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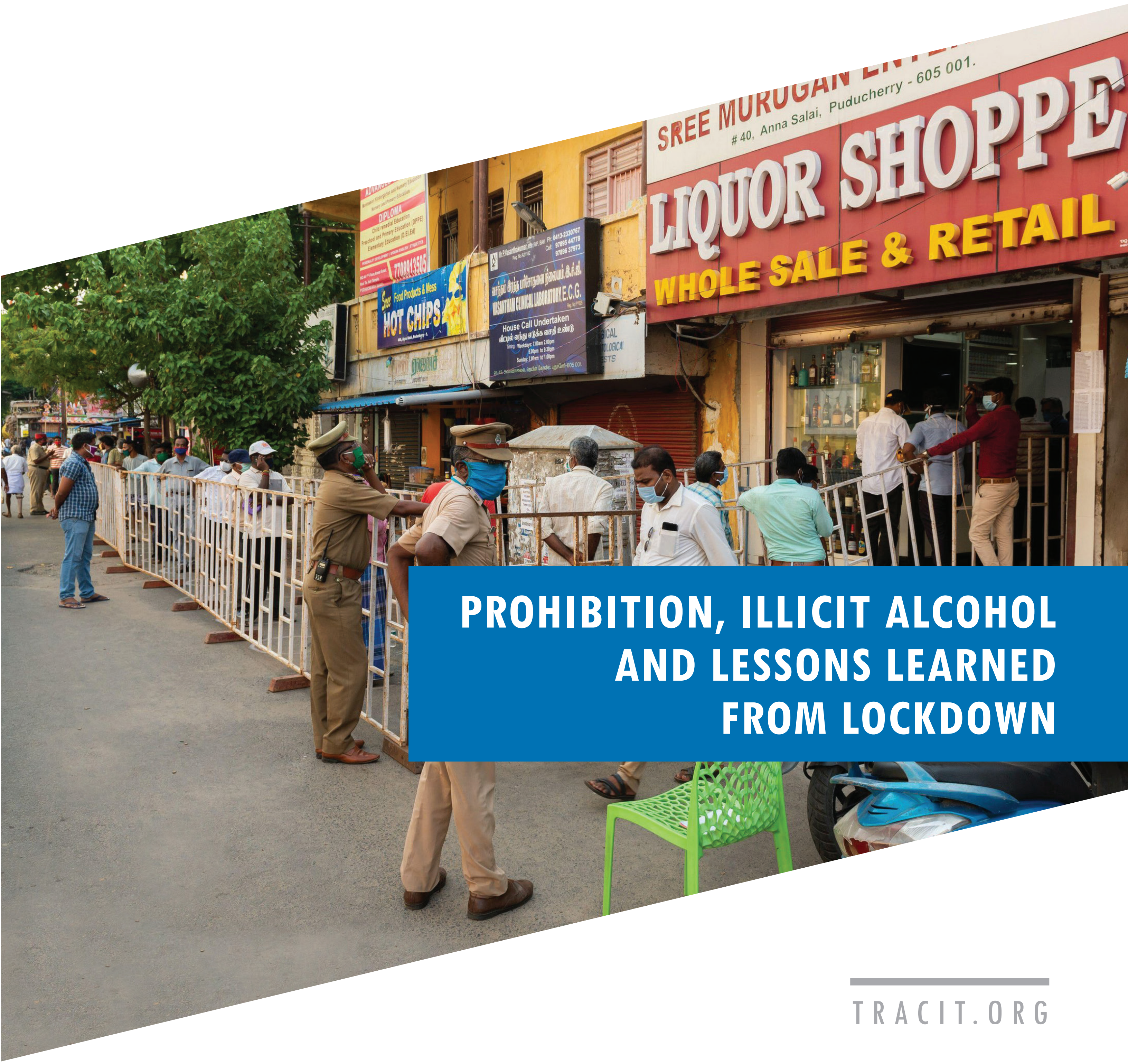

PROHIBITION, ILLICIT ALCOHOL AND LESSONS LEARNED FROM LOCKDOWN

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FOR MORE INFORMATION

This report is available online in PDF format, along with an Executive Summary and ancillary documentation. Visit www.tracit.org/publications.html

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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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In pursuit of various social, religious, health, or economic objectives governments have imposed a long history of regulatory controls on the producers and consumers of alcoholic beverages. Minimum age purchase restrictions are probably the most renowned and common. Dry laws and other forms of supply restrictions are probably the most notorious. For the most part, the failure of America's experiment with *Prohibition* has discouraged governments from imposing them. That is until the onset of the global COVID19 pandemic, when several countries opted for some form of dry law on alcoholic beverages as a tool to mitigate the impact of the virus.

