



## An Chartlann Náisiúnta National Archives

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PETROL SMUGGLING  
SPEAKING POINTS

1. As you know our officials have been working on the proposal made by Tom King to examine how to counter petrol smuggling, an activity from which paramilitary organisations profit.
2. They have now met on two occasions and I see that a joint paper has been submitted to us on progress made. I am concerned, however, that there is every danger of getting bogged down on agreeing an estimate of the volume of petrol smuggled. I think that we need to give the matter a political push to ensure that we arrive at a satisfactory conclusion.
3. The basic problem seems to be our differing estimates of the scale of the problem. Our estimate, which is based on intelligence and surveillance by the Revenue Commissioners, is 16 million to 26 million litres. Your estimate, which is an industry figure, is 2 million litres. I appreciate the necessity for your side to have an agreed figure; we have now supplied your officials with a paper setting out how our Revenue Commissioners arrive at their estimate, and we have also received a paper from you which we will examine carefully. It is essential that we be able to break the logjam at the next meeting of officials on the 16th of March and at least reach agreement on the scale of the problem if, as would be understandable, we can't pin it down to one precise figure.
4. The matter is urgent. The reason for the urgency is that our Finance Bill will be introduced in the Dail towards the end of March or early April. We do not want to miss this opportunity. We would wish the Bill to contain the necessary provision empowering the Minister to make regulations to deal with this problem.
5. You will no doubt be aware that we have given an undertaking at official level, which we are prepared to repeat publicly at Government level- and indeed to write into the legislation - that the 48 hour rule will not be used to prevent the import of petrol in private motorist's tanks.

## PETROL SMUGGLING

Following on a suggestion by the previous Secretary of State that action against subversive groups should include the elimination of smuggling activities [from which these groups derive financial benefit], we proposed in April 1989 that consideration should be given to joint action to combat petrol smuggling.

A joint paper reporting on progress to date at official level will be submitted to Ministers.

The method we proposed was that a dye or marker could be added to all petrol sold in Northern Ireland [save for any petrol sold legitimately for cross-border trade]. Acting on information from the oil companies, we suggested that some 105 million litres (23 million gallons) were being illegally imported.

The initial British response was:

[1] to query this amount [they calculated an annual illegal traffic of 2 million litres (440,000 gallons)],

[2] to request that the Irish Government publicly state that the 48 hour rule will not be enforced against private motorists,

[3] to seek further discussion on whether a dye or marker should be used, and

[4] that the Irish Government will bear the cost of adding the tracer [which they estimate at £470,000 in the first year and £220,000 thereafter] to the petrol and indemnify any damage which may result.

At a meeting of officials on 28 November, the Irish side gave a revised estimate of illegal imports. The Revenue Commissioners' estimate, based on intelligence sources and observation, is that at least 16 million litres (3 million gallons) are involved and an upper estimate would be 26 million litres (5.8 million

gallons). The yield to the smugglers is between £2.2 and £4.5 million of which a substantial proportion is diverted to subversive organisations.

As regards a public statement that the 48 hour rule will not be enforced against private motorists, the Irish side said that there would be no difficulty in such a statement and that the legislation necessary prohibit the import of petrol from Northern Ireland will apply only the import of petrol in commercial quantities. [Note: the Revenue Commissioners estimated 2 years ago that the loss to the Exchequer due to inhabitants of the border counties using Northern petrol stations was £40 million. ]

With regard to the type of dye or tracer, the cost and an indemnity, the Irish side said that the cost would be met in full by them. Even if the Northern Ireland figure of 2 million litres is used the marking of petrol will be cost effective. With regard to an giving an indemnity against any damage which might result, the Irish side felt that this question as well as that of the type of marker was a matter for later consideration. [Note: any marker will have to be extensively tested against damage and the manufacturer of the marker eventually chosen may counter indemnify the State. The Revenue Commissioners have received a proposal from an Irish company to supply a dye and a marker which has been forwarded to the British side for their consideration. ]

There was a further meeting of officials in the Secretariat on 23 February 1989. The Irish side reiterated its position with regard to the non-implementation of the 48 hour rule against petrol in private motorists' tanks. The discussion focussed essentially on the estimate of the volume of smuggled petrol. The British side reiterated their commitment to the exercise but said that in order to be able to bring along other Government Departments who would have to become involved at the implementation stage [eg the Treasury and Customs and Excise] they would need an agreed estimate. It was clear that the British side are holding to their industry's estimate. The Irish side exhorted them to move away from this figure [as the Irish side had themselves done with regard to their own industry's figure] and demonstrated how

the NI industry figure could not be accurate. The conclusion of this meeting was that the Irish side would provide a paper setting out the background to the basis of their estimate. [This paper has been delivered to the other side. It is attached to the brief. The British side have also sent us a paper on their estimate.] If necessary, the two Customs and Excises could meet to discuss the papers. There will be a further meeting of officials [current proposal is for a meeting on 16 March] in an attempt to sort out this matter before the Finance Bill is introduced in the Dail.

