

1 Introduction

Illicit trade, which includes smuggled and counterfeit products as well as a number of other forms of unlawful trade, is a significant threat to society, businesses and consumers, undermining good governance, the rule of law and citizens' trust in government and legal businesses and trade. It has a negative impact on the sales and profits of legitimate firms and on the economy in general, while posing major health and safety threats to consumers.

The pandemic has exacerbated illicit trade and the negative impacts on economy and society. While communities and economies worldwide have been struggling with the health and economic effects of COVID-19, illicit trade has flourished, undermining people's health and safety when poor quality or toxic ingredients were used and increasing security risks with the rise of illegal activity. The trade has been facilitated by the Internet, via social media, e-commerce platforms, Free Trade Zones (FTZ), and online marketplaces, alarming law enforcement, and broader communities in many parts of the world.

Prior to the COVID-19 pandemic, global illicit trade was already booming through an array of trafficking and smuggling crimes. During the pandemic the situation changed, as governments introduced policies to stem the spread of the virus. Many countries, for example, imposed lockdowns which restricted the movement and activities of citizens, while illness curtailed production in many sectors, creating shortages in key goods. In the case of alcohol, some countries put limitations on the production and consumption of goods, keeping in mind the overall goal of protecting citizens' health. The restriction in the supply of alcohol products, however, fuelled illicit markets, which rose to meet unsatisfied demand, undermining the original intent and also with negative knock-on effects, including losses in tax revenues from alcohol sales and increased health and safety risks from impure and unsafe alcohol products.¹

To address the problem of illicit trade in high risk sectors, the OECD Task Force on Countering Illicit Trade (TF-CIT) undertook a number of fact-finding exercises in recent years. These included a factual report on illicit trade in counterfeit pharmaceuticals (OECD/EUIPO, 2020^[1]). It also included a series of webinars to discuss the impact of the pandemic on illicit trade in 2020 and 2021, with a view towards identifying the relevant governance gaps and market risks that should be addressed in further work on illicit trade. The webinars included sessions on:

- Illicit Trade in a Time of Crisis (April 2020)
- Trade in Fake Medicines at the Time of the Covid-19 Pandemics (June 2020);
- High-Risk Sectors in COVID Recovery (September 2020);
- Covid-19 Vaccine and the Threat of Illicit Trade (December 2020); and
- Crisis policy, illicit alcohol and lessons learned from lockdown (January 2021).

The webinars reveal that the key COVID-19-related elements that have affected the dynamics of illicit trade in high-risk sectors include the closure of borders, instances of restrictions on consumption, the reshaping of suppliers' structure and the destruction of existing relations in supply chains, as well as the change in enforcement priorities. The rapidity of changes in the market have made it difficult for countries to react in an effective manner, and corruption continues to fuel illicit trade worldwide.

This report has been prepared in further support of the work on high-risk sectors, focusing on alcohol. It follows up on the report on illicit trade in fake pharmaceuticals, and the set of workshop-specific reports.

This report: i) provides an overview of the alcohol industry, ii) examines the nature and scope of illicit trade in the sector, iii) assesses impacts that the illicit trade has had on economies, 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, vi) examines the effects that measures taken by governments in light of the Covid-19 pandemic had on illicit trade, and vii) provides an overview of some of the key issues that need to be addressed to deal with the societal challenges posed by illicit alcohol trade.

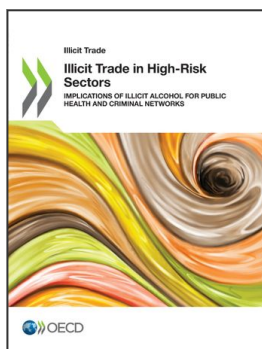
The analysis shows that the market for alcohol products is an attractive target for illicit trade and organised crime as the market is large, as are the profits that can be realised on the illicit trade, in some cases with little investment. The ease with which consumers can be deceived into buying counterfeit products, and the low risk of detection for all forms of illicit trade, create an irresistible cocktail for illicit traders, who continue to adapt their operations to elude law enforcement.

Reference

OECD/EUIPO (2020), *Trade in Counterfeit Pharmaceutical Products*, Illicit Trade, OECD Publishing, Paris, <https://doi.org/10.1787/a7c7e054-en>. [1]

Note

¹ See: <https://www.citizen.co.za/news/south-africa/3046546/liquor-ban-during-lockdown-exacerbated-alcohol-consumption/>



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