



House of Commons
Northern Ireland Affairs
Committee

**Organised Crime in
Northern Ireland:
Government Response to
the Committee's Third
Report of Session 2005–06**

Ninth Special Report of Session 2005–06

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The Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel).

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Committee staff

The current staff of the Committee are Mr James Rhys (Clerk), Hugh Farren (Attached Second Clerk), Dr Aileen O'Neill (Committee Specialist), Paul Derrett (Committee Assistant), Jennifer Kelly (Secretary), Laura Kibby (Media Officer), Jim Lawford (Senior Office Clerk).

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Ninth Special Report

The Committee published its Third Report of Session 2005-06 on 5 July 2006. The Government's response from Mr Paul Goggins MP, Parliamentary Under-Secretary of State, Northern Ireland Office, was received in the form of a letter on 4 September 2006. The response is published as the appendix to this report.

In the Government response, the Select Committee's conclusions and recommendations are in bold text: The Government's response is in plain text.

Appendix: Government Response

Letter from the Parliamentary Under-Secretary of State for Northern Ireland to Sir Patrick Cormack MP

I am writing in response to the Committee's report and recommendations following its inquiry into organised crime in Northern Ireland. I would like to begin by thanking the Committee for its interest in this important issue. You are aware of the efforts of the Organised Crime Task Force (OCTF) and its partner agencies to tackle organised crime here and I welcome the Committee's words of praise and endorsement, throughout its report, for what we have achieved.

We are not complacent, however, and fully recognise that there is more work to be done. The transcripts of the evidence received by the Committee, and the recommendations flowing from it, are valuable distillations of the issues of concern across the public and private sectors, and it has already been a useful reference for our discussions with the business community as we work with them to develop a strategy to raise awareness among their members; to advise them of support mechanisms offered by law enforcement; and to encourage them to report organised criminal activity to the appropriate authority.

I share the Committee's concerns about the wider political, social and economic impact of organised crime in Northern Ireland and welcome the research already underway to develop realistic measures of the harm it causes. This will help assess our impact against those who are inflicting misery on our communities, and stifling our economy and enhance our strategies for tackling them.

I can assure the Committee that the OCTF and law enforcement in NI are fully committed to tackling those engaged in organised crime and I endorse the Committee's call for victims of organised crime to help us by reporting incidents to the appropriate law enforcement authority. I accept the Committee's assertions that we need to do more to raise public confidence in law enforcement ability to respond, and to raise awareness of the confidential helplines that are available for those wishing to report crimes and I am pleased to report that steps have already been taken to address these concerns.

Updates on these and other matters are enclosed in the attached Annex, which sets out the Government's response to the Committee's recommendations with commentary and

explanation on whether and how they will be taken forward. The paragraph numbers reflect the corresponding paragraphs in the Committee's "Conclusions and Recommendations" section of its Report.

I am grateful to OCTF colleagues for their assistance in compiling this response.

Conclusions and Recommendations

2. (Paragraph 22) It is vital that the Police Service of Northern Ireland (PSNI) and other law enforcement agencies in Northern Ireland take every possible step to combat paramilitary organised crime. If this requires extra financial and logistical support, then we call upon the Government to provide it. Ministers should be in no doubt that their political efforts could be completely undermined by another Northern Bank robbery.

The OCTF and its partner agencies, including PSNI, are fully committed to tackling organised crime from whatever source — paramilitary or other — in Northern Ireland. The Government is committed to providing funding to deliver effective policing in Northern Ireland, including the work of the police to tackle organised crime.

The levels of funding that have been provided for PSNI up to March 2008 will meet the projected needs of the service and the scale of resources per head available to PSNI is twice that of the average across GB police forces. The deployment of those resources to individual District Command Units or specific areas of police activity is a matter for the Chief Constable. In his evidence to the committee, Sir Hugh Orde explained that most chief officers would envy the level of policing that he has available to him. He also said that he would not look for more until he is satisfied that existing resources are being used as efficiently as possible. Responsibility for investigating organised and serious crime lies with PSNI's Crime Operations Branch and it is a matter of prioritising the deployment of those officers to best effect.

In respect of the provision of extra financial and logistical support to police, if required, the Department has already provided additional funding to ensure any emerging gaps in the current spending review period (until April 2008) have now been fully closed. The degree of funding needed for policing until April 2008 has been agreed with the Policing Board and Chief Constable with over £800m each year being provided to fund PSNI and to deliver the Patten reforms.

The Northern Ireland Office, like other Whitehall Departments, is beginning to consider its longer term financial requirements as part of a Government wide comprehensive review of future spending from 2008/09. It is too early to say what funding will be required until the outcome of that review is known.

3. (Paragraph 30) While we note the progress HM Revenue and Customs are making in combating oils fraud, we believe that it must increase its efforts to counter this activity. The amount of illicit fuel sold in Northern Ireland remains at an unacceptably

high level. Despite recent increases in the numbers of laundering plants disrupted and gangs broken up, much remains to be done.

Since 2000, the cost of non-UK duty paid activity in Northern Ireland, including illicit activity and cross border shopping, has declined. In 2004 the revenue loss from the non-UK duty paid road fuel sector cost the Exchequer £245m, this is a significant decrease from 2000 when the revenue loss from the non-UK duty paid road fuel sector was £320m. The success of HM Revenue and Customs' strategy has been the result of enhanced enforcement and compliance activity targeting the key elements of the illicit market. As a result of this strategy, HM Revenue and Customs have, between April 2000 and March 2005 in Northern Ireland,

dismantled 77 laundering plants;

disrupted 17 criminal gangs;

secured 27 convictions for oils frauds;

seized over 9.94 million litres of fuel; and

seized 4,285 vehicles from oils fraudsters.

HM Revenue and Customs will continue to drive down illicit activity through their intelligence-led strategy targeting resources where they will have the greatest impact on the illicit market

4. (Paragraph 37) We are pleased to note the success of the Registered Dealers in Controlled Oils Scheme established under HM Revenue and Customs' Oils Strategy, although we are concerned that the import of rebated oils from the Republic threatens to replenish the illegal supply chain. We accordingly note the importance of cross-border cooperation in combating misuse of rebated fuels. We recommend that the Government reconsider its dismissal of the Danish model of payment of duty on rebated fuels at the point of sale as a matter of extreme urgency and that it give its conclusions when it replies to this Report.

