



HM Revenue  
& Customs

# Joint Alcohol Anti-Fraud Taskforce Annual Report 2015



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Jim Harra  
Director General, Business Tax, HM Revenue and Customs

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## Message from the chair

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Alcohol fraud is a problem that affects us all. At the first meeting of the Joint Alcohol Anti-Fraud Taskforce (JAAT) in January 2014, we heard about how the illicit alcohol trade deprives the UK of substantial sums of revenue, and damages the legitimate UK alcohol industry. An industry that supports approximately 2 million jobs, and contributes over £10 billion in excise duty alone to the public purse every year. The illicit market also undermines efforts to limit the health and social harms of alcohol.

Members of the taskforce, including Government officials and representatives of the alcohol industry, accepted a challenge to work more closely to tackle this shared problem. We set ourselves specific objectives, to:

- gain a greater mutual understanding of the nature and scale of alcohol fraud
- improve sharing of information and intelligence
- improve collaboration between the alcohol industry and authorities on other issues such as communication and education
- explore how technology could assist with tackling fraud.

The JAAT and its working groups have embraced this challenge. Stronger relationships have been forged leading to better understanding and a more open dialogue between Government officials and the alcohol industry on fraud issues.

This has enabled us to develop new initiatives such as a new anti-fraud due diligence condition, better informed by the perspectives of businesses. A new memorandum of understanding to improve sharing of information will also soon be in place. The taskforce has also opened up opportunities to reach more businesses, to communicate fraud risks and other key information such as changes to the law. Work to develop best practice to tackle fraud at retail level, agree workable changes to the EU-wide Excise Movements Control System, and to explore together what innovative new technology may have to offer, promises benefits on the horizon.

There is no room to be complacent. Levels of fraud are still too high, and it remains the case that making the world in which the fraudsters operate more difficult requires effective partnership between legitimate businesses, regulatory and enforcement bodies. HMRC is committed to taking decisive action to protect honest businesses, for example, continuing to step up its enforcement and through the implementation of new measures such as the [Alcohol Wholesaler Registration Scheme](#) introduced from October 2015.

For the JAAT to remain relevant it must continue to be innovative in its thinking and collaborative in approach, and I urge members of the JAAT to continue to work with HMRC to build on this strong first year of performance as a taskforce.

**Jim Harra**

Director General, Business Tax, HM Revenue and Customs

# The work of the JAAT

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The objectives of the taskforce were agreed by a steering group of senior representatives from member organisations in January 2014. To deliver those objectives, five working groups were established:

- Scale and nature of alcohol fraud;
- Communication and education;
- Technology;
- Collaboration;
- Illicit trade at retail level.

The progress made by each of these groups is outlined below.

## The scale and nature of alcohol fraud

A common understanding of the scale and nature of alcohol fraud was recognised as essential to steering and prioritising the wider work of the taskforce.

The most prevalent alcohol fraud is known as 'inward diversion' fraud. This involves organised criminals sourcing and positioning large commercial consignments of genuine brands of alcoholic drinks on the near-continent for smuggling/diversion into the UK untaxed. Illicit product typically enters UK retail supply chains at the point of wholesale. This fraud was widely understood by the JAAT. There was, however, a gap in understanding of:

- fraud risks in supply chains, and what to look out for;
- how HMRC estimates alcohol tax losses, and whether there are other ways to measure the impact of the fraud; and
- the contribution of other modes of fraud e.g. counterfeiting, abuse of the excise duty repayment systems (drawback), to overall tax losses.

