

# Illicit Trade in Alcohol in India

## Challenges and Solutions



A Briefing by the Transnational Alliance to Combat Illicit Trade

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September 2019

### **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.

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## Introduction

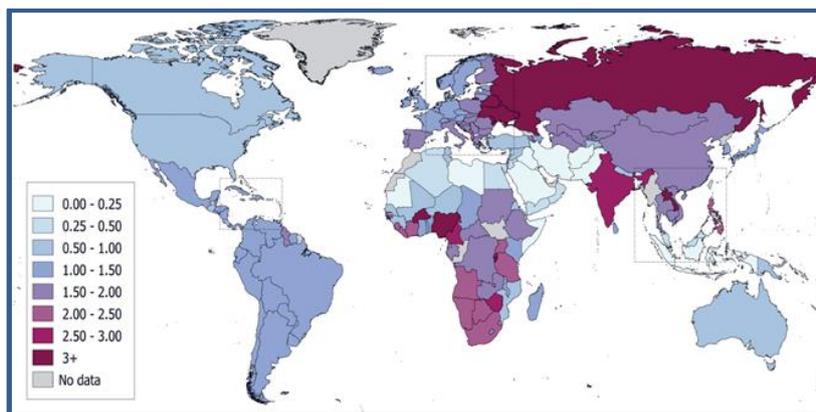
Illicit trade in alcohol is a worldwide problem, representing significant percentages of alcoholic beverage consumption. According to Euromonitor's 2018 Global Study on Illicit Alcohol, 1 in 4 alcohol bottles are illicit, representing 25.8% of all global consumption.<sup>1</sup> These findings correspond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

In India, the situation is worse: unrecorded alcohol can account for as much as 45% of all consumed alcohol in India. A recent report by the International Alliance for Responsible Drinking (IARD) reported wide variation in the levels of consumption across diverse survey areas in India, ranging from large cities to rural communities. Estimates from IARD suggest unrecorded alcohol to account for 40 to 77% of total consumption.<sup>4</sup>

Deaths caused by illicit alcohol poisoning is a shocking and regular occurrence in India. Fatalities are reported every year, but 2019 was punctuated by two of the country's worst illicit alcohol tragedies in recent times. In February, illicit alcohol consumption in Assam led to 150 deaths and 200 injuries, and later that month, another 100 people from Uttar Pradesh and Uttarakhand died from consuming tainted alcohol. These deaths were reportedly due to the consumption of cheap locally made illicit alcohol which is common to many parts of the country. Globally, toxic forms of illicit alcohol took many more lives this year in Turkey, Costa Rica and highly publicized cases in the Dominican Republic.

Taking these disparate tragedies together, it is critical that steps are taken to increase consumer awareness to prevent situations where more lives are lost.

