

17 Revenue's progress in tackling tobacco smuggling

17.1 Excise duties on tobacco products raised an average of €1.1 billion a year for the Exchequer between 2010 and 2017.

17.2 Ireland is among the states with the highest cigarette prices in Europe and the highest rates of tobacco taxation (see Figure 17.1). As a result, smuggling of tobacco products for resale in Ireland represents a significant risk to tax receipts.

Figure 17.1 Cigarette prices across Europe^{a, b}



Source: Japan Tobacco International. Analysis by Office of the Comptroller and Auditor General.

Notes: a Retail selling price (premium) for 20 ready made cigarettes in euros as at quarter 4, 2017.
 b The retail selling price in the Canary Islands is €3.10.

- 17.3** A 2009 examination of controls aimed at counteracting smuggling of tobacco products found that in order to address tobacco smuggling effectively, Revenue needs to
- estimate the extent of illicit tobacco sales
 - target activities within an articulated strategy based on the best analysis of the nature of fraud
 - implement an operational response based on such a strategy
 - monitor performance.¹

This examination reviews Revenue's progress in these four areas.

Estimating the extent of illicit activity

- 17.4** Total cigarette consumption in Ireland in 2017 was estimated to be around 4.3 billion cigarettes.² The nature of the illicit market in tobacco products means that it is challenging to accurately measure the tax losses which result. The measurement of such losses is usually referred to as the tobacco tax gap. The World Bank has published five methods to measure illegal circumvention of tobacco taxes.³ These are
- observe the producers and ask the experts for smuggling data
 - observe smokers directly and ask them about their methods of obtaining tobacco
 - monitor and analyse data on the export and import of tobacco
 - compare the sale of tobacco with estimated consumption of tobacco by using household surveys
 - compare the sale of tobacco with estimated consumption of tobacco by using a mathematical formula and economic inference.
- 17.5** The World Bank states that when time and resources allow, it is best to use several different methods in order to cross-validate estimates. The only method used annually by Revenue falls into the second method presented i.e. *observe smokers directly and ask them about their methods of obtaining tobacco*. On this basis, it estimates that 13% of cigarettes consumed in Ireland in 2017 were illegal. The associated notional loss of revenue is around €229 million. Revenue points out that this notional loss is based on the assumption that the illegal cigarettes consumed would displace the equivalent full tax paid quantity of cigarettes, which is unlikely to be the case. However, this notional loss does provide a benchmark. Revenue states that it also uses elements of the first and fifth methods to further increase its understanding of the illicit tobacco market.
- 17.6** The examination in 2009 recommended that Revenue should estimate the level of illegal tobacco importation and report the results in an open, transparent manner. It also recommended that Revenue consider supplementing its estimating approach and that estimation of illicit tobacco products, other than cigarettes should be considered.
- 17.7** Revenue, in conjunction with the National Tobacco Control Office (NTCO), commissions surveys which estimates the size of the illicit market in tobacco products using tax gap 'type' analysis and publishes its estimates annually. Since 2013, an annual survey on illegal 'roll-your-own' tobacco has also been commissioned. Revenue does not publish the methodology for either survey, unlike some other tax authorities.⁴

1 Chapter 15, *Comptroller and Auditor General's Report on the accounts of the Public Services 2009*.

2 *Illegal tobacco products research surveys 2017*, Ipsos MRBI (April 2018) — commissioned by Revenue and the National Office for Tobacco Control.

3 *Understand, measure and combat tobacco smuggling*, World Bank Economics of Tobacco toolkit (2001).

4 The UK's tax authority, HMRC, publish tobacco tax gap methodology. The Australian Taxation Office also publishes its tobacco tax gap methodology.

- 17.8** The illicit market share for tobacco products is not a direct measure of operational performance by Revenue, but it potentially serves as a long-term indicator of the impact of Revenue's actions on the size of the illicit tobacco market in Ireland. Factors such as price differentials across national borders, exchange rates and economic conditions can affect the level of tobacco smuggling in a year but it can be difficult to measure the impact of these factors on the tax gap.

