



Background

The COVID-19 pandemic continues to have an impact on illicit trade in the short, medium, and long terms. While global illicit trade was already growing before the pandemic, COVID-19 has both hastened the development of new illicit trends, such as criminals' increased presence on social media and online marketplaces, and exacerbated existing threats. These trends continue to have severe consequences for communities and economies around the world.

On April 23 2020, the OECD Task Force on Countering Illicit Trade (TF-CIT) held a first webinar to scope the main areas where the COVID-19 pandemic has affected illicit trade. Participants identified several sectors at particular risk for fraud and illicit activity, including pharmaceuticals, alcohol, food and other sectors, which criminals frequently targeted before the pandemic.

During the early stages of the COVID-19 outbreak, governments worldwide grappled with social distancing policies to stem the spread of the deadly virus. As part of these, several countries across regions enacted various bans on the production or consumption of alcohol.

While the overall goal has been to protect citizens' health, the restriction in the supply of alcohol products has also stimulated illicit markets to meet unsatisfied demand, with negative knock-on effects, including fiscal consequences and health and safety risks.

This webinar focused on the pandemic, the impact of government-imposed supply restrictions and the effects on illicit trade in alcohol. The meeting was attended by 200 participants from the TF-CIT public and private stakeholder networks.

Mr. Chris Martin, the Senior Counsellor at the

UK HMRC and Chair of the TF-CIT, chaired the webinar. Speakers at the webinar represented both the public and private sectors. He was joined by expert panellists from public and private sector:

- **Mr. Jeffrey Hardy**, Director, Transnational Alliance to Counter Illicit Trade (TRACIT)
- **Mr. Gianluca Sabatino** and **Mr. Rien van Diesen**, IPC3, Europol
- **Ms. Małgorzata Banaszek**, Head, Regional Intelligence Liaison Office, Eastern and Central Europe (RILO ECE)
- **Ms. Amanda Lotheringen**, Senior Manager, Copyright and IP Enforcement, CIPC, South Africa
- **Ms. Mylene Cano**, Chief Economist, COPARMEX, Mexico

The OECD TF-CIT has held a series of webinars to discuss in depth the impact of the pandemic on illicit trade in several high-risk industries to identify the relevant governance gaps and market risks that should be further addressed in dedicated discussions:

- Trade in Fake Medicines at the Time of the Covid-19 Pandemics (June 10).
- High-Risk Sectors in COVID Recovery (September 16, jointly with the Business at OECD, Anti-illicit Trade Expert Group).
- Covid-19 Vaccine and the Threat of Illicit Trade (December 21).

The fifth in the series was held on January 12, 2021 on "Crisis policy, illicit alcohol and lessons learned from lockdown".



Illicit Trade in a time of Crisis

The sweeping nature of the ongoing COVID-19 pandemic and its impacts on society, the economy and jobs has forced governments worldwide to rapidly implement measures to stem the spread of the virus. Among these, several countries enacted various demand restrictions on the production and/or consumption of alcohol. In most cases, restrictions limited the sale of alcohol and put constraints on venues where alcohol is consumed (so-called “on-sales”), particularly in relation to night life and bars; in a few instances, governments implemented nationwide or regional alcohol bans during lockdown periods.

While the overall purpose of the alcohol restrictions was to mitigate the impact of the COVID-19 pandemic, the policy arguments made in support of these measures varied. Demand restrictions were implemented to encourage social distancing, limit social gatherings, prevent any negative impacts of alcohol on the immune system, decrease instances of alcohol-related domestic violence during lockdown, and reduce pressure on hospitals and health care systems from potential alcohol-related injuries.

The pace and complexity of the pandemic has shown that the effects of policies designed to protect consumer health may go beyond the initial scope and include some unwanted externalities.

For criminals and other bad actors that drive illicit trade networks, the ongoing pandemic and

government demand restrictions have provided an excellent opportunity to exploit systemic problems related to illicit trade as well as new possibilities. This is especially true for high-risk sectors such as alcohol, where the impact of COVID-19 on illicit trade is extremely complex.

Importantly, illicit alcohol supplied by criminals is often substandard and poses very high health risks.

Achieving public health goals during a pandemic while minimising the economic and social consequences for an industry that was already vulnerable to illicit trade has thus presented policy makers with a paradox.

