

TRACIT urges caution on Costa Rican taxes schemes on alcoholic beverages

During COVID-19 recovery policy measures must avoid unintended consequences, illicit trade

San José, Costa Rica, 9 October 2020 - The Transnational Alliance to Combat Illicit Trade (TRACIT) urges government officials and industry stakeholders in Costa Rica to consider the potential unintended consequences of introducing new tax schemes that will burden industry already crippled by COVID-19 losses and escalate growth in illicit markets for alcohol.

As countries look to accelerate the economic recovery from the pandemic, TRACIT, an independent non-profit trade association known for its work on fighting illicit trade worldwide, cautions that governments should carefully assess new fiscal policies to avoid unintended consequences that might cost more than the revenue they generate and may inadvertently boost illicit alcohol trade.

“Illicit trade in alcohol in Costa Rica is already a significant problem, so steps the government takes now must avoid tax-driven increases in demand for illicit and potentially dangerous substitutes,” said Jeffrey Hardy, TRACIT Director-General.

At issue is the re-emergence of draft Bill N ° 20.961, which introduces a new tax stamp scheme ostensibly to protect against adulteration and smuggling of contraband alcoholic beverages. TRACIT noted the implementation of similar programs in the region have proven costly and their actual impact on raising revenue and preventing smuggling, counterfeit and other forms of illicit alcohol trade had mixed results. In its report *Comercio Ilícito de Alcohol en Costa Rica, Desafíos y Soluciones*, TRACIT demonstrates that a similar tax stamp scheme in Ecuador was abandoned after determining that the program cost taxpayers three times more than the revenues it brought in.

“While governments employ a variety of regulatory and legal mechanisms to control harmful consumption of alcohol and to combat illicit alcohol, it is critical that policy makers and legislators closely examine the cost and benefits of new laws before considering their introduction,” said Mr. Hardy.

Throughout the COVID-19 Pandemic, TRACIT has actively engaged with national stakeholders on the negative impacts of imposing overly strict measures on alcohol, such as the prohibition laws on the sale and distribution of alcoholic beverages and the introduction of onerous new tax policies. Examples from throughout LATAM have shown that the overly strict pandemic responses, while good intended, can unintentionally encourage consumption of illicit alcohol, attract criminal groups into the supply chain and have serious adverse health

effects for consumers due to a higher ethanol content and potential contamination with toxic substances, such as methanol.

“Implementation of any tax policy—including the introduction of tax stamp schemes—are complicated and will have far-reaching impacts on consumer choice, manufacturing, trade and the actual mix of legal and illegal product in the marketplace,” said Mr. Hardy.

Instead of more taxes, TRACIT’s report recommends that Costa Rica consider a portfolio of recognized policy and regulatory controls that have proven to help control illicit alcohol. This includes combining effective monitoring and enforcement measures; implementing holistic and enforceable regulation; promoting the creation of local private-public partnerships to bring key industry and government stakeholders together to define anti-illicit alcohol strategies; and raising awareness of illicit alcohol, particularly at the grassroots level with emphasis on the severe health risks associated with consumption of illicit alcohol.

“Perhaps most importantly, governments can increase sanctions on the bad actors that supply markets with fakes and smuggle contraband across borders, affecting public health,” said Mr. Hardy. “Now is the time to penalize the criminals and not the businesses that already pay taxes, contribute to the local economy and hire thousands of Costa Ricans.”

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.

CONTACT:

Esteban Jorge GIUDICI

Senior Policy Analyst, TRACIT

Tel: +33 (0) 6 32 82 89 93 / esteban.giudici@TRACIT.org / Twitter: [@TRACIT_org](#)