

NewStatesman

BORDER CONTROL



**Keeping the
contraband out**

Sponsored by



PHILIP MORRIS INTERNATIONAL



Paul Baxter
CEO, National
Federation of Retail
Newsagents



Roger Critchell
Director of Operations,
Crimestoppers



Alan Gooden
National Co-ordinator's
Office for Economic Crime,
City of London Police



Calum Jeffray
Research Fellow,
National Security and
Resilience studies
programme, Royal United
Services Institute (Rusi)



Mike Mitchelson
Chairman of the public
affairs and communications
committee, National
Federation of Retail
Newsagents



Martin Molloy
Head, M Risk
Solutions Ltd



Will O'Reilly
Former Detective
Chief Inspector,
Metropolitan Police



Euan Stewart
Head of Intelligence,
Her Majesty's Revenue
and Customs



Guy Clapperton
Chair

New Statesman
2nd Floor
71-73 Carter Lane
London EC4V 5EQ
Tel 020 7936 6400
Subscription inquiries:
Stephen Brasher
sbrasher@
newstatesman.co.uk
0800 731 8496

Supplement Editor
Guy Clapperton
Design and Production
Leon Parks
Sub-Editor
Jon Wiltshire

Commercial Director
Peter Coombs
+44 (0)20 3096 2268
Account Director
Dominic Rae
+44 (0)20 3096 2273

First published as
a supplement to
the *New Statesman* of
25 September – 1 October
2015. © New Statesman
Ltd. All rights
reserved. Registered
as a newspaper in the
UK and US.

The paper in this
magazine originates
from timber that is
sourced from sustainable
forests, responsibly
managed to strict
environmental, social
and economic standards.
The manufacturing mills
have both FSC and PEFC
certification and also
ISO9001 and ISO14001
accreditation.



4 Discussing the illicit “weed”



8 Field trip undercover



9 Cutting down illicit tobacco

An illegal trade

This is not a pro-smoking publication. Anyone picking it up, noticing that it’s sponsored by Philip Morris International and assuming it’s going to be filled with messages about how tobacco isn’t so bad might be surprised. Nobody involved, including the sponsor, is claiming that smoking is anything but harmful.

And this, ironically, is why the issues raised are so important. If tobacco is dangerous then illicit tobacco is much more so. This isn’t because of quality controls. One hears reports of contraband cigarettes adulterated with everything from arsenic to rats’ droppings to make them go further, cheaply, and there are even more harmful products on the illicit market that are perfectly acceptable in other countries.

It’s actually the people selling them who cause the biggest problem. Your local newsagent and supermarket sell tobacco. If a young person approaches them and asks to buy some, the seller is legally bound to ask for identification and to refuse the sale if it’s not forthcoming. Will an already illegal seller of illicit tobacco be as conscientious? We doubt it.

Take another example. Successive governments have tried to reduce the appeal of smoking by increasing duty on tobacco sales. Currently you have to be reasonably affluent to be a smoker – at upwards of £8 for a pack of 20 cigarettes it’s quite an overhead for a 20-a-day person. Increasing the price helps dampen demand, unless you know this

guy in a pub who’ll sell them for between £2 and £3 a pack.

Inevitably, it is the poorer demographic that will be attracted to this illicit “weed”, and they can become dependent on illicit suppliers. The supplier, meanwhile, is likely to be involved in organised crime. They won’t be smuggling cigarettes only; there is every chance they are also bringing in alcohol and, more seriously, illegal drugs.

This is why the tobacco industry, as well as HMRC, Crimestoppers, the National Federation of Newsagents and all the others featured in this supplement and the initial round table, need to be heard. You’d be surprised how anti-smoking some of them can be. ●

This supplement, and other policy reports, can be downloaded from the NS website at newstatesman.com/page/supplements

4 Guy Clapperton
Round table
Illicit tobacco is no game, our panel concludes

8 Brandon Lewis MP
Going underground
Tobacco turns up in the least expected places

9 Roger Critchell
The fight against an illegal trade
Crimestoppers bids to cut down the amount of illicit tobacco in circulation

11 Will O’Reilly
Tales of the unexpected
Mystery shopper looks for illegal smokes

12 Paul Baxter
Smoke and mirrors
Illicit tobacco is damaging legitimate retail business

14 Calum Jeffray
Ill-gotten gains
Research on illicit tobacco throws up some unexpected results

A serious crime

By Guy Clapperton

Earlier this year we hosted a forum to discuss the subject of illegal tobacco and the dangers it poses

Illicit tobacco is one of those things that sounds like it's on the "naughty step" side of crimes rather than on the more serious. It's only the tobacco companies that get hurt, and they're rolling in cash already, right?

In fact, that's wrong. Over the course of a couple of hours at Portcullis House, representatives from HMRC, Crimestoppers, the Royal United Services Institute, the National Federation of Retail Newsagents and other bodies made it clear that this is a very serious problem involving organised crime, the funding of terrorism and loss of potential revenue.