How the illicit tobacco market is measured by Revenue

- 17.9** Revenue, in conjunction with the HSE's NTCO, commissions a company to conduct independent market research among smokers on the source of their tobacco products in order to estimate the volume and incidence of non-duty paid cigarettes and the incidence of 'roll-your-own' tobacco being consumed in Ireland. From this survey, an estimate of the amount of tax revenue lost is produced. This survey has been conducted since 2009, using the same methodology and by the same company.¹ Repetition of the survey allows for longitudinal analysis and comparison across years. For this reason, Revenue does not engage in a competitive tendering process for the procurement of this service.²

- 17.10** Two distinct groups of the population are sampled for the survey, both over the age of 18. The first group consists of smokers only and is used to conduct both the illegal cigarette survey and the illegal 'roll-your-own' survey. The second group consists of the Central and Eastern European (CEE) population and includes both smokers and non-smokers. Samples are selected from both groups and interviews are conducted face to face in the respondent's home. Respondents are asked to provide an empty cigarette packet or tobacco pouch, which Revenue analyses to determine their legality. In addition to illegal packs, legal non-Irish duty paid packs are also identified and an estimate is provided separately. Population estimates are combined with smoking prevalence and consumption rates to provide an estimate of the total cigarette consumption in Ireland. For the illegal cigarettes research, Irish smoker data is weighted to profiles obtained from the Healthy Ireland research. For other nationalities, data is weighted to Central Statistics Office data. For the 'roll-your-own' research, data is weighted to profiles obtained from the NTCO Smoking Prevalence research.

¹ The first 'roll-your-own' tobacco survey was commissioned by Revenue in 2013 and each year since then.

² Revenue discloses this contract on its Circular 40/02 return as it has been awarded without a competitive process and is over the €25,000 threshold.

³ The HSE's quarterly smoking tracker surveys 4,000 people and found that smokers tend to be younger and be of a lower socioeconomic status.

- 17.11** For the purposes of this examination, a statistical consultant was engaged to conduct a detailed review of the methodology of the tobacco surveys commissioned by Revenue. A number of possible improvements to the methodology were noted.

- Random surveying works well when the traits one wants to examine are prevalent in the entire population. Smokers tend to be younger and be of a lower socioeconomic status, so it is unclear if the sample takes account of how the smoking population deviates from the general population.³ Due to these tendencies, systematic bias could be introduced into the overall results and have implications on the final results.
- Consideration could be given to the use of more transparent coding criteria to classify products as contraband, counterfeit or illicit whites (see Figure 17.2) and in the case of illegal packs, record the reasons which led to this classification.

Figure 17.2 Categories of illicit tobacco products on the EU black market

- **Contraband** — genuine tobacco products purchased in a lower-tax country, exceeding import limits or purchased for export but illegally re-sold on higher priced markets.
- **Counterfeit** — illegally manufactured tobacco products, falsely branded and sold by a party other than the brand owner.
- **'Cheap whites'** — brands purchased outside of the EU and brought into the EU to be sold. Taxes and customs are not paid and usually there is no legal distribution network for these brands.

- Revenue should consider increasing the sample size for the 'roll-your-own' survey. For 2015 and 2016, the observed level of illegal tobacco was 9%. On this basis, using a 95% confidence interval, illegal tobacco use could be somewhere between 5% and 13% i.e. a margin of error of almost 50% of the estimate. Revenue states that it had considered increasing the sample size of this survey but notes that there are associated cost implications.
- Summarising the overall level of illicit tobacco using a single figure can lead to it being misinterpreted and there is merit in the use of lower and upper estimates, using a confidence interval.

17.12 Overall, the consultant noted that there was merit in the methodology used, and due to its consistency, it allows for longitudinal analysis. The regular use of additional approaches, be they other surveys or desk analysis, would lead to a more robust overall research methodology, with greater external validity and reliability.

17.13 The General Data Protection Regulation, which came into force in May 2018, raises issues which Revenue may wish to consider in relation to the way in which the surveys it commissions, are conducted in the future. The Regulation sets out that the purposes for which personal data collected will be processed must be provided to the data subject at the time of collection.¹ In past surveys, respondents were not informed of the exact purpose of the tobacco surveys.

17.14 Figure 17.3 outlines the results of Revenue's surveys of the illicit cigarette and 'roll-your-own' tobacco markets in Ireland.²

Other estimates of illicit tobacco market share

17.15 There are other published estimates of the size of the illicit tobacco market in Ireland. The most comprehensive of these is Project Sun, which is a survey conducted across EU member states, Norway and Switzerland by KPMG, that estimates the scale and development of the illicit cigarette market. The study uses an 'empty pack' survey to estimate the share of domestic (duty paid), non-domestic (non-duty paid) and counterfeit and contraband packs in each of the markets.³

