

TRACIT cautions against triggering post-COVID 19 demand for illicit products

- *Governments should resist tax policies that trigger reductions in purchases of taxable legal products and drive consumers to seek unregulated, untaxed illicit products.*
- *Rationalizing tax structures and strengthening border controls are effective tools to mitigate cross-border illicit trade and smuggling.*

New York, March 29, 2021 – Today, the Transnational Alliance to Combat Illicit Trade (TRACIT) issued a set of policy guidelines to avoid triggering demand for illicit products in the wake of COVID-19. The guidelines caution governments moving from crisis management to recovery planning to carefully shape constructive and inclusive ways to build back economic activity, employment and growth.

This will be especially important regarding policy decisions impacting sectors which were especially vulnerable to illicit trade during the pandemic or are already subject to high excise tax rates—such as pharmaceuticals, food, alcohol, tobacco, petroleum. To prevent downward pressure on employment and GDP, governments should avoid imposing restrictions on industry operators in these sectors.

“For example, sudden increases in excise taxes levied on these sectors, as a means to replenish budget shortfalls, could result in lower consumption of legal products, smaller pools of tax collections and an increase in demand for untaxed, cheaper illicit alternatives,” said Jeffrey Hardy, Director General of TRACIT. “There are alternatives to increasing excise taxes, and consideration should be given to a portfolio of proven regulatory measures that can complement taxes, not undermine them.”

The guidelines suggest governments:

- Ensure that tax policies do not incentivize illicit trade. For example, excessive tax levels can reduce affordability of legitimate products and drive demand for illicit substitutes.
- Strengthen border controls to mitigate cross-border illicit trade and smuggling.
- Ensure accessibility of regulated, taxable products to generate significant tax revenues.
- Impose sanctions on the bad actors that supply markets with fakes or smuggle contraband across borders to plug fiscal leakages and deter the supply of illicit, untaxed products.
- Increase consumer awareness about the harms of illicit trade.

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About TRACIT

The Transnational Alliance to Combat Illicit Trade ([TRACIT](http://www.tracit.org/)) is an independent, private sector initiative to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.