The role of the private sector in combatting illicit trade

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Contents

1. Definitions
2. Size & shape of the market
3. Root cause, drivers & enablers
4. Case studies
5. Our commitment
1. Definitions – What is the alcohol beverage market composed of?

- **Licit**
  - Recorded
  - Legal cross-border trade
  - Informal: Licit or Illicit

- **Illicit**
  - Recorded
  - Legal cross-border trade
  - Informal: Licit or Illicit
  - Contraband
  - Counterfeit
  - Tax leakage
  - Surrogate

**Regulations and taxes apply to this segment of the market.**

**How much do we know about the largest player in the market in most emerging countries?**

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)

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

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

Source: Euromonitor International

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

* 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

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

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

15% Average of illicit alcohol in Latin America

Mozambique, Zambia, Uganda
Highest shares in Africa

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

- Mozambique: 73.0%
- Zambia: 69.5%
- Uganda: 63.3%
- South Africa: 14.5%
- Tanzania: 54.7%
- Malawi: 61.0%
- Ghana: 45.0%
- Nigeria: 36.2%

Source: Euromonitor International
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.
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

...contributeing 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
A better future for local cassava producers in Brazil

• 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.

- 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 farmers are the lowest HDI (Human Development Index) in Brazil.
- 2020: plan to buy cassava from all 30 cities
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

Ethanol Imports to Colombia - Millions of liters

- Undenatured ethanol
- Denatured ethanol
### Who wins when illicit alcohol is reduced?

<table>
<thead>
<tr>
<th>Consumers and communities</th>
<th>Licit businesses</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Public health protected</td>
<td>✓ Enabling environment for licit business activity</td>
<td>✓ Increased fiscal income</td>
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<tr>
<td>✓ Local licit economy promoted</td>
<td>✓ Availability of licit products increased</td>
<td>✓ Reduced smuggling</td>
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<td>✓ Employment generation</td>
<td>✓ Promotion of new licit players in the market</td>
<td>✓ Decreased corruption</td>
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<tr>
<td>✓ Greater affordability of licit products</td>
<td></td>
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<tr>
<td>✓ Formalization of value chain</td>
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<td>✓ Support to local agriculture</td>
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### 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

<table>
<thead>
<tr>
<th>Counterfeit</th>
<th>Contraband</th>
<th>Artisanal for trade</th>
<th>Surrogate</th>
<th>Tax leakage</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Incentives for local crop production</td>
<td>- Introduce/enforce strict penalties to smugglers</td>
<td>- Formalize artisanal producers</td>
<td>- Ethanol control through denaturing</td>
<td>- Introduce electronic invoicing systems</td>
</tr>
<tr>
<td>- Ethanol control through denaturing</td>
<td>- Stronger controls at customs</td>
<td>- Simplified regulations for small businesses</td>
<td>- Regulate and enforce pharmacy alcohol market</td>
<td>- Incentives for local crop production</td>
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<td>- Regulate and monitor online channels</td>
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<td>- Enforce intellectual property rulings</td>
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- 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
Thank you