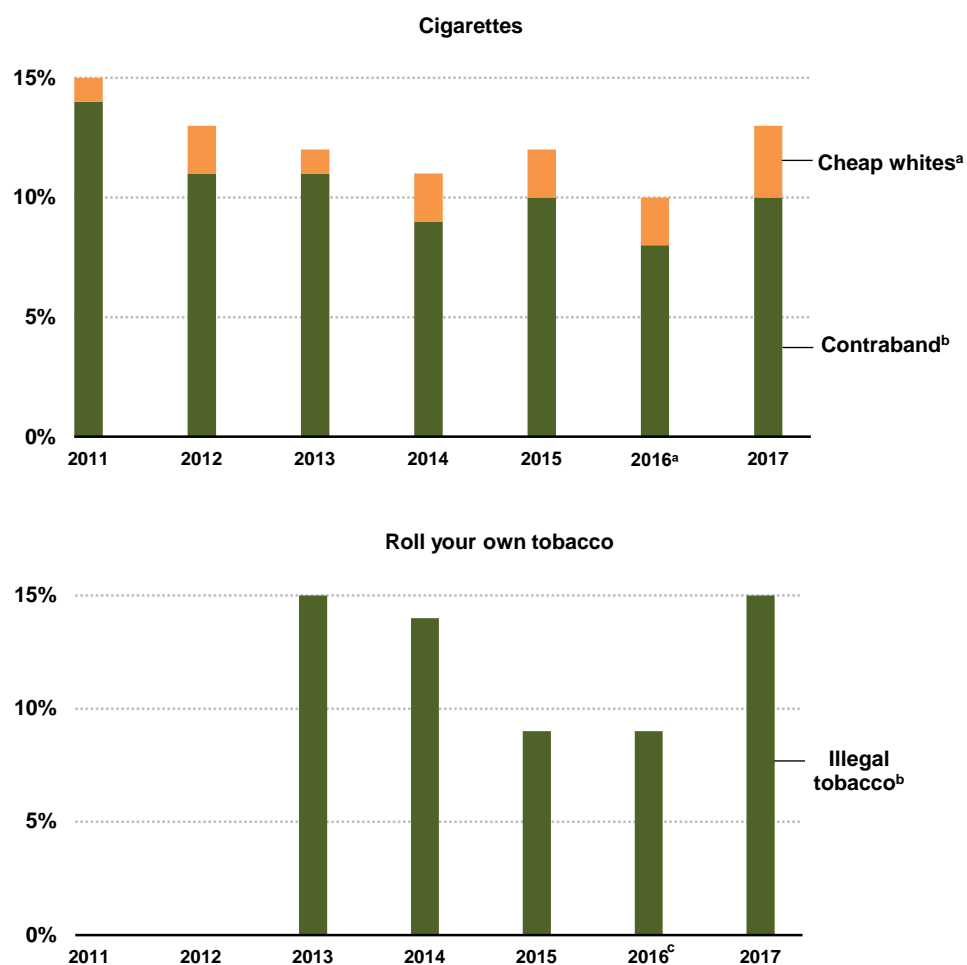
17.16 Project Sun reported that Ireland had the third highest rate of counterfeit and contraband cigarettes in the EU in 2016 at 17.5%. 7% of all illegal packs detected were counterfeit. Revenue's published estimate for 2016 was that 10% of cigarette packs presented by the smokers surveyed were illegal, with no counterfeit packs noted.

1 Article 13 1 (c) of the General Data Protection Regulation (2016/679).

2 The surveys also report on market share attributed to importation of legal tobacco products without payment of duty in Ireland i.e. cross border purchases.

3 Project Sun is a report from KPMG commissioned by the Royal United Services Institute for Defence and Security Studies (RUSI), based on an empty pack survey. 20,000 empty packs were collected in Ireland in 2016 in 22 towns and cities. Previous to 2016, Project Sun was commissioned by British American Tobacco plc, Imperial Tobacco Limited, JT International SA and Philip Morris International Management SA.

Figure 17.3 Cigarette survey, 2011 to 2017 and roll your own tobacco surveys, 2013 to 2017



Source: Illegal tobacco products research surveys 2011 to 2017 conducted by Ipsos MRBI on behalf of Revenue and the National Tobacco Control Office

- Notes:
- a Illicit whites are often referred to as 'cheap whites'.
 - b In 2015 and 2012, less than 1% of illegal cigarettes were found to be counterfeit (included in the contraband category above). In 2011, 1% were found to be counterfeit.
 - c The surveys conducted each year also report the market share attributed to legal non-Irish duty paid products. In 2016, 8% of cigarette packs and 3% of roll your own tobacco packs held by smokers surveyed were legal non-Irish duty paid.

17.17 The Irish Tobacco Manufacturers' Advisory Committee (ITMAC) produces an annual estimate of the size of the illicit tobacco market in Ireland. For 2016, ITMAC reports that 18% of cigarettes and 22% of 'roll-your-own' tobacco are non-Irish duty paid.