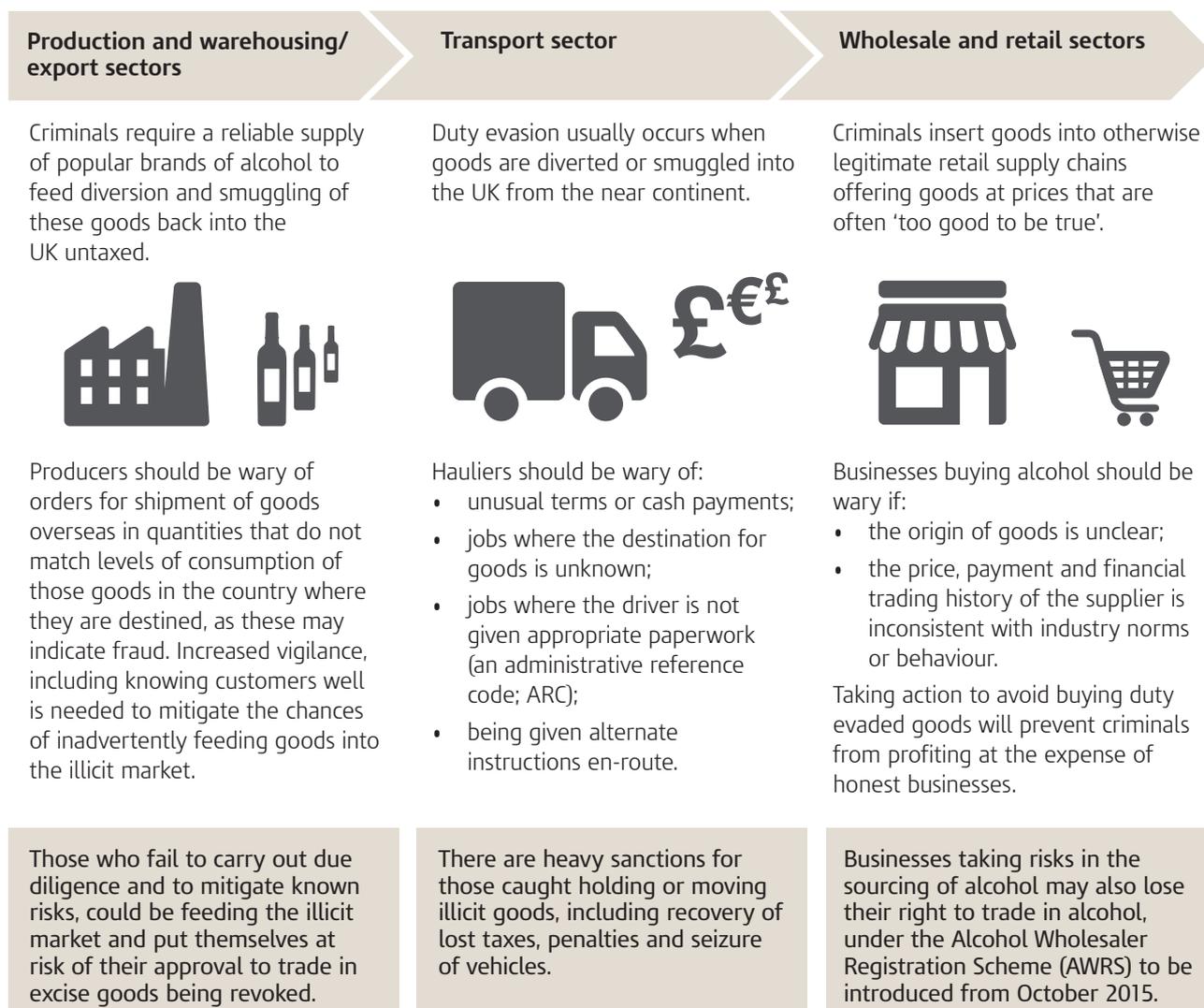


The taskforce has helped build a mutual understanding of the scale and nature of alcohol fraud

## Fraud risks in supply chains

Representatives from the alcohol industry and officials from enforcement agencies began by considering the key risks and indicators of fraud within each of the main trade sectors of the alcohol supply chain. They also explored potential actions to mitigate fraud risks, to inform communications and general education materials for the businesses in alcohol supply chains.

