claimed. The Community authorities have the power to "disallow" reimbursement from EC funds to governments if they consider that not enough has been done to counter fraud. There has been a recent inspection by the Finance Division in the Commission's DG VI and the European Court of Auditors have been involved in a study involving, inter alia, smuggling on the UK/Irish border. Although the nature of smuggling makes it practically impossible to measure the quantities of goods involved and most of the evidence is circumstantial, some measures can be used to give an idea of what is entailed. From farm census and slaughtering figures, it has been estimated that 80,000 cattle may have been moved from the North to the South illegally during 1987 resulting in evasion of CAP border levies of around £3m. Estimates of the quantities of grain involved are even more haphazard but an educated guess involving imports into Northern Ireland suggest movements of up to 1,000 tonnes a week to the Irish Republic.

7. As for other goods it is thought that fuel oil, petrol, alcohol, and various household electrical appliances are the most popular products. In these cases duty or tax has been paid in Northern Ireland and the intention is to evade higher rates in the Irish Republic.

8. Recent strengthening of sterling against the Punt and other currencies has greatly reduced the incentive to smuggle agricultural produce. Thus at 11 April the net MCA on beef was - 1.6% compared with - 8.6% on 1 July 1987 on UK/Irish trade.

#### Government Response

9. Whilst there is still a serious problem to be tackled we fully acknowledge that there is already considerable activity on both sides of the Border to combat the smugglers. And there are

successes such as that recently obtained in the North against a whisky-smuggling ring based in Scotland but operating from South Armagh and with an evident paramilitary involvement. As confirmed at the meeting in Maryfield on 13 January there is good co-operation between the Revenue Authorities and periodic joint cross-border operations are mounted. Also on the Northern side significant efforts are being made to develop more joint operations with the Security Forces.

#### Limitations to Government Response

10. The public perception is that smuggling is not necessarily a real social evil which it is in their interests to help Government fight. In addition to community sympathy for the smuggler, there are several other very important constraints on what may be achieved.

11. Firstly, there is the absolute limitation imposed by an open land frontier some 300 miles in length. Under no conceivable allocation of manpower resources either North or South could more than a small proportion of the possible crossing points be monitored on a regular basis. And if monitoring cannot be continuous then the smugglers, who are locals, will simply operate in the gaps. Secondly there is the difficulty that even when "smugglers" are caught these are almost always small fry who have been given a cash payment and they can only be dealt with for the one potential offence. The penalties for such an offence are not large and on a proportionality basis there does not seem to be much scope for an effective increase in these - even if the courts were minded to impose maximum penalties. Seizure of vehicles and/or contents is in fact usually the preferred sanction but even this is regarded by the organisers as nothing more than a write-off against profits. There is evidence, too of an increasing readiness to challenge seizures in court. Thirdly there is the fact that no substantive offence is committed North of the border.

12. The use of farms of convenience and the erection of holding pens and grain silos very close to, if not actually straddling the

Border has made the task of detection of potential smuggling more difficult. Finally, Customs staff who operate in the border areas are frequently subjected to threats and intimidation from the terrorists: this obviously places limitations on what can be achieved by the Customs authorities. While the UK is committed to dismantling all MCA's on agricultural produce by 1992 there are many pressing reasons related to the <sup>impact?</sup> import on EC costs, on consumer prices, and others why an immediate removal of all UK MCA's cannot be contemplated as a means of reducing smuggling. It is however recognised that every effort should be made to avoid the gap between UK and Irish MCA percentages widening.

#### Future Options

13. Clearly, the first pre-requisite for successful combatting of smuggling is close and effective cooperation between the two Governments. Such co-operation already exists and the joint meeting at Maryfield on 13 January established a channel for further action. Whilst we believe that there may be scope for further development in this direction it does seem that there is a real need for a different strategy to be put forward and evaluated. For it is evident that operationally there is no major initiative begging to be undertaken which will have a dramatic turn around effect on the problem. Instead, as with the racketeering problem itself we have come round to the view that a co-ordinated approach to the problem needs to be directed against the big smugglers themselves rather than trying to stop up the unavoidably leaky sieve of the Border. It would be helpful when beef MCA's are large if surveillance at all Irish slaughter houses could be stepped up in an attempt to identify cattle with switched ear tags and other evidence of potential smuggling. Joint police co-operation in a series of targetted operations against the main organisers is vital. In particular, surveillance in the South of vehicles involved in smuggling operations might help to identify the people responsible for organising and coordinating the smuggling. In the North we would expect to make use of our new resource, the Anti Rackets Unit, which is being set up precisely to foster the type of co-ordinated

government activity necessary to deal with 'Godfathers'. This will not be a swift or glamorous approach, requiring as it does patient and determined investigative work; however no longer being merely an attack on the symptoms it holds out prospects for significant progress.

#### Conclusion

14. Smuggling across the land boundary is a serious problem for the British and Irish governments and for the European Community. Not only does it entail the loss of substantial revenues but the obvious success of certain smugglers is an affront to governments committed to law and order. Paramilitary involvement gives a particular impetus to efforts to get to grips with the problem. Examination of the question has led us to the following additional conclusions:-

- (i) a continuation and development of existing cross-border co-operation is essential;
- (ii) the Conference sub-committee on smuggling which met in January is a useful means for overseeing progress and developing co-operation;
- (iii) joint RUC/Garda co-operation will be vital to pursue the paramilitary and criminal aspects of the problem;
- (iv) a new strategic approach should be urgently developed aimed at targetting the organisers, rather than merely seeking to curb their activities.

NORTHERN IRELAND OFFICE

April 1988

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