

AB InBev

The role of the private sector in combatting illicit trade

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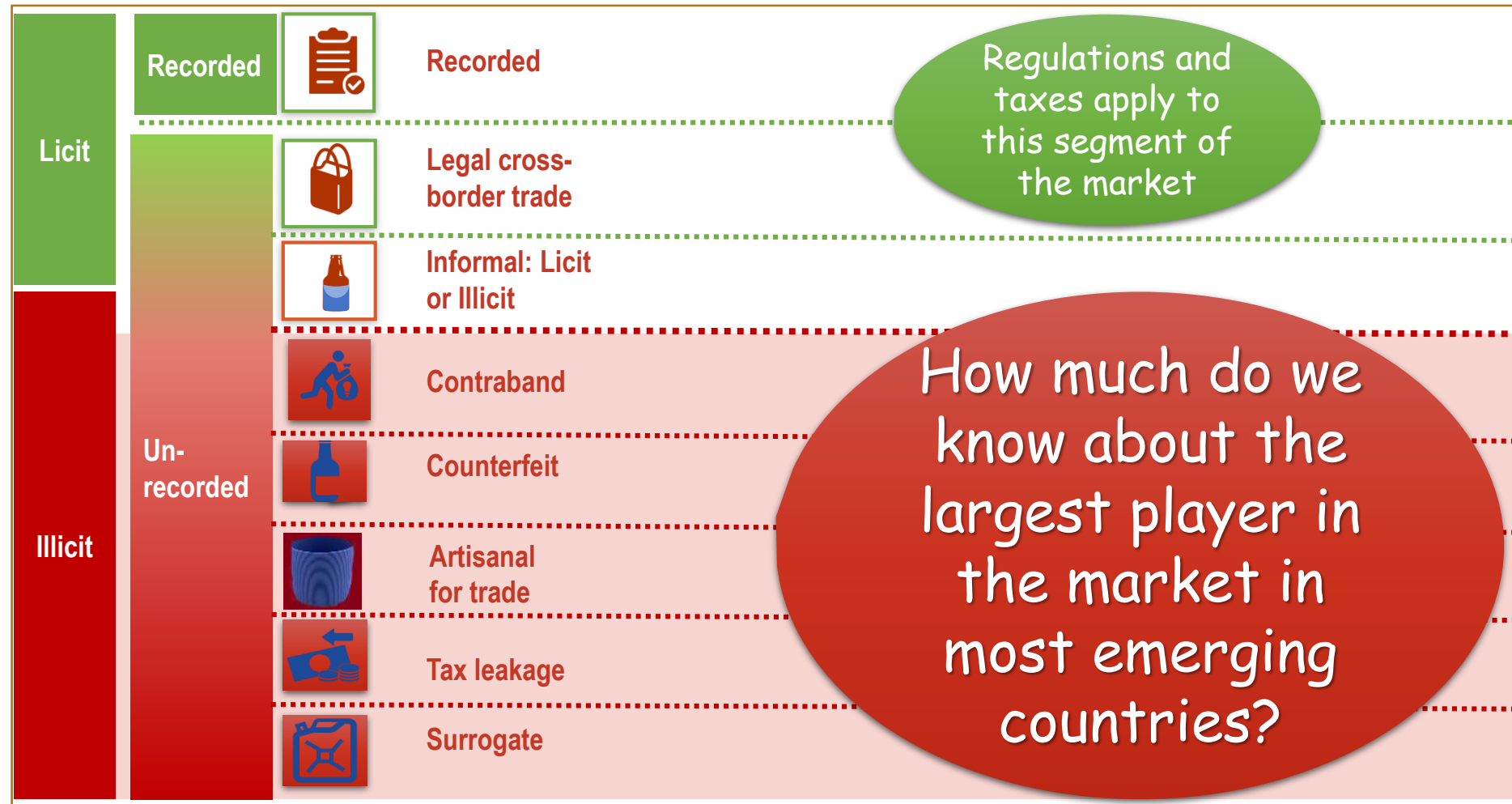
Surrogate - Ecuador



Counterfeit - India

1. Definitions – What is the alcohol beverage market composed of?

Includes distilled (spirits) and fermented beverages (wine, beer, etc.)



A closer look into the illicit alcohol categories:

Contraband



Illegal imports of ethanol as raw material and illegal imports of alcoholic beverages as finished product.

Counterfeit



Illegal alcohol sold as legal brands, refilled bottles, illegal brands or illegal unbranded alcohol.

Artisanal for trade



Illegal artisanal alcoholic beverages manufactured for commercial purposes.

