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ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 5 November 2014

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
26th Meeting 2014, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Joan McAlpine (South Scotland) (SNP)
*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Diane Barr (Clerk)
George Clyde (Scottish Anti-illicit Trade Group)
Inspector Alan Dron (Scottish Anti-illicit Trade Group)
Rodger Evans (Clerk)
Steve Ferry (Her Majesty's Revenue and Customs)
John Lee (Scottish Grocers Federation)
Huw Watkins (Intellectual Property Office)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 5 November 2014

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning ladies and gentlemen, and welcome to the 26th meeting in 2014 of the Economy, Energy and Tourism Committee. I remind everyone to turn off all mobile phones and other electronic devices so that they do not interfere with the sound equipment. We have received no apologies, so I think that we have a full house of members.

Agenda item 1 is a decision on taking business in private. Are members content to take item 3 in private later in the meeting?

Members *indicated agreement.*

Illicit Trade

10:01

The Convener: Item 2 is a round-table evidence session on the question of illicit trade in Scotland. Before we start, it would be useful if everyone introduced themselves. I am the convener of the committee. I am also an MSP for Mid Scotland and Fife.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning. I am the MSP for Aberdeenshire West and the deputy convener of the committee.

Inspector Alan Dron (Scottish Anti-illicit Trade Group): Good morning. I am from Police Scotland and I am the current chair of the Scottish anti-illicit trade group.

Mike MacKenzie (Highlands and Islands) (SNP): I am an MSP for the Highlands and Islands.

George Clyde (Scottish Anti-illicit Trade Group): I am from the anti-counterfeiting group, and vice-chair of the Scottish anti-illicit trade group.

Chic Brodie (South Scotland) (SNP): I am an MSP for South Scotland.

Huw Watkins (Intellectual Property Office): I am head of the United Kingdom Intellectual Property Office intelligence hub and a member of the Scottish anti-illicit trade group.

Richard Baker (North East Scotland) (Lab): I am an MSP for North East Scotland.

Margaret McDougall (West Scotland) (Lab): I am an MSP for West Scotland.

Marco Biagi (Edinburgh Central) (SNP): I am the MSP for Edinburgh Central.

Steve Ferry (Her Majesty's Revenue and Customs): I represent Her Majesty's Revenue and Customs.

Alison Johnstone (Lothian) (Green): I am an MSP for Lothian.

John Lee (Scottish Grocers Federation): I am from the Scottish Grocers Federation, which is the national trade association for the convenience store sector. We represent retailers on the Scottish anti-illicit trade group.

Joan McAlpine (South Scotland) (SNP): I am an MSP for South Scotland.

The Convener: We also have official reporters and clerks at the table.

Diane Barr (Clerk): I am assistant clerk to the committee.

Rodger Evans (Clerk): I am senior assistant clerk to the committee.

The Convener: We are also joined by Dougie Wands, the senior clerk to the committee, who will have to leave to attend to other business, and Connor Glisson, who is interning with us. Connor helped to produce the briefing paper for members, so I thank him for his work on that.

We will probably run the round-table discussion for 90 minutes or so, and I would like to cover three broad areas in the time available. The first area is the extent of illicit trade in Scotland—how widespread it is, what the components are, what its impact is and what the consequences are. We are interested in hearing from John Lee in particular on the impact of illicit trade on legitimate traders. The tax consequences must be of interest to HMRC—how much tax revenue are we losing as a result of illicit trade? Secondly, we will look at what we are doing to tackle the issue with regard to policing, trading standards and all the other aspects. Thirdly, we will look at what more we could do in the future and whether there are things that we are not currently addressing.

I remind members that this is the Economy, Energy and Tourism Committee, not the Justice Committee. Clearly, there are justice issues to consider but I want to focus as much as we can on the economic aspects. I invite Alan Dron to start and to outline in general terms the background to the issue.

Inspector Dron: First, I thank the convener and the committee for inviting the Scottish anti-illicit trade group to present evidence to you today. The invitation is very much appreciated.

Scotland has been on a remarkable journey in relation to illicit trade, counterfeiting and piracy. We have gone from a situation in which there was literally nothing on the issue in the public domain and it was often seen as a victimless crime, to a situation in which Scotland is seen by others, internally in the UK and externally throughout the world, as producing best practice as we try to tackle counterfeiting, illicit trade and piracy. That is one of the reasons why we are here, I hope.

The group takes a partnership approach. It is a multi-agency group, involving the public, private and third sectors. We have 18 members and meet every quarter. It is not just a talking shop—we actually have to do something. That has been one of the features of the group in the year and a half since it was formed on 1 April 2013. Prior to that, it was called the intellectual property group, and it mirrored the approach in the rest of the UK, which is on-going and for which the IPO is the secretariat.

The clear strategic aim in Scotland is simply to reduce the scale, impact and cost of illicit trade. We are delighted to be here because, as you mentioned, convener, the issue might be seen as a criminal justice one. However, we want to mainstream the issue so that it is seen very much as a feature of the economy. It costs the economy a huge amount of money. If that happened as a result of drugs, it would grab a lot more attention. We are trying to change perceptions. The issue affects every community in Scotland. As we are trying to mainstream the issue, this is the best committee that we could be before, so I thank you again for that.

In 18 months, we have produced an illicit trade strategy and formed a virtual illicit trade hub. All that has been achieved without extra cost, in terms of people or finance. It is just everybody trying to do their job and work together. A parliamentary motion was lodged by Jenny Marra, and we had an international summit in Edinburgh, which was the first of its type and which brought together Interpol, Europol and the United States Department of Homeland Security, as well as other public, private and third sector organisations. It was a first for those bodies to be on the same stage, but what made it really different was the involvement of youth, including the Scottish Youth Parliament. That really started to get people to take notice, which is one of the key things.

The group's focus is on prevention, intelligence and enforcement. We have brought to Scotland things such as the real deal initiative, which is a free award that gives recognition to markets that are fake free, which means that consumers know exactly what they are buying. We are the first place in the UK to introduce a DVD by Disney and Interpol for four to eight-year-olds. That is about trying to change perceptions and educate the next generation. We are still the only place in the UK that has done that—the DVD is being used across many of the regions in Scotland. Again, that is looking to the future.

On intelligence, in that year and a half, there has been a 110 per cent increase throughout Scotland and a 378 per cent increase in information from Scotland going down to the Intellectual Property Office. In turn, that has led to a variety of enforcement activity, which has been sustained and focused and has involved everybody working together, with the key aim of allowing legitimate trade and business to flourish while removing the criminal element.

I hope that that gives the committee a flavour of the group's work. I and the other members of the group who are here would obviously welcome any comment and questions.

The Convener: Thank you very much, Mr Dron.

This is a round-table session, so I want to have a fairly free-flowing discussion. However, I need to

chair the session, not least for the purposes of the official report and broadcasting staff. If members or witnesses want to make a point, just try to catch my eye and I will bring you in as best I can. It is always difficult to keep a flow to the discussion, because people tend to go off at tangents, but it would be helpful if we could try to do that.

I begin by picking up on some of Mr Dron's points about the extent of the issue. There has been quite a lot in the press recently. The front page of yesterday's *Courier* had a report on the illicit cigarette trade in Perth, which is very close to home for me and, in fact, the committee was in Perth on Monday. Will O'Reilly, a former detective chief inspector with the Metropolitan Police, has done a report on the issue. His team went round Scotland and identified significant issues, in this case with illegal cigarettes. Figures quoted suggest that there has been a £300 million loss of legitimate trade and a £1 billion potential loss to the Exchequer. Do you recognise those figures? Is that a fair assessment?

