



# Alcohol Fraud

**Legislative measures to tackle existing and emerging threats to the UK alcohol duty regime**

**Consultation document**

Publication date: 26 March 2012

Closing date for comments: 25 June 2012

<b>Subject of this consultation:</b>	Alcohol duty fraud is damaging the legitimate UK alcohol industry resulting in losses of up to £1.2bn per annum to the UK taxpayer. Budget 2011 announced that the Government will explore potential legislative measures to tackle existing and emerging threats to alcohol duty receipts.
<b>Scope of this consultation:</b>	This consultation outlines legislative options intended to reduce the scale of alcohol fraud. Businesses and individuals may influence policy design, and help inform decisions on the introduction of new legislation by commenting on potential impacts and benefits for the legitimate alcohol trade.
<b>Who should read this:</b>	Trade representatives, businesses and individuals trading in alcoholic drinks.
<b>Duration:</b>	13 Weeks
<b>How to respond or enquire about this consultation:</b>	<p>Collated responses from relevant trade associations on behalf of their members are welcomed. Alternatively, businesses or individuals may respond separately to all, or relevant parts, of the consultation.</p> <p>Please write or e-mail your responses to:</p> <p>John Waller  HM Revenue &amp; Customs  Excise Strategy Team  3W Ralli Quays  3 Stanley St  Salford M60 9LA</p> <p><a href="mailto:john.c.waller@hmrc.gsi.gov.uk">john.c.waller@hmrc.gsi.gov.uk</a></p> <p>All responses will be acknowledged.</p> <p>Any other enquiries to: Ruth Ryan on 0161 827 0340 or <a href="mailto:ruth.ryan1@hmrc.gsi.gov.uk">ruth.ryan1@hmrc.gsi.gov.uk</a>.</p>
<b>Additional ways to be involved:</b>	HMRC will be pleased to meet with relevant trade associations and businesses during the course of this consultation to discuss specific options, or any alternative proposals.
<b>After the consultation:</b>	HMRC will publish a summary of responses on the HMRC website. Any decisions to proceed with legislative change will be taken subsequently by Treasury Ministers.
<b>Getting to this stage:</b>	In Budget 2011, Ministers announced the intention to explore potential legislative measures to tackle existing and emerging threats to alcohol duty receipts. HMRC launched an informal consultation with the alcohol industry in early summer 2011.

**Previous engagement:**

Informal consultation on the impact of fraud and potential anti-fraud measures has taken place via e-mail and face to face meetings with trade associations representing businesses along the length of the alcohol supply chain.

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**On request this document can be produced in Welsh and alternate formats including large print, audio and Braille formats**

# Foreword

The Government is committed to tackling alcohol fraud. Alcohol fraud results in revenue losses of up to £1.2 billion a year, depriving the Government of revenue to fund vital public services. It also undermines legitimate businesses. The availability of cheap illicit alcohol puts the overwhelming majority of law-abiding businesses who sell alcohol products legally at an unfair disadvantage. The food and drinks sector supports tens of thousands of jobs in the UK and it is important therefore that this fraud is tackled effectively to ensure that honest businesses can compete fairly.

Her Majesty's Revenue and Customs (HMRC) first launched a "*Tackling Alcohol Fraud*" Strategy in 2005. The Strategy focused on addressing spirits fraud and has been successful in halving the size of the illicit market in spirits since 2005/06. In 2010, HMRC launched a renewed alcohol strategy aimed at tackling all forms of alcohol fraud. Under the strategy, HMRC has increased the impact of its enforcement activity against alcohol fraud by over 50 per cent.

However, alcohol fraud remains a significant problem and the Government is committed to considering all options to tackle it. Under the 2010 Spending Review, the Government allocated an additional £917m to HMRC to reduce tax losses. But more can be done to prevent the fraud from happening in the first place. This consultation will consider potential legislative measures to make it more difficult for fraudsters to operate their illicit trade in the UK.

Tackling alcohol fraud supports legitimate businesses and is part of the Government's broader approach to alcohol in the UK. The Government will shortly publish a cross-departmental strategy that will set out a co-ordinated approach to tackling alcohol-related harm. It will address the full range of harm from alcohol (both health and social impacts). It will set out all Departments' existing commitments and actions and will describe the respective future roles of central and local government, the third sector, other agencies and people. It will also set out how the new approach to public health will make a significant difference when local partners are empowered to take forward local solutions.

**Chloe Smith**  
Economic Secretary

# 1. Introduction

## The Issue

**1.1.** The problem of alcohol fraud has grown and changed gradually since the introduction of the single market in 1993. It used to centre on the smuggling of small quantities of alcohol in private vehicles and vans from the near-continent. Now, it involves the large scale diversion of lorry loads of duty unpaid alcohol by organised criminal gangs. Alcohol fraud costs the UK up to £1.2 billion per annum<sup>1</sup> in lost tax revenues and damages the livelihood of legitimate businesses trading in alcohol products.

**1.2.** Tackling alcohol fraud is a priority for HMRC. Working in conjunction with the UK Border Agency, HMRC renewed its strategy to tackle alcohol fraud in 2010-11 putting in place further measures targeting fraud across all alcohol products. In its first full year of operation, the strategy has increased the impact of HMRC's enforcement activity on alcohol fraud by over 50 per cent. This has been achieved principally through disrupting and dismantling illicit supply chains, both here in the UK and on the near-continent with the support of other tax authorities.

**1.3.** However, the nature and scale of alcohol fraud in the UK means that enforcement alone is unlikely to achieve a sustainable reduction in the illicit market that legitimate businesses require to ensure a level-playing field. Alcohol fraud in the UK is driven by strong demand for popular brands of alcohol sold at illicit prices. Reducing fraudsters' access to those brands to feed their illicit supply chains is essential if we are to reduce alcohol fraud in the UK.

**1.4.** At Budget 2011, Government announced its intention to explore "*potential legislative measures to tackle existing and emerging threats to alcohol duty receipts*"<sup>2</sup>. HMRC initiated an informal consultation with industry stakeholders to explore options to address these issues in the summer of 2011.

## Scope and objectives of this consultation

**1.5.** This consultation aims to:

- present options for regulatory change emerging from the preceding informal consultation;
- seek the views of industry representatives, legitimate business involved in the alcohol trade in the UK and all interested parties on potential new measures to tackle alcohol fraud;
- collect further information and data which can be used to assess the costs, effectiveness, feasibility and proportionality of the potential new measures; and,
- invite further suggestions for alternative measures for tackling alcohol fraud.

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<sup>1</sup> "*Measuring Tax Gaps 2011*". Combined upper estimates for beer and spirits losses.

[www.hmrc.gov.uk/stats/measuring-taxgaps.htm](http://www.hmrc.gov.uk/stats/measuring-taxgaps.htm)

<sup>2</sup> Source: Budget 2011

**1.6.** This consultation presents two potential measures specifically aimed at reducing fraudsters' access to beer:

- i. **Fiscal marks for packaged beer**
- ii. **Supply chain legislation**

**1.7.** The consultation also presents a potential measure to limit opportunities for illicit trading of all alcohol products within the off-trade, as proposed by the Federation of Wholesale Distributors (FWD):

- iii. **Registration of alcohol wholesalers / brokers**

**1.8.** The consultation also seeks information and data on wine fraud and industry's views on options to tackle wine fraud.

### **What has already taken place?**

**1.9.** HMRC began an informal consultation on potential alcohol anti-fraud measures in June 2011, initiating discussions with UK trade associations including the brewing and pub industry, wine and spirits sector, warehousing, wholesale, retail (including travel retail), and transport sectors. These have involved HMRC sharing its understanding of the nature and scale of the problem, and seeking: data on the extent to which alcohol fraud impacts the legitimate alcohol trade; observations on the primary options outlined above; and industry alternatives ideas.

**1.10.** A number of alternatives to new legislation have been proposed, including:

- voluntary enhancements to industry due diligence proceedings;
- voluntary enhancements to industry capability to 'track and trace' goods;
- enhanced industry intelligence and data sharing with HMRC;
- further strengthening of alcohol enforcement; and
- the introduction of an excise "goods to declare" lane at ports.

HMRC will continue to explore these ideas with industry stakeholders during the period of consultation

### **Next Steps**

**1.11.** This period of formal consultation will run from 26 March to 25 June 2012, lasting a total of 13 weeks. Responses are invited from all interested parties, businesses and trade associations.

**1.12.** All responses will be collated and analysed to inform subsequent decisions by Treasury Ministers, with a summary of key findings to be published later in 2012. If Ministers decide to take forward any of the proposed measures, further consultation would continue throughout the detailed design of any measures, on draft legislation prior to introducing primary law through the Finance Bill, and on the detail of any secondary legislation to define industry requirements.

## 2. Alcohol Fraud

### The nature of the fraud

**2.1.** There are different types of alcohol fraud, including illicit production, counterfeiting and opportunistic abuse of cross-border shopping rules. In the UK, the most prevalent and significant fraud is perpetrated by organised criminal gangs smuggling alcohol products into the UK in large commercial quantities, duty unpaid. They systematically exploit the EU-wide excise duty suspension system which allows excise goods to move between authorised warehouses duty unpaid until released for consumption onto the home market.

**2.2.** The illicit market in the UK relies upon strong demand for brands popular in the UK sold cheaply (below legitimate prices). This requires:

- a reliable supply of popular brands;
- ability to position goods for fraud in neighbouring states (duty unpaid);
- low comparative duty rates in neighbouring states where goods can be sourced;
- complicity of some businesses involved in the alcohol trade; and
- wholesale and retail outlets for the sale of illicit goods.

**2.3.** The people behind this fraud in the UK are organised criminals, operating complex supply chains that involves sophisticated organisation in finance, procurement, logistics, supply chain control and marketing. The criminal gangs have penetrated the legitimate market for wholesale and retail in the UK. In doing so they undercut legitimate businesses trying to compete at all levels and undermine consumer confidence in the products they buy.

