

**JOINT HMRC – NORTHERN IRELAND INDUSTRY OILS INTELLIGENCE  
AND SECURITY FORUM**

**HMRC OILS ACTIVITY REPORT**

**APRIL 2008**

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**CUSTOMS CONFIDENTIAL**

If you have information about illegal fuel misuse, illegal fuel supply or any other oils fraud, you can contact Customs Confidential and supply information anonymously:

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**Freefax: 0800 528 0506**

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Freepost SEA 939  
PO Box 100  
Gravesend  
Kent  
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## **1. Context**

### **Purpose**

The purpose of this document is to update industry partners on activity undertaken by HMRC as part of the fight against oils fraud. It aims to provide as much relevant information and context as possible within the restrictions of legal requirements and duty of confidentiality.

Updated versions of this document will be produced regularly (approximately every four months) to coincide with the meetings of the Joint HMRC-Industry Oils Intelligence and Security Forum.

### **UK Oils Strategy**

Oils fraud is principally the misuse of oils which are either rebated or relieved of duty when used (mainly) off-road; red diesel, kerosene and a range of oils known as 'tied' oils, and the smuggling of road fuel.

In addition to revenue loss, oils fraud is a problem because it causes or leads to:

- Damage to legitimate business
- Damage to vehicle engines
- Danger to road users
- Damage to environment
- Threats and intimidation against retailers
- Encourages disrespect for the law

The UK Oils Strategy consists of a range of measures to crack down on fraud, aimed at making it harder for criminals to obtain rebated fuels and ensure those that do are caught and face tough penalties. The key measures of the strategy are:

- Stronger regulatory regimes to control the sale and distribution of rebated and duty-free fuels. This includes the Registered Dealers in Controlled Oils (RDCO) scheme that requires all distributors of red diesel and kerosene to be authorised by HMRC and to supply information on those buying red diesel and kerosene
- Extra HMRC officers assigned to oils fraud, including additional investigators to break up criminal gangs behind oils fraud, especially laundering plants, and new specialist testing officers to crack down on commercial fraud by businesses, particularly in the transport sector.
- A new central intelligence unit to drive all operational activity with the best information and intelligence available across Government
- New technological support to HMRC particularly in the new intelligence unit and in the specialist testing units

HMRC works closely with other agencies in tackling oils fraud, particularly the Police, and in Northern Ireland also now the Organised Crime Task Force. This ensures more efficient and effective action.

Sanctions open to HMRC include:

- seize any vehicles running on red diesel or kerosene
- seize any equipment – such as storage tanks or pumps – used in the evasion of oils duty
- impose financial penalties for instances of misuse
- issue duty assessments to recover duty that has been evaded
- prosecute individuals engaged in the evasion of oils duty
- seize the assets of those engaged in oils fraud and the evasion of duty

### **Co-operation**

An integral part of HMRC's approach to tackling oils fraud is an active and co-operative relationship with the oils industry. The establishment of the Joint HMRC-Industry Oils Intelligence and Security Forum is a clear statement from both HMRC and the Industry that they are intent on working as partners against those who deal, supply or use illegal fuel.

The central aims of the Forum are to:

- ensure that where the industry has information on illegal activity the pathways exist to pass that information to HMRC
- provide a forum in which HMRC can provide feedback on activity and on the action taken as a result of information received
- provide a forum for sharing views and concerns
- encourage the passing of items of intelligence to HMRC

The Oils Forum meets approximately three times a year to fulfil this purpose.

### **Limitations and restrictions**

It is understood that information will only be shared by either party where this does not compromise any legal restrictions, duty of confidentiality, security or operational effectiveness. Outside of these restrictions both parties will be as open as possible.

Specific restrictions include (but are not necessarily limited to):

- Information about ongoing court cases
- Information about named individuals
- 28 day opportunity to come up with papers

- Pre-empting official publication of new data
- S17-23 CRC Act (which covers the use of information that HMRC has obtained)
- Data protection
- Limitations of data collection etc.

### **Information in the Public Domain**

Some information regarding HMRC's activities is published, and available in the public domain.

