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PS/Secretary of State (B&amp;L)

cc PS/MofS (B&L)  
PS/Ministers (B&L)  
PS/PUS (B&L) 28/3  
PS/Sir K Bloomfield  
Mr Ledlie  
Mr Spence  
DARU  
Mr Bell  
Mr Daniell

**MINISTERIAL BRIEFING ON RACKETEERING AND CROSS-BORDER SMUGGLING**

At the last Ministerial Conference it was agreed that all Ministers should be briefed on the scale and nature of racketeering and cross-border smuggling in Northern Ireland.

2. I am indebted chiefly to Security Policy and Operations division (SPOB) and to the Anti-Racketeering Unit (ARU) for the attached two papers dealing respectively with terrorist funding in Northern Ireland and cross-border smuggling.

(signed APW)

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### TERRORIST FUND RAISING IN NORTHERN IRELAND

Paramilitary racketeering in Northern Ireland has become both a serious challenge to law and order and an entrenched social evil. It is the mainstay on which terrorist organisations, loyalist and republican, rely to obtain the finance needed to carry out their campaigns of violence, and although precise figures cannot be obtained its "turnover" is that of a multi-million pound business. The defeat of terrorism in Northern Ireland must also include the defeat of racketeering.

#### Origins

2. Northern Ireland has never had a tradition of big-city racketeering nor of large-scale institutional corruption. The rise of organised crime - unlike the growth of politically-inspired violence - is therefore historically novel. It has its origins in the social breakdown of the late sixties and early seventies. In certain areas the absence of normal policing, the removal of traditional constraints, and the growth of shebeens (illegal drinking dens) provided a ready-made environment for the growth of a racketeering sub-culture. It only required the strong-arm tactics of the various "self-defence" groupings to be applied to fund-raising for this to develop. Thanks to the political dimension there arose not just racketeering but terrorist racketeering.

#### Development

3. Racketeering has developed in scale and sophistication from its early beginnings and has also spread outside the areas of its origins, chiefly the more working-class parts of Belfast. Nevertheless, it still remains concentrated in and largely run from those areas. The "mix" of racketeering

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activity has also changed over time. These changes in the racketeering scene can be seen in terms of a kind of growth cycle, through which terrorist organisations everywhere seem to progress. Initially funds are raised for specific "military" activity, but it soon becomes apparent that funding on a hand-to-mouth basis is insufficient to develop what is quickly seen to be the necessary organisational structure and not reliable enough to support a sustained campaign. Terrorist organisations, in what might be called their maturing phase, therefore, tend to move away from the 'one-off' violent and oppressive methods of fund-raising towards what it is not inappropriate to describe as diversified business activity. Within the "mix" of fund-raising thus developed there will still be widespread illegality, but, on the surface at least, legitimate money-making will appear to play a larger and larger part. In Northern Ireland, the most effective and committed terrorist organisation is the Provisional IRA (PIRA); and this is also the organisation which has moved furthest in terms of fund raising sophistication. It is increasingly looking to "legitimate" activities to provide its resources. By contrast, the Irish National Liberation Army (INLA), the Irish Peoples Liberation Organisation (IPLO) and, for the most part, the loyalist paramilitaries have remained much less centrally organised and continue to rely chiefly on the cruder and more direct means of fund-raising.

The Racketeers

4. There is another factor to be considered in looking at the nature and purpose of racketeering - the individuals involved. In both communities the early paramilitaries included criminal types, to whom going beyond the law was nothing unaccustomed. Given this type of personality and the power such individuals found they could wield, it was not surprising that maintenance of this power and of an

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inflated standard of living soon became a significant preoccupation. This 'robber baron' stereotype has become particularly well-developed on the loyalist side where a substantial part of UDA and UVF fund-raising has gone to support the lifestyles of some members. Both these organisations continue to indulge in terrorist activity, as do INLA and IPLO - Republican organisations in which personal aggrandisement is believed to play a major part.

### The Official IRA

5. The Official IRA declared a ceasefire in 1972 (which, in terms of attacks on the security forces, it seems to have kept); but it retain its capability as a paramilitary organisation. It continues to hold stocks of weapons and has the potential to engage in internecine feuding with other organisations. In order to retain its capabilities it still engages in fund-raising and some of this involves it in criminal activity.

### Amounts Raised and Methods Used

6. Although the methods by which terrorists obtain their funds are generally known and are summarised below, for obvious reasons, it is very difficult to put a figure on the exact sums raised.

