The scale and nature of organised crime represent a significant risk to national security and public safety. Organised crime is more pervasive in British society than is generally acknowledged, and includes often overlooked activities such as illicit trade. The illicit trade in tobacco, alcohol and pharmaceuticals is often more attractive to organised criminals than, for example, drug trafficking, given that it is a low-risk and high-value activity. The high profit margins associated with illicit trade are used to fund other criminal activities – a fact not widely understood by the British public.

The true scale of the illicit trade in the UK is hard to determine, but not impossible to measure. On Tap is the culmination of a twelve-month study on illicit trade conducted in three regions of the UK – the northwest, east and southwest of England. It provides the first in-depth investigation of the intersection of organised crime and illicit trade in tobacco, alcohol and pharmaceuticals, and suggests a number of steps the government and other actors should take to combat the problem.
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On Tap
Organised Crime and the Illicit Trade in Tobacco, Alcohol and Pharmaceuticals in the UK

Charlie Edwards and Calum Jeffray
The views expressed in this paper are the authors’ own, and do not necessarily reflect those of RUSI or any other institutions with which the authors are associated.

Comments pertaining to this report are invited and should be forwarded to the series editor:
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All responsibility for the content lies with the authors alone.
### Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>CFSP</td>
<td>Customs Freight Simplification Procedures</td>
</tr>
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<td>CPS</td>
<td>Crown Prosecution Service</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FCLO</td>
<td>Fiscal Crime Liaison Officer</td>
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<tr>
<td>HAC</td>
<td>House of Commons Home Affairs Committee</td>
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<td>HMRC</td>
<td>Her Majesty’s Revenue and Customs</td>
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<td>HRT</td>
<td>Hand-rolled tobacco</td>
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<tr>
<td>IPO</td>
<td>Intellectual Property Office</td>
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<tr>
<td>MHRA</td>
<td>Medicines and Healthcare Products Regulatory Agency</td>
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<td>NAO</td>
<td>National Audit Office</td>
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<td>NCA</td>
<td>National Crime Agency</td>
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<td>NPS</td>
<td>New psychoactive substance</td>
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<td>NSA</td>
<td>National Strategic Assessment</td>
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<td>NSS</td>
<td>National Security Strategy</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OCG</td>
<td>Organised crime group</td>
</tr>
<tr>
<td>ONS</td>
<td>Office for National Statistics</td>
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<tr>
<td>PAC</td>
<td>House of Commons Public Accounts Committee</td>
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<tr>
<td>ROCU</td>
<td>Regional Organised Crime Unit</td>
</tr>
<tr>
<td>SDSR</td>
<td>Strategic Defence and Security Review</td>
</tr>
<tr>
<td>TMA</td>
<td>Tobacco Manufacturers’ Association</td>
</tr>
<tr>
<td>WCO</td>
<td>World Customs Organisation</td>
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<tr>
<td>WHO</td>
<td>World Health Organisation</td>
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HM PRISON Manchester, or ‘Strangeways’, casts a dark shadow over Cheetham Hill, a once thriving industrial area of inner-city Manchester. The area is celebrated as one of the most diverse places in the country. The main road is lined with churches, mosques, synagogues and temples and the area is known for its Polish delis, Irish pubs, Arab sweet shops, Pakistani markets, and Jamaican hairdressers. The latest census revealed nearly half of all residents in the Cheetham Hill Road area do not class English as their first language and more than thirty languages are spoken within a two square mile radius of the area.

The area also hides a well known secret. It is a hub for counterfeit clothes, drugs and organised criminality. The district has long been associated with organised crime generally and illicit trade in particular (the aptly named ‘Bent Street’ offers a further clue to the character of the area). In May 2014, counterfeit clothes worth more than £1 million were seized. Some 280,000 cigarettes, 129 kg of tobacco and Class A drugs were also seized by police and officers from Her Majesty’s Revenue and Customs and Trading Standards when they searched three business premises in the area.

Small shops, warehouses and storage units, trucks and hauliers all vie for space along the back streets. The shutters on the shop fronts, however, initially suggest that trade here is far from booming. It is not until one notices the spotters and look-outs standing nonchalantly along the pavement that it becomes apparent that trade is in fact thriving. Entry into one of the many shops reveals goods from counterfeit clothing to healthcare products, illicit whites (cigarettes manufactured for smuggling), drugs and mobile phones. Serious and organised criminals are reaping the rewards of this illicit trade.

The authors visited three areas of the UK to examine the role of organised crime in the illicit trade of goods and services, and identified a number of similar trends. In the northwest, for example, organised crime groups (OCGs) are diversifying their criminal activity. One OCG in Lancashire which was involved in drug trafficking had recently moved into the importation of tobacco. Their network crossed Lancashire, the Netherlands, Germany and Pakistan. The change in business was due to a variety of reasons, but was likely triggered by the successful action of the police in disrupting the group’s previous operations. A second OCG in the region, currently involved in the importation of tobacco, has also engaged in the distribution of firearms and supplying drugs to the Merseyside area. A third OCG – this time in North Wales – had a diverse portfolio of activity and was involved in several areas of criminality including supplying cannabis, counterfeit currency, fraudulent documents, importation of alcohol, and the importation and distribution of ‘mass market’ items such as counterfeit DVDs and clothing.
This is the modern face of organised crime in the UK: diverse, sophisticated, networked and largely invisible to the general public. The Internet, low-cost transport and international supply chains have made it easier and less risky than ever before to do business. Small volumes of illicit goods (to avoid detection) moved frequently (to meet demand) result in large rewards for some OCGs. The shift to illicit trade is also less violent compared to other serious and organised crime; where once there was competition between rival gangs, there is now an incentive for co-operation in managing complex supply chains in order to improve profits. The result is that the activities of illicit traders are largely hidden in plain sight, operating below the radar and on a small scale so as not to meet the threshold for law-enforcement action.

During our visit to Cheetham Hill with an undercover officer, the streets were relatively busy and business was brisk. Consumer demand plays a significant role in illicit trade. The public are increasingly aware that they are purchasing smuggled or counterfeit goods but still decide to visit some of the shops in Cheetham Hill in order to save money. At the same time, even if consumers are increasingly aware of purchasing counterfeit goods, they remain ignorant of the implications of the illicit trade. The widespread perception is that these are victimless crimes, perpetrated by tax-fiddlers rather than organised criminals. One aim of this report is to challenge this perception. The illegal economy in the UK is booming and is having a corrosive effect on society.
Executive Summary

There is an alarming scenario that senior police officers and officials from Her Majesty’s Revenue and Customs (HMRC) often like to describe to passing researchers and journalists: the possibility of a ‘perfect storm’ in the UK. It is a scenario in which relatively sophisticated, highly networked organised crime groups (OCGs) run small-scale, high-frequency operations across a diverse set of criminal and legitimate activities. Streets and communities are taken over by invisible forces. Parallel systems of governance are put in place by OCGs with areas deemed off limits to the authorities. And while much of this activity is happening in plain sight, day-to-day organised criminality takes place on the Deep Web, while illicit goods are transported by legitimate multinational courier services to the criminal’s customers. When challenged on the likelihood of such a scenario, the officers and officials pause: ‘We’re in it’, they say – the question is, ‘What can we do about it?’

The scale and nature of organised crime represent a significant risk to national security and public safety. Organised crime is more pervasive in British society than is generally acknowledged. The true scale of the illicit trade in the UK is hard to determine, but not impossible to measure. Innovative methodologies and greater openness by the police and relevant agencies about the threat and access to data mean that research has a greater chance of contributing to the general understanding of illicit trade than in the past.

Serious and organised criminals are more involved in illicit trade in the UK than many politicians and officials in government accept. There are plenty of reasons why this is the case: the continued focus on narcotics to the detriment of other criminal activity; the limited intelligence picture concerning serious and organised crime in the UK; and a cultural mindset among politicians and senior officials which underestimates the scale, nature and impact of organised crime in the UK.

The nature of organised crime is evolving. Research and analysis shows an evolution in the structure of organised crime – from organised groups built around a traditional hierarchy to fluid networks of ethnically and nationally diverse individuals operating across multiple jurisdictions. The Internet has become a key enabler of organised crime and has fundamentally changed the way organised criminals do business. They have become increasingly sophisticated in their approach, adapting their methods to ensure their activities remain below law-enforcement thresholds, thereby evading detection.

The impact of illicit trade in the UK is much more serious than the government or the public recognise. Following the global economic recession, illicit trade in goods and services has become socially acceptable among the British
public, making the UK an attractive market for organised crime. In particular, the illicit trade in tobacco, alcohol and pharmaceuticals is more attractive to organised criminals than, for example, drug trafficking, given that it is a low-risk and high-value activity. The high profit margins associated with illicit trade are used to fund other criminal and terrorist activities, a fact not widely understood by the British public.

This report is the culmination of a twelve-month study conducted in three regions of the UK—the northwest, east and southwest of England. The research team worked closely with the public and private sectors. Three workshops were held on the illicit trade in tobacco, alcohol and pharmaceuticals. One major trend identified early on in the research phase was the growth in the number of Eastern European OCGs in the UK. A three-day fieldwork visit to Poland was also undertaken to solicit views from law enforcement and customs on the illicit trade in goods and services.

Recommendations
The authors propose the following recommendations to combat illicit trade.

1. Public perceptions of illicit trade need to change: Illicit trade continues to be seen as a victimless crime, and the public associates it with tax dodgers rather than OCGs. The government should invest in imaginative public-awareness campaigns to change society’s perceptions of illicit trade and the role of organised crime.

2. HMRC should evaluate its methodology for generating more accurate and up-to-date information on the scale of the illicit market: While HMRC has worked with the tobacco industry, it needs to improve co-ordination with the alcohol industry to identify, corroborate and enhance estimates. HMRC should explore options for analysing an increased variety of data sources, including from industry and academia.

3. HMRC, the Border Force, National Crime Agency (NCA), Regional Organised Crime Units (ROCUs) and other relevant agencies should convene a task force to explore new trends in trafficking illicit goods and services: Although limited, the evidence in this report suggests that some OCGs are deliberately shifting from ‘high risk and low frequency’ to ‘low risk and high frequency’ operations in order to go undetected by these agencies.

4. Greater focus should also be placed on improving information-sharing: HMRC and relevant UK agencies need to develop better links with the Border Force, Trading Standards, the NCA/ROCU and the private sector to improve information-sharing practices and processes.
5. Government departments and agencies with responsibility for tackling illicit trade need to make better use of intelligence: A consistent theme from the authors’ fieldwork was the lack of a sophisticated approach to collecting, processing, analysing and disseminating intelligence on illicit trade across all of the relevant UK agencies.

6. Illicit trade should be placed on the control strategies for ROCUs and Police Forces, in order to improve the intelligence picture of illicit trade in the UK: While HMRC has seen an improvement in its overseas intelligence, its data on national supply chains, distribution networks, criminal finance and interaction between different OCGs is poor.

7. Research is required to understand the impact of the Internet on the illicit trade of goods and services: Efforts should be dedicated to research methods to certify legitimate online pharmacies and render them more transparent and safer for consumers, while more analysis is needed regarding the use of the Internet as a distribution method.

8. HMRC should improve the transparency of its data: HMRC could provide more information on its data sources, and a clear quantitative analysis, when providing an assessment of the financial impacts achieved by its interventions.

9. The government will have to increase both the budget and personnel of the Border Force: Given the rapidly increasing popularity of the postal system and general aviation as a method of transporting goods, the Border Force is struggling to keep up with the volumes of parcels coming into the country, sustain its high seizure rates, and elicit the support of other law-enforcement agencies to provide follow-up investigations.

10. There is scope to improve co-operation between HMRC, Trading Standards and other local government bodies at a regional and local level: There is scope to develop a joint strategy between these organisations on regional and local work to tackle illicit trade (including a more coherent strategy for targeted enforcement action and publicising prosecutions), and to ensure that this is pursued more systematically across the country. This would facilitate improved intelligence on local and regional distribution networks.

11. The government should collaborate more with the private sector on tackling the illicit trade in goods and services: While there are Memoranda of Understanding between HMRC and industries, Joint Working Groups are only as useful as the activity that flows from them. More effort must be made to work across sectors. A Senior Responsible Officer for industry engagement should be identified in HMRC and be accountable for the work the agency
does with the private sector. An evaluation of joint initiatives between the public and private sectors should be undertaken.

12. The private sector has an important role to play in the prevention of illicit trade: In particular, industry must take the lead on preventative measures such as ‘Track and Trace’ technology in order to secure and make it more difficult for OCGs to penetrate supply chains. Previous efforts have stalled not only because of the costly and complex infrastructure necessary to institute such a system, but also the lack of agreed-upon industry standards.

13. The government must think creatively about ways to make illicit trade riskier for organised criminals: There is reason to suggest that organised criminals do not see current penalties for the activity as a significant deterrent. Future strategies should include an objective to increase the penalties associated with illicit trade, rather than focusing solely on increasing the number of prosecutions. This is likely to have the additional benefit of helping to change public perceptions on the role of organised crime in illicit trade.

14. The government must develop a clear and coherent rationale for the use of prosecutions: While prosecutions are not the only answer, and other enforcement actions can have a more significant impact, it is not clear if the government and relevant agencies have assessed the merits of one course of action over another, and the understanding of the impact of criminal investigations and prosecutions remains underdeveloped.

15. Current government work focusing on the international postal system should be developed further: There was widespread consensus that postal transit is an increasingly common and important method used by organised criminals to transport illicit goods, in quantities that evade detection. More data analysis is required to identify trends in the use of fast parcels and private courier services in particular.
Introduction

...the centre of government [has been] weak, timid and sometimes entirely absent when it comes to serious and organised crime.

(Theresa May, 11 June 2014)

The Government does not know the true scale of illicit trade in the UK. It is a largely invisible industry and includes a whole host of activities such as ‘counterfeiting (trademark infringements), piracy (copyright infringements), smuggling of legitimate products and tax evasion, and selling fake or counterfeit products’. The numbers associated with illicit trade are enormous. Smuggled tobacco costs governments around the world approximately $40 billion each year in lost revenue. The global market in counterfeit medicine is worth around $200 billion, while the illicit alcohol trade is also substantial; the World Health Organisation (WHO) estimates that around 30 per cent of all alcohol consumed globally is illegally produced, or ‘unrecorded’.

Historically, the police and successive British governments have focused on high-end organised criminality – specifically drug trafficking in the UK. There is good reason for this. According to the National Crime Agency (NCA):

...drug trafficking to the UK costs an estimated £10.7 billion per year and is a major threat to national security and public safety. Drug trafficking is also associated with serious violence and firearms. Class A controlled drugs, specifically heroin, cocaine, crack cocaine and ecstasy, are widely available throughout the UK.

While drugs may be the most visible example of organised crime on Britain’s streets and have the most immediate impact in terms of associated violence, the largely hidden nature of organised criminality in the UK has led politicians and policy-makers to consistently underestimate the severity of the situation. Illicit trade is an example of the unseen nature of organised crime in the UK and its likely future trajectory, as indicated by four key trends.

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The first is **acceptability**. Illicit trade is widely seen as a victimless crime and the public is largely tolerant of purchasing illicit goods, even if this behaviour is seen as morally wrong. While illicit trade is not new, it has become more prevalent with the onset of the global economic recession, which has put pressure on the cost of living for millions of Britons. The choice between buying cigarettes and alcohol on the black market or paying some of the highest cigarette and alcohol taxes in the world is therefore straightforward. The **acceptability** of illicit trade and the tolerance shown towards the black market economy pose serious challenges to government policy to reduce organised crime.

The second trend identified is **diversification**. As demonstrated by some of the cases included in this report, organised crime groups are diversifying their portfolio of criminal activities. The case studies reviewed here suggest that some OCGs have clearly moved away from high-risk activities (such as drug trafficking) and into cigarette smuggling. The returns on seemingly low-risk, high-frequency activities are considerably large. Diversification also brings OCGs into contact with each other; in a recent report published by Europol, the organisation highlighted a change in approach, with traditional OCGs morphing into networks of criminality – suggesting an increase in co-operation and collaboration across multiple jurisdictions.⁵

Reflecting the evolution in global trade, the third trend is the **accessibility** of illicit goods and services, which in the UK benefits from inadequate enforcement across the EU, reduced customs controls and corruption in a number of EU member states. The Internet has increased the accessibility of illicit goods and services, creating new markets in both developed and developing countries. It has also played a key role in illicit trade by reducing the fixed and variable costs of entering international markets for consumers and OCGs. Given the UK's high usage of the Internet and online payment systems, there is an infrastructure to support the growth of illicit trade online.

The fourth and final trend is the growing **invisibility** of illicit trade. The Silk Road website on the Deep Web is perhaps the most notorious example of the increasing phenomenon of anonymous Internet marketplaces for illegal drugs and criminal activities. The website was closed down by the FBI in 2013 and again in 2014. While many researchers and commentators have focused on the use of the Internet as a major trend in organised crime (particularly cyber-crime), the subsequent invisibility of organised crime is worth consideration. 'Traditional' organised crime featured violence, a visible presence on the streets and the activities of a few specific groups: immigrant communities, ‘feral’ youths and the fractured remnants of the white working

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class. The digital revolution now drives organised crime – with the click of a mouse, delivery by Parcel Force or FedEx, and online customer reviews, it has morphed into an invisible trade, unseen by communities and out of reach of law enforcement.

**Report Methodology**

This report examines the role of organised crime in the illicit trade of goods and services with a specific focus on tobacco, alcohol and pharmaceuticals. The methodology for this study was divided into four phases, to achieve both detailed analysis and high-level findings regarding the role of organised crime in the illicit trade of goods and services. The first phase of the methodology was a review of academic, government policy and private-sector literature relevant to organised crime and illicit trade. The aim of the literature review was to:

- Understand the scale and nature of the illicit trade of goods and services in the UK
- Examine the role of organised crime in the illicit trade in the UK
- Identify suitable case studies of organised crime and illicit trade
- Review the response to illicit trade in the UK by relevant government departments and agencies.

The second phase of the project included a semi-structured interview process. During the course of the research, approximately 100 individuals from the public sector, private sector and academia were interviewed through snowball sampling (when the researcher asks participants to recommend other individuals to speak to). Interviews were conducted face-to-face and by phone. A semi-structured interview protocol was developed to ensure consistency across all data sources. The third phase of the methodology included a series of fieldwork visits to the northwest, southwest and eastern regions of the UK. Meetings were held with the police, UK Border Force, Her Majesty’s Revenue and Customs (HMRC) and Trading Standards. The regions were primarily chosen for the level of organised criminality within them but also for reasons of access – given the constraints on time. The fourth and final phase of the methodology included a series of small internal workshops to discuss key findings. Each workshop was attended by representatives from the British government and its agencies, industry, and academics researching this topic.

The report is split into five chapters. Chapter I provides an overview of the threat from organised crime and illicit trade in the UK. It begins by defining ‘organised crime’ before describing the threat, and explaining the scale

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and nature of the trade in illicit tobacco, alcohol and pharmaceuticals. The chapter then outlines the current response by the British government.