Strategy based on the best analysis of the nature of fraud

- 17.18** The illicit tobacco trade is a global problem and is an important source of revenue for international organised crime.¹ Awareness of international trends is helpful in setting strategic direction. Revenue's national action plan for tobacco, which is currently in draft form, has a focus on increased international cooperation, including intelligence sharing.
- 17.19** The EU reported in 2017 that the average size of individual seizures has reduced over recent years with the frequency of smaller quantities being smuggled increasing. Contraband from international tobacco manufacturers is much less prominent with cheap whites and counterfeits dominating in large-scale seizures. The EU also reported an increase in the discovery of illicit tobacco factories.¹
- 17.20** Until recently, 'cheap whites' accounted for the majority of cigarettes seized in Ireland. In March 2018, in a significant development, a cigarette factory producing counterfeit cigarettes was discovered in County Louth. This was the first such factory uncovered in the State (see case study below).

Figure 17.4 Case Study — Discovery of a counterfeit cigarette factory in County Louth

In March 2018, a Revenue-led operation resulted in the discovery of a cigarette factory producing counterfeit cigarettes in Jenkinstown, County Louth. The operation was a result of the Joint Agency Task Force (see Annex 17A).

Revenue officers seized 23.5 million counterfeit cigarettes. These cigarettes were falsely branded and ready for distribution. In addition, 71 tonnes of tobacco was seized, with the potential to produce a further 71 million cigarettes. Ancillary products such as cigarette boxes, paper, filters and machinery were also seized.

Machinery seized was capable of producing approximately 250,000 illicit cigarettes per hour. Machinery necessary for pre-processing, processing and packaging was also present along with living quarters for staff. There is evidence that cigarettes produced in this factory have been previously seized in the UK.

The tobacco seized was valued at €47.8 million by Revenue, with an estimated potential loss to the Exchequer of €37.5 million. Eleven people present at the site were arrested and charged by An Garda Síochána. Investigations are on-going nationally and internationally. To date, one person has been convicted arising from the discovery of this cigarette factory.

- 17.21** Revenue published its first stand-alone strategy on combating the illicit tobacco trade covering the period 2011 to 2013. A follow on stand alone strategy has not been produced. Revenue considers that since 2014, the approach taken is to integrate the focus on tobacco with a wider focus on combating all forms of illegal trade and shadow economy activity. Revenue stated that its overall corporate statement of strategy has included a focus and commitment to tackling illicit activity including tobacco smuggling and that the commitments were given operational priority each year in divisional business plans. Revenue is currently finalising a national action plan for tobacco and states it is designed to maximise the coordination of actions Revenue-wide and deliver the best impact for the effort involved.

¹ Report from the Commission to the Council and the European Parliament: *Progress report on the implementation of the Commission communication: Stepping up the fight against cigarette smuggling and other forms of illicit trade in tobacco products – a comprehensive EU strategy* (12 May 2017).

Operational response

International context

- 17.22** Recognising the global nature of the illicit tobacco trade, Revenue accesses international resources and expertise, which is crucial in tackling tobacco smuggling. Revenue also collaborates with authorities overseas to tackle tobacco smuggling.
- 17.23** Annex 17A contains an outline of Revenue's key relationships with the European and international community in the area of illicit tobacco products. Figure 17.5 details a case, where there was international co-operation.

Figure 17.5 Case Study — International co-operation

In October 2014, Revenue received intelligence from the European Anti-Fraud Agency (OLAF) regarding an attempt to smuggle 9.8 million illicit cigarettes from the former Yugoslavian Republic of Macedonia to Ireland via Slovenia. Following this intelligence, the shipment was inspected by Slovenian customs authorities upon its arrival into the Port of Koper, Slovenia. The cigarettes did not have an excise stamp affixed and as the Port of Koper is a 'free port', the consignment remained there.

The documentation accompanying the consignment identified the consignee to be based in County Wicklow and the consignor to be based in Macedonia. Documentation from OLAF demonstrated that bank transfers had taken place from the company based in County Wicklow to the company based in Macedonia.

Revenue carried out investigations at the request of OLAF and a report of the findings was sent by Revenue to OLAF. The investigation also uncovered payments to an individual suspected of a separate crime. Revenue has given this information to An Garda Síochána.

Scanning of consignments

- 17.24** The identification of suspect consignments by means of risk profiling, intelligence gathering, international information sharing, detector dog teams, and x-ray scanning technology is an integral part of Revenue's operational response to counteract tobacco smuggling. While the movement of containerised cargo can be used to facilitate smuggling and illicit trade, legitimate business and the freight industry are heavily reliant on its efficient passage. Therefore, the scanning of consignments requires careful targeting by Revenue to avoid unduly delaying legitimate freight moving through ports and to focus limited scanning resources where they are needed most.
- 17.25** Revenue planned to conduct a study in 2011 to compare detection rates achieved to those rates achieved in other countries.¹ The result of this study was requested from Revenue as part of this examination. Revenue stated that it made contact with counterparts in a number of jurisdictions but comparable information was not available to allow a detailed comparison. While Revenue provided the examination team with the total number of scans conducted by each of the three main scanners held by Revenue, this data relates to all activities and not solely tobacco. Detection rates were not available.