Examples of this are:

- Press Releases – The press releases can be found under HMRC or under Northern Ireland. (<http://www.gnn.gov.uk/>)
- Tribunal Hearings – The decisions of Hydrocarbon Oils tribunal hearings can be found at this website. ([www.financeandtaxtribunals.gov.uk](http://www.financeandtaxtribunals.gov.uk))

## 2. Latest Published Data

### Oils<sup>1</sup> Tax Gap: Statistics (HMRC Autumn Performance Report 2007)

	2001/2	2002/3	2003/4	2004/5	2005/6	2006-2007	Totals
<b>Revenue loss – GB<sup>2</sup></b>							
Total diesel (non UK duty paid) <sup>3</sup>	£1,050m	£1,000m	£1,000m	£950m	£750m	- <sup>4</sup>	£4,750m
Illicit diesel (fraud and smuggling)	£700m	£650m	£650m	£550m	£350m	- <sup>4</sup>	£2,900m
Cross border shopped diesel	£350m	£350m	£350m	£400m	£400m	- <sup>4</sup>	£1,850m
Total petrol <sup>3</sup> (non UK duty paid)	£400m	£250m	-	-	-	-	-
<b>Revenue loss – NI<sup>2,3</sup></b>							
Total	£270m	£270m	£280m	£240m	£260m	- <sup>4</sup>	£1,320m
Total diesel (non UK duty paid)	£210m	£210m	£220m	£190m	£210m	- <sup>4</sup>	£1,040m
Total petrol (non UK duty paid)	£60m	£60m	£60m	£50m	£50m	- <sup>4</sup>	£280m
<b>Market share – GB</b>							
Diesel (illicit)	6%	5%	5%	4%	2%	- <sup>4</sup>	
Petrol (non UK duty paid) <sup>5</sup>	2%	2%	-	-	-	- <sup>4</sup>	
<b>Market share – NI<sup>3</sup></b>							
Diesel (non UK duty paid)	58%	53%	51%	42%	43%	- <sup>4</sup>	
Petrol (non UK duty paid)	18%	18%	18%	13%	14%	- <sup>4</sup>	

<sup>1</sup> All estimates of non duty paid consumption have been revised as a result of improved methodology and data. 2006-07 data will not be available until next year.

<sup>2</sup> Estimates includes duty and VAT. As VAT is assumed lost on all non UK duty paid consumption, this assumption will over state the actual revenue loss. Non UK duty paid includes both legitimately cross border shopped and illicit consumption.

<sup>3</sup> Figures have been independently rounded to an appropriate degree of accuracy. As a result components may not appear to sum to totals.

<sup>4</sup> Not yet available

<sup>5</sup> – indicates a negligible figure

## Oils Performance: Statistics (HMRC Autumn Performance Report 2007)

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	Totals
<u>Total oils seized</u>	3.95m litres	4.03m litres	2.48m litres	2.50m litres	1.51m litres	1.17m litres	15.64m litres
Volume seized – GB	2.2m litres	2.44m litres	0.96m litres	0.72m litres	0.43m litres	0.33m litres	7.08m litres
Volume seized – NI	1.75m litres	1.59m litres	1.52m litres	1.78 m litres	1.08m litres	0.84m litres	8.56m litres
<b>Laundering plants</b>							
Total disrupted	38	46	31	26	37	34	212
GB	30	25	18	8	21	16	118
NI	8	21	13	18	16	18	94
<b>Mixing plants</b>						Total Mix & LP	212
Total disrupted	2	7	4	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
GB	2	4	1	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
NI	nil	3	3	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
<b>Gangs disrupted</b>	19	14	13	9	4	4	64
GB	12	13	11	4	2	2	44
NI	7	1	2	5	2	2	19
<b>Challenges</b>							
Total	16,313	29,302	84,700	108,773	119,733	112,391	471,212
Commercial	Not available	Not available	60,022	80,137	80,564	80,220	300,943
Non commercial	Not available	Not available	24,678	28,636	39,169	32,171	124,654
<b>Detections</b>							
Total	3,340	3,960	3,753	3,760	3,747	4,143	22,703
Commercial	Not available	1,801	2,043	2,228	2,002	2,231	10,305
Non commercial	Not available	2,159	1,710	1,532	1,745	1,921	9,067
<b>Assessments</b>							
Fraud detected and identified	£8.3m	£13.2m	£11.5m	£7.0m	£3.1m	£2.5m	£45.6m
<b>Prosecution figures GB<sup>2</sup></b>							
Number of convictions	9	8	17	12	17	13	76
Average sentence	16 months	14 months	14 months	15 months	16 months	28 months	17 months
Confiscation orders	£660,000	£374,000	£167,387	£125,350	£272,311	£1.48m	£1,599,084
<b>Prosecution figures NI</b>							
Number of convictions	15	3	4	Nil	4	4	30
Average sentence	16 months	8 months	7 months	nil	2 months	6 months	7 months
Confiscation orders	Nil	£250,000	Nil	Nil	Nil	Nil	£250,000
Vehicles seized in NI	684	1,576	901	812	956	1,199	6,128