Euan Stewart, head of intelligence for HMRC, kicked off the session by outlining his department's strategy, "Leaf to Light". Illicit tobacco currently costs the UK £2.1bn, £1bn of which is hand-rolled

tobacco and the rest is cigarettes. This is bad not only because of the cost to the taxpayer but because it undermines legitimate business. "It is dominated by international organised criminal groups and they're often involved in other crimes such as drugs smuggling and people trafficking," he said. "More importantly they are able to move contraband across the world through controlled and non-controlled cargo movements. That's a significant threat to cover."

This isn't about supporting the tobacco industry, he stressed. Quite the reverse: increases in duty on tobacco products have put the price up and reduced people's ability to smoke, and current figures suggest that smoking is down just under 20 per cent over the past two decades partly as a result. "Tobacco smuggling ►





PHILHARDMAN



A gathering against contraband

► undermines this, offering a cheaper way for those who might otherwise be deterred by costs to continue their habit. Certainly we have a view that the illicit market remains strong in the tobacco consumer populations and is probably increasing as a percentage of that total market.”

HMRC is making headway. When it introduced its first initiative to combat illicit tobacco the illegal stuff made up 22 per cent of the market and was increasing. Now it’s down to 10 per cent. However, its profitability and the relatively low punishments remain an issue and consequently some of the criminals have switched from selling cannabis to hand-rolled tobacco.

Calum Jeffray, research fellow with the National Security and Resilience studies programme of the Royal United Services Institute, a think tank, said the issue was pan-European and the varying origins of some of the players made it difficult, as did the legitimacy of some of the tobacco products in their own countries. Equally

unhelpful, somewhat ironically, was the amount of trade initiatives designed to facilitate international commerce. “All initiatives to encourage trade do so for both types of trade, both legal and illicit,” he said. “So by having cross-border movement easier, by putting in initiatives to facilitate trade, that not only makes the lives of businesses easier but also criminal groups.”

There is a widespread impression that these crimes are trivial

In spite of this, confirmed Paul Baxter, chief executive of the National Federation of Retail Newsagents, there was still an impression among the public that these crimes were trivial, accounting for only small amounts. “I did a seminar in the Republic of Ireland last year that was looking at illicit goods – not just tobacco but also watches, et cetera,” he said. “There

was this prevalence of, ‘Oh, it’s only a few bob, isn’t it?’ But what we came out with quite clearly is that this is organised crime. Paramilitaries were definitely behind a lot of work that goes on. It’s prevalent there right through market stalls to organised crime.”

And it’s hitting his members and their businesses. “We get a lot of abuse now from people, saying, ‘I can buy it [for a fraction of the price] down the road. Why are you doing this?’ But you have to say, ‘No, that’s the law. We’re responsible; if you want to buy tobacco you have to do it the responsible way,’” said Mike Mitchelson, public affairs director of the National Federation for Retail Newsagents. “You do hear the tales of threats. People get threatened with violence when they’re turning down selling cigarettes.”

There is evidence to substantiate how widespread the problem has become. Will O’Reilly, a former policeman, spends part of his time mystery shopping and checking for illegal cigarettes, work funded by Philip Morris International.

"I was in Derry last week, where we did 40-50 test purchases around some of the containers just chucked down on the 'no go' estates in Derry, and 83 per cent of all purchases were for illicit whites." "Illicit whites" is a term for foreign brands that are perfectly legal in their own territory but are not permitted to be sold anywhere in the UK. With this sort of smuggling, cigarettes end up on the market cheaply, bypassing HMRC, but they are definitely genuine items. They're cheap, they're genuine and the sellers are operating illegally and are therefore unregulated.

This perhaps explains why one thing the round table's participants played down was any health risk. It's not possible to know what's gone into a counterfeit cigarette, the chair pointed out, but the Philip Morris representatives were very clear: "There is no such thing as a safe cigarette," said Alastair Mackay, head of regulatory affairs at Philip Morris. He was more concerned about the nature of the illicit sales. "People who sell illegal tobacco don't care who they sell it to, so children can be far more at risk as they're not going to be asked for ID," he said. "Even for adults – one of the problems that government talks about is health inequalities. The Department of Health and various Ash [Action on Smoking and Health] reports have talked about the threat of illicit tobacco, particularly in poorer communities and vulnerable members of society. Illegal tobacco makes smoking more affordable." This brings a demographic dimension into the illicit tobacco market – the better-educated people on higher incomes are less likely to come across it than people on low incomes.

Martin Molloy, head of M Risk Solutions and a former deputy director of the National Crime Agency, added that this isn't just about tobacco. "It's also about alcohol and pharmaceuticals. There are illicit whites within pharmaceuticals – you can buy drugs manufactured in other countries which are similar to UK brands. Take Kiagra – the Indian version of Viagra – which again is flooding into the UK." "Some of these have followings," Baxter said. "People insist on their favourite Chinese brand, which they can buy for £2.50, as distinct from the £9 a fully legitimate brand might cost."