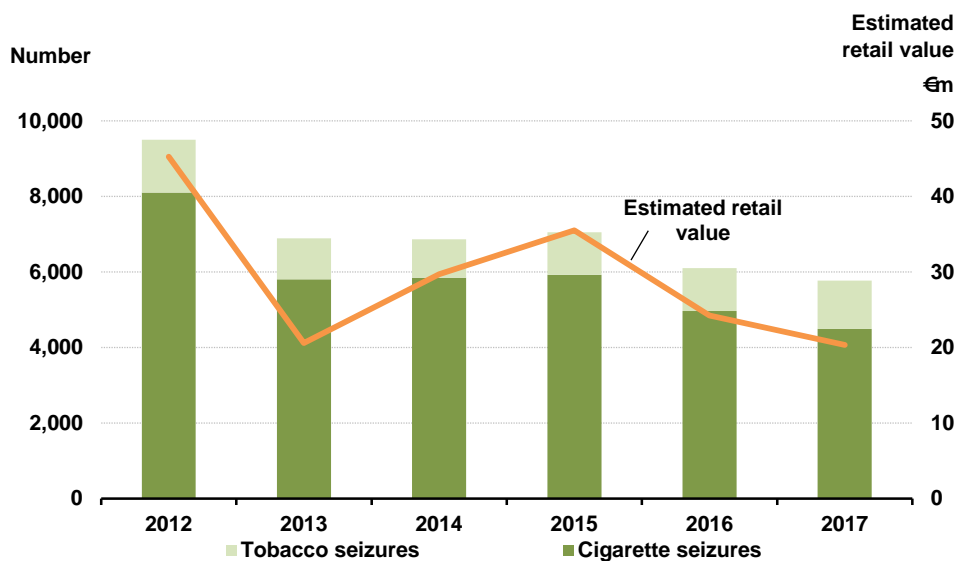
¹ Comptroller and Auditor General's Accounts of the Public Services 2009, Chapter 15: *Counteracting Smuggling of Tobacco Products*.

Tobacco seizures

- 17.26** Seizures of cigarettes and tobacco are key outcomes of Revenue's programme of enforcement action relating to tobacco smuggling. In 2017, cigarettes and other tobacco products valued at over €20 million were seized. This represented a potential loss to the Exchequer of more than €16 million in taxes and duties. Figure 17.6 sets out the total number and estimated retail value of seizures over the period 2012 to 2017.

Figure 17.6 Tobacco seizures^a

Both the number and value of seizures fell between 2012 and 2017....



Source: Revenue Commissioners

Note: a Number of seizures refers to the number of Revenue operations in which seizures were made and not the quantity of product seized.

- 17.27** In 2017, the estimated notional loss of revenue as a result of the illicit cigarette market is €229 million. In the same period, potential loss to the Exchequer identified as a result of cigarette seizures is approximately €15.5 million. This indicates a detection rate by Revenue of approximately 7%.
- 17.28** Revenue notes that this method of deriving a detection rate assumes that seized product is exclusively destined for the Irish market and takes no account of seized product in other countries that may have been destined for Ireland.

Other seizures related to tobacco smuggling

- 17.29** Revenue has the power to seize cash where it is suspected to be the proceeds of, or intended for use in, criminal activity. Vehicles may also be seized where they have been used to convey illicit products. Over the period 2013 to March 2018, a total of €556,243 was seized by Revenue in 34 cases.¹ In addition, 265 vehicles and four ships were seized between 2013 and 2017.
- 17.30** Figure 17.7 sets out the circumstances surrounding a ship seized by Revenue in 2014 on foot of a seizure of 32 million illegal cigarettes. The ship is still in Revenue's possession.

¹ There may be other seizures related to illicit tobacco but where evidence is insufficient to allow Revenue to determine the type of criminal activity linked to the seizure.

Figure 17.7 Case Study — The MV Shingle

In June 2014, customs officers and armed Gardaí intercepted a shipment of more than 32 million cigarettes and 4,000 kilograms of water pipe tobacco at Drogheda Port in County Louth. The ship travelled from Slovenia, via Portugal before its arrival at Drogheda. The Revenue operation followed months of work, including international intelligence gathering across several jurisdictions. The consignment represented a potential loss to the Exchequer of almost €13 million.

The ship was transferred by Revenue to Dublin Port the next day, along with the shipment of illegal cigarettes and tobacco.

The MV Shingle – Dublin Port, May 2018



Source: Office of the Comptroller and Auditor General

Revenue could not dispose of the MV Shingle until the completion of the legal proceedings related to the seizure. Proceedings, including time allowed for the appeals process, were completed in June 2017 and the High Court made an order of forfeiture of the ship to the State.