Inspector Dron: I have an easy answer to that one—I defer to my colleague from HMRC, which obviously has primacy in this subject.

Steve Ferry: I will spend a few minutes going over some of those figures. Tobacco smuggling is recognised as one of HMRC's highest tax compliance risks. It costs the United Kingdom £2.1 billion in lost revenue per annum. The figure of £1 billion that the convener quotes is right, but it is roughly £1 billion for cigarettes and £1 billion for hand-rolling tobacco, so the UK loses approximately £2.1 billion in duty and taxes.

In addition to the significant revenue losses, illicit tobacco damages legitimate businesses. It makes cheaper tobacco readily available to young people and vulnerable people. The fraudulent trade in tobacco products and subsequent evasion of excise is centred on the illegal importation and distribution of genuine and counterfeit UK brands, non-UK brands, and cheap cigarettes that have been manufactured in China, eastern Europe and other parts of the world.

Since 2000, we have had in place a strategy to tackle illicit tobacco and tobacco smuggling, which has resulted in significant reductions in the size of the illicit market in the UK. The illicit cigarette market has been halved and the hand-rolling tobacco market has been cut by approximately 40 per cent. The strategy has therefore been highly effective in reducing the illicit cigarette trade from 22 per cent of the total market in 2000-01 to approximately 10 per cent today. That figure is contained in our latest tax gap estimates, which were published on 16 October and are available on our website. Hand-rolling tobacco has fallen from 61 per cent of the market to a still very high figure of 39 per cent. We estimate the size of the illicit market every autumn and report on it.

Tobacco smuggling is a global problem. Many of the people who carry on this trade are transnational and based in a number of different countries. They move products into the UK and other countries and they are a global phenomenon. The threat from organised criminal gangs remains high. We need to be relentless about disrupting their criminal business and that is at the heart of our strategy to clamp down on illicit trade. Tobacco smuggling gangs are constantly adapting to the pressure that we put them under, but that pressure has caused a long-term decline in the illegal trade in the UK market. With border force, HMRC has a strategy that outlines how the tobacco market has changed during the past few years and what our key objectives are. They include reducing the availability of genuine tobacco products to fraudsters, targeting and disrupting the criminal gangs behind the fraud, seizing sufficient volumes to undermine the economics of the trade, and taking hard-hitting action against offenders to deter and punish those who are involved in the fraud and decrease the demand for illicit tobacco products.

The UK Government has reinvested £25 million from the Government's 2010 spending review as part of an overall reinvestment of £900 million that is aimed at tackling organised crime and tax evasion and avoidance.

Last year, we prosecuted 328 people. We prevented approximately £520 million in revenue losses as a result of the investigation of organised crime groups. We seized 1.4 billion cigarettes and 330 tonnes of hand-rolling tobacco. Those are UK figures; I am afraid that I do not have the specific figures for the Scottish market, but I have given you a sense of the extent of the trade and the amounts that are involved.

I could go on but—

The Convener: We can probably tease out more detail if we require it. To go back to Mr O'Reilly's report, do you recognise the concerns that he has identified? Does that report make a reasonable assessment of the scale of the problem?

Steve Ferry: Absolutely. Of course, it is not only the Exchequer that is losing money: legitimate businesses are being undermined by people who do not pay their social taxes and who undercut those businesses. HMRC is well aware that there is a significant risk.

10:15

The Convener: I should have said earlier that the parliamentary photographer is here taking snaps—I hope that that does not disturb anyone.

Mike MacKenzie wants to come in.

Mike MacKenzie: Thank you, convener—you will not be surprised if I articulate a view that is somewhat contrary to the views that are expressed in some of the submissions that we received. In doing so, I want to put firmly on the record that I do not condone any such illegal activity in any way, shape or form.

However, in preparing for the meeting this morning I was reminded of an article by the distinguished economist Professor John Kay, which I read a number of years ago. In the article, Professor Kay suggests that Government taxation policy does not help us with the problem at all—in fact, it often causes it. He uses the example of tobacco and cigarettes, and suggests that economists have long known that when taxation or duty gets above a certain level, the effect is to kick-start smuggling. It can be plotted quite accurately on a graph.

If we look at the figures, we can detect that the cigarette and tobacco smuggling industry leapt from an almost negligible baseline in a way that corresponds with the Government setting taxation beyond a certain level. That is mirrored in other areas. We also know that, when VAT was increased to 20 per cent on construction repairs and improvements, that kick-started the black economy and empowered it in a way that had never been seen before. I know about that from my work, certainly anecdotally, as small businesses complain to me day in, day out that they are undermined, particularly in the construction sector.

I will not labour my point further. To what extent is Government policy on taxation helpful in that regard, and to what extent is it deeply unhelpful?

The Convener: Mr MacKenzie raises a very interesting philosophical, and practical, issue. I am not sure whether any of our witnesses wants to stray into that area. Mr Ferry, do you want to go first?

It is really an area of Government policy—I am not sure that it is directly relevant.

Steve Ferry: I think that it is outwith my immediate area of competence. I can only say, as I said previously, that we have been able to cut the share of the illicit market significantly over the past 10 or 15 years. I cannot comment any further on the economic and political points that Mr MacKenzie made.

Huw Watkins: I can perhaps assist you on that point. With the benefit of looking at the UK picture, we at the IPO provide the link between industry, rights holders and enforcement. We are there to assist people who know something about a problem.

The revenue element of intellectual property crime is quite small. It is true that the loss in revenue is significant—one lorry-load of fake spirits costs somewhere between £0.25 million and £0.5 million in lost VAT and duty—but we look also at the risk and, although the economic risk and harm is a problem, we look also at serious and organised harm and physical harm. I will use fake chargers as an example. Whichever telephone you use, you need a charger, for which a lot of companies charge a premium because their products are safety tested and fit for purpose. Someone else then comes along and sells a charger, and we have photographic evidence of those chargers having exploded and set fire to buildings. The problem goes way beyond the revenue issues.

Mike MacKenzie: With the greatest of respect to the witnesses, I did not really expect them to comment on UK Government taxation policy. However, I think that it is a matter that the committee should consider, although perhaps not today.

Three or four years ago, I listened to a radio programme about the counterfeiting of tea, which, it suggested, was profitable for organised crime. The programme said that, throughout Scotland, when someone goes into their local grocers they might buy in good faith an item that they think is brand-name tea and not notice when they drink it that it is actually counterfeit tea. Apparently, organised crime is interested in this issue because, if the counterfeiters were caught, the courts would not take as dim a view of their activities as they would if they were involved in drugs or whatever, even though the profits were much higher. Apparently, this is being done in garages and shady premises here and there in Scotland. One member of the panel that was considering the issue made the point that, if it is possible for organised crime to get into the tea manufacturing business and produce a product that is indistinguishable from the legitimate product, even when the consumer is drinking it, that begs a question about the profit levels of the legitimate manufacturers. Organised crime aside, it should not be possible for a small, shady, back-street organisation without the resources of the major producers to compete in any way, shape or form if the legitimate market is performing properly and delivering reasonable value for the consumer.

With the greatest of respect to everyone here, given that this sort of thing is not new—it has been

going on for centuries, in general terms—perhaps the committee should direct some attention to the economics of the situation, rather than to the enforcement of the law. That is not to detract from the work and the efforts of anyone around the table, but I think that the committee should consider that aspect, given that we are addressing this subject.

The Convener: Are your members retailing counterfeit PG Tips, Mr Lee?