The RDCO scheme is a key element of the UK Oils Strategy, which is successfully reducing the illicit trade in rebated oils. It is designed to provide transparency of the supply chain for rebated fuels, enabling more targeted enforcement and assurance activity, and require suppliers to exercise a duty of care to ensure that rebated fuel is put to eligible use. However, the scheme must be seen in the context of wider administration of oils excise duties, which account for approximately £24 billion revenue per year, the vast majority of which comes from road fuels.

Since 1985, when it was changed as part of a major overhaul of oils excise duties, the duty point for oils in the UK has been the refinery gate. This compares with other countries, including Denmark, where the duty point for all fuels is further down the supply chain. The Danish model for rebated fuels requires that duty is paid at the road fuel rate at the point of sale, with rebates reclaimed and/or off-set against VAT returns.

Wherever the duty point occurs, there is a need for product to be adequately controlled to avoid diversion. The nature of the risk of fraud will depend on a large number of factors, for example fuel prices, duty rates and the availability of product. In addition, it should be remembered that where all product is charged with duty at the point of supply, marked rebated product is less likely to be targeted for criminal activity as unmarked motor fuel will also be available with no duty yet charged.

Having given an appropriate length of time for it to bed in and have an impact, we plan to review the RDCO scheme next year. However, we are not persuaded at this time that changing the duty point is the answer to reduce the risk of fraud and can see that it could increase the problem. In addition, adopting such a change would impose alternative on-going and additional set-up burdens on legitimate business, in a part of the supply chain where profits are limited. Also, setting up and assuring a new and more extensive system for registration and payment of duty would significantly increase HMRC costs.

6. (Paragraph 39) It is clear that there is a perception in Northern Ireland that those guilty of the crimes with which we are dealing get off lightly because the crimes are regarded as "victimless". There is no such thing as a victimless crime and we welcome the Minister's emphatic agreement with this statement. Society itself, and the reputation of Northern Ireland, are victims of these crimes. On a personal level, the extortion and intimidation that go with these crimes have countless individual victims, each of whom lives in a permanent state of fear. Those responsible for this mental cruelty, and those who benefit from the proceeds of crimes associated with it, should be treated with no degree of leniency, but rather with the utmost severity the law allows.

One of the OCTF's key messages is that organised crime is not victimless and I agree with the Committee's view that our society, the economy and the reputation of Northern Ireland suffer as a result of organised crime. Driving down public tolerance of organised crime is vital and that is why OCTF is in the process of developing a public awareness campaign (for a 12-18 month period) to raise awareness of organised crime across all parts of society in Northern Ireland, including the general public, the business community and the professional sector. Our aim is to promote the message that organised crime affects everyone. This year's OCTF news insert, published to coincide with the launch of this year's Annual Report and Threat Assessment, prominently displayed that message on its cover and we are pursuing other ways to get the message across.

On legal sanctions, the Government fully endorses the Committee's views but sentencing is a matter for the independent judiciary and each case must be dealt with on its merits.

It is Government's function to provide police, prosecutors and the courts with the appropriate legislative framework. The Serious Organised Crime and Police Act 2005 and the Proceeds of Crime Act 2002 have considerably improved the range of tools at agencies' disposal. The recently launched (17 July 2006) Home Office consultation paper "New Powers against Organised and Financial Crime" recognises that some gaps in our capability still remain and makes proposals for further measures which would make it even harder for criminals to operate.

7. (Paragraph 43) Cigarette smuggling is a major and highly lucrative organised criminal activity in Northern Ireland. We acknowledge the efforts of HM Revenue and Customs in tackling what is a large scale, highly organised and complex problem. We welcome the close cooperation between HMRC, the PSNI, An Garda Siochana and the Revenue Commissioners in the Republic. We believe that this area of organised crime can be tackled effectively only through close cooperation with law enforcement agencies in those countries involved in this trade and with international law enforcement agencies such as Europol and Interpol. We note that the supply chains for counterfeit cigarettes and the smuggling of genuine cigarettes extend across Europe and far beyond.

The UK illicit market is at the end of an international supply chain, which extends throughout the world including the Far East, Africa and Eastern Europe. HM Revenue and Customs' network of overseas officers has been pivotal in identifying criminal gangs operating abroad and disrupting illicit supply chains from end to end. In 2003/2004 this overseas network intercepted more smuggled cigarettes before they reached the UK than were seized at UK seaports.

In March 2006 the Government published "*New responses to new challenges: Reinforcing the Tackling Tobacco Smuggling Strategy*" which detailed a range of new measures the Government was introducing to reinforce the existing tobacco strategy. These measures included the extension of the network of overseas officers and HM Revenue and Customs will continue to review these resources ensuring they remain targeted to risk.

8. (Paragraph 46) We welcome the publicity that accompanied the launch by the Policing and Security Minister of the OCTF's 2006 Annual Report, highlighting the potential hazards of counterfeit goods and conveying the message that intellectual property crime is not victimless. We urge the Government to take every possible step to ensure that this message is conveyed to the whole community.

The OCTF is developing a strategy to raise awareness of the harm caused by organised crime, including intellectual property crime, and one of our key messages is that organised crime is not victimless.

To ensure that our message reaches as wide an audience as possible, the OCTF is compiling a programme of events that will target specific audiences and will include road-shows for the general public as well as events aimed at the business community and professions. My officials met with the OCTF business representatives in early August to seek their views on how best to communicate the message to their members, and I had a helpful meeting with members of the CBI on 29 August to discuss their concerns around organised crime and its impact on business. Their views will help OCTF develop its awareness strategy.

An important event is being held on 7 September when I will host Sir Stephen Lander, Chair of the Serious Organised Crime Agency, at the launch of the Suspicious Activity Report (SAR) review in Northern Ireland. Our target audience for the event are representatives of the banking, accountancy, legal and estate agency sectors and we will

highlight their improvements to the SARs regime, and obligations it places on the regulated sector to report suspicious activity.

9. (Paragraph 50) We note with satisfaction the work that the PSNI is doing to combat illegal dumping and welcome its close collaboration with An Garda Síochána and the Environment and Heritage Service. We urge the Government to introduce legislation, before the end of this Parliamentary Session, to give the police powers to detain vehicles suspected of transporting waste.