Initially Revenue explored plans to sell the ship but following surveys as to its condition and consideration of the fact that asbestos was present, it was decided that it should be sent to a specialist recycling facility for disposal. A marine surveyor engaged by Revenue reported in March 2015 that the vessel could be considered nothing but a liability in its present condition and location and that if arrangements are not made to deal with the ship within a reasonable time span, there is the potential of substantial additional costs being incurred.

To end August 2018, costs of approximately €410,000 had been incurred by Revenue related to holding the vessel, the majority of which are lay-up costs charged by Dublin Port Company. Recycling costs estimated by the surveyor engaged by Revenue are significant in light of the costs already incurred by Revenue.

Prosecutions

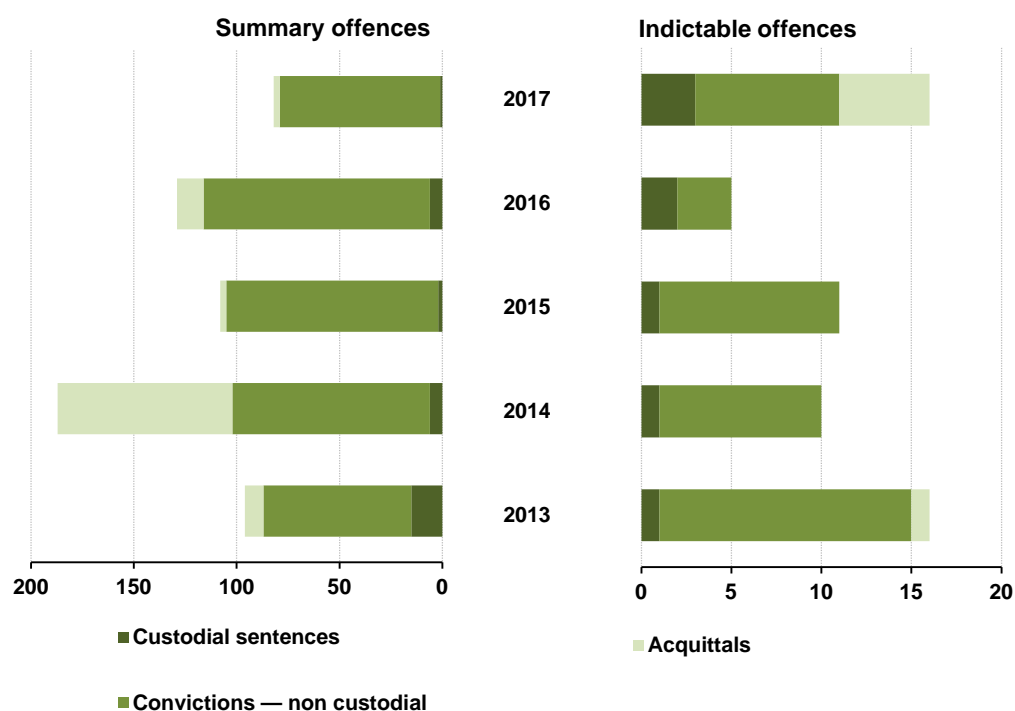
17.31 Revenue considers the number of tobacco related prosecutions taken to be an important indicator of performance. Prosecutions serve as both a punishment and as a visible deterrent. There are two types of offences — summary and indictable.

- Summary offences are dealt with in the District Court without a jury. The average annual value of fines imposed over the period was €215,000. The longest custodial sentence imposed over the period was six months.
- Indictable offences must be tried before a judge and jury. The average annual value of fines imposed over the period was €3,200. The longest custodial sentence imposed over the period was three years with the last 18 months suspended.

17.32 Results of prosecutions by Revenue in relation to tobacco offences for the period 2013 to 2017 are set out in Figure 17.8.

Figure 17.8 Summary and indictable offences

Fewer summary prosecutions taken in 2017, but a higher rate of conviction than in previous years and more indictable prosecutions taken in 2017 but a lower rate of conviction than in previous years....



Source: Revenue Commissioners

Performance measurement

- 17.33** Revenue views the number of convictions obtained for tobacco-related offences as a significant performance indicator. Other performance indicators used are the volume of products seized and the incidence of illicit product on the market. The independent research among smokers commissioned by Revenue is used to measure the incidence of illicit tobacco products year-on-year. Revenue has stated that the Revenue Board and senior management monitor these performance measures.
- 17.34** While seizure volumes are a measure of success, ease of detection can fluctuate with changes in the illicit market. A fall in the volume of seizures may potentially indicate a decrease in illicit products on the market but it may also be indicative of a decrease in resources applied for the purpose of detection by revenue bodies. This is also the case in relation to the number of convictions for which many other factors can impact which are outside of Revenue's control.
- 17.35** Revenue does not estimate revenue loss prevented by the disruption of criminal gangs in the illicit tobacco trade. Revenue's practice, when significant quantities of tobacco products are seized, is to provide an estimate of the potential loss to the Exchequer represented by that seizure. It also has no formal mechanism to account for seizures made abroad with its assistance.