### PIRA

7.1 A newspaper article by a knowledgeable journalist in July 1988 put the cost of running PIRA at about £4m, with another £1m to pay for special operations and arms purchases. This ties in reasonably well with our own estimates of income and expenditure. PIRA's income is believed to come from the following sources in, very roughly, descending order of importance -

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- (a) the control or exploitation of registered social clubs
- (b) gaming machines
- (c) commercial enterprises (including taxis)
- (d) smuggling
- (e) extortion
- (f) tax exemption and social security fraud
- (g) NORAIID
- (h) robberies, particularly in the Irish Republic
- (i) overt fundraising

A particularly worrying features is the increasing importance of commercial enterprises. Involvement in overtly legitimate ventures such as pubs, hotels, estate agencies, video clubs and other businesses threatens to embed PIRA still more deeply in the community.

7.2 The Provisionals need a large income primarily to support PIRA's campaign of terrorism; but substantial sums are also required to pay Sinn Fein workers as well as PIRA volunteers and prisoners' dependents.

INLA/IPLO

8. Historically INLA's income has always been difficult to estimate as the organisation has had little central structural, poor internal discipline and a low quality of membership. In the past it is believed to have obtained

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funds from tax exemption certificates frauds, extortion and gaming machines. However it has resorted more often to kidnappings and armed robberies and many INLA fund-raising operations are difficult to distinguish from ordinary criminality. The internal INLA feud of early 1987, following which one faction broke away to form a new group, the Irish People's Liberation Organisation (IPLO), disrupted the finances of both organisations. They have had only limited success in reviving the types of regular fund-raising methods mentioned above and the majority of their funds have come from robberies.

OIRA

9. OIRA's main activities in the North remain its social clubs and building site frauds, though on occasions its members also carry out robberies.

UDA

10. The UDA remains a legal organisation. It is the largest and best organised of the loyalist paramilitary bodies. It does have a central organisation and funds, though regular upheavals in the leadership have diminished the role of the centre. It is difficult to make reliable estimates of the total sums netted by the UDA partly because of the degree of autonomy at local levels and partly because of the scale of individual financial corruption in the organisation. One of the main sources of income is believed to be the proceeds of intimidation and extortion rackets which certain members have developed to a fine art. Indeed, so effective is the fear engendered by their presence that no overt threat needs to be made to the victim. There has been considerably publicity given to the criminal activities of a number of the organisation's leading members who have been involved in violent extortion and intimidation. This is known to have caused embarrassment to the organisation. UDA racketeering,

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well exposed in the Cook Report, is perhaps the most geographically widespread of all such unlawful activities undertaken by any paramilitary organisation. Substantial income is also obtained through clubs and pubs, both those directly owned and the much larger number subject to UDA 'influence'. The UDA is also deeply involved in loan-sharking and has close connections with some taxi firms. With one major exception, large-scale robberies have not featured highly in its mode of operation. In 1987, a bank robbery jointly organised with two other Loyalist organisations provided the finance for a major Loyalist arms deal.

### UVF

11. The UVF is in financial terms a poor relation to the UDA, although as a terrorist organisation it is at least as dangerous, if not more so. It has a looser structure and its members are believed to be even more inclined to help themselves rather than the organisation. Like INLA and the IPLO it is more ready to undertake higher risk activities such as robberies and drug dealings, but protection rackets still feature strongly and many loyalist black taxis are also known to function under UVF aegis. Pubs and clubs (either owned outright or 'under influence') also provide opportunities to make large sums.

### The Response

12. Being a part of, or derived from terrorism, paramilitary racketeering presents a Government seeking to respond to it with many of the same difficulties. Firstly, like terrorism it has many and changing forms which no single mode of approach will serve to defeat. Secondly, terrorists, to ensure compliance with their wishes, have sanctions not available to Government which they are more than ready to employ. Both loyalist and republican organisations have in

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the past murdered individuals who have resisted or defied them. The resulting climate of fear has made it very difficult to obtain witnesses ready to stand up in open court - and such direct evidence may often be the only way in which a conviction can be obtained. Thirdly, the protection afforded to individuals and business organisations under the law and normal commercial practice has been shamelessly abused to conceal the process and proceeds of racketeering. Given PIRA's increasing financial sophistication, this has proved to be a particular worrying development.

13. The Government's response to terrorist fundraising has been framed within the general principles of its overall counter-terrorist strategy. Action against it must at all times be taken within the law. Where changes in the law have been considered necessary, the approach has been to make the minimum change necessary so as to remain within the spirit of the rule of law as well as of the United Kingdom's international obligations. Broadly speaking, the Government's response may be regarded as having been effected in two phases.

