

For information

**LEGISLATIVE COUNCIL PANEL
ON SECURITY**

Enforcement Against The Smuggling and Sale of Illicit Cigarettes

INTRODUCTION

At the meeting of the Panel on 19 January 2004, Members requested the Administration to provide information on the measures adopted by the Customs and Excise Department (C&ED) in combating illicit cigarette activities, statistics on the illicit cigarettes seized by C&ED and the number of persons arrested/convicted for involvement in illicit cigarette activities in the past five years. This paper provides the information requested.

OVERALL ENFORCEMENT

2. C&ED accords high priority to combating the smuggling and sale of illicit cigarettes in Hong Kong. For this purpose, C&ED has set up dedicated task forces and formulated a specific enforcement strategy against illicit cigarette activities. C&ED's strategy is to launch intelligence-led operations against the source of supply of illicit cigarettes as well as to conduct repeated and focused raids on black spots.

SETTING UP DEDICATED TASK FORCES

3. In 1994, in view of an increase in cigarette smuggling activities, C&ED set up a 40-strong Anti-Cigarette-Smuggling Task Force to strengthen its enforcement in this respect. In April 2000, in response to a change in the pattern of illicit cigarette activities,

C&ED re-organized the Anti-Cigarette Smuggling Task Force and subsumed it into a new Anti-Illicit Cigarette Task Force (AICTF), which has 40 permanent posts and 44 temporary posts, to enhance enforcement against local distribution and peddling of illicit cigarettes, in addition to combating cigarette smuggling. To reinforce the AICTF's enforcement, the Special Task Force of C&ED, which was set up in June 1999 to combat the peddling activities of pirated products, illicit cigarettes and illicit fuels, serves as the mobile brigade to reinforce the smashing of local black spots for cigarette peddling.

4. In February 2003, C&ED established the Revenue and General Investigation Bureau (RGIB) as part of the Department's re-organization effort to enable development of a holistic and unified operational strategy and to strengthen operational capability in combating activities relating to illicit cigarettes and fuels by alignment of investigative functions. The RGIB was formed by transferring to this Bureau different enforcement units, including the AICTF, which are responsible for the fight against illicit cigarette and illicit fuel activities. These units were originally under different bureaux of C&ED. The re-organization has enhanced coordination and efficiency in enforcement. RGIB has maintained adequate enforcement capability against illicit cigarette activities through intelligence-led operations and flexible resource deployment. C&ED's Special Task Force continues to reinforce the smashing of local black spots for cigarette peddling.

ENFORCEMENT STRATEGY

5. In 2003, C&ED adopted the following multi-pronged specific enforcement strategies -

Fight against Cigarette Smuggling

- (a) enhance intelligence collection on the activities of cigarette smuggling syndicates;
- (b) stop the inflow of illicit cigarettes through intelligence exchange and maintain close cooperation with various enforcement agencies in the Mainland and overseas;
- (c) conduct joint operations against cigarette smuggling with the Mainland Customs;
- (d) employ advanced technologies, such as fixed X-ray vehicle inspection systems and mobile X-ray vehicle scanning systems, to reinforce the interception at entry/exit checkpoints;
- (e) invoke the provisions of the Organised and Serious Crimes Ordinance in the

prosecution of cigarette smuggling syndicates with a view to imposing aggravated sentences on the offenders;

Fight against Distribution and Peddling of Illicit Cigarettes

- (f) conduct repeated and focused raids on black spots;
- (g) launch territory-wide operations by pooling resources from different enforcement units within the department;
- (h) suppress illicit cigarette peddling through launching special operations with the Hong Kong Police Force;
- (i) step up enforcement actions and prosecution with particular focus on the sellers and buyers of illicit cigarettes and abusers of duty-free concessions; and
- (j) raise public awareness on illicit cigarettes, including both dutiable and contraband cigarettes and convey the message of criminality of buying illicit cigarettes.

ENFORCEMENT ACTIONS AND RESULTS

6. Based on the multi-pronged strategy, C&ED further stepped up enforcement, achieving encouraging results on combating illicit cigarettes in 2003. During the year, C&ED seized 152 million sticks of illicit cigarettes with duty potential of \$122 million. A total of 4 540 persons who were involved in the smuggling, distribution and sale of illicit cigarettes were arrested, representing a 74% increase compared to the corresponding figure in 2002 (see *Appendix* for details). The increase in the number of arrests since 2001 illustrates the effectiveness of C&ED's enforcement actions. The number of persons convicted as a percentage of the number of person arrested has remained stable in 1999 to 2003 (at 95% on average).

7. The quantity of illicit cigarettes seized dropped from 340 million sticks in 2001 to 152 million sticks in 2003. The drop might be attributed to changes in the tactics of the offenders involved in that they now smuggle, store, distribute or peddle smaller amounts of illicit cigarettes at any one time than before to minimize loss in view of higher incidence of arrest. Besides, C&ED smashed 24 major cases of transshipment of illicit cigarettes in 2001, involving 204 million sticks of illicit cigarettes. Pursuant to C&ED's stepped up enforcement, offenders apparently have avoided using Hong Kong for transshipment since 2002. This was reflected in the significant decrease in the number of transshipments detected in 2002 and 2003. C&ED detected only one case of transshipment

involving seizure of 8.2 million sticks of cigarettes in 2002, and another case of transshipment involving 1.5 million sticks of illicit cigarettes in 2003. This also explains the drop in the seized quantities in 2002 and 2003.