Chapter II focuses on illicit tobacco and, like the subsequent two chapters, begins with a case study. The aim of the case study is to bring illicit trade to life, as the process of illicit trade is dry, technical and complex – reasons why there is often very little interest in researching it in the first place.

Chapter III, which focuses on illicit alcohol, and Chapter IV, which examines illicit pharmaceuticals, are similarly structured; following a case study, each looks at the scale and nature of illicit trade, the routes taken, drivers and facilitators of the trade and how the British government is responding to the threat.

Chapter V brings the key themes and trends together for further analysis. The report concludes with a summary of the key findings and recommendations.
I. Organised Crime and Illicit Trade

SERIOUS AND organised crime represents a significant risk to the UK, and tackling it is currently a major priority for government and law-enforcement agencies. In a speech in June 2014, the Home Secretary underscored the significant level of organised crime in the UK, claiming ‘the facts are stark. Organised crime costs the UK at least £24 billion a year. There are over 5,300 organised criminal groups that affect people in the UK today, and more than 36,000 people are engaged in these criminal activities’.¹

The government’s approach to tackling organised crime has evolved dramatically since the publication of the National Security Strategy (NSS) in 2010. Both its understanding of the nature of the threat and the law-enforcement landscape have shifted as a response to the government’s decision within the NSS to class an increase in the level of organised crime affecting the UK as a Tier Two risk to national security.² Published alongside the NSS, the Strategic Defence and Security Review (SDSR) stated that dealing with the most harmful organised crime groups affecting the UK was a national security requirement.³

In light of this prioritisation, in 2011 the Home Office published its first strategy to tackle organised crime, which aimed to ‘reduce the risk to the UK and its interests from organised crime by reducing the threat from organised criminals and reducing vulnerabilities and criminal opportunities’.⁴ This was subsequently updated in 2013 to form the Serious and Organised Crime Strategy, which adopted the ‘Four Ps’ framework of the 2011 Strategy for Countering Terrorism: prosecuting and disrupting people engaged in serious and organised crime (Pursue); preventing people from engaging in this activity (Prevent); increasing protection against serious and organised crime (Protect); and reducing the impact of this criminality where it takes place (Prepare).⁵

A second major reform implemented by the Home Office was the establishment of the National Crime Agency (NCA), which replaced the Serious Organised Crime Agency as the body responsible for leading, co-ordinating and tasking law-enforcement activity against serious and organised crime. The agency

has four main pillars, or ‘commands’: Border Policing, Economic Crime, Organised Crime, and Child Exploitation and Online Protection, as well as a National Cyber Crime Unit.

While the government has undoubtedly taken major steps to improve its response to organised crime, the definition of organised crime itself remains subject to disagreement. Indeed, the Serious and Organised Crime Strategy recognises that ‘There is no legal definition of organised crime in England and Wales’.6 This often acts as an obstacle to discussing the links between organised crime and particular areas of criminal activity such as illicit trade. Confusion remains over the distinction between organised crime and other forms of crime, and what constitutes the threshold of when crime becomes ‘organised’. Definitions in the literature vary, and the concept needs to be understood within the context of an evolving debate between political, legal and law-enforcement officials on the one hand, and criminologists and other academics on the other. In general, the former seek a definition which will allow for effective investigations and prosecutions, whereas academics generally seek a definition that will provide a deeper conceptual basis for analysis.

Over time, many of the characteristics traditionally considered essential for organised crime – such as the involvement of three or more individuals, or purely financial motivations – have been called into question by the development of informal, fluid organised criminal networks and the emergence of serious crimes where the ultimate goal is not financial gain, such as child sexual exploitation. Over the past decade, in particular, there has been a growing tendency to overcome the challenges of defining organised crime by listing how the threat manifests: for example, the use of illegal drugs, firearms or fraud. According to the NCA, ‘Defining organised crime in terms of specific threats is a practical way of understanding and tackling it’.7 Yet, this approach tends to overlook the networked and methodical nature of organised crime.

For the purposes of this report, we employ the definition of organised crime as set out by the Serious and Organised Crime Strategy, which attempts to provide a more qualified definition:8

Organised crime is serious crime planned, coordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain [...] organised crime in this and other countries recognises neither national borders nor national interests.

The advantage of such a definition is that it recognises the complexity of organised crime, without placing limits on the number of actors involved, timeframe and geographic location. At the same time, the authors recognise that such a broad and flexible definition also has its disadvantages, with direct policy and law-enforcement implications.

**Threat Assessment**

The scale of organised crime in the UK is substantial; organised crime group mapping has identified some 36,600 organised criminals in 5,300 groups currently operating in ways that directly affect the UK. In addition to estimating the scale of organised crime, the role of the NCA’s intelligence function is to determine the characteristics of the threat, and suggest how they are likely to evolve over the coming years. It has therefore begun to publish an annual National Strategic Assessment (NSA) in order to develop a ‘single authoritative intelligence picture of serious and organised crime in the UK’. The first NSA was published in May 2014 and provides a useful summary of how organised crime groups (OCGs) operate in the UK:

Generally, serious and organised crime in the UK operates in loose networks where individuals, pairs or small groups bring associates and contacts together to work on particular enterprises across multiple crime types. Some serious and organised crime is perpetrated by hierarchically structured groups comprising close associates and/or family members, some of whom are based overseas. Most serious and organised criminals benefit from corruption that has taken place at some stage in the criminal process in other countries or the UK, even if individual criminals operating in the UK have not personally engaged in corruption. [...] Serious and organised criminals are known to develop partnerships that will benefit their criminal business. These partnerships cross boundaries both within the UK and internationally, and can cross ethnic boundaries.

Other national-level assessments that exist include the crime research and analysis conducted by the Home Office, which publishes periodic research reports on the nature, drivers and impact of organised crime activities. At the regional level, many of the UK’s Regional Organised Crime Units (ROCs) have begun to publish bi-annual strategic assessments, which assess current risks for the region, criminal groups of concern and trends in behaviour and activities. This is a relatively new initiative, however. Many of the ROCs have not yet developed a strategic assessment, and those that have, have identified clear gaps in their intelligence and analysis.

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Regional assessments of illicit trade in tobacco, alcohol and pharmaceuticals do not exist, as HMRC and the Medicines and Healthcare Products Regulatory Agency (MHRA) do not carry out assessments at this level. It is worth noting that illicit trade is rarely addressed specifically in either national or regional-level reporting, and does not constitute one of the eight main threats identified by the NCA: child sexual exploitation and abuse; criminal use of firearms; cyber-crime; drugs; economic crime; organised acquisitive crime; organised immigration crime and human trafficking (including modern slavery); serious and organised criminals in prison and under lifetime management.

Case Study: Operation Tinderbox

In May 2010, 1,035 kg of ‘Cutters Choice’ hand-rolled tobacco (HRT) – worth £134,126 in terms of duty evaded – was seized at the port of Tilbury. In June, two individuals were arrested at an industrial estate in Surrey over the seizure; searches of the industrial estate and the offenders’ properties resulted in the seizure of a further 1,155 kg of HRT, equating to £150,668 in duty evaded. Two days later, 880 kg of HRT (a mixture of ‘Golden Virginia’ and ‘Amber Leaf’ brands) were seized at Dover; follow-up investigations confirmed that the two seizures were related. A further charge of money laundering was brought against the suspects after sums of £154,970 and £100,790 in cash were found, intended to be exported to Luxembourg.

**Actors:** The OCG appears to have been split into two ‘core’ cells, one located in Surrey (Philip Newman, Adam Clark and Wayne Rapson) and one in Kent (Jake White, Mark Matthews, Dean Kellard, Leslie Moore). In addition to this core group, a larger network was identified which included Newman’s brother, who operated a large tobacco retail outlet in Luxembourg and provided the smuggled goods, and Newman’s son, involved in distribution.

**Routes and Methods:** In each case, sacks of HRT were concealed within rolls of roofing felt, rubber matting or plastic sheeting imported from Luxembourg. The consignments were driven through the Netherlands and the Channel Tunnel, before being delivered to either Lingfield (Surrey cell) or Rochester (Kent cell). A number of companies were connected to the case, either having their details ‘hijacked’ or being used as a point of delivery prior to collection of the goods by group members. Drivers with no knowledge of the concealed products were hired for each consignment. Identical shipment details and paperwork were often used for consignments destined for both the Surrey and Kent cells. Using the same concealment techniques, sums of cash were then loaded for the return leg, constituting the money laundering offence.

**Outcome:** Dean Kellard and Leslie Moore were acquitted; all others pleaded guilty and received sentences ranging from three months (suspended sentence) to three years.
It is therefore often challenging to see where illicit trade activities fit into the organised crime threat picture. Frequently, it is placed under the umbrella term of ‘economic crime’, which covers wide-ranging threats such as ‘market abuse/insider dealing; bribery, corruption and sanctions evasion; counterfeit currency; money laundering and criminal finance; fraud against the individual, the public, private and third sectors; and intellectual property crime’. As a result, the attention paid to illicit trade tends to be minimal.

Law-enforcement officials have recognised that they tend to focus on the threats on which they have the most information. Their understanding of certain risks such as narcotics, fraud and extortion are well developed, whereas threats such as illicit trade, immigration crime and modern slavery are less well understood and therefore receive comparatively less attention. Only political intervention has seemingly changed this approach.

**Illicit Trade**

Illicit trade is defined by the World Health Organization Framework Convention on Tobacco Control as ‘any practice or conduct prohibited by law and which relates to production, shipment, receipt, possession, distribution, sale or purchase including any practice or conduct intended to facilitate such activity’. Due to the difficulties related to gathering evidence, it is a challenge for authorities to determine the scale of illicit trade and the scope of organised criminal participation, particularly in relation to tobacco, alcohol and pharmaceuticals. According to HMRC, for example, the relationship between tobacco smuggling and organised crime is a ‘particularly difficult issue to judge with any degree of confidence’. A 2012 article in the *British Medical Journal*, meanwhile, claims that ‘the scale and nature of illegal alcohol production and sale are impossible to ascertain with certainty’. Finally, an article from 2010 asserts that ‘by its nature, the global scale of the problem of sale of inactive or dangerous substitutes for medications by criminal organisations is difficult to assess’.

This dearth of information is reflected in the reports and strategic assessments produced by the NCA and other law-enforcement agencies. The 2014 NSA is one of the few documents that references illicit trade, though admittedly only indirectly: 16

The sheer volume of passenger and vehicle traffic from mainland Europe and air passenger traffic from around the world, as well as containerised cargo, presents serious and organised crime with opportunities to smuggle illicit goods – e.g. alcohol, cash, cigarettes, drugs, metals, stolen smart phones, stolen vehicles – into and out of the UK.

Information on OCG involvement in these activities is equally opaque and, on the whole, few details are publicly available on the nature of these groups or the extent of their participation. Organised criminal involvement is typically referred to only vaguely in terms of ‘gangs’, ‘groups’ and ‘networks’; it is not unusual to come across statements such as ‘organised criminal gangs are heavily involved in tobacco smuggling’ 17 or ‘the main threat of fraud on

Case Study: Operation Army

Operation Army was an HMRC initiative directed against cross-border alcohol smuggling between France and the UK. The operation focused on the activities of one particular lorry driver, who was arrested on four separate occasions throughout 2012 carrying non-duty paid beer. In June 2012, he was charged with four counts of being knowingly involved in carrying, removing, depositing, harbouring, keeping or concealing or in any manner dealing with goods chargeable with a duty that had not been paid.

Actor: Simon O’Hare, a UK national employed as a lorry driver.

Routes and Methods: O’Hare’s schemes involved driving his empty lorry to France and loading it with twenty-six pallets of beer at a time (his lorry’s maximum capacity). He would then drive to the UK with paperwork stating that the beer was destined for a bonded warehouse in Essex. Bonded warehouses allow for non-duty paid alcohol to be stored and then moved on to a separate destination, whereupon the tax would be paid. However, rather than delivering the beer to the bonded warehouse, he delivered the untaxed beer to wholesalers around the country, who then resold it for a profit.

Outcome: The accused pleaded guilty, and was sentenced to eight months imprisonment.

alcohol duty comes from organised criminal gangs’, which offer no further indication of the nature, size, or methods of operation of these OCGs.

Despite the lack of evidence, it is not impossible to assess the scale and scope of illicit trade in the UK. There have been notable efforts by HMRC, the MHRA, academics and commentators to enhance their knowledge and appreciation of the threat. This section reviews how the illicit trade in tobacco, alcohol and pharmaceutical products is currently understood, defined and assessed in existing literature.

**Illicit Tobacco Trade**

Of the three categories covered by this study, the illicit trade in tobacco appears to be the most widespread organised criminal activity; it is also the area on which most data is available. Illicit tobacco has received the most attention from media and national authorities. Described as ‘complex, dynamic and rapidly evolving’, the global illicit tobacco industry is one of the world’s foremost criminal enterprises. In 2011, 570 billion illicit cigarettes were consumed worldwide, equivalent to 11.5 per cent of total cigarette consumption. A variety of activities are covered by the term ‘illicit tobacco trade’, and it is important to distinguish between the following five categories:

- **Smuggling**: The unlawful movement of tobacco products from one jurisdiction to another, without the applicable tax being paid
- **Cheap/illicit whites**: ‘Brands manufactured legitimately in one market, either taxed for local consumption or untaxed for export, and sold knowingly to traders who transport them to another country where the products are sold illegally without domestic duty paid’. In other words, the term applies to cigarettes that are lawfully produced in one country, but manufactured specifically for smuggling into countries with higher tax rates where there is no lawful market for them
- **Counterfeiting**: The illegal manufacturing of a tobacco product, often with apparent ‘trademarks’, but without the owners’ consent

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• **Bootlegging**: The transport of tobacco products legally purchased in one country to another with a higher tax rate, in amounts beyond those reasonable for personal use.

• **Illegal manufacturing**: The production of tobacco products without declaration to the relevant authorities. In some cases, they may be manufactured in approved factories, ‘off the books’ and/or out of normal hours; in others, they will be manufactured in unlawful covert operations.

The UK is a significant target market for illicit tobacco, and there are considerable profits to be made, given the country’s relatively high rates of tax and duty due on tobacco products. There is also ready demand with a sizeable smoking market of around 10 million adults, or roughly one sixth of the UK’s total population. The total value of tobacco sales in the UK in 2012 was £13 billion, dominated by cigarettes (representing 86.6 per cent of sales by value in 2010), followed by HRT (representing 11.5 per cent), and cigars, pipe tobacco and other niche tobacco products (representing 1.9 per cent). It is also the historic home of one of the most important tobacco industries, with two of the world’s four largest tobacco companies – British American Tobacco and Imperial Tobacco – based in London.

Accurately measuring the scale of the illicit tobacco market is a problem shared by many countries, given that ‘transparent, public data on illicit tobacco is limited and, in many countries, non-existent’. The data used by HMRC is based on analyses of what is known as the ‘tax gap’; a calculation of total tobacco consumption in the UK minus legitimate consumption. Total consumption is calculated from the Office for National Statistics (ONS) survey on smoking prevalence (with an adjustment of around 40 per cent made for under-reporting), while legitimate consumption is calculated from HMRC’s own data. These official figures show that the illicit market share of cigarette consumption in the UK fell from 21 per cent in 2000 to 7 per cent in 2011, before rising to 10 per cent in 2013. The market share for HRT fell from 65 per cent in 2000 to 35 per cent in 2011, though it too rose to 39 per cent in 2013. In 2013, the illicit market share equated to revenue

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losses of approximately £1.1 billion and £1 billion for cigarettes and HRT, respectively.28

HMRC has a published methodology and is confident that it provides an estimate to inform the assessment of trends in the illicit market. Other – primarily industry – sources have proposed alternative methodologies for calculating the scale of the illicit tobacco trade which they claim provide a more accurate picture. As demonstrated in Figure 1, there are typically large discrepancies between government and industry data; there are also contradicting reports of trends even within the industry. In 2010, for example, the Tobacco Manufacturers Association (TMA) estimated that the illicit cigarette trade in the UK was 19 per cent of the total, compared with Philip Morris’ Project Star estimate of 13 per cent, the Tax Payers’ Alliance’s estimate of 16 per cent29 and HMRC’s mid-point estimate of 11 per cent.30

More recently in 2012, Japan Tobacco International estimated that the total non-UK duty paid figure for tobacco consumption (including cigarettes and HRT) rose to 31 per cent in 2012 from 29 per cent in 2011,31 directly contradicting official figures which showed a declining trend. According to the Royal College of Physicians, ‘Both the press coverage and recently published industry data appear intended to stress that levels of illicit [tobacco] are high and increasing’, adding, ‘Yet this apparent increase is not seen in all available independent data which show continuing declines’.32

One of the most controversial methodologies favoured by much of the tobacco industry is the use of ‘empty pack’ surveys, which involve collecting discarded empty cigarette packs and analysing their authenticity either in independent or company laboratories. These surveys can take place on a significant scale (in 2012, around 25,000 packs were collected from 105 sample points across the UK in a Japan Tobacco International study) and are used to identify trends in consumer behaviour. A 2011 Philip Morris International empty pack survey, for example, illustrated an increase in the popularity of illicit whites, and found sixty-eight different illicit white brands.

However, these empty pack surveys have been heavily criticised for exaggerating the scale of the illicit tobacco trade, by those who judge their methodology to be ‘dubious’ and ‘insufficiently explained’. The neutrality of the large tobacco companies that carry out the studies and the reliability of the evidence they provide have been questioned, with claims that tobacco companies ‘cannot be considered as a neutral stakeholder on this issue’, and use the surveys to ‘deliberately [...] solicit press coverage on’.

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35. Joossens and Raw, ‘From Cigarette Smuggling to Illicit Tobacco Trade’, p. 5.
and ‘exaggerate the scale of’, the illicit tobacco trade in the UK.\textsuperscript{36} Indeed, the Royal College of Physicians goes one step further in describing the credibility of the tobacco industry in debates on the illicit tobacco trade as ‘highly suspect’, due to the ‘overwhelming evidence of the transnational tobacco companies’ long history of involvement in the illicit tobacco trade’, and their continued failure to control their supply chain despite signing agreements to address the issue.\textsuperscript{37}

In addition to the lack of impartiality, another major criticism of industry surveys relates to their sampling techniques, and the choice of locations where the surveys are conducted. Many pack collections ‘are made in large towns, have a geographical bias against non-urban areas and exclude consumption within private premises’, according to the National Audit Office (NAO),\textsuperscript{38} while Action on Smoking and Health points out that ‘collections in poorer communities will tend to produce a higher level of illicit tobacco than collections in richer communities’.\textsuperscript{39} Another popular location for surveys is sports stadia such as football grounds, but as the All Party Parliamentary Group on Smoking and Health argues, these are also likely to have higher than average rates of tobacco, since ‘higher levels of non-UK duty paid tobacco are likely to be found at international sporting events where visiting fans have travelled from abroad’.\textsuperscript{40}

Despite their differences, many of the HMRC and industry reports identify some common trends. Both suggest that counterfeit cigarettes and illicit whites – rather than the smuggling of genuine products into the country – account for most of the illicit tobacco market in the UK.\textsuperscript{41} HMRC has identified that the most serious threat from organised crime to the tobacco market is from illicit whites. The five case studies in this report include the smuggling of a legitimate brand, three relate to counterfeit products and one to illicit whites, which tend to be smuggled in large volumes.

