

6 Conclusions

The analysis summarised in this report highlights that the market for illicit alcohol is a large one and attractive to illicit traders for at least three reasons.

- First, illicit products are relatively easy to produce and consumers can be easily deceived. The large premium carried by branded products translates into potentially high profits for illicit traders of illicit, counterfeit items, which make them an area of great interest. While penalties for counterfeiting can be high, the persistence of counterfeiting worldwide suggest that illicit traders view the risk of detection and prosecution as acceptable.
- Second, governments have imposed significant taxes on alcohol, to raise revenue and/or to discourage particular behaviour or purchase. While taxes on alcohol have also proven to be an important source of revenue to governments, one of the main factors driving illicit sales in alcoholic beverages is price differential between illicit and licit alcohol that is linked to the differences in taxes and tariffs imposed on various alcoholic products across countries. This situation can create incentives for entrepreneurial parties to avoid them i) by smuggling product from low-taxed areas to higher-taxed ones and ii) by producing products clandestinely so as to avoid taxes. As the products being smuggled are legitimate, they do not have to be tampered with, which simplifies the illicit operations. The principal challenge for the illicit traders is mainly to be effective in concealing their smuggling, which does not appear to be a significant barrier as much of the smuggling is carried out through road transport, which offers significant opportunities for avoiding detection. As with counterfeiting, the penalties for smuggling and tax fraud can be high, but illicit traders appear to be generally undeterred as such activities continue to test enforcement authorities worldwide.
- Third, illicit traders can become involved in the unauthorised manufacture of alcohol. The cost of producing illicit spirits products can be quite low in small scale operations, which means the market is relatively open to small- and large-scale operators alike. The illicit traders can focus on producing and selling low-cost alternatives to branded products, or they can try to market their illicit production as higher quality, branded products. In both cases, the producers will be tempted to run their operations with a view towards minimising costs, resulting in the use of ingredients that could endanger consumer well-being, resulting, in some instances, in death.

One of the principal challenges for large volume illicit traders is in infiltrating supply chains, which are highly regulated in most countries. Success in this regard undoubtedly relies on the lack of awareness and in some cases complicity of distributors, off-premises retailers, and on-premises establishments. E-commerce, however, is rapidly increasing its role in distribution, which is a phenomenon warranting attention as it affords illicit traders with, from their perspective, a very promising channel for expanding sales.

Of particular concern in the above is the role of organised crime, which is a primary driver of illicit operations. The success that they have had comes at the cost of legitimate producers in the case of counterfeit and low-cost unbranded items, and at the cost of governments as a result of uncollected taxes. Moreover, the substantial proceeds of illicit sales are used to fund other illegal activities, empowering criminal organisations while undermining the rule of law in counties and trust in public institutions.

There are also significant health risks associated with illicit trade in alcohol. In general, the biggest health concern is consumer exposure to health risks associated with toxic illicit alternatives. Beyond the fact that

these illicit substitutes do not comply with sanitary, quality and safety regulations, the most hazardous are contaminated with toxic, lethal chemicals. According to WHO, it is important to promote policies that reduce harmful consumption of alcohol – and illicit alcohol is regarded as the worst form of harmful alcohol consumption.

Policy areas for stakeholders' consideration

The analysis of markets for illicit trade in alcohol presented in this report, lends itself to formulate some policy areas for stakeholders' consideration:

Improving information. Much of the information on illicit alcohol trade reported by governments is anecdotal in nature, with some notable exceptions, such as reports prepared by INTERPOL and Europol. Beyond this, the private sector has contributed significant research to measure the size, shape and drivers of the illicit trade in alcohol. Nonetheless, more reporting by a greater number of stakeholders would help improve the quality and quantity of information needed by policy makers to make informed decisions. In cases of physical harm from consuming illicit alcohol, improved information sharing could include effective alert systems for notifying stakeholders across jurisdictions of important developments.

Addressing the issue of online alcohol sales. At the same time, more attention needs to be paid to the growing use of online platforms to sell alcohol, which have been used to sell illicit products.