### The scale of the fraud

**2.4.** Official estimates of the scale of tax losses resulting from beer and spirits fraud are published annually by HMRC in “*Measuring Tax Gaps*”. Beer fraud is currently the most significant of all the alcohol frauds affecting the UK, with latest estimates indicating between 5 per cent and 14 per cent of total beer consumption is illicit, implying tax losses of approximately £500 million per year<sup>3</sup>.

**Table 1: Beer illicit market share and associated revenue losses<sup>(b)</sup>**

	2005-06 <sup>(c)</sup>	2006-07 <sup>(c)</sup>	2007-08	2008-09	2009-10
<b>Illicit Market Shares</b>					
Upper Estimate	8 %	13 %	12 %	10 %	14 %
Implied Midpoint	-	-	9 %	8 %	10 %
Lower Estimate	-	-	6 %	6 %	5 %
<b>Associated Revenue Losses (£million)<sup>(a)</sup></b>					
Upper Estimate	450	700	650	550	800

<sup>3</sup> HMRC’s “*Improved Beer Tax Gap: Lower Estimate*”.

Implied Midpoint	-	-	500	400	500
Lower Estimate	-	-	300	300	250

<sup>(a)</sup> Includes both duty and VAT.

<sup>(b)</sup> Figures are independently rounded to nearest £50m or 1per cent.

<sup>(c)</sup> indicates figures are not available.

**2.5.** Spirits fraud has reduced since the introduction of anti-fraud measures in 2006/7, with midpoint revenue losses falling from an estimated £320 million in that year to £130 million in 2009/10.

**Table 2: Spirits illicit market share and associated revenue losses<sup>(a)</sup>**

	2005-06	2006-07	2007-08	2008-09	2009-10 <sup>(d)</sup>
<b>Illicit Market Shares</b>					
Upper Estimate	11 %	14 %	14 %	8 %	11 %
Midpoint Estimate	6 %	9 %	8 %	2 %	3 %
Lower Estimate <sup>(b)</sup>	-	3 %	2 %	-	-
<b>Associated Revenue Losses (£million)<sup>(c)</sup></b>					
Upper Estimate	430	550	550	310	440
Midpoint Estimate	220	320	310	80	130
Lower Estimate <sup>(b)</sup>	-	90	70	-	-

<sup>(a)</sup> Figures are independently rounded to the nearest £10m or 1 per cent. - Indicates figures are negligible.

<sup>(b)</sup> Negative numbers have been truncated at zero.

<sup>(c)</sup> Revenues include duty and VAT, although this will overstate losses to the extent that VAT may be collected on sales of illicit alcohol through some retail outlets.

<sup>(d)</sup> Figures for 2009-10 are provisional, as not all components of the total consumption estimate are available at this time.

**2.6.** There is also a significant problem with fraud in wine products in the UK. HMRC does not currently have an official estimate of the UK illicit market in wine.

## Impacts of illicit trading on legitimate businesses

**2.7.** Duty unpaid alcohol in the UK is being sold through legitimate retail outlets, supplied through the wholesale / cash and carry sector. Honest businesses involved in the wholesale or retail of alcohol products face unfair competition. Their prices are undercut<sup>4</sup> by illicit products which impacts directly on their alcohol sales volumes. HMRC have informally consulted representatives of the UK wholesale, retail and on-trade business sectors over recent months to understand some of the wider impacts of alcohol fraud.

**2.8.** Major wholesale outlets have reported falling beer and wine sales of 10 per cent and 3 per cent respectively over the last three years that they claim results directly from the impact of competing against illicit products. The FWD estimates lost sales to illicit trade in beer alone last year cost the sector approximately £605 million in turnover, contributing to job losses and stunting sector growth.

<sup>4</sup> For example, in some cases illicit goods are traded at prices which are less than the amount of duty and VAT payable on the products.

**2.9.** Independent retailers also report that illicit alcohol has become more prevalent and legitimate beer sales, in particular, have fallen significantly as a result.

**2.10.** On-trade sales have been in decline for many years. The British Beer and Pub Association (BBPA) report that 30% of the on-trade beer market has disappeared since 2004. The availability of cheap illicit alcohol sold through the off-trade further increases the competitive pressure on the on-trade. Associations representing managed, tied and independent pub operators confirmed that cheaper off-trade alcohol prices, both legitimate and illicit, have contributed to the current trend in falling on-trade consumption.

**Q1. What further evidence or data is there to help quantify the extent to which illicit alcohol has penetrated the legitimate retail or wholesale sector?**

**Q2. What further evidence or data is there to demonstrate the impact of illicit alcohol sales on legitimate retail or wholesale businesses (for example impacts on jobs, profits, turnover and growth)?**

### **HMRC's strategy to tackle alcohol fraud**

**2.11.** HMRC with the Border Force carry out substantial enforcement activity against all forms of alcohol fraud, to disrupt illicit supply chains and penalise those involved in the fraud.

**2.12.** In 2009, Government announced a renewed strategy to tackle alcohol fraud. In 2010/11, the first full year of operation under the new strategy, HMRC increased the value of the revenue it protects across beer, wine and spirits duties from £290 million the previous year to £433 million (displacement of fraud means that this does not result in a commensurate reduction in the illicit market).

**2.13.** The strategy has three principal themes:

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

#### **2.13.1. Changing the law**

A number of changes to the excise regulatory framework have been introduced to prevent fraud or increase the impact of enforcement. For example, legislation was introduced in 2009 to reduce the opportunity to use drawback (duty refunds) to source alcohol for illicit supply chains. In 2010, new duty point regulations and excise "wrongdoing" penalties<sup>5</sup> were introduced enabling HMRC to recover lost taxes and

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<sup>5</sup> The Excise Goods (Holding, Movement and Duty Point) Regulations 2010 and Schedule 41 of Finance Act 2008.

levy heavy financial penalties against persons handling illicit goods at any point in supply chains, including for example, wholesalers and retailers of illicit alcohol. In 2011, use of a new Excise Movement Control System (EMCS) to monitor excise movements was made mandatory and a tighter system of regulation for Registered Consignees (previously known as Registered Excise Dealers and Shippers - REDS) was also introduced.

### ***2.13.2 Working with honest businesses***

The majority of alcohol consumed in the UK is either produced or packaged in the UK. HMRC has worked with industry stakeholders to raise awareness of alcohol fraud within the industry at all levels. Sharing of information by UK brewers on supplies of potentially high risk goods has helped HMRC to disrupt large scale frauds. Work with the UK haulage sector has also discouraged legitimate operators from involvement in potentially high risk alcohol movements to the near continent. However, despite this positive collaboration with business, there has been no demonstrable reduction achieved in the level of supplies of popular UK brands of alcohol being sourced by fraudsters for their illicit supply chains.

### ***2.13.3. Strengthening HMRC's operational response***

HMRC has increasingly targeted its enforcement activity on individuals and businesses involved in the illicit supply and distribution of alcohol products. This includes:

- **strengthening** checks against new applications to become warehousekeepers and registered owners of warehoused goods to prevent fraudsters gaining easy access to excise goods in the first place;
- **challenging** the credibility of warehouses supplying high volumes of alcohol to the near-continent where there is little apparent legitimate demand;
- **increasing** the volume of illicit alcohol seized at the border and in the UK by 61%. In 2010/11, over 10 million litres of illicit alcohol was seized;
- **targeting** wholesalers and retailers involved in the sale of illicit alcohol; and,
- **using** the full range of powers and sanctions to penalise alcohol fraud including robust civil recovery powers to freeze assets and hit criminal finances; Proceeds of Crime powers and issuing confiscation orders; and the investigation of businesses affairs across taxes.

## 3. Tackling Beer Fraud

### The nature of beer fraud

**3.1.** HMRC operational data and industry reports indicate that the beer illicit market comprises, principally, mainstream canned and bottled beer brands with a major UK market share<sup>6</sup>. Fraud in draught beer is considered negligible in the UK. Excluding consumption from casks and barrels, HMRC's fraud estimates indicates that at least 1 in every 10 cans or bottles of beer sold on the UK market in 2009/10 was UK duty unpaid<sup>7, 8</sup>.

**3.2.** This large scale duty evasion relies upon fraudsters being able to source supplies of popular brands of packaged beer, principally UK produced, positioning them on the near-continent duty unpaid from where they will be smuggled into the UK. There is some legitimate demand for UK produced beer in these markets, for example servicing the armed forces and ex-pat communities. However, the consumption of UK brands of beer appears far less than the volumes of goods being shipped every year duty unpaid from the UK to other EU Member States. Fraudsters also source beer produced on the continent, typically targeting premium lager brands popular across the EU.

**3.3.** Current industry supply chain controls do not go beyond first customer and are therefore easily circumvented by fraudsters. Successful investigation of complex illicit supply chains is difficult, time-consuming and not guaranteed to succeed, and is dependent on the collaboration of other tax authorities. Where an illicit supply chain is successfully shut down it appears relatively simple for fraudsters to establish new distribution channels or use alternative supply routes.

**3.4.** Networks of illicit brokers of alcohol, and particularly beer, have been established nationwide to market consignments of untaxed goods and arrange delivery to any UK wholesaler or retailer willing to take the risk of buying cheap stock from an unsolicited source. In many cases, these brokers have no established business premises, never take ownership of the goods involved, and provide little more than a mobile telephone number through which to place orders. Stock is commonly offered at prices so low that the seller must either be incurring a significant loss, or duty has not been paid.

**3.5.** Estimates of the scale of the illicit market indicate the equivalent of approximately 28,000 lorry loads of beer are smuggled across the UK border per annum, out of a total of 2.47 million annual road haulage movements to and from mainland Europe<sup>9</sup>. Each lorry load of beer can net the criminals involved a profit of around £18,000. The volumes involved mean enforcement alone, whether that is at the border or within the UK, can only hope to prevent the current scale of this problem from increasing. It is

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<sup>6</sup> Major UK market share info based on "*Beer Report 2011 – Nielsen/Off Licence News*"

<sup>7</sup> Based on an estimate of the split between the draught and packaged beer market from the British Beer and Pub Association applied to the lower bound tax gap.

