



**ALCOHOL**

**MAPPING THE IMPACT OF ILLICIT TRADE  
ON THE SUSTAINABLE DEVELOPMENT GOALS**

## ABOUT THE REPORT

On 18 July 2019, the Transnational Alliance to Combat Illicit Trade (TRACIT) in collaboration with the UN Conference on Trade and Development (UNCTAD) organized a forum to discuss the role of illicit trade in inhibiting positive development outcomes and in particular, the implications for the achievement of the UN Sustainable Development Goals (SDGs).

The event featured the launch of TRACIT's report, *Mapping the Impact of Illicit Trade on the UN Sustainable Development Goals*.

The TRACIT report investigates illicit trade in 12 key sectors that participate significantly in international trade and are most vulnerable to illicit trade. For each sector, the negative impacts of illicit trade are mapped against the 17 UN SDGs. The sectors include: agri-foods, agro-chemicals and pesticides, alcohol, counterfeit and pirated goods, forestry, IUU fishing, petroleum, pharmaceuticals, precious metals and gemstones, tobacco products, trafficking in persons and illicit trade in wildlife.

This document excerpts the chapter on "SDGs and illicit trade in alcohol"

## ABOUT TRACIT

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to drive change 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.

## FOR MORE INFORMATION

The full report, Executive Summary and the sector specific chapter excerpts can be found at: [www.tracit.org/publications\\_illicit-trade-and-the-unsdgs](http://www.tracit.org/publications_illicit-trade-and-the-unsdgs)

## MEDIA

All media enquires should be directed to  
Cindy Braddon, Head of Communications and Public Policy,  
[cindy.braddon@TRACIT.org](mailto:cindy.braddon@TRACIT.org)

## SOCIAL MEDIA

**Twitter:** @TRACIT\_org

**LinkedIn:** [www.linkedin.com/company/tracitorg](http://www.linkedin.com/company/tracitorg)

# SDGs AND ILLICIT TRADE IN ALCOHOL



# INTRODUCTION

## Illicit trade and the UN SDGs

The UN Sustainable Development Goals (SDGs) lay out an ambitious set of 17 goals to address the world's most acute economic, social and environmental challenges. They cover everything from poverty eradication and zero hunger to clean water, decent jobs and peace. Since coming into effect in January 2016, governments, private sector and civil society have rallied around the SDGs to guide policy, implement investment strategies and allocate funding.

Among the portfolio of tools available to achieve the SDGs is the expansion of international trade.<sup>1</sup> This is because trade has historically proven to be an engine for development, boosting income generating capacity and contributing to unprecedented reductions in poverty levels.<sup>2</sup> Over the last few decades cross-border trade has expanded significantly, supporting rising living standards across the globe.

At the same time, the expansion in *legal* trade has been accompanied by the alarming emergence of *illicit* trade, with estimates quantifying it and associated transnational criminal activities at between 8 and 15 percent of global GDP.<sup>3</sup>

From smuggling, counterfeiting and tax evasion, to the illegal sale or possession of goods, services, humans and wildlife, illicit trade is compromising the attainment of the SDGs in significant ways, crowding out legitimate economic activity, depriving governments of revenues for investment in vital public services, dislocating millions of legitimate jobs and causing irreversible damage to ecosystems and human lives.

## Mapping illicit trade against the SDGs

Despite the recognition of international trade as an important means to achieve the SDGs, insufficient attention has been given to the substantial impact that illicit trade has on holding back progress.

In order to help governments and business better understand how their efforts to achieve sustainable development must account for the negative forces of illicit trade, this study maps the 17 UN SDGs against the following sectors: agri-foods, alcohol, fisheries, forestry, petroleum, pharmaceuticals, precious metals and gemstones, pesticides, tobacco, wildlife and all forms of counterfeiting and piracy. These sectors were chosen because they participate significantly in international trade and they are particularly vulnerable to illicit trade. Trafficking in persons is also examined as a particularly abhorrent phenomenon affecting supply chains and basic human rights as well as contributing to illicit trade practices.

To the extent that an SDG—or one of the 169 targets established to track progress on the goals—is impacted by illicit trade, this study examines where and how illicit activity undermines progress to achieve it. In some cases, illicit activity is mapped against an overall goal, such as SDG 3 (Good Health and Well-Being). In other cases, a specific target has been examined, such as SDG Target 8.7 (Eradicate forced labor, end modern slavery and human trafficking).

## Key findings from the report

The socio-economic impacts of illicit present significant deterrence to all 17 of the SDGs—holding back progress, increasing costs and pushing achievement of the goals further away.

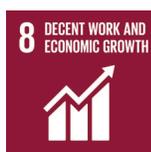
There are notable “macro” impacts where illicit trade cuts deeply across many of the SDGs, undermining achievement of the economic goals for poverty reduction, decent jobs and economic growth (SDGs 1, 2, 3, 4 & 8), and robbing governments of taxable income that can be invested in public services (SDGs 9 & 17). When it generates revenue for organized criminal and terrorist groups, illicit trade undermines goals for peace and stability (SDG 16). Most forms of illicit trade plunder natural resources (SDGs 6, 14 & 15), abuse supply chains and ultimately expose consumers to fake and potentially harmful products (SDG 12).

While findings show that illicit trade poses a threat to all 17 SDGs, nowhere is the nexus as evident than in SDG 16 (Peace, Justice and Strong Institutions) and SDG 8 (Decent Work and Economic Growth).