Surrogate



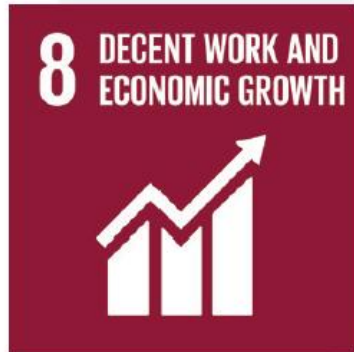
Alcohol not intended for human consumption - i.e.: pharmaceutical alcohol, mouthwash, perfumes/colognes

Tax leakage



Legal alcoholic beverages for which consumption taxes are not paid.

The illicit trade of alcohol inhibits the achievement of **5** UN Sustainable Development Goals



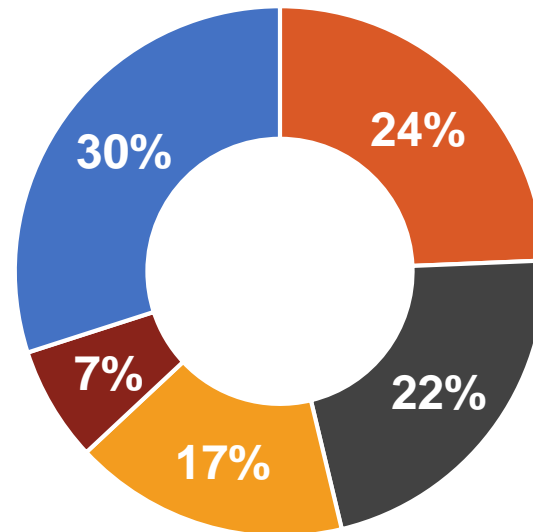
2. Size & shape of the market:

Study by Euromonitor shows that more than 1 out of 4 bottles is illicit

26%

Average of illicit alcohol
(in 24 countries)

Volume of illicit alcohol by category
(LAE)



42,251,999 HL LAE total alcohol consumed across the 24 countries

■ Counterfeit/unregistered brands ■ Illicit artisanal ■ Smuggling ■ Surrogate ■ Tax leakage



**Smuggled finished product & raw material
Colombia**



Studies available at: <https://www.tracit.org/alcohol.html>



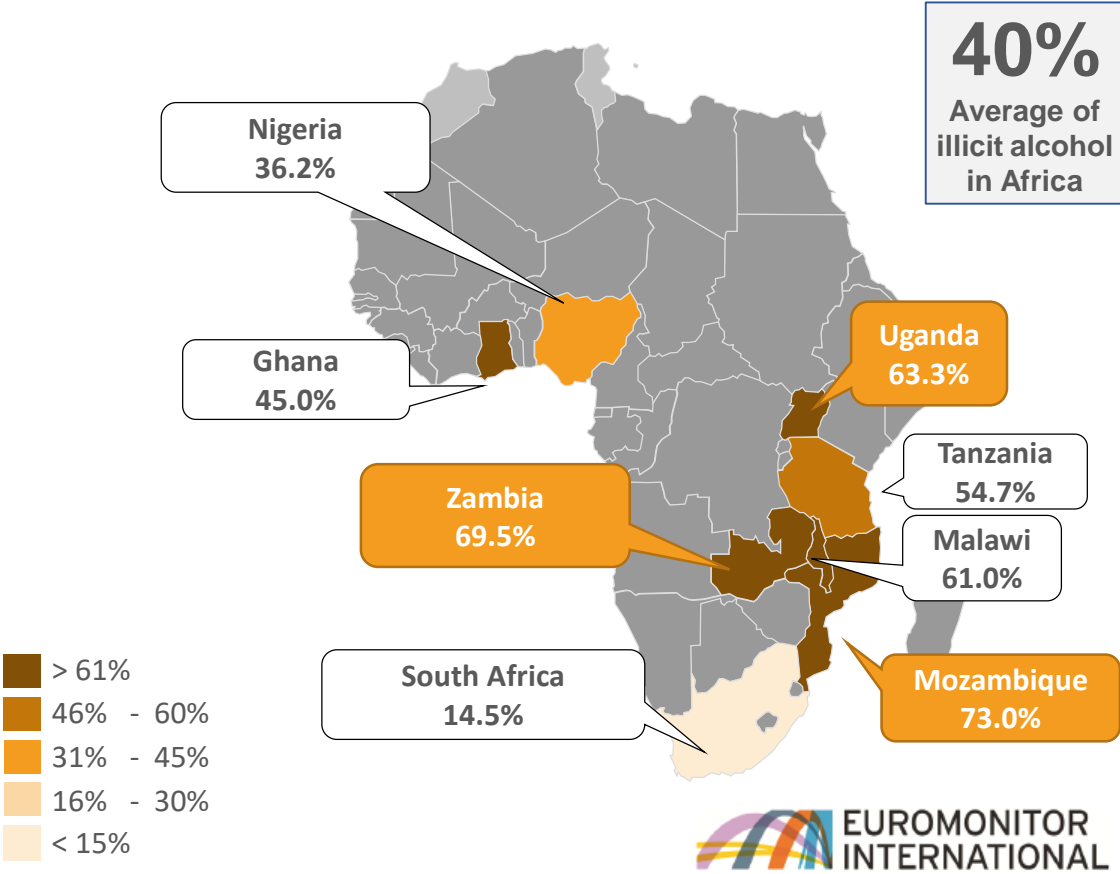
Source: Euromonitor International - Note: Market sizes for both licit and illicit alcohol include both on-trade (restaurants, bars, etc.) and off-trade (retail). * Excise per liter LAE excludes Russia (2014) as no fiscal loss data is available.