Eliminating these illicit whites is tricky. "Some of the penalties are weak or difficult for Trading Standards to enforce," said

O'Reilly. "Certainly that is true of the illicit whites which comply to some of the packaging regulations: so maybe they've got the English health warnings on it, and because there's no trademark offences there either [that is to say, they are not trying to counterfeit] the only offence committed is avoidance of tax." And if this doesn't end up in a prosecution it may be that there are just a handful of seizures in the end, which doesn't act as much of a disincentive to criminals.

People who sell illegal tobacco don't care whom they sell it to

A difficulty faced by some of the organisations trying to stop this is that some local authorities won't work with them once they realise they are sponsored by tobacco companies. This is due to specific interpretations of the law – certainly, local authorities can't and wouldn't promote smoking, but that is not what this is about. It's about eliminating the illicit stuff. "As retailers, we sell products that are legal and all of our efforts are about making sure that we stop people accessing it who shouldn't," Baxter said. "Illicit tobacco undermines all those efforts. And the thing I would say to Ash is, 'Don't confuse stopping people smoking with fighting crime.' The two messages are completely different."

"Intercepting a container of illicit tobacco has side benefits", said HMRC's Euan Stewart. "The crime is organised but this means it's centralised to an extent. If you get the container, you'll get your alcohol, you'll get cigarettes and you'll probably get dodgy Viagra as well," he said. "And you'll get your voucher to go next door and get your petrol."

If all of the participants could change one thing, it would be the acceptance of illicit tobacco – and alcohol, and petrol, and anything else – as a mild crime that doesn't really matter. The acceptance, said Jeffray, is a major component of the problem, but so is bringing together the agencies that can do something about it. "Trading Standards, the police and HMRC... have different initiatives – they need to make sure they work together. But at the same time, they all have competing priorities and all work slightly dif-

ferently to local authorities. So [we need to] actually join that up to make sure there is a unified law-enforcement approach to make sure the sanctions stick," he said.

HMRC has made progress and has impounded a lot of illicit goods but ironically some of the legislation designed to reduce smoking has made cigarettes easier to forge. Plain packaging, for example, is much easier to fake than fancier and arguably more appealing packaging. "I've got 15 years' local authority experience of being the leader of a council and I understand and see vulnerable communities are more vulnerable to illicit tobacco. I'm very fearful that it's going to get worse in the initial stages following the plain packaging and the EU tobacco directive," said Mitchelson. "Some groundwork to try and nip that at an early stage would be much appreciated."

It would also be good to see an end to the darker side of the criminal business. The sponsor of the round table, Philip Morris, had organised a campaign to educate the public about the illicit trade and asked newsagents to put up posters about it. Some agreed to do so, Mackay said, but: "Several retailers who had wanted to participate in this reported people coming into their stores ripping down the posters and threatening them not to carry on."

This is serious and the punishment doesn't always fit the crime. "At the moment my sense is that when a maverick retailer or other seller of illegal tobacco gets caught – even when Trading Standards acts on intelligence and there is enforcement – it's a slap across the wrist, because when [we go] back to the same area a year later to find where illegal tobacco is being sold, it's the same retailers who are involved or the same pubs, or the same individuals," Mackay said.

Retailers might be giving up on reporting the crimes as a result, he believes, which undermines the efforts being made to regulate the industry. If one in every ten packs of cigarettes is sold outside the regulations, that means it's difficult if not impossible to police. Tobacco is damaging and poisonous, and the manufacturers are not pretending otherwise. For it to be available unfettered and unregulated at pocket-money prices, with sales forced by intimidating ordinary retailers, has to be a matter of concern not only to parents but to everyone who is opposed to organised crime. ●

Going underground

By Brandon Lewis MP

The MP for Great Yarmouth reports on an illicit trade

Despite hundreds of convictions each year, HMRC estimates have shown a large rise in availability and consumption of illicit cigarettes and hand-rolled tobacco in the UK since 2012.

Having recently personally experienced the scale of the black-market tobacco trade in my own constituency, I can see that there is a great need for local authorities, trading standards and the public to work together and raise awareness to tackle this growing problem.

I recently joined a team of undercover investigators in Great Yarmouth to see at first hand the scale of the problem. I was shocked by the quantity of illicit cigarettes purchased and the ease of finding places that sold them, including small businesses. Within a couple of hours, several purchases were made, with the most expensive packet costing just £4. The price of a packet of cigarettes in Britain has doubled in ten years so it is easy to see why smokers could be tempted.

This is why we need to raise further awareness about the dangers and consequences of buying illicit tobacco.