The Department of the Environment issued its consultation on the draft Waste (Amendment) (Northern Ireland) Order 2006 on 21 July 2006.

The draft Order includes a number of measures to increase the Department's powers to stop, search and seize vehicles believed to be involved in illegal waste activities. It will also significantly increase the levels of fines and penalties that can be imposed by the courts on conviction of an offence. The period of consultation will last until the NI Grand Committee debate in October 2006 and the Order will then be laid before Parliament as soon as possible after this but well within the second session.

10. (Paragraph 53) While we welcome the steps being taken by the Social Security Agency to combat identity fraud and to improving the process of issuing national insurance numbers, we are concerned by the weaknesses identified by Criminal Justice Inspection Northern Ireland in the Agency's Benefit Fraud Investigation Unit. We urge the Benefit Fraud Investigation Unit to implement the recommendations of the Criminal Justice Inspection report without delay. Given the experience in Great Britain of organised criminal gangs operating benefit fraud, we urge the Department of Social Development to continue to give urgent attention to this.

The Social Security Agency welcomes the recent report of the Criminal Justice Inspectorate (CJI) and the helpful advice and recommendations it contained. The report includes an Action Plan to address the 17 recommendations in the report, 13 of which were being addressed at the time of the inspection.

In recent years the Agency has made considerable progress in tackling benefit fraud. The estimated losses from fraud have been more than halved since 2001/02 from over £60m to less than £30m in 2005. The Agency hopes the guidance from CJI will help to reduce this even further.

The Agency will continue to work to reduce fraud in the system.

11. (Paragraph 63) We welcome the initiatives taken by the law enforcement agencies, but, if public confidence is to be increased, it is essential that the public understand what is being done on its behalf and so those agencies must use plain language when they explain their work.

Public confidence in law enforcement action against organised criminals is very important and PSNI and HMRC will endeavour to use plain language when publicising their work.

As Chair of OCTF, I also publicly endorse operational successes, when appropriate, to help raise the profile and promote the collective efforts of the Task Force.

The OCTF strategy to raise awareness of the harm caused by organised crime will also provide an opportunity to highlight the successes that our law enforcement partners are having.

It is encouraging to note that ARA has, for the third year running, asked the people of Northern Ireland through the NI Office Omnibus survey about their attitudes towards the Agency. The results showed that 89% percent of respondents agreed with the statement that “I support the Agency having powers to apply for civil recovery,” 82% of respondents felt that people who have grown wealthy from crime should be jailed and see their wealth confiscated, whilst 71% of respondents agreed that “the Agency has acted in a way that is fair to all sections of the community.” This last figure represents a 10% increase on 2005.

12. (Paragraph 64) We gladly recognise the important steps taken by law enforcement agencies on both sides of the border to address the disturbing increase in the sophistication of organised crime. It is, however, of crucial importance that their investigations and response continue to be sufficiently robust to act as a deterrent. In this context, it is vital that more criminals are convicted; that the statutory penalties are adequate; and that sentences reflect the severity of the crime.

The PSNI and HMRC will continue to pursue those engaged in organised criminal activity and will do all in their power to bring those suspected of criminal acts to justice, although I should point out that the penalties given are outside their gift as sentencing in individual cases is entirely a matter for the judiciary. Judges take decisions on a case by case basis and are in possession of all of the facts, and that is quite properly their role.

Last year’s public consultation on a Review of the Sentencing Framework in Northern Ireland considered a wide range of possible sentencing disposals, including indeterminate and extended sentences and all options are being carefully considered before determining which measures will provide for the most comprehensive and effective framework for Northern Ireland. Protection of the public will be a central consideration.

It is of course the responsibility of government to ensure that statutory penalties reflect the seriousness of offences and that the courts have adequate powers when sentencing the guilty. These issues have been, and will continue to be, our aim and will be kept under review through our inter-agency working groups and the OCTF Legal Sub Group, comprising representatives of law enforcement and criminal justice agencies. This group identifies barriers to tackling organised crime and develops ideas to enhance the legislative framework in this area. The Group also reviews existing organised crime powers to assess their effectiveness; monitors legislative developments elsewhere; and liaises with the Home Office on proposals to create new powers.

Currently the law enforcement authorities essentially have a choice between prosecution or no action when dealing with organised crime. The recently published Home Office consultation paper recognises that this can be a stark and unproductive choice and sees a place for something in between – organised crime prevention orders – which could be imposed on individuals or organisation in such a way as to prevent organised criminality continuing.

The Assets Recovery Agency works very effectively with partners from across the law enforcement community, with local authorities and with the Garda and Criminal Assets Bureau in the Republic of Ireland to actively recover property that has been obtained as a result of criminal activity.

13. (Paragraph 75) The involvement of 'professionals' is a further worrying attribute of organised crime. We suspect, given the evidence of increased sophistication, that 'professional' assistance is an important element in organised criminal activity. We commend the work that has been undertaken by the law enforcement agencies in conjunction with the Law Society and with the financial services sector. We believe that this area will require an ever vigilant approach by the agencies of the OCTF. They must remain alert to the problem and take all possible steps to bear down on it. It is also incumbent on the professional bodies, such as the Law Society and the Institute of Chartered Accountants, to satisfy themselves that their membership requirements are sufficiently rigorous and that observance of them is carefully monitored.

We are aware that some criminals use the services of professionals to conceal assets and avoid detection and OCTF law enforcement partners continue to actively pursue those engaged in such criminal activity. Their efforts have resulted in a number of cases being successfully brought before the courts.

We are also aware that some professionals may have unwittingly assisted criminals to hide their criminal profits and they are an important target audience of our strategy to raise awareness of organised crime and to highlight the responsibility of the regulated sector to comply with money laundering regulations. The first step in that process is the event I refer to earlier Sir Stephen Lander will launch the revised SARs regime in Northern Ireland to an audience of professional bodies including accountants, solicitors, estate agents and representatives of the financial institutions.

Building on the good work already undertaken with the Law Society and the financial services sector, the OCTF Criminal Finance Group is writing to all professional bodies to raise awareness of money laundering provisions, and to encourage training. We also recognise the importance of training financial investigators in the range of skills and techniques to enable them to detect money laundering, carry out detailed financial investigations and work on confiscation processes. Over the next year such training will be provided jointly by police and the Assets Recovery Agency and will help ensure that the provisions within the Proceeds of Crime Act are fully exploited.