> *"The sentiment in 1933, immediately following the repeal of Prohibition in the US, was that bone dry "prohibition will prove unsuccessful in controlling alcohol consumption unless such a system has behind it overwhelming public support. Even then it will tend to carry in its trail the [...] lawlessness which marked prohibition." And further, "The criminal elements arising from Prohibition must be stamped out at all costs."*[1]

Whether or not dry laws were effective in addressing the pandemic itself is not the purpose of this report. The ambition here is to analyze the economic and social impacts of dry laws beyond public health objectives, specifically those consequences associated with illicit trade.

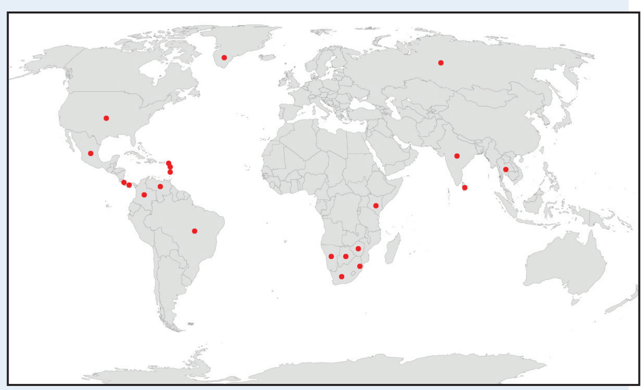
The findings are intended to yield valuable lessons from the experience with COVID19 prohibitions, which can be applied to shaping future policymaking at the intersection of alcohol regulation, illicit trade and public welfare.

The paradox of prohibition policy

The highly contagious and lethal nature of COVID19 forced governments worldwide to rapidly implement measures to stem the spread of the virus. In pursuit of social-distancing objectives, closing large parts of economies, implementing work- and school-from-home restrictions, and even imposing personal stay-at-home quarantines quickly became the new normal. At the same time, governments were challenged to keep alive industries that they had locked down, buoy the economy and maintain employment for millions of people who might otherwise be forced into the already swollen ranks of the unemployed.

Achieving public health goals while avoiding the economic and social consequences clearly presented a paradox to policymakers rarely if ever witnessed before.

Within this mixed bag of emergency measures is the case of forced restrictions on the production, sale and consumption of alcoholic beverages, otherwise known as dry laws and collectively a modern version of prohibition.



As this report shows, well-intentioned but misconceived prohibition policies generated a number of negative health-related externalities and promoted the development of illicit markets, plunging entire industries into a financial abyss and reducing much-needed government revenue.

A step too far

Looking across these experiences, although the origin, purpose, jurisdiction and duration of the bans differed widely, a commonality was that the bans were accompanied by a number of unintended consequences, most of which conveyed negative impacts to economy and society beyond public health objectives. So, while lockdown and social distancing may have had some success in limiting the control of the virus, this report reveals that dry laws, for the most part, were a step too far. In those countries with complete bans (prohibition), the consequences have been more harmful (to consumers) and damaging (to the economy) than policymakers anticipated.

Lessons learned from lockdown

This report delineates four lessons that compel a renewed urgency to combat illicit trade in alcohol.

Lesson 1: Supply restrictions incentivize illicit markets and criminal activity

Sudden restrictions in access to legal alcohol create a downward shift in supply that causes increases in the demand for illicit substitutes and incentivizes illicit suppliers to enter the market to meet that new demand. In the case of outright bans/dry laws, consumers are prevented from purchasing legal products and pent-up demand has no other option than to shift entirely to illegal markets.

This report provides evidence on both consequences. For example, customs and police officers in India reported a significant increase in consumers' demand for illegal liquor and an uptick in seizures of illicit product. This trend repeated in Mexico, India, South Africa, Panama, Colombia, Namibia and Sri Lanka, all of which imposed prohibition measures on alcohol. Furthermore, in South Africa the Institute for Security Studies reported an increase in criminal activity and 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 most places where dry laws were imposed, consequently, boosting criminal activity and shifting markets further into the control of illicit actors.

Lesson 2: Beware of associated consumer health risks

Perhaps the most alarming consequence of alcohol prohibition measures was the exposure of consumers to health risks associated with toxic illicit alternatives. Beyond the fact that these illicit substitutes do not comply with sanitary, quality and safety regulations, the most hazardous are contaminated with toxic chemical additives.

In the worst cases, people died from consuming illicit beverages as a substitute or as a perceived remedy to COVID19. In other cases, they were driven to engage in harmful behaviors, such as alcohol looting and panic buying, all of which undermine social distancing objectives and their exposure to the COVID19 virus.

Therefore, the sombre lesson about prohibition and illicit alcohol is found in the collective harm, serious injury and reported death counts.

Lesson 3: Prohibition reduces tax collections and constrains budgets

Taxes collected on alcohol at various points along the legitimate supply chain are traditionally an important source of revenue for many governments. Consequently, a fiscal priority is to stop the revenue leakages associated with the sale and consumption of untaxed illicit alcohol.

During the pandemic, tax and revenue authorities from India, South Africa, Colombia, Sri Lanka, Mexico, United States, and Kenya, for example, all reported significant drops in taxes collected on alcoholic beverages.