<sup>8</sup> See Footnote 3

<sup>9</sup> Based on Department for Transport figures. <http://www.dft.gov.uk/statistics/releases/road-goods-vehicles-travelling-to-mainland-europe-quarter-4-2011/>. 28,000 lorry loads based on HMRC's midpoint estimate of illicit market volumes.

HMRC's assessment that reducing underlying beer duty losses to acceptable levels requires a fundamental shift in fraud prevention.

**Q3. What further data is available to help assess the level of actual consumption of UK packaged beer brands in other EU markets?**

**Q4. What further practical steps can the UK beer industry take to assess risks in beer supply chains and prevent fraudsters accessing goods for fraud?**

### Lead options for legislative change

**3.6.** To achieve a sustainable impact on beer fraud it is essential to restrict the access fraudsters have to popular beer brands to feed their illicit supply chains and reduce the volume of illicit goods being smuggled into the UK. Two lead options have been identified as being most likely to achieve this objective:

- a **beer fiscal mark** that clearly identifies goods intended for the UK market and prevents criminals from accessing those goods duty unpaid; and
- **supply chain legislation** that places statutory responsibility on the suppliers of beer to take steps to safeguard supplies.

### Fiscal Marks

**3.7.** For the purposes of this consultation, we are considering the introduction of fiscal marks for beer products only. However, these could be considered for other alcoholic drinks in the future (e.g. wine) if they are considered a suitable way of addressing the specific types of fraud in those products.

**3.8.** A fiscal mark in its most basic form is a distinguishing mark applied to an excise product which is liable for payment of UK duty.

Numerous fiscal marking schemes exist around the world to protect revenues in relation to both alcohol and tobacco products. The UK introduced a fiscal marking scheme for tobacco products in 2001, and for spirits in 2006 (spirits duty stamps), to address diversion fraud. These schemes have contributed to significant reductions in illicit markets, for example, losses to spirits fraud have reduced from an estimated £320m to £130m since their introduction<sup>10</sup>.

### The Legal Basis

**3.9.** EU law expressly allows Member States to introduce "*tax markings or national identification marks for fiscal purposes*"<sup>11</sup>. Fiscal marks can be introduced providing they do not give rise to double taxation and do not create an obstacle to the free movement of goods.

### How would a fiscal mark help address fraud?

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<sup>10</sup> "Measuring Tax Gaps 2011". 06/07 – 09/10

<sup>11</sup> Article 39 of the EU Council Directive 2008/118/EC

**3.10.** Fraud in beer is driven by the strong demand for popular brands of packaged beer. Fraudsters therefore require access to a reliable source of these brands on which UK duty has not been paid, or has been paid in another Member State at a much lower rate of duty.

**3.11.** Fiscal marks would undermine the *modus operandi* of large scale beer smuggling operations. Beer intended for the UK market would be clearly identified by the fiscal mark, and could not be exported. Fiscally marked beer would also be prohibited from moving within the UK under duty suspension procedures. This would restrict, at source, the access to undutied goods for illicit supply chains. Unmarked beer would be unattractive to criminals as it would radically restrict the avenues through which it could be sold illicitly.

**3.12.** Legitimate wholesalers and retailers would also have the clear means to distinguish legitimate products as the absence of a fiscal mark on cans and bottles would be a clear indication that UK excise duty had not been paid. New penalties and offences for dealing in unmarked product would penalise those who already deal in illicit goods or act as a deterrent to those businesses who may be considering sourcing illicit beer. As a result, UK retail demand for illicit products would be reduced.

**3.13.** Goods intended for consumption in other EU or third country markets, not bearing a fiscal mark, could continue to move freely under the existing duty suspension arrangements.

### **Which products would fiscal marks apply to?**

**3.14.** The intention would be to target a fiscal marking scheme only on beers that feature significantly in the UK illicit market. Popular beer brands with well established UK market shares feature strongest within the illicit market. There is little evidence of fraud within draught beer in the UK, and we do not see lower strength / no alcohol beers, niche products or specialist ales produced and sold in smaller quantities featuring significantly in seizures of illicit alcohol.

**3.15.** It is therefore proposed that fiscal marks **would apply** to:

- canned and bottled beer destined for sale in the UK; and,
- in containers less than the lower volume limit for “large pack” beer i.e. below 10 litres<sup>12</sup>.

**3.16.** Due to the perceived low risk of fraud in the following, we are proposing exclusions for:

- all draught beers, limiting potential impacts of fiscal marks on the on-trade;
- all beer at 2.8 per cent abv or below;
- small brewery beer, potentially defined by the maximum qualifying levels for duty relief allowable in EU law, which is 200,000 hectolitres per annum<sup>13</sup>.

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<sup>12</sup> Beer Regulations 1993, Section 4 Interpretation “large pack means a container that is intended to contain a volume of more than 10 litres but not more than 400 litres”

**3.17.** By excluding certain goods, there is a risk that the fiscal marking requirements may be less transparent to businesses operating within alcohol distribution chains. For example, importers, wholesalers and retailers are unlikely to be aware of brewer production levels, but will need to be aware of which products are required to be fiscally marked.

**Q5. Can you provide data on the quantity of beer sold on the UK market in containers below 10 litres, and the numbers of units sold in cans *versus* bottles?**

**Q6. Can you provide data on how many cans and bottles would be excluded by the proposed exemption of a) beer at 2.8 per cent abv or below b) small brewery beer, assuming the limit were set at 200,000 hl per annum?**

**Q7. Are there any beer products which would be caught by the proposed fiscal marking requirement which you consider should not qualify? If so, please give reasons.**

**Q8. If the proposed exclusions from fiscal marking are not introduced, can you estimate the additional costs and impacts to your business?**

**Q9. Do you have any alternative suggestions for fiscal marks qualifying criteria to exclude beers perceived at low risk of fraud?**

**Q10. Under the proposed exclusions, or any alternative criteria you may suggest, how do we make it clear who is excluded from fiscal marking requirements to those further down the supply chain.**

### **What kind of marking is being considered?**

**3.18.** The appearance of a beer fiscal mark has yet to be determined, but for the purpose of this consultation please assume that it would be of similar size and appearance to the UK fiscal marking currently present on cigarettes. This is a rectangle of approximately 3 cm by 1 cm, containing black text “UK DUTY PAID” on a white background.

### **Application of the fiscal mark**

**3.19.** To maximise the impact of this measure on fraud we would intend to specify in legislation a permanent, non-removable fiscal mark applied to each individual can or bottle of beer. It should be visible to all parties along the supply chain from producer to consumer, and of a standard appearance across brands for verification purposes. It is assumed that the application of a fiscal mark by incorporation into packaging at manufacturing stage would be more cost-efficient than applying / printing a fiscal mark at any other stage later in the supply chain.

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<sup>13</sup> As defined in Article 4 of Council Directive 92/83.

**3.20.** For cans, we propose the mark is included in the indelible print of the can cylinder, or printed on the top of the can - potentially allowing for the fiscal mark to be applied after filling. For glass bottles, the mark would ideally be incorporated into a securely affixed bottle label.

**Q11. What is involved in changing the design of a) the print on the cylinder of a can b) bottle labels? How frequently are branding changes made that affect the can / label design, and what is the cost per change?**

**Q12. What would be the practical implications of incorporating the proposed marking (3cm x 1cm rectangle) to a) the indelible print of the can b) a bottle label? If the associated costs differ from other branding changes please explain, and outline any additional costs.**

**Q13. What size and shape of fiscal mark would be optimal to be printed onto the top of all beer cans, and what are the costs and practical implications of such a process?**

**Q14. Do you have any alternative suggestions regarding incorporation or application of fiscal marks at manufacturing stage? If so, how much would these alternatives cost per unit, and how would they improve on the proposed solution?**

**Q15. Can you describe what other practical impacts you foresee with the introduction of fiscal marks on production processes or logistics? Please estimate the frequency the impact may occur and associated costs.**

### **Application in Other Member States/Third countries**

**3.21.** EU law requires that UK fiscal marks are made available to tax representatives and warehousekeepers authorised by the competent authorities in other Member States<sup>14</sup>. By excluding small brewery beer from requirements to apply fiscal marks, we assume that most imports into the UK would involve scheduled high volume deliveries of popular beer brands and scope to forecast demand so that fiscal marks could be incorporated into product packaging. To maintain the integrity and effectiveness of UK fiscal marks we would propose making available the specification of the fiscal mark to tax representatives and warehousekeepers in other jurisdictions in precisely the same format as to UK businesses.

**Q16. What would be the practical implications and costs for foreign brewers of incorporating a fiscal mark into their product packaging? Please explain if these implications would differ for foreign brewers compared to UK brewers.**

### **Duty payment and movements in duty suspense**

**3.22.** To prevent criminals accessing goods bearing a UK fiscal mark all marked goods would be prohibited from moving under duty suspension arrangements within the UK. This would require the full amount of UK duty being accounted for at the

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<sup>14</sup> Article 39 of Council Directive 2008/118

“brewery gate” for UK produced fiscally marked beer. In these circumstances we would define “brewery gate” as the point beer is released to home use:

- from a registered brewer or packer<sup>15</sup>, or
- from a trade facility warehouse responsible for packing beer<sup>16</sup>.

Unmarked beer destined for the EU would still be able to move in duty suspense within the UK.

**Q17. If you are a brewer what would be the implications and costs of accounting for UK duty at the “brewery gate”?**

**Q18. Are there any other premises which you think should be included in the definition of “brewery gate”?**

**3.23.** Fiscally marked beer either from other Member States or imported from third country would be subject to similar restrictions on duty suspended movements. Any marked goods could not move in duty suspense in the UK after an initial movement to either registered beer premises or an excise warehouse from the UK point of entry<sup>17</sup>. Once imported into an excise warehouse in the UK, the goods would have to have the UK duty paid before any further onward movement to market or any other warehouse.