Figures show that illicit tobacco costs over £2.1bn in lost revenue each year; costing UK taxpayers money that should be spent funding essential public services, and undermining illegitimate businesses.

Aside from the economic problems these criminal gangs cause from their trade, illicit tobacco has been known to contain rat poison, human faeces and levels of tar and nicotine at levels four times higher than legal cigarettes. These organised criminal gangs do not discriminate whom they sell their illegal products to, facilitating the supply to youngsters



Many of the proceeds go towards funding crime

by targeting minors and creating a huge threat to public health.

The black-market tobacco trade is certainly not a victimless crime. Many of the proceeds from these cigarettes are reported to be going towards funding gun crime, drugs on our streets, terrorism and human trafficking. With continued help from members of the public to report any sales of illicit tobacco, law enforcers can improve their intelligence to target and disrupt these criminals and their illegal

businesses. Through greater visibility, education and publicity, we can send the right message to these criminals and the outlets and shops that are supporting them that we will not tolerate them profiteering at the expense of vulnerable members of the public.

The UK has been a leading player in increasing global awareness of organised criminal fraud. Buying illicit tobacco funds organised criminal gangs that none of us want to support. ●

The fight against an illegal trade

Smuggling anything is a crime and Crimestoppers wants to help stop it. By *Roger Critchell*

A “victimless crime” or “it doesn’t have any effect on me, so why should I worry?” might be responses you receive when you ask someone about illegal tobacco. But this isn’t a victimless issue and illicit tobacco has proven links to serious and organised crime, which is why the charity Crimestoppers has got involved to try to help eliminate it.

Back in July, Crimestoppers joined organisations affected by the illicit trade at a *New Statesman* round table, including the British Independent Retailers Association and the Association of Convenience Stores, to reaffirm its commitment to tackling the crime, while highlighting the links between the trade in illegal tobacco and serious and organised crime groups.

“The purpose of the discussion was to see how the respective organisations can try and tackle illicit tobacco with a more joined-up approach,” I said, speaking on behalf of Crimestoppers as the charity’s director of operations.

“We recognise, along with HMRC, how much this trade impacts other activity

such as the purchase of weapons and human trafficking.

“This isn’t a victimless crime because the money being made from the illicit tobacco trade is reinvested into more serious crimes – crimes that can be going on in your community.”

With the support of HMRC, Crimestoppers ran a campaign in the identified “hot-spot” areas of Glasgow, Birmingham and Cardiff, with the emphasis on raising awareness of illicit tobacco and its impact on local people, as well as appealing to the public to pass on information about those buying or supplying the product.

“Illicit tobacco can be difficult to identify, but we also know that it can be appealing because of how much cheaper it is than legal tobacco.

“Unfortunately, buying illicit tobacco can expose those buying it to criminal activity, and unknown to them, fund more serious crimes,” I explained.

One of the challenges the charity faces is encouraging people to speak up about the issue, some having knowledge that

the trade exists within their community, but with few of them speaking out about it – despite recognising its links to criminal gangs.

In the latest survey conducted by the Tobacco Manufacturers’ Association, 17 per cent of the 1,051 respondents said they were aware of illicit tobacco being sold in their area, but when asked if they had reported this, only 12 per cent said they had done so.

When asked why they hadn’t reported it, 65 per cent of respondents said they thought it wasn’t any of their business, while 20 per cent said they were worried about possible repercussions.

I noted that: “While some will see illicit tobacco as a victimless crime, I can strongly reject this, with the campaign we ran aiming to highlight the impact it has on our communities.

“We appreciate there are people who probably have information but don’t feel comfortable speaking to the police, which is why our anonymous service is paramount to stubbing out this issue.” ▶



Crimestoppers focuses on the crime and not health but understands the mixed feelings

► As a result of the campaign launched by Crimestoppers, received reports went up from five in the two weeks leading up to the campaign, to 23 in the two weeks after. Half of those reports were from Birmingham; information about Cardiff and Glasgow accounted for roughly a quarter each.

Importantly, thanks to the publicity generated by the campaign, the charity also received information on illicit tobacco in other areas.

“What the results identify is that the information is out there, but that people need to know what they can do with it and where to pass it on to.

“The increase in reports received by the charity also highlights that people are keen to rid their streets of illicit tobacco, despite it possibly having no direct impact on them.”

There is no denying that tobacco as a subject is one that can receive mixed responses from the public, especially from campaigners who highlight the health implications.

I was keen to point out that while

Crimestoppers “very much focuses on the crime and not the health issues”, the charity acknowledges and understands the mixed views expressed.

“We recognise that there is no good tobacco and no safe tobacco, but with illicit tobacco on the streets, it jeopardises safe communities. It’s really important to

The information is out there but people need to know what to do

stress that we do not undertake any activity without the support of a relevant law-enforcement agency, so this is very much a joined-up approach, which is what we are aiming for.”

The round-table discussion in July also saw the subject of counterfeit and contraband cigarettes raised.