The Minister for Finance is anxious that the Finance Bill contain a provision empowering him to make regulations to curb illegal imports. While it would be preferable that such a provision figure in the Bill, it could be added at a later stage by amendment during the Committee stage.

Anglo-Irish Section  
February 1990

Petrol Smuggling

Scale of problem

While it is impossible to reliably state the level of smuggling activity and estimates of such activity can never ~~be~~<sup>e</sup> fully substantiated, information from intelligence sources and surveillance operations suggests that petrol smuggling is currently of the order of some 16 million litres in annual terms.

Another source used to base an estimate of the scale of the problem was the road tanker capacity of known smugglers. It is known that the main smugglers control between them some 37 road tankers with a capacity of around  $\frac{1}{2}$  million litres. On the assumption that each tanker imports only one consignment of 13500 litres (i.e. a small tanker) per week, illegal imports of petrol would amount to some 26 million litres per annum.

Even assuming that N.I. purchases are made at duty and tax-paid retail prices, extra profits of £2.2m per annum would accrue to illegal operators on the basis of 16 million litres of smuggled product and £3.6m per annum on the basis of 26 million litres of smuggling activity. However, if it is assumed that supplies can be obtained in N.I. at close to wholesale prices (which is more likely for regular bulk purchases), the extra profits accruing would be closer to £3 million and £4.5 million per annum respectively. These figures take no account of additional benefits arising from opportunities for non-disclosure for direct taxation purposes.

### Incentive

At the moment the retail price of petrol is 80 pence per gallon (17.5p/litre) more in the State than in N.I. This compares with a difference of 57 pence per gallon for auto-diesel and 36 pence per gallon for marked gas oil. Petrol is clearly therefore the most profitable product of all the hydrocarbon oils from a smuggling point of view.

### Other factors

The recent introduction of a new marker for marked gas oil has been successful in curbing marked gas oil smuggling. Also trade sources indicate that smuggling of auto-diesel is not a problem because of a reluctance on the part of retailers to accept product from suspect sources because of the risk of being supplied with "laundered" marked gas oil which can damage vehicle engines. The introduction of new regulations controlling the storage and transportation of heavy oils (oils other than petrol) together with increased Customs attention to kerosene smuggling (made possible because of the presence of a marker in kerosene in the UK) has made illegal activity in these products less attractive. These factors are increasingly forcing smugglers to switch to petrol.

Finally Customs are aware that petrol outlets have been purchased by known smugglers pointing to an intention to consolidate and expand activity while offering the possibility of a completely integrated operation. This expansion and investment testifies to the lucrative nature of the petrol smuggling business.



Modus operandi

The premises of all of the known smugglers are situated in remote areas close to the Land Frontier (in three cases the installations are located next to or within twenty yards of the frontier). According to local and specialist Customs teams it is extremely difficult if not impossible to prevent smuggling in these circumstances. They have encountered blocked roads on many occasions (blocked with large trucks or JCB on the pretext of being broken down) when on route to check these premises. Customs have witnessed the use of up to six vehicles and twenty personnel on such operations. During these blockades product is imported and off-loaded to storage tanks and the conveying tanker returns safely to N.I. before traffic is allowed resume. Alternatively if "cover" is available off-loading is dispensed with. The operations are organised so that a number of smugglers will use the protection of the blockade once in place. A sophisticated cartel system of "paper cover" then operates among the main operators to protect the product from official detection.

Indications also are that smuggling is taking place in vehicles other than road tankers. These include purpose-built "gravel" trucks and "grain" trucks which have been fitted with concealed bulk storage tanks which can then travel under the guise of a consignment of grain or gravel or other free bulk goods. One such vehicle was seized recently (a grain truck). It had 7000 litres of petrol concealed in a specially fitted tank. Adaptation of vehicles in this fashion is further proof of the profitable and regular nature of petrol smuggling.