**Q19. What would be the implications and costs for excise warehouses required to identify fiscally marked goods and ensure the correct accounting for duty?**

**3.24.** Through informal consultation some businesses have specifically raised concerns regarding this restriction to duty suspension. To understand the implications of this across the alcohol sector, could you please answer the following questions:

**Q20. If you currently source beer for both domestic consumption and exports under duty suspension procedures, how many movements per annum does your business currently make and what are the volumes of beer involved?**

**Q21. What are the implications and costs for your business associated with the proposed restrictions to beer movements? Please consider how the proposed exclusions from fiscal marking requirements may mitigate these impacts.**

**3.25.** HMRC are advised frequently by alcohol wholesalers that it is considerably cheaper to source packaged beer intended for the UK market ‘duty paid’, than to purchase and store those same goods under duty suspension arrangements. Furthermore, that any cash flow benefits associated with using duty suspension arrangements to source and store packaged beer for UK consumers are outweighed by the additional unit cost.

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<sup>15</sup> Registered under ALDA 1979 Section 41A Suspension of duty and S47 Registration of producers of beer

<sup>16</sup> Registered under Customs & Excise Management Act S92

<sup>17</sup> This does not change current arrangements for paying duty either at import, or by a tax representative e.g. a Registered Consignee. It only applies where the goods are moving in duty suspension after import into an excise warehouse or to registered brewery premises.

**Q22. In what circumstances may it still be preferable to source beer for the UK market under duty suspension arrangements?**

**Q23. Are there any circumstances when you consider there should be an exception to the proposed restrictions to movements of fiscally marked beer? Please give details and the likely costs and impacts to your business if this exception was not allowed.**

### **Removal of the fiscal mark**

**3.26.** In exceptional circumstances businesses may wish, legitimately, to export UK duty paid goods to other EU or third country markets when they do not immediately have access to duty suspended storage or distribution facilities. In these circumstances, and as is common with other fiscal marks regimes, the fiscal mark would be required to be removed, obliterated or permanently obscured before export takes place. Any solution would have to be permanent but not harmful to the packaging or the contents.

**Q24. What do you consider would be the most practical and effective way to remove, obliterate or permanently obscure a beer fiscal mark a) incorporated into the cylinder of a can, b) top of a can, or c) a bottle label?**

**Q25. Please estimate the costs associated with any proposed methods for removing, obliterating or permanently obscuring fiscal marks on a pallet of beer<sup>18</sup>?**

**Q26. If you are a regular exporter of packaged beer (one or more consignments per month, on average) that is sourced “UK duty paid”, please explain the implications of introducing fiscal marks for your business, and why it is necessary to your business model to source goods on which UK duty has already been paid.**

**Q27. If you occasionally export packaged beer (less than once a month, on average) that is sourced UK duty paid, under what circumstances might this occur? Please also explain the implications and potential costs of fiscal marks for your business.**

### **Application of the mark post-production**

**3.27.** There may be exceptional circumstances when beer arrives in the UK which is unmarked and a marking solution may need to be considered to accommodate such movements. This would have to be of the same size and appearance as a mark incorporated or applied at production, and potentially could take the form of either a stamp which needs to be affixed to individual cans and bottles or a mark which is printed.

**Q28. What do you consider would be the most practical and effective way to apply a fiscal mark post-production on a) cans of beer b) bottles of beer?**

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<sup>18</sup> Based on an average pallet size of 60 cases with 24 cans or bottles per case.

**Q29. Please estimate the costs associated with any proposed methods for applying a fiscal mark on a pallet load of beer<sup>19</sup> post-production?**

**Q30. In what circumstances, how frequently and on what volumes of beer cans or bottles do you anticipate a fiscal mark may have to be applied post-production?**

### **Enforcement**

**3.28.** Breaches of the fiscal mark requirements would attract a range of penalties and offences based on those already in place for tobacco and spirits duty stamps. For example, civil penalties may apply for those who fail to apply the fiscal mark to qualifying products, or apply it incorrectly. We also envisage criminal offences for those caught trading in unmarked product. Further penalties and sanctions would be applied for non-compliance with the restrictions on duty suspension.

**Q31. If fiscal marks are introduced, what effects do you think it would have on beer fraud, and how would those involved in the illicit trade respond to the new restrictions?**

**Q32. If you believe beer fiscal marks would have impacts on the legitimate alcohol trade that have not already been considered, please describe and estimate the associated frequency and costs of these impacts.**

### **Implementation**

**3.29.** Should fiscal marks be introduced, it is recognised that the alcohol industry would require time to make changes to business processes, and a transitional period may be required to allow unmarked product to move through supply chains and be cleared from shelves.

**Q33. What considerations must Government take into account to ensure the beer industry could introduce fiscal marks successfully?**

**Q34. Approximately how long do you consider the beer industry would need to introduce a fiscal marks scheme as proposed here, and why?**

**Q35. What is the minimum, maximum and average shelf-life of beer once it has been packaged in cans and bottles?**

**Q36. What would be the total costs of implementation of fiscal marks for your business/sector? Please distinguish one-off costs of introduction from ongoing costs.**

### **3.30. Summary of Impacts**

**These are the impacts as we understand them so far.**

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<sup>19</sup> Based on an average pallet size of 60 cases with 24 cans or bottles per case.

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+/-	+/-	+/-	+/-	+/-
	Exchequer impacts can only be assessed once the design of the scheme is finalised.				
<b>Economic impact</b>	Reductions in the availability of cheap illicit beer on the UK market would be expected to result in roughly corresponding increases in legitimate beer sales. This may result in a correction to the retail price of packaged beer in off-trade outlets and potentially a fall in consumption.				
<b>Impact on individuals and households</b>	Those who purchase beer in the off-trade may notice an increase in retail prices as legitimate goods displace cheaper (illicit) goods or if retailers change their prices as a result of the measure.				
<b>Equalities impacts</b>	This measure may have some equalities impact due to demographic patterns of alcohol consumption. Beer is generally more popular among men and younger alcohol consumers.				
<b>Impact on businesses and Civil Society Organisations</b>	<p>There are approximately 900 <b>breweries</b> in the UK with 4 major brewers and approximately 800 classed as small (dealing in less than 60,000 hectolitres per month). Those who produce qualifying goods will face additional administrative and compliance burdens. How those costs may be distributed is not yet known.</p> <p>There are approximately 750 <b>3<sup>rd</sup> Party warehouses</b> in the UK but fiscal marks will not impact those engaged in legitimate export trade.</p> <p>Up to a maximum of 450 beer import businesses would potentially be impacted by new requirements, as well as UK wholesale, retail and haulage sectors. Costs and impacts on all sectors to be explored during the course of formal consultation.</p> <p>Benefits could be for legitimate UK wholesalers and retailers who are undercut by illicit trading in beer. Current estimates by the industry of losses in the wholesale sector are £605m per annum.</p>				
<b>Impact on HMRC or other public sector delivery organisations</b>	<p>Expected to be resource neutral and to allow more effective targeting of existing enforcement staff.</p> <p>Potential procurement costs for IT systems and production of fiscal marks depending on detailed policy design.</p>				
<b>Other impacts</b>	<p>Depending on the final design of the scheme, there could also be impacts on:</p> <ul style="list-style-type: none"> <li>• Small businesses (less than 20 employees)</li> <li>• Compliance</li> <li>• Competition</li> </ul>				

	<p>These will continue to be assessed following formal consultation. As part of the consultation process we are also looking for views/information from respondents on any other possible impacts.</p>
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**Q37. Do you agree with this impact assessment?**

**Q38. Are there any other impacts which should be taken into account?**

**Q39. If you are a small business (less than 20 employees) please provide details of the costs and impacts of this measure?**

## Supply Chain Legislation

**3.31.** Supply chain legislation has already been introduced in the UK tobacco sector where it has been used effectively to encourage tighter control over exports to markets where criminals may source goods for large scale smuggling operations. In principle, similar legislation could also be effective in tightening controls over the supply of other high risk products such as packaged beer.

**3.32.** Under supply chain legislation, a responsibility is placed on suppliers to ensure that their product does not feed the illicit market. Supply chain legislation can help tackle the availability of goods for fraud by:

- imposing controls at the beginning of supply chains;
- making suppliers responsible for checking their customers and the legitimacy and nature of supplies; and
- facilitating a joint approach between suppliers and HMRC which robustly addresses the availability of goods for fraud.

### How might supply chain legislation be applied to beer?

**3.33.** There are important differences between the tobacco and beer sectors, especially in the nature and length of supply chains. However, the principles of the existing tobacco legislation could be applied and adapted to achieve the same objectives of reducing the availability of beer for fraud.

**3.34.** Supply chain legislation would require those supplying beer to recognise their responsibility and take all reasonable steps to prevent fraud by:

- carrying out due diligence and reasonable care in relation to their customers by requiring the creation and maintenance of a written supply chain policy;
- introducing a system to track and trace<sup>20</sup> goods so that customer details and supply chain intelligence can be used to facilitate a joint approach between HMRC and brewers.

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<sup>20</sup> 'Track and trace' would involve the application of an identifying code to the packaging of products and a system that would allow the manufacturer/packager to subsequently identify to whom that product was sold. For example, this could be used to identify supply chains when HMRC seized products.

**3.35.** Legislation would clearly define requirements of suppliers and introduce penalties for non-compliance.

### **Who would beer supply chain legislation apply to?**

**3.36.** Supply chain legislation might apply to all suppliers of packaged beer, although specific aspects of the legislation, such as the development of systems to track and trace products would be likely to apply solely to producers and packagers of beer.

**3.37.** HMRC could also explore whether the obligation to develop track and trace systems could be restricted to those manufacturing and packaging brands commonly subject to fraud, in order to reduce compliance costs for companies whose products have so far not been identified in the illicit market.