I endorse the Committee's assertion that the business community has a responsibility to operate within the law, and to report those who fail to do so. There are, however, issues of concern specific to the business sector and reluctance to report may, in some cases, reflect

lack of confidence in law enforcement. The strategy that we are developing to raise awareness of organised crime will take these and other issues into account.

16. (Paragraph 87) A comprehensive assessment measuring the economic and social harm caused by organised crime in Northern Ireland would demonstrate how great the problem is. The time for determined new initiatives has come.

To date the OCTF has assessed its performance based on outputs activity measures including numbers of operations, arrests and amount of seizures rather than the economic and social harms of organised crime and I accept that our understanding of the scale of the problem is incomplete. OCTF has already appointed an additional PSNI analyst to take this work forward. This additional resource is dedicated to improving our understanding of the criminal markets in Northern Ireland, the impact of organised crime and the harm caused and reliable qualitative measures are being developed that are suited to the specifics of the Northern Ireland criminal justice landscape.

17. (Paragraph 97) We are concerned by the significant though unquantified effect organised crime is having on businesses in Northern Ireland and the consequential impact on the economy. We are concerned too by the evidence that parts of the business community do not have sufficient confidence in the PSNI. We welcome the assurances by the PSNI that all possible steps are being taken to tackle extortion. However, we urge the PSNI to do everything possible to convince the communities in which the problem is rife, and the victims of extortion, that if they do not report incidents the police will not be able to help them eradicate the fear that this creates. This will involve creating a climate in which the victim will feel safer by reporting a crime than by remaining silent. Elected politicians at all levels have a crucial role, alongside the PSNI, in creating such a climate.

I share the Committee's concerns about the impact of organised crime on our economy, and agree that everyone in Northern Ireland has a role to play in tackling the problem. It is vital that people report criminality to the appropriate law enforcement agency and I recognise that there is important work to be done by OCTF and its partner agencies to increase public awareness of the confidential telephone lines and support mechanisms that are available.

It is also vital that we build public confidence in the ability of law enforcement to tackle organised criminality. Although it is encouraging to note that the number of businesses coming forward to ask PSNI for assistance in extortion cases is increasing, there is still a high level of under reporting. My officials have already met with OCTF's business representatives to develop a strategy to raise awareness within the business community and I have invited the Managing Director of the Construction Employers' Federation to meet with me to discuss the nature and extent of extortion and other organised crime issues affecting the construction industry, and to consider what further support OCTF may provide. I also had a helpful meeting with members of the CBI on 29 August to discuss their concerns around organised crime and its impact on business. This work will continue.

The PSNI will also seek opportunities to promote its successes against organised criminals through the media to increase public confidence in law enforcement commitment and ability to tackle the problem.

18. (Paragraph 103) We recognise that levels of taxation are not within the remit of this Committee, and we understand that the harmonisation of tax rates between one region of a Member State and another Member of the European Union is no easy matter. However, we must put it on record that it was a widely shared opinion of witnesses in public sessions, and amongst those we met informally, that if the United Kingdom and the Republic of Ireland could agree a common regime for fuel duty in Northern Ireland and the Republic, they would deliver a fatal blow to those involved in this area of organised crime. We are concerned at the scale of the problem and that law-abiding members of the public may unwittingly be helping to feed the illegal market. We therefore urge the Government to give urgent further consideration to the desirability of introducing a differential rate for fuel duty in Northern Ireland.

As the Committee has acknowledged in its report, the Government believes that regional variation in duty rates would compromise the established principle of unitary taxation, with cost implications for UK businesses and the Exchequer. It would also conflict with the UK's environmental strategy, of which fuel duties are a key element. Any reduction in fuel duty rates in Northern Ireland, to achieve parity with those of the Republic, would involve a degree of revenue foregone and, as the Committee has already heard, it would not guarantee that organised crime would abandon oils fraud altogether. Furthermore, as the Committee is already aware, the Government has introduced a package of measures designed to tackle oils fraud which has successfully driven down the illicit market. The Government's objective for fuel duties across the UK must therefore remain the securing of equitable revenues, whilst delivering environmental protection as a component part of sustainable economic growth.

19. (Paragraph 106) We recommend at paragraph 220 that the PSNI should take further steps to publicise its confidential helpline. These steps must include measures targeted at those sectors of the economy in which extortion is a particular problem.

PSNI is devising a strategy to raise awareness of its extortion helpline across the business sector and will run a series of advertisements to publicise the telephone number and raise awareness generally of the support offered to victims of extortion by law enforcement. The first part of the awareness campaign will focus on the construction industry, which is worst affected, and the Construction Employers' Federation has been consulted on the most effective way to get the message across to its members.

A programme of OCTF Roadshows is also being developed and will provide a good opportunity to highlight the range of confidential helplines that are provided by law enforcement.

21. (Paragraph 109) Combating extortion requires the closest of confidential links between business and the police and also widespread confidence that these crimes will be vigorously pursued. We are in no doubt that the PSNI is treating this very seriously. We acknowledge the difficulties in reporting this type of incident to the police, but without such reports, no action can be taken. We note later the seriousness with which the courts are treating extortion by paramilitaries. This scourge on society can only be combated by close cooperation between those who are threatened and the police. It is also essential that the courts have adequate powers and appropriate procedures to impose appropriately severe penalties on the convicted.

I welcome the Committee's support for PSNI's Extortion Unit which has had significant success against extortionists in Northern Ireland. Where PSNI has been able to conduct an investigation, every case has resulted in the extortionists being convicted. I have outlined above, in my response to recommendation 19, the work that is underway to increase awareness of the support available for victims of extortion, and to encourage victims to report incidents to the police.

The Government's aim is to always ensure that the courts have adequate powers and appropriate procedures to impose appropriate sentences and this will continue to be our aim.

22. (Paragraph 110) We welcome official assurance that the Independent Private Sector Inspector Generals pilot projects are proving to be effective. We are glad to note that these projects are being extended with a view to developing a model for potential use in other sectors.

The Government welcomes the Committee's support for the concept of an Independent Private Sector Inspector General to combat extortion in the construction industry. Priority is being given to further pilots to develop and test the model for wider implementation.

