

Renewal of the 'Tackling Alcohol Fraud' Strategy

A programme of change for HM Revenue & Customs
and the UK Border Agency

Foreword

In 2005, the Government launched a strategy to tackle spirits fraud, estimated to cost the taxpayer around £250 million per annum. As well as providing additional HM Revenue & Customs (HMRC) staff to target spirits fraud, the strategy also introduced a number of legal changes, including mandatory duty stamps for spirits. In the period since 2005, HMRC have seized nearly 15 million litres of alcohol with a taxable value of over £33 million and issued demands for more than £175 million of evaded duty.

We have also been working hard to drive out fraudsters and prevent criminal gangs from infiltrating the alcoholic drinks industry. We have prosecuted fifteen major criminal gangs involved in alcohol fraud. We have also revoked or rejected over 500 applications to join the excise warehousing system, thereby crucially denying fraudsters access to dutiable alcohol.

In recent years, we have been successful at tackling alcohol fraud. The 6.7 million litres of alcohol we have seized in 2008/09 represents an increase of over 30% on 2007/08. In 2008/09 we have recovered over £60 million in tax which would have otherwise been lost to fraud. This was our best return since we launched the spirits strategy. In November 2008, we concluded one of our most successful alcohol criminal investigations yet, with the arrest of 26 people and the dismantling of a fraud estimated to be worth over £60m per annum in evaded taxes.

Despite these impressive results, our latest estimates of the scale of the fraud (published in November 2008) and our assessment of the nature of the threat indicate that the illicit market in alcohol is changing. To counter this, we are today announcing a renewed programme of work to tackle alcohol fraud. Our key strategic aims are:

- to protect honest businesses from the damaging effects of alcohol fraud; and
- to reduce tax losses from all forms of alcohol fraud;

We will achieve these aims by focusing our efforts – in terms of both regulatory change and enforcement activity – on the highest risk regimes, businesses and individuals.

Key actions

Announcements today include:

- the withdrawal of the warehousing for export element of the excise drawback system on 1 June 2009, to guard against fraud and protect honest businesses;
- the publication of a formal consultation on reform of the excise financial securities;
- the intention to introduce a framework of allowable journey times for duty suspended (AAD) movements to tighten up the system;
- the intention to bring forward Regulations which will introduce a tighter system of regulation for Registered Excise Dealers and Shippers (REDS); and
- working with honest businesses to develop practical measures that will drive-out fraud and secure alcohol supply chains;

HMRC and the UK Border Agency (UKBA) are also renewing their operational response, and will focus their resources increasingly on tackling serious non-compliance and organised criminality.

The key elements of our strategy

Alcohol fraud harms honest businesses, costs jobs, and takes money away from public services. And, increasingly, it is run by highly organised criminal gangs.

We are announcing a programme of strategic change which will be implemented during 2009/10, comprising three principal themes:

- i. **Changing the law:** to make life tougher for criminals and easier for honest businesses to compete;
- ii. **Working with honest businesses:** to secure legitimate supply chains and so make it harder for criminals to source illicit alcohol; and
- iii. **Strengthening our operational response to alcohol fraud:** as part of a centrally co-ordinated effort to detect, disrupt and dismantle organised criminal networks and supply chains.

In some areas, we are introducing new measures immediately. Other changes will be phased in over the coming months or be the subject of further consultation. This consultation will be designed to ensure that our actions have the maximum impact on criminals, while imposing the minimum burdens on honest businesses.

i. Changing the law

Alcohol duty drawback: abolition of warehousing for export

The drawback regime allows businesses to claim repayment of excise duty on 'duty paid' alcohol that they export.

We have seen sharp increases during 2008/09 in drawback claims, particularly for beer, under the warehousing for export element of the regime. We have also seen significant evidence that the provisions have, and continue to be, exploited by fraudsters.

In order to guard against fraud and protect honest businesses from unfair competition from fraudsters, we are today introducing changes to Regulations that will abolish the warehouse for export scheme for alcoholic liquors. Given the volume and complexity of supply chains that give rise to drawback claims, the evidence of missing traders in such supply chains and the fact that this makes it impossible for HMRC to verify satisfactorily the legitimacy of many claims, the Government has concluded that the warehouse for export scheme is unsustainable.

Businesses claiming drawback should be aware that any alcoholic liquors that are warehoused for export on or after 1 June 2009 will not be eligible for repayment of excise duty. However, other drawback schemes remain unchanged and businesses that export duty paid alcohol will still be able to claim drawback under the direct export provisions.

Further details of these changes can be found on the HMRC website.

Consultation on excise financial securities

Excise financial securities provide a financial guarantee that the duty will be paid in the event of an irregularity (such as theft). Since there is a large inherent risk in moving duty suspended goods, we believe it is important to review the current system.

A formal consultation document on reforming excise financial securities (excise holding and movement guarantees) is published on the HM Revenue & Customs website today. Information and views are sought on how the current securities system is working, and on proposed changes the Government is considering to ensure that the system:

- manages revenue risk effectively and efficiently;
- is clear and simple for businesses and HMRC; and
- minimises burdens on compliant, low risk businesses.

The closing date for responses to this consultation is 16 July 2009.

Journey times

To reduce opportunities for fraud we will be introducing a framework of allowable journey times for excise goods travelling between member states under the accompanying Administrative Document (AAD) procedures, by 1 July 2009.

Changes for Registered Excise Dealers and Shippers (REDS)

To limit opportunities for fraud in the Registered Excise Dealers and Shippers (REDS) regime we will be bringing forward Regulations, consistent with the EU Excise Movement Control System (EMCS), by 1 April 2010.

ii. Working with honest businesses

During 2009/10, HM Revenue and Customs will be enhancing its partnerships with key producers and retailers of alcoholic drinks, to create a better framework within which we can work together to drive-out fraud and secure alcohol supply chains.

Specifically:

- with producers, we will look to develop a detailed understanding of supply chains at risk of fraud, and agree a range of practical measures that will cut off the supply of alcohol to fraudsters at source; and
- with retailers, we will seek to understand alcohol supply chains better and, where necessary, develop ways of ensuring that illicit goods do not infiltrate those supply chains.

Working together at this practical level should avoid the need for additional regulation, and during 2009/10 we expect this initiative to begin to deliver direct and substantial reductions in the availability of alcohol to fraudsters.

iii. Strengthening our operational response

Anticipating the renewal of the ‘Tackling Alcohol Fraud’ strategy, change has already begun within HM Revenue & Customs and the UK Borders Agency. To respond far more robustly to fraud and serious non-compliance, we have established new anti-fraud teams, including:

- a national network of inland detection teams, to provide a 24/7 rapid response capability to react to intelligence on high risk consignments of alcohol;
- a civil investigation capability; in appropriate cases of serious non-compliance, this team specialises in delivering hard-hitting sanctions such as assets confiscation, winding up orders and revocation of licences and approvals.

We are also in the process of remodelling our alcohol operational capability, to ensure that as much as possible of the overall resources at our disposal are focused on detecting, disrupting and investigating alcohol fraud. In doing so, our aim will be to minimise the time we spend with and the burdens we impose on compliant businesses, and maximise our impact on criminals and the businesses through which they carry out their illegal activities.