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FROM: P N BELL
LAW AND ORDER DIVISION
21 JUNE 1989

PS/Secretary of State (L&B) - B cc: PS/Minister of State (L&B) - B
PS/Mr Viggers (L&B) - B
PS/PUS (L&B) - B
Mr Stephens - B
Mr Burns - B
Mr Wilson (o/r)
Mr Miles - B
Mr Thomas - B
Mr Blackwell - B
Director, ARU - B
Mr Gamble
Mr G McConnell - B
Mr Masefield - B
Mr R Wilson - B

UNDER/ SEC 22/6
22 JUN 1989
CENT SEC

PETROL SMUGGLING FROM NORTHERN IRELAND TO THE REPUBLIC

Purpose of Submission

APS/Secretary of State's minute of 25 May noted that officials in DED were to meet the oil companies to obtain their view on how much petrol finds its way illegally to the ROI in tankers, and to pursue other technical aspects of the Irish proposal that dye should be injected into petrol in Northern Ireland. This submission reports on the discussions with the oil companies and suggests how the matter should be taken forward.

How much petrol is smuggled?

2. The report produced by the Irish Committee on cross-border petrol trade concluded that the illegal importation of petrol from Northern Ireland produces an estimated loss of IR£45m revenue to the ROI Government. This figure implies that as much as 105m litres of petrol is smuggled annually. Of this, it has been estimated that 60m litres is legitimately sold to motorists from the South. The Irish figure for 'real' smuggling (ie by tankers) is therefore in the order of 45m litres per year (or roughly 70 x 12,000 litre tankers per week). (The basis on which these, and subsequent figures are calculated, is set out in the Annex.)

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3. However, the oil industry view in Northern Ireland is that, although some smuggling undoubtedly takes place, the Irish figure is a considerable over-estimate. The industry's best estimate of the level of 'real' smuggling is a maximum of 2m litres per year, less than 5% of the Irish figure. The DED's Oil Adviser considers that even this greatly reduced figure is on the high side. This agreed view resulted from consultations with BP (which supplies Maxol), Esso, Shell, Texaco and Unitank (which supplies Burmah and Conoco).

The cost to the UK of eliminating smuggling

4. Based on the figure of 2m litres and excluding duty and VAT, annual turnover of the industry in Northern Ireland would be reduced by approximately £350,000 if smuggling were eliminated. The industry would not be over concerned by this reduction since the major companies already operate in the South, and could be expected to recoup an offsetting increase in sales there. The UK Exchequer would, however, stand to lose approximately £520,000 per year in VAT and Duty.

5. On the technical aspects of the proposal, the installation of a system to mark Northern Ireland petrol would be straightforward although the method selected might vary from company to company. BP, for example, would install in-line injection whereby the dye would be inserted as the product was pumped from the ship to the storage tank; Unitank would probably insert the dye directly into the storage capacity and subsequently pump in the product. Initial capital costs are estimated at £250,000 plus a minimum of £50,000 annual running costs. The industry would be prepared to adopt the scheme without legislation.

Comment

6. It is clear from the oil industry's advice that there is a significant disparity over the amount of petrol believed to be smuggled into the Republic from Northern Ireland. It is not clear how the two figures can be reconciled, but officials in the Secretariat have asked their Irish colleagues to provide details of how they reached their loss of revenue figure of IR£45m. Assuming 60% of this figure relates to petrol legitimately sold to motorists

from the South, the loss of revenue from 'real' smuggling, based on the Irish figure, is approximately IR£19m. Based on the Northern Ireland oil industry figure, the loss of revenue would be only IR£850,000 per year.

7. In sum, based on the NI industry's figures, if the Irish proposal to inject dye were to be implemented, the Irish Exchequer would stand to gain IR£850,000 per year while the UK Exchequer would lose £520,000. £50,000 running costs would have to be met by the ROI who would also have an initial capital outlay of £250,000 in the first year. (Mr Burke acknowledged in his discussion with the Secretary of State on 24 May that the cost of adding the marker would probably have to be met by the Republic).

Recommendation

8. The Secretary of State has accepted that he will need to consult his colleagues, particularly in HM Treasury, before embarking on this proposal. However it would not be appropriate to do so until we are more certain on the extent of smuggling of petrol to the South. I believe we have to regard both figures with a little scepticism. The NI Oil Industry's view of 2m litres does seem a bit on the low side - the Secretary of State will recall the episode early this year when in one sixty hour period 28 tankers were observed going through a certain border farm in South Armagh. On the other hand, were the Irish figures to be accurate this would imply a smuggling operation on a very grand scale, and very carefully orchestrated, if none of 70 tankers per week is to be detected. I recommend therefore that the Secretary of State should hold off writing to his Ministerial colleagues until we have received details of how the Irish figure has been computed and whether there is any scope for reconciling the two estimates.

Footnote

9. PS/Minister of State's minute of 26 May also indicated that the Minister would be interested to know how and where petrol tankers involved in smuggling fill up, bearing in mind that the major companies provide their own transport. It would be correct to

assume that smuggled petrol is not obtained directly from a main supplier. The probable explanation is that the petrol is purchased 'legitimately' by a filling station operation and subsequently pumped from the filling tanks into another tanker for transfer across the border.

(signed)

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Enc

LOBPA/8123

ANNEX

		IRISH ESTIMATE	NI OIL INDUSTRY ESTIMATE
(a)	Amount of petrol smuggled in tankers	45m litres approx (9.9m gallons)	2m litres approx (440,000 gallons)
(b)	Irish VAT and Duty	IR£1.948 per gallon	IR£1.948
(c)	Loss to Irish Revenue from current smuggling (a) x (b)	approx IR£19m	approx IR£850,000
(d)	UK VAT and Duty	£1.184 per gallon	£1.184
(e)	Loss to UK Revenue if proposal implemented (a) x (d)	£11.7m	approx £520,000