### 1: Size and shape of the global illicit alcohol market



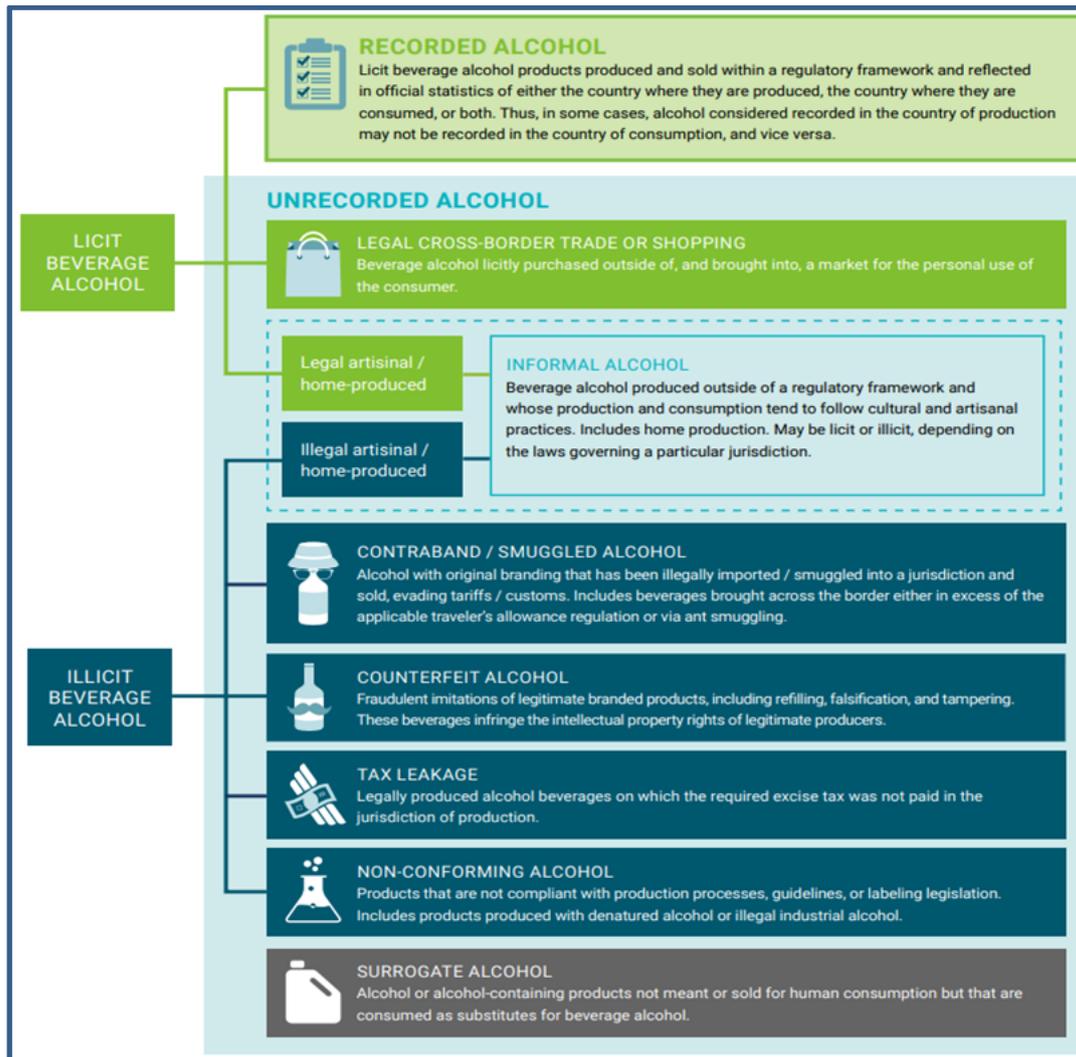
*Liters of pure unrecorded alcohol consumed per capita in 2015. Source: Journal of Global Health*

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% of all global consumption.<sup>5</sup> These findings correspond to World Health Organization (WHO) estimates that unrecorded alcohol accounts for 25.5% of total worldwide adult alcohol consumption and is projected to increase to 27.7% in 2020.<sup>6</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.

### Types of illicit alcohol

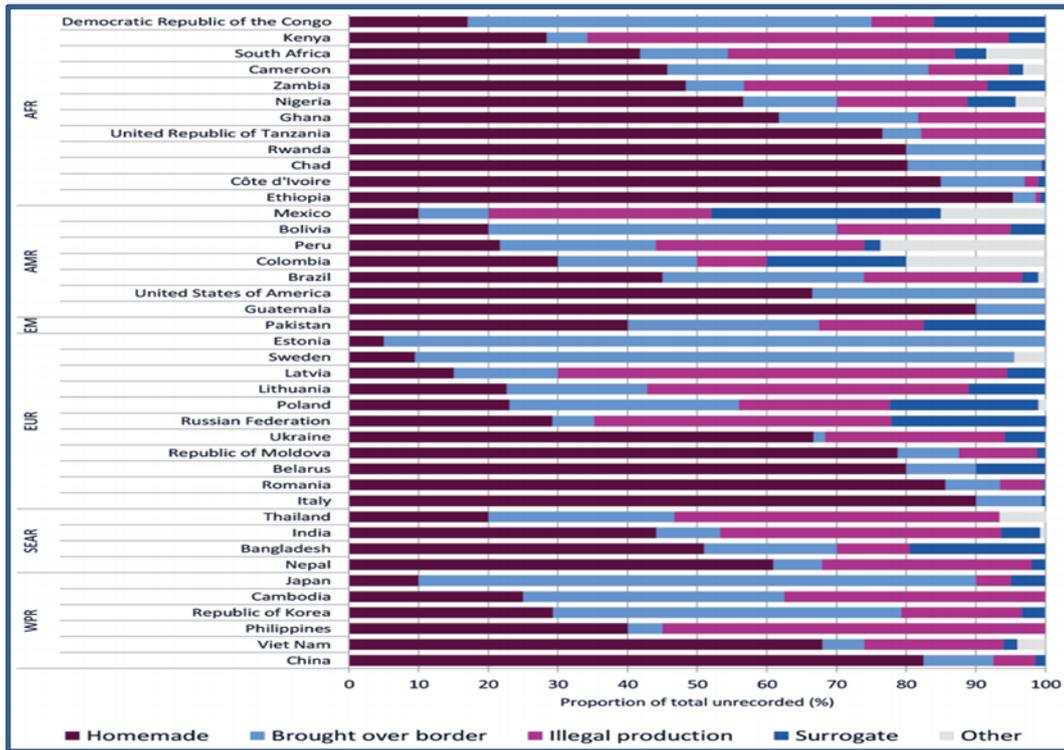
The landscape of illicit alcohol is varied and complex. These products can range from homemade artisanal beverages<sup>7</sup> sold without manufacturing/ trading licenses or proper sanitary permits to counterfeits, fakes and legitimately branded bottles of alcohol smuggled



