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COVER NOTE

from : Mr C. TROJAN, Secretary-General of the European Commission

date of receipt: 4 May 1998

to : Mr J. TRUMPF, Secretary-General of the Council of the European Union

Subject: Fraud relating to tobacco and alcohol

Sir,

Please find attached a communication from the Commission to the Council on efforts to tackle fraud in the field of excise duties.

The purpose of this communication is to inform the Ecofin Council that the Commission intends to respond to the report from the High Level Working Party of representatives of the Member States on the nature and extent of fraud in the tobacco and alcohol sectors.

(Complimentary close).

Encl.: SEC(98) 732 final



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29.04.1998
SEC(1998) 732 final

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

on efforts to tackle fraud in the field of excise duties

Communication of the Commission to the Council on efforts to tackle fraud in the field of excise duties

The introduction of the Internal Market on 1 January 1993 has brought fundamental changes to the arrangements for movements of goods subject to excise duties. Frontier controls were replaced by a new system based on a series of authorized traders and the use of documents which accompany the excisable goods being dispatched from one Member State to another or exported to third countries. This abolition of border controls has caused a shift from systematic physical controls to administrative controls. By the beginning of last year it had become clear that weaknesses in the new procedures were beginning to be exploited on a major scale.

The Commission has carefully examined the application of the duty-suspension system and is well aware of the illegal activities in this field. It should be observed that fraud is being perpetrated not only by individuals but also to a great extent by highly organised criminals. The extent of fraud which has been discovered gives rise to serious concern and indicates that there is an urgent need to take action.¹ In this context it should be borne in mind that fraud has negative effects not only on national revenues but also on Community revenues. Therefore it is necessary that the Commission and the Member States work closely together in order to combat fraud and to find ways and solutions to tighten up and reinforce the operation and control of the current systems.

The setting up a high-level group chaired by the Director-General of DG XXI in March 1997 was an important first step in this direction. This group was given the task of carrying out a comprehensive analysis of the situation and of identifying effective measures to counter the current problems. All Member States have co-operated actively in this project, the result of which was a series of recommendations made in the final report to the Directors-General for customs and indirect taxation. The Commission takes this opportunity to present its reactions to this report and to inform the Council of the follow-up action which it intends to initiate.

In the first place, the Commission entirely endorses the analysis which the high level group has made of the causes of the problem. Under the existing system goods moved between two Member States must be accompanied by a document drawn up by the trader who is dispatching the excisable products. Neither the authorities of the Member State of origin nor the authorities of the Member State of destination are in advance aware of the movements taking place on their territories. Notwithstanding the possibility of carrying out spot checks during transit the authorities of the Member States have no chance to check the authorisation of the traders involved in the movement and to survey the movement itself.

In order to remedy this situation, the Commission agrees with the Group's recommendation that a computerised control system is needed which will enable a real time verification and risk analysis in advance of every transport. Such a solution

¹ The Member States have estimated the losses of revenue as a result of fraud in 1996, 4.8 billion ECU in total (3.3 billion ECU for the tobacco sector and 1.5 billion ECU for the alcohol sector).

would have the dual advantage of enhancing control possibilities for the Member States whilst at the same time offering clear advantages to the honest trader. For the Member States a computerised system will enable them to be aware of every individual consignment and to carry out targeted physical controls if they wish to do so. They will, in addition, be able to define precise criteria for control measures using risk analysis techniques. In addition a computerised movement system will speed up the exchanges of information between the Member States and with the Commission and strengthen mutual assistance procedures. For the trade, the system would be no more complicated than at present, offer greater security and less exposure to risk.

In the light of this, the Commission has set in motion a feasibility study for improving the control of the movement of goods by the use of Information Technology. This will be financed within the framework of the Fiscalis Programme. However it has to be stressed that the development and implementation of such a complex system will take some time. For this reason, the Commission also endorses the second major recommendation of the group, namely the urgent implementation of an early warning system. An early warning system could provide data to the competent authorities of the Member States in order to carry out selective control measures during the transport of the goods in advance of the discharge of the consignment concerned. Unlike a full computerized system, however, it would not enable a systematic control of all movements.

The introduction of such a system would require prior notification of consignments by every trader who is dispatching excisable goods to other Member States. Therefore a close link between the tax warehousekeeper and the competent authorities of the Member States is needed. Each Member State would be responsible for putting in place the arrangements that it considers necessary to collect and evaluate the data provided by the trade and to exchange it with other Member States and the Commission. Furthermore Member States would have to build up internal structures at an administration level to ensure a task related training of the officials working in Excise Liaison Offices which should be established in all Member States as soon as possible as the focal point of such a system.

The Commission is well aware of the difficulties and problems Member States might encounter in establishing the proposed early warning system. However its implementation has to be regarded as the only possible short-term solution during the period before a fully computerised movement system can be used.

Provided that Member States are prepared to commit themselves to the establishment of such a system, the Commission is ready to give its full support in helping to set up and exploit the results of the proposed measure. To this end, a Fiscalis seminar to be held in Italy will provide an opportunity to hold an in-depth discussion of the problems to be overcome and possible solutions.

The two measures outlined above deal primarily with the control of goods during their movement within the Community. In addition to this, the Commission notes the recommendation of the High Level Group that a Code of Best Practice should be established in respect of the control and functioning of warehouses and the Commission undertakes to co-operate fully in this task. It has therefore suggested that

a second Fiscalis Seminar to be held in Luxembourg in the autumn should concentrate on this issue.

In addition to these three major initiatives, the Commission intends to call a special meeting of the Excise Committee at the end of June to discuss the whole range of recommendations put forward by the High Level Group and to agree upon a plan of action for their implementation.

The Council is invited to endorse the actions which the Commission proposes to initiate and, in particular, to give a commitment to the speedy implementation of an effective early warning system.