<sup>1</sup> Mixing plants are now included in the laundering plant figure as mixing plants are no longer recorded separately.

<sup>2</sup> 2005-06 data revised due to improved methodology and data

### **3. Activity Report**

Covers August 2007 to March 2008.

Note that examples only are provided – this is not a complete report of all activity.

#### **Enforcement**

1. During a planned operation Belfast RFTU searched a rural premises in South Armagh on 8 August. The laundering plant detected had the capacity to launder over 100,000 ltrs per week (equal to 5,000,000 ltrs - £2,500,000 revenue loss per annum). The processed product matched all the specifications of ULSD and would have been impossible to detect at a road side test. This was the first detection nationwide where ULS MGO was being laundered.
2. Belfast RFTU staff confirmed seizure of 20,000 Ltrs of laundered UK Kerosene stored at another rural premises on 8 August. Information and historical Intel indicates that this product 'laundered kerosene' is used to 'stretch' petrol which would be sold at retail outlets.
3. In September 2007, Cheadle RFTU attended multi-agency Motorway check site M56 near Chester in response to a call form VOSA (Vehicle Operator Services Agency) concerning a ROI HGV believed to be misusing Irish Green Rebated diesel. Inspection of the vehicle identified additional fuel lines from refrigerated 'belly tank' to the vehicle's fuel system. Whilst at the check site another ROI HGV tested positive to Irish Rebated Green diesel. The vehicle detected with rebated oil in running tank was seized and restored on payment of £1000 and the adapted HGV was seized and non-restoration policy applied.
4. In October 2007, HMRC officers visited commercial premises of a haulage company in Ballynahinch, Co Down. Evidence of fuel purchases was requested but none was forthcoming. Further investigation revealed that the company purchased all fuel in the ROI and illegally decanted it into its NI fleet for subsequent use. The owner was arrested and six commercial vehicles seized along with 2700 litres of smuggled fuel. Estimated misuse is £200,000.
5. Also in October 2007, HMRC officers accompanied by PSNI, visited farm premises in Mowhan, Co Armagh. A substantial acid laundering plant was found and approx 6000 litres of acid waste stored in 25-gallon drums awaiting disposal. Conservative estimates put the misuse potential at 2.4 million litres per annum with a revenue loss of £1.2 million.

6. In November 2007 following an Intelligence referral Cheadle RFTU deployed to a premises in Widnes and detected 24,000 litres of ROI 'Green' diesel' which had been smuggled in from ROI on a curtain sided trailer in 24 IBC's. An artic unit, road tanker and another trailer at the premises was also seized. A number of filling stations in Central region believed to be acquiring the fuel were visited and a further 100,000 litres of ROI green diesel was seized.
7. Major disruption of an Organised Crime Group involved in Oils fraud took place in November following months of case building. This was a combined operation between Oils Criminal Intelligence Team (OCIT), CI, LC and Detection. The very early results achieved by this operation are:
  - £32,500 seized by authorities in Republic of Ireland and the identification of two key suspects;
  - ROI have instigated an investigation;
  - Intelligence identified a suspect yard in Widnes and entered with RFTU. A lorry with 24 IBC's (17 Irish green, 7 Kerosene) was detained along with a tanker, an artic trailer and paraphernalia;
  - 8 filling stations visited by RFTU following OCIT intelligence. There were positive results at 7. These have been referred to Local Compliance for audit and details given to OCCT to update the risk matrix.
  - In all, approximately 160,000 litres of illicit fuel were detained in the operation.

The main subject of the investigation was arrested by Police for driving whilst disqualified (numerous previous offences) and without tax and insurance. He was released and bailed to appear in January. He is understood to still be subject to a Confiscation order from his previous Oils fraud offence (for which he received a 3 year custodial sentence).