Targets

- 17.36** Each of Revenue's regions sets specific targets for seizures, referrals for prosecution and escalation to investigation as part of its business planning process each year. These targets are not published.
- 17.37** For 2017, two of the four Revenue regions exceeded some of their tobacco-related targets. However none of the regions achieved all their targets. One of the four regions did not set targets for seizures or investigations. High level tobacco-related data is included in a performance report which is reviewed by the Board every month. Performance against targets is not included in the performance report.

Resources allocated to tackling tobacco smuggling

- 17.38** In its 2011 to 2013 tobacco strategy, Revenue stated that it would measure the cost as well as the effectiveness of resources allocated to countering the threat from tobacco smuggling, with the objective of ensuring optimum deployment and maximum effectiveness. Revenue has now stated that as a fully integrated tax and customs administration, it is not possible to disaggregate the resources deployed at any given time on action against tobacco smuggling and so this cost has not been isolated. Revenue states that it adopts a whole case management approach. To date, Revenue has not calculated the cost of its operations in tackling the illicit tobacco market.

Conclusions and recommendations

Revenue's estimate of the market share of illicit tobacco products

- 17.39** The illicit tobacco survey methodology in place has merit. However, Revenue's reliance on a single annual method undermines the overall robustness of the estimated level of illicit tobacco in the Irish market. Publication of its methodology would enhance transparency.

Recommendation 17.1

Revenue should consider publishing its survey methodology.

Accounting Officer's response

Agreed.

Revenue will arrange for publication of details of the survey methodology when we are publishing future survey results.

Strategic targeting of operations

- 17.40** Revenue's estimate of the volume of illegal cigarettes and tobacco gives an indication of trends in demand. This is useful for setting specific objectives to reduce the level of tobacco duty evasion. A high level stand-alone strategy linked to operational actions would assist Revenue in ensuring activities are coordinated effectively so as to provide assurance that scarce resources are appropriately targeted.
- 17.41** Currently, no such stand-alone strategy is in place. Revenue stated that its strategy to counteract tobacco smuggling is incorporated into its overall corporate statement of strategy. However, it is evident from a review of the statement of strategy that a specific focus solely on tobacco is not clearly articulated. Since the previous stand-alone strategy ended at the end of 2013, there is an increasing international trend towards counterfeit cigarettes and discovery of illicit tobacco factories.

Recommendation 17.2

Revenue should put a formal stand-alone strategy in place that sets out its objectives linked to an operational plan, detailing actions to be taken. This stand-alone strategy should reflect the changing nature of tobacco smuggling. The objectives and actions should be regularly monitored, reviewed and progress reported to Revenue's senior management.

Accounting Officer's response

Part-agreed.

Revenue's focus is on combatting all forms of illegal trade and shadow economy activity. In Revenue's experience, those involved in the illicit tobacco trade do not confine themselves to that particular scope of activity. An integrated focus by Revenue on all forms of illegal trade is more appropriate. However, in the context of our integrated approach, we will finalise our national action plan for tobacco.

Scanning of consignments

- 17.42** There are gaps in the management information available to Revenue. It does not record how many scans per year relate to tobacco and it does not calculate the detection rate per scan.

Recommendation 17.3

In order to fully assess both the performance of its scanners and the selection process of consignments scanned, Revenue should record scans conducted by the type of illegal product detected, or suspected. Revenue should also conduct analysis which would provide detection rates. This would serve as a useful and readily available performance measure.

Accounting Officer's response

Agreed.

Revenue collects data on the total number of scans conducted. However, a pilot is underway in Dublin Port of a detection recording system that has the potential to provide a link between the seizure of any commodity and the range of assets deployed to achieve the seizure. The potential of this pilot, as a means to deliver scanner-related, commodity-specific, information will be fully considered.

The MV Shingle

- 17.43** Seizure of this ship has resulted in costs to date of approximately €410,000. Costs are still being incurred, although Revenue has been in a position since July 2017 to dispose of the vessel.

Recommendation 17.4

Revenue should ensure that decisions which have significant cost implications are taken and actioned promptly and without undue delay.

Formal analysis of costs and benefits associated with different potential courses of action is a key aid in decision making. Revenue should ensure that this type of comprehensive analysis accompanies disposal decisions related to major items of equipment. All options considered should be documented with rationale clearly recorded to support the final decision taken.