23. (Paragraph 115) We note that trading standards officers have had success in ensuring that the licensed trade serves only legitimate alcohol and we also note the substantial costs to businesses of measures to combat counterfeiters. But we remain extremely concerned at the widespread distribution of illegal alcohol, and at the many serious implications of this including particularly dangers to public health and sales to children. We therefore urge the Government to mount a publicity campaign to highlight the dangers of consumption of counterfeit alcohol and to make it clear to consumers that they are taking a serious personal risk as well as supporting organised criminal activity by purchasing such alcohol. Alcohol fraud can not be seen as a victimless crime. We are glad to note that, after we raised these issues with the Minister, he gave prominence to them in the release of the Organised Crime Task Force's Annual Report for 2006.

HM Revenue and Customs already takes a proactive approach to this, taking every opportunity to raise the profile of alcohol fraud in the media as part of its UK Alcohol Strategy which was launched in 2005.

24. (Paragraph 116) Where members of the licensed trade have been victims of threats of extortion, we believe that there is an onus on them to report these threats to the police, and on the police to have in place liaison arrangements to support those seeking their help. But they must be able to feel that their complaints will be vigorously pursued and that they will be offered whatever protection is necessary.

At the outset can I assure the Committee that I recognise the difficulties faced by victims in bringing cases to the notice of the authorities and the level of personal sacrifice that is required but the PSNI have had significant success in tackling those engaged in extortion and intimidation and where they have been able to conduct an investigation, every case has resulted in the extortionists being convicted.

PSNI has developed a range of techniques to aide their investigations but it is important that we raise awareness of the support that is available for victims of this crime. OCTF is currently working with its business community representatives and others to encourage victims to report incidents to the police, and to make them aware of the assistance that is available to them if they do.

25. (Paragraph 124) The implementation of these proposals will coincide with the transformation and reorganisation of local government in Northern Ireland and the emergence of much larger district councils. It is important that these councils recognise the needs of individual communities which they serve.

26. (Paragraph 125) We note the importance of careful oversight of licensing in cash-based industry to prevent infiltration by those intent on using such businesses as a means of laundering money. We note that statutory guidance will be in place to ensure that district councils meet their obligations under the new licensing provisions. However, any licensing system is only as effective as the level of its enforcement and we accordingly ask the Government to provide reassurance both to the Committee and the people of Northern Ireland that provisions for oversight of district councils' exercise of their licensing functions will be thorough.

Councils already have responsibility for a number of licensing regimes, including entertainments licensing and street trading. Comprehensive guidance will be produced in relation to district councils' responsibilities on liquor licensing. The issue of capacity-building in councils is being addressed as part of the extensive preparation for Councils taking responsibility for a number of other major functions under the Review of Public Administration.

27. (Paragraph 126) Having taken careful note of the evidence received, we believe that a totally convincing case for these changes has still to be made. We are disturbed by the financial loss that would be suffered by individuals whose retirement plans took account of the value of their licences should these changes be implemented. In our opinion there is a strong case for giving urgent consideration to the possibility of making compensatory payments which recognise the loss of legitimate expectations.

The Committee's concerns about the financial implications of the proposed changes to the liquor licensing system have been taken into consideration by David Hanson MP, Minister of State at the NIO. Whilst these concerns are not linked to the investigation into organised crime, the Minister has requested that further work is carried out to assess the business impact of this aspect of the planned reforms before finalising how the abolition will be addressed in the second stage of reforms.

28. (Paragraph 135) We welcome the review of the Organised Crime Task Force structures undertaken by the Northern Ireland Office in 2005. All structures need to be overhauled from time to time and that is particularly so when the threat from organised crime constantly evolves and mutates. It is essential that the agencies of the OCTF remain as alert to the threat as organised crime gangs are to the opportunities.

29. (Paragraph 136) We welcome the fact that the CBI and the Federation of Small Businesses are now represented on the OCTF's stakeholder group, but are concerned that its membership does not include representatives of specific key industries affected by organised crime, including road haulage, the licensed trade and construction industries. We recommend that membership of the stakeholder group is extended to include key specific industries; that it meets quarterly rather than twice a year; and that its work is given wider publicity within the community at large.

Membership of the OCTF was extended last year to include the NI Chamber of Commerce and the Policing Board in addition to the CBI and FSB, as well as the Head of the Civil Service and the Serious Organised Crime Agency. In addition, the OCTF Expert Groups include representatives of industry, including the cash-in-transit, financial sectors and drinks manufacturers. I am confident that our current structure is the right one but fully accept that all structures need to be kept under review and Committee's recommendation to further extend membership and to increase the frequency of meetings will be tabled for discussion by members of the Task Force at the next Stakeholder Group meeting on 2 October.

OCTF's business representatives have provided a valuable link to the private sector and we are working in partnership with them to ensure our message about the harms of organised crime and the role the business community can play in tackling it are communicated to as wide an audience as possible. We will consult with other sectors, not represented by the umbrella organisations, to develop measures to address their concerns and I have already invited the Construction Employers' Federation to meet with me to discuss extortion and other organised crime issues faced by its members.

32. (Paragraph 145) We are under no illusions that gaining the community support that is essential in tackling organised crime and reducing the hold of the paramilitaries will require time, patience and strenuous effort. We therefore welcome the PSNI's commitment to assure local communities that organised crime is being addressed. This vital work must be given high priority.

The PSNI take their responsibilities for dealing with organised crime very seriously and will continue to give it its highest priority and will seek opportunity to promote its successes through the media. This will help assure communities that organised crime is being tackled effectively.

A series of OCTF events will raise awareness of organised crime and highlight the work of law enforcement to tackle it, and successes will continue to be drawn to the public's attention through press releases and the OCTF newspaper supplement. The effectiveness of our campaign will be monitored through the Omnibus Survey.

34. (Paragraph 147) The Committee has received conflicting reports in private on schemes for community restorative justice. While it is clear that there are schemes which act in the wider interests of the community and in constructive cooperation with the PSNI, there are other schemes that purport to be an alternative police force. Nothing must be done to give the latter further encouragement. We go further and urge that every possible step be taken to ensure that any future schemes are not infiltrated or controlled by paramilitaries. We recommend the adoption of clear and firm requirements which will apply to all such schemes. We further recommend that any community restorative justice group should only qualify for funding if it cooperates with the PSNI. We will therefore assess carefully the guidelines which the government has promised to issue to satisfy ourselves that they are adequate for their purpose.

David Hanson MP, Minister of State at the NIO, made a written Ministerial Statement on Community-based Restorative Justice (CBRJ) on 25 July announcing that Government had taken account of the concerns expressed by interested parties about draft guidelines for CBRJ schemes and had significantly strengthened the requirements for schemes in a new Protocol governing their relationship with the criminal justice system.

The Minister also laid a copy of the draft Protocol in the library of the House and indicated that a further period of consultation would commence shortly in parallel with an Equality Impact Assessment. A copy of the consultation document will be made available to Committee members in due course.

35. (Paragraph 154) Our inquiry has shown that oils fraud and tobacco fraud are significant and sophisticated areas of organised crime in Northern Ireland which require a vigorous law enforcement response. We welcome the steps taken by HMRC through its strategies to tackle both areas. We are encouraged by the increase in the sale of legitimate fuel in Northern Ireland, HMRC's commitment to ensure further growth in the legitimate market, and its determination to continue to bear down on tobacco fraud.

As detailed above, and as acknowledged by the Committee, both the Oils Strategy and the Tackling Tobacco Smuggling Strategy have had considerable success. HM Revenue and Customs are determined to continue to drive down illicit activity in both areas through

intelligence-led strategies which deploy resources where they will have the greatest impact on the illicit market

36. (Paragraph 155) However, we are deeply concerned by the evidence that crucial information about illegal activity is not always reaching HMRC headquarters. This situation cannot be allowed to continue. Receiving reports of illegal activity is critical to HMRC's capacity to tackle the problem effectively and timeously. We recommend that it review its systems for receiving information, particularly from officers working on the ground, and takes every possible step to encourage reports of suspicious activity, including wider publicising of its confidential telephone service.

The evidence provided to the Committee by HM Revenue and Customs in answer to questions (Q. 336) concerned the flow of information from Industry partners to HM Revenue and Customs about suspicious activity. It was not in relation to the internal flow of information within HM Revenue and Customs; HM Revenue and Customs do not believe there are any issues in that regard.

HM Revenue and Customs have long recognised the need to work with Industry partners to ensure that information Industry and the wider public may be aware of which could assist their efforts is provided to HM Revenue and Customs. In relation to the Industry, HM Revenue and Customs established in May 2003 a forum to ensure that where the Industry has information on illegal activity the pathways exist to pass that information. In addition, it provides an environment for HM Revenue and Customs to deliver feedback on its activity so that the Industry is reassured that information passed is acted upon. Both the Industry and HM Revenue and Customs believe that delivering this feedback to the Industry can play a major role in encouraging more information to be provided and the forum makes a significant contribution to that aim alongside other media activity highlighting operational activity.

In addition, HM Revenue and Customs take a proactive approach to publicising the Customs Confidential freephone number using every opportunity, including in press releases, in interviews relating to operational activity and at conferences as well as in the course of specific publicity campaigns.

37. (Paragraph 156) The HMRC has wide responsibilities none of which it can neglect. We welcome the particular attention it is giving to its customs and excise responsibilities in assisting the fight against organised crime. Nonetheless, diligent examination of individuals' tax affairs also has a very important role to play. It follows that the approach to thresholds adopted in the rest of the UK for examining an individual's tax affairs is not necessarily appropriate in Northern Ireland. There it is essential to target key members of organised crime gangs and those who may sponsor or protect them and such targeting inevitably necessitates a more flexible approach.

The creation of HM Revenue and Customs allows the new department to take a wide view of its customers and opens up a broad range of opportunities to tackle those involved in illegal activities. For example, HM Revenue and Customs are setting up a Criminal Taxes

Unit (CTU), a specialist multi-disciplinary team that will proactively work with the police and other law enforcement partners to identify those who have amassed wealth from crime but have paid little or no tax. The CTU will use intelligence about criminals and their finances to tax them and when appropriate seek to prosecute them for tax evasion. In Northern Ireland co-ordinated assurance and intervention activity across a range of direct and indirect taxes targeting the oils sector has recently been introduced and demonstrates that HM Revenue and Customs are using all the tools at its disposal.

38. (Paragraph 157) Although UK wide, the Assets Recovery Agency has an assistant director and an office in Belfast specific to Northern Ireland. It has a total staff complement of approximately 200 and a Home Office budget of £15.5 million. The Belfast office has 47 staff and a budget of £3.59 million. We are bound to question whether this is an adequate distribution of resources, bearing in mind the importance of the issues on which this Report focuses.

The Assets Recovery Agency has a remit to pursue assets recovery issues across England and Wales and Northern Ireland and allocates its resources accordingly. Currently the Agency has 29% of its staff directly involved in investigating and litigating Northern Ireland cases. ARA acknowledges the scale and importance of the challenges faced in Northern Ireland which the Committee has highlighted and commits as high a percentage of resources to Northern Ireland as possible out of its annual budget. I am satisfied that achieving the targets set by the Agency in this year's Business Plan will significantly disrupt organised criminals in Northern Ireland.

39. (Paragraph 162) The Assets Recovery Agency also suggested that Part 5 of the 2002 Act required "a number of small amendments". We agree that such amendments would improve the Agency's efficiency and effectiveness. We ask the Government to undertake an urgent review of the legislation.

I accept fully the Committee's recommendation on enhancing the efficiency and effectiveness of the confiscation and enforcement processes, if necessary, by further legislation. The Proceeds of Crime Act is UK-wide legislation and the NIO maintains a close working relationship with the Home Office to help ensure that asset recovery powers are effective. In response to proposals submitted by the Assets Recovery Agency, the Government made amendments to POCA in the Serious Organised Crime and Police Act 2005 to speed up and improve the civil recovery process. The legislation is kept under review in Northern Ireland through inter-agency working groups and the amendments submitted by the Assets Recovery Agency will be considered through these channels. The Government is currently seeking stakeholders views on areas where POCA might be further improved, including some amendments proposed by ARA. We will also keep under review in conjunction with the Home Office the impact of the use of assets to fund defence costs.

40. (Paragraph 168) The Assets Recovery Agency has been operating for only three years. We believe that within that relatively short period of time, the Agency has made a positive start towards recovering the very substantial proceeds of organised criminality

in Northern Ireland. We welcome the growing number of referrals to the Agency, and the Agency's assurance that it pursues all viable cases referred to it, regardless of whether the cases have a loyalist or republican link. We cannot stress enough the importance of the law enforcement agencies in Northern Ireland continuing to refer cases they believe can be pursued by the Agency. We also note from the Agency's latest Annual Report that the costs of its operations to date far exceeds the value of assets it has recovered. We must express concern at this, particularly in light of the much greater financial success of the Criminal Assets Bureau in the Republic.

The Assets Recovery Agency shares the Committee's concerns that not more assets have been recovered but the £85.7 million restrained across England and Wales and Northern Ireland in 2005/06 means that the respondents in those cases are unable to control this property and their criminal activities are being disrupted by ARA's actions. ARA is, however, working hard to improve its internal efficiency and increase the value of assets recovered.

Some of the delay experienced is due to the inherent time it takes to progress cases through the High Court; to the litigation strategy deployed by respondents in an attempt to frustrate the legal proceedings. Other delays have been due to clarification of points of law through appeal and judicial review of the legislation. These are inevitable when implementing new provisions.

42. (Paragraph 170) We also welcome the Minister's willingness to carry out a review of the Proceeds of Crime Act 2002. We heard strong evidence that the taxation powers of the Assets Recovery Agency would be more effective if they were equivalent to those of the Criminal Assets Bureau (CAB) in the Republic of Ireland. The CAB has the power to initiate cases without having to wait for a referral. We do of course recognise that the CAB is an integral part of An Garda Siochana. Whilst we advocate increased powers for the Assets Recovery Agency, we recognise that actions initiated by them must not prejudice wider police investigations.

43. (Paragraph 171) We have also received disturbing reports that, as a result of changes in legal aid legislation, criminals have been able to use the proceeds of their crime to fund their defence costs. We hold firmly to the view that those accused of crimes are innocent in law until proven guilty, but anyone found guilty in these circumstances should receive a sentence that reflects the illicit use of ill-gotten gains. We recommend that the Government keep this matter under close review.

The Committee's comments at paragraphs 170 and 171 will be taken into account during our ongoing work to review POCA powers, referred to above.

46. (Paragraph 185) We endorse Sir Hugh Orde's call for a comparative study to be conducted into sentences in Great Britain and Northern Ireland. It is only on the basis of such a study that an assessment can be made as to whether the perception that sentences are more lenient on average in Northern Ireland is valid.

A comparative study of sentences in Great Britain and Northern Ireland for the years 2000-2003 has been completed (years for which statistics are currently available). As I indicated to the Committee, sentencing in Northern Ireland is broadly on a par with the rest of Britain, though it must be recognised that we cannot strictly compare like for like in view of the different legislation applying in the two jurisdictions.

47. (Paragraph 191) The Committee holds strongly to the view that politicians should not criticise individual judges and takes most seriously the points made by the Lord Chief Justice to the Committee. Nevertheless, the Attorney General himself has expressed a clear interest in these matters, as the senior Law Officer of the Crown. He is of course a Member of the Government, and it is the Committee's duty to hold the Government to account. We recognise the clear perception that exists in Northern Ireland that those found guilty of so-called "victimless" crimes (about which we have previously expressed our opinion) are not given sentences commensurate with the seriousness of their crimes. If this perception continues, it will have a detrimental effect on confidence in the administration of justice and on the process of upholding and enforcing the law in Northern Ireland. We welcome the exercise by the Attorney General of his right to appeal against unduly lenient sentences and recommend that his right to appeal against a lenient sentence be extended to appealing against sentences in "either way offences".

The Reviews of Sentences section of Part 4 of the 1998 Act empowers the Attorney General to automatically refer a case to the Court of Appeal where the Crown Court imposes a sentence for an offence that is triable *only* on indictment, or to refer sentences imposed at the Crown Court for hybrid offences that have been specified by Order.

Offences that have been specified in such Orders tend to be very serious and capable of arousing strong emotion and significant public interest. Additionally, the provisions are operated on a national level and place a significant demand on the Attorney General. The Attorney has to personally consider each individual case and will only act in those cases where public confidence in the judicial system is at risk of being undermined.

In terms of volume, there are currently around 1300 offences that fall into the hybrid category, with an average number of 12,336 prosecutions per year from 2000 – 2004, so blanket inclusion may simply not be practical.

As legislating on such matters is handled on a cross-jurisdictional basis David Hanson MP, Minister of State at the NIO has asked his officials to raise the matter with Home Office counterparts

48. (Paragraph 192) We note the judgment of the Court of Appeal that those convicted of offences connected with paramilitary violence should receive more severe sentences. We also note that paramilitaries are not just engaged in violent activities; they are also clearly involved in other crimes including oils and revenue fraud. While recognising the complexities that might be involved, and noting the caveat entered by the Lord Chief Justice in his Principal Private Secretary's letter to the Committee, we nevertheless feel

bound to recommend that careful consideration be given to making connection with organised crime an aggravating factor in sentencing in Northern Ireland.

I note the recommendation relating to organised crime being made an aggravating factor in sentencing and will give careful consideration to this in conjunction with the Home Office. The Government accepts that there are possible gaps in the criminal law as it applies to those who encourage and assist offences and has invited stakeholders' to comment on whether the law should be strengthened in its paper on New Powers Against Organised and Financial Crime.

49. (Paragraph 196) We welcome the Government's decision to establish a licensing regime for the petrol retailing industry, but regret that it has taken so long to implement a recommendation made by the Northern Ireland Affairs Committee in 2003. We give notice that we intend to keep the implementation and operation of the proposed licensing scheme high on our agenda and we urge the law enforcement agencies to give sufficient priority to the licensing scheme to ensure that it is enforced.

The Department of Enterprise Trade and Development in Northern Ireland and its sponsored NDPB the Health and Safety Executive (NI) (HSENI) welcome the Committee's endorsement of the proposal to amend the petroleum licensing regime in Northern Ireland and note its intention to monitor its implementation and operation. HSENI has already begun the process of engaging a contractor who will undertake an extensive consultation exercise aimed at ensuring that an effective and modern licensing regime is established. Subject to consultation and resourcing HSENI will become the sole licensing authority for Northern Ireland in place of the 26 District Councils. This new licensing regime will also extend the definition of licensable fuels and provide a robust audit trail for other enforcing bodies to track fuel into and out of premises.

51. (Paragraph 200) We are extremely concerned by the reports of the Independent Monitoring Commission on the involvement of paramilitaries in the taxi trade. While we welcome the official assurance that revised licensing legislation will be brought forward, this legislation is long overdue. We will continue to take an interest in this area and will examine the proposals closely.

Revised taxi licensing legislation which is scheduled to be made by March 2007, will include powers to license taxi businesses. Regulations to introduce taxi operator licensing will follow within 12 months.

52. (Paragraph 203) We recommend the establishment of a system for training and registration of door supervisors. We note that the Northern Ireland Office is currently reviewing legislative provisions governing the private security industry, including door supervisors, in Northern Ireland. The Policing and Security Minister acknowledged that Northern Ireland did not have a properly licensed, well regulated, private security

industry. We urge the Government to ensure that this review is carried out as a matter of priority.

On Tuesday 29 August 2006, I launched an eight-week public consultation which proposed that the remit of the UK regulatory body, the SIA be extended to cover Northern Ireland. The Government is committed to improving standards within the industry by providing a permanent regulatory scheme. I believe that extending the remit of the Security Industry Authority is the best way of achieving this objective.

Proposals contained in the consultation paper include the licensing of all individuals working in the industry, including door supervisors, security guards, cash-in-transit operatives, key holders, vehicle immobilisers, close protection operatives and CCTV operatives. It is intended that priority sectors be licensed first, that is, manned guards and door supervisors. Other sectors for licensing will be phased over time.

I hope that introducing a robust regulatory framework, such as that provided by the SIA, will help to tackle the issue of organised crime in Northern Ireland. The SIA set strict barriers of entry into the industry to ensure that those seeking employment in the private security sector are appropriately trained and meet the relevant 'fit and proper' criteria.

It is unlikely that SIA regulation will commence by July 2007, when the current, temporary arrangements contained in Schedule 13 are repealed. I do not wish to leave the industry unregulated in the period between then and the commencement of SIA licensing. I have therefore made transitional arrangements for this limited period which provide for the extension of Schedule 13.

For this period, I have also made arrangements to improve the existing legislation. In addition to the current provisions, a licence will be granted unless the Secretary of State is satisfied that the applicant is involved in criminal activity. I hope that this will help to temporarily bear down on the problem of organised crime in the industry before the SIA commence licensing and the issue will be addressed permanently.

53. (Paragraph 210) We are astounded that it has taken so long to come to a sensible decision on the regulation of charities in Northern Ireland and we urge that there be no further delay in bringing forward the appropriate legislation. The Committee would be glad to play its part in the framing of such legislation, and in monitoring its implementation. We also believe that there is a case for the use of Independent Private Sector Inspector Generals (IPSIGs) in the charitable sector; we ask the Government to review its policy on this point.

The draft Charities (Northern Ireland) Order 2006 was launched for public consultation by the David Hanson MP, Minister for Social Development, on the 17th July 2006. It is intended to lay this before Parliament by the end of November following consideration of the response to the consultation. Progress of the proposed Charities Order will follow the normal legislative programme.

Given the nature of the Northern Ireland charities sector, with mostly small charities, and where HM Revenue and Customs is the most likely victim, IPSIGs do not provide an appropriate model for what must be a government responsibility. This is in line with the rest of the UK in respect of the regulation of charities.

54. (Paragraph 212) Although we welcome the assurance that proposals for a licensing regime for the road haulage industry will be brought forward in 2007, we are disappointed by the delay in bringing forward the proposals, given that a road haulage licensing regime has been operating in England and Wales since 2000. We cannot stress too highly the importance of providing appropriate licensing and regulatory frameworks for key industries in Northern Ireland.

It is anticipated that primary legislation to bring the Northern Ireland road freight operator licensing system into line with Great Britain could issue for consultation in the Autumn of 2007 and be made by summer 2008.

55. (Paragraph 213) We believe that it would be helpful to establish a "crime proofing" test of all policy initiatives and future legislation by both the Northern Ireland Office and Northern Ireland Departments. This would help ensure that they were not open to exploitation by those involved in organised crime. In this context, we welcome the creation of the Northern Ireland Civil Service Interdepartmental Group, the aim of which is to promote awareness of the threat from organised crime both in Government Departments and throughout the public sector. We recommend that this Group, in consultation with the Northern Ireland Office and the PSNI take every necessary step to ensure that policy initiatives and proposed legislation are thoroughly examined to ensure that they are not capable of exploitation by criminal elements.

The Government welcomes the recommendation concerning crime proofing. The Inter-Departmental Group on Organised Crime will consider how best to develop appropriate approaches to crime proofing policies and legislation in consultation with PSNI and other relevant organisations.

56. (Paragraph 215) We note that the PSNI announced the opening of a new dedicated telephone line for the reporting of incidents of extortion on 15 May 2006; the helpline 028 90 92 22 67 will be open on Mondays to Fridays from 8 a.m. to 4 p.m. The decision to open this line was made in response to the Committee's questions at the beginning of this inquiry. We are grateful for this prompt response but emphasise that this initiative needs wider publicity.

58. (Paragraph 220) We urge the PSNI and HMRC to take further steps to publicise their confidential telephone lines.

As noted in my reply to recommendation 19, PSNI is devising a strategy to raise awareness of its extortion helpline across the business sector and will run a series of advertisements to publicise the telephone number and raise awareness generally of the support offered to victims of extortion by law enforcement. The first part of the awareness campaign will focus on the construction industry, which is worst affected, and the Construction Employers' Federation has been consulted on the most effective way to get the message across to its members.

A programme of OCTF Roadshows is also being developed and will provide a good opportunity to highlight the range of confidential helplines that are provided by law enforcement.

59. (Paragraph 222) We believe that it is essential that adequate provision for non-jury trials for appropriate offences in Northern Ireland is maintained. It is only by maintaining them that many witnesses will feel able to give evidence against organised crime gangs. We therefore urge the Attorney General to assess with the prosecuting authorities whether the use of such trials would encourage more witnesses to give evidence.

I am not clear how a non-jury trial would afford any more protections to witnesses than those available in a jury trial. However, I am very alive to the issue of juror and witness intimidation, particularly in relation to organised crime cases. As you know, we plan a number of reforms to the jury system to reduce the scope for intimidation of jurors and to reduce fear of intimidation, and some form of non-jury trial will be retained in the future.