\textsuperscript{36} Written Evidence from Royal College of Physicians, ‘Home Affairs Committee: Written Evidence - Tobacco Smuggling’, p. 18.
\textsuperscript{37} Ibid., p.18.
\textsuperscript{39} Written Evidence from Action on Smoking and Health, ‘Home Affairs Committee: Written Evidence - Tobacco Smuggling’, p. 40.
\textsuperscript{41} Written Evidence from the Royal College of Physicians, ‘Home Affairs Committee: Written Evidence - Tobacco Smuggling’, p. 16.
With an estimated 1 billion illicit whites consumed in the UK in 2012 (a 49 per cent increase from 2011),\textsuperscript{42} this phenomenon has emerged rapidly in the last decade. According to the NAO, ‘In 2000, most large cigarette seizures consisted of genuine UK brands, but by 2012-13 most large seizures were of illicit whites’.\textsuperscript{43} This trend was also identified in the journal \textit{Tobacco Control} in early 2013; while conceding that seizures of cigarettes are not necessarily representative of the illicit tobacco market as a whole, it suggests that ‘Seizures in the UK have changed over the last decade from predominantly smuggled legally manufactured tobacco to counterfeit and “illicit whites”’.\textsuperscript{44}

This observation is supported by HMRC seizure data from 2002 to 2010, which saw a significant increase in the proportion of illicit brands as part of its larger, ‘commercial-scale’ seizures (Figure 2). Industry experts generally believe that this trend is partly because non-mainstream cigarettes have become more socially and culturally acceptable, particularly in the last five years or so.

\textbf{Figure 2:} HMRC and UKBA Seizures of Cigarettes in Commercial Quantities (>10,000 sticks).

![HMRC and UKBA Seizures of Cigarettes in Commercial Quantities (>10,000 sticks).](source)

The NAO also notes that ‘Some types of illicit white cigarettes are so popular in the UK that their “brand” has become well-known, for example “Jin Ling”. HMRC seized 47 million Jin Ling cigarettes in the UK in 2010-11 – a quarter

\textsuperscript{42} Written Evidence from Philip Morris International, ‘Home Affairs Committee: Written Evidence - Tobacco Smuggling’, p. 73.
\textsuperscript{43} Public Accounts Committee, \textit{HM Revenue and Customs: Progress in Tackling Tobacco Smuggling}, p. 10.
\textsuperscript{44} McNeill et al., ‘Countering the Demand for, and Supply of, Illicit Tobacco’, p. 1.
of all seizures of illicit whites in that year’. In HMRC’s strategy for tackling illicit tobacco, it concludes that illicit whites ‘represent the most significant threat to legitimate trade and tobacco revenues in the UK from large scale organised criminality’.

**Illicit Alcohol Trade**

As with tobacco, different categories of alcohol fraud are recognised, including illicit production, smuggling of lawful alcohol products into the UK without paying the applicable taxes, and manufacturing of counterfeit alcohol that is designed to look like a commercial product. Non-UK duty paid products are seen to be the most common form of illicit alcohol trade, constituting 95 per cent of the illicit market, according to an unofficial estimate provided by one HMRC representative. Counterfeit products are thought to be far rarer, although they are still a concern; according to one estimate, the seizure of these products in the UK increased fivefold from 2010 to 2012. Counterfeit alcohol can pose a significant health risk; products tend to contain methanol levels that greatly exceed recommended limits and could also include contaminants. A more recent trend is the emergence of a range of illegal low-cost alcohol products sold in plastic sachets; however, these are not believed to be currently available in the UK in quantities that pose a public health hazard to the same degree.

As with tobacco, the scale of the illicit alcohol trade has proved difficult to measure. Unlike the tobacco industry, however, major alcohol firms and trade associations in the UK do not typically produce their own estimates on the scale of this market, while HMRC once again assess the scale using tax-gap estimates. The methodology is similar to the tobacco tax gaps, in that it is based on calculating total consumption minus lawful consumption, with total consumption largely estimated using the ONS Family Spending Surveys. HMRC concedes that this methodology contains ‘many sources of uncertainty and potential error’, but remains ‘sufficiently confident’ over its accuracy in representing the scale of the illicit market, often corroborating results with

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47. Author interview, July 2014
49. McKee *et al.*, ‘Illegally Produced Alcohol’.
50. Ibid.
51. Ibid.
other sources. The NAO concurs but warns that the figures are inherently outdated, since ‘the data required for the calculation of tax gap figures are only available about 18 months after the end of each financial period’; it also recognises, however, that the UK is ‘one of the few countries to try to make such estimates’.\textsuperscript{53} Since 2013, separate tax-gap figures have been produced for all three categories of beer, wine and spirits.

**Figure 3:** A Breakdown of the Estimated Tax-Gap and Potential Profits by Product.

![Breakdown of Tax Gaps and Profits](image)

According to the tax gap figures, the illicit trade of beer is currently the most significant alcohol fraud in the UK, even though it is estimated to be the least profitable of the three products (see Figure 3). The most likely explanation is that beer is the ‘fastest-moving’ product; consumers purchase ‘units’ of beer in greater quantities than wine or spirits, meaning that wholesalers and other outlets are able to sell stock more quickly. The latest estimates indicate that 9 per cent of total beer consumption is illicit (a statistic that has remained constant since at least 2007), implying tax losses of approximately £550 million per year.\textsuperscript{54} The illicit beer market principally comprises mainstream canned and bottled beer brands, with at least one in every ten cans or bottles of beer sold on the UK market in 2009–10 thought to be UK duty unpaid.\textsuperscript{55}

Illicit spirits, while remaining a significant problem, represent the lowest market share, at approximately 3 per cent (equating to £120 million revenue


losses per year). Spirits are ‘slower-moving’ products, transportable in lower volumes and representing a higher risk for illicit traders (particularly after the introduction of duty stamps in 2006). However, the potential profits to be made from spirits fraud are far higher than for beer and wine (Figure 3).

The statistics for illicit wine show that it is a bigger problem than spirits, with an estimated illicit market share of 6 per cent and £350 million in annual revenue losses. The statistics for wine were unavailable for many years and the first estimates were only published in 2013; previously, HMRC had avoided estimating the scale of wine fraud due to ‘the complexity of the wine sector and the larger, international span of supply chains’.

This lack of available data had been heavily criticised by the House of Commons Public Accounts Committee, which argued that ‘without reliable information on the scale and nature of duty evasion for each category of alcohol (beer, wine and spirits), the Department [HMRC] cannot tailor its approach to target its efforts to tackle evasion to maximise values for money’. With the recent availability of this data on wine, however, it is possible to estimate that alcohol fraud currently costs the UK £1.2 billion a year in lost revenue.

According to HMRC, the most prevalent issue is organised criminals smuggling alcohol products into the UK in large commercial quantities, duty unpaid. The perpetrators ‘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’. It also believes that the organisation of alcohol fraud is frequently much more advanced than for other types of goods, with ‘complex supply chains that involve sophisticated organisation in finance, procurement, logistics, supply chain control and marketing’.

**Illicit Pharmaceuticals Trade**

The illicit pharmaceutical trade is very different in nature to both tobacco and alcohol. In particular, the pharmaceuticals industry is more tightly regulated and its products subject to more stringent intellectual property protection. Both the products themselves and the outlets that distribute them must be approved by the relevant authorities in each country (in the UK, this is the responsibility of the MHRA). In addition to reduced manufacturing costs, medicine counterfeiters can gain substantial economic benefit by avoiding the major cost involved in the development and licensing of the products.

60. *Ibid*.
A specific challenge with regards to the illicit trade of pharmaceuticals is achieving consensus on standard definitions, since there is no universal agreement of what constitutes an ‘illicit’, ‘fake’ or ‘counterfeit’ medicine, with the debate having become ‘politically charged’ in recent years. The situation is complicated by the fact that a medicinal product may be granted a license – or market authorisation – by authorities in one country (thereby making it legal in that jurisdiction) but may not be granted one in another country (thereby making it unlawful to trade in that medicine). Kamagra, for example, is an erectile-dysfunction treatment produced primarily in India where it is legal; however, it has not been granted market authorisation in the UK and many other nations, where its trade remains illegal. The term ‘illicit’ is therefore used in this report to refer to products that are counterfeit (contravene the intellectual property rights of the patent-holder), unlicensed (not market-authorised for sale in the UK), or substandard (genuine products which do meet quality specifications set for them).

The use of the terms ‘pharmaceuticals’ and ‘medicines’ can also be problematic, as what may be termed a ‘medicine’ in one country may not be considered as such in another country. It is also unclear to what degree products such as homeopathic remedies and even new psychoactive substances (NPS) would fall under this category. These disagreements are a major obstacle to co-ordinated action to combat the issue, which is particularly serious given the major health concern surrounding illicit medicines. As one scholar notes, although the counterfeiting of, and trafficking in, all manner of products is on the rise globally, ‘no other bogus product has the capacity to harm or even kill its consumer as do illicit pharmaceuticals’.

Given the significant health risks, commentators are often surprised at the fact that ‘it is not at present possible to describe either the scale or the health impact of medicines counterfeiting in validated quantitative terms’. The University College London School of Pharmacy believes the pharmaceuticals sector currently lags behind other sectors, pointing out that ‘previous academic and business driven analyses conducted on other areas of trade appear to have generated relatively robust estimates of the total value and volume of counterfeiting’.

65. Ibid.
67. Ibid.
As illustrated in Figure 4, the most common types of illicit pharmaceuticals are so-called ‘lifestyle’ medicines, most notably for the treatment of erectile dysfunction – Viagra consistently tops the list of most commonly counterfeited product – and obesity and steroids, as well as human growth hormones misused by body builders (see the case study on Operation Tilly, for example).

**Figure 4**: Types of Products Investigated by the MHRA, April 2013–March 2014.

Despite their comparatively small percentages, the trade clearly extends beyond lifestyle drugs to more critical and potentially lifesaving medicines, including antibiotics, antiretroviral drugs, and cancer and infertility treatments. Counterfeitors are also responsive to market needs, illustrated by the counterfeit doses of the antiviral drug, Tamiflu, that were discovered at the height of the 2005 bird-flu scare, for example.68

As well as being identified as a target country for illicit pharmaceuticals, the MHRA notes that the UK is also being used as a ‘transit and fulfilment centre for orders placed on websites hosted and operated from other countries, thereby giving the impression to the end consumer that the product supplied originated from the UK’.69 These medicines are more likely to be seen as

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originating from a ‘trusted’ source and therefore less likely to arouse suspicion when transported overseas. According to the MHRA, falsified medicines

Case Study: Operation Tilly

The first offender in this case, Steven Corbersmith, sold anabolic steroids and other prescription-only medicines (the breast cancer drug tamoxifen and unlicensed erectile dysfunction medicine Kamagra) both directly from his gym and via a website (slchealth-fitness.com). He is estimated to have made £518,814 from sales between March 2007 and September 2008. He also admitted possessing Human Growth Hormone drugs Trenbolone, Somatropin, Methandienone, Nandrolone, Testosterone, Mesterclone, Chorionic Gonadotropin and anabolic steroid Stonozolol, with the intent to supply, at his gym. In 2010, Stefan Hazell set up his own website (ss-supplements.com) which processed 106 orders (out of 225 placed) totalling over £11,000. Orders included Nandrolone Decanoate, a prescription-only medicine, which is also a Class C controlled drug (analyses revealed that the product was counterfeit).

Actors: The case concerned two males, Corbersmith and Hazell, who both worked at a gym at Walton-on-the-Naze, Essex.

Routes and Methods: It appears that both offenders initially used anabolic steroids for their own personal use, given their interest in bodybuilding. Their activities became criminal when they decided to sell these online for a profit, perhaps without fully realising the consequences; Hazell would later state that he ‘did not think there was anything wrong with supplying the two products’ (Nandrolone Decanoate and Clomiphene Citrate). The fact that Corbersmith owned and ran a gym gave a veil of legitimacy to their activities, and he was also able to store many of the products on the premises. He confessed typically paying £140 wholesale for medicines, then selling them on for £405. The source of the products is unknown, although invoices indicate that at least some came from Shanghai. After his prosecution in 2010 for dealing in prescription-only medicines and Class C controlled drugs, specifically anabolic steroids, the MHRA found that the website slchealth-fitness.com was still trading these products. Corbersmith claimed he had sold the domain to Hazell in 2008; Hazell had begun to process the website orders, as well as sell products through his own website.

Outcome: In 2010, Corbersmith pleaded guilty to six charges brought under the Medicines Act and Misuse of Drugs Act and was sentenced to twelve months imprisonment, suspended for two years, placed under a six-month supervision order, and ordered to perform 100 hours of unpaid work. In 2012, Steven Corbersmith received twelve months imprisonment suspended for two years and Stefan Hazell was sentenced to six months imprisonment suspended for two years.
are very rarely manufactured in the UK, with just one known case since 2003. Most of the medicines seized as part of Operation Pangea VII were ‘unlicensed’ drugs, the majority of which were authentic pills, repackaged to conceal the fact that they are outdated, stolen, made by a manufacturer other than the one on the label, or intended for sale in other countries; only 2.6 per cent were outright fakes. Smuggling of medicines into the country also appears to be common, as illustrated by the case studies in this report. While some commentators fear ‘sophisticated counterfeiting syndicates are increasingly targeting Britain’s network of high-street chemists, hospitals and GP surgeries’, most illicit pharmaceuticals appear to be sourced directly by consumers over the Internet, and the MHRA claims that incidents of falsified medical products entering the UK supply chain have actually reduced since 2007.

Few details are available on the role of organised crime, either at the national or the international level. Interpol’s Aline Plançon, co-chair of the World Health Organization’s International Medical Products Anti-Counterfeiting Task Force working group on enforcement, says that there are no data to accurately measure the scale of this ‘vast, sophisticated and lucrative business, but we’re talking about big quantities seized and sophisticated criminal networks’. An oft-cited figure is an estimate by the WHO stating that about 10 per cent of the world’s medicines are counterfeit, although its validity has frequently been disputed, with some referring to it as a ‘wild guess’.

Response and Prioritisation
Combating illicit trade is not the responsibility of one sole organisation, and there is a myriad of government and law-enforcement agencies involved in different aspects of the process, as shown in the table below.

70. Ibid., p.10
<table>
<thead>
<tr>
<th>Role/Responsibilities</th>
<th>Enforcement Powers</th>
<th>Key Legislation</th>
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</thead>
<tbody>
<tr>
<td><strong>Home Office</strong></td>
<td>Lead government department on crime policy, responsible for launching both the Serious and Organised Crime Strategy (and publishing an annual report on its progress), and the NCA.</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>National Crime Agency (NCA)</strong></td>
<td>Body responsible for leading, co-ordinating and tasking law-enforcement activity against serious and organised crime.</td>
<td>Officers are designated with the powers of a police constable, immigration and customs powers (in relation to non-revenue matters).</td>
</tr>
<tr>
<td><strong>Regional Organised Crime Units (ROCUs)</strong></td>
<td>Ten specialist law-enforcement teams responsible for dealing with serious and organised crime at a regional level; designed to facilitate information-sharing across relevant agencies and departments.</td>
<td>As above</td>
</tr>
<tr>
<td><strong>Her Majesty’s Revenue and Customs (HMRC)</strong></td>
<td>UK’s tax authority and lead agency responsible for delivering the ‘Tackling Tobacco Smuggling’ and ‘Tackling Alcohol Fraud’ strategies.</td>
<td>Investigatory powers include applying for production orders, applying for search warrants, making arrests, searching suspects and premises following arrests; also holds specific surveillance powers including interception of post and telecommunications, intrusive surveillance and property interference.</td>
</tr>
<tr>
<td><strong>Medicines Healthcare Products Regulatory Agency</strong></td>
<td>Agency responsible for regulating all medicines and medical devices in the UK.</td>
<td>Investigation and prosecution powers, entry to commercial premises/private dwellings, inspection, seizure and sampling.</td>
</tr>
<tr>
<td><strong>Trading Standards</strong></td>
<td>Local authority department enforcing a range of business and consumer protection legislation relating to quality, quantity, safety, description and price of goods and services, and product counterfeiting.</td>
<td>Powers to enter premises and inspect goods, to require the production of records, to seize and detain such goods and records that may be required as evidence.</td>
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HMRC Strategies
The primary responsibility for countering the illicit trade in tobacco and alcohol lies with HMRC, with support from the Border Force. Combating tobacco smuggling is a priority for HMRC, which views the trade in tobacco as its biggest compliance risk and has had a strategy in place since 2000. In 2011, it published ‘Tackling Tobacco Smuggling: Building on our Success’, a joint strategy between HMRC (overall responsibility for delivery) and the Border Force (responsible for the seizure of illicit tobacco at border entry points). The strategy centres on four main objectives:

- **Seizures**: To seize illicit tobacco overseas, at the border and within the UK to undermine the economics of the fraud
- **Supply**: To reduce the availability of genuine tobacco products for fraud
- **Criminal investigations**: To disrupt the organised criminal gangs responsible for large-scale fraud
- **Deterrents**: To deter and punish those involved in the fraud.

In its 2013 report on HMRC’s progress in tackling tobacco smuggling, the NAO assessed this strategy as ‘logical’, featuring a wide range of complementary
measures to tackle the issue. Noting that HMRC devotes most of its resources to identifying and disrupting the OCGs that orchestrate large-scale fraud, with a particular focus on tackling the problem at its source overseas, the report concluded that this was a ‘sensible approach’, given that ‘this is where HMRC has historically had the most impact’.  

Similarly, HMRC has a dedicated strategy for tackling alcohol fraud; the ‘Renewed Alcohol Strategy’ was released in April 2010, updating the 2005 ‘Tackling Alcohol Fraud Strategy’. The new strategy has three principal themes, and aims to:

- Change the law to make life tougher for criminals and easier for legitimate businesses to compete
- Work with honest businesses to secure legitimate supply chains and thus make it harder for criminals to obtain access to illicit alcohol
- Strengthen HMRC’s operational response to alcohol fraud as part of a more centrally co-ordinated effort to detect, disrupt and dismantle organised criminal networks and supply chains.

The NAO assessed the effectiveness of the strategy in 2013, concluding that it was a ‘significant improvement’ on the 2005 strategy and ‘more comprehensive than its predecessor’.

**MHRA Strategies**

The MHRA has two strategies relevant to combating illicit pharmaceuticals. Unlike HMRC, the strategies of MHRA are not subject to review by the NAO or any other independent body. As part of the organisation’s responsibility to ‘safeguard public health’, the 2010 ‘MHRA Enforcement Strategy’ outlines the organisation’s approach to enforcement in terms of preventing, identifying and investigating cases of regulatory non-compliance. In 2012, it also published its three-year ‘Falsified Medical Products Strategy’, which has three stated objectives:

- **Prevention**: To reduce the number of falsified medicines entering the UK supply chain
- **Incident Management**: To ensure reports of suspected falsified medical products are investigated in a timely and efficient manner
- **Investigation**: To thoroughly investigate and, where appropriate, use all available legislative powers to prosecute those responsible for the manufacture, distribution and supply of falsified medical products.