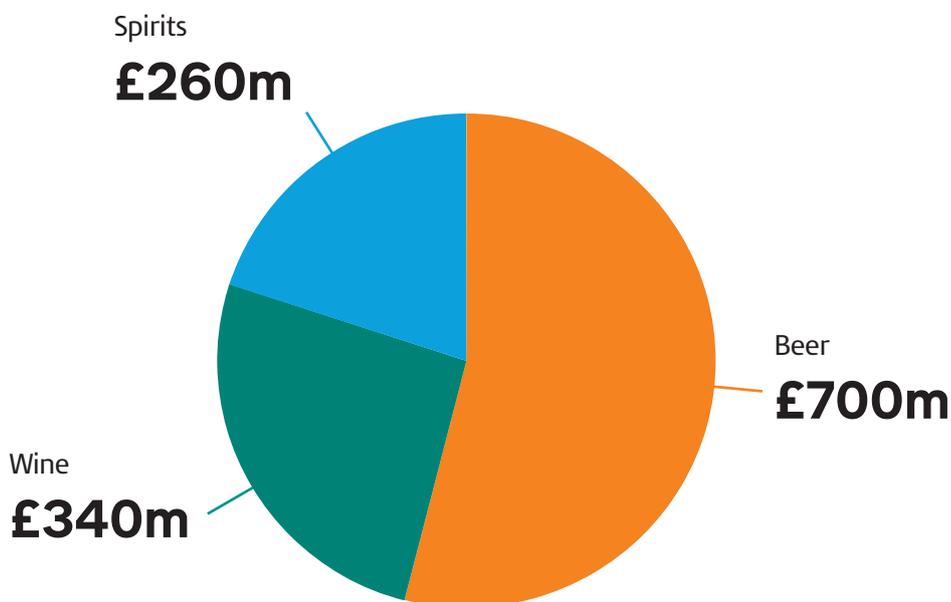
The findings of the taskforce and key messages that have emerged from this work are summarised below:



## Measuring the scale of alcohol fraud

Official estimates place the alcohol tax gap at £1.3 billion per annum (duty and VAT), the majority of which is attributed to duty evasion by organised criminals. The mid-point estimate of tax losses for beer is £700 million, wine is £340 million, and spirits is £260 million.

### Alcohol tax gap £1.3bn



To narrow gaps in understanding of how duty losses are calculated, HMRC shared its tax gap methodology. The taskforce was invited to challenge HMRC assumptions, and provide additional data or ideas to develop the estimates. Representatives from all sectors of the alcohol trade participated in this process, improving understanding of and confidence in how HMRC estimates spirits and wine tax losses in particular.

Opportunities to develop the beer tax gap methodology have been identified. HMRC analysts will work with the brewing sector to evaluate data that may increase the accuracy of future beer estimates. Work also continues with taskforce members to model how the illicit market is distributed across the multiple trade channels within the on and off-trades, which will also test the credibility of the current tax gap estimates.

The impacts of alcohol fraud are, of course, not limited to revenue losses. The organised criminals behind the fraud do not care about the impact their activities have on local communities or on society in general. The availability of cheap illicit alcohol also damages the equity of alcohol brands, and further down the supply chain puts the overwhelming majority of businesses who sell alcohol legally at an unfair disadvantage. The taskforce has also begun to look at whether it would be possible to develop an industry-centric view of the impact of alcohol fraud on e.g. sales, profits, jobs, growth or brand equity.

## Understanding other forms of fraud

The vast majority of alcoholic drinks sold untaxed in the UK are genuine products smuggled or diverted into the UK. However, the profits to be made do also drive other frauds, for example, the production and sale of counterfeit alcohol and the abuse of the excise duty repayment system (drawback).

Alcohol counterfeiting is a difficult fraud to measure directly because of its relatively low incidence in the UK. The taskforce collated expert views on the nature and prevalence of this problem. Detections in the retail sector indicate the main products targeted by counterfeiters for the UK market are white spirits, and principally vodka. Data provided by the International Federation of Spirits Producers indicates counterfeiting represent less than 1% of UK white spirits sales. Wine, champagne and beer counterfeiting has also been reported but instances are far rarer.