Illicit trade—in all its forms—stands in direct juxtaposition to SDG 16, by feeding violence and breeding corruption, undermining trust in institutions and the rule of law, and generating enormous illicit financial flows.

Moreover, the links between illicit trade and organized crime are well established, from human trafficking networks and tobacco smuggling, to fuel theft by drug cartels and the involvement of the mafia and organized criminal groups in the trade of counterfeit products. Perhaps most frightening are links to terrorist financing that heighten threats to national and global security.



All types of illicit trade threaten inclusive economic growth and significantly hinder achievement of SDG 8. Lost taxes rob governments of revenues intended for schools, infrastructure and other public services. Illegal and unfair competition reduces sales and dampens the ability of companies

to create lasting and dignified job opportunities. Taken together, economic leakages across the sectors susceptible to illicit trade create an annual drain on the economy of US\$2.2 trillion and present a triple threat to financing the necessary “billions to trillions” dollar gap needed to reach the SDGs.

## Business is a partner for achieving the SDGs

As illicit trade weakens the viability and sustainability of industries, it simultaneously dilutes private sector contributions to achieving the SDGs. For example, illicit trade is a form of unfair competition that undermines private sector contributions to economic growth and employment. It chokes off market growth, sabotages global supply chains, squanders natural resources and endangers market security. Fake products and inferior materials in supply chains harm consumers and tarnish consumer perception of a corporation's social responsibility (CSR) performance. In some cases, it poses significant threats to the safety and security of personnel and facilities, all adding to the increasing costs of doing business. Where proliferating illicit trade creates socio-economic instability, it dampens private sector investment, holds back research and development (R&D) and discourages technology transfer.

For these reasons, the private sector has a vital interest in defending against illicit trade, helping itself across industry sectors and playing an active role in promoting the SDGs.



The Transnational Alliance to Combat Illicit Trade (TRACIT) provides a platform for business and governments to collaborate holistically to mitigate the incumbrance of illicit trade on the SDGs. Mapping the impacts of illicit trade on the UN Sustainable Development Goals is part of TRACIT's contribution to the partnership approach embodied in SDG 17 and a means by which business, the public sector and civil society—working in partnership—can more effectively achieve the SDGs.

# SDGs AND ILLICIT TRADE IN ALCOHOL

Illicit trade in alcohol is widespread, representing significant percentages of alcohol consumption worldwide and stripping governments of billions of dollars in tax revenues. According to Euromonitor's 2018 Global Study on Illicit Alcohol, 1 in 4 alcohol bottles are illicit, representing 25.8 percent of all global consumption.<sup>1</sup> These findings correspond to World Health Organization (WHO) estimates that unrecorded alcohol<sup>2</sup> accounts for 25.5 percent of total worldwide adult alcohol consumption and is projected to increase to 27.7 percent in 2020.<sup>3</sup>

According to the European Union Intellectual Property Office (EUIPO) study carried out in 2016, "the legitimate [alcohol] industries lose approximately €1.3 billion of revenue annually due to the presence of counterfeit spirits and wine in the EU marketplace, corresponding to 3.3 percent of the sectors' sales."<sup>4</sup>

Although market characteristics differ across countries, the problem of illicit alcohol exists in every region, in developed and developing countries, urban and rural areas, and higher-income and lower-income neighborhoods alike. Similarly, there are a wide variety of factors that drive markets for illicit alcohol, related to consumers, business practices and government policies.

## Main Drivers and Enablers of the Illicit Alcohol Trade

Consumers	Business environment	Government
<ul style="list-style-type: none"> <li>• Lower-priced products</li> <li>• Greater availability or more convenient locations of illicit alcohol</li> <li>• Aspirational access to premium brands</li> <li>• Social acceptability of illicit trade</li> <li>• Limited knowledge about the risks of illicit alcohol and how to identify illicit beverages</li> <li>• Local customs and traditions, especially involving artisanal alcohol</li> </ul>	<ul style="list-style-type: none"> <li>• Price gap between licit and illicit alcoholic beverages</li> <li>• High excise taxes and excessive restrictions on licit alcoholic beverages</li> <li>• Availability of production inputs for alcoholic beverages</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate or partial regulations and laws about alcoholic beverages</li> <li>• Excessive regulations and restrictions on licit alcoholic beverages</li> <li>• Ineffective enforcement</li> <li>• Low penalties for activities related to illicit alcohol</li> <li>• Corruption</li> </ul>

In almost all cases, illicit trade in alcohol results in serious health risks to consumers, revenue loss, and brand degradation for legitimate manufacturers, as well as reduced tax revenue for governments. Health risks tend to affect the poorest and most vulnerable consumers by contributing to widening health inequalities.