References:

It often comes as a surprise to members of the public that police forces play only a very limited role in tackling the illicit trade in tobacco, alcohol and pharmaceuticals; it is seen as equally surprising that HMRC and the MHRA have both intelligence and enforcement functions tasked with pursuing OCGs in this area. These agencies evidently dedicate significant resources in this regard, but the research outlined here revealed that the issue is generally not high on the agenda of other law-enforcement agencies.

Given the limited availability of resources, it is often hard for other agencies to prioritise the unlawful trade in what are typically licit products over other criminal activities. Compared to knife crime or drug dealing, for example, the lives of citizens are not perceived to be in as much immediate danger if the end result of the crime is that they smoke a cigarette or drink a can of beer, which they will do whether the tax due on those products has been paid or not. The perceived harm to individuals and communities is deemed to be less compared to other crimes.

Public Perceptions of Illicit Trade

Surveys examining the UK public’s perceptions of illicit trade reveal that the public sees illicit trade in tobacco, alcohol and pharmaceuticals as more pervasive in British society than the government and its agencies currently understand. However, while the public recognises the significant scale of illicit trade, the statistics also reveal that it does not associate it with OCGs, and believes it to be a largely victimless crime. The degree to which members of the public admit to consciously purchasing illicit goods suggests that the public is complicit in sustaining the illicit market for tobacco, alcohol and pharmaceutical products. The primary motivation appears to be the financial costs saved in purchasing illicit rather than licit goods.

Three studies in particular are worth noting in relation to the illicit tobacco, alcohol and pharmaceuticals trade. The first is a report on public perceptions to organised crime commissioned by the Scottish government and published in September 2013. Over 1,000 adults were interviewed via a telephone survey, and while a significant majority (84 per cent) consider organised crime to be a serious issue in Scotland, almost 90 per cent of all respondents did not consider trade in counterfeit goods to be associated with organised crime.80

A second report, published by PricewaterhouseCoopers in October 2013, surveyed over 1,000 respondents in the UK on their views towards

counterfeit goods. Most strikingly, over half of the respondents said they had bought some form of ‘fake’ product; in particular, 18 per cent said they sometimes bought fake alcohol, 16 per cent said they sometimes bought fake medicines and 13 per cent said they sometimes bought fake cigarettes. A demographic breakdown revealed that those in the 18–34 age group were the most likely to purchase such goods, with lower prices overwhelmingly acting as the primary motivation. Illicit cigarettes were revealed to be the easiest to purchase (81 per cent believed they were either easy or very easy to purchase) followed by alcohol (70 per cent) and medicines (59 per cent). The availability of counterfeit medicines online was also noticeable; 67 per cent of the respondents confirmed they would look for medicines online, compared to just 16 per cent for alcohol and 13 per cent for cigarettes.

A final study was commissioned in 2014 by the TMA, and polled over 12,000 UK adult smokers nationwide. Once again, the public’s perception of the scale of the illicit tobacco trade is noteworthy; while the official HMRC estimate of the illicit market share is approximately 10 per cent, 78 per cent or respondents thought the figure was higher, and 30 per cent were aware of illicit tobacco products being sold in their area. Twenty per cent admitted to regularly purchasing tobacco from ‘non-shop sources’ and 21 per cent described the products they bought as either counterfeit or brands not found in UK shops (illicit whites).

The survey also revealed an unwillingness to report the crime; 82 per cent revealed that they had never reported illicit tobacco to authorities (of this figure, 59 per cent believed it was none of their business, 18 per cent were unsure who to tell and 13 per cent were afraid to report it in case they got into trouble).

82. Figures from Tobacco Manufacturers’ Association ‘2014 Survey’, provided by a representative from Tobacco Manufacturer’s Association, April 2014.
II. The Illicit Tobacco Trade

Case Study: Operation Towsel

On 17 August 2009, Andreas Apostolides was arrested at Luton Airport. Eighteen days later, on 4 September, Costas Georgiou was arrested at his home in Muswell Hill, north London. Both men were charged with smuggling nearly 23.9 million cigarettes into the UK between August 2008 and July 2009. While the total amount of tax duty evaded was around £4.1 million, the criminals were set to make hundreds of thousands of pounds selling the cigarettes on the black market.

For months, HMRC officers had monitored the two men and their network as they imported counterfeit cigarettes. In one case the cigarettes arrived at the Port of Tilbury concealed in a container full of pallets of cannelloni, another time in a consignment of stoneware from China.

During the trial, the prosecution suggested that the two men had been smuggling tobacco from as early as 2002 and had been responsible for carrying out fifty-eight shipments in total over seven years, relying on family and a network of contacts at home and abroad. The four shipments that were the focus of an investigation included: 4 million counterfeit cigarettes in September 2008; 7 million counterfeit cigarettes in March 2009; 7.5 million illicit Regal King Size cigarettes in the same month, and a consignment of over 5 million counterfeit Regal cigarettes in July 2009.

In order to escape the attention of the authorities, the men had mixed legitimate and illicit goods, conducted dummy runs to see if they aroused the suspicions of the authorities and created numerous fronts to hide their illegal business. Costas Georgiou and John Gee formed a company called Bellgate Import/Export Ltd in early 2002. At the same time, Gee hired units at Access Self Storage in Hornsey, north London.

The self-storage units were to become the registered address of Bellgate for Companies House and VAT purposes. In August 2002, an accomplice of the two men, Hiristos Diplas, started a wholesaling business in Greece – which would be used to transport thirty-nine of the fifty-eight shipments to the UK. Six months later, Andreas Apostolides was appointed a director of Bellgate. Meanwhile, the men had engaged the services of Hilcon Agencies, a freight forwarder, to import the goods to the UK.

The operation was up and running. Bellgate’s first shipment through Hilcon was pasta from Greece – likely to have been a dummy run. Based on the success
of the dummy run, the following six shipments were a mix of water and more pasta and illicit cigarettes. After Bellgate’s first ten shipments in early 2004, the Greek police raided the warehouse used by the shipper. A large number of illicit cigarettes were found and seized. Overnight, Hiristos Diplas disappeared but the money was beginning to roll in. In 2004, Andreas Apostolides was stopped in Dover with £60,000 in cash while Mr Diplas’s (the shipper) account received nearly €12,000.

Over the next few years, the shipments continued. Most if not all are likely to have included illicit cigarettes – proof of which comes from the paperwork. On one occasion, HMRC officers met with the company Direct Food Ingredients Ltd, which was listed as the delivery address for some of the shipments. While the paperwork was correct, they had never had contact with Bellgate, Andreas Apostolides or Costas Georgiou.

In August 2008, a container from Greece arrived at the Port of Tilbury and, a week later, was delivered to a business unit in Tipton, West Midlands. A few days later HMRC officials moved in and seized pallets of cardboard boxes filled with counterfeit cigarettes. A large amount of cash was also found on site. Six months later in February 2009, another container from Greece arrived at Tilbury; but this time, the address was a trading estate in Birmingham. It never made it. While details remain sketchy, it is likely another organised-crime group had got wind of the shipment and hijacked the container at the gates of the estate. Police later found the abandoned container with 7 million cigarettes in Small Heath, Birmingham.

The seizures did not result in the arrest of the men, and Bellgate continued to import a mixture of legal and illicit goods. The next month, in March 2009, another container from Greece arrived at Tilbury bound for the same address in Birmingham. The container was searched by HMRC and over 7 million ‘Raquel’ cigarettes (a cigarette manufactured solely for the purposes of smuggling) were seized.

The seizure was the final straw for Andreas Apostolides and Costas Georgiou. Bellgate ceased to trade and the men began to think of new ways to import cigarettes. Plan B became operational and they began to use a company called Orion (created for such an eventuality). Andreas Apostolides also adopted a pseudonym.

The first two shipments by Orion arrived in the Port of Felixstowe from China. Inside the containers were stoneware mugs, likely to have been a part of dummy run to see if the containers aroused suspicion. Believing that they had successfully avoided customs, the men continued their work, and in July 2009 a container arrived from China containing 828 packages of stoneware mugs, and on further examination, over 5 million cigarettes. HMRC officers allowed the
OPERATION TOWSEL and the other cases in this report amount to more than 78.4 million cigarettes and 3 tonnes of hand rolled tobacco (HRT) seized by authorities alone, worth approximately £14.5 million, discounting the profits the OCGs would have made from selling the goods. While high-profile seizures such as these represent particular incidents rather than broader trends, they also highlight both the scale and professionalism of many tobacco-smuggling operations, thus giving a clue as to the magnitude of organised criminal involvement. It is estimated that 4.5 billion illicit sticks arrive in the UK each year, equating to just over 529 forty-foot containers of cigarettes slipping through the net. It is clear that OCGs invest substantial amounts of time, money and effort in gathering intelligence on the routes and methods least likely to arouse suspicion, researching companies operating in particular sectors and using their details to mask their own activities, and liaising with criminal networks overseas to ensure that the counterfeit cigarettes and HRT match the legitimate products as closely as possible.

As illustrated by the cases in this report, the use of large shipping containers to smuggle cigarettes remains a challenge for authorities, particularly as the UK shipping industry continues to grow. Figure 5 demonstrates a steady overall increase in the number of containers coming into the UK each year over the last decade, although this trend is not matched by a corresponding

**Case Study: Operation Hazel Lamp**

The operation concerned a large, one-off shipment, requiring four months of planning. In November 2009, 20.4 million cigarettes were transported on the vessel *Sofie Maersk* to Felixstowe, equating to duty payable of nearly £3.38 million. The cigarettes were illicit whites, branded ‘M&J Originals’, manufactured by Independent Tobacco Incorporated in the Jebel Ali Free Zone of Dubai and not sold in the UK. With no government duty to pay on these products when purchased in Dubai, there were high profits to be made through this operation; re-sale on the black market in the UK would have generated estimated revenues of between £2 million and £3.5 million (against the purchase cost of £1 million).
increase in the resources available to the Border Force officers to conduct what can be time-consuming searches of these containers (according to officials, it takes approximately ten minutes to scan one container). Given the particular popularity of using 40-foot containers, the challenge of monitoring the sheer volume of goods arriving at ports looks set to increase.

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**Actors:** Charges of conspiracy to fraudulently evade duty chargeable on the importation of cigarettes was brought against Paul O’Meara (the group leader), Robert Doran (a wealthy businessman based in Dubai who bankrolled the operation), Patrick Gray, Martin Cleland, Mark Sadgrove, Wayne Stock and Matthew Neale. Most ran or worked for legitimate businesses, using these to transfer funds or purchase the necessary goods and services.

**Routes and Methods:** Purchased in Dubai, the cigarettes were transported in two large, 40-foot shipping containers, described as containing toys and shipped to Hong Kong to avoid suspicion. They were then shipped to Felixstowe; one container was seized, and the other was allowed to continue to its intended destination at a warehouse in Upminster, east London. The operation involved significant upfront costs, including the purchase of the cigarettes themselves, shipping to the UK via Hong Kong, the payment of customs duties due on toy products, the leasing of warehouses, purchase of distribution vehicles and hiring of labour. Efforts were made to avoid suspicion; O’Meara obtained the VAT and importation details of a legitimate company (an importer of a range of toys from East Asia, mostly through Felixstowe) and fraudulently used the details in order to disguise the illicit nature of importations.

**Outcome:** All seven individuals charged pleaded guilty to the offences and received prison sentences of between two and four-and-a-half years.

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While container shipments remain an attractive route, OCGs have been using increasingly diverse means to smuggle tobacco in the last five years. According to one HMRC official, ‘The pre-2010 days of large seizures in lorries have gone, where you could make significant seizures with less effort’. While profits of up to £1 million can be made on one container of goods (able to hold 8.5 million cigarettes), substantial profits can also be earned using other transport methods such as vans (able to transport 500,000 cigarettes, or £60,000 in profit) and cars (able to transport 50,000 cigarettes, or £6,000 in profit).

There was widespread agreement among experts and stakeholders that OCGs have increasingly begun to adopt the more sophisticated ‘little and often’ methods of consignments of Class A controlled drugs, and are able to adapt extremely quickly to the seizure techniques of law-enforcement agencies. There has consequently been a shift from using large containers to near-continent warehousing; from attempts to transport large stocks of tobacco products to first breaking them down into smaller consignments, which are then transported across the border using methods such as post and mules, before being reassembled at the destination.

2. Author interview, March 2014.
The Border Force, for example, reported a peak in the volume of tobacco being sent via post in 2012–13; the scale was such that the organisation had to dedicate significantly increased resources and enlist the support of HMRC to combat the issue. Officers also reported, however, that seizures plummeted as OCGs soon realised what was happening and adapted their methods. A more recent concern is the trend towards using fast parcel and courier services as methods of transport. In one anecdote, an HMRC official reported a tip-off from the courier company UPS, which informed them that they were regularly being asked to deliver packages of 2,500 cigarettes to a car wash in Plymouth. Due to the volume of seizures at postal hubs, it makes more business sense for criminals to send smaller consignments and pay the higher parcel costs of private companies, given the lower chance of detection and seizure.

Determining the scale of these ‘low-volume, high-frequency’ activities remains a significant challenge. While HMRC tax gap figures continue to show a decreasing trend and an interdiction rate of around 30 per cent, feedback from officers on the front line suggested that the issue of illicit tobacco remains a significant problem. It was not unusual to hear that illicit tobacco could be found ‘in every corner shop in large towns and cities’ or that there was ‘enough tobacco rolling around communities for it to be coming from somewhere’.

Much of this evidence is anecdotal, however, and intelligence is patchy, particularly at regional and local levels. While there are numerous organisations (both public- and private-sector) involved in gathering data in this area, they have different priorities and, despite claims to the contrary, challenges to information-sharing between the public and private sector and between different agencies clearly persist. The result is the reliance of law-enforcement agencies on single sources of data — and, in particular, on seizure information — to understand this issue. This tendency can be problematic, as seizures are frequently seen as isolated incidents in which the ultimate objective is to confiscate the contraband; they can only provide limited insights into the entry points and smuggling routes, and do not offer intelligence on key issues such as distribution networks. There is more work to be done, many officers admitted, around following up on individual seizures to investigate the wider operation of which they are almost certainly part.

The authors’ research supported the theory that there are various types of criminals involved in the illicit tobacco trade from large, ‘traditional’ OCGs to a ‘cottage industry’ of more minor actors such as white-collar criminals, road hauliers and mules. As detailed in the Financial Action Task Force’s 2012 ‘Illicit Tobacco Trade’ report, the degree of involvement in illicit tobacco trade depends largely on the size and ambition of the group; the report notes that some larger OCGs ‘manage all aspects of the production
process, from sourcing raw tobacco product, through to developing specific tobacco packaging that will generate suitable market interest and/or appear legitimate if counterfeit product’.

However, only a smaller number of OCGs in the UK are capable of organising the entire life cycle of the operation, from manufacture to distribution. Many others are less ambitious in scope and ‘rely on the work of key facilitators, often based overseas, who engage with smaller legitimate tobacco manufacturers in sourcing the tobacco goods and associated packaging’. Finally, some opportunistic criminals may ‘simply exploit lower cross-border prices of genuine tobacco products and smuggle them to their chosen destination for sale’.

The cases highlighted in this report show that many OCGs in this area consist of two to six ‘core’ members plus a network of facilitators, many of which are based overseas and particularly in source countries such as China and Malaysia. Three of the cases are examples of the larger OCGs overseeing an entire smuggling operation; two were links in a broader ‘chain’ and used the illicit trade to supplement their legitimate income.

The case studies also highlight common techniques used by OCGs to evade detection; notably, these include combining illegitimate goods with legitimate ones, undertaking frequent dummy runs to test the response of law-enforcement agencies, and ‘hijacking’ the import details of legitimate businesses which transport similar loads on similar routes.

In all the cases, individuals had clearly defined roles within the operation, brought in to oversee, for example, the purchase or transport and distribution of the goods. This would appear to support the notion that OCG membership in this area is often temporary and fluctuates over time; relationships tend to be of a transactional nature, with individuals hired for specific tasks. Criminal co-operation structures in this field, notes Van Dijck, ‘are mostly ad hoc or of undetermined durations as long as a certain composition of people yields success. These offender structures do not work with membership lists nor does the notion of belonging to a group seem very pivotal to the activities if [sic] the various offenders’.

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4. Ibid.
5. Ibid.
Despite their transient memberships, however, it is also worth noting the importance of familial ties for many OCGs operating in this area; in both operations Towsel and Tinderbox, the cigarettes were sourced from the brother of one of the offenders. The use of non-criminals is also not uncommon to facilitate tobacco-smuggling, from hiring drivers unaware of the content of their loads (as illustrated in Operations Towsel and Tinderbox), to bribing or forcing members of the public into acting as ‘mules’. In 2009, for example, it was discovered that smuggling syndicates were bribing girls in the UK as young as fifteen with flights to Spain, accommodation and pocket money in return for trafficking tobacco.\(^7\)

One area where the case studies provide limited information (and is an area worthy of follow-up research) is the degree of interaction between the UK-based criminals and the networks operating overseas, who may be involved in illicit tobacco along with other types of crime. In operations Commute and Corsica, both groups sourced their illicit tobacco from OCGs and networks operating in China and Malaysia.

Information on the extent of their interaction with these OCGs is limited, while no details are available on the OCGs themselves. The Northern Irish Organised Crime Task Force suggests that these OCGs are likely to have much larger, established networks: ‘local criminals operating in this area [illicit trade] will have links to international OCGs and it is not unusual for these established importation networks to be used to import other goods as well, such as drugs or firearms’.\(^8\)

Although based on his impression from analysing case files, rather than on specific evidence, Van Dijck supports the notion that criminal violence is less of a problem in this area than in others: ‘In general the cigarette black market knows very little violence among competing groups or networks and also very little violence amongst members of the same group or networks’.\(^9\)

Finally, reports such as the Police Service of Northern Ireland’s 2012 ‘Cross-Border Organised Crime Assessment’ recognise that such criminal networks also occasionally overlap with paramilitary and even terrorist groups. Although the concept of a ‘crime-terror nexus’ remains disputed, cigarette-smuggling has been identified as one of the activities common to both types of groups; the known involvement of paramilitary organisations in Northern

\(^7\) Mark Townsend and Tracy McVeigh, ‘Gangsters Prey on Young Women to Smuggle Cigarettes’, Observer, 6 September 2009.


\(^9\) Van Dijck, ‘Cigarette Shuffle’, p. 168.
Ireland has given particular weight to this argument. Roy McComb, detective chief superintendent in the organised-crime division of the Police Service of Northern Ireland, argues that ‘It takes quite modest sums of money to fund a terrorist campaign and the profits generated from cigarette crime are significant’, adding that, ‘Traditional funding streams for paramilitary groups such as extortion and protection rackets became less lucrative during the recession as businesses struggled, making cigarette smuggling now central to dissident finances’.10

Routes
All five case studies examined during this research relate to container shipments transported from the source countries of illicit tobacco (primarily China, Malaysia, and Hong Kong and the United Arab Emirates) to five main UK ports: Tilbury, Felixstowe, Dover, Southampton and Belfast. Occasionally, the products passed through transit countries (Greece for Operation Towsel and Luxembourg for Operation Tinderbox). The final destination of the tobacco products was typically warehouses or storage facilities in large towns and cities such as Birmingham, Leicester, Upminster, Gloucester and Wolverhampton.