The taskforce has also narrowed the gap in understanding how drawback related fraud contributes to the overall illicit market. Drawback allows excise duty to be reclaimed on UK duty paid goods that have been exported, avoiding tax being collected in more than one country. Historically, the drawback system has been abused by fraudsters to reclaim duty on smuggled goods that have never had UK duty paid on them. HMRC shared data and insight on this problem, indicating that steps taken to mitigate fraud in this area have contributed to a substantial reduction in abuse of drawback, and although still an important area to assure, it is now a relatively small part of the overall illicit market.

## Communication and education

To change the environment in which alcohol fraud operates requires high levels of awareness of the problem and its implications, and the cooperation of businesses all along the alcohol supply chain.

The taskforce agreed that there were opportunities to work in partnership to ensure messages communicated to businesses are consistent between Government and trade bodies, and are amplified to reach as far as possible into alcohol supply chains. A communications approach, key messages and forward look of planned activity has been developed to help drive improved communications. Key objectives are to:

- raise awareness of the prevalence and impact of alcohol fraud;
- alert businesses to the risks of sourcing and selling illicit product;
- raise awareness of what HMRC does to counter it;
- raise awareness of the penalties and risks if people are caught;
- encourage businesses to report fraud; and
- help prepare businesses for new policy initiatives or changes to HMRC services.

The taskforce now has a good understanding of the combined capability and reach of member organisations, and has begun to coordinate general awareness messaging on alcohol fraud. It has shaped communication campaigns associated with major new initiatives such as the introduction of excise due diligence conditions in 2014, and the introduction of the Alcohol Wholesaler Registration Scheme (AWRS) this autumn.

The work of the taskforce will be extended to develop plans for targeted education over the coming year, to give businesses the information they need to understand risks particular to their position in alcohol supply chains.



The taskforce has begun to coordinate communications on alcohol fraud to UK businesses, and is shaping communication campaigns

# Technology

Technology has a role to play in securing and improving the efficiency of supply chains, and has advanced at considerable pace in other trade sectors such as foodstuffs, pharmaceuticals, and military components. In the alcohol trade, the advent of the Excise Movement and Control System (EMCS) in 2010 brought greater visibility of legitimate - duty suspended - alcohol movements between EU Member States, and there is clear scope to build on the anti-fraud utility of this system. The taskforce has looked at other ways in which technology could be exploited to improve controls in legitimate alcohol supply chains, in particular to:

- further harness the anti-fraud potential of EMCS; and
- offer an effective anti-fraud solution that might also bring benefits to the alcohol industry.

## EMCS

EMCS provides an electronic record of all legitimate duty suspended alcohol movements between approved excise warehouses within the EU. HMRC and UK Border Force use this system to identify patterns and risks, to target operational activity.

When criminals seek to evade UK duty they abuse EMCS, re-using the electronic movement references it produces to provide documentary cover for multiple illicit 'mirror' loads that will be diverted onto the UK market untaxed.

The taskforce has considered how criminals abuse EMCS, and reached consensus on a series of workable options to improve the system to mitigate fraud, for example to:

- capture vehicle details more reliably, to inform interventions;
- limit opportunities for re-use of electronic movement references, making it more difficult to hide illicit loads behind legitimate movements; and
- identify ownership of the goods being moved.

HMRC officials are taking these initiatives to EU-level groups to influence for change.

## Potential technology solutions to alcohol fraud

The taskforce has also taken early steps in identifying potential technology solutions to alcohol fraud, setting an innovation challenge to technology suppliers to consider the fraud problem and propose a solution. This initial stage of market engagement has generated a number of ideas that are being evaluated with industry and enforcement experts, solicitors and independent technologists. Assessing any options collaboratively will be crucial to understanding the practicality, effectiveness, benefits, and costs of any potential technology solutions over the coming year.



Harnessing technology in the fight against fraud

## Collaboration

The taskforce has also helped to develop a series of measures that enable businesses to play an active role in preventing fraud, such as the new due diligence policy, and to drive better day to day collaboration. For example, through improved mechanisms for the sharing of information and intelligence, and improved use of industry capability to track and trace the origin and supply chain for goods that have reached the market untaxed.