In this context, participants underscored that the purpose of the webinar was not to examine whether alcohol restrictions were effective in addressing the pandemic, but rather to gather evidence about the economic and social impacts of pandemic policy making and identify unintended consequences associated with illicit trade in relation to alcohol.

Examples of negative consequences were highlighted by the Transnational Alliance to Combat Illicit Trade (TRACIT), which presented findings from a new report that looked at the impacts of alcohol restrictions on illicit trade during the early stages of the COVID-19 outbreak.

The presentation described various forms of alcohol demand restrictions imposed during the pandemic and provided examples of how well-intentioned alcohol policies generated a number of negative health-related externalities and promoted the development of illicit alcohol markets.

For example, customs and police officers across several countries reported a significant increase in consumer demand for illegal liquor and an uptick in seizures of illicit product. The report also found that criminal networks active during the pandemic had added illicit alcohol to other illegal products they offer clandestine customers, such as narcotics. This trend was repeatedly observed in many places where strict alcohol restrictions were imposed, consequently boosting criminal activity and shifting markets further under the control of illicit actors.

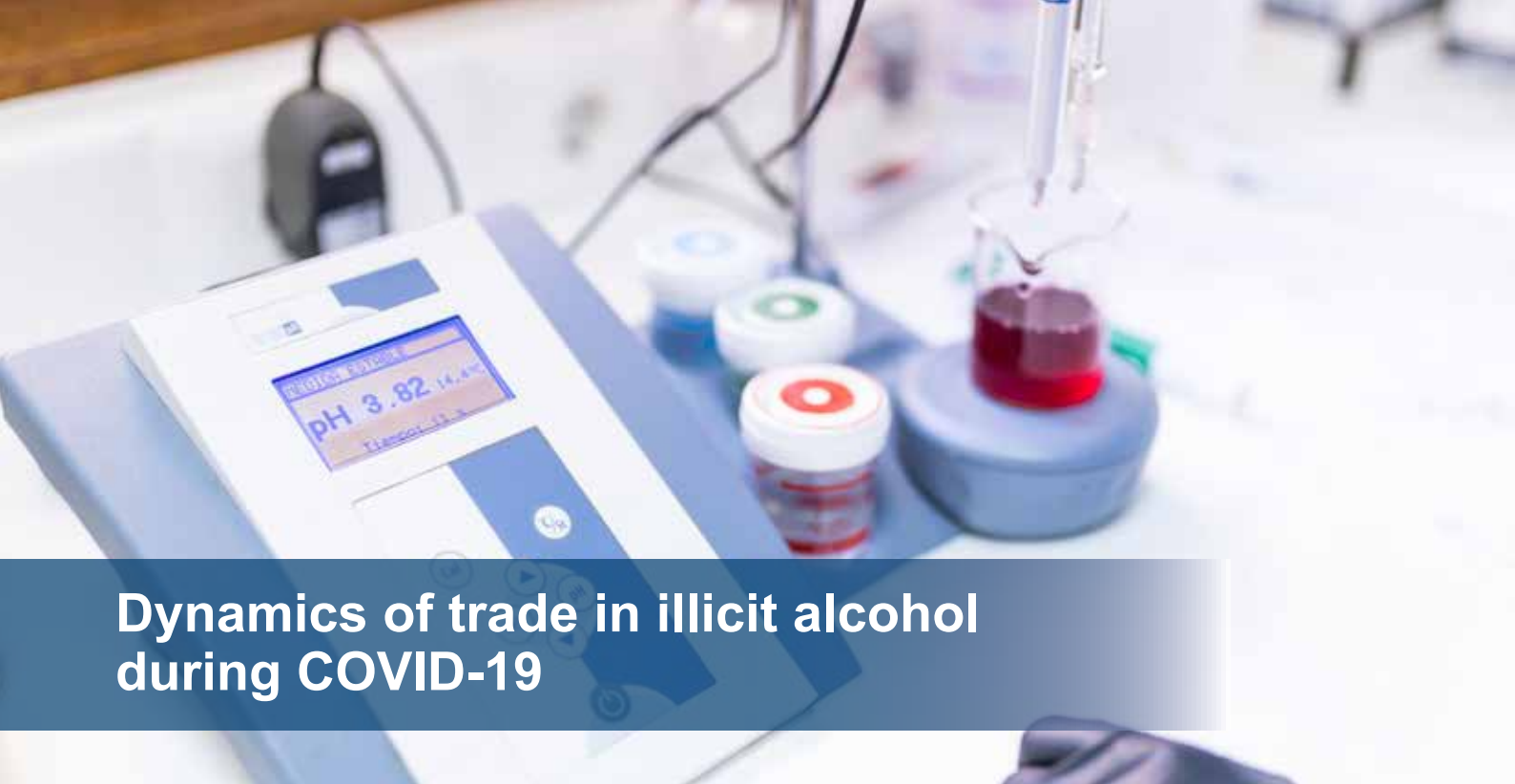
Perhaps the most alarming consequence was the numerous examples of consumers being exposed to health risks associated with toxic illicit alternatives. In some instances, people died from consuming illicit beverages as a substitute for legal alcohol or as a perceived remedy for COVID-19. In other cases, they were driven to engage in harmful behaviours, such as alcohol looting and panic buying – all of which undermine social distancing objectives.