14. Up to 1982, although individual instances had been publicised, the racketeering phenomenon had been rather eclipsed by the high level of terrorist violence associated with the height of the Troubles. But with an increasing return to near normality and substantial physical reconstruction underway in the areas where this activity was spawned, it became obvious by the early eighties that the racketeering element of terrorist fundraising needed specific attention. As a first response, the RUC set up a special Anti Racketeering Squad - CI(3) - in 1982. The squad was then unique in the United Kingdom. It had particular success against tax exemption fraud, with over 100 convictions obtained by late 1987. However, it was much less successful at countering extortion or the operation of legal front businesses. Lack of evidence, whether through witness intimidation or restrictions of commercial

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confidence, proved an almost insuperable difficulty. Over the same period, major security force efforts were also made to tackle the problem of armed robberies, then one of the major sources of paramilitary finance. This drive had considerable success and ironically led the terrorists to concentrate on targets in the Irish Republic instead. The Government's own response included attempts to restrict possibilities for fraud, to ensure that community grants did not go to benefit paramilitaries, to ensure that firms which had been involved with offences linked with racketeering would no longer be able to tender for contracts, that black taxis so far as possible complied with the law, that registered clubs and gaming machines were subject to more stringent legal requirement, and that all firms supplying security services were certificated by the Secretary of State.

15.1 Despite the progress made under all these heads, it had become evident by 1987 that, largely due to the development of the paramilitaries' own expertise, more far-reaching measures were necessary. A Paramilitary Finance Committee was set up to co-ordinate action between all Government departments (including the Revenue Departments) and the RUC. The establishment of this Committee led to the creation a year or so later of a purpose-designed Anti-Rackets Unit (ARU) which began its operations in early 1989. A principal function of the ARU is to continue the task of ensuring that there is consistency and co-ordination in the Government's anti-racketeering efforts. It contains specialist financial investigators, including former members of the Customs and Excise and Inland Revenue, and is staffed specifically for an anti-racketeering role. It can draw on the experience and resources of the Northern Ireland Department and, in turn, aims to assist and advise them in the fight against racketeering. The Unit works particularly closely with the RUC in the investigation of racketeering and the preparation of cases for prosecution. It also has ready access to legal and accounting expertise.

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15.2 In line with the overall gearing-up of efforts, the RUC in 1987-88 substantially strengthened and reorganised its own Anti-racketeering Squad. Greater efforts have been made to publicise its activities and a new strategy has been developed to increase the prospects of court successes. With the help of the NIO's ARU, more emphasis has been placed on selective targetting of racketeers and a much expanded intelligence collation system has been brought into operation. Although the Squad remains numerically small, this has not proved to be a problem: it has had assured access to whatever resources it might need from the RUC Crime Department as a whole. Its size assists the vital maintenance of confidentiality which can be more difficult in a larger unit.

15.3 These initiatives are beginning to play dividends - although it is widely recognised that racketeering is such a deep rooted and endemic problem that it cannot be solved quickly and that considerable further research and investigation will be required before major successes can be claimed. However, over the past year there have been significant successes with convictions for blackmail, intimidation, tax exemption fraud, video piracy fraud and estate agency irregularities. There has also been a major operation aimed at a considerable number of social clubs in the greater Belfast area; and, to date, several PIRA controlled clubs have been closed and others are being pursued through the courts. Considerable work has also been done on possible measures to combat fraud and extortion in the construction industry.

15.4 In March 1989, the new Prevention of Terrorism Act introduced new provisions on terrorist finance (modelled to a large extent on Drug Trafficking legislation) intended to give the courts and police a greater capacity to tackle the finances of terrorist organisations. These provisions give the police new powers to investigate terrorist finance and

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create a number of new offences mainly concerned with the giving, receiving or possession of terrorist finance. The Act also creates a number of lesser related offences. The new legislation gives the court power to order the freezing of terrorist finance and, following convictions, courts may order forfeiture of money, property etc. The money or property can only be confiscated if it can be shown that it was to be used for terrorist purposes. It is too early to say whether these new provisions will prove to be enough, but every effort will be made by the police and the ARU to use them in order to disrupt the funding of terrorism in Northern Ireland

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## CROSS-BORDER SMUGGLING

1. Smuggling has been an established activity in the border areas ever since partition. However, a number of developments have intensified the problem. First, the unsettled conditions in the border area over the last twenty years have provided greater scope for illegal activity to flourish. Secondly, the operation of various Community 'green' rates and currency fluctuations between Irish punts and sterling leading to Monetary Compensation Amounts (MCA) have regularly provided an incentive to encourage large-scale smuggling. Finally, the differing fiscal policies pursued with in the two jurisdictions have had a similar effect.

