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7

**Message:**

Your note of today asked for briefing on the smuggling of fuels. This is attached.

are to:

3/ 26/5



## **SMUGGLING OF FUELS INTO NORTHERN IRELAND**

### **GENERAL BACKGROUND**

Treasury Ministers and Customs are aware of the situation with the illegal importation of road fuel into Northern Ireland for resale and recognise that it is a serious problem which disadvantages legitimate traders. Customs are deploying resources and actively mounting investigations against those involved to counter the threat posed to the revenue and to the Northern Ireland business community. Customs are taking the lead on this issue but are acting in conjunction with other authorities, including the Royal Ulster Constabulary, to make seizures of oil tankers and vehicles carrying oil tanks filled with illegally imported fuel for resale. Wherever possible, cases are progressed with a view to criminal prosecution of the individuals concerned.

Customs have set up a Task Force supported by a range of other agencies including the police. The intention is to maximise use of intelligence to identify the smugglers and take co-ordinated action against them. Customs are also making use of their own VAT staff, road fuel control staff and anti-smuggling resources. They have set targets in this area and in particular they are to:

- plan operations in the vicinity of and at land boundary locations in conjunction with local police to disrupt, prevent and detect movements of tankers or road fuel consignments from the Republic of Ireland; and
- plan action in relation to inland sites and other premises where it is suspected that smuggled fuel is on sale.

### **Results**

Since the beginning of 1998 Customs have seized 68 vehicles and 884,588 litres of fuel, with an admissions of smuggling of a further 29.1 million litres. A total of 39 people have been arrested and 27 cases have been recommended



for prosecution or compounding. A total of 7 compound penalties have been imposed totalling £78,300. Customs also intend to use their powers to assess for duty to disrupt this traffic more quickly.

To date there have been 4 successful prosecutions, one of which resulted in an 18 months sentence suspended for 2 years, and 13 further cases are with the Director of Public Prosecutions. However court action is not the only deterrent. Traders found smuggling fuel or selling smuggled fuel will see their vehicles seized and not restored and could face substantial fines.

#### Line to take

- Both the Government and Customs are aware of this problem and the adverse affect it has on legitimate traders.
- Customs, in conjunction with other authorities, are deploying resources and actively mounting investigations against those involved in the illegal trade.
- Customs have seized 68 vehicles and 884,588 litres of fuel, with an admissions of smuggling of a further 29.1 million litres. A total of 39 people have been arrested and 27 cases have been recommended for prosecution or compounding. A total of 7 compound penalties have been imposed totalling £78,300.

#### PETROL RETAILERS' ASSOCIATION

A number of representations have been received by Customs and the Treasury from the Petrol Retailers Association. They have covered both the difference in the selling price of petrol and diesel in Northern Ireland and the Republic of Ireland, and the illegal importations which are taking place as a result. The letters have received replies explaining the measures which are being taken to counter the threat posed by this illegal trade (see general background above). The Petrol Retailers Association have met with both Treasury and Customs officials, and with Customs officers in Northern



Ireland, and Ministers are being kept aware of developments. The Petrol Retailers Association gave evidence before the Northern Ireland Select Affairs Committee on 17 March 1999.

Line to take

- *The PRA's representations are taken seriously and Treasury Ministers are kept informed of the situation.*

**SMUGGLING INTO MAINLAND UK**

There has been a case in Liverpool of the smuggling of Irish green diesel (diesel for off-road and heating use in the Republic of Ireland) by ferry from Dublin by a haulier based in Liverpool between August 1997 and June 1998. In June 1998 Customs staff arrested the participants and seized a number of vehicles and green diesel. The cargo had been described on shipping documents as cream or tallow. The case is currently awaiting Court proceedings. It is difficult to envisage the wholesale smuggling of fuel into the UK from the Republic of Ireland as there are relatively few entry points into mainland Britain and these are capable of closer control, particularly of commercial movements by tanker. It is a different situation in Northern Ireland where there is a long land boundary with a very large number of crossing points. But Customs are not complacent about the threat and entry points at ports are aware of the risk.

Line to take

- *There is no evidence of large scale smuggling of road fuels into mainland UK, with only one case so far.*
- *Customs continue to be aware of the potential threat.*

### **Reduced duty rates for Northern Ireland**

This would require a derogation from EC Directives. It is certain that they would see a regional derogation for Northern Ireland as state aid. Some derogations for regional reduced rates are in force but all were in place when the particular countries acceded to the EU. These derogations are subject to annual review by the Commission which would prefer that no such derogations existed.

#### **Line to Take**

- *Difficult to obtain derogation from EC.*
- *Derogation for Northern Ireland would bring pressure from elsewhere in UK.*
- *No new regional derogations since introduction of single market in 1993.*
- *Insufficient evidence to make robust estimate*

### **Retail price subsidy**

The Petrol Retailers Association (PRA) are pressing for the introduction of a scheme similar to that in Holland. The Dutch are providing a subsidy (not a reduction in duty rates) to all filling stations within 20 kilometres of the German border at a set amount per litre of petrol sold. However, the Commission see this as State Aid and have begun infraction proceedings against the Dutch.

#### **Line to Take**

- *Dutch scheme a subsidy not a reduction in excise duty. Similar scheme would be a matter for Northern Ireland Office*
- *Unlikely to be able to circumvent EU State Aid rules*



### Revenue loss

Customs have no robust estimate of the revenue loss since illegal activity, by its very nature, is not conducive to reliable measurement. Hulf McRae (lobbyists for the Petrol Retailers' Association) put the revenue loss between £100 to £150 million per annum.

There has been criticism of the assertion that £100 million is not a substantial sum when viewed in the context of the total oils revenue of £20 billion. On the other hand those pressing for a reduction in rates for Northern Ireland are keen to emphasise that only 3 per cent of the total duty take comes from the region.

### Line to Take

- *Insufficient evidence to make robust estimate*
- *Accept that the scale of the loss is serious and the Government appreciate that it is a considerable amount of money if taken in the context of the NI economy. No intention on the part of the Government to belittle the effect this illegal trade is having on legitimate businesses*

### Northern Ireland Select Affairs Committee

This Committee is looking into the smuggling of oil into Northern Ireland and the impact on the legitimate trade. They have already heard evidence from the Petrol Retailers Association, the Legitimate Oil Pressure Group and Customs and Excise Officials. They have now asked to see Treasury Ministers and the EST has agreed to appear, but a date has yet to be agreed. They have also asked to see Northern Ireland Ministers.

Line to take

- *Ministers due to appear before the Committee. It would be inappropriate to comment further at this stage.*