Dennis Robertson: Other brands are available.

The Convener: Indeed.

John Lee: I am sure that there are unscrupulous retailers, convener, but they are not our members.

Mike MacKenzie: I should add that, apparently, many of the retailers are entirely duped in the process.

John Lee: The point is important, and it concerns the reason why we are here today. We are keen that the committee should begin to consider the economic impacts of the problem. Through the efforts of the anti-illicit trade group, we have succeeded in having it seen as a crime and justice issue, but less attention has been paid to it as a purely economic and business issue.

We have a sense that our members are heavily impacted on by illicit trade. However, by its very nature, it is difficult to gauge the full impact. One of the reasons for that is that historically, for various reasons, retailers have been reluctant to report any problems with illicit trading. Our sense is that our members are the people on the ground who will know, for example, whether illicit alcohol is being sold in their area. We are engaging with the anti-illicit trade group and HMRC to find ways in which we can encourage our members to proactively, safely and anonymously report instances of fraud in their area. We realise that we have a responsibility in the sense that, if we know that it is going on, we have to engage with enforcement agencies to do something about it.

When we began to engage with the anti-illicit trade group, it was very much in the context of protecting legitimate businesses. There are 5,500 convenience stores in Scotland, which employ 42,000 people. The number of convenience stores in Scotland is higher than that in other parts of the UK, which means that they are embedded in every community in our cities and towns, and in island and rural communities. Convenience stores provide valuable services, such as in-store post offices, payment services and ATMs, but they are also a point of community contact. We see them as community assets and important community anchors.

Our concern is to protect those legitimate businesses, particularly at a time when we are still suffering from a financial crisis and an economic recession. Anything that is lost to illicit trade will harm a legitimate business. We were therefore very keen to engage with the anti-illicit trade group. At the beginning of this year, we were invited to come on to the group and represent retailers' interests. That engagement has been very positive and fruitful for us, but we see it very much as a long-term process. As I said, part of that lies in encouraging our members to be aware of illicit trade and to look at ways in which they can report instances of fraud more proactively.

The Convener: I have a list of members who want to come in, so we will work our way along, starting with Joan McAlpine.

Joan McAlpine: Thank you, convener. My question, too, is for John Lee. The article from *The Courier* that we have been shown suggests that a lot of illicit goods are sold from under the counter in shops. I am not suggesting that such shops are run by your members, but from what the article says it is clear that food shops, card shops, fruit and vegetable shops and a DVD rental store are involved, as well as pubs. Is that an area of concern to you? Clearly, those shopkeepers are collaborating in the sale of illicit goods.

John Lee: Indeed. It is an area of concern, but I genuinely feel that those people are unlikely to be our members. Nevertheless, it is something that we have to be aware of, which is another reason why we engage with colleagues around the table of the anti-illicit trade group, because we want to highlight that problem and to do something about it.

I am sure that what I am about to say does not apply to all the examples that Joan McAlpine mentioned, but certainly in the context of illicit alcohol we hear from colleagues at HMRC that criminals often put severe pressure on retailers to take and sell illicit goods in their stores, and there is often the threat of violence. As I said, that does not by any means explain all the instances that you mentioned, but I think that a lot of the time the sale of illicit goods is underpinned by serious and organised crime. The pressure on retailers to become involved in the sale of illicit goods is, unfortunately, very serious and can have the consequences that you described.

Joan McAlpine: I will put the point to Alan Dron and get Police Scotland's point of view. What Mr Lee described sounds like a version of the protectionism that we are aware existed in the past. Is there a serious problem with small retailers being pressured by organised crime to sell illicit goods when they do not want to?

Inspector Dron: It is fair to say, in terms of serious organised criminality, that wherever criminals can make money, they will make money. The "Letting our Communities Flourish" report looks at the issue Scotland-wide because every community is affected in some shape or form by serious organised criminality. A shop is quite often the centre of a community, so there might be a desire by criminals to get involved in it in order to legitimise themselves. That is one of the reasons why the anti-illicit trade group has been so successful in hitting home the key message that selling illicit goods is not a victimless crime. That it is a victimless crime seems to be one of the overriding arguments that we have always heard. If the crime involves drugs, we know that drugs are bad for people, but if it is only about an illicit DVD, the attitude is to ask what harm there is in it. We have to educate people and show that selling illicit goods is not a victimless crime. We must tackle it and show that serious organised crime is behind it, because we have now established that link.

10:30

On the point that Joan McAlpine rightly made, whether I bring in £1 million-worth of cocaine or £1 million-worth of counterfeit DVDs, it is still £1 million-worth, but the penalties for dealing in class A drugs and for selling counterfeit goods are worlds apart, so which is more attractive? Plus, if I deal in drugs, the size of my clientele will limit my trade, whereas if I deal in counterfeit and illicit goods, that trade is opened up to everybody and I can make more profit. That is why the group is striving to mainstream the problem. If we can raise awareness of it and ensure that people who are trying to conduct legitimate business know that we are here to support them, we will tackle—in every way, shape and form—the criminality behind it.

The approach is working. A certain area in the east end of Glasgow seemed for a long time to have a problem that could not be tackled, but ahead of the Commonwealth games and Ryder cup coming to Scotland we made a sustained effort to engage with local councillors, the local community and local businesses to try to change the area. Its reputation preceded it. In one year we have taken over £13.5 million of illicit, pirated and counterfeit goods out of that area. More important is that although we have disrupted serious organised criminality in the area, it has not been displaced. The criminals have just given up because we have been relentless. That has started to allow legitimate business to come back slowly to fill the void that was previously filled by criminality.

John Lee is right to say that our work gives people confidence. The last thing that a shopkeeper who is going about their business wants to face is perceived threats of violence and getting into that sphere, where their family or business could be harmed. They must have confidence that if they report a matter to John Lee's organisation, any other members of the group or the local police, something will be done about it.

Huw Watkins: As Alan Dron has highlighted, the attitude in Scotland is that we will not tolerate legitimate traders being driven out of business. There is an area in Manchester where legitimate traders are not allowed to flourish because they cannot compete with the counterfeiters. The counterfeiters do not have the overheads or pay the tax, and legitimate trade has been driven out of the whole area.

As Alan Dron said, the success around the Barras market has been significant. I get grief from my colleagues at Whitehall when I tell them that they really need to see what is going on in Scotland, where everybody pulls together and the economic harm just has not been tolerated.

Joan McAlpine: Another issue for small retailers is that they face commercial pressures from the big supermarkets, which can sell goods more cheaply because of economies of scale. Does that tempt smaller retailers—I am not suggesting any particular retailers—or add to the pressure on them?

John Lee: It is more about general economic pressure, at the moment. Trading conditions are still very challenging and margins are being squeezed all the time by a variety of factors, so there are what we might call perverse incentives for some people to at least be open to selling illicit goods. The general economic climate is challenging at the moment, especially for smaller businesses, and competition is an element of the overall economic pressure. However, there are incentives for people to get involved in illicit trade.

Chic Brodie: I want to follow that up. I have a predilection for one brand of whisky, and the packaging is clear in terms of bona fide retail. However, I recently went into a couple of shops—one in Cambuslang and one, closer to home, in Ayr—where the same branded whisky was on sale but in different packaging. I understand—I am checking this out—that the difference was because one had export packaging. Because of VAT implications, exported whisky finds its way back into the UK. What tracking is done, and what could be done in terms of indigenous production and supply, to make the packaging clearer? Also, could there be barcoding or the addition of some other mark to make it difficult to sell such whisky? I do not know whether that is done already.