N.I. estimate

The N.I. authorities have estimated, based on trade sources, that petrol smuggling from North to South is only of the order of 2 million litres. However, this estimate is based on estimated diversion from the "commercial sector" only or less than 10% of the N.I. petrol market and takes no account of petrol being uplifted from retail outlets in N.I. and smuggled South. The Northern authorities maintain that obtaining supplies from retail outlets would represent a sophisticated operation and involve considerable logistical problems. However, technical advice available to us clearly states that the degree of sophistication is limited to a suction pump incorporating a spark-proof motor. Many of the tankers inspected by Customs staff have such pumps fitted to them. As to logistics it has been agreed that annual smuggling of 16 million litres, for instance, would involve only one crossing of the Land Frontier by one small and one large tanker per day. Such a level of activity would hardly be surprising given the length of the Land Frontier and would present no difficulties of a logistical nature to the smugglers in question. The N.I. estimate is therefore likely to have missed the main source of the problem. It is also understood that <sup>ie N.I. authorities</sup> they may not be in a position in any event to estimate activity since N.I. Customs do not have a presence on the Louth/Armagh Border, the main area of this activity.

#### Scope of measure requested

The proposal to mark petrol in N.I. is designed to defeat commercial smuggling and deprive illegal operators of a lucrative source of funds. It is not intended to affect private motorists in any way and has nothing to do with our 48-hour rule Regulations. It is envisaged that private motorists would continue to purchase petrol in N.I. for as long as they wished. Indeed such a safeguard to the private motorist could be built into the law which would be necessary to prohibit commercial importations. Imports in the fuel tanks of vehicles could be specifically exempted.

#### Cost of marking

It is proposed that the Irish Government would pay for the cost of marking and any related expense. This in itself testifies to the serious nature of the problem we face. Even at the N.I. estimate of petrol smuggling, the proposal would still be cost-effective. Covering the cost of marking should of course also serve to remove N.I. trade objections to the proposal.

## ANGLO-IRISH INTERGOVERNMENTAL CONFERENCE

### Petrol Smuggling from Northern Ireland

#### Progress Report by Secretariat

Cross border smuggling is an issue which has engaged the attention of the Intergovernmental Conference on several occasions and there is a long tradition of mutual assistance and cooperation in countering the problem.

In April, 1989 the Irish Government raised the specific issue of the smuggling of petrol from Northern Ireland and asked the British Government to consider introducing in petrol sold in Northern Ireland a unique chemical marker in order to prevent the illegal importation of petrol into the South. This followed estimates from the Irish oil industry that the bulk smuggling of petrol represented an estimated loss of revenue to the Irish Government of IR£45m per year.

Against that background, the British Government responded in May, 1989, to the Irish Government that, in principle, it was keen to assist provided that the result would in no way be seen as helping the Irish Government reinforce the 48 hour rule. The Irish Government has since given an undertaking that they will state publicly - if the proposal is accepted - that there will be no checking by the Irish authorities of private motorists' petrol tanks. The Irish Government has also accepted that it will meet the cost of putting a marker in petrol.

The Irish Government revised the oil industry's estimate of the extent of petrol smuggling in November 1989. At that time the Irish Government submitted figures which put the lowest estimate for petrol smuggling at 3 million gallons per annum,

representing a loss of IR£6m to the Irish Exchequer and a highest estimate of 5.8 million gallons representing a loss of IR£11.5m. That remains the Irish Government's position.

Following the exchange in May, 1989, British officials have been exploring with the Northern Ireland oil companies and HM Customs & Excise the extent of the problem. The Northern Ireland oil industry's estimate differs significantly from that of the Irish Government. The Northern Ireland industry is confident that their procedures are sufficiently stringent to account for almost all petrol put into the distribution chain in Northern Ireland. HM Customs & Excise also believe that petrol smuggling is on a small scale compared with gas oil/diesel. Irish officials, on the other hand, point to considerable circumstantial evidence on the Southern side of the border to indicate that there is significant petrol smuggling.

Given the UK revenue and industrial implications which go beyond his responsibilities, the Secretary of State for Northern Ireland cannot unilaterally agree to the Irish proposal before consulting his Cabinet colleagues. To enable him to approach his Cabinet colleagues the Secretary of State needs to have the best agreed estimate and relevant supporting evidence of the extent of petrol smuggling. This will also be needed to obtain the voluntary cooperation of the Northern Ireland oil industry in a marking scheme.

A number of meetings has been held between officials to reconcile the differing estimates of the scale of the problem, most recently on 23 February. Papers setting out each sides appreciation of the issues were subsequently exchanged and discussions are continuing between British and Irish customs experts. The next meeting of officials is scheduled for 16

March.. The Irish side wishes to introduce legislation in the spring to validate the presence of a marker as evidence of illegal importation and is anxious for an early resolution of the problem.

Ministers are invited to take note of the work currently being undertaken by officials. It is proposed to submit the matter for substantative discussion by Minsiters to the next meeting of the Conference.

SECRETARIAT

February 1990