Drivers and Facilitators
The persistence of the illicit tobacco trade is widely attributed to the high – and increasing – level of tax on tobacco products in the UK, and the differences in price between the UK and countries in continental Europe (see Figure 6). The profits that can be made on duty evasion are undoubtedly the primary force driving this trade. Between 1992 and 2011, the average price of cigarettes in the UK more than tripled, while the total tax on tobacco remained at or above 75 per cent of the overall price.11 Currently, the price of a typical pack of cigarettes in the UK is £7.98, of which 77 per cent is tax, while the typical price of a 50 gram pouch of HRT is £17.11, of which around 68 per cent is tax.12 Despite its goal of lowering tobacco consumption on health grounds, this policy of high taxation has the unintended yet inevitable consequence of generating an illicit market that generates substantial profits for sellers.

11. All Party Parliamentary Group on Smoking and Health, Inquiry into the Illicit Trade in Tobacco Products, p. 13
12. Information provided by a representative from the Tobacco Manufacturer’s Association, April 2014.
However, many commentators believe that blaming the problem of illicit tobacco-trading purely or primarily on tax rates is too simplistic, even deceptive. The All Party Parliamentary Group on Smoking and Health notes that making a ‘simple connection between raising prices and increasing illicit trade, as the tobacco industry routinely does, is grossly misleading’, while according to scholars Joossens and Raw, ‘it is crucial to note... that the solution to this problem is not to lower tax levels, as the tobacco industry frequently claims’. Although a high tax margin may provide the initial incentive to smuggle, there are numerous other important factors that should be taken into consideration, such as ‘the ease and cost of operating in a country, industry participation, how well organised crime networks are, the likelihood of being caught, the punishment if caught, corruption levels and so on’. The advent of e-commerce, low-cost airlines and globalised supply chains are also important factors to consider; new technology is just as likely to facilitate illicit trade as it is legitimate trade.

On the whole, the drivers of the illicit tobacco trade on the supply side include the desire for both legal and illegal manufacturers to increase sales and profit, the role of corruption, and the capacity of law enforcement, while demand is driven by smokers looking for specific tobacco products at low prices.\textsuperscript{16}

On the supply side, many commentators place the blame squarely on the tobacco industry; Shelley and Melzer, for instance, highlight ‘the willingness of many cigarette companies until recently to collude in or to overlook the smuggling of their commodities’.\textsuperscript{17} HMRC remains concerned about the problem of tobacco companies excessively supplying branded cigarettes to overseas markets, particularly those that are known to contain contain criminal networks which intend to smuggle the cigarettes into the UK.

Indeed, the House of Commons Home Affairs Committee (HAC) found it ‘astonishing that no UK tobacco manufacturer has ever been fined for over-supply of products to high-risk overseas markets, and that only one statutory warning letter has been issued’, concluding that ‘the penalties available are too weak and enforcement too rare’ (one fine has since been issued).\textsuperscript{18} The notion that the blame lies solely with tobacco manufacturers is, however, also an overly simplistic analysis. Evidence is widely anecdotal and if indeed manufacturers are complicit, proof of their activities is rare.

The NAO recommends taking a ‘robust stance’ towards manufacturers, specifically in cases where authorities can establish ‘clear evidence of over-supply to foreign markets’.\textsuperscript{19} In response to the HAC report, the government argued that, ‘The Tobacco Products Duties Act supply chain legislation has succeeded in its objective to reduce tobacco manufacturer supplies to high-

\begin{itemize}
  \item National tax and duty rates
  \item Ease and cost of transport, distribution
  \item Industry participation
  \item Consumer demand
  \item Law-enforcement capacity
  \item Levels of deterrence, sanctions
  \item Corruption
\end{itemize}

\begin{footnotesize}
\textsuperscript{16} Ibid.
\textsuperscript{19} National Audit Office, HM Revenue and Customs: Progress in Tackling Tobacco Smuggling, p. 9.
\end{footnotesize}
ON TAP

risk markets’.20 HMRC is reviewing the current guidance to help improve the tobacco manufacturers’ understanding of how their compliance with the legislation will be evaluated. The government also stated that ‘HMRC continually monitors and reviews all four UK major tobacco manufacturers’ compliance with the legislation and will take action where appropriate’.21

On the demand side, the role that the consumer market plays is noteworthy. Feedback from HMRC and Trading Standards indicates that the market is increasingly consumer-driven, given that smokers are exposed to a greater variety of tobacco products than ever before, particularly from overseas. Whereas twenty years ago the illicit tobacco trade took the form of offloading large quantities of generic stock, today OCGs are more receptive to consumer demand and smuggling is increasingly done ‘to order’. The complicity of smokers in the illicit trade is highlighted by Van Dijck, whose research found that ‘the trafficking of cigarettes is in general not seen as a very serious offence. People knowingly buying illegal cigarettes are aware of the illegality, but do not consider their actions particularly criminal. Consequently, the “moral” threshold to step into the world of illegal cigarette trafficking is rather low’.22

Responding to the Threat

A major part of the response to tackling the illicit tobacco trade requires a concerted effort between different countries, a process that often involves the participation of intergovernmental organisations. In particular, the revised EU tobacco products directive is likely to have a major impact in this area in the coming years. At the same time, national-level efforts are also instrumental. The introduction of HMRC’s ‘Tackling Tobacco Smuggling’ strategy in 2000 is widely believed to have had a positive impact on curbing illicit trade; there is consensus that the problem in the UK has generally decreased since 2000. As previously mentioned, official figures state that the illicit share of cigarettes in the UK has halved, from 20 cent in 2000 to 10 per cent in 2013. According to HMRC’s counterfactual estimates, the illicit tobacco trade would have reached more than 30 per cent had no action been taken.

As noted, HMRC is periodically assessed by the NAO on its effectiveness in implementing the tobacco strategy, a feature unique to the organisation. The latest assessment, published in June 2013, reported that HMRC’s performance against the strategy was ‘mixed’; while it recognised that the strategy was ‘logical’, it also judged that ‘HMRC’s approach to deterring and

21. Ibid.
disrupting the illicit market within the UK is not yet fully integrated”. The work of HMRC and other agencies has also been scrutinised by the HAC, which in June 2014 published its own report on tobacco smuggling.

The HAC report raised two particular concerns. First, not enough was being done by agencies to combat the problem of tobacco-smuggling ‘at source’, identifying information and intelligence-sharing with source countries as a particular issue. Second, it noted the recent decline in the numbers of prosecutions and convictions for organised-crime cases involving tobacco, which raised ‘deep concerns’ that ‘these figures may indicate a reduction in enforcement action’. In response to the HAC report’s criticism over the lack of media reports relating to prosecutions and enforcement activity, the government revealed that HMRC was revising its communications strategy to take a more targeted approach to publicising its operational activities.

Case Study: Operation Corsica

The case concerns a single importation of two containers containing approximately 8 million counterfeit ‘Superkings’ brand cigarettes. The equivalent revenue duty on the cigarettes was in the region of £1.6 million.

Actors: The OCG was made up of five members – Andrew Lee, Stephen Beach, Gary Beach, Gareth Bolam and Clinton O’Connell – who mostly worked for front companies MSA Fireworks or Lexicon Import and Export Ltd.

Routes and Methods: In December 2002, members of the group set up MSA Fireworks in order to legitimise activities in China. In April 2004, they travelled to China with £21,000 in cash and Benson and Hedges and Superkings branded cigarettes to give to criminals there to counterfeit. The plan was to use the company Lexicon Import and Export Ltd to import the cigarettes, but after the death of its director, O’Connell stole the identity of one Ian Wallace in order to set up a new company, Wallace Trading Ltd, which was ultimately used. It is thought that the group carried out numerous ‘dry runs’ and smaller importations from Guangzhou in China to the ports of Southampton and Felixstowe (smaller seizures of counterfeit cigarettes, including Sovereign Classic, Benson and Hedges, Regal and Superkings brands were made on premises associated with MSA Fireworks and its employees). The primary shipment took place in September 2004, containing approximately 8 million counterfeit Superkings brand cigarettes. The cigarettes were concealed behind a wall of boxes containing folding camping

25. Ibid.
These findings appear to contradict the NAO report, however, which recognised that HMRC ‘devotes most resources to identifying and disrupting the organised criminal gangs that orchestrate large-scale fraud, with a particular focus on tackling the problem at source overseas’. This has involved ‘upstreaming’ investigations, including funding twenty-eight Fiscal Crime Liaison Officers (FCLOs) in strategic locations overseas. Feedback indicated that the work of FCLOs had proved particularly successful in Poland, which is thought to be a major transit country for illicit cigarettes destined for the UK, along routes established by Polish OCGs operating in the UK.

More of a concern for the NAO was the level of communication between HMRC and other organisations, including the Border Force, particularly given the resource-intensive nature of investigations and the benefits of a collaborative approach. It recommended that HMRC should ‘develop further its collaborative work with police, Trading Standards and other local bodies, building on successful regional initiatives’. The HAC also recommended that ‘HMRC and Border Force must continue to strengthen the lines of communication between the two organisations’, since ‘without sharing information, raising prosecution and arrest rates for tobacco smuggling will be more difficult, if not impossible’. Anecdotal evidence suggested that, having been divided for organisational purposes, conscious efforts were now being made to improve information flows between HMRC and the Border Force, particularly at the operational level. The two organisations have made a number of changes to improve intelligence-sharing and joint working; in the government response to the HAC report, it was stated that the HMRC and Border Force have ‘refreshed joint protocols governing criminal investigation and intelligence, which provide: greater clarity on criminal investigation adoption criteria; improved processes for mandatory feedback; better joint management information; and improved joint approach to planning’.

27. Ibid., p. 6.
28. Ibid., p. 8.
Progress has evidently been made by both organisations in terms of seizures, with 1.27 billion cigarettes seized in 2012/13, representing a 20 per cent increase since 2010/11.\textsuperscript{31} According to the NAO, however, the impact of these seizures on combating illicit tobacco is limited, particularly in light of recent trends. The NAO notes that ‘HMRC’s intelligence suggests that the high profit margins associated with the smuggling of “illicit whites” result in organised criminal gangs being more resilient to seizures’, adding that, ‘Seizures may, therefore, no longer have as significant an impact on the economics of the fraud as when the main threat related to genuine products’.\textsuperscript{32} The trend towards smaller consignments, often by post, has also made seizures more challenging and the NAO was critical of the lack of progress made on implementing an enhanced postal screening facility which would aid these smaller seizures. Finally, HMRC officers themselves recognised that more could be done to exploit seizures and follow up on operations in order to acquire a broader intelligence picture.

In addition, the success of prosecutions and other deterrents have been questioned. Figure 7 demonstrates the declining numbers of prosecutions and convictions of organised crime cases relating to illicit tobacco since 2010. The House of Commons Public Accounts Committee (PAC) is critical of what it sees as the low number of total prosecutions for tobacco-smuggling, which stood at 265 in 2012/13.\textsuperscript{33} Both the PAC and NAO believe that HMRC does not yet have a clear rationale or sufficient understanding of the role of enforcement action and the use of prosecutions in creating an effective deterrent.\textsuperscript{34}

\textsuperscript{31. Written evidence from the Border Force, HM Revenue and Customs and the National Crime Agency, ‘Home Affairs Committee: Written Evidence - Tobacco Smuggling’, p. 3.}
\textsuperscript{32. National Audit Office, \textit{HM Revenue and Customs: Progress in Tackling Tobacco Smuggling}, p. 27.}
\textsuperscript{34. National Audit Office, \textit{HM Revenue and Customs: Progress in Tackling Tobacco Smuggling}, p. 6.}
Frequent complaints are that current sanctions against tobacco smugglers are not strong enough (some believed that the threat was not recognised as serious by the judiciary), and do not target the correct people. There is also the fear that a reduction in prosecutions will affect the risk/reward calculation made by OCGs; if the likelihood of being prosecuted is reduced and the most serious consequence of being caught is the loss of the contraband (and the majority get through successfully), then there is no real disincentive for either the OCG or the individual couriers to stop their activities.

HMRC has argued that the UK has ‘relatively punitive sanctions for tobacco fraud’, although the agency concedes that ‘there are significant profits to be made, notwithstanding the sanctions we have in place, so the balance of risk and reward is one that [criminals] will factor into their decisions’. In recent years, HMRC has also begun to question the effectiveness of prosecutions compared to civil sanctions; stakeholders argued that ‘an emphasis on prosecutions misunderstands the nature of the fraud. We can’t prosecute our way out of this problem; we have to be smarter than that’. There is a wide range of both criminal and civil sanctions available to punish and deter offenders and, in many cases, civil action can have a more disruptive effect on OCG activities, particularly when it is used to punish those ‘further down the food chain’. It is also important to consider the amount of legal resources that HMRC possesses, and the pressure it is likely to face in dealing with an increasing number of smaller seizures, affecting the cost/benefit balance.

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37. Author interview, May 2014.
of mounting individual prosecutions. The case can still be made, however, for HMRC and the Border Force publicising ‘prosecutions and enforcement action more widely to deter potential offenders’.38

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**Case Study: Operation Commute**

The total sum of counterfeit cigarettes seized in this case was 25.9 million, or the equivalent of £4.95 million in duty evasion. These were shipped in eleven separate container shipments between January and August 2003, although nine other containers are known to have been imported and are thought to have carried illegal concealments of cigarettes. Each shipment seized contained between 2 million and 4.7 million counterfeit cigarettes. The counterfeits were a mixture of familiar UK market brands, or brands normally manufactured in the UK for export, namely Lambert and Butler, Benson and Hedges, and Sovereign Classic.

**Actors:** Six conspirators were involved in the operation: John Owens (a purported buyer for a furniture company); Andrew Smith (involved in procuring the cigarettes in Malaysia); George Grassick (involved in the transportation); Andrew Middlecote (an old friend of Smith and a buyer of the cigarettes using a front company); Michael Morris (organised flights to China and Malaysia as part of the conspiracy) and Steve White (organised and facilitated distribution).

**Routes and Methods:** The designated consignee was either Seconique (based in the West Midlands) or Wholesale Beds and Furniture (based in Northern Ireland, owned by Owen’s sister-in-law), both established furniture companies importing flat-pack furniture in containers, sold to retail trade. A small number of Seconique’s containers were typically delivered direct to the customer, meaning they were not checked by staff on arrival. This system was exploited by the conspirators to evade detection and to carry out the importations without the knowledge of other Seconique employees. The counterfeit cigarettes were disguised as bunk beds and re-enforced with steel frames. The products were imported from China (Guangzhou, Yantian), Hong Kong or Malaysia (Kuala Lumpur) and shipped to Belfast or Southampton (and delivered to Birmingham, Wolverhampton or Gloucester). Prior to the first importations, samples of Lambert and Butler cigarettes were sent to China or Malaysia via DHL to enable criminals there to make accurate counterfeits.

**Outcome:** All six individuals pleaded guilty to the offences and received prison sentences of between six months and almost four years.

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Most interviewees expressed concern over a potential ‘perfect storm’ scenario, in which limited intelligence, diffuse groups and small-scale, high-frequency operations, inadequate co-ordination between agencies and a lack of prioritisation by the judiciary were creating ideal conditions in which the illicit tobacco trade was able to flourish. While a frequent complaint from law-enforcement agencies is that it is difficult to address such a transnational issue, many of the current challenges uncovered by the research presented here appear to be ‘inland’, or challenges in the UK. These include persistent cultural process issues related to data-sharing both between and within agencies, intelligence on national and regional distribution networks, the ability to detect smaller volumes of tobacco products arriving more frequently into the UK (particularly by post), and the capabilities to deter OCGs from entering into the trade (through publicising sanctions, for example).

A Note on Standardised Packaging
Over the last two years, the debate over an effective response to illicit tobacco has tended to focus on the issue of standardised (or ‘plain’) packaging, pitting health officials – who argue that plain packaging will be less appealing and fewer young people will therefore start smoking, bringing significant health benefits – against the tobacco industry, which claims that this will make it much easier for organised criminals to forge packets and customers will find it more difficult to tell the difference between lawful and illicit packs. The strategy has already been adopted in Australia and will soon come into force in Ireland.

The issue has become highly politicised, with heated debates between academics over the effectiveness of such a policy. In the authors’ view, the issue is beyond the scope of this study, as it does not appear to affect the role and impact of organised crime in illicit trade. The All Party Parliamentary Group on Smoking and Health, for instance, claims that there is ‘no good evidence for the assertion that standardized packaging will lead to an increase in illicit trade. Evidence to our Inquiry showed that existing packaging can be cheaply and readily copied by illicit manufacturers’. The Royal College of Physicians agrees that existing branded packs provide no barrier at all to counterfeiters; in its opinion, counterfeit packs are already so cheap to manufacture that they cannot easily become cheaper and affect the retail price.

40. Written evidence from the Royal College of Physicians, ‘Home Affairs Committee: Written Evidence - Tobacco Smuggling’, p. 16.
III. The Illicit Alcohol Trade

Case Study: Operation Baygood

Operation Baygood was an investigation by HMRC into the production, bottling and distribution of commercial quantities of counterfeit Glen’s Vodka on which duty had not been paid. The investigation focused on eight individuals: Kevin Eddishaw (the central person behind the criminal organisation and a property developer by trade); John Humphreys (foreman at the plant, managing the day-to-day running of the operation); Michael Matthews (a printer who produced the counterfeit labels); Stuart Bemrose (who provided the shrink-wrap machine and packaging materials); James Fyfe (foreman for the group); Wojciech Herbst (the ‘chemist’ who prepared the counterfeit vodka); and Mark Gyles (a driver). The group did not have any family connections and had seemingly few past business relationships. It is thought that Eddishaw had a history of smuggling counterfeit tobacco.

On 30 September 2009, HMRC officers arrived at Moscow Farm, outside the village of Great Dalby, some 3 miles south of Melton Mowbray. At the farm, officers found a complete vodka production line with all the necessary equipment including international bulk containers, several thousand litres of counterfeit vodka, twenty full pallets and two part pallets of empty bottles ready for bottling, and a substantial stainless steel header tank, with a capacity of 6,000 litres. The tank was perched on railway sleepers and filled with counterfeit vodka, creating the gravity flow to the filling machine. Dean Ironmonger, the group’s driver, was arrested on site and a lorry with ten pallets wrapped in black pallet wrap was seized. Forty minutes away, HMRC officers were also searching premises at Sandfield House, East Bridgford in Nottinghamshire. There, the officers found four shipping containers, in which were stored pallets of wine and counterfeit Glen’s Vodka (similar to what HMRC officers had found in the lorry at Moscow Farm).