Huw Watkins: The packaging issue is a difficult one, because if packaging can be made, it can be counterfeited. That applies even to the holographic designs. As quickly as something can be produced, it can be copied. There are unscrupulous people about, as the facts and figures show; for example, more Johnnie Walker is drunk in India than is produced worldwide. There are challenges.

As far as goods coming back in are concerned, Steve Ferry might well have an opinion on the difficulties in tracking goods that are not necessarily counterfeit but which are involved in an export fraud.

Chic Brodie: That is right. The goods that I mentioned were not counterfeit.

Huw Watkins: Labelling is quite a challenge. We are doing some work with the Faraday centre for retail excellence in Leeds, which leads for the UK on the integrity of packaging. It really is a thorny issue.

Alison Johnstone: My questions are probably for Inspector Dron and Mr Lee. Could you paint a quick picture of how illicit tobacco comes to land in a grocer's shop? I am trying to understand the levels of awareness of all the members of the chain. Are there some members of the chain who fully understand what they are doing and know that it is illegal but are up for it anyway? Are there always people who are completely oblivious to what is going on? How organised is the process? Does it vary?

Inspector Dron: The process varies but, by and large, everyone who is involved in the chain—right up to the person at the point of sale—will be totally complicit. We are talking about big money, and if people can make money, that will be their main reason for being involved. Especially in Scotland, changes in what is coming in are taking place all the time. Steve Ferry might be able to give the committee an example of a recent success in Dundee.

Alison Johnstone mentioned tobacco, which at the moment is brought in in loose-leaf form in volume. It goes to certain places in Scotland, where it is cut up and put into counterfeit pouches that are distributed.

The amount of money that is involved is the greatest incentive for everyone. We come back to the adage that people who deal in drugs deal only in drugs. They have a limited market, and they get stiffer penalties. People who deal in counterfeit or illicit trade make more money than they would if they were dealing drugs because they have a wider audience, which means that the incentive is greater.

It is a case of trying to educate people and change perceptions. Although a market stall might be run by a 15-year-old or a 16-year-old, they know what to do—if the police arrive, they run away, because they know what is on their stall. The people at every level of the chain are complicit. If you go to a certain place and buy a DVD boxed set for £5 that would cost £30 in the shops, you know what you are getting. However, there is a sense that that is a victimless crime: people do not see that they are causing a problem. By establishing a link, we can show that serious organised crime is behind such trade.

I will paint a picture by giving a quick example. On 1 April, on the back of the summit and a variety of work that had been done by the group, Scotland became the first place in the UK to try to get a benchmark rather than an estimate of the cost to the country of illicit trade, counterfeiting and piracy. As of yesterday, since 1 April Police Scotland and its partners have seized £22,312,122.80-worth of illicit goods. That will be the tip of the iceberg. If that amount of a class A drug such as cocaine had been seized, it would be all over the papers. In a six-month period, £22 million-worth of goods have been seized. In percentage terms, an awful lot more illicit goods are coming into the country and causing damage; it harms legitimate business and the economy. That £22 million is just scraping the surface.

Alison Johnstone: I know that we are not discussing justice this morning, but it seems that we need to start taking the issue a lot more seriously.

You said that loose tobacco is coming in and being packaged. The graphics must look right, so the process must be extremely organised. Are people working in factories producing packaging that they know is illegal?

Inspector Dron: You are right that what is produced looks very like the real thing. As Huw Watkins said, if something can be made, it can be counterfeited. The standard of packaging has improved dramatically—it carries holograms, or whatever else the identifying mark should be. The activity is organised, but it does not have to be done in a large factory—it can be done in a house or a garage, which makes it harder for law enforcement bodies to find it.

Obviously, there are health and safety implications about where things are packaged or made and what is in them. I know that Steve Ferry has some recent examples of that, and Huw Watkins can fill you in on examples from the rest of the UK. It is an amazing problem, and you are right that it needs to be taken more seriously. For us, it is not just about the criminal justice side: education is key, which goes back to changing

perceptions. If we can reduce the demand for such products, that will have an impact.

The Convener: Steve Ferry, Huw Watkins and John Lee all want to comment, but first I will just chuck something into the mix on packaging. Cigarettes are a large part of the problem. If we move to plain packaging of cigarettes, will that have an impact because it will be easier to copy? Perhaps we could pick that up in the discussion.

Steve Ferry: I cannot say a great deal about plain packaging, because it is being considered at national level. People are looking at the experience in places that have introduced it, such as Australia.

A point was made about alcohol. HMRC has a tackling alcohol fraud strategy, which we launched at the same time as our most recent tobacco strategy. We have almost tripled the amount of revenue that we have protected through its enforcement—the figure was more than £680 million for the year 2013-14. In the past two years, HMRC and the border force have seized 21.5 million litres of alcohol with a revenue value of more than £45 million. We are aware that there is an issue with alcohol moving into the country. As Chic Brodie said, alcohol that is intended for export is sometimes diverted when abroad then brought back into the country. We have been aware of that phenomenon for a long time and we are targeting it.

On tobacco, as Alan Dron said, it is easy for people, using the latest computer technology, to produce packaging that looks professional and is indistinguishable from commercial packaging, and it does not cost very much to do that. We are aware of that and we are targeting it.

Alcohol and tobacco come in to the UK in different ways. Sometimes, legitimate products that are intended for, say, a duty-free shop are diverted and end up back in the UK; standard or ordinary packets of cigarettes or tobacco are legitimately manufactured but are diverted. There are counterfeit goods, which Alan Dron mentioned; people get raw tobacco and packaging and go into a warehouse somewhere to produce counterfeit goods. Finally, there are cheap cigarettes that are manufactured in eastern Europe and the middle east and are brought in, perhaps because they are the favourite brand among a particular community. The phenomenon is very diverse, and we work hard to understand it.

Huw Watkins: I will give an example of the scale of the problem. There was recently a seizure of fake tobacco pouches at an airport. It would have needed 8 tonnes of tobacco to fill those pouches. That was just one seizure.

John Lee: I want to amplify Steve Ferry's point and touch on Alison Johnstone's question.

I am not an expert on illicit alcohol, but my sense is that there is a big problem with spirits, especially vodka. The products are legitimately manufactured in Scotland and sold on totally legally in the first instance but then, through a fairly complex process that is difficult to audit, they find their way to the continent, where the packaging and labels are changed and they are then imported back into the UK. There also seems to be a problem with bogus cash-and-carry outlets or wholesalers springing up that sell such products. It can be very difficult to tell how the product got there and whether it is legitimate. The product itself is legal and is manufactured totally legitimately but then, through a complex process, it finds its way back in to Scotland.

10:45

To touch on Mr MacKenzie's point, the difference between cost and selling price and duty still makes it worth while for criminals to do that.

Dennis Robertson: At the end of the day, consumers are quite open to a bargain. Because of the austerity programmes and so on, most people are looking for that bargain. Awareness and prevention are very important. We know that about 20 per cent of people will knowingly purchase fake or illicit goods, but how do the other 80 per cent of people know that they are buying an illicit product as opposed to getting a bargain on a legitimate product?

Inspector Dron: I can certainly offer a bit of advice. You are right that education is key. We tell people to think about the location where they buy the product and to have a look at the packaging. Although there are really good copies, there may be something that is not quite right. People should also think about how much they are being charged.

Again, it is about trying to raise awareness. Unfortunately, with a lot of products, people buy them in good faith and think that they are getting a bargain until they take them home. There is big money in golf clubs. Someone might buy a driver on the internet for £150 to £200, and everything would look right but, once they felt it, they would know that it was counterfeit. People might also buy medicines online that turn out to be counterfeit—they should not buy medicine online anyway, but folk will always do that.