Accounting Officer's response

Agreed.

The disposal of the MV Shingle has proven problematic and presented more challenges than are normal in the disposal of seized goods. However, Revenue continues to make a determined effort to dispose of this ship in the most cost-effective manner, has documented the process so far and will fully document the final decision. We will continue to ensure that appropriate analysis is undertaken in any case where the disposal of major items arises.

Performance measurement

- 17.44** Revenue's detection rate of illegal cigarettes is estimated to be approximately 7% for 2017. This is based on the estimated notional loss of revenue as a result of the illicit cigarette market, which is published as part of the illegal tobacco products research survey commissioned by Revenue and the NTCO and the potential loss to the Exchequer as a result of Revenue's cigarette seizures.
- 17.45** Revenue's success in reducing the amount of illicit tobacco products in the Irish market can only be comprehensively measured by estimating the level of evasion over time, analysing the nature of the evasion and targeting actions accordingly. Where targets for seizures and prosecutions are set, these targets should be monitored and reported upon.
- 17.46** Seizures which take place abroad with assistance from Revenue have performance implications and in some instances involve significant Revenue resources. Currently, there is no formal mechanism for Revenue to account for seizures made abroad with its assistance.

Recommendation 17.5

Revenue should investigate the practicality and usefulness of introducing a mechanism to measure instances where its intelligence or assistance has contributed to seizures abroad.

Accounting Officer's response

Agreed.

Revenue already receives feedback or information in some instances where intelligence or assistance provided to other EU member states, third countries or international organisations leads or contributes to the seizure of illegal tobacco products. We will consider the feasibility and utility of introducing a mechanism as recommended. It will need to be factored into the overall consideration of the value of the measurement that its compilation would be significantly reliant on input from and cooperation of international partners.

Annex 17A

Figure 17A.1 Revenue's International relationships — illicit tobacco

European Union Agency for Law Enforcement Cooperation (EUROPOL)

Europol has ten priority areas. Excise fraud is one of three priority areas in which Ireland has agreed to participate. Member states are expected to contribute by leading, co-leading or participating on a number of operational action points under each priority area. Revenue has committed to participate in two operational action plans in the tobacco area. During the period 2013 to 2017, the action plan for tobacco focused on 'hub to hub' movement of tobacco products. As a result of a specified action day in 2017, 1.6 million illicit cigarettes were seized from a warehouse in Dublin.

Customs Cooperation Working Party (CCWP)

The CCWP is responsible for the coordination of customs cooperation between member states and continuously improving cooperation between customs authorities and between customs authorities and police. The group adopts action plans, projects and proposals for Joint Customs Operations (JCO). For 2016/17, Revenue participated in five action points.

World Customs Organisation (WCO)

Ireland has been a full member of the WCO since its establishment in 1952. Revenue's primary involvement with the WCO involves reporting tobacco seizures and participating in operations coordinated by the WCO. In early 2018, Revenue participated in an operation. The operation focused on shipments of illicit tobacco products which originated or were transhipped from Free Trade Zones. As part of the operation, Revenue seized 2 million cigarettes.

Joint Agency Task Force (JATF)

The JATF was established under the Belfast and Fresh Start Agreements and comprises Revenue, An Garda Síochána, the Criminal Assets Bureau, HMRC, PSNI, the UK National Crime Agency and the UK Border Agency (Northern Ireland). The JATF reports on its activities to the three Governments at London, Belfast and Dublin.

Cross Border Excise Fraud Group

Revenue is represented on the Cross Border Excise Fraud Group which comprises all relevant agencies on both sides of the border. The group generally meets twice a year to discuss, plan and execute cross border operations to tackle the illicit tobacco trade. Illicit alcohol and fuel laundering are also within the group's remit.

World Health Organisation Framework Convention on Tobacco Control

The World Health Organisation Framework Convention on Tobacco Control was ratified by Ireland towards the end of 2005. The Protocol to Eliminate the Illicit Trade in Tobacco Products was adopted in November 2012 and was signed by Ireland in 2013. The Protocol requires parties to take measures to control the supply chain of tobacco products effectively and to cooperate internationally on a wide range of matters such as information sharing and extradition. Revenue currently liaises with the Department of Health, who is leading discussion in relation to ramifications of the Protocol from an Irish perspective.

European Anti-Fraud Office (OLAF)

OLAF's role is to protect the EU's financial interests. OLAF has a significant role in combating tobacco smuggling due to the magnitude of financial losses which result. OLAF assists and supports law enforcement authorities in the EU (including Ireland) with operational cases, coordinate major investigations between member states and third countries, and provide assistance and support for joint international customs operations. In addition, OLAF negotiates with third countries on behalf of member states in relation to tobacco smuggling from third countries into the EU.