Contraband can be described as genuine tobacco products that are produced for lawful distribution in their market of

intended destination, but illegally diverted into a different market, while counterfeit are products that have been manufactured without the permission of the trademark rights holder.

On behalf of Crimestoppers, I said that I thought it worth re-emphasising the importance of trying to support organisations looking to prevent the products getting into the country, before they can be sold to the public and cause serious harm.

“It was widely accepted and generally agreed that there are a lot of cigarettes coming through our borders to be illegally sold, which is a problem. What we hope we can do as a charity is support law enforcement further upstream so these products don’t enter the country.” ●

Crimestoppers takes anonymous information on illegal tobacco through its 0800 555 111 number, or through an anonymous online form at crimestoppers-uk.org. For more information specifically about action against illicit suppliers, visit: crimestoppers-uk.org/tobacco

Tales of the unexpected

Intelligence on what's illicit and what isn't can be hard to come by, as our correspondent *Will O'Reilly* found out undercover

On a housing estate in Coventry a test purchaser knocks on the door of a woman advertising 13 different brands of illicit cigarettes for sale on an internet site. Having examined the choice of cartons available, the test purchaser selects one called "Navigator S", with Russian health warnings. This is a brand of cigarette new to the team and is an "illicit white" manufactured specifically for smuggling. They agree on a price of £30, with the woman suggesting she can supply much larger amounts. This was just one of 38 purchases made in two days by the Coventry-based team.

In a tiny village in North Durham and from the only pub there, the barman sold two packs of a known premium brand of cigarette with Czech health warnings for £5 each. He told the test purchaser next time not to ask for cigarettes but use the code "bars of chocolate", especially if there were other customers in the pub.

At a lorry park just outside Dover where many foreign drivers rest up after their ferry journeys, test purchasers spoke to an eastern European driver who sold them a carton of premium-brand cigarettes with Lithuanian health warnings. He said he had other cartons hidden in his cab to sell in the UK and most of the lorry drivers did the same.

In Northern Ireland, on a Derry housing estate and next to a school, the test purchaser joined a group of schoolboys in uniform queuing up outside a portable shop made from an old shipping container. The assistant was seen by the test purchaser to sell a pack of illicit cigarettes to one of the boys, and to two of the other

schoolchildren single sticks for 20p each.

These are just a few examples of the availability of illicit tobacco products right across the UK. Since I started this work, my team and I have been to over a hundred cities and towns and purchased many thousands of packs of illicit cigarettes and pouches of tobacco. There is not one area of these isles unaffected by the scourge of the illicit trade, from remote villages to inner cities.

Most of our purchases are made at local convenience stores. However, we have made purchases from some unexpected places, too: pet shops, second-hand furniture shops, farm shops, hairdressers and even car washes.

We made purchases from pet shops, farm shops and car washes

We found that the illicit cigarettes are stored in a variety of hidden places: under the counter, above ceiling tiles, in the back storeroom, in vehicles, under specially-built trapdoors, the pockets of shop assistants, behind genuine stock on display, under display cabinets in shops and even from within meat carcasses hanging in a cold room in a butchery. We have also bought from people selling on market stalls, pubs and on street corners where illicit cigarettes can be purchased for as little as £2.50, against a legitimate retail price of £9 to £10. However, as a guide to the availability of illicit tobacco, this work only scratches the surface. Studies have

shown that most illicit tobacco is bought from friends, family or individuals operating so called "fag" or "tab" houses on some of the large housing estates or those running regular supply rounds to order.

The main purpose of this work is to raise public awareness of the grave consequences of this illicit trade and to emphasise that it is not a victimless crime.

In fact, evidence suggests that the opposite is true. Our aim is to highlight the damaging impact it has for the UK as a whole: from harming our communities by fuelling organised crime through to the significant loss of revenue it causes for the Treasury, currently estimated to be in the region of £2.1bn per year.

The list of harm caused by the increasing availability of illicit tobacco is worrying and unscrupulous retailers often don't care who they sell to – including children. There are also major health risks to the consumer regarding both the unregulated content of the product and the lack of fire-retardant measures in most houses, which has caused so many house fires, injuries and deaths.

All of the intelligence gained on our operations is disseminated back to law enforcement and on numerous occasions has resulted in significant seizures and subsequent prosecutions. ●

Will O'Reilly is a former Scotland Yard detective chief inspector. Since November 2011, he has been conducting research on behalf of the tobacco manufacturer Philip Morris International in order to gain intelligence and understanding of the illicit trade in cigarettes and other tobacco products across the UK and Ireland

Smoke and mirrors

By Paul Baxter,
CEO, National Federation of Retail Newsagents

The threat to the independent retailer

From the myriad issues that independent retailers contact the National Federation of Retail Newsagents's dedicated seven-day-a-week helpline about, it is problems associated with illicit tobacco that prove the most difficult to tackle. While concerns relating to newspaper and magazine wholesalers or service providers can be addressed – though not always solved – with a phone call, finding solutions to the devastating impact on our members' businesses that illicit tobacco sales cause is proving both far more difficult and time-consuming. Sadly, and of huge concern, is the growing ease with which people can access illegal tobacco products.