Huw Watkins mentioned the unfortunate example of phone chargers. People buy one because they think that it is a bargain but, when they go home and put the charger in a socket, it starts a fire. Unfortunately, that is becoming an increasing problem.

Dennis Robertson: Yes, but you can see where I am coming from. As consumers, we all

quite like the idea of a bargain. If it was Chic's favourite brand of whisky and he was getting a fiver off, he might be tempted to buy two bottles rather than just the one.

The Convener: And hopefully share them! [*Laughter*.]

Chic Brodie: I have to declare that Dennis Robertson is not the only Aberdonian here.

Inspector Dron: For us, that consumer attitude is the challenge. It goes back to the perception that it is a victimless crime. We have to work harder on the education side and make sure that the issue is mainstreamed so that people understand that it is not a victimless crime.

Dennis Robertson: We are coming to a time of year when people might be more prone to look for a bargain. Huw Watkins made a point about chargers. There is a similar issue with things such as Christmas lights and games that have been coming into the market. A lot of fake electrical goods, whether they are hairdryers, hair straighteners or whatever, have been coming into the market and causing problems. That has a knock-on effect. Other illicit goods, such as illicit spirits, can impact on people's health. That comes back to the economy, because people may need to go to hospital as a result of problems caused by illicit goods. There is that whole knock-on effect.

I come back to the idea of the victimless crime. Are we, as consumers, the victims in some respects because we really cannot tell the difference? Criminals are so advanced at manufacturing goods to look like the real thing. If they price the goods so that we think that we are getting a bargain as opposed to an absolute steal, that is where the difficulty is.

George Clyde: Unfortunately, there is possibly a greed factor on the consumers' part. Online platforms such as eBay and Amazon are being used by organised crime groups to sell goods at a drastically reduced price. When the consumer goes online and looks at the goods, it is very difficult to decide from a photograph what is genuine, what is a bargain and what is not.

Inspector Dron: I should reassure the committee that we keep trying to do things differently. We need better things more often in the press, but every year for the past four years we have attended the girls' day out show, which takes place just before Christmas. We are supported in that by the brands and by organisations such as the Medicines and Healthcare products Regulatory Agency, as well as people from trading standards and the police. When we go to that event, straight away we have a captive audience of 19,000 people, the majority of whom are female, who would never think that what they might buy could be counterfeited. That is at a time when they might have one or two Christmas presents to buy, so they might think about getting a bargain. We need to place a lot more emphasis on that kind of education.

Dennis Robertson: I am intrigued by the DVD for four to eight-year-olds. Should we not target the older younger person: the 12 to 19-year-olds, rather than the four to eight-year-olds?

Inspector Dron: We have a variety of programmes and Scotland is seen as taking the lead in the area. We have programmes for those aged eight, nine, 10 and 11, and for young people when they go to secondary school, and when they turn 16 and 17—that is when we engage with Young Scot and YouthLink Scotland.

Regarding the Disney DVD for four to eight-year-olds, we have found that changing perception is the hardest thing to do, so we try to educate children from a very early age—four years old—and through other programmes as they grow up. It is a subliminal message or a drip. Children are not being told one thing and then suddenly another—it is part of a big plan. Until this year, we never had anything for the lower age group. It was all about the 14 to 17-year-olds.

The Convener: I have never yet had an invite to the girls' day out.

Inspector Dron: There will be a spare ticket for you this year, if you want one.

The Convener: That is something to look forward to.

I want to bring in a number of members who have not had the chance to speak yet, starting with Richard Baker.

Richard Baker: I am quite sceptical about Mike MacKenzie's points, not least because we must be realistic. If we cut duty on alcohol and tobacco, we would encounter problems that would require a load of important policy initiatives.

From what John Lee said about the routes by which illicit goods come to our economy, it strikes me that international collaboration on the issues is hugely important. So much of the production and trade takes place abroad, rather than just in Scotland or the United Kingdom. How effective is international collaboration in tackling illicit trade?

Huw Watkins: I had an interesting meeting with John Lee earlier to discuss opportunities for working with his organisation. I lead for the UK on a fake and illicit food initiative called operation Opson, which is co-ordinated worldwide by Europol and Interpol and which has gone from including 11 countries in 2012 to 40 countries this year. A number of countries that are invited to join each year happen to be the source countries. We are quietly working on the countries in which our

problems originate and we are very keen to expose to trade bodies the fact that we can work with the Latvians, the Turkish authorities and even the Colombians. Those are on-going operational activities. I would be happy to send you a summary of Opson, if you would like to read it.

Richard Baker: You mentioned source countries, which obviously have particular problems. Is there a greater effectiveness or willingness to deal with the issues in the areas where illicit trade is particularly prevalent?

Huw Watkins: You will have heard China being mentioned. I have been to China to engage with the police and say, "If we give you some information, will you do some enforcement?" That is interesting, because five or 10 years ago we would never have gone through a door in China to ask for assistance. The Chinese economy is growing at a huge rate and China is starting to realise that some of its goods are being affected by the fakes and that there is an economic impact on its legitimate factories. To give some figures, there are 55,000 police officers in the Ministry of Public Security's economic crime department and 80 per cent of their time is spent dealing with fakes in China. There is a growing opportunity for international collaboration, although we are already working on it.

Marco Biagi: E-commerce has been touched on. What is the scale of the problem, relatively? It is easy to talk about the stereotype of the grocer who has something that has fallen off the back of a lorry, but it seems to me that in modern times buying something a bit dodgy is potentially much easier on a big-name website that may lend a veneer of credibility. What are the witnesses' thoughts on that?

George Clyde: Just now, the indication from the Anti-Counterfeiting Group—which is really the global brands such as Nike, Adidas and Superdry—is that when people buy clothing or footwear from any of the auction house platforms, we are going towards a 98 per cent certainty that the goods will not be genuine.

Dennis Robertson: Wow—98 per cent.

George Clyde: Yes. Very few transactions on auction sites now involve Mrs Smith selling two extra tops that she got last Christmas. That has now gone. The fact is that the sites have been taken over by organised crime. It is very difficult for the sites to police themselves, so they tend to sit back and ask the brands to police the trade for them. To an extent, that is acceptable, because the sites argue that they cannot possibly determine what is genuine and what is fake. Amazon, eBay and the other sites realise that they have problems, although eBay in particular is good at tackling the issue in as much as it makes a software programme available to brands that allows them to delete listings that they deem to be infringing.

Marco Biagi: How much access does law enforcement have to those major players and their listings? From what I have heard, with major online platforms in a variety of spheres, domestic law enforcement sometimes has difficulty accessing information because, for better or worse, they tend to be American-headquartered companies. Has that been encountered?

Inspector Dron: I will give you a short answer and will defer to Huw Watkins, because something has been set up by the City of London.

It is generally a difficult area for law enforcement to tackle, not only on the big auction sites but now on social media. The amount of stuff that is being sold on sites such as Gumtree and Facebook is incredible. In Scotland, Police Scotland has its own e-crime unit, but it comes back to priorities and trying to focus attention on tackling those sites.

Huw Watkins is better informed on what has been set up down south, the national remit and how Scotland is linked in with that, so he will be able to tell you about that.

