

## **HMRC Policy Paper: Stubbing out the problem: A new strategy to tackle illicit tobacco**

On the 31 January 2024 HMRC announced a new Policy Paper:

### **Stubbing out the problem: A new strategy to tackle illicit tobacco.**

Smoking is a leading cause of preventable death and illness in the UK. The Government in 2019 pledged to make England 'smokefree' by 2030 – achieved when adult smoking prevalence falls to 5% or less.

It recognises that efforts must continue to tackle the criminals seeking to undermine the progress made. HMRC estimates that the illicit market in tobacco duty and related VAT was £2.8 billion in 2021 to 2022. The proceeds of this crime fund the smuggling of weapons, drugs, and even human beings across the globe.

HMRC launched its first strategy to tackle illicit tobacco in 2000. This, and consequent strategies with Border Force, have reduced the estimated duty gap for cigarettes by a third (from 16.9% in 2005 to 11% in 2021 to 2022) and for handrolling tobacco by a half (from 65.2% to 33.5% over the same period). The last strategy published in 2015 drove forward bold new legislation, sanctions, controls, and operations to tackle the illicit trade.

#### **The strategy:**

- sets out our new root and branch approach - which targets the demand for illicit trade (the consumers that criminals seek to exploit) as well as the supply (the criminals themselves)
- is supported by over £100 million new funding over the next 5 years to boost HMRC and Border Force enforcement capability.
- establishes a new, cross-government Illicit Tobacco Taskforce – combining the operational, investigative and intelligence expertise of various agencies, and enhancing our ability to disrupt organised crime.

#### **Introduction**

"Illicit tobacco preys on the most disadvantaged in our community, stealing health and hope"  
– Javed Khan, Independent Review into Making Smoking Obsolete, June 2022

Tobacco harms our health, our productivity, and our economy. Its harms are well-documented and widespread. In 2019 the government committed to making England smokefree by 2030 – achieved when adult smoking prevalence falls to 5% or less. To support this ambition, in October 2023 the Government set out its intention to create a 'smokefree generation'. This means anyone born on or after 1 January 2009 will never be legally sold tobacco products.

Illicit tobacco, however, is recognised as undermining these efforts. The illicit trade involves a range of tobacco products that are sold illegally, often to underaged users, without paying taxes (VAT and excise duty). It provides a cheap and unregulated supply of tobacco to those who might otherwise be deterred by cost.

Illicit tobacco trade undercuts law-abiding businesses. It funds other organised crime with its proceeds and increases the burden on honest taxpayers. HMRC estimated the illicit market in tobacco duty and related VAT at £2.8 billion in 2021 to 2022. Its impacts are disproportionately felt by the most disadvantaged in our communities, with over half of all smokers of illicit tobacco coming from the most deprived socioeconomic groups.

Tobacco fraud exists throughout the world and the UK market represents a small fraction of the global demand for illicit product. The wide range of suppliers and organised crime groups (OCGs) operating across borders make it hard to limit the flow of goods into the UK; there is a virtually limitless illicit supply available worldwide and the profit margins attract large numbers of criminals. HMRC is working in partnership to stop production at source, seize illicit product at our borders and in our shops, and punish the criminals involved in the illicit tobacco trade.

### **Case study**

Target the retailers that facilitate the fraud. HMRC works closely with Trading Standards to disrupt the illicit tobacco trade at retail level – known as Operation CeCe. This work began in January 2021 and has already led to the seizure of over 28 million illicit cigarettes and nearly 8 tonnes of illicit hand-rolling tobacco in the first 2 years.

New sanctions to tackle illicit tobacco duty evasion. Stronger powers to combat illicit tobacco were introduced in July 2023, including penalties of up to £10,000 for any businesses and individuals who are caught selling illicit tobacco products. This builds on the existing successful collaboration between HMRC and Trading Standards. Under these stronger powers Trading Standards are able to make referrals to HMRC where they find evidence that a contravention of the Tobacco Track and Trace system has occurred. HMRC manages the administration and issuing of the relevant sanctions under the new powers.

### **Aim 1: Reduce demand for illicit tobacco**

Reduce the ease of purchasing illicit tobacco by increasing our impact on retailers that sell illicit products and working with honest law-abiding retailers. We need to prevent illicit tobacco from being a convenient and readily available option. We will work to disrupt the ease of access in order to achieve a knock-on impact on demand. We will:

- build on the success of Operation CeCe by increasing the level of funding and committing to our relationship with Trading Standards for the long term, to enable greater impact
- improve intelligence sharing across HMRC and Trading Standards, ensuring the long-term success of Operation CeCe
- tackle online sales of illicit tobacco on social media platforms, gathering intelligence on social media sales, and working with social media platforms to ensure we are effective in limiting criminal groups' ability to sell illicit tobacco through these channels.
- review our current sanctions to ensure we are able to work with landlords to close down any outlets that sell illicit tobacco on their premises and encourage them to terminate leases early where this is the case. This will support the enforcement of our new tougher tobacco sanctions.

