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PB/85/1/2287/MD



cc PS/Dr Boyson (B&L)
PS/Mr Patten (B&L)
PS/PUS (B&L)
PS/Mr Bloomfield ✓
Mr Stephens ✓
Mr Brennan
Mr Ferneyhough
Mr Merifield
Mr Gilliland
Mr Carvill
Mr G Hewitt
Mr Coulson
Mr Reeve
Mr Lyon
Mr Abbott
Mr McMurray DHSS
Mr Smullen DOE
Churchill House
Mr Bickham

1. PS/Mr Scott (B&L)
2. PS/Secretary of State (B&L)

PARAMILITARY FINANCES

2. SEC 16
cc. first page only on SEC 1

Your minute of 22 November and Mr Whysall's of 19 November, commenting on the Security Police Review, emphasised Ministers' interest in paramilitary finances and progress on measures to inhibit money from getting to paramilitary organisations.

ECONOMIC CRIME

2. The main sources of finance for paramilitary organisations are (in a very rough descending order) the profits gained from paramilitary-controlled social clubs and gaming machines; extortion and protection rackets; frauds; armed robberies North and South of the Border; commercial enterprises run for the benefit of paramilitaries; and overseas contributions, almost entirely from Noraid. Overseas contributions to paramilitary organisations are to some extent a separate issue and I do not propose to deal with them in detail here, other than to note that although they form a relatively small part of paramilitary income, they are of considerable psychological importance as tangible evidence of international support for the 'terrorist cause'.

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3. A very approximate estimate of Provisional income (both the military and political wings of the movement) would be some £2.75 million per annum. Not all of this money is derived from activities which are in themselves illegal. It is, of course, an offence knowingly to make financial contributions to a proscribed organisation - such as PIRA under Section 21 of the Northern Ireland (Emergency Provisions) Act 1978. However, some funds, and particularly those of Sinn Fein branches, will be derived from perfectly legitimate fund-raising activities such as dances and other social events; more may be derived from clubs or commercial enterprises whose activities are ostensibly above board.

4. The paramilitaries have some tendency to specialise in their fund-raising activities. The Provisionals depend heavily upon income from the social clubs and gaming machines which they control, although they have been responsible for a number of well-planned, large-scale robberies. Loyalist paramilitaries tend to be more involved in protection rackets, sometimes using bogus security firms as a front for their activities. Smaller paramilitary groups, like INLA and the UVF, depend heavily upon such risky and erratic fund-raising techniques as small-scale armed robberies and kidnapping. We can detect little evidence of direct paramilitary involvement in drugs or in cross-border smuggling activities (although it would be surprising if any large-scale smuggling operations could exist without the knowledge and approval of the local paramilitary leaders in border areas).

5. The financial affairs of all paramilitary organisations are extremely flexible, informal, and poorly recorded. Probably a large number of the individuals involved benefit financially from "fund-raising" activities. In the nature of things, sources of income fluctuate considerably and financial resources are shifted around within the paramilitary structure to meet sudden demands as they arise. If one source of income is

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drastically curtailed, the paramilitaries will seek to open up other areas of activity to replace the lost income. The financial demands upon the organisations may also fluctuate. The Provisionals' involvement in recent elections, for example, required them to find very large sums of money for unfamiliar purposes.

MONITORING

6. Government action to cut off the supply of funds to the paramilitaries is periodically reviewed by PCC, and particular issues are regularly discussed at meetings between the Chief Constable, the Head of the NICS and of relevant departments, and the Northern Ireland Office. But because of the wide area over which action may be necessary, effective action in particular cases depends less upon high-level coordinating committees than upon effective liaison at working level between the various government departments involved (which include the Inland Revenue and Customs and Excise, both of whom have good working relations with the police) and the RUC.

7. Within the RUC the lead is taken by a special anti-rackets squad set up by the Chief Constable in 1982 following pressure from the Northern Ireland Office. After much careful preparatory work, the squad is now making solid progress in a particularly important area of paramilitary fraud (see below). We should continue to encourage the Chief Constable to develop this area of activity and to widen the squad's interest into other promising fields.

ARMED ROBBERY

8. Armed robberies are not the most important source of paramilitary finance, but unlike other sources they show up directly in the crime statistics. The statistics for the last available quarter (1 July to 30 September 1984) show armed robberies slightly up at £374,000 over the same quarter in 1983 (£358,000). There has also been some shift (apparent in the histogram annexed) in the pattern of armed robberies towards

small shops, off licences, and garages and away from banks and post offices, where police and army - as well as the managements themselves - have given considerable attention to security precautions over the past year. This is a good example of the "displacement" effect whereby squeezing paramilitary fund-raising in any area tends to produce an increase in economic crime elsewhere, as the paramilitaries try to replace lost sources of revenue.

9. Not all robberies are paramilitary-inspired, and there must be significant leakage of proceeds amongst those that are. That said, the situation bears careful watching, in case new trends call for different preventive measures. We shall continue to monitor it in cooperation with the RUC.