Illicit tobacco falls broadly into two categories: genuine cigarettes and roll-your-own tobacco on which UK duty has not been paid, or which are not intended for the UK market; and counterfeit products. While counterfeits are particularly harmful to the health of those who use them, as they are known to contain illegal chemicals and even rat droppings, both have a detrimental impact of the financial health of local independent retailers.

What's more, the size of the illicit market should not be underestimated. Although the tax revenue from tobacco products in 2013/14 was £12bn, it is estimated that £2.6bn in tax revenue was lost in the same year through the non-duty-paid market; of which it is estimated that £2.1bn was illicit (ie, smuggled into the UK) and £500m was accounted for by cross-border purchases (mainly purchased in other EU countries, from where unlimited quantities of tobacco can be

brought back into the UK as long as it is for personal consumption).

Furthermore, a survey in April 2014 by the Tobacco Retailers Alliance found that 28 per cent of adult smokers in the UK had purchased tobacco products from non-shop sources; at the same time, HMRC estimates that 10 per cent of the UK's cigarette market and 39 per cent of the market for roll-your-own tobacco is smuggled.

But concerns are not just restricted to the financial impact that illicit tobacco has on the Treasury's coffers in terms of lost duty revenue. With counterfeit products containing asbestos, mould, dust and dis-

A network for moving
and selling illicit goods
is a threat

gusting organic material, as well as high levels of heavy metals and other toxins, they are considerably more hazardous to consumers than the genuine article.

It is the businesses of legitimate retailers that suffer the most, however. Each packet of illicit tobacco that is sold is one packet not being sold by a legitimate retailer. With margins being continually squeezed and the cost of compliance with the latest tobacco legislation rising – just recently, for example, retailers have had to fit doors to tobacco gantries to comply with the display ban to ensure that tobacco products are now out of sight – the impact of cheap illicit sales on small shopkeepers can be devastating.

Furthermore, the existence of a network for moving and selling illicit goods provides a further threat to retailers who can find their stock of legitimate tobacco products is targeted by thieves and resold at a profit. Such actions come at considerable cost to the retailer, who has to repair the damage done to his shop and replenish his stock. In addition, police are now warning shopkeepers that criminal gangs are targeting vehicles in cash and carry car parks, stealing stock left in cars or even holding up retailers as they pack up their newly purchased stock.

For many retailers, a major frustration is the slow pace of action by the authorities when the activities of those selling illicit tobacco products are reported to HMRC, to local Trading Standards or the police. Although retailers understand that HMRC and the other agencies would look to gather evidence and hopefully trace the illicit goods back to the UK border, if not their origin, the slow pace of this leaves legitimate retailers' businesses in the front line. While HMRC is investigating, those responsible are continuing to sell their illicit products and legitimate businesses continue to suffer significant financial loss. As sales of tobacco products account, on average, for a third of the turnover of National Federation of Retail Newsagents members, very quickly this loss of trade can threaten jobs and, indeed, the existence of the business.

Even when local officials do raid shops selling illicit products, these premises are often restocked and open for business again within 24 hours, and even though the average selling price for a packet of



Legitimate outlets sell tobacco products only to adults

illicit cigarettes is half that of a genuine packet, the profit level, even at this price, means that the sellers quickly make good their losses.

HMRC's failure in tackling this has been recognised parliament's public accounts committee and by HMRC itself. Andrew Leggett, deputy director for indirect tax at HMRC, told the House of Lords select committee on the European Union that "the balance of risk and reward is a good one for tobacco [smuggling] globally". This point is underlined by the fact that in 2012-13 there were only 265 prosecutions for tobacco smuggling in the UK.

What is abundantly clear is that this situation only benefits criminals and needs to be addressed. The proceeds from this illicit trade fund organised crime and terrorism. At a simpler level, while legitimate retailers operate "Challenge 25" policies – where, if you look like you're under 25, you will be asked for ID – and work with organisations issuing ID cards accredited by the national proof of age standards scheme, Pass, sellers of non-duty-paid or counterfeit goods are not checking the IDs and ages of those to whom they are selling. This only adds to the frustration felt by many legitimate retailers, who often have to deal with unhappy teenagers

whom they have refused to serve because they are under 18 or have been unable to prove their age.

To make matters worse, plain packaging on tobacco products will be introduced shortly and the National Federation of Retail Newsagents believes that rather than alleviating the problem of smuggling and counterfeit tobacco, it will make it worse.