Illicit trade in alcohol encompasses a wide variety of illegal activity that is typically characterized as:<sup>5</sup>

- **Contraband/Smuggled Alcohol:** Alcohol with original branding that has been illegally imported/smuggled into a jurisdiction and sold, evading tariffs/customs. This includes beverages brought across the border via organized smuggling or in excess of the applicable traveler's regulated allowance. Smuggling of alcoholic beverages mirrors the illicit tobacco market and petroleum fuels theft, where criminals move products across borders with the express purpose of evading the payment of excise duties or profiting from tax arbitrage by reselling product in higher tax markets.
- **Counterfeit Alcohol:** Fraudulent imitations of legitimate branded products, including refilling, falsification and tampering. These beverages infringe the intellectual property rights of legitimate producers and present brand reputational risk and potential liability. It is often produced in illicit factories and sometimes substitutes lower grade alcohol not intended for human consumption such as denatured ethyl alcohol.
- **Illicit Artisanal:** Alcoholic beverages produced following artisanal practices, including home production. Artisanal alcoholic beverages are considered illicit if they are produced for commercial purposes, and if their production and/or sale violate local law.
- **Tax Leakage:** Legally produced alcohol beverages on which the required excise tax is not paid in the jurisdiction of production.
- **Non-conforming Alcohol:** Products that are not compliant with production processes, guidelines, or labeling legislation. Includes products produced with industrial alcohol and products not meant for human consumption but diverted to the market for alcoholic beverages (i.e., pharmaceutical alcohol, mouthwash, perfume.)

## Impact of illicit trade in alcohol on achieving the UN Sustainable Development Goals

The illicit trade in alcohol impacts achievement of five SDGs:

- SDG 3 (good health and well-being);
- SDG 8 (decent work and economic growth);
- SDG 9 (industry, innovation and infrastructure);
- SDG 16 (peace, justice and strong institutions); and
- SDG 17 (partnerships for the goals).

## Ensuring healthy lives and promote well-being for all at all ages



Illicit alcohol is one of the worst forms of harmful consumption globally. As such, it is the target of the WHO global strategy to reduce the harmful use of alcohol, which calls for *inter alia* the regulation of sales of alcohol beverages informally produced, their inclusion in tax systems and the promotion of cooperation among national and international authorities to exchange relevant information on the fight against illicit alcohol. Bringing unregulated alcohol production into the regulated sector and tackling illicit alcohol is essential in supporting the WHO's whole-of-society response to the harmful use of alcohol.

SDG Targets 3.4 and 3.5 call on countries to “reduce by one third premature mortality from non-communicable diseases” and to “strengthen the prevention and treatment of substance abuse, including [...] harmful use of alcohol.”

Several categories of Illicit alcohol expose consumers to the “harmful use of alcohol” delineated in SDG Target 3.5, as well as to the “premature mortality from non-communicable diseases” delineated in SDG Target 3.4.

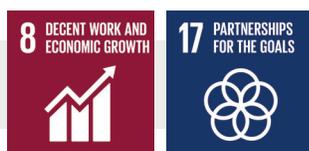
The main health risks associated with illicit trade in alcohol are created by counterfeit alcohol, fictitious brands and, to a lesser extent, home production.<sup>6</sup> These are all linked to the absence of controls in the manufacturing phase, which lead to end-products that do not comply with sanitary, quality and safety regulations. In addition, the unpredictable levels of ethanol and possible methanol content may have fatal health effects as seen in many countries like India, where in February 2019, more than 300 people died after consumption of illegally made country liquor tainted with methanol.

The presence of cheap illicit alcohol on the market may undermine government policies aimed at reducing the harmful consumption of alcohol. While smuggled original brands are unlikely to pose health issues that differ from those caused by legally traded products, readily available and lower-priced illegal alternatives drive consumption of lower quality alcohol products. Furthermore, as unrecorded alcohol is usually the least expensive form of alcohol available in many countries, it may contribute to higher rates of chronic and irregular heavy drinking.<sup>7</sup>

SDG Target 3.9 sets the objective of substantially reducing the number of deaths and illnesses from hazardous chemicals and includes the “mortality rate attributed to unintentional poisoning” as one of the key indicators to measure the achievement of this target. Again, certain types of illicit alcohol increase the health risks associated with its consumption. For example, the WHO has stressed the potentially detrimental effects on health posed by surrogate and home-produced alcohol due to contamination

with substances added either as a denaturant (methanol) or inadvertently introduced during home-production (ethyl carbamate).<sup>8</sup> The biggest problem may be caused by methanol additives, which have led to several outbreaks of acute poisoning.<sup>9</sup> These findings are corroborated by the World Customs Organization (WCO) seizure records, which show that “in many instances, these [illicit] products are produced using other, cheaper types of alcohol which can have serious adverse health effects. Commonly used substitutes for ethanol include chemicals used in cleaning fluids, nail polish remover and automobile screen wash, as well as methanol and isopropanol which are used in antifreeze and in some fuels.”<sup>10</sup>

## Decent work, economic growth and revenue collection



Illicit trade in alcohol undermines sustainable economic growth, full and productive employment and decent work for all (SDG 8), as it diverts income from the balance sheets of legitimate businesses. Unfair competition from illicit trade undermines their ability to create jobs and pay taxes. Lost corporate and personal income taxes, along with avoided excise duties, strips governments of income intended for public investment, with relatively more severe impacts on developing countries.

According to a multi-regional study by Euromonitor International, the fiscal loss to governments across 24 countries in Africa, Eastern Europe and Latin America is as much US\$3.6 billion every year.<sup>11</sup> The same study found that illicit alcohol, as a proportion of total alcohol consumed, was highest in Africa, followed by Eastern Europe and Latin America (40 percent, 27 percent, and 15 percent, respectively).<sup>12</sup>

Illicit alcohol is prevalent in both developed and developing countries, with no country immune to this threat. For example, the UK government lost £1.3 billion in excise tax revenue in the period 2015-16,<sup>13</sup> and Dutch authorities estimate the annual revenue losses from illicit trade in alcohol at €100 million.<sup>14</sup> Liquor bootlegging in New York City alone is estimated to have cost the city US\$1 billion in lost taxes over the past 15 years.<sup>15</sup> A 2016 report by the EU Intellectual Property Office (EUIPO) shows that legitimate industries in the EU lose €1.3 billion of revenue annually due to the production of fake spirits and wine, corresponding to 3.3 percent of the sectors' sales. If the knock-on effects on other industries and on government revenue are added, this leads to a loss of €1.2 billion in government revenues, of which €739 million are excise duties, and a loss of 23,400 jobs.<sup>16</sup>

For developing countries, widespread smuggling and local production of illicit and counterfeit alcoholic drinks can have a particularly debilitating effect on efforts to improve domestic resource mobilization (SDG Target 17.1), by denying the government a significant source of potential tax income.