### Due diligence

The taskforce was central to the successful introduction of the new anti-fraud excise due diligence condition in November 2014, explicitly requiring businesses to consider fraud risks in their supply chains. The guidance was written in partnership with the group to ensure the requirements were workable and presented in a way that would be understood by businesses. Trade associations have also produced their own sector specific best practise, and supported HMRC in publicising the new requirements.

### Sharing of information and intelligence

The taskforce identified that effective mechanisms for the sharing of information and feedback would be necessary to deliver the benefits of collaboration between enforcement agencies and the alcohol industry. A memorandum of understanding (MoU) has been developed by the taskforce setting out high level expectations of collaboration and data exchange between HMRC and all industry sectors, and this is currently being agreed by organisations participating in the taskforce on behalf of their members. The sharing of specific scheduled information between parties will be actively managed by the JAAT to ensure the continued working of the MoU.

### Tracking and tracing of alcohol consignments

When smuggled or diverted alcohol is detected, being able to piece together the supply chain for those goods is essential to identify the point at which goods left the legitimate supply chain into the hands of criminals. HMRC regularly requests information from producers and suppliers on customers and any available information on onward supply chains. Capabilities to track and trace goods and respond to these queries are varied, and the taskforce has conducted work to identify the extent to which goods can be tracked across commodities, and the level of tracking available (bottle, case, or pallet). This will lead to the development of improved procedures for the request and provision of information on goods that are seized.



Working collaboratively to enable the alcohol sector to play an active part in addressing this shared problem

## Illicit trade at retail level

The impacts of alcohol duty fraud are perhaps felt most acutely by the convenience sector. Irresponsible sellers of alcohol that avoid paying UK duty have a significant competitive advantage as they can sell alcohol cheaper or can operate with higher margins, thus putting honest retailers at a serious disadvantage. The taskforce committed to:

- benchmark and raise awareness of alcohol fraud at local retail level;
- identify effective local actions that can be taken to reduce illicit retail activity; and
- actions to improve partnership working between agencies.

### Benchmarking levels of awareness

Surveys conducted for the taskforce by The Association of Convenience Stores (ACS) to understand the concerns of retailers about duty fraud, indicate awareness and likelihood of reporting or taking action to prevent alcohol fraud is low. This has informed new guidance to meet retailer's needs, to encourage reporting and increase prevention.

### Local actions to address illicit retailing, and improving partnership working

The taskforce, with help from the Local Government Association (LGA), has also polled all 171 relevant Councils in England and Wales to gauge understanding of alcohol fraud and actions being taken at a local level. This highlighted that the majority of Councils take assertive action against alcohol fraud, and has helped to identify opportunities to improve working within Councils and with other agencies such as HMRC. For example, the taskforce has produced best practice for local enforcement bodies that could be incorporated into enforcement guidance and distributed nationally. It has also identified a campaign approach with strong potential to address localised illicit alcohol retailing, and the scope for extending this approach wider will be considered over the coming year.



The taskforce is working to identify effective local actions to reduce illicit activity

# Messages from the alcohol industry

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“The Federation of Wholesale Distributors is very pleased to take part in the JAAT process, chairing the Communications group and as a member of three other working groups.

The JAAT has highlighted the many different approaches to and understandings of alcohol fraud among trade bodies and enforcement agencies, and the process has produced collaborative solutions to overcome the ongoing problem of duty fraud, which has a very serious impact not just on the members FWD represents but also on all parts of the alcohol industry. In particular, it has been helpful to use the JAAT Communications working group to ensure that the whole alcohol supply chain is aware of the requirements of the Alcohol Wholesaler Registration Scheme which goes live in the autumn. Alongside this, working towards agreeing a methodology for measuring the scale and nature of duty fraud on beer, wine and spirits was helpful.

In future we would like to see the JAAT Communications group using its shared resources to send a message to anyone involved in, or in danger of being caught up in, the illegal trade in alcohol. This should include widespread communication of enforcement activity at borders, wholesale premises, warehouses, distribution and local shops, with clear indications of the penalties for stocking duty-evaded products.”