**Q40. What do you believe would be the most effective way to target supply chain legislation (for example by including all producers; limiting to those producing small volumes etc.)?**

### **What would be expected of UK suppliers under this legislation?**

**3.38.** Suppliers would be expected to carry out due diligence checks of their supply chains to satisfy themselves that they are not:

- supplying packaged beer to persons who are likely to divert it into the UK;
- supplying packaged beer where the nature or the circumstances of the supply makes it likely that it could be resupplied to others who may divert it into the UK;
- otherwise facilitating diversion of packaged beer into the UK.

**Q41. Do you believe supply chain legislation would achieve the aim of controlling the supply of beer into illicit supply chains? If not, why?**

### **Supply Chain Policy**

**3.39.** In order to satisfy HMRC that suppliers are fulfilling their duty not to facilitate diversion fraud, we envisage that they would have to:

- **Know their markets** - consider the size and nature of their supplies and whether this suggests the supply or sequence of supplies could be facilitating diversion. This would include supplies made by producers direct to other EU countries as well as those made indirectly through UK third party warehousekeepers;
- **Know their customer** – including regular checks on existing customers and the credibility of new customers;
- Introduce, maintain and adhere to a **written supply chain policy** which will state the measures put in place to comply with the law, to avoid or reduce the risk of commercial quantities being obtained for diversion into the UK. The policy might include a range of measures from internal governance to ensuring, where appropriate, that customers introduce their own supply chain controls through to restriction and termination of supplies with specified customers shown to be involved in the facilitation of fraud.

**Q42. What additional requirements do you consider might be included to ensure the effectiveness of supply chain policies?**

### **Working with HMRC**

**3.40.** Brewers would also be involved in ongoing engagement with HMRC, including HMRC notifying brewers of significant seizures of their brands. This might mean, for instance, that HMRC notifies brewers of any seizures where more than 5,000 litres of their brands have been seized.

**Q43. Do you think this notification limit is reasonable? If not, can you explain why and suggest an alternative.**

**3.41.** As a result of this notification, and, as part of a brewers' duty of care, we would expect them to:

- **provide information** which we will specify, for example, name and address of first customer outside the brewery group, the intended country of supply, date of invoice etc;
- details of lot numbers/production codes to allow **tracking and tracing** of the product from first customer down the supply chain;
- **make their own investigations** into supply chain controls to consider whether these could be strengthened. HMRC will also use all available intelligence to trace the illicit supply chain and enforce penalties on those found to be compliant in fraud.

**Q44. As brewers would be required to identify their product and track and trace through the supply chain, is the technical capability currently in place within the industry to identify goods at (a) individual can or bottle level (b) case level?**

**Q45. If this capability is not currently available, please describe what adaptations to production/packaging equipment and processes would be necessary, and approximately how much would it cost to introduce such a system to track and trace to (a) can or bottle level (b) case level.**

**Q46. Is there a reasonable alternative to marking each can or bottle which would still allow tracking and tracing back to an individual customer? If so, is this already in place and if not how much would it cost to implement?**

### **Penalties**

**3.42.** Failure to comply with the requirements envisaged under supply chain legislation would trigger liability to a civil penalty. Penalties would be considered where there has been failure to:

- comply with the maintenance and implementation of a supply chain policy, including taking reasonable actions to prevent the facilitation of fraud;
- satisfactorily evaluate size and nature of supplies according to legitimate demand in each market;

- take reasonable actions to prevent supplies entering the illicit market based on intelligence provided by HMRC; or
- provide information around seized goods and customer details when requested.

**3.43.** The size of the penalty would take into account a number of factors including the nature and extent of a brewer’s failure to comply with their duty of care, compliance with their supply chain policy, number, size and nature of seizures etc. It would also only apply where corrective action notified by HMRC has failed to be implemented. In tobacco legislation, the current civil penalty for failure to comply with supply chain legislation is up to £5 million.

### Implementation

**3.44.** Should supply chain legislation be introduced, it is recognised that the alcohol industry would require time to make changes to business processes, and a transitional period may be required to implement new systems and allow product to move through supply chains and be cleared from shelves.

**Q47. What considerations must Government take into account to ensure the beer industry could introduce supply chain legislation successfully?**

**Q48. Approximately how long do you consider the beer industry would need to introduce a) supply chain policies b) track and trace solutions?**

**Q49. To what extent do you think the objectives of this measure could be achieved without legislation, for example through voluntary due diligence on the part of suppliers etc.**

**Q50. What would be the total costs of implementation of this measure for your business/sector? Please distinguish one off costs of introduction from ongoing costs.**

**Q51. Do you have any other comments to make regarding supply chain legislation?**

### 3.45. Summary of Impacts

These are the impacts as we understand them so far.

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+/-	+/-	+/-	+/-	+/-
	Exchequer impacts can only be assessed once the design of the scheme is finalised.				
<b>Economic impact</b>	This change is not expected to have a significant economic impact.				

<b>Impact on individuals and households</b>	The measure is not expected to impact on individuals or households.
<b>Equalities impacts</b>	The measure is not expected to have a disproportionate equalities impact.
<b>Impact on businesses and Civil Society Organisations</b>	The measure would impact most significantly on brewers and packagers of beer obliged to implement improved systems to track and trace products. However, due diligence requirements could also impact other suppliers of beer products. These businesses will face additional administrative and compliance burdens. Costs and impacts to be explored through this consultation.
<b>Impact on HMRC or other public sector delivery organisations</b>	Expected to be resource neutral and to allow more effective targeting of existing enforcement staff.
<b>Other impacts</b>	<p>Depending on the design of the scheme, there is a potential impact on small businesses.</p> <p>Any impacts will continue to be assessed following formal consultation. As part of the consultation process we are also looking for views/information from respondents on any other possible impacts.</p>

**Q52. Do you agree with this impact assessment?**

**Q53. Are there any other impacts which should be taken into account?**

**Q54. If you are a small business (less than 20 employees) please provide details of the costs and impacts of this measure on your business?**

## 4. Registration of Alcohol Wholesalers

### Background

**4.1.** At present there is no requirement for wholesale dealers, such as brokers, cash and carries, and retailers to be registered with HMRC to trade in alcohol products. Excise duty is not a tax on transactions, rather it is paid when goods are released onto a market for consumption, and therefore it will ordinarily be accounted for much further 'upstream' in supply chains.

**4.2.** However, to profit from the fraud, organised criminals must not only obtain a source of alcohol products upon which UK duty has not been paid, but also require a market-place to subsequently distribute these products. When inward diversion of goods occurs, illicit goods enter supply chains after the point at which excise duty would normally have been paid, and often the first person or business to take ownership of these goods is a wholesale dealer.

**4.3.** The Federation of Wholesale Distributors (FWD) has proposed a registration system for wholesale dealers in alcohol as it believes this could significantly help in tackling alcohol fraud. This reflects their concern that legitimate wholesalers sourcing duty paid alcohol from brand owners are seeing their prices under-cut by competitors sourcing from the illicit market, resulting in lost trade damaging profits, and jeopardising jobs and business growth.

### Why Register Wholesalers?

**4.4.** Wholesalers are the key link between fraudsters and access to the legitimate network of retail outlets. They are the only element of the alcohol supply chain that does not currently require a licence to sell alcohol goods. This measure would aim to limit opportunities for fraudsters to sell wholesale quantities of illicit goods into UK off-trade supply chains. Brokers and wholesalers would be obliged to register with HMRC prior to offering wholesale quantities of alcohol for sale on the UK market. HMRC would have the ability to withhold from persons not considered fit and proper the ability to legally trade wholesale in alcohol, and offences would be introduced for those purchasing alcohol from businesses that are not appropriately registered.

### What would it achieve?

**4.5.** Retailers of alcohol are already required to hold a licence issued in accordance with the Licensing Act 2003<sup>21</sup>, and face a threat of having that licence removed by the licensing authorities if they are found to be dealing in duty unpaid alcohol. However, at present businesses which only make wholesale sales (i.e. sales to other traders that intend to use the alcohol for trade purposes) are not required to be licensed under that Act when they are not making any retail sales to the general public. A new HMRC scheme for wholesalers which included the power to refuse or revoke an

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<sup>21</sup> Licensing Act 2003 covers England & Wales. There is separate legislation covering licensing in Northern Ireland – the Licensing (Northern Ireland) Order 1996 – and Scotland – the Licensing (Scotland) Act 2005.

authorisation, thereby removing the entitlement to trade could introduce a similar deterrent for wholesalers as currently exists in the retail sector.

**4.6.** Furthermore, a new registration scheme could be accompanied by tougher penalties and greater record-keeping requirements, as well as new obligations on the suppliers of alcohol designed to make it more difficult to trade in illicit product.

### **Who will it apply to?**

**4.7.** The requirement for registration might be targeted at anyone dealing in alcohol wholesale that is not already licensed under the Licensing Act as a retailer, or does not already have some other form of HMRC excise authorisation<sup>22</sup> to trade in alcohol. The intention would be to capture brokers of alcohol, who often never take ownership of goods or indeed handle them, as well as wholesalers and cash and carries operating from specific premises.

### **How might it work?**

**4.8.** A person dealing wholesale in alcoholic liquors which are subject to excise duty would be required to request registration from HMRC to carry out this trade and to hold such a registration from HMRC when trading. A failure to comply with these obligations would result in heavy penalties.

**4.9.** HMRC would be entitled to refuse, revoke or suspend registration to a person with reasonable cause. Reasonable cause could, for example, include that the person or company has been involved in or had links with revenue non-compliance or fraud, there are relevant unspent convictions, or there are outstanding tax debts or a history of serious record-keeping failures.

**4.10.** The registered wholesaler could be required to display a sign with details of their registration in their business premises. Those that deal in alcohol without customers visiting their premises could be required to periodically supply a copy of their registration to customers and suppliers. A registration number would be allocated by HMRC and consideration given to whether this should be required to be recorded on all invoices and purchase orders. HMRC could also aim to introduce a facility for persons to interrogate whether the information they have been supplied with about a registration is accurate.