Formulating comprehensive alcohol strategies to combat illicit trade. Most countries have national alcohol policies. Given the significant levels of illicit alcohol that already exist—and the significant negative impact on society and economy—such policies should necessarily also include provisions to address illicit alcohol. The link between alcohol policies and the illicit trade is essential and alcohol policies should not be developed in isolation from realities of the local market. For instance, attention should be given to the different types and methods in which illicit alcohol products (spirits, wine and beer) are traded and the proportionality between the effectiveness of potentially curbing illicit trade, the cost of the remedy and the potential disruption to legitimate business. Considering objectives to reduce alcohol-related harm, the World Health Organisation (WHO) recommends undercutting the market for illicit alcohol, through government efforts to control these markets and tax policies that make lower-alcohol forms of culturally preferred beverages more accessible to consumers. There may be value in elaborating more comprehensive standalone policies that focus on strengthening the market for licit trade while seeking to disrupt counterfeit and substandard trade, and tax fraud.¹

Strengthening policy co-ordination. Responsibility for addressing alcohol policy is typically shared by a number of ministries, all of whom should be involved in policymaking on licit and illicit trade. This would include, for example, customs, tax authorities, health and regulatory bodies, and authorities dealing with counterfeiting issues and other forms of illicit trade. These agencies must also be well-resourced for monitoring, intercepting, and deterring illicit activities throughout the entire supply chain. Areas for cross-agency co-ordination include: regulating and controlling the supply of raw materials, particularly ethanol; monitoring production sites, and requiring health and sanitary permits for manufacturers; strengthening national borders and law enforcement departments to identify and prevent illicit activity.

Engaging stakeholders. In-depth dialogue with private stakeholders must continue, as public-private partnerships are a promising tool for modern governance. Governments, civil society, communities, and businesses should work together to support a thriving, responsible, well-regulated business sector that supports sustainable growth, development, and a shared commitment to reduce the illicit alcohol trade.

Enhancing international co-operation. The WCO and law enforcement agencies already co-operate closely on illicit alcohol trade, and the OECD's Task Force on Illicit Trade plays an important role in bringing stakeholders together to discuss policy issues. Such co-operation needs to continue, and should include efforts to identify, discuss and promote "best practices".

Strengthening enforcement. Illicit players often continue to operate with relative impunity because of limited co-ordination and enforcement and penalties that are not significant enough to act as deterrents. Effective enforcement is needed to strengthen co-ordination among countries (to prevent counterfeiting or smuggling), among different national government agencies (to align fiscal, health and security priorities) and among different levels of government (federal, state, and municipal to ensure consistency and to mitigate potential corruption). Better tools and techniques for disrupting this trade need to be explored. Governments should also work on improving and digitalising customs mechanisms..

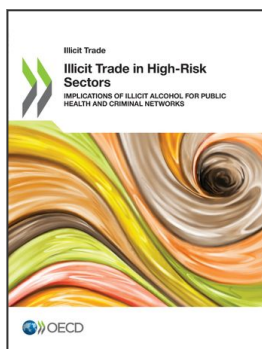
Awareness raising and consumer behaviour. Many consumers unknowingly buy illicit products, while others do so deliberately, for a variety of reasons. For those consumers who are deceived, public policies need to focus on raising awareness of the existence of illicit products and the associated harms. At the same time, consumers can be educated on how to distinguish licit products from illicit ones. Local knowledge and partnerships can be especially beneficial here.

Last, the analysis presented identifies several research areas that might merit further investigation. A more in-depth analysis of these topics could be beneficial for developing efficient enforcement and governance frameworks to counter the risks posed by illicit trade in alcohol:

- Enhancing information collection. There are numerous examples of the adverse effects that illicit alcohol has on public health, safety and on the environment. These examples, however, have limited scope. A more systematic and extensive approach for developing data in this area is therefore needed.
- Evidence on criminal dynamics. There are indications that networks that drive illicit alcohol trade are very dynamic. This is complicated by the COVID-19 pandemic, which has reinforced dynamism. Further investigation into how these dynamics evolve is needed, taking into account the interplay between corruption, enforcement gaps and illicit alcohol trade.
- Focus on best practices. There are a number of efforts employed by public and private stakeholders to counter illicit trade in alcohol. The issues for industry and policymakers to consider, presented above, give an indication of relevant policy areas. It could be useful to frame the existing best practices and examples of good governance.

Note

¹ See WHO (2019) “SAFER Technical Package,” Available at: <https://www.who.int/publications/i/item/the-safer-technical-package>.



From:

Illicit Trade in High-Risk Sectors

Implications of Illicit Alcohol for Public Health and Criminal Networks

Access the complete publication at:

<https://doi.org/10.1787/1334c634-en>

Please cite this chapter as:

OECD (2022), "Conclusions", in *Illicit Trade in High-Risk Sectors: Implications of Illicit Alcohol for Public Health and Criminal Networks*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/f80e3f6b-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.