Huw Watkins: As Alan Dron said, the Intellectual Property Office has funded, on behalf of the Government, the police intellectual property crime unit, or PIPCU—that does not really roll off the tongue. PIPCU was established because there was a huge gap in enforcement. The unit has been going for just over a year and has taken down more than 3,000 websites that were selling infringing goods. The difficulty that it has had—I know that George Clyde will agree—is that, because of uncertainty about funding, it has been reluctant to take on longer-term jobs that are related to more organised crime and that we would expect to yield good opportunities under the Proceeds of Crime Act 2002.

I can share with the committee an example from an online platform. A couple in Northern Ireland were selling BMW parts, such as wheel trims and similar small things. Although eBay is a challenge, the PayPal system that comes with it is a brilliant investigative opportunity to show the scale of the trading. Working with the ACG intelligence co-ordinator, we were able to identify that, over a period of time, the couple sold £2 million-worth of goods that were IP infringing. The couple had a joint income of £80,000 a year, yet they were still making huge sums. In fact, BMW UK said that the couple were making more money a month on the parts that they sold than BMW was.

When we look at that impact on a world brand, we start to realise the scale of the economic harm. Although eBay is a problem, it is keen to work with

those in law enforcement. Its problem is the scale of law enforcement. There are around 4,000 police departments in America. You are fortunate in Scotland in having one police force. [*Laughter*.]

Dennis Robertson: Would we agree with that?

The Convener: Some of us did.

Huw Watkins: Dealing with 220 local authorities in England and Wales and 43 police forces is an operational nightmare. My colleagues in Whitehall do not take too kindly to a Welshman telling them that they should look north of the border for best or good practice.

The Convener: Okay—thanks.

11:00

Margaret McDougall: To continue on the digital or e-commerce issue, we have been told in briefings that one in five people know that they are buying counterfeit goods. They think that the goods are a bargain, so they take that chance. You know the extent of criminality online. I do not want to say the companies' names, but I think that one of you said that there is a 98 per cent likelihood that goods that have been bought on auction sites will be counterfeit. Is that message getting out to the public? I think that all of us round the table were quite surprised to hear that figure. There are programmes to try to educate people. Is that message included in them? That was news to me.

Huw Watkins: We may be telling people, but the challenge is whether they want to listen. The exception is fake food. People who otherwise do not particularly care whether handbags, hoodies or training shoes are genuine start to get concerned if we mention that there is no honey in fake honey. That is about the only time when we see attitudes change in the national picture.

Margaret McDougall: So people are, as the figure shows, quite happy to buy counterfeit goods, because it is probably too expensive to buy the real thing. Perhaps there is a message there for producers.

I want to ask about the real deal programme. The "Scottish Anti Illicit Trade Strategy" says that the programme

"encourages joint working with Trading Standards"

and other partners. Our briefing note states:

"90% of Trading Standards Authorities are working alongside the Police".

Why is the figure not 100 per cent?

Huw Watkins: Does Alan Dron want to deal with that question?

Inspector Dron: Yes—no problem.

As the committee knows, there are 32 local authorities in Scotland and 31 trading standards services, as one is shared. Trading standards services in Scotland are definitely improving. I will not go into the politics—with a small p—but they have to look out for a wide raft of things with not many resources. The Scottish anti-illicit trade group has started to help them, because it has introduced a focus by bringing everyone together, which can increase resources.

Trading standards and the new body trading standards Scotland are still finding their feet a bit in relation to who has primacy and who drives the real deal programme on the consumer side. The real deal programme is interesting, and trading standards should rightly drive it. For some reason, until 22 June 2013, no car boot market in Scotland had signed up to the programme, although it was running in Northern Ireland, Wales and England.

As a result of a lot of good work, educating trading standards services and seeing what is required, 13 markets have now signed up to the programme. One of the objectives that the group set itself pre the Commonwealth games was to get every market in Glasgow other than the Barras market to be real dealed, and that happened. Markets from Aberdeenshire all the way down to Dumfriesshire are now participating or looking to participate. The ball is starting to roll.

Trading standards are represented on the group, as is trading standards Scotland, which has formed a close relationship with the IPO on intelligence. The challenge for trading standards Scotland is to ensure that its members realise where the issue fits in for them. Serious organised criminality fits into their key area of bogus workmen and doorstep crime, which is rightly one of their priorities, but so is the issue that we are discussing. Another issue is weights and measures—they find themselves dealing with spirits, but in a different way. There is an opportunity for trading standards to take more of a role across Scotland and we are certainly getting there, but progress has been a bit slow.

Margaret McDougall: So it is voluntary. Trading standards do not have to sign up to the real deal programme or work with the police.

Inspector Dron: The real deal is all about working with and policing the markets, and that makes the job easier for trading standards and the police. They find that the markets and car boot sales that sign up to it have a better footfall, which means more people spend more money. The legitimate traders find that they have more money. Blochairn market in Glasgow was the first market in Scotland to sign up and things have been very encouraging since then. It is down to the local authority, trading standards and the markets themselves to take forward the real deal.

Margaret McDougall: Is it that trading standards just do not have the resources?

Inspector Dron: Very much so. The SAITG tries to support trading standards when possible. For example, when enforcement activity is carried out, there might be a small number of police and one or two trading standards officers but, if we need to, we bring in people from other bodies such as the Federation Against Copyright Theft, the British Recorded Music Industry or the Anti-Counterfeiting Group just to boost the numbers. Because everybody works together, trading standards can participate more than when they were just left to themselves and a lack of resources meant that they were unable to do that.

Margaret McDougall: Have you a specific message to send out? We are approaching Christmas, for example, so will a specific message be sent out this year? I have not heard anything in the media on that.

Inspector Dron: In October and November, we always do a lot of enforcement work behind the scenes to take away a lot of the goods that are coming in. You will shortly hear a lot in the media. The girls' day out event is between 28 and 30 November and we are participating in world travel day for Scotland and going around all the airports and ports as part of counterterrorism week. On 25 November, we will be at the airports in Aberdeen, Edinburgh and Glasgow in the run-up to Christmas.

We try to take away a lot of the goods that are for sale pre-Christmas and we put out public messages in November when people are starting to buy.

Margaret McDougall: Thank you.

The Convener: Three members want to come back in. We will start with Mike MacKenzie.

Mike MacKenzie: I just want to pick up on a point that Dennis Robertson was getting at earlier. We have had some discussion about how the most effective way of dealing with the situation is to get the message across to the public that this is not a victimless crime. How realistic is that?

We know that Richard Baker can afford to wear designer clothing—

Richard Baker: I do not think that we do know that.

The Convener: It is a pity that he does not.

Mike MacKenzie: —but people who are in less fortunate circumstances nevertheless share his aspirations for sartorial elegance. In the face of growing inequality and poverty, and in the knowledge that some of the designer brands, with their £1,000 t-shirts and so on, have those goods made by exploiting labour in third world countries, how difficult a sell is it? People who are living in straitened economic circumstances, when Christmas is approaching and they want to buy their kids things, are faced all the time with huge advertising and marketing campaigns that Police Scotland could not match in their wildest dreams. How realistic is it to tackle the problem? Are some of the messages that we are trying to put across really effective in the face of economic circumstances?

Inspector Dron: I will answer first and then George Clyde can come in. You are right; there is not one solution to any of this. We are realistic about that.

In the past 18 months, the SAITG has come from absolutely nothing to where we are now, and it is a starting point; we are drawing a line in the sand. People of every age are able to make their own choices; that is just life. However, we are finding that more of the message is getting into people's minds and thoughts, particularly in relation to tobacco, alcohol and medicines, which are the three biggest counterfeited products, particularly in Scotland.

Mike MacKenzie: Medicine? Could you talk a bit about that?