Few, if any, retailers believe that standardised packaging makes sense, particularly so soon after tobacco products were taken out of view in their shops. Indeed, many fear they will receive a further financial hit from giving customers the wrong packs from a range of identical-looking brands, which cannot be resold once opened. There is also an added security risk, with retailers fearing they could become victims of retail crime while their backs are turned as they look for the requested cigarettes from the gantry.

Additionally, standardised packaging will make the production of counterfeit cartons that much easier, while the inclusion of anti-counterfeit devices such as Codentify – a visible code printed on to tobacco packaging – will be prevented. Anything that impedes the fight against the counterfeit market can only be a retrograde step.

Of course, none of these problems is impossible to tackle, as has been shown in Quebec, where the introduction of stiffer penalties, including a C\$350 (£171) fine for possession of untaxed tobacco, has led to a fall in seizures from nearly a million cartons to 580,000. It is for that reason that I have been calling for politicians and HMRC to commit to introducing tougher penalties for involvement in the illicit market, based on the Quebec model, and to ensure that HMRC has sufficient resources to tackle persistent traders. Most retailers would agree that the authorities need to step up the fight against smugglers and counterfeiters if the flow of illicit tobacco products is to be stemmed.

Until this happens, however, the growth of the illicit trade in tobacco products will continue to do considerable damage not only to those who think that by buying their cigarettes from unofficial sources they are sticking two fingers up to the taxman, but also to independent retailers and the local communities they serve up and down the country. ●

The National Federation of Retail Newsagents was founded in 1919 and is one of Europe's largest employers' associations, with over 15,000 news and convenience retailer members

Ill-gotten gains

By Calum Jeffray,
Research Fellow, Royal United Services Institute

Research from Rusi suggests that a variety of organised criminals are involved in the illicit tobacco trade

HM Prison Manchester, or “Strange-ways”, casts a dark shadow over Cheetham Hill, once a thriving industrial area in inner-city Manchester. The area is renowned as one of the most culturally diverse places in Britain. The main road is lined with churches, mosques and synagogues and the area is known for its Polish delis, Irish pubs, Arab sweet shops, Pakistani markets and Jamaican hairdressers. Cheetham Hill also hides a well-known secret. It is a hub for illicit and counterfeit goods.

Small shops, warehouses and storage units, trucks and hauliers all vie for space along the backstreets. The shutters on the shopfronts initially suggest that business is quiet. It is not until you notice the spotters and lookouts standing nonchalantly along the pavement that it becomes clear that trade is in fact thriving.

Entry into one of the many shops reveals counterfeit goods from clothing and health-care products to cigarettes, drugs and mobile phones. A series of raids on three premises by police and HMRC officers last year resulted in seizures of some 280,000 cigarettes, 129 kilograms of tobacco and Class A drugs as well as counterfeit clothes worth more than £1m.

This picture is repeated in towns and cities across the UK, where organised criminals are reaping the rewards of selling illicit goods. Tobacco is one of the most popular products bought illicitly on Britain’s streets. The local lad offering

cheap packets of fags on the street corner is just the last link in a complex chain of sophisticated criminal networks bringing counterfeit and illicit tobacco into the UK from across the world.

Following the economic recession, illicit tobacco has become socially acceptable, making the UK an attractive market for smugglers. There is even evidence to suggest that some organised criminal groups are moving away from trafficking drugs, for instance, to trafficking tobacco, given that the risks are lower but the profits are often just as high.

Organised crime in the UK

This is the modern face of organised crime in the UK: diverse, sophisticated, networked and largely hidden in plain sight. Communities are eroded by invisible forces as sophisticated and highly networked organised crime groups run small-scale, high-frequency operations across a diverse set of criminal and legitimate activities. Day-to-day organised criminality takes place over the internet, with illicit goods delivered through the post straight to customers’ doors.

Assessments by the National Crime Agency and others suggest that 5,800 organised criminal groups are currently operating in the UK, involving more than 40,000 individuals. The nature of the threat is also evolving. Groups built around a familiar hierarchy have transformed into fluid networks of ethnically

and nationally diverse individuals, operating across multiple countries and engaged in a variety of criminal activities. The internet has become an important enabler of sustaining these networks, fundamentally changing the way criminals do business. They have become increasingly sophisticated in their approach, adapting their methods to ensure their activities remain below the radar.

The government’s approach to tackling organised crime has changed dramatically since 2010 as a result of its decision to class an increase in the level of organised crime affecting the UK as a tier-two risk to national security. While the police and successive governments historically focused on high-end criminality (particularly drug trafficking), the priority for the National Crime Agency and other law enforcement agencies is increasingly on less visible crimes such as money laundering, child sexual exploitation and modern slavery. The illicit tobacco trade also needs to be high up on this list.