Source: International Alliance for Responsible Drinking

illegally into a country.<sup>8</sup> Illicit alcohol is comprised within the umbrella of unrecorded alcohol – which constitutes a substantial portion of the total alcohol consumption per capita among adults. Unrecorded alcohol refers to alcohol that is not accounted in official statistics on alcohol taxation or sales in the country where it is consumed. This is because it is usually produced, distributed and sold outside the formal channels under government control.

In a study recorded in the Journal of Global Health, the sources of unrecorded alcohol in 41 countries were examined (see image below). In 18 of the 41 countries, homemade alcohol was the source of over one-half of the unrecorded alcohol consumed; however, the relative importance of the sources varied by country. For example, in Japan, Sweden, and Estonia, cross-border shopping was responsible for 80% or more of the unrecorded alcohol consumed while homemade production was less than 10%. In India, homemade alcohol and illegal production was the primary concern, while smuggling and surrogates were only a small part of the problem.<sup>9</sup>



Source: Journal of Global Health

### Health risks

The recent alcohol related deaths in India, Turkey, Costa Rica and the Dominican Republic are tragic. Collectively, over 300 lives were lost to toxic forms of illicit alcohol – and several hundreds more were hospitalized. These countries are not alone; in the last few years incidences arising from consumption of illegal alcohol were also reported in Indonesia, Malaysia, Spain, Norway, Ecuador, Czech Republic, Russia and Libya.

Illicit alcoholic beverages present health risks to consumers primarily because they are unregulated and not subject to the stringent requirements and quality standards of legally produced beverages. In many instances, these products are produced using toxic compounds including cheaper or toxic types of alcohol which can have serious adverse health effects. Illicit operators, for example, add ethanol to increase the potency and this may cause alcohol poisoning resulting in liver damage, kidney failure and cancer. Substitutes for ethanol are also used in the production process which can include chemicals used in cleaning fluids, nail polish

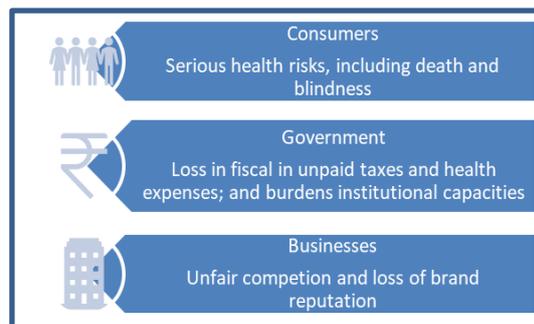
remover and automobile screen wash. These products are often laced with methanol and isopropanol (i.e., components of antifreeze) – which if consumed can lead to serious injuries including blindness and death. Moreover, manufacturing facilities are often beyond the reach of health and safety inspectors, and production methods are unsanitary including the use of contaminated water.<sup>10</sup>

Health risks are more prevalent in countries where illicit alcohol consumption is from artisanal beverages, counterfeit/ unregistered brands, and surrogate products. On the other hand, fiscal risks are higher in countries with a greater presence of tax leakage or smuggling.<sup>11</sup> These cost national governments excise revenues in unpaid taxes and increased expenditure on public health care.

