

## **SITUATIONAL BRIEFING**

*COVID-19 Supply restrictions compound demand for illicit alcohol, exacerbate health problems*

### **WARNING**

**COVID-19 prohibitions on alcoholic beverages drive markets for illicit alcohol, present dangerous risks to consumers, encourage criminality and sideline legal jobs and growth.**

TRACIT acknowledges the severity of the COVID-19 crisis and understands the need for rigorous and sustained action from governments in these unprecedented times. We are supportive of measures aimed at minimizing the spread of COVID-19 through social distancing.

However, in the case of quality, legitimate alcohol products, emergency measures that go beyond on-premise sales are not congruent with social distancing norms. Prohibiting access and availability in outlets such supermarkets and off-license outlets, homedelivery, order-and-collect / grab-and-go, and e-commerce options are too strict and are, consequently, not warranted.

Restrictions on availability of alcohol that are *too strict* may promote the development of a parallel illicit market, according to the World Health Organization (WHO).<sup>1</sup> During this time of crisis, overly restrictive access to legitimate alcoholic beverages can drive consumers to illicit and counterfeit alcohol supplied by criminals and unscrupulous illicit traders. Sadly, by increasing exposure to toxic, illicit alcohol, these bans undermine the public health objectives for which COVID-19 emergency measures have been enacted.

Signs of growth in illicit markets are already emerging. In India, for example, customs and police have reported that consumers are turning to illegal liquor, and there is a marked increase in seizures of country liquor.<sup>2</sup> In South Africa, police report increased arrests and confiscations of illicit alcohol.

TRACIT recognizes Sri Lanka, Zimbabwe and French Polynesia (Tahiti) for quickly understanding the consequences of prohibition laws – and reversing them. Also, wherever such temporary prohibition laws remain including Panama, Mexico, Australia, India, Botswana, South Africa and Thailand—TRACIT calls on these governments to remove bans on the production, distribution and consumption of alcoholic beverages.

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<sup>1</sup> World Health Organization, *Strengthen restrictions on alcohol availability*, [https://www.who.int/substance\\_abuse/safer/s/en/](https://www.who.int/substance_abuse/safer/s/en/)

<sup>2</sup> India today, *Coronavirus: India lockdown sends grey-market booze prices soaring*, <https://www.indiatoday.in/business/story/coronavirus-india-lockdown-sends-grey-market-booze-prices-soaring-1667077-2020-04-15>

## COVID-19 restrictions spike demand for illicit alcohol and create significant, unintended health risks

The main health risks associated with illicit in alcohol are linked to end-products that do not comply with sanitary, quality and safety regulations, and are contaminated with toxic chemical additives. According to the WHO, “consumption of illicitly or informally produced alcohol could have [...] negative health consequences due to higher ethanol content and potential contamination with toxic substances, such as methanol.”<sup>3</sup>

For example, 109 people in Dominican Republic died after drinking a local illicit alcoholic beverage known as clerén. Medical tests concluded it contained more than 50% toxic methanol.<sup>4</sup> This in an unfortunate repeat of situations where ineffective regulatory policies create demand for dangerous illicit alternatives seen in many countries like India, where in 2019, 200 people died after consuming illicit country liquor tainted with methanol.

Moreover, new COVID-19 related restrictions on regulated alcohol will not discourage heavy drinkers from drinking. Temporary bans on alcohol cause those with alcohol dependency to resort to consuming potentially dangerous and toxic home-made alcohol, made in unsanitary conditions. Alcohol dependency calls for more sophisticated psychological and medical treatment solutions than simple, across-the-board prohibition.

## Emergency restrictions sideline legal industry, jeopardize long-term employment and growth

The beverage alcohol sector is a major contributor to national economies. This includes millions of jobs throughout a long supply chain of alcohol manufacturers, importers, local distributors, wholesalers, hospitality outlets and licensed vendors. COVID-19 related restrictions on availability undermine this important sector, which many jurisdictions consider “essential.”<sup>5</sup>

In Panama, for example, the ban on production, distribution and consumption of alcoholic beverages jeopardizes the viability of a supply chain that supports direct employment of 3,000 people and 45,000 indirectly.<sup>6</sup> In French Polynesia, the alcohol ban was reversed to prevent suspension of operations by Brasserie de Tahiti, the biggest local beverage company, and to maintain about 400 employees.<sup>7</sup>

The long-run risks of unnecessary, overly strict prohibition laws are the advantages given to illicit value chains. In many countries, illicit markets for alcohol already exceed 25%, and as much as 70% in developing countries such as Mozambique. When legal industries are sidelined by COVID-19 related prohibitions, illicit players are given unfettered opportunity to increase market share and strengths that will be increasingly difficult to undo.

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<sup>3</sup> WHO Global Strategy to reduce the harmful uses of alcohol, 2010, Section 37

<sup>4</sup> [https://en.as.com/en/2020/04/25/other\\_sports/1587847366\\_185865.html](https://en.as.com/en/2020/04/25/other_sports/1587847366_185865.html)

<sup>5</sup> New York (USA) Executive Order 202.6 (March 18, 2020)

<sup>6</sup> Executive Decree No.507 from 24 March 2020, art.7.