**James Bielby, Chief Executive, Federation of Wholesale Distributors**



"The BBPA and its members are represented on all the JAAT work groups and I chair the Collaboration group.

Inevitably the new structures and work groups involving multiple stakeholders took a little time to bed down in terms of agreed activity and responsibilities, but there has been excellent progress and positive tangible outputs across a number of areas as will be outlined in this report. Having HMRC, other Government agencies and industry representatives from across the whole alcohol supply chain around the table has enabled reducing duty fraud to be considered from all angles and from all perspectives. Most importantly it has enabled the JAAT activity to be increasingly focussed on effective and practically achievable measures to reduce fraud and a greater understanding of the barriers to success.

It has also been an important learning process for all parties who seem genuinely committed to the JAAT process and ultimately achieving the shared goal of a significant reduction in alcohol duty fraud. The brewing industry remains fully committed to continuing this process, further streamlining activity now some of the key actions have been completed whilst still fostering an environment that encourages new ideas and innovations to reduce fraud further."

**Andy Tighe, Policy Director, British Beer and Pub Association**



"The WSTA represents over 340 companies producing, importing, exporting, transporting and selling wines and spirits in the United Kingdom.

WSTA members range from major retailers, brand owners and wholesalers to fine wine and spirit specialists, logistics and bottling companies. We campaign for a vibrant and sustainable wine and spirit industry, helping to build a future in which alcohol is produced, sold and enjoyed responsibly.

Part of that picture is the fight against fraud, which directly undermines legitimate businesses, preventing them from investing, preventing them from creating jobs and hurting the UK's tax revenue. The JAAT is an important component in that fight, allowing for the co-ordination of industry efforts, pooling knowledge and collectively working with HMRC.

In particular, the focus of the JAAT Technology Working Group continues to identify initiatives that target fraudsters without imposing additional burdens on legitimate businesses. The JAAT demonstrates that a self-regulatory approach is working and has the potential to deliver significant results in the future, in a proportionate and consistent way."

**David Richardson, Regulatory and Commercial Affairs Manager, Wines and Spirits Trade Associations**



“The Scotch Whisky Association believes that a partnership approach is the most effective way to tackle alcohol fraud.

We have collaborated with HMRC for over a decade to help reduce alcohol fraud which damages legitimate businesses, hurts the UK economy and, at worst, poses a danger to human health.

Legitimate Scotch Whisky businesses work hard directly and through the Association to uncover spirits fraud. Tackling such fraud is a priority for the Association. With HMRC, we will try to ensure that measures put in place to tackle fraud are risk and evidence based, proportionate, and do not place undue burdens on the legitimate trade.

Under the JAAT we have worked closely and openly with HMRC to further our understanding of the nature of fraud and the methodology used to estimate losses. The Scotch Whisky industry is represented on each of the working groups referred to in this report. Our staff and member representatives have provided expert technical and strategic input on various anti-fraud initiatives.

Looking ahead, it is vital that the activities of the JAAT are aligned with the Association's own legal protection work to safeguard the Scotch Whisky category. This will help ensure that consumers who buy Scotch get what they pay for and will improve the industry's ability to stop the sale of fraudulent or adulterated products in the UK and abroad.”

**Peter Clark, Energy Policy and C&E Regulatory Affairs Manager, Scotch Whisky Association**



“ACS (the Association of Convenience Stores) represents 33,500 local shops across the country including The Co-operative Group, Spar UK, Costcutter Supermarkets, Nisa Retail and thousands of independent retailers.

Tackling alcohol duty fraud is a top priority for our members and as such we have committed to Chairing the retail and local group of the Joint Anti-Fraud Alcohol Taskforce.