## Fiscal risks

Lost corporate and personal income taxes, along with avoided excise duties, strip 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>12</sup>

- The UK government lost £1.3 billion in excise tax revenue in the period 2015-16.<sup>13</sup>
- Dutch authorities estimate the annual revenue losses at €100 million.<sup>14</sup>
- Bootlegging in New York City is estimated at 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% 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 by denying the government a significant source of potential tax income.

- Fake and unlicensed alcoholic products in Kenya are estimated to be 30% of the market and include the use of fake Kenya Revenue Authority (KRA) stamps to evade taxes.<sup>17</sup> 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% of all the beer sold in the country being imported illegally.<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% of the

alcohol consumed in the country is illegal, according to a 2017 report by Euromonitor International.<sup>21</sup>

## **2: Illicit trade in alcohol in India**

### **Scale of the problem in India**

According a 2018 study by the World Health Organization, unrecorded alcohol amounts up to 45% of all consumed alcohol in India.<sup>22</sup> A recent systematic review of studies on unrecorded alcohol observed by the International Alliance for Responsible Drinking (IARD) noted wide variation in the levels of consumption across diverse survey areas in India, ranging from large cities to rural communities. Estimates suggest unrecorded alcohol to comprise between 40% and 77% of total consumption.<sup>23</sup>

Deaths caused by illicit alcohol poisoning is a shocking and regular occurrence in India. Fatalities are reported across the country every year. In late February 2019, local media reported one of the worst illicit alcohol tragedies resulting in 150 deaths and 200 injuries from illicit alcohol consumption in Assam. In the same month, approximately 100 people from Uttar Pradesh and Uttarakhand died from consuming tainted alcohol. These deaths were reportedly due to the consumption of cheap locally made liquor which is common to many parts of the country.

In addition to health risks, losses to business in India, in the form of sales and market size, has increased significantly from Rs. 5,626 crores in 2012 to Rs. 14,140 crores in 2014. Associated government tax losses are equal to Rs. 6,309 crores in 2014.<sup>24</sup>

These numbers are suggestive of the complex nature of the illicit alcohol market in India which is further exacerbated by the massive size of the country, the federal structure, diverse drinking patterns, the varied regulatory structure and regional nuances and traditions that characterize the alcohol market.

### **Enablers of illicit alcohol in India**

#### **Consumer awareness and perception**

Criminals often use various methods to make their products appear legitimate, including refilling branded bottles with illicit alcohol, using counterfeiting packaging or forged tax stamps and selling together a mix of legal and illicit alcoholic beverages. Consequently, consumers are often unaware when they purchase illicit alcohol.

Consumers may also perceive illicit alcohol to have few or no health risks. For example, in some regions, consumption of these products is socially acceptable with consumers from low-income groups actually preferring to purchase cheap, high potency illicit alcohol in the place of (unaffordable) licit counterparts.<sup>25</sup> Moreover, Illicit alcohol is also not subject to restrictions around legal purchase age, so it may also be attractive to youth below the legal drinking age.

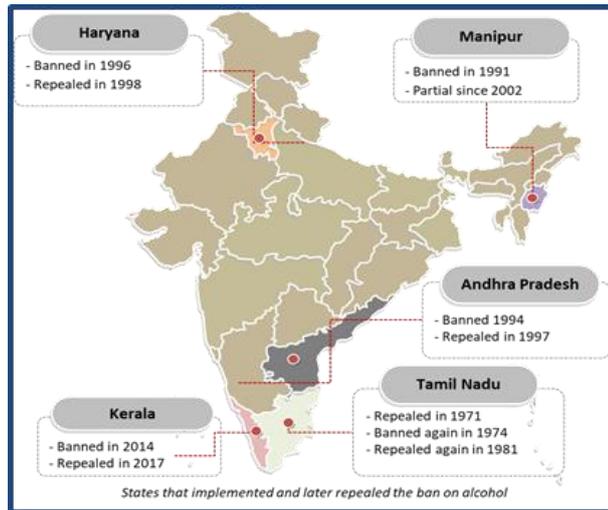
#### **Prohibition**

Laws related to alcohol in India vary from state to state and range from strict regulations guarding the manufacture and sale to outright prohibition. The states of Gujarat, Bihar, Nagaland and most recently, Mizoram and the union territory of Lakshadweep have banned consumption of alcoholic beverages. Several other states have previously imposed a ban on