There are huge differences in the share of illicit within Latin America



Mozambique, Zambia, Uganda Highest shares in Africa

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



**Illicit distilled -
Uganda**



3. Root cause, drivers and enablers:

The illicit alcohol market can be unintentionally stimulated by public policy initiatives



... creates serious safety risks for consumers, erodes the rule of law and fiscal income and inhibits growth for legal businesses



**Counterfeited beverages
India (top), Zambia (bottom)**



4. Case studies

The process applied to tackle illicit markets:

- ✓ Identification of size, shape and drivers
- ✓ Learn best and worst practices from international benchmark
- ✓ Establish alliances and work together with governments, trade associations, communities, academia, etc.
- ✓ Raise level of awareness on the issue
- ✓ Work on a continuous campaign to reduce the illicit market
- ✓ Championing legal alternatives

...contributing to the UN SDGs

Sorghum and Cassava Lager in Zambia and Uganda

A smart regulatory framework brings:

- A higher income to formerly subsistence farmers (mostly women)
- An increase in fiscal revenue
- Affordable beer that closes the price gap between licit and unrecorded/illicit trade;
- Consumers to a safer and higher-quality product



An advertisement for Eagle Lager. It features a smiling woman in traditional African attire standing in a lush green field. In the foreground, there is a glass of beer and a bottle of Eagle Lager. An eagle is flying in the sky above. The text "THANK YOU FOR DRINKING EAGLE LAGER" is in the top right. At the bottom, it says "Celebrate the RICH TASTE of our land" and "18+ FOR PEOPLE OVER THE AGE OF 18 ONLY".

THANK YOU FOR
DRINKING EAGLE LAGER

Celebrate the
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A better future for local cassava producers in Brazil