- Fake and unlicensed alcoholic products in Kenya are estimated to be 30 percent<sup>17</sup> of the market and include the use of fake Kenya Revenue Authority (KRA) stamps to evade taxes. The illicit products have led to government losses of billions of shillings in unpaid taxes.<sup>18</sup>
- Myanmar's government lost US\$50 million in tax to beer smugglers in 2016, with up to 30 percent of all the beer sold in the country illegally imported.<sup>19</sup>
- The national health authority in Mexico has seized more than 1.4 million gallons of adulterated alcohol since 2010—ranging from small local establishments to large hotels and other entertainment areas, according to a 2017 report by the country's Federal Commission for Protection against Health Risks.<sup>20</sup> As much as 36 percent of the alcohol consumed in the country is illegal, according to a 2017 report by Euromonitor International.<sup>21</sup>

Generally, illicit alcohol trade promotes informality, prevents small business from building legal operations and frustrates integration in the mainstream economy.

## Industry, innovation and infrastructure



According to SDG 9.5, countries are expected to “enhance scientific research [...] including, by 2030, encouraging innovation and substantially increasing the number of research and development workers [...]” Legitimate alcohol companies spend a lot of time and money in developing a product and protecting their intellectual property through patents, copyrights, design rights and trademarks. This investment is undermined by counterfeiters copying legal brands which can have a highly adverse effect on investment into scientific research and the industrial growth of the market. Unless intellectual property is protected, innovation and technology development will not be properly incentivized, consequently undermining industrialization and sustainable economic development.

In addition, illicit players worldwide take advantage of distribution channels that are unregulated or poorly regulated, which in turn undermines the security and efficiency of supply chain infrastructure. Historically, illicit alcoholic beverages were more likely to be found in informal channels, such as street stalls, traditional markets, or small independent stores that did not pay all the required taxes. However, the distribution landscape has become increasingly complex because of globalization and technological developments.

## Peace, justice and strong institutions



SDG Target 16.4, calls on countries to “combat all forms of organized crime.” The involvement of organized criminal groups (OCGs) in illicit trade in alcohol has been well documented in a number of countries.<sup>22</sup> Furthermore, experts note that “drug markets have a resemblance to counterfeit alcohol markets in that they share the illicit nature of the product and the need to distribute the product at the ‘street’ level.”<sup>23</sup> This is evident when viewing criminal activities in terms of *source*, *transit*, and *market*,<sup>24</sup> where the transit stage functions as a middle market.

In light of this, and despite the complex and varying nature of operating models employed by OCGs, middle market operations play a crucial role in the criminal supply chain. In the context of illicit markets including *inter alia* antiquities,<sup>25</sup> drugs,<sup>26</sup> and alcohol,<sup>27</sup> the middle market displays strong criminal tendencies as networks of criminal groups operate to facilitate illicit flows. To exemplify this, the middle market functions as a ‘bridging node’ which is able to facilitate the purchase and movement of illicit alcohol from one network to another.<sup>28</sup> And while illicit trade in alcohol can be carried out by single individuals, there is clear evidence suggesting that large-scale production and smuggling operations are carried out by OCGs.

For example, OCGs in the UK appear to be active in all stages of the supply chain, “from the suppliers to those holding goods in duty suspense, haulers, excise warehouses, lock-ups and cash-and-carry stores, corner shops and other outlets.”<sup>29</sup> In this regard, the structure of counterfeit alcohol markets relies on actors capable of developing networks of commercial collaborators, who by virtue of their position are able to conceal their illicit actions.<sup>30</sup>

SDG Target 16.5 also demands that countries “substantially reduce corruption and bribery in all their forms.” The available literature links illicit trade in all its forms—including alcohol—to corruption in law enforcement, customs and tax collection.<sup>31</sup>

On the other hand, in many developing countries, illicit trade is often socially accepted.

In some countries, consumers do not consider buying illicit alcohol to be a serious crime. On the contrary, these consumers perceive these purchases to be good deals. In these situations, there is insufficient social pressure to dissuade them from participating in the illicit alcohol trade. Consumers in countries with widespread corruption may be particularly willing to purchase illicit products they know full well are illicit because they are so accustomed to illicit activity being a part of their society.

Consequently, illicit trade in alcohol can provide a significant and steady source of income that perpetuates the viability of OCGs, subsidizes further criminal activity, and drives corruption in public institutions and local societies.

### **Case study: DIAGEO**

The legitimate alcohol sector has taken a number of initiatives that support delivery of the SDGs, including through their partnerships with the agriculture industry in developing economies. One example of this engagement is Diageo, a company that is committed to sourcing raw materials from local agri-business, thereby promoting the development of sustainable local value chains and supporting farmers to develop economically, environmentally and socially sustainable farming practices.