**Q55. Do you believe HMRC should have the authority to require wholesale alcohol dealers to register?**

**Q56. Do you believe HMRC should have the authority to refuse, revoke or suspend a person's ability to trade in alcohol?**

**Q57. What are the potential costs of complying with the requirement to register to deal in wholesale quantities of alcohol, or any of the other subsidiary**

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<sup>22</sup> For example registered breweries, cider & wine-makers, excise warehouse-keepers, registered consignees etc.

**requirements outlined? Please distinguish one off costs of introduction from ongoing costs.**

**Q58. What impact would a registration scheme have on alcohol fraud?**

### **Exclusions from registration**

**4.11.** A de-minimis limit could be set below which there is no requirement to register. For example, it could be specified that only persons selling in wholesale quantities to any one person on any one day in excess of 'x' litres of product has a requirement to registration, or a level could be set based on total volumes sold etc. Specifying a limit could, however, leave scope for fraudsters to continue to trade. It could also lead to the possibility of quantities in any one supply being artificially adjusted so as to avoid the requirement for registration.

**Q59. Do you believe that de-minimis quantities should be introduced for the purposes of registration for any scheme? If so, please explain why.**

**Q60. At what level should a de-minimis limit be set?**

### **What obligations could be placed on the customers of wholesale dealers?**

**4.12.** A specific new offence could be introduced for persons purchasing alcohol from unregistered wholesalers. Furthermore, we would consider informing the licensing authorities in order that they may consider whether a retail licence should be revoked or suspended.

**Q61. Do you believe that such an offence would be appropriate and necessary to deterring those currently sourcing goods from the illicit market?**

### **What obligations could be placed on the suppliers of wholesale dealers?**

**4.13.** Conditions could be introduced to ensure that any suppliers<sup>23</sup> of UK wholesalers only sell within the UK to businesses that are appropriately registered. This would be intended to make it more difficult for those not registered - for example because they have had their registration revoked or suspended - to stay trading.

**4.14.** Suppliers might be obliged to only sell to persons that are authorized either by HMRC or the licensing authorities to trade in alcohol. Evidence of customers' authorisations would be retained by the supplier. Sales to the public for personal consumption would not be affected, but sales over a certain quantity<sup>24</sup> could be subject to due diligence checks by the supplier to assure that products are not being bought for the purposes of a wholesaler's business (i.e. querying repeated sales, checking customers are bona fide etc.).

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<sup>23</sup> Such as other duty-paid wholesalers, registered beer producers, wine and cider-makers, warehouse-keepers, registered owners, registered and temporary registered consignees etc.

<sup>24</sup> Article 32 of Council Directive 200/118/EC, already provides EU guidelines as to what levels of importations by an individual may be considered as indicative of what is for personal use. These are: 10 litres spirits; 20 litres Intermediate Product (i.e. fortified wines); 90 litres wine and 110 litres of beer. These could be considered equally relevant when purchases are made within the UK.

**Q62. Do you believe that such conditions would be appropriate and necessary to deterring those currently supplying goods to the illicit market?**

**Q63. What potential implications and costs would there be for suppliers complying with these requirements?**

**Q64. What quantities could be considered as indicative of personal use?**

**Q65. What are the practical implications if retailers need to provide suppliers with copies of their licences when making purchases?**

### **Record-keeping requirements for wholesalers**

**4.15.** Poor or non-existent records can often be used to disguise fraud. HMRC often finds that poor records can hamper inspection and audit work, most particularly in attempting to identify whether the origin of alcohol products is a legitimate duty-paid source or illicitly produced or diverted alcohol.

**4.16.** The potential benefits of new requirements to make it easier for officers to test the provenance of stocks during their inspections at wholesale premises are considerable.

For example, a requirement for excise or wholesaler registration numbers to be detailed on all invoices would speed up cross-referencing of supplier and wholesaler records and assist HMRC in establishing the duty status of goods. Products held in stock that could not be evidenced to be sourced originally from an authorised excise business could, potentially, become immediately liable to forfeiture, and this could lead to revocation of authorisation as a wholesaler, or consideration by the licensing authorities as to whether a retail licence should be revoked.

Other requirements to aid HMRC efforts in tackling the sale of illicit alcohol might include, for example:

- **stock records** that detail the amounts of products in stock during a defined period of time and where it was purchased, to help reconcile purchases against sales and assist in identifying off-record sales.
- markings applied to alcohol at pallet/crate level and **introduction of systems for matching goods in stock to specific sales invoices.**

These measures will require further discussion with the wholesale industry, but at this stage:

**Q66. Can you describe the current level of record keeping in place across the wholesale sector?**

**Q67. What practical difficulties and costs would you envisage in relation to the following:**

- (a) *the inclusion of specific excise registration or wholesale registration numbers on sales invoices;*  
 (b) *specific alcohol stock records to enable HMRC officers to reconcile purchases against sales?*

**Q68. What solutions may be available within the industry to match goods in stock to specific purchase invoices?**

#### 4.17. Summary of Impacts

These are the impacts as we understand them so far.

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	+/-	+/-	+/-	+/-	+/-
	Exchequer impacts can only be assessed once the design of the scheme is finalised.				
<b>Economic impact</b>	This change is not expected to have a significant economic impact.				
<b>Impact on individuals and households</b>	The measure is not expected to impact significantly on individuals or households.				
<b>Equalities impacts</b>	The measure is not expected to have a disproportionate equalities impact.				
<b>Impact on businesses and Civil Society Organisations</b>	The measure will impose additional compliance and administrative burdens on wholesale traders in alcohol products, and potentially alcohol retailers. The extent of these additional burdens will be explored through consultation.				
<b>Impact on HMRC or other public sector delivery organisations</b>	Control and maintenance of the register for wholesalers will require additional HMRC resources.				
<b>Other impacts</b>	Depending on the final design of a registration scheme, there could also be impacts on small businesses. Any impacts will continue to be assessed following formal consultation. As part of the consultation process we are also looking for views/information from respondents on any other possible impacts.				

**Q69. Do you agree with this impact assessment?**

**Q70. Are there any other impacts which should be taken into account?**

**Q71. If you are a small business (less than 20 employees) please provide details of the costs and impacts of this measure on your business.**

## 5. Tackling Wine Fraud

### Wine fraud

**5.1.** HMRC operational data indicates that wine duty fraud is significant in the UK. Unlike beer and spirits, the vast majority of wine which is consumed in the UK originates from other countries. The large number of wine production countries and potential supply routes into the UK make tackling wine fraud a different proposition to other alcohols.

### Scale and nature

**5.2.** Historically, the scale of wine fraud has been difficult to quantify due to the complexity of the wine sector and the larger, international span of supply chains. Estimating legitimate consumption is also problematic due to gaps in survey data, for example, the significant volumes of wine likely to be consumed at events where the drinker does not pay e.g. corporate functions and weddings. HMRC requires further data from the wine industry to overcome these gaps and produce a reliable estimate of wine duty losses.

**5.3.** As with fraud in other alcohol products, the major fraud in wine involves brands with an established UK market share<sup>25</sup> smuggled by organised criminal gangs into the UK in large commercial quantities duty unpaid. This involves the same systematic exploitation of EU duty suspension procedures as other alcohol frauds, and illicit wine is often distributed into UK wholesale and retail outlets using supply routes already established for beer and spirits.

**5.4.** There are also a number of other, albeit smaller, threats to the legitimate wine market and duty revenues including 'straight' smuggling<sup>26</sup> from lower taxing countries and counterfeiting of genuine wine brands. Instances of 'straight' smuggling detected have not necessarily involved mainstream wine brands. For example, wine of Italian origin has been detected concealed in lorries and container freight destined for the restaurant trade and smaller retail outlets. Counterfeiting operations tend to target premium brands of wine and champagne, infiltrating legitimate supply chains with inferior product.

### Anti-Fraud Measures

**5.5.** HMRC are working with stakeholders to gain a better understanding of legitimate and illicit supply chains for wine, and considering appropriate anti-fraud measures.

### Registration of wine owners

**5.6.** One potential measure, to increase visibility of wine supplies, would be to require owners of wine in duty suspended premises to be registered. This would involve removing an existing extra-statutory concession<sup>27</sup> which excludes wine from the

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<sup>25</sup> Brands prevalent in the UK off-trade: "*Wine Report 2011 – Nielsen/Off Licence news.*"

<sup>26</sup> Smuggling not involving exploitation of the EU-wide duty suspension system.

<sup>27</sup> Notice 48: Extra Statutory Concessions Section 6.9.

definition of “relevant goods” in excise law<sup>28</sup>. This concession was put in place in 1999 in recognition of the diversity of individuals and businesses involved in the wine trade who would be caught in the requirement to register often for small, specialist products with little evidence of fraud. However, the wine market has changed considerably since, and there is some evidence that fraudsters are exploiting this concession.

## **Q72. Do you think registration of wine owners would be a useful anti-fraud measure?**

### **What would registration involve?**

**5.7.** Registration would involve application to HMRC for approval including production of business papers to substantiate any request. Registration would also involve complying with conditions and restrictions as outlined in Notice 196: *Excise goods: authorisation of warehousekeepers and approval of premises*<sup>29</sup>.

These include:

- production of your registration certificate to the authorised warehousekeeper to prove your authenticity; and
- notifying the warehousekeeper of sales in warehouse.

HMRC would also have the right to refuse or revoke a registration in specified circumstances with reasonable cause. This could, for example, include involvement in non-compliance or fraud.