TAX FRAUDS

10. This important area is the one in which the RUC rackets squad has concentrated the bulk of its energy. The largest frauds involve the misuse of tax exemption certificates issued by the Inland Revenue to firms operating in the building trade. These certificates relieve a main contractor from the responsibility of deducting tax from payments made to sub-contractors, and in turn permit a sub-contractor to defer payment of tax until the end of the financial year. In so doing they reduce the administrative costs of large firms and alleviate the cash flow problems of smaller contractors. They may be exploited for illicit fund-raising purposes by encouraging a proliferation of contracts from one sub-contractor to another, confronting the Revenue with a lengthy and usually broken chain when it comes to gathering tax. PIRA and OIRA appear to have operated a trade using forged certificates obtained from a source in Southampton, distributing them amongst workers on building sites and then creaming off a proportion of the resultant tax saving. The police estimate that the Revenue has been defrauded of some £7 million by this and similar means

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over the past several years, and a considerable proportion of that will have ended up in paramilitary hands.

11. The rackets squad has had a considerable degree of success in breaking the main fraud rings, most notably that amongst building firms working on the Poleglass Estate. 36 persons have been charged with offences arising from these frauds, and charges against a further 40 are being prepared. We expect committal proceedings to commence shortly and trials will begin later this year. The rackets squad also believe that they have effectively blocked the source of forged certificates in Southampton, and action is being taken in cooperation with the Revenue to mop up certificates which have been misused in this way. In the course of the enquiry, a vast mass of useful documentation has been acquired by the police (together with a computer system to enable them to handle it).

ACTION IN THE BUILDING INDUSTRY

12. Following discussions with the Northern Ireland Construction Industry Advisory Council, Mr Patten announced last May the introduction of three measures designed to ensure the bona fides of contractors employed by Government departments and public authorities. The three measures concern:-

(a) Tax Exemption Certificates

From 1 October 1984 only firms in possession of a current Tax Exemption Certificate can tender for building and civil engineering contracts. Successful tenderers are reminded of their responsibility to check the tax certificates of the sub-contractors they employ.

(b) Social Security Fraud

Any firm in the construction industry which is convicted of Social Security fraud ("working the double" is the

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most common) will not be considered for the award of building and civil engineering contracts for a period of three years from the date of conviction.

(c) Bogus Security Firms

Contract documentation now includes a clause requiring a contractor to obtain prior approval to the appointment of any security firm whose services he proposes to use (see paragraph 16 below).

13. The measures have been implemented by all Northern Ireland Government departments, the local office of the Property Services Agency, and the Housing Executive; they have also been recommended to public bodies which come within the areas of responsibility of Northern Ireland Government departments, and the Association of Local Authorities of Northern Ireland have brought them to the attention of all district councils.

SOCIAL CLUBS

14. A special RUC squad has been tasked to examine the affairs of a total of 14 clubs believed to be PIRA-run or to have strong PIRA connections, with a view to bringing criminal charges if this is possible. Mr Patten has also instructed that the forthcoming DHSS Order on the registration of clubs should be used to subject clubs to the strictest administrative control to ensure that only bona fide clubs are registered for the supply of alcohol. DHSS are considering several proposals designed to enable the RUC to delve into clubs' accounts.

GAMBLING MACHINES

15. New legislation (the Betting and Gaming Order, shortly to be laid before Parliament) will place additional restrictions on the number and use of gaming machines in clubs and other

premises and should provide the police with the necessary powers to inhibit the use of these by paramilitary groups as a source of funds.

EXTORTION/BOGUS SECURITY FIRMS

16. Mr Patten's announcement of 1 May (see above) said that a list of "bona fide" security firms would be drawn up in consultation with the RUC. Only firms on this list would be permitted to provide security on public building sites. Some firms are mere fronts for (often) paramilitary extortion. The list is now in operation, but a Portadown security firm has already challenged in the courts its exclusion from the list. If this case goes against us we may have to abandon the idea of a prescribed list in favour of a broader system of regulation and scrutiny of individual security firms. Discussions are now in hand between Government departments, the RUC and representatives of the security industry to decide whether these problems can be overcome by self-regulation - on the lines adopted in Great Britain - or whether legislative controls in some form are required.

17. In the meantime, the RUC have been pressing on with their enquiries. Recently, the RUC rackets squad achieved a considerable breakthrough in charging the two men most heavily involved in the Loyalist network of "Security Firms". A third man is being sought. The police are, however, concerned about possible intimidation of witnesses when the case comes to court.

CONCLUSION

18. We have made inroads into what will remain a very difficult problem. We should not underestimate the ingenuity of the terrorist and his ability to find new ways of raising money even as we restrict or cut off the flow from existing sources. It is important that we should remain as ingenious

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as he is and try to stay one jump ahead at every stage. The main responsibility for dealing with the problem must rest with the RUC. But it is essential that they should continue to receive the wholehearted cooperation of Government departments.

19. A further report will be submitted as part of the periodic reporting on progress in implementing the Security Policy Review. We shall also be considering how best to take forward the proposal in the Review that the various agencies involved should be encouraged to take a more "pro-active", rather than purely preventive, role in attempting to restrict paramilitary finances.

20. Ministers are invited to note the progress recorded and further action proposed.



P W J BUXTON

16 January 1985

ROBBERIES

Number of Robberies

Columns shaded dark = 1 July - 30 September 1983

Columns shaded light = 1 July - 30 September 1984