Diageo has pledged to source 80 percent of its raw materials locally in Africa by 2020, including direct sourcing of sorghum, barley and maize. In some countries these programs go beyond supporting the local agri-business and are targeted to have a direct impact on the illicit alcohol market. In Kenya during the 1990's a series of tax increases aimed at reducing alcohol consumption and raising revenue saw the legal alcohol market shrink from around 400 million litres in 1991 to about 240 million litres in 2001. By 2003 the illicit alcohol market was estimated to be around 56 percent of total alcohol consumption and was still growing.

In response, Diageo developed a new beer called Senator Keg, aimed at lower income consumers, and priced as an affordable alternative to illicit alcohol. Diageo was supported by the Kenyan Government through an excise tax remission which meant the new product was commercially viable and Diageo was able to launch Senator Keg at a price only slightly higher than local illicit spirits.

By 2013, Senator Keg had brought a range of socio-economic and commercial benefits. These included employment of over 12,000 sorghum farmers, KSH 1.5 billion in VAT revenues and a fall in illicit alcohol to around 50%. However, products such as Senator Keg aimed at drawing consumers away from cheap illicit alcohol are highly price sensitive, and this was demonstrated in 2013 when the level of tax remission in Kenya was reduced from 100 to 50 percent. The impact was an 86 percent fall in Senator Keg volumes. Following the collapse of volumes in 2013, many partners in the distribution chain withdrew from Senator Keg sales. Some stopped trading, others resorted to illicit brew or selling cheap spirits. The number of outlets fell from a high of 12,900 at the beginning of 2013 to a low of 6,750 by the end of the year. Critically the market for sorghum dropped and with it the loss of income for thousands of local farmers.

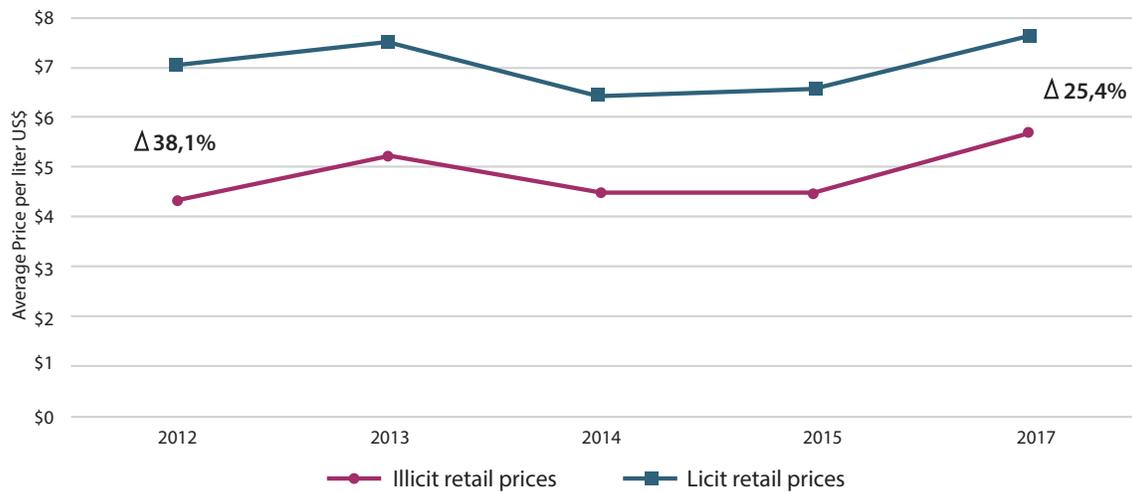
In 2015, the remission was increased again to 90 percent which allowed Diageo to reduce the price, leading to an immediate increase in volumes, tax remittances, farmer and retailer recruitment and capital investment in the sorghum growing areas: The increased volumes led to increased demand for local sorghum from 2,060 metric tons in 2015 to 21,500 metric tons in 2016. The number of contracted farmers increased from a low of 2,500 in 2015 to 30,000 in 2016, and farmer revenues increased from KSH 67 million in 2015 to KSH 709 million in 2016, an increase of 1,043 percent. Following the return of the remission, the number of outlets had risen to 13,500. The return of the remission saw the creation of over 98,000 direct jobs throughout the value chain.

In 2017 Diageo announced that it was investing KSH 15 billion in a new Senator Keg brewery in Kisumu that is intended to make further inroads into the illicit alcohol market and bring over 110,000 direct and indirect jobs throughout the supply chain. The brewery opened earlier this year with the benefits already being realised.

## Case study: AB InBev – Peru

In the last 5 years, the illicit alcohol market has decreased from 31 to 26 percent of the total alcohol market. At the same time, the difference between the prices of licit and illicit alcoholic beverages in Peru has narrowed significantly from 38 to 25 percent.

### Peru – Illicit alcohol market Price Evolution 2012 – 2017 (US\$) per LAE (liter of alcohol equivalent)



Source: Euromonitor International

Elements of the strategy initiated by AB InBev in 2011, in partnership with governmental authorities and a public-private sector coalition against illicit alcohol include:

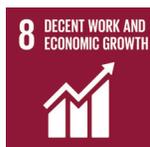
- An increased awareness in the population on the health risk of consuming this type of beverages. This is proven by the decreased consumption of artisanal illegal alcohol and alcohol not suitable for human consumption in the last 7 years.
- There is a growing interest in formalizing the producers of artisanal alcoholic beverages, which seeks to legalize the consumption of these traditional beverages, which are of great importance to Peruvians.
- Customs authorities are stricter in the importation processes, especially in documentary control and physical verification of merchandise, especially in Puerto de Callao, which makes it difficult to smuggle illicit alcohol across borders.
- Continuous coordination and follow up has been successful thanks to the Multisectorial Technical Table Against Illicit Alcohol, where initiatives are being developed for the implementation of regulations against illegal alcoholic beverages.
- Improvements in ethanol regulation and control.
- Incorporation of inputs such as sugarcane and ethanol into the VAT deduction system to avoid tax evasion and hinder the action of illegality by increasing their costs.

