

Executive summary

The market for alcohol products is an attractive target for illicit trade and organised crime as the market is large, as are the profits that can be made from the illicit trade, in some cases with little investment. The ease with which consumers can be deceived into buying illicit products, and the low risk of detection for all forms of illicit trade, create suitable conditions for eluding law enforcement.

This report i) provides an overview of the alcohol industry, ii) examines the nature and scope of illicit trade in the sector, iii) assesses the impacts of illicit trade on socio-economic development, iv) identifies the factors driving illicit trade in the sector, v) reviews the measures that stakeholders have taken to better understand and combat the illicit trade, and vi) provides an overview of some of the key issues that need to be addressed to deal with the societal challenges posed by the illicit alcohol trade.

There are many types of illicit alcoholic beverages, including counterfeit goods (refilling, falsification and tampering); smuggled/contraband items that have been illegally imported into a jurisdiction and sold, evading import duties, taxes and customs formalities; illicit artisanal alcoholic beverages; legally produced alcohol beverages on which the required excise tax is not paid in the jurisdiction of production (tax leakage); and non-conforming alcohol products, including products not meant for human consumption.

The market for illicit alcohol is large. In 2018, the total consumption of alcohol worldwide equalled to 6.2 litres of pure alcohol per person 15 years and older and illicit alcohol accounted for about 25% of this volume, but disproportionately larger in lower-income countries. As a general rule, illicit alcohol trade is closely linked to the low affordability of products. First, a relatively low cost of producing illicit beverages means potentially high profits for illicit traders. For example, the fixed cost of producing illicit spirits can be quite low, which means the market is relatively open to both small- and large-scale operators. Second, governments tend to impose additional taxes on alcohol for a number of reasons, including public health objectives. At the same time, these taxes can create additional incentives for counterfeiters to enter the market and supply illicit alternatives outside the licit supply chain.

A principal challenge for large-volume illicit traders is infiltrating legitimate supply chains. Success in doing so often relies on the gullibility or complicity of distributors, off-premises retailers, and/or on-premises establishments. The role of e-commerce in distribution is, however, rapidly increasing, warranting attention as it facilitates sales expansion by illicit traders.

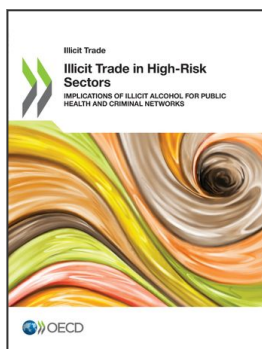
The presence of organised crime is also a particular concern in the illicit trade in alcohol, as actors of illicit trade exploit the price and taxation differentials between illicit and legitimate products. The substantial proceeds of illicit sales are used to fund other illegal activities, empowering criminal organisations while undermining the rule of law in countries.

The pandemic provided wide opportunities for illicit traders to adjust and expand their operations as government lockdowns, bans and other restrictions disrupted the alcohol market and created shortages. Overall, the pandemic gave impetus to the ongoing illicit trade in alcohol, creating more sophisticated international networks, logistics routes, and manufacturing techniques. The pandemic also highlighted the need for a global response based on enhanced co-operation among countries and greater collaboration with private sector stakeholders.

Beyond the market dynamics, illicit trade in alcohol has a wide range of negative socio-economic impacts. First, it poses significant health risks to consumers, when substandard products are manufactured using dangerous, unapproved ingredients. These negative impacts tend to disproportionately affect poorer and uneducated consumers.

In addition, illicit alcohol trade: i) deprives governments of tax revenues that would otherwise have been paid had the goods been sold in approved channels; ii) reduces sales by legitimate, tax-paying businesses and tarnishes their reputation when inferior, illicit products are sold under their brand; and iii) diverts resources to organised crime, which then uses the proceeds to sustain other illegal activities, undermining the rule of law.

Most countries have national alcohol policies, and issues dealing with illicit products are referenced in them, to various degrees. At an intergovernmental level, INTERPOL, Europol and the World Custom Organisation (WCO) have worked together on enforcement matters, conducting successful campaigns to disrupt illicit trade in alcohol. Industry stakeholders have also been working on this front, co-operating with governments and law enforcement around the world to develop solutions to tackle the illicit trade in a number of areas.



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