Inspector Dron: Medicines are an issue, particularly online, and they range from viagra to any other medicine that is sold by the so-called online pharmacies. The MHRA has a huge job, and every year there is operation Pangea—this year, it will be Pangea 8. It is incredible how many people sit in a bedroom or loft and order anything from around the world. How can we stop that?

If people die through the misuse of medicines, alcohol and tobacco, that starts to make an impact. People perceive that buying the odd counterfeited DVD or book will not kill them or cause them personal injury, but if people continually buy alcohol, tobacco and, in particular, medicines online and find themselves in hospital, or if they buy an electrical product and it causes them to burn, that is when their perception starts to change. We have to start somewhere, hence we have the DVD for the four to eight-year-olds and the mid-range one for the teens. We have to be realistic: people will never change their habits if they are into certain things. We can try to reduce the demand and put as much out into the media as we can, but some things will work for some people and not for others.

George Clyde: I take your point about the pricing strategies that are employed by some of the major brands. The brands would argue that they have to pay for design, manufacture and production, hence there is a higher price on such goods than you would pay for stuff from the markets. Counterfeiting also causes damage to

the main brands. You would be amazed at the number of times that someone sends a top-quality Superdry product back to the manufacturer and says, "This is the worst product I've ever seen. It lasted two washes," only to get the response, "The reason it lasted two washes is that it's not genuine. It's not of the quality that we would produce." Although I appreciate that the cost of goods can sometimes appear to be at the higher end, you get what you pay for.

John Lee: The organised criminals who are behind a lot of the activity are businesspeople like any others, and they use the profits from one part of their operation to fund another. Therefore, the money from something that may seem fairly innocuous—for example, selling fake branded goods—could go to people trafficking or something else. We need to unpick some of that and make people realise that what they are doing is potentially funding something very serious such as illegal drugs or people trafficking. A network of business profits fund a host of serious criminal activity.

Mike MacKenzie: There are two things that I am interested in, which I think the committee should also be interested in. I have touched on the first of those, but I will labour the point. To what extent is organised crime a function of the recession and inequality? I am genuinely interested to know whether any research links a growth in organised crime and illicit trade with poverty, inequality and recession.

Secondly, do Government competition regulation, taxation strategies and so on make the problem worse instead of improving it? I am not undermining the good work that our witnesses are doing; I am making the point that Government can and should address the problem and that it would be economically and fiscally prudent to do so.

I suggest that Mr Baker study Gordon Brown's interesting writings on post-neoclassical endogenous growth theory, Laffer curves and the interaction of taxation with those matters. The subject may be of more general interest to the committee.

The Convener: I think that that is a bit off the topic.

11:15

Joan McAlpine: Mike MacKenzie raises a serious point. I do not want to undermine the good work that the witnesses are doing, but the inequality in society has created a market for criminals. The International Monetary Fund brought out a report earlier this year that showed that inequality is really detrimental to economic development. We are seeing not just inequality but super-rich people who are lauded by the media for their consumer choices, and we are supposed to look up to them. People who live in abject poverty or even those on a low income—we discovered this week that 400,000 people in Scotland live on less than the living wage—are told that to be a fully participatory member of society, they need certain consumer goods.

Last night, I was at a cross-party group supported by the Child Poverty Action Group in Scotland and I heard that the amount of severe poverty suffered by children in the UK is really extreme and the highest in Europe. If a mother has a five-year-old who is unable to watch a Disney DVD because she cannot afford to buy it, I can totally understand why she would go out and get that DVD for a lot less, because if her child is deprived of that, they are really deprived. We could argue that it should not be considered to be deprived, but it is. I brought up two children and have never bought an illicit DVD in my life, but I have a pile of DVDs and if I counted up the total cost of buying them, it would amount to several hundred pounds. If children are deprived of such DVDs, they are culturally deprived, if you like.

As I said, statistics came out just yesterday that showed that extreme poverty in the UK is now the worst in Europe. So, two things are happening that are creating a market for organised criminals. Perhaps we should address the cause rather than the symptoms.

The Convener: But it is about both cause and effect. To go back to Steve Ferry's point, the more the illegal economy grows, the less revenue the Government gets from taxation from legitimate enterprise. Alan Dron wants to say something.

Inspector Dron: It is just to make a quick point on that. We should maybe not lose sight of the fact that it is not just those on very low incomes who are buying goods from illicit trade, counterfeiting and piracy but people right across the income spectrum, including people at the very high end who we would think could afford anything going. A lot of car parts in high-end cars have been counterfeited and have had to be recalled, because, for example, the brake pads that were fitted were made of grass rather than being the genuine product.

Therefore, buying illicit goods is not an issue just among the poor and those on lower incomes; it goes right across the income levels. We are trying to protect a lot of brands and legitimate business. For example, if some of the finest Scotch whisky malts are not protected, there is a loss of reputation, although those who drink them tend to be at the higher end of the income scale. That is one of the areas of counterfeiting that is really being targeted.

Huw Watkins: I am sure that the committee will be delighted to know that at the summit in Murrayfield earlier this year, one of your colleagues in the Scottish Youth Parliament asked representatives of some of the major brands searching questions about pricing policy. There were a few mutterings in the group, because the questions were genuinely searching. So, opportunities for youth to address their questions have been taken. As I said, there was some head shaking and nodding from some of the major brands' representatives at the summit.

The Convener: Okay. A couple of members want to come in. Chic Brodie is first.

Chic Brodie: First of all, I thank Alan Dron for his comment about the golf clubs, because now every time that I hook or slice I will say that it is the counterfeit driver. [*Laughter*.]

I see three disparate issues. First, my Aberdonian grandfather—this is for Dennis Robertson's benefit—said that if you buy cheap, you buy dear. If we are talking about medicines, in some cases it could be extremely dear, given the impact that they might have.

On Margaret McDougall's point about promoting the issue of illicit goods much more widely, in a briefing that we got I noted that one of the problems in giving precise figures on the issue is that there is no statutory recording of the offences. We can combine that with the fact that although there is a television programme called "Rogue Traders", it goes out at about 10 o'clock in the morning, so most people do not see it. Everyone is huddled around the television to watch "Crimewatch" to see whether they know who committed a crime, so there might be an opportunity for the media to do something meaningful. I am sure that a lot of people would watch such a programme.

Steve Ferry mentioned 2.5 million litres of alcohol and the large amounts of cigarettes that are available—do not tell me where. What happens with that? Is there any recompense? We have the Proceedings of Crime Act 2002, but is there any chance of recompense for the legitimate suppliers whose goods are prostituted by illegal traders?

Steve Ferry: In general, if a significant seizure is made, a legitimate company—usually a tobacco or alcohol manufacturer—will sample the product that we have seized to see whether it is genuine or counterfeit.

Generally speaking, the products that are seized—apart from a small quantity that is kept for evidence—will be destroyed. The cigarettes will be put into a power station's furnace, and alcohol will be poured down the drain. Those products are a health risk if they are not genuine. If they are genuine but have been seized from a criminal, they may also be disposed of—that would depend on what the manufacturer wanted to do.

I have worked in jobs in the past in which I spent a long time pouring spirits down a sink. People might get upset if they saw that, but it is necessary if the product is counterfeit in order to avoid damage to public health.

Chic Brodie: I have a general question, following up on Mike MacKenzie's point. How much more can the Government do to assist your work? The work is excellent, although it is constrained by resources. What can be done to assist in ensuring that more criminals are caught?