## CONCLUSIONS



3 GOOD HEALTH AND WELL-BEING

Hazardous ingredients and unsanitary production expose consumers to health risks.



8 DECENT WORK AND ECONOMIC GROWTH

GDP, jobs and tax revenues are drained from economies and limit public investment, with relatively more severe impacts on developing countries.



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Unless intellectual property is protected, innovation and technology development will not be properly incentivized, consequently undermining industrialization and sustainable



16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Illicit trade in alcohol provides a significant and steady source of revenue that perpetuates the viability of OCGs, subsidizes further criminal activity, and drives corruption in public institutions and social unrest in local communities.



17 PARTNERSHIPS FOR THE GOALS

Widespread illicit trade in alcohol has a debilitating effect on efforts to improve domestic resource mobilization by denying the government a significant source of potential tax income.

## IMPLICATIONS AND NEXT STEPS

The sweeping, negative impacts of illicit trade on the SDGs point to a wide range of challenges for both governments and business. Hence, it will be expedient to:

**Attend to developing and least developed countries.** The alarming consequences of illicit trade are especially evident in developing countries hard-pressed to monetize resources, commercialize innovation, attract investment, establish lasting job opportunities and create genuine, long-term economic growth. As such, it will be critical to support the capabilities of developing countries to better defend against illicit trade by *inter alia* taking stock of national government experiences, challenges, priorities and requests for assistance while also identifying where “in-country” efforts would be most valuable and most effective.

**Account for the interconnected nature of the challenge.** As noted by the UN, the SDGs are integrated and indivisible in nature with significant inter-linkages across the goals and targets. Ending poverty, for example, must go hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, job opportunities and environmental stewardship. By the same token, a holistic approach is needed to address the significant number of interdependencies and overlapping problems relating to multiple forms of illicit trade. The impacts of illicit trade cannot be examined effectively in isolation of other sectors, nor can they be addressed in isolation of the SDGs.

**Promote shared responsibility.** Improving public-private dialogue and promoting partnerships will be needed to address the global nature of illicit trade. Public and private actors can play an important role in determining a responsive, evidence-based work program for addressing illicit trade, including delineation of best practices, and, where applicable, development of regulatory standards.

**Prioritize the policy response.** The findings from this study demonstrate that illicit trade is a significant deterrent to achieving the SDGs. As governments go about formulating policies and implementing programs to achieve the SDGs, a first order consideration should be to reduce the deterrent forces of illicit trade and plug the fiscal leakages associated with it. This approach has the immediate effect of adding resources and revenues back into the global economy, putting more policy tools back on the table, and reducing timelines, costs and other hurdles to achieving the goals. Consequently, a more level playing field, without the economic drags of illicit trade, can improve the efficiency and effectiveness of policies and programs governments are taking to stimulate growth, employment and investment to achieve the SDGs.

**Foster political will and leadership.** Addressing the threat of illicit trade on the SDGs will require political will of government officials at all levels to prioritize the problem, actively pursue solutions and invest in enforcement measures. This study provides a first step in raising awareness on the threat of illicit trade on achieving the SDGs. The work also serves as a roadmap to help policy makers identify areas that merit greater attention and to formulate effective strategies to address the serious threats posed by illicit trade.

## NOTES

<sup>1</sup> Euromonitor International. (2018). *Size and Shape of the Global Illicit Alcohol Market*. London: Euromonitor International. Available at: [https://www.tracit.org/uploads/1/0/2/2/102238034/illicit\\_alcohol\\_-\\_white\\_paper.pdf](https://www.tracit.org/uploads/1/0/2/2/102238034/illicit_alcohol_-_white_paper.pdf)

<sup>2</sup> Unrecorded alcohol is alcohol not reflected in official statistics of the country of production, the country of consumption or both.

<sup>3</sup> World Health Organization. (2018). *Global status report on alcohol and health 2018*. Geneva: World Health Organization. Available at: <http://apps.who.int/iris/bitstream/handle/10665/274603/9789241565639-eng.pdf?ua=1>

<sup>4</sup> EUIPO. (2016). *The economic cost of IPR infringements in spirits and wine*. Alicante: European Union Intellectual Property Office.

<sup>5</sup> International Alliance for Responsible Drinking. (2016). *Policy Review: Unrecorded Alcohol*. Washington, DC: The International Alliance for Responsible Drinking. Available at: <http://www.iard.org/wp-content/uploads/2016/01/PR-Unrecorded.pdf>

<sup>6</sup> OECD. (2016). *Illicit Trade: Converging Criminal Networks*. Paris: OECD Publishing.

<sup>7</sup> Rehm, J., Kailasapillai, S., Larsen, E., Rehm, M. X., Samokhvalov, A. V., Sheild, K. D., Roerecke, M., & Lachenmeier, D. (2014). A systematic review of the epidemiology of unrecorded alcohol consumption and the chemical composition of unrecorded alcohol, *Addiction*, 109 (6), 880-893.