<sup>7</sup> “Tahiti cuts short alcohol sale ban,” RNZ, 17 April 2020

Keeping production facilities operational (under strict sanitary conditions) contributes to the crisis economy, maintains incentives for investment by legitimate manufacturers and buoys employment across many sectors.

## **Upsurges in illicit alcohol reduce public sector revenues, now vital to address COVID-19 emergencies**

The collection of taxes throughout the legitimate alcohol supply chain is traditionally an important source of revenue for many governments. For this reason, curbing illicit trade in alcohol is a fiscal priority. For example, across 21 countries in Latin America, Eastern Europe and Africa, tax losses deriving from illicit alcohol represent an annual fiscal loss of US\$3.6 billion.<sup>8</sup> These are significant losses that strip governments of income intended for public investment, with relatively more severe impacts on developing countries.

Ironically, governments that implement total supply restrictions on the alcoholic beverage sector deprive their own treasuries of much-needed fiscal revenue. Moreover, the unintended consequences of prohibition on future fiscal capacities must not be underestimated. Like the effects on future job markets, crisis-based supply restrictions erode market shares for legitimate businesses and strengthen long-term market viability for untaxed illicit substitutes.

In all cases, reduced governmental revenue induced by prohibition of alcohol creates additional strain on already stretched law enforcement agencies in charge of policing crime, including cross-border smuggling activities.

## **Crisis-driven prohibition opens windows for criminal activity**

As reported by the Global Initiative Against Transnational Organized Crime, “the disruption caused by coronavirus has been quickly exploited by some criminal groups as a ‘window’ to scale up their activities [...] the fact that the attention of police and policymakers is currently focused elsewhere has cast a shadow that has allowed some criminal groups new scope to operate in the realm of illegal markets.”<sup>9</sup>

In particular, the involvement of organized criminal groups (OCGs) in the illicit alcohol trade has been well documented worldwide.<sup>10</sup> As many OCGs are known for their operational flexibility and ability to exploit regulatory gaps and inconsistencies, it is likely that they will take advantage of total bans enacted under COVID-19 regulations to diversify their sources of income and further consolidate their resilience, locally and transnationally.

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<sup>8</sup> Euromonitor, *Illicit Alcohol Research Review*, October 2018.

<sup>9</sup> The Global Initiative against Transnational Organised Crime, March 2020, “Crime and contagion – The impact of a pandemic on organised crime”, p. 5, available at: <https://globalinitiative.net/wp-content/uploads/2020/03/CovidPB1rev.04.04.v1.pdf>  
<sup>10</sup> RUSI, *On Tap Europe Organised Crime and Illicit Trade in Tobacco, Alcohol and Pharmaceuticals*, [https://rusi.org/sites/default/files/201703\\_rusi\\_whr\\_2-17\\_on\\_tap\\_europe\\_updated\\_low-res.pdf](https://rusi.org/sites/default/files/201703_rusi_whr_2-17_on_tap_europe_updated_low-res.pdf)

## **FOR IMMEDIATE ACTION**

### **GOVERNMENTS**

- Emergency response measures to protect people from the COVID-19 virus must avoid prohibition laws that inadvertently encourage growth in markets for illicit alcohol. Sri Lanka, Zimbabwe and French Polynesia (Tahiti) are recognized for quickly understanding the consequences of prohibition laws – and reversing them.
- Wherever such prohibition laws remain—Panama, Mexico, Australia, India, Botswana, South Africa and Thailand—TRACIT calls on these governments to remove bans on the production, distribution and consumption of alcoholic beverages.
- Ensure availability and access to legitimate products in conformity with social-distancing rules, including the ability to purchase alcohol in supermarkets and off-license outlets as well as through home delivery, carry-out, and e-commerce.
- As governments relax social distancing measures, they should lift remaining on-premise restrictions on alcohol to mitigate long-term economic disruption.
- Follow the approach of countries that include alcoholic beverages among essential goods, responding to consumer demand and supporting the legitimate economy.

### **INDUSTRY / PRIVATE SECTOR**

- Lead and support anti illicit alcohol campaigns to protect public health, government revenue and support the legitimate value chain.
- Fully respect social distancing protocols across the entire supply chain (manufacturing, distribution and sale).
- Ensure responsible service of alcohol and provide responsible-consumption information to adult consumers.
- Use existing operations to develop, donate and distribute essential resources (e.g., sanitizers) needed to fight the pandemic.

### **INTERNET PLATFORMS**

- Review current content posted to your websites and remove illegal postings for the sales and/or transfer of illicit alcohol products.
- Educate users that bad actors may exploit the digital platforms for the sale of counterfeit, mislabelled and fraudulent products that could pose health risks.

*This document and other resources: <https://www.tracit.org/covid-19.html>*