Steve Ferry: One thing that we can and should do is to emphasise co-operation between agencies, which is what the Scottish anti-illicit trade group is about. We are ahead of the game in Scotland in that respect. We certainly co-operate better where it is legally possible and where it makes sense to do so. Sometimes we cannot exchange information for legal reasons, but where we can, we should.

John Lee: I want to throw something into the mix. I think that it would be helpful—admittedly, I am not sure how this would work—if there was a senior figure in the Scottish Government, perhaps at ministerial level, who was able to bring together the two sides of the story: crime and justice and the business economy. I hesitate to use the phrase "illicit trade tsar", but there could be a role for someone to champion action against illicit trade at a senior level in Government and bring together the incredible amount of work that is going on at present. That is a potential way forward.

Inspector Dron: From the perspective of the group and Police Scotland, the key success—as Steve Ferry mentioned—has been the multi-agency approach across the public, private and third sectors that focuses on a common problem.

Scotland is unique in that we do not have a dedicated unit that tackles illicit trade, counterfeiting and piracy. Much of what we have achieved has involved people who have certain powers and who have it in their gift to work together. From the benchmarking that has rightly been done to establish the extent of the problem, we have a figure of £22 million over six months. That is the tip of the iceberg, which suggests that there is enough illicit activity to merit bringing together a combined group.

George Clyde: I reiterate what Alan Dron has said. A dedicated group working on intellectual property in Scotland, possibly comprising Police Scotland and other partner agencies, would certainly be a step in the right direction.

Huw Watkins: I echo what everyone else has said. It is interesting to note that in England and Wales there is a growing push for a Government agencies intelligence network. We are part of a network right across England and Wales, and there are various regional representatives. When the national co-ordinator said, "What about Scotland?" I was able to say, "They've been doing it for the last two and a half years."

Dennis Robertson: Can you break down the numbers of counterfeit and illicit goods that are coming into the country? How are they coming in? Is it by air, or by sea? We are surrounded by water and there are many ports through which goods can come in. How much is home-grown? If it is home-grown, what are we producing on our own doorstep? Do we know that?

Inspector Dron: The majority comes into Scotland, as you say, and by all means. The internet is huge, and a lot of the goods come in to the smaller hubs, such as Coventry and Birmingham, and couriers will bring them north. People will drive up and down across the border carrying stuff that has come in via Felixstowe or Southampton, or through Liverpool or Manchester.

Again, it depends on the type of product. There are numerous routes into Scotland: goods can come from the north down or the south up. In particular, there are goods coming from east to west. We need a multi-agency approach, not a one-size-fits-all approach.

With regard to home-grown goods, we do not—touch wood—think that there is too much of that activity at present, but we do not know how big the problem is until we go looking for it. A lot of the goods are made and manufactured further south, and they come up north. There is no evidence as such, but we have seen evidence on a bigger scale from serious and organised crime groups to suggest that some goods are being made here and then sold or taken elsewhere.

A lot of the material is coming in as raw product to be finished and distributed. That is all part of the growing awareness of the problem, which is why we are lucky that we can tie in with the work of the IPO, which has a national and international remit, with attachés round the world.

Dennis Robertson: Are harbours and port authorities part of the group too?

Inspector Dron: We are very fortunate in Scotland, as Huw Watkins has mentioned. A lot of people are looking to Scotland just now and asking how we are able to do what we do. We have a border force—the border policing command—that is part of the group. In addition, we have HMRC; the Department for Work and Pensions; the NHS counter fraud service; and the Medicines and Healthcare products Regulatory Agency, which sends people up from London to support the group.

Everyone who is available to provide a barrier is on the group, as is Crimestoppers Trust and some of the brands. They can all feed in their knowledge to create a bigger picture, which then goes from Scotland down to the central hub.

George Clyde: One important factor is that goods that are landed in the European Union—in Brussels—and then taken by road or otherwise into the UK are very rarely examined on a second occasion in the UK. If the goods pass through Brussels or Antwerp, the chances are that they will continue on their road into the UK.

Marco Biagi: What is the scale of the black economy in the UK relative to that in other countries? I could point to the recent recalculation of budget contributions to the European Union, which I believe was based on incorporating the part the black economy plays relative to the size of the UK's economy. The biggest increases in contributions proportionally were for the UK, Italy, the Netherlands and Greece. In black economy terms, those are interesting countries to be ranked alongside. Is the UK particularly bad for its black market, or is that a myth?

Steve Ferry: I do not have the precise figures in front of me. The latest tax gap estimates, which were published on 16 October, elucidate that the UK has one of the smallest tax gaps in the developed world. The numbers are very big—I cannot recall the figures off the top of my head, but they amount to billions of pounds—but in relative terms the size is not huge internationally. That is not the whole black economy; it is just the tax side of things. I cannot comment on the broader picture—I do not know whether any of the other witnesses have anything to add on that.

Huw Watkins: Our border force is ranked as the most effective in Europe. Thankfully, we are surrounded by water, but we have a challenge within the common trade area. Picking up on an earlier point, we work internationally and across Europe, and we share information with our partners to try to track the problem. We conduct analysis of border force interventions and we can supply colleagues in Scotland with an analysis of where intercepted goods are heading. We are able to paint a picture.

One of the leading successes for us recently has been that, because of the effectiveness of the information technology system that all trading standards authorities in Scotland are using, we have been able to move our intelligence database on to the same system, so that all those authorities can have direct access to it. We are trying to link things up.

11:30

Chic Brodie: Clearly, all the goods have to get from A to B. I understand that that is not all done by HGVs and that small vans might be involved, but what is the relationship with the transport industry? Does the industry understand its role? What penalties are applicable to transport companies that are involved in the transportation of illicit products?

Huw Watkins: I engage with the Road Hauliers Association. As I am sure you will appreciate, as the national agency that is charged with investigating the range of IP crime, we look at ordering, manufacture, shipping and importation as well as transport within the UK. We engage with hauliers. As I am sure Steve Ferry will tell you, if a vehicle is used in the commission of a crime, it is subject to seizure. The costs that are involved if somebody loses a lorry can be significant. Those things are taken into account.

The Convener: We are out of time, so I will briefly sum up.

I thank our guests for coming and for what has been an interesting discussion. I have certainly learned a lot about the subject, and I am sure that that goes for other members. On the key points to take forward, we had a lot of discussion about co-operation between agencies being crucial and how we might enhance that in future. Probably the biggest issue to be tackled is that of public attitudes. As long as there is a market for illegal goods, people will produce them. We have to reduce demand and change public attitudes. That comes back to many of the things that Alan Dron said about making people aware that such goods are funding other illegal activity and criminal gangs and that illicit trade is therefore not a victimless crime. It is important that we change public attitudes on the issue.

Before we close, is there anything that we have not discussed that our guests feel is vital to throw into the pot? I see that Joan McAlpine wants to comment, but I am not going to bring her back in because we have had a fair crack of the whip—

Joan McAlpine: I just want to make a point about the public attitudes issue that you raised, convener.

The Convener: Right.

Joan McAlpine: Everybody has raised the issue of the loss to the taxman. Your party, convener, has suggested that, in the new settlement for Scotland, it should get an assignment of the VAT that is raised here—my party has suggested that, too. If VAT is being lost here as a result of such activity, we might find it easier to change public attitudes, because people will be able to see the effect closer to home, as Scotland will be losing a large proportion of tax that could be raised here. So the constitution comes in here, as well.

The Convener: That was a very deft way to bring in the constitutional question, Ms McAlpine.

If none of our guests has anything to add, I will now close the public part of the meeting. I reiterate my thanks to our guests for coming.

11:34

Meeting continued in private until 11:46.

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