<sup>8</sup> WHO Regional Office for Europe. (2009). *Evidence for the effectiveness and cost-effectiveness of interventions to reduce alcohol-related harm*. Copenhagen: WHO Regional Office for Europe. Available at: [http://www.euro.who.int/\\_\\_data/assets/pdf\\_file/0020/43319/E92823.pdf?ua=1](http://www.euro.who.int/__data/assets/pdf_file/0020/43319/E92823.pdf?ua=1)

<sup>9</sup> Lachenmeier, D. W. (2012). *Unrecorded and Illicit Alcohol*. n.p.: WHO/Europe. Available at: [http://www.euro.who.int/\\_\\_data/assets/pdf\\_file/0020/191360/2-Unrecorded-and-illicit-alcohol.pdf](http://www.euro.who.int/__data/assets/pdf_file/0020/191360/2-Unrecorded-and-illicit-alcohol.pdf)

<sup>10</sup> WCO. (2016). *Illicit Trade Report 2015*. Brussels: World Customs Organization. Available at: [http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/enforcement-and-compliance/activities-and-programmes/illicit-trade-report/itr\\_2015\\_en.pdf?db=web](http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/enforcement-and-compliance/activities-and-programmes/illicit-trade-report/itr_2015_en.pdf?db=web)

<sup>11</sup> Euromonitor International. (2018). *Size and Shape of the Global Illicit Alcohol Market*. London: Euromonitor International. Available at: [https://www.tracit.org/uploads/1/0/2/2/102238034/illicit\\_alcohol\\_-\\_white\\_paper.pdf](https://www.tracit.org/uploads/1/0/2/2/102238034/illicit_alcohol_-_white_paper.pdf)

<sup>12</sup> Euromonitor International. (2018). *Size and Shape of the Global Illicit Alcohol Market*. London: Euromonitor International. Available at: [https://www.tracit.org/uploads/1/0/2/2/102238034/illicit\\_alcohol\\_-\\_white\\_paper.pdf](https://www.tracit.org/uploads/1/0/2/2/102238034/illicit_alcohol_-_white_paper.pdf)

<sup>13</sup> HMRC. (2017). *Measuring tax gaps 2017 Edition*. n.p.: HM Revenue and Customs. p. 32. Available at: <https://www.gov.uk/government/statistics/measuring-tax-gaps>

<sup>14</sup> OECD. (2016). *Illicit Trade: Converging Criminal Networks*. OECD Publishing: Paris. p. 228.

<sup>15</sup> Elstein, A. (2016, November 12). High taxes and limited enforcement have New York City awash in illegal booze and cigarettes. *Crain's New York Business*. Available at: <http://www.craigslist.com/article/20161113/SMALLBIZ/161119958/new-york-city-is-awash-in-illegal-booze-and-cigarettes-thanks-to-bootlegging-as-high-taxes-and-limited-enforcement-on-alcohol-and-cigarette-sales-make-the-state-prime-for-bootlegging>

<sup>16</sup> EUIPO. (n.d.). *Spirits and wine sector*. Available at: [https://euipo.europa.eu/ohimportal/en/web/observatory/ipr\\_infringement\\_wines\\_and\\_spirits](https://euipo.europa.eu/ohimportal/en/web/observatory/ipr_infringement_wines_and_spirits)

<sup>17</sup> Kamau, M. (2017, November 21). Counterfeit and illicit alcoholic drinks back on the shelves. *The Standard*. Available at: <https://www.standardmedia.co.ke/business/article/2001260841/illicit-alcoholic-drinks-back-on-the-shelves>

<sup>18</sup> CapitalNews. (2018, January 17). President Uhuru Kenyatta petitioned over illicit liquor racket. *CapitalNews*. Available at: <https://www.capitalfm.co.ke/news/2018/01/president-uhuru-kenyatta-petitioned-illicit-liquor-racket/>

<sup>19</sup> Euromonitor. (2018). *Alcoholic Drinks in Myanmar*. London: Euromonitor International. Available at: <http://www.euromonitor.com/alcoholic-drinks-in-myanmar/report>; Myo Pa Pa San. (2017, November 24). Myanmar Govt Lost \$50 million in Tax to Beer Smugglers in 2016. *The Irrawaddy*. Available at: <https://www.irrawaddy.com/news/burma/myanmar-govt-lost-50-million-tax-beer-smugglers-2016.html>

<sup>20</sup> Comisión Federal para la Protección contra Riesgos Sanitarios. (n.d.). *Sistema Federal Sanitario suma acciones en favor de la salud*. Available at: <https://www.gob.mx/cofepris/prensa/113399>

<sup>21</sup> Gajanan, M. (2017, August 15). 10,000 Gallons of Tainted Alcohol Were Seized From Mexican Resorts. *Time*. Available at: <http://time.com/4900991/mexican-resort-alcohol/>