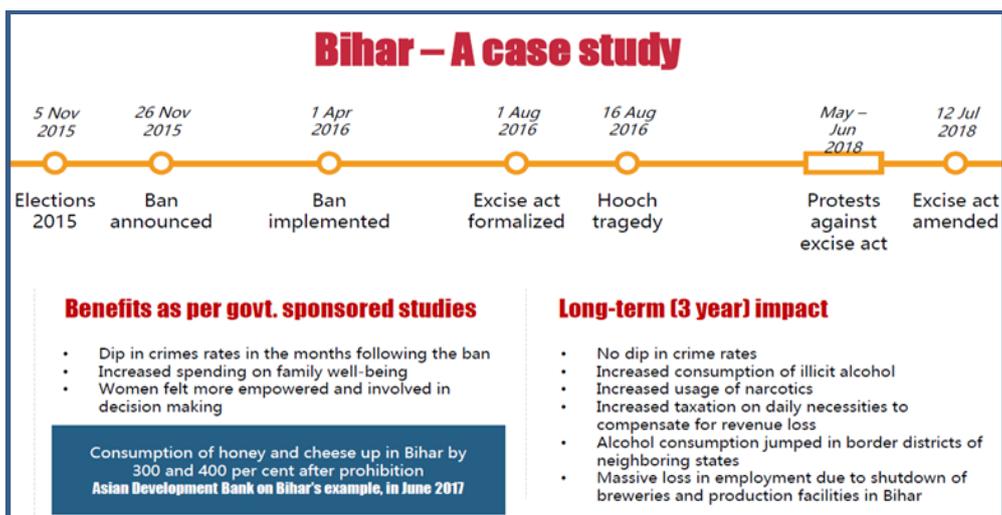
alcohol and then later repealed the law upon finding that it did not either curb the sale of alcohol or largely benefit the state.

In any case, bans and prohibitions on alcohol (and other products) are largely understood to drive consequent markets for illicit products and thereby exposing consumers to unregulated, potentially toxic substances with high potency.<sup>26</sup> For example, although alcohol is banned in Gujarat, bootlegging is rampant and high incidences of health issues and deaths continue to be reported.

Other states are experiencing similar problems, where the ban of alcohol consumption has catalyzed the growth of illegal, underground alcohol markets and smuggling across state borders.<sup>27</sup> Estimates suggest that in the first year of an alcohol ban in the state of Bihar, approximately Rs. 4000 crores worth of alcohol was smuggled across borders. The ban also promoted alcohol sales (licit and illicit) in neighboring states.<sup>28</sup>



Clandestine activities to circumvent alcohol prohibition and bans also results in huge excise loss for state governments, strains institutional capacities and creates greater expenditure to enforce and monitor the ban. For example, in one year, the state of Bihar lost approximately Rs. 5000 crores in tax revenue; and instead of being a deterrent to crime, the liquor ban increased crime rates. Cognizable Offences (where an arrest can be made without a warrant) in the state rose by 13% in six months to 16,153 cases in October 2016 from 14,279 in April 2016.<sup>29</sup> Recognizing the unintended consequences of the ban, the Bihar government recently relaxed the stringent rules on prohibition.



Source: Moderation – White Paper, AB InBev

### Availability

Heavy controls and onerous rules on the availability and sale of legal and branded alcohol (e.g. severe restrictions around legal outlets or licensing hours) tend to displace consumption and move it into the illicit market, thereby increasing its availability. For example, in urban West Bengal, illicit homemade alcohol is mostly produced in *basti* (slums) and is available for sale almost anywhere and anytime. In a survey conducted by IARD, 80% of country hooch drinkers and 75% of homemade alcohol drinkers reported that these drinks were easier to obtain.<sup>30</sup> Principally, it can be observed that the availability of illicit alcohol flourishes in markets where legal alcoholic beverages are prohibited. However, this is also the case in markets where regulations are onerous and irrational.