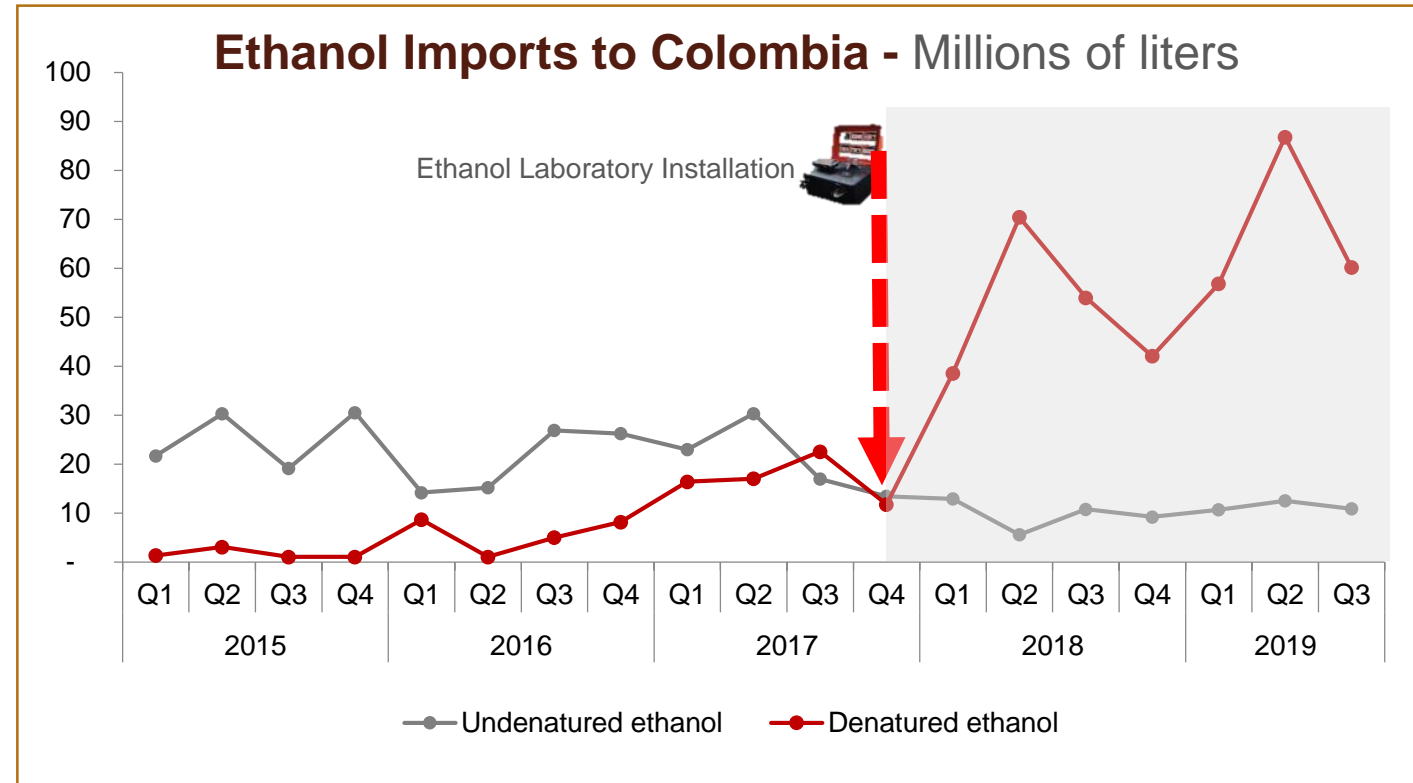
- Working with 5,000+ farmers
- 8,800 tons of cassava purchased in 2019;
- 5 of 30 cities in Maranhão State that we have purchased cassava from farms are the **lowest HDI** (Human Development Index) in Brazil.
- 2020: plan to buy cassava from all 30 cities

- Magnífica beer from the state of Maranhão, one of the poorest states in Brazil
- Brewed with cassava from local farmers
- Regional beer that promotes local crops, fostering local economy
- Excise tax reduction
- Enhancing social engagement and regional output
- Together, we're improving lives, creating income and dignity around Maranhão.

Colombia: Denaturing on ethanol



Denatured ethanol:
Ethanol treated with added chemicals to make it unpalatable



- New regulation introduced and enforced
- Effective ethanol control resulted in increased importation of denatured ethanol
- Raised awareness
- Price gap between licit and illicit decreased

Who wins when illicit alcohol is reduced?

Consumers and communities	Licit businesses	Government
<ul style="list-style-type: none">✓ Public health protected✓ Local licit economy promoted✓ Employment generation✓ Greater affordability of licit products✓ Formalization of value chain✓ Support to local agriculture	<ul style="list-style-type: none">✓ Enabling environment for licit business activity✓ Availability of licit products increased✓ Promotion of new licit players in the market	<ul style="list-style-type: none">✓ Increased fiscal income✓ Reduced smuggling✓ Decreased corruption

Who loses?

- *Smugglers*
- *Counterfeiters*
- *Money launderers*
- *Corrupt officials*

There is no silver bullet or “one-size-fits-all” solution to control illicit markets

- ✓ Find solution according to shape
- ✓ Close price gap between licit and illicit
- ✓ Implement solutions aiming illicit players

Counterfeit

- Incentives for local crop production
- Ethanol control through denaturing
- Regulate and monitor online channels
- Enforce intellectual property rulings

Contraband

- Introduce/enforce strict penalties to smugglers
- Stronger controls at customs

Artisanal for trade

- Formalize artisanal producers
- Simplified regulations for small businesses

Surrogate

- Ethanol control through denaturing
- Regulate and enforce pharmacy alcohol market
- Raise awareness

Tax leakage

- Introduce electronic invoicing systems
- Incentives for local crop production
- Fiscal control at source of leakage
- Higher penalties for tax leakage

5. Our commitment:

- We are committed to the SDGs; our footprint makes us a key partner
- Private sector has the responsibility to play a positive role to support SDGs in an effective way (knowledge, insight + action)
- Illicit alcohol trade negatively affects the achievement of the SDGs
- **We are ready to co-create a practical toolkit to tackle this issue, including support for formalization processes.**



Strong alignment of interest between community and our business

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Thank you