Nature of Smuggling

2. Smugglers are extremely versatile people with access to substantial capital to allow for bulk purchases and speedy change of product lines. The actual commodities being smuggled and the direction of travel depend on the relative advantage obtaining at any given moment. During the late 1970s and early eighties smuggling was largely from South to North for agricultural produce but has since been the other way about. In terms of other goods smuggling has similarly largely switched directions and significant losses which used to accrue to the British Exchequer are now being suffered by the Irish Authorities.

3. Smugglers will smuggle anything on which a profit can be made. However, the largest smuggling operations tend to be in areas of maximum profit. Overall these are:

- (a) Electrical Goods
- (b) Building Materials
- (c) Alcohol, mainly spirits and beer
- (d) Fuel (Diesel, gas-oil, petrol)
- (e) Livestock
- (f) Agricultural Products eg grain
- (g) Agricultural Drugs eg hormone implants.

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It should be noted that, because of the low MCAs available at the moment for livestock and agricultural produce, the incentive to smuggle these products is low. However, the situation can change at any time due to currency fluctuations.

4. It appears that most contraband moves by road. Petty smugglers use their own cars, but the larger operators use heavy goods vehicles, often tankers or container lorries, and some seem to maintain what can only be described as underground haulage fleets. Elaborate precautions are taken when contraband is being moved through the border areas. These include the use of scouts, often in cars equipped with two-way radios; the use of vehicles without registration plates, often moving at night without lights; and, most ingeniously, the employment of readily recognisable local subversives to act as decoys for the security forces.

Limitations to Government Response

5. The public perception is that smuggling per se is not necessarily a real social evil which it is in their interests to help Government fight, although smuggling systems and personnel are used by terrorists to move arms and explosives to NI from the ROI. In addition to community sympathy for the smuggler, there are several other very important constraints on what may be achieved.

6. First there is the absolute limitation imposed by an open land frontier some 300 miles in length. Under no conceivable allocation of manpower resources either North or South could more than a small proportion of the possible crossing points be monitored on a regular basis. And if monitoring cannot be continuous then the smugglers, who are locals, will simply operate in the gaps. Secondly, there is the difficulty that even when 'smugglers' are caught, these are almost always small fry who have been given a cash payment and they can only be dealt with for the one potential offence. The penalties for such an offence are not large and, on a proportionality basis, there does not seem to be much scope for an effective increase in these - even if the courts were minded to impose maximum penalties. Seizure of vehicles and/or contents is in fact usually the preferred

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sanction, but even this is regarded by the organisers as nothing more than a write-off against profits. There is evidence too of an increasing readiness to challenge seizures in court. Thirdly, there is the fact that no substantive offence is committed north of the border.

7. The use of farms of convenience and the erection of holding pens and grain silos very close to, if not actually straddling the border has made the task of detection of potential smuggling more difficult. Finally, Customs staff who operate in the border area are frequently subjected to threats and intimidation from the terrorists; this obviously places limitations on what can be achieved by the customs authorities.

### Terrorist Involvement

8. The actual extent and nature of terrorist involvement is very difficult to quantify. The terrorist connection is thought to be expressed in two main ways. Primarily it is believed that PIRA charges a kind of 'toll' for the safe passage of goods. They assist this transit by providing intelligence and by acting as decoys. Generally they have little direct involvement, preferring to minimise the risk for themselves by letting others carry out the actual smuggling. There is however a small number of smugglers who are known or are suspected of being members of paramilitary organisations. Given the scale of smuggling, it can be concluded that PIRA, in particular, must be obtaining a significant boost to their funds from this source.

### The Future

9. Clearly the first pre-requisite for successful combatting of smuggling is close and effective co-operation between the two Governments. Such co-operation already exists. In particular cross-border co-operation between the two Customs services and the respective police forces is very good. Co-operation between Customs Services has been further enhanced by a continuing series of meetings to exchange information and discuss problems of mutual

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interest. Preventative Staff from all border locations attend these meetings, together with representatives from the respective Investigation Units. In addition, cross-border communication has improved with the extension of the FAX network to all major Customs locations, North and South. More, however, needs to be done and, against that background, both police forces are committed to a continuation and development of cross-border co-operation. Indeed, both forces have agreed to direct more of their resources towards gaining better intelligence to counter the smuggling problem.

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