### Affordability

Consumers at all income levels purchase illicit alcohol for various reasons, with lower prices being the most common driver.<sup>31</sup> The importance of affordability is especially strong among low-income consumers with restricted purchasing power, such as youth, students, and people living below the poverty line.<sup>32</sup> In a survey conducted in several Indian states, 90% of respondents reported that they often consumed illicit alcohol because it was cheaper.<sup>33</sup>

The price gap between licit and illicit alcoholic beverages is affected by many factors, including regulatory conditions and the pricing strategies of alcohol players. The price gap has varying effects on illicit alcohol consumption, primarily this follows adjustments to taxes, import tariffs, and restrictions.<sup>34</sup> Governments often try to maximize their revenue and moderate consumption by setting high excise rates. However, excessively high taxes can be counterproductive if they stimulate demand for illicit products. Moreover, differences in excise and other taxes between neighboring states provides strong financial incentives for smuggling across borders.

### Weak regulation and enforcement

Regulations on the manufacture and sale of alcohol vary from state to state making monitoring and enforcement fragmented and problematic for government agencies in India; and creating a challenging environment for legitimate companies to operate.

State governments employ a variety of regulatory and legal mechanisms to control harmful consumption of alcohol and to combat illicit alcohol, with differing degrees of success. Many frameworks are ineffectively designed, offer only partial solutions, or are inadequately enforced or resourced. Some mechanisms may even unintentionally boost illicit alcohol consumption by making it more difficult for consumers to access or afford licit beverages.

For example, fiscal marking/tax stamps has emerged as a regulatory approach for reducing the illicit alcohol market in India, but its actual effectiveness remains uncertain. The stamps themselves are often easy to counterfeit and forged stamps can confuse consumers. While regulators adopt specialized technology and update designs to prevent this, illicit actors often react rapidly and counterfeit the new designs. Moreover, legitimately stamped bottles are often refilled with cheaper or illicit alcohol.<sup>35</sup> To illustrate, the Uttar Pradesh government introduced 2D barcodes in compliance with the move to implement track-and-trace technology detailed in the state's excise policy. In any case, the barcode system did not prevent the death of more 59 people and the sale of illicit alcohol continues to flourish in the state.<sup>36</sup> Fiscal marking or any other regulatory measure will be an incomplete and ineffective system if it is

adopted as an isolated policy without support from a broader monitoring, control, and enforcement strategy.

### 3: Sustainable development and illicit trade in alcohol

The Government of India is strongly committed to the 2030 Agenda for Sustainable Development and has taken exemplary initiatives to propel the SDG agenda forward. India's National Development Agenda outlines the efforts India is undertaking on issues like poverty, sustainable growth, health, nutrition, gender equality and quality education – much of which is mirrored in the SDG targets.<sup>37</sup>



However, the socio-economic impacts of illicit trade present significant deterrence to all 17 of the SDGs – holding back progress, increasing costs and pushing achievement of the goals further away. Across the board, illicit trade undermines achievement of the economic goals for poverty reduction, decent jobs and economic growth (SDGs 1, 2, 3, 4 & 8), and robs 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).<sup>38</sup> Trade in illicit alcohol is no exception.

Illicit trade in the alcohol sector undermines SDG 3 (Good Health and Well-Being) and specifically SDG Target 3.9, which aims to substantially reduce the number of deaths and illnesses from hazardous chemicals and the mortality rate attributed to unintentional

poisoning. The presence of cheap illicit alcohol on the market can also undermine government policies aimed at reducing the harmful consumption of alcohol.

Illicit trade in alcohol also undermines SDG 8 (Decent Work and Economic Growth), as it diverts income from legitimate businesses and undermines their ability to create jobs and pay taxes. For governments, lost corporate, income and excise tax rob them of income intended for public investment and job creation programs, with relatively more severe impacts on developing countries.

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

#### 4: India’s structural capability to address illicit trade

To better understand the regulatory environment and economic circumstances that enable illicit trade – and to help identify and formulate strategies to address the serious threats posed by illicit trade – TRACIT commissioned the Economist Intelligence Unit (EIU) to produce the Global Illicit Trade Environment Index.