- OCIT are liaising with relevant parties.
  - Earlier in the case Irish authorities made a seizure of 50kg of Cannabis following OCIT intervention. This is a significant seizure in ROI.
  - Debriefing continues and Intelligence will review any disruption opportunities that result.
8. December 2007 - A Multi-Agency cross border operation resulted in the seizure of 8,500 ltrs of ROI MGO and the detention of 18,000 ltrs of UK Kerosene at an Oils retail site with outlets on both sides of the border in Co Fermanagh.
  9. January 2008 - Following a road traffic accident RFTU officers arrested the driver of a transit van which was carrying 3 IBCs which contained 3000 litres of laundered fuel. This again highlights the serious dangers involved in the movement of illegal fuel.

10. In a commercial vehicle follow up visit officers seized 3000 litres of laundered fuel from a retail site in Armagh. This fuel retailed to the unsuspecting public as ultra low sulphur diesel would eventually lead to mechanical difficulties in the vehicle.
11. On 15<sup>th</sup> / 16<sup>th</sup> March 2008, an Irish haulage Co, which has a UK mainland base in Lancashire, was visited by Cheadle RFTU. Decanting of Southern Irish Derv, from the running tanks of vehicles was discovered. The vehicles are sent over to Dublin weekly for fuelling. A total of 13100 litres of decanted fuel was seized, along with 5 HGV tractor units. A further 43 HGVs and 2 vans were detained pending further enquiries.

## Compliance (National)

Currently registered RDCO's	As at 30 06 07 - <b>4200</b>	As at 31 03 08 - <b>4139</b>
AVTUR traders	As at 30 06 07 - <b>50</b>	As at 31 03 08 - <b>80</b>
<b>Periods</b>	<b>1 January – 30 June 2007</b>	<b>1 August 2007 – 31 March 2008</b>
Revoked	<b>2</b>	<b>4</b>
Conditions imposed	<b>4</b>	<b>7</b>
Cancellation (Missing trader)	<b>128</b>	<b>254</b>
Refused	<b>2</b>	<b>14</b>

Nationally, of the 254 cancelled traders the breakdown/reasons is as below:

- 153 - Ceased trading for various reasons (retirements, sold business etc)
- 54 - Transfer of going concern or change of legal entity
- 12 - Are now End users and no longer need to be registered
- 4 – Revoked.
- 8 - Trader going into liquidation, insolvency etc
- 18 - Deals in pre-packed containers only so doesn't need to be registered
- 2 - Cancelled as missing
- 3 - Other (Tied Oil registered now, rather than RDCO)

1. One RDCO trader had his registration revoked after enquiries revealed that trader did not sell gas oil to some of the businesses recorded, but sold the rebated fuel to an unknown person or persons. The irregular practice lasted for over 18 months, i.e. 06/2005 to 02/2007, and the supplies 'at risk' were calculated as 244,700 litres.
2. Another RDCO had his registration revoked after failing to provide the weekly information requested as a special condition at the time of his approval.
3. Despite advice and warnings, another RDCO failed to submit returns for the monthly periods of August, September, October, November, and December 2006 and for January, February, March, April, May and June 2007 - issued with a civil penalty for £250 for the non rendering of returns (not yet paid). Revoked for their failure to submit the missing returns, and to protect the revenue.
4. One RDCO was put on conditions because he failed to submit VAT returns for the periods ending 04/2005 to 04/2007; failed to pay the assessed VAT amount of £6517.90 - referred for Civil recovery action. A pre approval visit established that he had

been dealing in controlled oils without approval and a bowser containing approx 750 litres of marked gas oil was seized.