This was not the first time that officers had come across the counterfeit Glen’s vodka. In May 2009, in excess of 5,000 litres were seized at a storage unit in Blackpool, thought to be from the same source. One month later, HMRC began an operation and tracked two individuals who met at the Garden Centre in East Bridgford and travelled in convoy to the vicinity of Sandfield House. On 29 June 2009, a 7.5-tonne lorry was observed travelling from Unit 3, Burma Road (where pallets of empty bottles were being stored) to Moscow Farm, Great Dalby, and then on to the vicinity of Sandfield House. The method of the group slowly became clear. One member of the group, John Humphreys, would meet the customer at the Garden Centre, collect the order and drive the customer’s vehicle to Sandfield House, returning a short while later and handing the vehicle (containing the illicit goods) back to the customer.
Operation Baygood provides some insight into how sophisticated a counterfeiting operation can be – a relatively small part of ‘alcohol fraud’. The authors’ research found that the illicit alcohol trade primarily consists of the distribution of duty non-paid goods; counterfeiting is relatively rare, but entails significant scales of production. Cases often only come to light after some sort of incident; the most high-profile case in recent years was in July 2011, when five Lithuanian men died in an explosion at an illicit vodka distillery in Boston, Lincolnshire. Although the explosion removed much of the evidence of the extent of production, other cases point to groups

John Humphreys was also observed by HMRC officers on other occasions, meeting with a foreign-registered articulated lorry at an airfield near Great Dalby, for example, before travelling in convoy to Moscow Farm. He also met with Michael Matthews in a lay-by close to the M1 motorway, looking at flat-pack Glen’s Vodka boxes and red labels. Michael Matthews, a printer, produced counterfeit labels and boxes to enable the enterprise to package the counterfeit vodka in authentic-looking boxes. However, the group could not rely solely on UK manufacturers and looked eastwards for help.

On 4 July 2009, officers at Coquelles (the Eurotunnel terminal) intercepted a Polish-registered van travelling to the UK with two Polish citizens inside. A search of the vehicle revealed a consignment of more than 100,000 counterfeit Glen’s bottle tops. The bottle tops were seized and the men continued their journey. The documentation stated that the tops were consigned from a company in Poland to a transport company in Hyde, Cheshire. A fortnight later, officers at Coquelles intercepted a Polish-registered bus travelling to the UK. A search of the bus revealed a consignment of approximately 29,500 counterfeit Glen’s bottle tops. The tops were seized and the vehicle was allowed to continue its journey. The bottle tops were consigned from a Polish company to a ‘Peter Jones’ at an address in Nottingham, but Peter Jones did not exist. Finally, on 28 September, there was an importation of five pallets of ‘caps and labels’ to a storage depot in Leeds. The name on the documentation was Peter Jones, but it was John Humphreys who collected the goods.

At first it was not clear how the group was linked, but the analysis of itemised phone billing showed a significant amount of contact between the individuals, and indications as to the hierarchical structure of the organisation. Five men were arrested on 30 September 2009, including Wojciech Herbst, the group’s ‘chemist’ for the enterprise. It was Herbst’s role to add the precise amount of bleach to the denatured alcohol, and mix it with water to create the vodka for bottling. At the subsequent trial, Dean Ironmonger and another individual were found not guilty; the other six were given prison sentences ranging from twelve months (suspended sentence) to seven years.
producing tens or even hundreds of thousands of litres of illicit alcohol, which can pose a serious risk to public health. In addition to Operation Baygood outlined above, there have been cases in Cheetham Hill, where in October 2010 HMRC officers seized 25,000 litres of counterfeit vodka, bottling and labelling equipment, and Worcestershire, where in March 2011, more than 11,400 litres of counterfeit alcohol were seized at an industrial unit.

Given the scale of these incidents, industry organisations in the past have often disputed the figures issued by HMRC, though the NAO reports that there is now a much closer match between industry and HMRC estimates. Feedback from Trading Standards, however, suggested significant differences in the assessments of scale between the operational and policy levels, as well as a shortfall in the amount of intelligence exchanged between Trading Standards and HMRC. HMRC has also recognised a number of current intelligence gaps relating to the illicit alcohol trade that it is attempting to address, including information on OCGs, how the supply chains operate, and financial flows resulting from the activity. The low levels of intelligence received by Trading Standards causes concern for some within the organisation that this may, in part, be responsible for the declining number of counterfeit goods being

Case Study: Operation Accrete

This HMRC operation was directed against two Polish nationals who were laundering the proceeds of an alcohol-smuggling venture worth £5.3 million. Officers discovered a rucksack containing £20,433 in cash outside one suspect’s home, as well as £100,000 in his car. When officers raided his home, a further £266,025 in cash was discovered. Subsequent investigations revealed that the couple had deposited £800,000 into a bank account, discovered to be the proceeds of alcohol-smuggling.

Actors: Two Polish nationals, Piotr Terpilowski and Iwona Roman. At the time of arrest they were cohabiting at an address in Wood Green, north London.

Routes and Methods: Terpilowski and Roman were laundering the profits of a Polish alcohol-smuggling operation using a fictitious UK-based company, Drinks Import Ltd. Terpilowski was registered as a director of the company, and Roman its secretary. Investigations revealed that the couple had transferred £800,000 in cash into the Drinks Import Ltd bank account in 2011. The funds were then transferred to separate accounts in Poland, after which they could be accessed by the alcohol smugglers themselves.

Outcome: Terpilowski was sentenced to five-and-a-half years imprisonment, and his partner Roman was given an eighteen-month suspended sentence.
seized. The diminishing figures may be attributable to less effective and targeted action, it is feared, than a genuine decline in the activity itself.

It was also suggested to the authors that the ambiguity in terminology used to describe illicit alcohol has led to negative implications for intelligence-gathering. This is surprising, as the literature did not reveal terminology as an issue in the illicit alcohol trade, particularly in comparison to the illicit trade in tobacco and pharmaceuticals. Nevertheless, public- and private-sector representatives believed that part of the reason for the current intelligence gaps was the multitude of terms being used by different agencies stakeholders, which informs data collection and divergent interpretations of this data at the operational and policy levels.

There was consensus, however, that the vast majority of cases relate to evasion of duty on goods rather than counterfeiting alcohol. There was agreement too that OCGs are involved at all stages of the supply chain, from the suppliers to those holding goods in duty suspense, hauliers, excise warehouses, lock-ups and cash-and-carry stores, corner shops and other outlets.

As with tobacco, there appear to be a limited number of OCGs who are able to manage the process from start to finish; some may be involved in the production of counterfeit alcohol, collecting used bottles or purchasing moulds to make their own. Others are able to profit from a more opportunistic approach by exploiting weaknesses in certain parts of the supply chain, smuggling goods by sending cover loads; and, if these are not stopped and checked by authorities, ‘mirror’ loads are sent with identical documents.

The goods may then be sold cheaply to cash-and-carry stores or taken to so-called ‘slaughter sites’ where they are broken down into lesser volumes to be sold to corner shops and other small outlets. Finally, interviewees noted that OCGs were adaptive and reactive in this area; as soon as law-enforcement agencies plugged one gap, the market evolved and OCGs quickly learnt to sidestep obstacles. One example given was the case of Bulgarian counterfeit tax strips – which were made available by OCGs even before the real versions were released.

**Routes**

All five case studies examined in this research relate to shipments from continental Europe (primarily France), which ended up at either a bonded warehouse or cash-and-carry shops; in at least three cases, these were based in Essex. In one case (Operation Adamant), untaxed alcohol was distributed to shops where it would then be illegally sold at reduced rates.
Drivers and Facilitators

According to HMRC, the problem of alcohol fraud has grown and evolved significantly since the introduction of the European single market in 1993. The agency claims that, ‘It used to centre on the smuggling of small quantities of alcohol in private vehicles and vans from the near-continent’, but now ‘it involves the large scale diversion of lorry loads of duty unpaid alcohol by organised criminal gangs’.1

Once again, high taxes are blamed for the rise in counterfeiting. Michael Patten, Diageo’s global head of public affairs, claims that ‘We tend to see an uptick in these illicit products when prices go up driven by tax. If alternatives are in place, people switch even though they are exposed to greater levels of risk’.2 However, the biggest issue appears to relate to the fundamental weaknesses of the EU duty suspension regime, rather than tax and duty rates. The World Customs Organization (WCO) recognises this situation: in 2012, it highlighted the misuse of excise suspension regimes in the EU single market as a means to illicitly trade alcohol products.3

The technique involves, for instance, the abuse of the excise holding and movement system which allows payment of duty on goods to be ‘suspended’ while they circulate between registered warehouses in the EU, until the goods are released for consumption. These warehouses, also known as ‘bonded warehouses’, are designed to benefit traders who import goods, offering a facility that delays duty and/or import VAT payments until traders are ready for the goods to come out of ‘duty suspense’, entering free circulation or the customs procedure of another EU member state. The WCO offers a useful overview of how the illicit trade of alcohol functions in the UK in this regard:4

Organised criminals use this system to position large commercial consignments of popular UK beers, wines and spirits on the near continent in ‘duty suspense’. These goods are subsequently diverted back into the UK under the cover of false documentation, taxes are not declared, and the illicit consignments are then sold onto wholesalers, cash-and-carrys, small retailers and the leisure sector, thus undercutting legitimate suppliers.

In the wake of the explosion in Boston, HMRC highlighted the criminals’ sales tactics, claiming that ‘they turn up at the doorstep, approach corner shops, international stores, [and] even local wholesalers. They post flyers and even

1. HMRC, Alcohol Fraud, p. 6.
4. Ibid.
email. Often the illegal alcohol is offered at prices that look too good to be true.\(^5\) Trading Standards noted that, given the greater competition in this sector, these shops are increasingly willing to buy cheap alcohol just to remain competitive.

**Case Study: Operation Adamant**

This operation was directed against a group suspected of the trafficking and sale of undeclared alcohol. One of its members was arrested in March 2012, after being stopped in a lorry containing alcohol with no supporting paperwork at Centrepoint Cash and Carry in Rainham, Essex. The same individual was stopped on two separate occasions prior to this in possession of £20,000 and £50,000 in cash.

**Actor:** Kelvin James Gravett, a British national and former professional lorry driver.

**Routes and Methods:** Gravett belonged to a criminal organisation which distributed untaxed alcohol to shops where it would then be illegally sold at reduced rates. An HMRC statement following Gravett’s arrest hinted at Operation Adamant’s wider implications: ‘HMRC’s actions and the subsequent disruption of the organisation appear to have led to the dismantling of the Organised Crime Cell.’

**Responding to the Threat**

Another similarity with the trade in illicit tobacco is the mixed assessment of agencies’ efforts to combat the problem. On the one hand, the increased number of seizures and investigations is encouraging; the NAO reported that the quantity of alcohol seizures increased by over 61 per cent from 2009/10 to 2010/11.\(^6\) In 2013, the Intellectual Property Crime Group observed that, ‘Over the past four years there has been a substantial rise of 27% in the amount of illicit alcohol being investigated by trading standards, highlighting the considerable response now being made to tackle the increasing availability of these potentially harmful products’.\(^7\) Likewise, since 2010 HMRC has almost tripled the amount of revenue protected through its enforcement work, to over £680 million in 2013/14.\(^8\)

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However, the House of Commons Public Accounts Committee (PAC) has criticised the fact that ‘despite an estimated £1.2 billion being lost each year from duty evasion there are very few successful prosecutions for alcohol duties fraud’. In particular, it judges HMRC’s efforts to combat the organised criminal component of the problem as insufficient, claiming that it ‘does not make good enough use of intelligence to disrupt the organised criminal gangs responsible for much alcohol duty fraud’.

Case Study: Operation Amsterdam

Operation Amsterdam was part of a larger investigation conducted by the French police into the activities of a suspicious haulage company named Eurotrans. As part of the UK’s contribution, HMRC arrested an individual in the UK who was suspected of smuggling untaxed alcohol. The suspect’s arrest was preceded by several previous stops. In February 2012, he was stopped in the UK with a lorry load of non-duty paid vodka. Then, in June 2012, he was arrested at Brighton Cash and Carry in Barking whilst unloading non-duty paid alcohol from his lorry, but not charged. He was arrested again at the UK Border Agency’s controls at Coquelles in France shortly afterwards. Following this last arrest, he was charged and pled guilty to one charge of knowingly carrying goods for which duty had not been paid.

Actor: Cyril Dessain, a French national employed as a lorry driver.

Routes and Methods: Dessain smuggled quantities of spirits from France into the UK without paying the required tax. He then sold them for a profit to cash-and-carry shops across the UK, such as the one he was arrested at in Barking.

Outcome: Dessain received a five-month suspended prison sentence and was banned from driving alcohol into the UK for a further year.

Many of the recommendations of the NAO report reflected those it made in the later assessment of the HMRC tobacco strategy. In particular, the NAO noted the fact that HMRC had no explicit objective of increasing its use of sanctions from its perceived low level; it also criticised the agency for ‘not actively [pursuing] an increase in criminal sanctions against fraudsters’. It noted that HMRC needs to more actively engage with the beer industry in particular, recommending the introduction of ‘new measures to improve the

10. Ibid.
effectiveness of its work with industry to reduce the volume of beer at risk of diversion into illicit markets.\(^\text{12}\)

As noted, significant potential improvements in relations between Trading Standards and HMRC were identified by stakeholders. The first was to reinstate the regular intelligence briefings that Trading Standards received from HMRC. One local authority also claimed that, while its Trading Standards unit used to conduct regular joint visits with HMRC (making seizures in almost every shop), this strategy abruptly stopped recently. Partly due to the success of these efforts, the HMRC resources were thought to be better served by focusing on other geographic areas.

One of the drawbacks of HMRC’s new focus on civil sanctions was highlighted by recent joint operations. Customs officers reportedly became frustrated with Trading Standards officers during these operations; while HMRC sought to impose civil sanctions, thereby limiting the time and resources required for the operation, Trading Standards officers continued to go through the more onerous and time-consuming process of collecting evidence for criminal prosecutions. The effectiveness of the joint operations was seemingly made more difficult by these divergent priorities.

As part of its efforts to increase the effectiveness of civil sanctions, HMRC has designed a number of initiatives to mitigate the exploitation of the EU’s duty suspense regime, set to be implemented in the coming months and years. These include:

- **Wholesaler registration scheme**: This initiative seeks to regulate the currently unregulated cash-and-carry industry, requiring all 20,000 wholesalers in the UK to apply for licences to trade in alcohol by 2016/17. The aim is to raise the bar for entering the business-to-business alcohol trade. Licences will be withdrawn in cases of repeated non-compliance with HMRC regulations, criminal behaviour, or poor or inadequate record-keeping.

- **Tighter controls of facilitators**: This primarily targets warehouses and other storage facilities, particularly customs warehouses. These are often the location of slaughter sites and storage of illicit alcohol, and will be subject to more stringent checks; high-risk units will receive weekly visits by HMRC to verify their records are in order.

- **Joint Alcohol Anti-fraud Taskforce (JAAT)**: HMRC chairs the JAAT and works alongside the Border Force, the Home Office, Trading Standards and key industry stakeholders. The first meeting of the task force was in January 2014, with the body aiming to enhance collaboration and information exchange between different agencies.

IV. The Illicit Pharmaceuticals Trade

Case Study: Operation Singapore

This case represents the most serious known breach of the supply chain of regulated medicine in the UK. In total, 72,000 packs (more than 2 million doses) of illicit pharmaceuticals penetrated the UK supply chain with a retail value of £4.7 million. The medicines were Zyprexa (used to treat schizophrenia and bipolar disorder, trademark owned by Eli Lilly), Casodex (used in the treatment of advanced prostate cancer, trademark owned by AstraZeneca) and Plavix (used in the treatment of heart disease, trademark owned by Sanofi Aventis). The medicines contained between only 50 and 80 per cent of the active ingredient, as well as unknown impurities. Forty thousand packs were seized before they reached pharmacies, 7,000 packs were recovered following a recall and 25,000 packs reached pharmacies and patients.

The principal organiser behind this operation was Peter Gillespie, who had experience in the pharmaceutical trade, having previously owned and run a company called Discpharm with his brother Ian Gillespie (in 2005, the company was placed into administration and Gillespie declared bankrupt). Three others linked to the operation were Ian Harding (a Discpharm employee), Richard Kemp and James Quinn, who both worked for UK-licensed wholesalers and did not carry out due diligence in ensuring they bought legitimate goods from a legitimate dealer.

Gillespie was able to exploit weaknesses in the legal practice of parallel trade. In order to facilitate free trade, the EU permits the repackaging and relabeling of pharmaceuticals in the language of the final market, where prices are higher and profits can therefore be made. The counterfeit medicines were manufactured in China in French packaging, shipped to Singapore via Hong Kong, and transported by air to Belgium, before entering the UK via road and ferry where they were taken to the warehouse of Consolidated Medical Supplies Ltd. Here, they were further labelled with French vignettes and repackaged to enhance the impression that they were genuine products produced for the French domestic market. They were then sold to UK-licensed wholesalers as French stock, which could be re-packaged and re-labelled for the UK market and sold to UK pharmacies. The batch numbers that each packet bore were those that were actually used by the legitimate manufacturers.

With significant knowledge of the pharmaceuticals industry, Gillespie set up five front companies and used false document trails, multiple intermediaries and account transfers to mask his illicit activities. It is also thought that at the time of his arrest, he was already making plans to bring in three other counterfeit medicines designed to treat Alzheimer’s, epilepsy and schizophrenia.
According to the Medicines and Healthcare Products Regulatory Agency (MHRA), the scale of organised crime involvement in the illicit pharmaceuticals trade is completely unknown, due to the lack of available data and the challenges of products and definitions as outlined in Chapter I. Perhaps to a greater degree than the case of tobacco and alcohol, the illicit pharmaceuticals trade very much takes the form of a low-volume, high-frequency activity; there are no shipping containers, no haulage trucks and no large warehouses.

Pharmaceuticals are the easiest of the three goods to transport, by a variety of methods, making it particularly difficult to assess scale. As can be seen in the case studies, the actual number of illicit pharmaceuticals traded by criminals is often never determined, and sometimes not even known by the criminals themselves. Unlike Her Majesty’s Revenue and Customs (HMRC), MHRA therefore does not possess the means to produce an annual estimate of the size of the illicit market share; industry stakeholders hold the view that the problem is currently as big as it has ever been.

The lack of available evidence also makes it particularly difficult to judge the extent of organised criminal activity, as well as to gauge whether the problem is increasing or decreasing. One of the few sources of data is the results from the annual Pangea operation (discussed below). As illustrated by Figure 8, the estimated value of the seizures of illicit pharmaceutical products rose exponentially during the first six iterations of Operation Pangea, but fell from £12.2 million in 2013 to £8.6 million in 2014. The data look at the value rather than the volume of products, however, and does not indicate whether variations are a result of the number or value of pharmaceuticals available on the illicit market, or the effectiveness of the operation and wider efforts of law-enforcement agencies.
Figure 8: The Estimated Value of Seizures of Illicit Pharmaceutical Products in the UK during Operation Pangea.