### **Who would it apply to?**

**5.8.** The wine market is diverse and comprises of businesses trading in large commercial quantities of mainstream wine brands to wholesalers and retailers, to those holding small quantities of vintage wine in duty suspension for investment purposes or personal consumption. The fraud requires access to large commercial quantities of wine, and those involved in trading smaller volumes where the risks of fraud is considered less could potentially be excluded from the requirements to register with HMRC. This could include:

- en primeur traders<sup>30</sup>,
- auction houses,
- private individuals, and
- wine merchants dealing in small quantities of specialist, niche products.

## **Q73. Do you agree that there is a low risk of fraud with these categories of business?**

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<sup>28</sup> Regulation 2 of the Warehousekeepers and Owners of Warehoused Goods Regulations 1999

<sup>29</sup> [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

<sup>30</sup> En primeur is a method of buying wine early whilst still in the barrel offering the opportunity to invest in a particular wine before it is bottled.

**Q74. Can you estimate how many businesses would be required to register a) if the requirements applied to all businesses dealing in wine b) if we excluded those in the en primeur trade, auction houses, private individuals and specialist wine merchants?**

**Q75. Are there any other categories that you think should also be excluded?**

**Q76. Can you suggest criteria for excluding specialist, niche products?**

**5.9.** Alternatively, a quantitative limit could be considered above which the requirement to register would apply. This might capture, for example, all businesses dealing in “x” litres of wine either in one transaction or in a specified period. As a starting point, the current EU guideline for importations considered to be for personal consumption is 90 litres of wine.<sup>31</sup>

**Q77. What do you think would be an appropriate quantitative limit? Please estimate how many businesses would be required to register above your suggested limit.**

**Q78. Can you suggest any alternative ways of targeting registration to capture potentially high risk supplies of wine and exclude wine traded in smaller volumes involving for example private individuals?**

**Q79. Do you have any alternative suggestions for tackling wine duty fraud?**

### **Calculating an estimate of the illicit wine market**

**5.10.** To enable HMRC to estimate wine duty losses, would you or your trade association be able to assist with the following:

**Q80. Can you provide data to estimate how much wine is consumed annually at for example corporate events or weddings?**

**Q81. Can you provide data to indicate how average serving sizes of wine have changed over time?**

**Q82. Do you have any data to indicate patterns of under-reporting of wine consumption in surveys?**

### **Gathering more information**

**5.11.** To enhance HMRC’s understanding of the legitimate and illicit wine markets in the UK could you answer the following questions:

#### **5.11.1 General**

**Q83. How much do you estimate the illicit market in wine cost your business annually?**

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<sup>31</sup> See Footnote 24.

**Q84. What do you consider is the biggest threat to the legitimate wine market in the UK – smuggled goods, counterfeited wine, other?**

### **5.11.2 Illicit supplies**

**Q85. What do you see as the main sources of illicit wine for a) genuine brands b) counterfeit, for example, do you see illicit wine originating from a specific region / country, or specific distribution chain within or outside the EU?**

**Q86. How do you think illicit wine enters legitimate wholesale and retail supply chains in the UK?**

**Q87. What indicators do you look for in assessing whether supplies are illicit (for example price, appearance, due diligence checks?)**

**Q88. Are there particular retail outlets for illicit wine, or areas of the UK, that are affected by wine fraud more than others?**

**Q89. At what prices are UK wholesalers and retailers being offered illicit wine, and how does this compare to wine sourced from the legitimate market?**

### **5.12. Summary of Impacts: Registration of wine owners**

These are the impacts as we understand them so far.

<b>Exchequer impact (£m)</b>	2012-13	2013-14	2014-15	2015-16	2016-17
	+/-	+/-	+/-	+/-	+/-
	Exchequer impacts can only be assessed once the design of the scheme is finalised.				
<b>Economic impact</b>	This change is not expected to have a significant economic impact.				
<b>Impact on individuals and households</b>	This measure is not expected to impact on individuals or households.				
<b>Equalities impacts</b>	This measure is not expected to disproportionately impact on any equality group.				
<b>Impact on businesses and Civil Society Organisations</b>	Approx 250,000 businesses involved in wine trade but aiming to target registration to those dealing in “commercial quantities” which would significantly reduce this number.				

<b>Impact on HMRC or other public sector delivery organisations</b>	Would require IT changes to accommodate new registrations.
<b>Other impacts</b>	Potentially could have an impact on small businesses depending on the final design of a registration system.

**Q90. Do you agree with this impact assessment?**

**Q91. Are there any other impacts which should be taken into account?**

**Q92. If you are a small business (less than 20 employees) please provide details of the costs and impacts of this measure on your business?**

## 6. Summary of Consultation Questions

### Alcohol Fraud – paragraph 2.10

Q1. What further evidence or data is there to help quantify the extent to which illicit alcohol has penetrated the legitimate retail or wholesale sector?

Q2. What further evidence or data is there to demonstrate the impact of illicit trade in alcohol products on legitimate retail or wholesale businesses (for example impacts on jobs, profits, turnover and growth)?

### The nature of beer fraud – para 3.5

Q3. What further data is available to help assess the level of actual consumption of UK packaged beer brands in other EU markets?

Q4. What further practical steps can the UK beer industry take to assess risks in beer supply chains and prevent criminals accessing goods for fraud?

## FISCAL MARKS

### Which products would fiscal marks apply to? – paras 3.14 – 3.17

Q5. Can you provide data on the quantity of beer sold on the UK market in containers below 10 litres, and the numbers of units sold in cans *versus* bottles?

Q6. Can you provide data on how many cans and bottles would be excluded by the proposed exemption of a) beer at 2.8 per cent abv or below b) small brewery beer, assuming the limit were set at 200,000 hectolitres per annum?

Q7. Are there any beer products which would be caught by the proposed fiscal marking requirement which you consider should not qualify? If so, please give reasons.

Q8. If the proposed exclusions from fiscal marking are not introduced, can you estimate the additional costs and impacts to your business?

Q9. Do you have any alternative suggestions for fiscal marks qualifying criteria to exclude beers perceived at low risk of fraud?

Q10. Under the proposed exclusions, or any alternative criteria you may suggest, how do we make it clear who is excluded from fiscal marking requirements to those further down the supply chain.

### Application of the fiscal mark – paras 3.19 – 3.20

Q11. What is involved in changing the design of a) the print on the cylinder of a can b) bottle labels? How frequently are branding changes made that affect the can / label design, and what is the cost per change?

Q12. What would be the practical implications of incorporating the proposed marking (3cm x 1cm rectangle) to a) the indelible print of the can b) a bottle label? If the associated costs differ from other branding changes please explain, and outline any additional costs.

Q13. What size and shape of fiscal mark would be optimal to be printed onto the top of all beer cans, and what are the costs and practical implications of such a process?

Q14. Do you have any alternative suggestions regarding incorporation or application of fiscal marks at manufacturing stage? If so, how much would

these alternatives cost per unit, and how would they improve on the proposed solution?

Q15. Can you describe what other practical impacts you foresee with the introduction of fiscal marks on production processes or logistics? Please estimate the frequency the impact may occur and associated costs.

#### **Application in other Member States/third country – para 3.21**

Q16. What would be the practical implications and costs for foreign brewers of incorporating a fiscal mark into their product packaging? Please explain if these implications would differ for foreign brewers compared to UK brewers.

#### **Duty payment and movements in duty suspense – paras 3.22 – 3.25**

Q17. If you are a brewer what would be the implications and costs of accounting for UK duty at the “brewery gate”?

Q18. Are there any other premises which you think should be included in the definition of “brewery gate”?

Q19. What would be the implications and costs for excise warehouses required to identify fiscally marked goods and ensure the correct accounting for duty?

Q20. If you currently source beer for both domestic consumption and exports under duty suspension procedures, how many movements per annum does your business currently make and what are the volumes of beer involved?

Q21. What are the implications and costs for your business associated with the proposed restrictions to beer movements? Please consider how the proposed exclusions from fiscal marking requirements may mitigate these impacts.

Q22. In what circumstances may it still be preferable to source beer for the UK market under duty suspension arrangements?

Q23. Are there any circumstances when you consider there should be an exception to the proposed restrictions to movements of fiscally marked beer? Please give details and the likely costs and impacts to your business if this exception was not allowed.

#### **Removal of the Fiscal Mark – para 3.26**

Q24. What do you consider would be the most practical and effective way to remove, obliterate or permanently obscure a beer fiscal mark a) incorporated into the cylinder of a can, b) top of a can, or c) a bottle label?

Q25. Please estimate the costs associated with any proposed methods for removing, obliterating or permanently obscuring fiscal marks on a pallet of beer?

Q26. If you are a regular exporter of packaged beer (one or more consignments per month, on average) that is sourced “UK duty paid”, please explain the implications of introducing fiscal marks for your business, and why it is necessary to your business model to source goods on which UK duty has already been paid.

Q27. If you occasionally export packaged beer (less than once a month, on average) that is sourced UK duty paid, under what circumstances might this occur? Please also explain the implications and potential costs of fiscal marks for your business.

### Application post-production – para 3.27

Q28. What do you consider would be the most practical and effective way to apply a fiscal mark post-production on a) cans of beer b) bottles of beer?

Q29. Please estimate the costs associated with any proposed methods for applying a fiscal mark on a pallet load of beer post-production?

Q30. In what circumstances, how frequently and on what volumes of beer cans or bottles do you anticipate a fiscal mark may have to be applied post-production?

### Enforcement – para 3.28

Q31. If fiscal marks are introduced, what effects do you think it would have on beer fraud, and how would those involved in the illicit trade respond to the new restrictions?

Q32. If you believe beer fiscal marks would have impacts on the legitimate alcohol trade that have not already been considered, please describe and estimate the associated frequency and costs of these impacts.

### Implementation – para 3.29

Q33. What considerations must Government take into account to ensure the beer industry could introduce fiscal marks successfully?

Q34. Approximately how long do you consider the beer industry would need to introduce a fiscal marks scheme as proposed here, and why?

Q35. What is the minimum, maximum and average shelf-life of beer once it has been packaged in cans and bottles?