The illicit tobacco trade

The numbers associated with the illicit tobacco trade are enormous, and globally it represents one of the world’s foremost criminal enterprises. Illicit tobacco can still be found in corner shops in every town and city in the UK, and although HMRC’s figures show an overall declining trend in the illicit market’s share of cigarette consumption – falling from a high of

20 per cent in 2000 to 10 per cent in 2013 – it continues to cost the government over £2.1bn each year in lost revenue.

An estimated 4.5 billion illicit cigarettes arrive on British soil each year, equating to over 500 forty-foot shipping containers of cigarettes slipping through the net. Most of these are now “illicit whites” – unregulated products manufactured overseas – with some products such as the Russian-made Jin Ling now well-known brands. These non-mainstream cigarettes have become more socially and culturally acceptable, particularly over the past five years or so.

Various types of criminals are involved in the illicit trade, ranging from a very small number of large groups running multinational trafficking routes to a variety of opportunistic criminals paying holidaymakers to act as “mules” and bring in quantities of undeclared tobacco in their vehicles or luggage. The use of shipping containers to smuggle cigarettes remains a challenge for the authorities, but diverse methods are also increasingly used.

Criminal networks invest substantial amounts of time, money and effort working out the smuggling routes and methods least likely to arouse suspicion, rapidly adapting to the authorities’ responses. There has therefore been a shift from using large containers to near-continent warehousing; from attempts to transport large stocks of tobacco products to first breaking them down into smaller consignments, transported across the border by post or mules and reassembled at the destination. A recent concern is the trend towards using fast parcel and courier services as methods of transport.

Supply and demand

The profits that can be made on duty evasion are undoubtedly the primary force driving the illicit tobacco trade – a packet of cigarettes bought in Belarus or Ukraine for less than £1 can be sold for over £5 once smuggled into the UK. Blaming the problem squarely on tax rates is deceptive, however, and there are other factors that should be taken into account.

The ease and cost of smuggling operations, legal sanctions and corruption levels all vary significantly between countries, even within Europe. The advent of e-commerce, low-cost airlines and globalised supply chains has facilitated all forms of trade, both legal and illicit.



The internet: a popular place to hide illegal trade

On the supply side, HMRC remains concerned about the problem of tobacco companies supplying certain overseas markets, particularly those known to be home to criminal networks that are likely to smuggle the cigarettes into the UK. On the demand side, a crucial driver is the consumer market. Smokers are exposed to a greater variety of products than ever before, and are used to seeing exotic brands from overseas. Criminal groups are receptive to consumer demand and as these products have become socially acceptable, smuggling is increasingly done “to order”.

Members of the public are often aware that they are buying smuggled goods

Members of the public are often aware that they are purchasing smuggled or counterfeit goods but do so regardless, visiting shops in Cheetham Hill in order to save money and oblivious to the wider implications of this illicit trade. The widespread perception is that this is a kind of crime perpetrated by tax fiddlers rather than organised criminals. As such, a critical facet of HMRC’s strategy to combat illicit tobacco is to reduce tolerance of fraud in the UK by changing public perception and raising awareness of the links between illicit tobacco and organised crime.

Hidden threats

Illicit tobacco products represent a significant risk to public safety, community

well-being and consumer health, yet are within easy reach of customers. Many are not aware that behind their cheap packet of fags lies a global supply chain controlled by organised networks of criminals and facilitated by those under their influence. Small volumes of illicit tobacco (in order to avoid suspicion) moved frequently (to meet demand) along non-traditional routes (to avoid detection) result in large rewards for these criminals. They and their activities are largely invisible to members of the public, many of whom are willing to purchase what they know to be illicit goods. The illicit tobacco trade therefore reflects the likely future trajectory of organised crime in the UK, as illustrated by four main trends:

● **Acceptability** – The illicit tobacco trade is commonly seen as a victimless crime and many are happy to buy cheap packets of illicit cigarettes, even if it is seen as morally wrong;

● **Diversification** – Some criminal groups have moved away from high-risk activities such as drug trafficking towards seemingly low-risk crimes such as cigarette smuggling, where returns are still considerable;

● **Accessibility** – The internet has increased the accessibility of illicit goods, helping criminals to operate and exposing customers to fake products, whether on “dark web” criminal markets or on social media sites;

● **Invisibility** – The internet has also helped to make organised crime less visible. With the click of a mouse and delivery by post, illicit trade remains unseen by the public and largely under the radar of law enforcement.

This evolution of “hidden” criminal activities raises questions about the impact of serious and organised crime on our society. The government has begun to recognise the scale of the challenge – even if it is not yet sure what to do about it. Helping the public at large to understand the significant scale and impact of modern criminal activities such as the illicit tobacco trade would be a good starting point.

Even though illicit trade may never be entirely eradicated, luring consumers away from the illegitimate businesses in Cheetham Hill and other areas would help to shrink the market. If no one bought illicit cigarettes, criminals would soon be out of business. ●

NewStatesman

This supplement, and other policy reports, can
be downloaded from the *NS* website at:
newstatesman.com/page/supplements