Along with more than 80 countries, India was evaluated on a number of policy, legal, regulatory, economic, trade, institutional and cultural indicators reflecting its structural capability to effectively protect against illicit trade.

Rank /84	G20 Economy	Score /100	Rank /84	G20 Economy (BRICS*)	Score /100
2	UK	85	40	Turkey	62
3	US	83	42	South Africa*	62
5	Australia	81	44	China*	61
10	Germany	79	<b>Global Average</b>		<b>60</b>
14	Japan	78	<b>49</b>	<b>India*</b>	<b>59</b>
15	Canada	77	50	Saudi Arabia	59
17	South Korea	75	51	Mexico	59
19	France	74	59	Brazil*	51
37	Italy	64	62	Russia*	49
38	Argentina	64	68	Indonesia	45

*G20 Country Rank and Scores from the Global Illicit Trade Environment Index*

India’s scores are mixed, ranking 49<sup>th</sup> out of 84 countries evaluated, with an overall score of 59.0 (out of 100). This is just below the global average (60.0), putting India in the bottom half of its peers in the Group of Twenty (G20), a full 8 points below the G20 average, and third among BRICS countries.

Amongst the four categories in the Index, India registers its strongest performance in the area of customs, where it ranks 42<sup>nd</sup> of 84. However, the country struggles in almost all other categories including government policy, where problems of corruption, poor protection of

intellectual property rights, tax burdens and perceptions of organized crime lower its overall performance.

Nonetheless, there have been some positive developments in recent years suggesting progress in addressing some of the underlying vulnerabilities identified in the Index. For example, India's move to demonetize certain denominations of currencies in 2017 may curb illicit financial flows;<sup>39</sup> and in its strategy to reduce the sale of illicit tobacco, India acceded to the Protocol to Eliminate Illicit Trade in Tobacco Products in 2018.

## 5: Recommendations on the way forward

The recent wave of alcohol related deaths in India has ignited widespread civil protests and created a mandate for investigation into better policy, targeted regulations and stricter sanctions to fight the trade in illicit alcohol. TRACIT recommends that state governments in India consider a portfolio of policy and regulatory controls that can help control illicit alcohol:

- **Raise awareness of illicit alcohol** among consumers and the related threats to health and safety and the economic and social impact. Consumption of illicit alcohol in India is confined largely to consumers at the lower end of the socioeconomic scale. These groups of people are more likely to be poor, less educated, and with more limited access to resources. As a result, efforts to raise awareness must be targeted in the grassroots levels with emphasis on the severe health risks associated with consumption of illicit alcohol. Moreover, awareness campaigns must also consider the harmful drinking patterns that are associated with consumption of unrecorded alcohol.
- **Improve accessibility of legal products** at affordable prices and increase the density of legal outlets to stem demand for illicit products. Increasing the number of legal retail outlets that sell legitimate alcohol is an effective way to curb the sale of illicit alcohol. Effective monitoring of retail outlets is also crucial to ensure that these units do not trade in illicit alcohol. Strategies that seek to regulate effectively the commercial availability of alcohol are also important ways to reduce the general level of harmful use of alcohol. This is especially true in rural areas where the density of shops is particularly low and the ease of access to unregulated homemade alcohol is high.
- **Incentivize local producers to legalize their production** of artisanal products or homebrews to bring them into the regulated sector. Lack of proper and strong regulations to guide the informal alcohol sector incentivizes illicit trade. There is an urgent need to address this growing movement and regulate artisanal manufacturing and sale of alcohol. This can be in the form of manufacturing and sanitary permits and retail sale licenses to commercially trade in alcohol.
- **Enforce laws and impose sanctions** and penalties at levels sufficient to deter criminal activity. Effective enforcement of laws requires coordination among countries, national government agencies (revenue, border, police, health, etc.) and different levels of government. Moreover, imposing administrative, criminal and civil penalties for illicit trade in alcohol should be a priority to prohibit illicit traders from exploiting markets with the weakest penal regimes. This is particularly important in the context of country liquor or homebrews that are manufactured and traded commercially without the requisite licenses. Consideration must also be given to rescinding business licenses from retailers, manufacturers and distributors involved in illegal trade.