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Dynamics of trade in illicit alcohol during COVID-19

Participants discussed the key COVID-19-related elements that have shaped the dynamics of illicit trade in alcohol.

While demand for alcohol has remained relatively stable during the pandemic, closure of borders, supply restrictions and lockdowns have limited the supply of legitimate, legal options. New restrictions on alcohol, sometimes with little advance notice, have also led to significant disruptions in supply chains, with criminals quickly adapting to gaps between demand and supply and exploiting these opportunities for illicit profits.

Recent targeted actions in Europe revealed how criminals are exploiting multiple disruptions caused by the pandemic to infiltrate supply chains with counterfeit alcohol, including forging of labels or production of inferior quality wine.

In 2020, during the ninth edition of the Europol-co-ordinated operation, OPSON enforcement officers confiscated over 1.2 million litres of illicit alcohol (mostly counterfeit wine), the second most-seized product after animal food.

The operation showed the importance of collaboration by law enforcement agencies, regulatory authorities, tax administrations and

the private sector to counteract these criminal activities. The investigation also suggests that criminals are not bound by any single commodity and are quick to adapt and exploit new opportunities.

Customs has continued their efforts to enforce borders during the crisis, with the World Customs Organisation (WCO) leading co-ordination and information exchange on alcohol seizures. In recent years, there has been a growing interest among its member states in the phenomenon of illicit alcohol, including an observed increase in the number of seizures.

The WCO is currently preparing a report that analyses the most recent global trends in alcohol fraud based on data collected from its 11 Regional Intelligence Liaison Offices (RILOs) on alcohol smuggling activities.



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Beware of unwanted consequences

The webinar included perspectives from government officials and private sector experts involved in South Africa and Mexico, where restrictions on alcohol have been implemented as part of the pandemic response.

A common feature of the alcohol bans was a dramatic impact on tax collections. The first and second alcohol ban in South Africa resulted in an estimated loss of direct tax (excluding excise) of ZAR 7.8 billion (USD 510 million) and a further direct excise loss of ZAR 5.8 billion (USD 380 million). Similarly, Mexico saw a 20% reduction in tax on production and services, a special tax that is applied to the alcoholic beverages sector, as several states banned the sale of alcohol and the Federal Government banned the production of beer, considering it a non-essential activity. There were similar negative impacts on employment.

An estimated 165 000 jobs were lost in South Africa as a result of the first and second alcohol bans. In Mexico, the leisure and hospitality sectors – which are particularly dependent on alcohol sales – saw nearly a quarter of all jobs lost from the lockdowns.

Participants also highlighted how the pandemic and lockdown restrictions resulted in growth in smuggling and criminality.

For instance, during the first and second ban, the South African Police Service (SAPS) reported that there were approximately 476 liquor outlet robberies. There were also examples of manufacturers being directly targeted and criminals stealing thousands of bottle caps. These would later be used to refill used, branded bottles with illegal alcohol, reseal them and then sell to consumers as original product.