5. Another RDCO was put on conditions because he was found to be in possession of a road vehicle with marked diesel in the fuel tank and on a visit he was found to be in possession of rebated fuels he was not entitled to.
6. Another RDCO trader was put on conditions because under a previous RDCO approval, he had failed to submit any of the required monthly returns.
7. In another case, 2300 litres of Marked Gas Oil was seized as no satisfactory proof of purchase was provided. Later, a fuel tanker and 7000 litres of DERV along with 1200 litres of Marked Gas Oil seized - analysis showed this to be a contaminated mixture of gas oil and kerosene and contained the fuel markers coumarin and euromarker. Then on a visit detection officers observed two vehicles fill from the red diesel pump; sales were not being recorded, only the quantities sold - 3100 litres of red Marked Gas Oil and 1600 litres of kerosene uplifted and a notice of seizure issued. Despite educational visits and warning letters HO5 returns not completed accurately and Sept & Nov 2006 and Mar, April, June & July 2007 returns submitted after the due date. [Peter Lawson to advise outcome]
8. One more trader was visited four times and on each occasion given advice and guidance about the completion and submission of returns and obligations under the scheme. DERV on site tested positive for Euromarker and 2700 litres of contaminated diesel seized. On another occasion, two private vehicles were observed filling from the red diesel pump. One driver admitted to fuelling with red diesel from trader on two other occasions and on another occasion a vehicle was observed fuelling with red diesel. Civil penalty for £250.00. Later, an individual was detected running his car on red diesel and stated it was filled at the trader's premises. Monthly returns for Sept, Oct & Nov 2006 and May & June 2007 not submitted by due dates. The trader subsequently won an appeal against the special conditions and has had them removed from his approval.
9. Business records not meeting the criteria for standard checks. Several instances where duty of care checks not performed fully, e.g. sales not going through the till or appearing on receipts. Total sum £399.54.

## Legal proceedings

1. December 2007 - A Co. Derry man received a 2 year prison sentence suspended for 4 years in Derry Crown Court for his part in a fuel laundering plant detected in May. He had pleaded guilty to the fraudulent evasion of duty on 10,700 litres.
2. Bristol Crown Court: Three pleaded guilty to oils fraud offences. This case involved laundered/smuggled fuel and onward supply to retail outlets. The revenue involved is between £1.5 and £3.2 million. The trial of a fourth defendant has been adjourned due to ill health. Three of the defendants are from Northern Ireland.
3. Liverpool Crown Court: Confiscation proceedings continue following a guilty plea by the defendant. Defendant was extradited from ROI in November 2007 and sentenced to 4 months imprisonment for Money Laundering Offences linked to a major oils fraud investigation which began in 2002. Nine people have already been dealt with by the court in 2005-06 for their part in this fraud. The case involved 2.5 million litres of rebated fuel, the proceeds are estimated to be £1.4 million.
4. Belfast: In the first phase over 100,000 litres of fuel has been detained and subsequently seized at 4 retail sites. The purpose of Negate was to stem the supply of illegitimate fuel forcing operators to purchase fuel from reputable outlets.
5. An investigation into the laundering and sale of laundered fuel in the Cookstown/East Tyrone area. During the operation on 12/10/06 a fully functioning laundering plant was dismantled, laundered fuel and vehicles used in the transportation of laundered fuel were seized. One person was arrested and after initially pleading not guilty changed his plea on 11/1/08 and was sentenced to 4.5 months suspended for 3 years. The defendant was an undischarged bankrupt so no financial penalty was imposed.
6. An investigation into the sale and distribution of laundered fuel. The case was knocked on 16/3/05 and 3 persons were arrested while delivering laundered fuel to an illegal fuel retail site in West Belfast. All 3 persons were charged with evasion of excise duty. Two defendants entered guilty pleas in March 2008 and each received 9 months suspended for 12 months. Due to ill health the third defendant was unable to stand trial and the case will be reviewed in June 2008. Estimated revenue loss £225K.

7. Detection of a tipper lorry on 6/4/06 in Co Armagh with a concealed tank containing 5000 litres of laundered diesel. This vehicle had been in a road traffic accident and the driver absconded however he was later apprehended and was been linked to the vehicle by DNA. Guilty plea entered in January 2008 however sentencing was deferred to 30/4/08 to give the offender the opportunity to assist HMRC by providing information on the organisation he was working for – The Magistrate stated the level of cooperation shown would influence the sentence imposed.
  
8. Detection of a curtain sided lorry containing 12 IBC's of diesel in Belfast on 3/11/06. The driver was challenged by PSNI and failed to stop. After a chase and shots being fired by the PSNI the lorry crashed in West Belfast. The driver was arrested, interviewed and subsequently charged with evasion of duty. After initially pleading not guilty the driver changed his plea to guilty in February 2008 and is awaiting sentence. A confiscation hearing has been set for 1/5/08 at Belfast Crown Court and sentencing will also take place on this date.