- **Normalize import of foreign spirits and beer.** Imports of foreign spirits and beer in India is taxed severely high with customs duties as high as 150 per cent and with federal/ state taxes that push this number further up depending on the state. When imports of foreign spirits are heavily taxed or banned, the market's legitimate demand for imported products is artificially suppressed. This creates strong incentives for illicit operators to import alcohol through non-tax-paid channels from neighboring countries or to produce counterfeit versions of the foreign spirits in the market.
- **Rationalize tax policies and subsidies** to ensure that they do not incentivize illicit trade, smuggling, adulteration and theft. Tax policies need to account for various demand-related factors including overall consumption, price, income levels and the ensuing affordability of products. Alcohol taxes that are based on the alcoholic strength is not only sound public health policy but will also assist in improved epidemiologic monitoring.
- **Improve ethanol regulation and enforcement** to ensure that ethanol intended for industrial, pharmaceutical or other commercial purposes is not used in the production of alcoholic beverages. This can be achieved through the process of denaturing. Denatured alcohol is ethanol with additives to make it taste bad, foul smelling or nauseating or in some cases dyed to discourage consumption. Denatured ethanol should not be subject to excise tax, while ethanol produced for the beverage would remain subject to excise tax.
- **Ensure fiscal marking techniques are scrutinized.** Careful scrutiny should be given to multiple direct (e.g., costs to taxpayers, equipment) and indirect costs (e.g. burdens on industry, logistics-cost increases for imported products with indirect fiscal marking, system differences across jurisdictions and sectors) to ensure proportionality between the effectiveness of curbing illicit trade in alcohol, the cost of the remedy and the potential disruption to legitimate business. Moreover, effective and continuous monitoring across states is crucial to prevent infiltration in the legitimate alcohol supply chain. Proper sanctions must also be imposed for using fake fiscal markings or stamps. In some countries, the falsification, alteration or counterfeiting of the fiscal marking can result in deterrent fines (i.e., a fine of not more than 300% of the duties and taxes evaded) or terms of incarceration (i.e., a term of imprisonment of not more than five years).
- **Promote the creation of local private-public partnerships** to bring key industry and government stakeholders together to define strategies including: developing and deploying technology solutions based on internationally recognized open standards to protect the integrity of supply chains; ensure easy sharing of intelligence and data to improve risk assessment and border control; improving awareness; and expanding the knowledge base.

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## Annex: Case studies

### **Case study: Diageo**

*In Kenya during the 1990's a series of tax increases aimed at reducing alcohol consumption and raising revenue saw the legal 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 beer called Senator Keg, aimed at lower income consumers, and priced affordably alternative to illicit alcohol. Diageo was supported by*

the Kenyan Government through an excise tax remission which meant that 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. Critically the market for sorghum dropped and with it the loss of income for 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.

#### **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 per cent. Elements of the strategy initiated by AB InBev in 2011, in partnership with governmental authorities and a public-private sector coalition include:

- Awareness on the health risks of illicit alcohol. 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.
- Customs authorities are stricter in the importation processes, 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.

#### **Case study: Latin America**

The difference between the prices of licit and illicit alcoholic beverages in Latin America has narrowed over time. Illicit players have been forced to increase their retail prices during the past few years, as their costs have been affected by many factors: for example, improved enforcement by local authorities have made production and distribution logistics more complex, stricter controls over ethanol supply in some countries has reduced the residual volumes available. Also, as retailers and consumers become more aware of the issue with illicit alcohol, they are increasingly suspicious of brands with very low retail prices. As a result, illicit players can no longer offer extremely low-priced alternatives to licit brands without risking being caught.

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## References

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- <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, '*Global status report on alcohol and health*' (2018) [Hereinafter: WHO, (2018)]
- <sup>4</sup> International Alliance for Responsible Drinking (IARD), 'Unrecorded Alcohol in India - Results of a Population Survey in Five States' (2018) [Hereinafter IARD: India (2018)]
- <sup>5</sup> Euromonitor International, (2018).
- <sup>6</sup> WHO, (2018)
- <sup>7</sup> It is important to note that informal alcohol produced outside of a regulatory framework and whose production and consumption tend to follow cultural and artisanal practices. Includes home production may be licit or illicit, depending on the laws governing a particular jurisdiction.
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