8. Against the gradual increase in the number of arrests of persons involved in illicit cigarette activities, the consumption of duty-paid cigarettes remained stable in 2003. In 2003, the duty receipts amounted to \$2.22 billion, which represents an increase of 0.5% compared to \$2.21 billion in 2002.

9. Details of the enforcement actions taken and their results are explained below -

Fight against Cigarette Smuggling

- (a) in 2003, C&ED detected 82 cigarette smuggling cases by cross-boundary vehicles or vessels, and seized 66.65 million sticks of illicit cigarettes with duty potential of \$53.59 million. The number of cases has increased by 28% when compared to 64 in 2002, while the amount of seizure dropped by 54%;
- (b) C&ED's persistent enforcement has compelled smugglers to smuggle smaller amount of cigarettes in each trip to avoid a great loss upon interception;

Fight against Distribution and Peddling of Illicit Cigarettes

- (c) in 2003, C&ED detected 95 distribution cases involving 60.72 million sticks of illicit cigarettes, representing an increase of 188% and 233% when compared to 33 cases involving 18.23 million sticks of illicit cigarettes in 2002;
- (d) in 2003, C&ED detected 4 392 peddling cases involving 14.43 million sticks of cigarettes, representing an increase of 134% and 51% when compared to 1 874 cases involving 9.53 million sticks of illicit cigarettes in 2002;
- (e) C&ED's staunch enforcement has forced individual cigarette peddlers to adopt stealthy modes of operation by becoming more mobile and carrying smaller quantities of cigarettes for sale in order to avoid arrest and minimize the loss upon arrest. This explains why while the number of black spots (i.e. locations with repeated presence of peddlers) has remained stable at 23 in early-2002 and in end-2003, peddlers are now seen in more scattered and new locations instead of at fixed spots. C&ED has enhanced intelligence collection to track down the illegal peddlers, resulting in higher number of arrests;

Fight against Involvement of Two-Way Permit Holders in Illicit Cigarette Activities

- (f) in 2003, C&ED prosecuted 1 505 Mainland visitors involved in street peddling of illicit cigarettes, an upsurge of 323% when compared to 356 in 2002;
- (g) to counter the involvement of two-way permit holders in street-level peddling of illicit cigarettes, C&ED has enhanced intelligence collection on the activities of the syndicates involved and tracking of peddling activities. The HKSAR Government also liaises with the relevant Mainland authorities with a view to stopping possible offenders from being allowed access to Hong Kong. For example, offenders convicted in Hong Kong for illicit cigarette offences will not be granted two-way permit for 2 years after they have served their penalty terms in Hong Kong and returned to the Mainland;

Fight against Passengers' Abuses of Duty-free Concessions

- (h) since early 2003, C&ED has started to use at control points workstations linked to the computer system of the Immigration Department to verify whether returning Hong Kong residents have left Hong Kong for at least 24 hours, which is a criterion for enjoying duty-free concessions;
- (i) the computer system has been effective in deterring abuses of duty-free concessions. In 2003, C&ED effected 4 511 cases of abuses of duty-free concessions with fines amounting to \$2.7 million when the computer system was in place; and
- (j) additional computer workstations will be installed in 2004-05 to provide enhanced verification capacity.

CONCLUSION AND WAY FORWARD

10. In summary, the enforcement actions taken by C&ED in the past year have effectively reduced the supply of illicit cigarettes and contained the distribution and sale of illicit cigarettes.

11. In 2004, C&ED will continue to dedicate resources and take action according to the enforcement strategy, with particular focus in the following areas -

- (a) adopt an “intelligence-led and target-oriented” strategy by focusing on intelligence-led enforcement against target illicit cigarette syndicates;
- (b) strengthen intelligence exchange, and to conduct timely joint operations with the Mainland Customs to fight against cigarette smuggling by couriers and smuggling syndicates;
- (c) conduct repeated and focused raids on cigarette peddling activities, and flexibly deploy resources among enforcement units within the department to fight against illicit cigarette syndicates;
- (d) deploy Customs officers to patrol at black spots so as to curb cigarette peddling; and
- (e) enhance public awareness of the criminality of buying illicit cigarettes and appeal to the public to stop buying illicit cigarettes.

12. The increasing numbers of persons arrested since 2002, however, warn that our stern enforcement efforts must be sustained.

Customs and Excise Department
February 2004

Appendix

Result of C&ED's Anti-Illicit-Cigarette Enforcement

	1999	2000	2001	2002	2003
(1) Quantity of Illicit Cigarettes Seized (million sticks)	239	134	340	182	152
(2) Number of Persons Arrested	2189	2060	1625	2607	4540
(3) Number of Persons Convicted* (as a percentage of number of persons arrested)	2061 (94%)	2002 (97%)	1612 (99%)	2338 (90%)	4357 (96%)

Remark: *includes the number of persons compounded for illicit cigarette offences