- <sup>22</sup> Australia: Fitts, M. S. et. al. (2017). 'Sly grog' and 'homebrew': a qualitative examination of illicit alcohol and some of its impacts on Indigenous communities with alcohol restrictions in regional and remote Queensland (Australia). *BMC Research Notes*, 10 (1), 360.;
- China: Shen, A. and Antonopoulos, G. A. (2016). 'No banquet can do without liquor': alcohol counterfeiting in the People's Republic of China. *Trends in Organized Crime*, 20 (3), 273-295.
- Estonia: Lang, K. (2007). The Composition of Surrogate and Illegal Alcohol Products in Estonia. *Alcohol and Alcoholism*, 41 (4), 446- 450.
- Europe: Lord, N. et. al (2017). A script analysis of the distribution of counterfeit alcohol across two European jurisdictions. *Trends in Organized Crime*, 20 (3-4), 252-272.
- Israel: Shapira, B. et. al (2018). The methanol content of illicit alcoholic beverages seized in a low socio-economic area of Tel-Aviv: public health impact and policy implications. *Journal of Public Health*, 27 (1), 1-6.
- Russia: Kotelnikova, Z. (2017). Explaining Counterfeit Alcohol Purchases in Russia. *Alcoholism: Clinical and Experimental Research*, 41 (4), 810-819.
- Tatarstan Republic: Karatayev, O. R. (2015). Dynamics of counterfeit alcohol and tobacco goods in the Tatarstan Republic Market. *Actual Problems of Economics and Law*, 9 (4), 123-130.
- <sup>23</sup> Spencer, J. et. al. (2018). 'C' is for commercial collaboration: enterprise and structure in the 'middle market' of counterfeit alcohol distribution. *Crime, Law and Social Change*, 70 (5), 1-18.
- <sup>24</sup> Mackenzie, S. (2011). The Market as Criminal and Criminals in the Market: Reducing Opportunities for Organised Crime in the International Antiquities Market'. In S. Manacorda and D. Chappell (Eds.), *Crime in the Art and Antiquities World: Illegal Trafficking in Cultural Property* (pp. 69-85). New York: Springer.
- <sup>25</sup> Yates, D. (2016), The Global Traffic in Looted Cultural Objects. In Rafter, N. and Carribine, E. (Eds.), *The Oxford Encyclopedia of Crime, Media, and Popular Culture*. Oxford: Oxford University Press.
- <sup>26</sup> Bagley, B. M. & Rosen, J. D. (2016). *Drug trafficking, organized crime, and violence in the Americas today*. Gainesville: University Press of Florida.
- <sup>27</sup> Bellotti, E., Lord, N., Spencer, J. and Benson, K. (2018). Counterfeit Alcohol Distribution: a Criminological Script Network Analysis. *European Journal of Criminology*. Available at: <https://doi.org/10.1177/1477370818794870>
- See also: Lord, N., Spencer, J., Benson, K., and Belotti, E. (2017). A Script Analysis of the Distribution of Counterfeit Alcohol across Two European Jurisdictions. *Trends in Organised Crime*, 20 (3-4), 252-272.
- <sup>28</sup> Spencer, J. et. al. (2018). 'C' is for commercial collaboration: enterprise and structure in the 'middle market' of counterfeit alcohol distribution. *Crime, Law and Social Change*, 70 (5), 1-18.
- <sup>29</sup> Ellis, C. (2017). *On Tap Europe - Organised Crime and Illicit Trade in Tobacco, Alcohol and Pharmaceuticals*. London: Royal United Services Institute (RUSI)
- <sup>30</sup> Spencer, J. et. al. (2018). 'C' is for commercial collaboration: enterprise and structure in the 'middle market' of counterfeit alcohol distribution. *Crime, Law and Social Change*, 70 (5), 1-18.
- <sup>31</sup> OECD. (2017). *Global Trade without Corruption: Fighting the Hidden Tariff*. Paris: OECD Publishing; OECD. (2016). *Illicit Trade: Converging Criminal Networks*. Paris: OECD Publishing.

<b>AGRI-FOODS</b>		1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	8 DECENT WORK AND ECONOMIC GROWTH	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	16 PEACE, JUSTICE AND STRONG INSTITUTIONS				
<b>AGROCHEMICALS AND PESTICIDES</b>		1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	6 CLEAN WATER AND SANITATION	8 DECENT WORK AND ECONOMIC GROWTH	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	
<b>ALCOHOL</b>		3 GOOD HEALTH AND WELL-BEING	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS					
<b>COUNTERFEIT AND PIRACY</b>		1 NO POVERTY	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	6 CLEAN WATER AND SANITATION	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	
<b>FORESTRY</b>		1 NO POVERTY	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS			
<b>IUU FISHING</b>		1 NO POVERTY	2 ZERO HUNGER	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES	14 LIFE BELOW WATER	16 PEACE, JUSTICE AND STRONG INSTITUTIONS				
<b>PETROLEUM</b>		3 GOOD HEALTH AND WELL-BEING	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS	
<b>PHARMACEUTICALS</b>		1 NO POVERTY	3 GOOD HEALTH AND WELL-BEING	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	16 PEACE, JUSTICE AND STRONG INSTITUTIONS			
<b>PRECIOUS METALS AND GEMSTONES</b>		1 NO POVERTY	3 GOOD HEALTH AND WELL-BEING	6 CLEAN WATER AND SANITATION	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY INNOVATION AND INFRASTRUCTURE	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
<b>TOBACCO</b>		3 GOOD HEALTH AND WELL-BEING	8 DECENT WORK AND ECONOMIC GROWTH	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS						
<b>TRAFFICKING IN PERSONS</b>		3 GOOD HEALTH AND WELL-BEING	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES	16 PEACE, JUSTICE AND STRONG INSTITUTIONS					
<b>TRAFFICKING IN WILDLIFE</b>		1 NO POVERTY	2 ZERO HUNGER	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS				