Dialogue on Illicit Trade and the Sustainable Development Goals

July 18th, 2019
1. The problem

2. Size, shape & dynamics

3. The solutions
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3. The solutions
The problem:

- **25%** of all alcohol beverage consumption globally is unrecorded

- Recent studies by Euromonitor International demonstrate that in many countries, particularly emerging markets, this market can be more than **50%** of total market

- Creates **serious safety** risks for consumers, erodes the rule of law and fiscal income

- **A clear obstacle for the SDGs**
<table>
<thead>
<tr>
<th>Recorded</th>
<th>Legal products produced, taxed and sold within a regulatory framework and reflected in official statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal cross-border trade</td>
<td>Legally purchased outside of, and brought into, a market for the personal use of the consumer</td>
</tr>
<tr>
<td>Informal: Legal/Illegal</td>
<td>Produced outside regulatory framework; production &amp; consumption tend to follow cultural/artisanal practices. Includes home production. May be legal or illegal depending on laws governing a particular jurisdiction</td>
</tr>
<tr>
<td>Contraband</td>
<td>Illicit ethanol imports as raw material and illicit imports of alcohol beverages as finished product.</td>
</tr>
<tr>
<td>Counterfeit</td>
<td>Illicit alcohol sold as a legal brand (substitute), empty bottles of legitimate products refilled with cheaper alcohol or industrial production of illicit brands or brandless illicit alcohol.</td>
</tr>
<tr>
<td>Artisanal for trade</td>
<td>Artisanal alcoholic beverages produced for commercial purposes.</td>
</tr>
<tr>
<td>Tax leakage</td>
<td>Legal alcohol beverages locally produced, where no excise tax is paid.</td>
</tr>
<tr>
<td>Surrogate</td>
<td>Alcohol not produced for human consumption, i.e. pharmacy alcohol, deviated to the alcohol beverage market.</td>
</tr>
</tbody>
</table>
Examples

Contraband

Surrogate

Tax leakage

Counterfeit

Artisanal & informal
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26% of the total volume of alcohol consumed in the countries studied is illegal

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Illicit Alcohol Volume (LAE)</th>
<th>Illicit Alcohol Value (US$)</th>
<th>Fiscal Loss by Illicit Alcohol Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>Counterfeit/unregistered brands</td>
<td>39%</td>
<td>22%</td>
</tr>
<tr>
<td>24%</td>
<td>Illicit Artisanal</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>17%</td>
<td>Smuggling</td>
<td>13%</td>
<td>19%</td>
</tr>
<tr>
<td>7%</td>
<td>Tax Leakage</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>22%</td>
<td>Surrogate</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Euromonitor International

Note: Market sizes for both licit and illicit alcohol include both on-trade (restaurants, bars, etc.) and off-trade (retail).

* Excise per liter LAE excludes Russia (2014) as no fiscal loss data is available.
Illicit alcoholic beverages are consumed worldwide, but the market landscape varies geographically.

**LATIN AMERICA**
- **15% Illicit alcohol volume**
- **2,178,986 HL LAE illicit alcohol consumed**

**AFRICA**
- **40% Illicit alcohol volume**
- **4,258,896 HL LAE illicit alcohol consumed**

**EASTERN EUROPE**
- **27% Illicit alcohol volume**
- **4,458,022 HL LAE illicit alcohol consumed**

Counterfeit/unregistered brands: 22%  
Illicit artisanal: 31%  
Smuggling: 2%  
Surrogate: 9%  
Tax leakage: 35%

Counterfeit/unregistered brands: 13%  
Illicit artisanal: 43%  
Smuggling: 1%  
Surrogate: 16%  
Tax leakage: 28%

Counterfeit/unregistered brands: 36%  
Illicit artisanal: 32%  
Smuggling: 8%  
Surrogate: 15%  
Tax leakage: 9%

Source: Euromonitor International

Note: Market sizes for both licit and illicit alcohol include both on-trade (restaurants, bars, etc.) and off-trade (retail).
In Latin America, the Dominican Republic and Ecuador have the highest shares of illicit alcohol out of total alcohol consumed.

Share of Illicit Alcohol out of Total Alcohol Volume (HL LAE)

- **Dominican Republic**: 30.8%
- **Ecuador**: 29.2%
- **Peru**: 26.2%
- **Nicaragua**: 4.6%
- **Panama**: 2.2%
- **Paraguay**: 7.2%
- **Chile**: 1.2%
- **Argentina**: 4.5%
- **Honduras**: 20.4%
- **Bolivia**: 25.7%
- **Guatemala**: 6.6%
- **El Salvador**: 22.0%
- **Mexico**: 15.2%

**Source**: Euromonitor International

Mozambique, Zambia and Uganda have the highest share of illicit alcohol in Africa

Share of Illicit Alcohol out of Total Alcohol Volume (HL LAE)

South Africa 14.5%
Mozambique 73.0%
Uganda 63.3%
Malawi 61.0%
Tanzania 54.7%
Nigeria 36.2%
Ghana 45.0%

Source: Euromonitor International
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How can we squeeze time?

ILLICIT ALCOHOL IN THE US

100% in 1933

2% in 2019
How can we squeeze time?

ILLICIT ALCOHOL IN THE US

100% in 1933
2% in 2019

ILLICIT ALCOHOL IN EMERGING COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique</td>
<td>73.0%</td>
</tr>
<tr>
<td>Zambia</td>
<td>69.5%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>54.7%</td>
</tr>
<tr>
<td>Dominican R</td>
<td>30.8%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>29.2%</td>
</tr>
</tbody>
</table>

Today

IN 5, 10, 20 YEARS?
Menu of options:

Find solution according to category
i.e.: For counterfeit: Ethanol regulation & control (labs)
For smuggling: Customs targeted interventions
For artisanal: Raise awareness on health risks and formalize
For tax leakage: Optimize enforcement & institutions

Strengthen governmental institutions
i.e.: Colombia

Public – private alliances
i.e.: Peru

Formalization of small producers
i.e. Africa and Latin America
In conclusion:

1. Illicit alcohol trade negatively affects the achievement of the SDGs

2. The private sector has the responsibility to support SDGs in an effective way

3. We are committed to the SDGs and we can be a key global and local partner
Illicit trade - Our SDG commitments:

Understand the problem: knowledge & insight

Study:
Size, shape, drivers

Raise awareness

Communicate:
Campaigns targeting key stakeholders and general public

Be a progressive & effective partner for society and governments

Offer battle-proven options and participate in solutions (including support for formalization processes)
Thank you!