Focusing our law enforcement activity on increasing the price at which organised crime groups are able to sell illicit tobacco products, which will in turn reduce demand for them. While limiting supply of illicit products is extremely difficult due to their availability around the world and the willingness of OCGs to smuggle them, our actions change the way the OCGs operate, increasing their costs and raising the eventual street price of the tobacco products. Economic analysis shows that raising the price of illicit tobacco products has a material impact on the demand for those products. HMRC will:

- increase the risk to those criminals involved in the supply of illicit tobacco, forcing OCGs to go to greater, more expensive lengths, to smuggle products.

- disrupt smuggling routes and methods, making OCGs adapt to more expensive routes and methods to maintain supply
- dismantle the most prolific OCGs in order to eliminate the economies of scale they are able to achieve.
- continue to dismantle illicit tobacco factories in the UK, disrupting attempts by OCGs to establish UK production as a means to eliminate logistical costs.

Support the wider government campaign for a 'smokefree generation' strategy with communication activity to help tackle the trade and consumption of illicit tobacco and raise awareness of links to organised crime. Whilst HMRC have publicised their prosecutions and seizures and fed into wider governmental campaigns to tackle illicit tobacco, they will go further to raise awareness of illicit tobacco and the impact it has on local communities, using communication levers to help drive down demand for illicit product. HMRC will:

- deliver proactive communications activity to support the drive to reduce demand and comfort levels for users of illicit tobacco.
- publish communications targeted at businesses – including retail outlets – to reinforce the risk and highlight the impact of new sanctions.
- issue wider communications, which will highlight the wider community harm, risks to children and links to other types of organised crime where appropriate. The impact of the illicit trade is often the greatest in the most deprived areas of the country. Focusing communications to areas where illicit tobacco is most prevalent will help support a smokefree generation and reduce health disparities.
- work with other government departments, including the Department of Health and Social Care, to support communication campaigns and other initiatives designed to reduce demand for tobacco products more generally – highlighting the financial impact to the economy as a whole and to local communities.
- ensure they are joined up on our messaging with other government departments, public bodies, and organisations including the Illicit Tobacco Partnership
- continue to proactively publicise their seizures, arrests, and success stories

**Aim 2:** Tackling organised crime The illicit tobacco market is dominated by OCGs that operate internationally and involve themselves in a number of other crimes. The harm caused by these groups is far wider than just those linked to smoking. For example:

- human trafficking victims are often used in the production of illicit tobacco products, working in inhumane conditions against their will.
- tobacco OCGs often also smuggle and supply other criminal commodities including drugs.
- they are often violent criminals that use weapons in our communities.
- the proceeds of tobacco fraud are laundered, funding other crime as well as further tobacco fraud.
- they sell tobacco products to children who would otherwise be unable to legally purchase tobacco products and become smokers. HMRC has responsibility as an enforcement agency to bring perpetrators of tax fraud to justice. We are committed to protecting society from harm and tackling those who set out to cheat the tax system.

HMRC will work to tackle organised crime within the UK, at the border, and overseas, using effective intelligence sharing and levying harsh penalties on those who break the law. To achieve this, we will:

Establish a multi-agency illicit tobacco taskforce to co-ordinate enforcement activity

- HMRC will establish a multi-agency illicit tobacco taskforce, bringing together colleagues from HMRC, Border Force, and Trading Standards into a single 5 team that collaborates closely with other law enforcement and intelligence partners
- the taskforce will combine all intelligence and information available, building an overview of the illicit market and the criminals involved, enabling a coordinated and comprehensive response to be taken.
- the taskforce will direct operational activity, utilising the capabilities and powers of all partners to maximise our impact on the most harmful OCGs.
- working together, we will identify new and emerging threats and develop plans to tackle them.

Target the most harmful organised crime groups within the UK relentlessly until they are no longer able to function HMRC will:

- use all available resources and sanctions to tackle the most harmful UKbased OCGs, including prosecution.
- prioritise targeting these groups over the long-term, investing significant resource into disrupting their operations.
- target the illicit finances of these OCGs, working with law enforcement partners and using HMRC's extensive asset recovery powers to recover cash and assets

### **Use policy and legislation to reduce opportunities for OCGs**

- HMRC are extending access to Tobacco Track and Trace across HMRC and to Trading Standards
- in 2024, HMRC will extend the Track and Trace system to include all tobacco products such as cigars, cigarillos, and shisha.
- HMRC will continue to utilise existing legislation to ensure that OCGs are unable to obtain large volumes of genuine UK marketed tobacco products.
- HMRC will continue to work with key partners, particularly the Department of Health and Social Care, on the best implementation of the Tobacco Track and Trace System, including investigating opportunities which would allow anyone to check whether a business is correctly registered to sell tobacco products.
- HMRC will review and strengthen our reporting mechanisms for illicit tobacco so that those who identify illicit tobacco can easily alert the appropriate authorities.