The issue of law-enforcement thresholds was evident in relation to illicit pharmaceuticals. The Border Force reported that, while smaller individual consignments sent via post do not represent a high risk, on aggregate they are a ‘massive problem’. The cases relating to illicit pharmaceuticals demonstrate that the public and private postal service plays a critical role in the smuggling of products into the UK, representing the method of choice for traffickers. Given the limited resources available and the focus on parcels above a certain weight threshold, officers admitted that small consignments are more than likely to slip through the net.

Case Study: Operation William

Investigations began in January 2011 after a seizure at the Coventry postal hub by what was then the UK Border Agency. This ultimately led to the discovery of an operation based in Surrey, and the confiscation of vast amounts of counterfeit and unlicensed medication for erectile dysfunction, antihistamines, analgesics, hormones and diet pills, as well as benzodiazepines, a Class C controlled drug. The total value of the drugs seized was over £1.7 million.

Actors: The case involved Mahomed Bacai, a Portuguese national, and his wife Hina Bacai, living in Surrey. They are known to have been part of a larger network operating online across the UK, Netherlands and India.

Routes and Methods: Bacai operated a business from his home involving the distribution of unlicensed and prescription-only medicines (in addition to Class C controlled drugs). The medicines were sent via post from India and China.
During the authors’ interviews, some industry experts argued that valuable sources of data on this issue exist; the inability of agencies to access and share this data, however, represents the biggest hurdle in terms of assessing the overall scale. The Border Force, for example, produces monthly data reports with intelligence on common shippers, consignors and consignees. It is felt that more could be done with this data, particularly as some parties remain unaware of its existence. There was also a widespread desire to pool the intelligence gathered by law-enforcement agencies in different countries on consistent offenders, methods, and source countries. While the drawbacks of relying on individual seizures for intelligence have already been outlined, the industry also thought that authorities could improve their use of information gained from seizures in, for example, extrapolating the scale of the operations of an OCG. The volume of one seizure was thought to be equal to one month’s supply, according to one industry representative.

Another common obstacle to collecting data identified by stakeholders was the perceived low priority given to illicit pharmaceuticals. The fear was that authorities frequently prioritise the threats that they know most about; this creates a vicious cycle of overlooking other threats, which in turn leads to a low level of understanding of these threats. The specific challenge with regards to a consumable item such as medicine is that there is limited evidence of the crime. Prioritisation tends to be determined based on the extent of physical harm. While there have been known cases, it is difficult to prove that an individual’s cause of death was linked to their treatment. When illicit...
products result in fatalities, medical professionals understandably typically assume that the cause was the illness rather than the medicine itself.

While it was recognised that illicit pharmaceuticals may not represent the biggest organised crime threat, the issue occasionally poses a serious public health risk. In the past decade there has been a general desire to raise awareness among the public and push the issue higher up on policy-makers’ priority lists.

Despite doubt over the reliability of statistics, commentators are convinced that the global scale of the manufacture of counterfeit drugs is vast. The apparent scale of mass production makes the involvement of organised criminals almost inevitable; as the UN Interregional Crime and Justice Research Institute observes, ‘any efforts to seek realistic solutions to control and reduce the phenomenon of counterfeit medicines would be aimless if the involvement of organised crime is not taken into account’.1 The institute also describes the professionalisation of this ‘veritable mass production industry’:2

Production and transportation techniques, distribution networks and the practices used by counterfeiters and traffickers to waive controls and to co-ordinate their actions and communicate, show that production and distribution of counterfeit medicines cannot be classified as anything but an organised criminal activity in the majority of cases.

Similarly to illicit tobacco, it is occasionally suggested that medicine counterfeiting is used to fund terrorist activities,3 although it is rare to find evidence to support this view. According to industry representatives, the illicit pharmaceuticals trade is such an ‘easy’ way to make money that it is often an end in itself, rather than a means to fund other illegal activities.

In terms of trends in the nature of the illicit pharmaceuticals trade, the 2014 Pangea VII operation indicated an increase in the volume of unlicensed medicines but a decline in counterfeit medicines; of the nearly 1.9 million doses confiscated at mail hubs, 30,498 were found to be counterfeit (1.64 per cent). This is supported by figures from MHRA which suggest that counterfeit medicines represent a small percentage of the case referrals to the agency;

2. Ibid.
almost half of its workload deals with importations, licensing checks, and illegal sale and supply (Figure 9).

**Figure 9:** Types of Referrals to the MHRA, April 2013—March 2014.

The research suggests that, as with tobacco and alcohol, there are various ‘levels’ of organised criminal involvement in the illicit pharmaceuticals trade, from the ‘cottage industry’ of opportunistic individuals to more structured OCG activities taking place on an industrial scale. As with both tobacco and alcohol, many believe that the organised criminal structures involved in this activity may be less formal and traditionally hierarchical than first thought, involving transient criminal ‘networks’ rather than traditional OCGs. A contributing factor is likely to be that much of this trade takes place online.

According to a 2013 report, the ‘network-style organisation’ dominates the illicit pharmaceuticals trade, with central figures initiating projects and giving guidelines to all the other players. More so than the other two products examined so far, the illicit pharmaceuticals trade is closely aligned to legitimate business practices. For example, in two of the cases, Operations Daniel and Tilly, the offenders sold legitimate goods as part of their online ‘stock’.

MHRA identifies three categories of criminal actors involved in the trade: pseudo-entrepreneurs and businessmen with a working knowledge of the pharmaceutical environment; organised criminals operating within an

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established criminal network; and opportunistic, multi-commodity trading individuals who identify a niche way to make quick money via internet sales, for example. The case studies used here largely fit into one of these three categories.

The two men in Operation Tilly (see page 22) found a way to make quick money by selling unlicensed products alongside legitimate merchandise. The individuals in Operations William and Fitzroy appear to be part of, though not the central figures in, a broader criminal network or ‘franchise’ providing illicit goods. The offenders in Operations Singapore and Daniel, meanwhile, were undoubtedly part of a more formal organised group structure.

Routes
In all five cases in this chapter, the method of transport into the UK was post. The source country in all cases was either China or India, and the products were posted to private addresses in towns across England, such as Basingstoke, Loughborough, Slough, Brighton, as well as rural Surrey, Hertfordshire, Kent and Essex. In two of the cases, the products transited through countries in Southeast Asia (Hong Kong or Singapore) or Europe (Belgium), and most would have passed through either the Langley or Coventry postal hubs upon arrival in the UK. Unlike the case studies in tobacco and alcohol, the UK acted as both the destination and the transit country. In Operations William, Daniel, Fitzroy and Tilly, the offenders made up orders and posted them on to customers based both in the UK and in mainland Europe (primarily the Netherlands, France and Germany).

Drivers and Facilitators
As noted, the Internet plays a much more prominent role in facilitating the illicit trade of pharmaceuticals than that of tobacco or alcohol. The majority of illicit pharmaceuticals are obtained online, mainly due to the accessibility of ‘online pharmacies’. The MHRA notes that, while incidents of falsified medical products reaching pharmacies are relatively rare, ‘access to falsified medical products is more common through unregulated websites’.5 According to the Financial Times, more than half of all spam emails continue to have medicines as their subject,6 directing the recipient to illegal websites. The number of illicit websites shut down by MHRA as part of Operation Pangea has dramatically increased since 2008, as shown in Figure 10, to a total of 1,891 in 2014.

Once again, the low-risk and high-reward nature of the crime makes it attractive to organised criminals, reflecting the ‘modest penalties for offences versus the high profits that can be made’. The problem is aggravated, according to one scholar, by the disproportionate attention paid by counter-trafficking initiatives to narcotics; the less severe penalties make pharmaceuticals the ‘contraband of choice’, he claims, while the focus on narcotics means there are ‘fewer obstacles to infiltrating the pharmaceutical supply chain’.

Compared to tobacco and alcohol, pharmaceuticals are also often easier to counterfeit. Given the regulated nature of much of the industry, tablet sizes, vials and medicine packaging tend to be standardised, making the task of sourcing realistic counterfeits more straightforward.

Finally, the common market in the EU is held to be an important contributing factor in the illicit pharmaceuticals trade. A commonly used term in this area is ‘parallel trading’, in which products available cheaply in one part of Europe can legally be shifted to another with higher prices. In itself, there is nothing illegal or wrong about properly conducted parallel trading; as much as 25 per cent of Britain’s NHS prescriptions arrive via this route, and an estimated 90 per cent of Britain’s pharmacies have some products that have come via parallel trade.

As Operation Singapore highlights, however, the system is also open to abuse. The fact that medicines can legally be repackaged is a particular vulnerability; while it is designed to ensure packaging is in the correct language, it allows alternative products to be inserted. Many industry stakeholders believe that the UK is often a major transit point in parallel trading, as the products are seen to come from a credible source and thus reassure buyers.

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Case Study: Operation Daniel

The true scale of the operation has not been firmly calculated, but this group’s sales of illicit medicines between 2004 and 2012 are thought to have amounted to over £11 million (with annual turnovers of up to £3 million). There were two types of products sold in different ways. Unlicensed medicinal products for the treatment of erectile dysfunction and impotence were sold online, and counterfeit Viagra (trademark owned by Pfizer) and Valium (trademark owned by Roche Products) were sold to ‘face-to-face’ customers only.

Actors: A total of seventeen individuals are thought to have been involved in the conspiracy, with the assistance of others. The group comprised two cells; one in Humberside and one based in Brighton, Dartford (Kent) and Loughton (Essex). The group had a fairly traditional structure, whereby the majority of members had some familial connection. An individual named Neil Gilbert appears to have been the head of the conspiracy, forming a ‘core’ organisational unit along with two others.

Routes and Methods: This was a significant commercial enterprise based primarily around online retail. The unlicensed medicines were sold over the Internet by a succession of websites including kamagrafast.com, which operated from 2004 to 2011, when it was shut down by MHRA. This was quickly replaced by other sites including kamfaster.com and fasterkam.com. The medicines came from a variety of sources in Hong Kong, China and India (Mumbai), although some appear to have been sourced in the UK. Products were regularly ordered and delivered to four addresses in Hoddesdon (Herts), Dartford (Kent), Brighton, Loughton (Essex), all owned by group members. Three front companies, two of which were cosmetics companies with some legitimate trade, were set up in order to provide documentation to banks, if requested. Their names and details were also used to rent storage units (three in the Brighton area), distribution centres (two units in Brighton) and mailboxes (three in Brighton, used to receive cash and uncrossed postal order payments, as well as any customer returns). The orders were made up at the two distribution centres and sent via mail or private courier to customers in the UK and mainland Europe (Sweden, France and Germany, in particular). When the two distribution centres were inspected, the first contained 85,952 tablets of the unlicensed Kamagra (valued at £150,201) in addition to postal receipts for twenty-seven customer orders. The second contained 4,500 counterfeit Valium tablets, valued at £6,275 (whether or not these drugs led to illness or death is unknown). The money trail revealed that over 100 different bank accounts were used to launder the proceeds from the crime. The profits were then transferred from merchant and business bank accounts to other nominated bank accounts. The money was subsequently either withdrawn in cash, used to pay for the expenses of the conspiracy, or transferred out of the jurisdiction (including to offshore accounts in Panama).
Responding to the Threat

The MHRA is the lead agency charged with investigation and enforcing legislation with regards to illicit pharmaceuticals. However, unlike HMRC, the effectiveness of its strategies and activities is not currently assessed by an independent body such as the NAO, and it does not produce annual progress reports, making it difficult to comment on the agency’s performance.

Given the health risks and the particular need for cross-border co-ordination in this area, international organisations are also heavily involved in responding to the threat from illicit pharmaceuticals, and MHRA receives directives from the EU and the World Health Organization (WHO) in particular. The WHO’s activity in this area started in 1998, although it stepped up its efforts in 2006 when it launched the International Medical Products Anti-Counterfeiting Task Force (IMPACT), which brings together members from international organisations, enforcement agencies, industry and non-governmental organisations. Interpol has also made combating counterfeit pharmaceuticals a priority, taking over the leadership of the annual Operation Pangea from the MHRA, which ran the operation as the ‘UK Internet Day of Action’ from 2006 to 2008.

Since 2008, Operation Pangea has involved a week of co-ordinated international operations to tackle the supply of counterfeit, illegal and substandard medicines, and in which HMRC, the Border Force, and MHRA all participate. These operations focus on suspending illegal websites, disrupting payment services and intercepting illegal medicines in the postal system. The most recent iteration, Pangea VII, took place in May 2014; worldwide, the operations seized illegal pharmaceuticals worth over £18.6 million and resulted in the closure or suspension – through domain name or payment facility removal - of 10,603 illegal online websites selling counterfeit and unlicensed medicines. What is perhaps most noteworthy for British authorities is that nearly half of the 8.4 million doses of illegal drugs were seized in the UK.

The operation has received widespread praise for its particular ability to raise the profile of the issue of illicit pharmaceuticals, at both the national and international levels. Given this ability to raise awareness, the operation

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**Outcome:** Of the eight individuals charged, seven admitted conspiracy to sell or supply unlicensed medicines between 2004 and 2012, with only Seth Pennington denying the charges. The trial was suspended in May 2014 when Pennington was seriously injured in a collision with a lorry as he was crossing the road outside the Old Bailey on the second day of his trial.

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10. MHRA, ‘UK leads the way with £8.6 million seizure in international operation targeting dangerous counterfeit, controlled and unlicensed medicines’, press release, 22 May 2014.
is likely to continue for many years. At the same time, several shortcomings were identified by both public- and private-sector stakeholders. The first is that the seizures offer only an annual ‘snapshot’ of the illicit pharmaceuticals trade; the utility of the data it provides has therefore been questioned, and it is clear that it does not address key intelligence gaps. Evaluations are rarely undertaken to determine the effectiveness of the operation and whether it tackles the problem or simply displaces it. As far as MHRA is concerned, it is very much a communications exercise, and ‘the principal objective of Operation Pangea is to deliver a clear, consistent and accurate message to consumers in terms that outline the significantly increased risks to individual health and personal security when medical products are purchased from unregulated websites’.11

At the national level, stakeholders believed that more could be done from a legislative perspective to deter offenders. Current penalties were not seen as having much of a deterrent effect, and officers believe that the offenders in Operation Singapore – Gillespie and Xu – have already resumed their activities in illicit pharmaceuticals after completing their jail terms. Given the challenges involved in reducing the potential profits from the trade, many believe it is crucial to make penalties more severe, thereby increasing the risk associated with the activity. As Steven Allen, senior global security director at Pfizer, noted in 2008:12

> The chances of detection are pretty low and the penalties don’t really fit the crime. If you are bringing in cocaine or heroin, you are going to go to prison for the rest of your life. At the moment if you are smuggling in Viagra you may get a slap on the wrist and a fine.

The maximum penalty for offences under the Medicines Act 1968 is two years of imprisonment, while for many intellectual property offences, the penalty can be up to ten years imprisonment.

Illicit medicines and pharmaceuticals were only recently added to the Border Force’s control strategy, and are therefore a relatively new threat from the organisation’s perspective. Unlike countries such as Australia, where there are X-ray machines over all in-feed belts at postal hubs, UK facilities such as Coventry International Hub rely on intelligence-led profiling of parcels and a focus on higher-risk categories. Border Force officers reported that keeping up with, and being able to identify, the variety of pills and powders covered by the term ‘pharmaceuticals’ is a major challenge. The volume of parcels passing though hubs such as Coventry is equally a challenge (amounting to 20,000–25,000 per day, a figure that can double over the festive period). As

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they are unable to check every single parcel, officers conceded that some goods (particularly smaller parcels) undoubtedly pass through unchecked.

The Border Force’s ties with MHRA are clearly less mature than its relationship with HMRC, and the organisation has called for additional support from MHRA to assist with the verification of products. The priority of the Border Force remains detecting and seizing goods, yet the volume of medicines being detected together with the specialist knowledge of MHRA means that their support is manifestly needed. The potential for closer collaboration has increased following the changes to the Border Force’s control strategy.

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**Case Study: Operation Fitzroy**

The two men in this case were involved in the importation of unlicensed medicinal products for erectile dysfunction and hair loss, often mislabelled with false trademarks and inaccurate dosages. The erectile dysfunction products – Sildenafil (used in Viagra), Tadalafil (used in Cialis) and Vardenafil (used in Levitra) – were all prescription-only. Finasteride is also prescription-only, and in lower doses is used to prevent hair loss in men. The total scale of the operation is unknown; the retail value of the products recovered was £610,000; additional tablets worth £109,000 were also found at the defendants’ homes.

**Actors:** Two students at Loughborough University, Alif Ahmed and Ryoma Ninomiya, who were recruited into a larger criminal network after coming across a leaflet in the street.

**Routes and Methods:** The packages were sent from China and Baroda, India, to three UK addresses; two in Loughborough (those of the two men) and one in London (that of a female friend who was paid by Ahmed and Ninomiya to receive the parcels). The men were paid between £50 and £100 per week to receive the parcels at their home address, make up orders and forward to customers in the UK, Netherlands, Germany and other countries in continental Europe via the Post Office, UPS and Transglobal Express. A number of false names were used by the pair. Between October and December 2011, a total of eighty-eight packages containing some 88,800 tablets were intercepted addressed to the two Loughborough addresses; fifty-four packages – addressed to locations in London – containing a total of 62,000 tablets were intercepted between September 2011 and January 2012. The two men appear to have communicated with other members of the network via Skype.

**Outcome:** Ahmed and Ninomiya pleaded guilty to the charges and received suspended sentences of twelve months with 200 hours of unpaid work and eight months with 140 hours unpaid work, respectively.
In addition to the Border Force, many law-enforcement agencies and private-sector stakeholders believed that the relationship between the MHRA and pharmaceuticals industry could also be improved. The authors found that the UK pharmaceuticals industry is very different to the tobacco and alcohol industries; in particular, there appears to be much more interaction between large pharmaceutical companies. Many of their security officers are former law-enforcement officers and/or former colleagues, and the extent of personal relationships means that there is a large amount of information exchange, particularly at the operational level. As with tobacco and alcohol, many of these organisations conduct their own investigations into illicit pharmaceuticals, possessing significant resources and anti-counterfeiting budgets, and a desire to investigate cases to hand over to the MHRA.

Feedback from both the MHRA and industry suggested that partnerships and collaboration between the two has declined in recent years. From MHRA’s perspective, any cases that it received from industry were arriving at earlier stages and were often incomplete, unlike in past years when many cases arrived ready to be passed on to the Crown Prosecution Service almost immediately. Many agency representatives found it more difficult to work with industry on joint operations and seizures, as industry representatives have no powers of enforcement and are only able to access limited data.

Industry representatives often interpret this approach as hostile, leading them to believe that government agencies do not want industry assistance because of a perceived lack of expertise. Another common complaint is that they do not receive any credit for the volume of cases and intelligence that they provide (unlike in many states overseas, where industry is held in higher esteem). Finally, in contrast to the early days of Operation Pangea, industry representatives claimed that they are no longer invited to contribute to, or participate in, such operations and are offered less feedback and intelligence to feed into their own investigations. This deterioration in law-enforcement–industry relations has evidently had a detrimental impact on investigations, and as Figure 11 demonstrates, industry now represents only a marginal source of MHRA referrals.
Figure 11: Source of MHRA referrals, April 2013–March 2014.