As a result of the prohibition of formal channels, participants also noted that illegal vendors had stepped in to supply the unmet demand through illegal stores and unregulated marketplaces. In Mexico, the expansion of these black markets was made evident by at least 200 deaths, as people who sought to circumvent restrictions were poisoned by toxic contraband or counterfeit alcohol.

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Emerging threats in the face of pandemic

Participants discussed different emerging areas where the pandemic was impacting illicit trade in alcohol.

The social effects of the lockdown can drive an increase in overall alcohol consumption. Examples of increases in homemade alcohol have been seen across several countries, as has an increase in illegal manufactures of alcohol; both raise serious public health concerns.

Participants also highlighted how criminals have increasingly moved their activities online, driven by an overall spike in digital activity and online shopping due to lockdowns. There were several examples of how illegal vendors were taking advantage of unregulated marketplaces and e-commerce platforms to offer illegal alcohol and related fraud.

Criminals are also using online social media networks, such as WhatsApp or Facebook Messenger, as sales outlets to distribute their goods directly to consumers without permissions or regulatory checks. It was pointed out that this raised health concerns for consumers as well as unfair competition concerns for legitimate business operators.

Participants in the webinar highlighted that illicit networks that develop based on unsatisfied demand can become entrenched

and difficult to roll back. Similarly, consumers can adapt to the illicit supply and associated lower prices, making it difficult to rebuild demand even after the return of normal conditions.

Continued information collection and data-sharing by national customs organisations was emphasized as a critical tool for identifying areas of risk, ensuring that policies are grounded in evidence and that enforcement efforts track new developments. For example, data from the WCO shows that customs are not only observing the trafficking of finished product, but also machinery and components used to manufacture illicit alcohol. This type of information can help identify new risks and behaviours and improve border controls.

However, there were some concerns that as governments focus their attention and resources on the pandemic, information and insights on the state of global illicit markets could suffer. For instance, the WCO noted a remarkable decrease in data input to the Customs Enforcement Network (CEN) database during the pandemic.

The way forward

Participants at the webinar formulated several messages to policy makers to counter this threat effectively:

- Illicit trade in alcohol is not a stand-alone problem and the response calls for co-ordinated action involving all actors, including customs, tax authorities, health and regulatory bodies, etc.
- Strengthening and co-ordinating information sharing is essential across sectors not only to observe the situation but also to prevent actively and counter the threat. This includes an effective exchange of information between the private and public sectors and among the relevant authorities.
- Continued monitoring of illicit trade as carried out by the TF-CIT is essential in developing a global standard for unbiased and robust evidence on illicit alcohol trade.
- It is essential to continue building awareness among policy makers of the intersection of alcohol regulation, illicit trade and public welfare. Policy makers should keep in mind the complexity of interconnected policies and the potentially damaging consequences of their actions. It will also be important to explore new enforcement strategies to ensure that illicit trade activities caused by the pandemic do not become permanent features of the post-pandemic economy.
- As governments move from crisis management to recovery planning, there are valuable lessons from experiences with demand restrictions that can help shape constructive and inclusive ways to build back economic activity, employment and growth.
- In-depth dialogue with private stakeholders must continue, as public-private partnerships seem to be a promising and effective tool for modern governance. Such partnerships rightly balance incentive-setting, taking into account industry-specific sensitivities and competitive advantages on private and public sides. The OECD Task Force on Countering Illicit Trade and the Business at OECD initiative– Anti-Illicit Trade Experts Group must be optimally used as a platform to more robustly fight illicit trade across sectors, markets, and communities around the world.
- In this context, and building on key findings from recent webinars, there is a rationale for the OECD Task Force on Countering Illicit Trade (TF-CIT) Secretariat to explore the relevant governance frameworks to counter illicit trade in high-risk areas, including pharmaceuticals, food, tobacco and alcohol, including a deep-dive analysis of one or more of the high-risk areas to (i) scope the most recent trends in illicit trade, (ii) discuss the socio-economic impacts of COVID-related governance actions (iii) collect existing best practices.
- The overall goal of such a project would be to enhance factual evidence on the current, COVID-19-related trends in illicit trade in these high-risk areas, with a particular focus on governance actions taken in many countries and their observable impacts. This will be achieved in dialogues between private and public stakeholders that will also gauge trends and identify best practices.

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