Q36. What would be the total costs of implementation of fiscal marks for your business/sector? Please distinguish one-off costs of introduction from ongoing costs.

### Summary of Impacts – para 3.30

Q37. Do you agree with this impact assessment?

Q38. Are there any other impacts which should be taken into account?

Q39. If you are a small business (less than 20 employees) please provide details of the costs and impacts of this measure?

## SUPPLY CHAIN LEGISLATION

### Who would beer supply chain legislation apply to? – paras 3.36 – 3.37

Q40. What do you believe would be the most effective way to target supply chain legislation, for example by including all producers; limiting to those producing small volumes etc?

### Suppliers' obligations – para 3.38

Q41. Do you believe supply chain legislation would achieve the aim of controlling the supply of beer into illicit supply chains? If not, why?

### Supply chain policy – para 3.39

Q42. What additional requirements do you consider might be included to ensure

the effectiveness of supply chain policies?

#### Working with HMRC – para 3.40 – 3.41

Q43. Do you think this notification limit is reasonable? If not, can you explain why and suggest an alternative.

Q44. As brewers would be required to identify their product and track and trace through the supply chain, is the technical capability currently in place within the industry to identify goods at (a) individual can or bottle level (b) case level?

Q45. If this capability is not currently available, please describe what adaptations to production/packaging equipment and processes would be necessary, and approximately how much would it cost to introduce such a system to track and trace to (a) can or bottle level (b) case level.

Q46. Is there a reasonable alternative to marking each can or bottle which would still allow tracking and tracing back to an individual customer? If so, is this already in place and if not how much would it cost to implement?

#### Implementation – para 3.44

Q47. What considerations must Government take into account to ensure the beer industry could introduce supply chain legislation successfully?

Q48. Approximately how long do you consider the beer industry would need to introduce a) supply chain policies b) track and trace solutions?

Q49. To what extent do you think the objectives of this measure could be achieved without legislation, for example through voluntary due diligence on the part of suppliers etc.

Q50. What would be the total costs of implementation of this measure for your business/sector? Please distinguish one off costs of introduction from ongoing costs.

Q51. Do you have any other comments to make regarding supply chain legislation?

#### Summary of Impacts – para 3.45

Q52. Do you agree with this impact assessment?

Q53. Are there any other impacts which should be taken into account?

Q54. If you are a small business (less than 20 employees) please provide details of the costs and impacts of this measure on your business?

## REGISTRATION OF WHOLESALERS

#### How might it work? – paras 4.8 – 4.10

Q55. Do you believe HMRC should have the authority to require wholesale alcohol dealers to register?

Q56. Do you believe HMRC should have the authority to refuse, revoke or suspend a person's ability to trade in alcohol?

Q57. What are the potential costs of complying with the requirement to register to deal in wholesale quantities of alcohol, or any of the other subsidiary requirements outlined? Please distinguish one off costs from ongoing costs.

Q58. What impact would a registration scheme have on alcohol fraud?

#### Exclusions from registration – para 4.11

**Q59. Do you believe that de-minimis quantities should be introduced for the purposes of registration for any scheme? If so, please explain why.**

**Q60. At what level should a de-minimis limit be set?**

#### **Obligations of the customers of wholesale dealers – para 4.12**

**Q61. Do you believe that such an offence would be appropriate and necessary to deterring those currently sourcing goods from the illicit market?**

#### **Obligations of the suppliers of wholesale dealers – para 4.13 – 4.14**

**Q62. Do you believe that such conditions would be appropriate and necessary to deterring those currently supplying goods to the illicit market?**

**Q63. What potential implications and costs would there be for suppliers complying with these requirements?**

**Q64. What quantities could be considered as indicative of personal use?**

**Q65. What are the practical implications if retailers need to provide suppliers with copies of their licences when making purchases?**

#### **Record-keeping requirements – paras 4.15 – 4.16**

**Q66. Can you describe the current level of record keeping in place across the wholesale sector?**

**Q67. What practical difficulties and costs would you envisage in relation to the following:**

*(a) the inclusion of specific excise registration or wholesale registration numbers on sales invoices;*

*(b) specific alcohol stock records to enable HMRC officers to reconcile purchases against sales?*

**Q68. What solutions may be available within the industry to match goods in stock to specific purchase invoices?**

#### **Summary of Impacts – para 4.17**

**Q69. Do you agree with this impact assessment?**

**Q70. Are there any other impacts which should be taken into account?**

**Q71. If you are a small business (less than 20 employees) please provide details of the costs and impacts of this measure on your business.**

### **TACKLING WINE FRAUD**

#### **Registration of wine owners – para 5.6**

**Q72. Do you think registration of wine owners would be a useful anti-fraud measure?**

#### **Who would it apply to? – paras 5.8 – 5.9**

**Q73. Do you agree that there is a low risk of fraud with these categories of business?**

**Q74. Can you estimate how many businesses would be required to register a) if the requirements applied to all businesses dealing in wine b) if we excluded those in the en primeur trade, auction houses, private individuals and specialist wine merchants?**

**Q75. Are there any other categories that you think should also be excluded?**

**Q76. Can you suggest criteria for excluding specialist niche products?**

**Q77. What do you think would be an appropriate quantitative limit? Please estimate how many businesses would be required to register above your suggested limit.**

**Q78. Can you suggest any alternative ways of targeting registration to capture potentially high risk supplies of wine and exclude wine traded in smaller volumes involving for example private individuals?**

**Q79. Do you have any alternative suggestions for tackling wine duty fraud?**

### **Calculating an estimate of the illicit wine market – para 5.10**

**Q80. Can you provide data to estimate how much wine is consumed annually at for example corporate events or weddings?**

**Q81. Can you provide data to indicate how average serving sizes of wine have changed over time?**

**Q82. Do you have any data to indicate patterns of under-reporting of wine consumption in surveys?**

### **Gathering more information**

#### **General – para 5.11.1**

**Q83. How much do you estimate the illicit market in wine cost your business annually?**

**Q84. What do you consider is the biggest threat to the legitimate wine market in the UK – smuggled goods, counterfeited wine, other?**

#### **Illicit supplies – 5.11.2**

**Q85. What do you see as the main sources of illicit wine for a) genuine brands b) counterfeit, for example, do you see illicit wine originating from a specific region / country, or specific distribution chain within or outside the EU?**

**Q86. How do you think illicit wine enters legitimate wholesale and retail supply chains in the UK?**

**Q87. What indicators do you look for in assessing whether supplies are illicit (e.g. price, appearance, due diligence checks)?**

**Q88. Are there particular retail outlets for wine, or areas of the UK, that are affected by wine fraud more than others?**

**Q89. At what prices are UK wholesalers and retailers being offered illicit wine, and how does this compare to wine sourced from the legitimate market?**

#### **Summary of Impacts – 5.12**

**Q90. Do you agree with this impact assessment?**

**Q91. Are there any other impacts which should be taken into account?**

**Q92. If you are a small business (less than 20 employees) please give details of the costs and impacts of this measure on your business?**

## 7. The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1 Setting out objectives and identifying options.
- Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3 Drafting legislation to effect the proposed change.
- Stage 4 Implementing and monitoring the change.
- Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 1 of the process. The purpose of the consultation is to seek views on the policy design and any suitable possible alternatives, before consulting later on a specific proposal for reform.

### How to respond

Please reply by **25 June 2012** either by post to John Waller, HM Revenue & Customs, Excise Strategy Team, 3W Ralli Quays, 3 Stanley St. Salford M60 9LA or by e-mail to [john.c.waller@hmrc.gsi.gov.uk](mailto:john.c.waller@hmrc.gsi.gov.uk). Alternatively you can fax your response to 0161 827 0342.

A summary of the questions in this consultation is included at Chapter 6.

Telephone enquiries: 0161 827 0340/0907

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from the HMRC Internet site at <http://www.hmrc.gov.uk/consultations/index.htm>. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

### Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public

authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

### **The Consultation Code of Practice**

This consultation is being conducted in accordance with the Code of Practice on Consultation. A copy of the Code of Practice criteria and a contact for any comments on the consultation process can be found in Annex A.

# Annex A: The Code of Practice on Consultation

## About the consultation process

This consultation is being conducted in accordance with the Code of Practice on Consultation.

The consultation criteria

1. When to consult - Formal consultation should take place at a stage when there is scope to influence the policy outcome.
2. Duration of consultation exercises - Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
3. Clarity of scope and impact - Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
4. Accessibility of consultation exercise - Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
5. The burden of consultation - Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
6. Responsiveness of consultation exercises - Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
7. Capacity to consult - Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

If you feel that this consultation does not satisfy these criteria, or if you have any complaints or comments about the process, please contact:

Amy Burgess, Consultation Coordinator, Budget & Finance Bill Co-ordination Group,  
H M Revenue & Customs, 100 Parliament Street, London, SWA 2BQ

e-mail [hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk](mailto:hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk)

## Annex B: List of stakeholders consulted

### Production:

Brewing Associations	British Beer and Pub Association (BBPA) Society of Independent Brewers (SIBA)
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### Warehousing sector:

Large, medium and small warehouses	UK Warehousing Association (UKWA)/ Bonded Warehousekeepers Association (BWA)
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### Import/export:

Major – small importers/ Freight forwarders (BIFA)	UKWA/BWA, Wine & Spirit Trade Association (WSTA) and British International Freight Association
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### Transport:

Road haulage	Road Haulage Association (RHA) and British International Freight Association (BIFA)
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### Wholesale sector:

Major wholesale/ buying groups	Federation of Wholesale Distributors (FWD)
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### Retailers:

Major supermarkets	British Retail Consortium (BRC)
Small, independent retailers	Association of Convenience Stores (ACS)
Travel Retail	UK Travel Retail Forum

### Licensed Trade:

Large pub chains	BBPA
Small/medium independents	Federation of Licensed Victuallers Association Association of Licensed Multiple Retailers

### Hospitality:

Hotels/Restaurants/Catering	British Hospitality Association
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