Source: Medicines and Healthcare Products Regulatory Agency
V. The Role of Organised Crime in Illicit Trade

The illicit trade in tobacco, alcohol and pharmaceuticals reflects the changing nature of organised crime in the UK. The organised crime groups behind the activity are largely invisible to members of the public, who demonstrate complicity in their willingness to purchase what many know to be counterfeit goods; the methods of OCGs are ever-more sophisticated and evolve rapidly in response to law-enforcement action. Globalised supply chains and low-cost carriers have changed business models and in turn the ways in which OCGs conduct trade.

The previous three chapters detail subtle differences between the illicit tobacco, alcohol and pharmaceuticals markets. In particular, the intended targets of each market and the methods for making the most profit for organised criminals differ in each case. The illicit tobacco trade is largely concerned with selling illicit white cigarettes to individuals; the illicit alcohol trade mostly consists of taking products out of duty suspense without paying the appropriate taxes, and selling them on to cash-and-carries and other small distributors; and the illicit pharmaceuticals trade focuses its efforts on the Internet, selling both counterfeit and unlicensed medicines to consumers online.

Despite these differences, there are three major themes common to illicit trade in general, and to that of tobacco, alcohol and pharmaceuticals in particular:

- **Illicit trade is considered a relatively low-risk, high-reward crime.** A comparison is often made between illicit trade in lawful products such as tobacco and alcohol, and the trade in illicit products such narcotics and arms. The former carries a lower risk of detection by authorities, and sanctions for offences are typically less severe; the profits that can be made, however, are often just as substantial. These profits are often the end goal, but are just as likely to be used to fund further criminality.

- **Illicit trade is increasingly a low-volume, high-frequency activity.** OCGs have begun to realise that law-enforcement agencies find it much more difficult to respond to illicit trade when goods are broken down and transported in smaller consignments (although this is not always the case for smuggling alcohol). While this may increase costs for criminals, the fact that such consignments do not reach the authorities’ thresholds means that it also lowers the chances of interception.

- **Illicit trade is increasingly diverse in its products, routes and methods.** As the above point demonstrates, OCGs are able to quickly adapt to law-enforcement action and diversify their goods and techniques to further reduce risk. The Internet allows OCGs to quickly identify new
markets, routes and facilitators. Collecting, sharing and analysing timely intelligence on these changes is a continuous challenge.

This last feature makes it particularly difficult for law-enforcement agencies to stay on top of the multitude of new products, routes and methods employed by criminals, even in relation to tobacco, alcohol and pharmaceuticals. In terms of products, a particular challenge with respect to pharmaceuticals relates to the advent of new psychoactive substances. The multitude of new chemical compounds, powders and pills now available to consumers makes the task of distinguishing between medicines, new psychoactive substances and narcotics increasingly difficult for authorities. The Border Force has also reported the trend towards raw tobacco imported for the production and pouching of hand-rolled tobacco as a likely future threat.

As the previous case studies demonstrate, OCGs frequently transport their goods along established commercial routes via shipping containers, road networks and the postal system. Maintaining an appropriate presence at all of the 140 sea- and airports across the UK and overseas where the Border Force operates remains a significant challenge for the agency, however. The scale and volume of the traffic passing through the UK’s biggest airports (London Heathrow, London Gatwick and Manchester) and sea ports (Felixstowe, Southampton and the Thames Estuary) makes policing these facilities extremely difficult and resource-intensive. Given limited resources, the agency must prioritise the most high-risk ports of entry, based on periodic risk assessments, leading to inevitable vulnerabilities at ports and along routes that are less well established and less well monitored. Private courier services (as discussed below) are one example, as are private charter flights and unmanned general aviation terminals. According to the Border Force, approximately 90,000 inbound private international flights land at around 3,700 sites across the UK each year, ranging from international airports to unmanned locations including helipads and farm strips.1

Furthermore, the methods used to smuggle products into the country are increasingly diverse: from air and sea cargo to mules and tour-buses, the sheer number of ways in which products can be concealed on the person, in parcels and in containers of all sizes means that this activity is unlikely ever to be eradicated, only reduced. Stakeholders from all backgrounds agreed that this could only be done by lowering the rewards available to criminals by addressing drivers and market demand, and by raising the risk by improving enforcement and introducing stricter penalties.

Commercial gain is undoubtedly the biggest driving force behind illicit trade, and while it is recognised that the connection made between tax rates and illicit trade may be a simplistic one, it is important to consider the role of market and economic forces, particularly in a trade bloc like the EU. An often overlooked fact is that initiatives to facilitate trade do so for all types of trade, both licit and illicit. The OECD has identified the abuse of free zones as a key facilitator of illicit trade, given their minimal customs controls, while the exploitation of bonded warehouses has already been noted.

Within the UK, trade growth, health and tax policies all have a significant impact on illicit trade. Efforts to promote trade include Customs Freight Simplified Procedures (CFSP). According to HMRC, ‘under CFSP, formalities at the frontier are kept to a minimum with the bulk of fiscal and statistical data being supplied electronically to Customs Handling of Import and Export Freight at a later date’. While this is certainly likely to facilitate legitimate trade, it also makes the lives of OCGs operating in this area much easier. The UK government must consider this in relation to its tobacco and alcohol policy.

Raising the cost of tobacco and alcohol products may be one effective way to discourage excessive consumption of these products on health grounds, but the fact that it also generates a market that is illicit is not often recognised by policy-makers. Such tax policies need to reflect consumer affordability, tax rates in neighbouring countries or within a trade bloc and the ease of administration and enforcement. Either such policies need to feature the means to mitigate an increase in illicit trade, or alternative strategies to address the issue need to be considered.

A second driver that needs to be addressed is demand from consumers and their willingness to purchase counterfeit and non-duty paid goods; the reason why illicit trade in tobacco, alcohol and pharmaceuticals is such a large issue in the UK is that there is a market for such products in the first place. As has been noted, the public understands the scale of illicit trade but does not currently recognise it as a reliable revenue stream for OCGs, or even associate it with organised criminality at all. Businesses, and particularly small retail outlets, are also complicit in their willingness to sell on stock that is bought cheaply from illegitimate sources, again not fully appreciating the consequences of their actions, such as funding serious and organised crime in the UK.

Response
Throughout this research, all of the agencies involved in combating illicit trade demonstrated high levels of professionalism and dedication to the

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cause, while recognising certain areas in which they could improve. Many of these are outlined in the assessments conducted by the NAO, which are a useful gauge – both internally and for the public – of the agency’s performance and the effectiveness of its strategies. While the form and function of the MHRA are clearly very different from HMRC, the authors believe that MHRA would also benefit from an independent assessment of its enforcement and medicines strategies.

While HMRC has justifiably drawn praise for its extensive efforts to combat the illicit tobacco trade in particular, concern was raised throughout the research presented here that, particularly given the size of the organisation, HMRC’s approach needs to be flexible enough to respond to what is a very dynamic and fast-evolving market. The agency needs to ensure that its strategy reflects rapid changes in the nature of the threat – especially with regards to the growth in illicit whites, for example – as well as the methods used and the means of transport, particularly by post, and consumer behaviour. While more could be done to reduce public demand for illicit products, under-reporting of crime is also an issue that needs to be addressed. Across all three areas, there are improvements that can be made in agencies’ relations with industry organisations and bodies, which can be invaluable sources of intelligence, investigation and technological innovation.

Finally, the question of sanctions and penalties for offences in illicit trade is the focus of much debate. Sanctions for the most serious offenders are judged to be insufficient, and as reported by the Public Accounts Committee and others, do not currently act as a deterrent to other offenders. At the same time, the authors recognise that civil sanctions can also be just as effective in disrupting organised criminals undertaking illicit trade, particularly in an area where so many legitimate businesses are involved. However, levels of understanding of how and when to use such sanctions are currently poor, and HMRC’s strategy to combine criminal with civil action is unclear to other government departments, let alone the public at large.

Thresholds
The key theme to emerge from the research was the role of quantitative and qualitative thresholds in understanding and responding to illicit trade. As noted at the start of this report, large-scale seizures are disappearing, as OCGs use much more sophisticated methods of transporting illicit goods. To a greater extent than authorities perhaps realise, OCGs conduct frequent ‘test runs’ to discover how much they can get away with transporting via a particular route, and adapt their methods accordingly, taking alternative routes if necessary. This is a major challenge to the government’s response, not least because it challenges the current ‘thresholds’ approach designed by the agencies to help them prioritise cases.
Nowhere is this issue more evident than in the fast parcel and postal service sector; the National Crime Agency’s National Strategic Assessment recognises that ‘Fast parcels and postal services are used frequently for “little and often” trafficking ventures’.

Given the sheer scale of this sector – 20,000–25,000 parcels pass through Coventry International Postal Hub alone every day – law-enforcement efforts are time-consuming and resource-intensive, requiring prioritisation and risk assessments, and therefore require thresholds to be put in place.

As Figure 12 demonstrates, the parcel industry in the UK is set to grow significantly over the next ten years, which is likely to place additional burdens on agencies such as the Border Force. This growth will also allow OCGs to exploit new routes, such as those offered by private fast parcel and courier services. The sorting facilities of these private companies do not have a consistent Border Force presence and, given their commercial drive for operational efficiencies, the checks on incoming parcels may be less stringent. The Border Force does conduct site visits to such organisations to provide guidance and identify vulnerabilities; the agency recently identified a loophole in DHL’s computer-based anti-smuggling system that allows goods fulfilling certain criteria to bypass all Border Force controls.

Figure 12: Total Inland Parcels, Historical and Projected Volumes, 2005–23.

The trend towards using private couriers is already being noticed by the Border Force at the Coventry International Hub (and also by the Home Office, which is engaging with the industry). As a matter of course and because it is the source country for so many counterfeit and illicit goods arriving in the UK, all Chinese parcels are scanned on arrival at the hub. The Border Force has noticed a sharp decline of up to 90 per cent, however, in the volume of parcels arriving from China over the last year or so. Because the overall volumes of Chinese small freight are not estimated to be in decline, its conclusion is that these parcels are being sent via private couriers instead.

Intelligence Reform
A number of challenges remain in the collection, management and exploitation of intelligence in the fight against illicit trade. On the whole, intelligence in this area is patchy, of varying quality and is not used in a sophisticated manner by the relevant agencies. Too much intelligence is left on ‘the cutting room floor’ rather than helping develop a useful strategic assessment. Previous reports\(^4\) have highlighted that HMRC, in particular, needs better intelligence on the distribution networks used by organised criminal gangs in the UK and the way in which money is transferred along the supply chain. HMRC recognises this challenge, and a new project focused on building and sharing intelligence is underway. While HMRC’s emphasis on building overseas intelligence is yielding success, the approach is still limited and relies on the host country’s intelligence capabilities. More should be done to develop the capabilities of priority countries in tackling organised crime.

The authors’ research found that challenges still remain in the collection of intelligence and its management across different organisations. Relevant agencies do not necessarily connect the dots and are therefore unable to develop a strategic intelligence picture of the illicit trade both in the UK and overseas (primarily in priority countries). It is not clear whether all necessary intelligence on illicit trade is being included in the Organised Crime Group Mapping process and if this is being properly assessed for further action.

Intelligence between law enforcement and industry remains patchy. The over-classification or limited intelligence feeds do not help both sectors tackle the threat. Furthermore, law-enforcement agencies will want to share such information with a wide range of private-sector groups in order to avoid criticism that they extend support only to the largest companies in the respective industries. Industry initiatives – including the Pharmaceutical Security Institute – have not realised their potential, and more could be done to support their work.

Conclusion: On Tap

ILlicit goods such as tobacco, alcohol and pharmaceuticals are within easy reach of consumers. These goods are in demand, available on tap, and represent a significant risk to public safety, community well-being and consumer health.

The risk to the public is, however, different than in previous generations. The violence traditionally associated with serious and organised crime (for example, in the drugs trade) is no longer a key characteristic of the illicit trade in lawful goods. Instead, the trade involves bribery and corruption – both in the public and private sectors. The traditional role of the ‘enforcer’ has been replaced by accountants, lawyers and business service providers who may wittingly or unwittingly be facilitating organised crime. Meanwhile, violence related to turf wars has given way as the market for criminal activities has expanded. The evolution of serious and organised crime raises questions about its impact on society and whether the absence of a visible threat (primarily gun crime) has given way to an invisible and more corrosive danger, as communities are co-opted, governance structures are undermined and changes in the tactics of organised criminals overwhelm the agencies in charge.

This report has described the recent evolution in the structure of organised crime, from traditionally organised groups with a distinct hierarchy to fluid networks of ethnically and nationally diverse individuals operating across multiple jurisdictions. The Internet has become a key enabler of organised crime and has fundamentally changed the way organised criminals do business. These criminals have become increasingly sophisticated in their approach, adapting their methods to ensure their activities remain below the thresholds set by law-enforcement agencies, thereby evading detection. The government and relevant agencies will have to respond to four key trends in the future.

Acceptability: The illicit trade is widely seen as a victimless crime and the public is largely tolerant of purchasing illicit goods even if this is seen as morally wrong. While the illicit trade has been around for decades, it has become more prevalent with the onset of the global economic recession. The acceptability of the illicit trade and the tolerance shown towards the black market economy is a serious challenge to government policy to reduce organised crime.

Diversification: The second key trend this report has identified is diversification. As demonstrated by many of the cases included here, OCGs are diversifying their portfolio of criminal activities. Of the case samples reviewed, some OCGs have clearly moved away from high-risk activities
(such as drug trafficking) and into cigarette smuggling. The returns on what are perceived to be low-risk, high-frequency activities are considerable. Diversification also brings OCGs into contact with each other; in a recent report published by EUROPOL, the organisation highlighted a change in approach, with traditional OCGs morphing into networks of criminality – suggesting an increase in co-operation and collaboration across multiple jurisdictions.

Accessibility: A third trend reflects the evolution in global trade, and that is the accessibility of illicit goods and services, which in the UK is helped by inadequate enforcement across the EU, reduced customs controls and corruption in a number of EU member states. The Internet has increased the accessibility of illicit goods and services, creating new markets in both developed and developing countries. It has also reduced the fixed and variable costs of entering international markets for consumers and OCGs. The high number of Internet users and online payment systems in the UK has ensured that there is an infrastructure to support the growth of the illicit trade online.

Invisibility: The fourth and final trend is the growing invisibility of illicit trade. While many researchers and commentators have focused on the use of the Internet as a major trend in organised crime (particularly cyber-crime), it is also worth noting that the Internet makes organised crime less visible. With the click of a mouse, delivery by Parcel Force or FedEx, and online customer reviews, illicit trade remains unseen by communities and out of the reach of law-enforcement agencies.

Recommendations
The authors propose the following recommendations to combat illicit trade.

1. Public perceptions of illicit trade need to change: Illicit trade continues to be seen as a victimless crime, and the public associates it with tax dodgers rather than OCGs. The government should invest in imaginative public-awareness campaigns to change society’s perceptions of illicit trade and the role of organised crime.

2. HMRC should evaluate its methodology for generating more accurate and up-to-date information on the scale of the illicit market: While HMRC has worked with the tobacco industry, it needs to improve co-ordination with the alcohol industry to identify, corroborate and enhance estimates. HMRC should explore options for analysing an increased variety of data sources, including from industry and academia.

3. HMRC, the Border Force, National Crime Agency (NCA), Regional Organised Crime Units (ROCUs) and other relevant agencies should convene
a task force to explore new trends in trafficking illicit goods and services: Although limited, the evidence in this report suggests that some OCGs are deliberately shifting from ‘high risk and low frequency’ to ‘low risk and high frequency’ operations in order to go undetected by these agencies.

4. Greater focus should also be placed on improving information-sharing: HMRC and relevant UK agencies need to develop better links with the Border Force, Trading Standards, the NCA/ROCUs and the private sector to improve information-sharing practices and processes.

5. Government departments and agencies with responsibility for tackling illicit trade need to make better use of intelligence: A consistent theme from the authors’ fieldwork was the lack of a sophisticated approach to collecting, processing, analysing and disseminating intelligence on illicit trade across all of the relevant UK agencies.

6. Illicit trade should be placed on the control strategies for ROCUs and Police Forces, in order to improve the intelligence picture of illicit trade in the UK: While HMRC has seen an improvement in its overseas intelligence, its data on national supply chains, distribution networks, criminal finance and interaction between different OCGs is poor.

7. Research is required to understand the impact of the Internet on the illicit trade of goods and services: Efforts should be dedicated to research methods to certify legitimate online pharmacies and render them more transparent and safer for consumers, while more analysis is needed regarding the use of the Internet as a distribution method.

8. HMRC should improve the transparency of its data: HMRC could provide more information on its data sources, and a clear quantitative analysis, when providing an assessment of the financial impacts achieved by its interventions.

9. The government will have to increase both the budget and personnel of the Border Force: Given the rapidly increasing popularity of the postal system and general aviation as a method of transporting goods, the Border Force is struggling to keep up with the volumes of parcels coming into the country, sustain its high seizure rates, and elicit the support of other law-enforcement agencies to provide follow-up investigations.

10. There is scope to improve co-operation between HMRC, Trading Standards and other local government bodies at a regional and local level: There is scope to develop a joint strategy between these organisations on regional and local work to tackle illicit trade (including a more coherent strategy for targeted enforcement action and publicising prosecutions),
and to ensure that this is pursued more systematically across the country. This would facilitate improved intelligence on local and regional distribution networks.

11. **The government should collaborate more with the private sector on tackling the illicit trade in goods and services:** While there are Memoranda of Understanding between HMRC and industries, Joint Working Groups are only as useful as the activity that flows from them. More effort must be made to work across sectors. A Senior Responsible Officer for industry engagement should be identified in HMRC and be accountable for the work the agency does with the private sector. An evaluation of joint initiatives between the public and private sectors should be undertaken.

12. **The private sector has an important role to play in the prevention of illicit trade:** In particular, industry must take the lead on preventative measures such as ‘Track and Trace’ technology in order to secure and make it more difficult for OCGs to penetrate supply chains. Previous efforts have stalled not only because of the costly and complex infrastructure necessary to institute such a system, but also the lack of agreed-upon industry standards.

13. **The government must think creatively about ways to make illicit trade riskier for organised criminals:** There is reason to suggest that organised criminals do not see current penalties for the activity as a significant deterrent. Future strategies should include an objective to increase the penalties associated with illicit trade, rather than focusing solely on increasing the number of prosecutions. This is likely to have the additional benefit of helping to change public perceptions on the role of organised crime in illicit trade.

14. **The government must develop a clear and coherent rationale for the use of prosecutions:** While prosecutions are not the only answer, and other enforcement actions can have a more significant impact, it is not clear if the government and relevant agencies have assessed the merits of one course of action over another, and the understanding of the impact of criminal investigations and prosecutions remains underdeveloped.

15. **Current government work focusing on the international postal system should be developed further:** There was widespread consensus that postal transit is an increasingly common and important method used by organised criminals to transport illicit goods, in quantities that evade detection. More data analysis is required to identify trends in the use of fast parcels and private courier services in particular.
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