As part of our programme of activity we completed bespoke polling of over 1,100 retailers to understand their concerns about duty fraud and developed new guidance to meet retailer's needs, to encourage reporting and increase prevention. We have worked with enforcement agencies to develop new best practice guidance for enforcement officers on the powers they can use to tackle duty fraud, we support the removal of alcohol licenses from retailers that sell not duty paid goods. We have also facilitated conversation between local government representatives and HMRC to discuss better information sharing and collaborations.”

**Edward Woodall, Head of Policy and Public Affairs, Association of Convenience Stores**



"UKWA is Britain's leading trade organisation representing the third party logistics (3PL) sector.

The Association has over 650 member companies operating nearly 10 million square metres of warehousing from around 2000 depots across the UK. The Association's membership is not restricted to companies operating in the third party logistics and warehousing sectors and this means that retailers, manufacturers and wholesalers are free to join UKWA. In addition, UKWA now welcomes members from outside the United Kingdom's borders into its membership

Alcohol excise duty fraud is damaging to UK tax receipts and to legitimate business both in terms of direct effect on honest traders but in the risk to the logistics sector in handling excise goods, with the attendant burdens now placed upon the sector by HMRC as broad counter-measures. It is vital, therefore, that alcohol duty fraud is countered effectively. Whilst by no means a solution to the problem in itself, the JAAT provides a high-level forum for liaison between government agencies and industry to evaluate the scale and nature of the fraud and discuss strategy and tactics to improve or modify existing anti-fraud measures in a targeted and proportionate way."

**Alan Powell, UK Warehousing Association**



"The Bonded Warehousing Association (BWA) has been in existence since 1887 and represents the interests of our members who are UK wide and involved in all aspects of the alcohol supply chain from Producers to 3PL Logistics, Bottlers, Co packers/ Re work, Transport operators and Software Houses.

Being compliant with legislation is paramount to the success of their business and this will not be knowingly compromised.

Being a member of the relatively newly formed JAAT is viewed by the BWA as a very positive step as it offers an opportunity to work closely and in collaboration with HMRC and other agencies whilst also benefitting from the vast knowledge and experience that the entire group can muster.

The BWA worked in a number of specific workgroups during the early stages of JAAT which delivered a framework for the future and emphasised the power and benefits of collaboration when managed properly. The fight against fraud will continue but with the combined efforts of the JAAT aligned with prompt and decisive action will inevitably deliver positive results in the future."

**John Tripp, Bonded Warehousekeepers Association**

## Next steps

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It is clear from the messages received from taskforce members that commitment to the JAAT remains strong, to drive collaborative and innovative thinking between Government enforcement agencies and the alcohol industry to reduce alcohol fraud.

Important areas of work for the taskforce to progress, identified during 2014/15, include:

- working together to increase the accuracy of tax gap estimates, and to develop wider indicators of harm caused by illicit trading;
- implementation of anti-fraud education plans for key industry sectors;
- communications to support particular initiatives e.g. AWRS;
- exchange of data to inform actions to stop fraud;
- improvements to track and trace processes between HMRC and alcohol producers;
- further exploration of innovative technology solutions to fraud; and
- rolling out best practise in local enforcement nationally.

Working groups will also be encouraged to identify new ideas with potential to reduce fraud, and a full work programme for the coming year will be developed.

The immediate next step is to consider the structure of the taskforce, so that it is equipped to deliver the evolving programme of work. In the coming year, it may be possible to deliver the important objectives of the JAAT through fewer working groups. Taskforce members will be consulted on this shortly.

# Annexe A: JAAT members

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Association of Convenience Stores (ACS)

Association of Chief Trading Standards Officers (ACTSO)

British Beer and Pub Association (BBPA)

UK Border Force (BF)

Bonded Warehousekeepers Association (BWA)

Federation of Wholesale and Distributors (FWD)

HM Revenue and Customs (HMRC)

HM Treasury (HMT)

Home Office

International Federation of Spirits Producers (IFSP)

Local Government Association (LGA)

Road Haulage Association (RHA)

Society of Independent Brewers (SIBA)

Scottish Whisky Association (SWA)

United Kingdom of Warehouse Association (UKWA)

Wines and Spirits Trade Association (WSTA)



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