Consequently, the lesson learned from lockdown is that governments that implement draconian supply restrictions on the alcoholic beverage sector end up depriving their own treasuries of much-needed fiscal revenue. While it is difficult to imagine that Finance Ministers would be surprised by this result, perhaps this situation highlights the need for Finance Ministers and Health Ministers to improve coordination, consultation, and joint impact assessment of proposed laws.

- This report also finds that in addition to the immediate drain on treasury revenues, negative impacts on future fiscal collections can be significant. The longer legal businesses are sidelined, the greater is the opportunity for illicit traders to capture market share and fortify demand for their untaxed, unregulated products. Under these circumstances, regaining revenue losses can take years, especially if there follows a period of economic depression and high unemployment.
- In all cases, reduced tax revenue resulting from a government's own alcohol prohibition laws puts extra burdens on its ability to pay for policing criminal activity, including cross-border smuggling activities, that underpins illicit trade. Mounting expenses in the face of declining revenues put considerable strain on government budgets at a time when fiscal stimulus is needed most.

Lesson 4: Prohibition sidelines legitimate businesses and depresses formal job opportunities

Emergency restrictions on alcohol production and sales have had an outsized impact on legitimate industry, jeopardizing long-term employment and growth, while fueling a parallel underground market that further harms the legal sector's ability to rebound once restrictions are lifted.

While it is challenging to evaluate the full effect of prohibition laws on an industry that employs millions of people in primary and secondary sectors, any job losses—especially those lost via a government's own alcohol bans—are particularly debilitating in countries where the overall unemployment rate is already high. Taking South Africa as an example where prohibition measures have had severe impacts, it is estimated that over 165,000 South African jobs were lost during the first alcohol ban.

A few words about the post-pandemic recovery

As governments move from crisis management to recovery planning, the findings from this report suggest that valuable lessons from alcohol prohibition can usefully shape the most constructive and inclusive ways to build back economic activity, employment and growth.

The alcoholic beverage sector and its multiple and varied secondary industries are significant contributors to GDP and employment—and tax revenues—in virtually every economy worldwide. Because of this, the sector will be an important part of the recovery.

But governments should think twice about sudden increases in excise taxes levied on alcoholic beverages as a means to replenish budget shortfalls. A quick fix approach could end up being as reckless as the imposition of prohibition laws, resulting in lower consumption of legal beverages, smaller pools of tax collections and an increase in demand for untaxed, cheaper illicit alternatives.

Moreover, policymakers would be wise to note that this sector and the people who work there have already been particularly hard hit by prohibition measures. To ensure a balanced and sustainable recovery, careful consideration should be given to lesson #4, from above: *Governments must anticipate that prohibition sidelines legitimate businesses and depresses formal job opportunities.*

There are a great number of alternatives to increasing excise taxes, and consideration should be given to a portfolio of time-proven regulatory measures that can complement taxes, not undermine them.

- Ensuring accessibility of regulated taxable products will generate legitimate and significant levels of tax revenues. Governments cannot collect taxes on products that are not sold or on illicit products that exist outside of tax regimes.
- Imposing sanctions on the bad actors that supply markets with fakes or smuggle contraband across borders will help plug fiscal leakages by disincentivizing the supply of illicit, untaxed products.
- Increasing consumer awareness about the harms of illicit alcohol is an important measure that governments can use to steer people away from harm and into the legal, regulated and taxable marketplace.

In all cases, the result can be greater tax collections on a larger pool of legal, taxable product—with the knock-on value of economic growth and reduced consumer risk.

Recommendations

Government actions need to be carefully considered and finely balanced in dealing with the challenges associated with COVID19. The conclusions of this report, for example, delineate four lessons for avoiding the negative consequences associated with the imposition of alcohol prohibition laws. They also suggest the value to Finance, Trade and Health Ministers of improving coordination, consultation, and joint impact assessment of proposed laws.

There is also a role for private and public partnership dialogue on ways to prevent illicit trade. If new restrictive measures are being considered, governments should consult and cooperate with industry to ensure that any restrictions are temporary in nature, proportionate and sustainable. Any such measures should be accompanied by appropriate public health messaging and reinforced by responsible retail standards.

Governments must also ramp up implementation of enforcement measures to ensure that illicit trade activities caused by the pandemic do not become permanent features of the post-pandemic economy. All stakeholders have an interest in stamping out illicit trade in alcohol and all benefit from collective action.

In the face of a health pandemic, such as COVID19, it is recommended that governments:

- **Avoid prohibition laws** as emergency response measures to protect people from the spread of virus. The benefits are conjectural, while the negative consequences are many and counterproductive to interdependent health, employment, and economic objectives.
- **Ensure availability and access to legitimate products** that conform with social-distancing objectives without inducing demand for illicit substitutes.
- **Avoid the imposition of "emergency tax" increases on alcohol.** A quick fix approach could end up being as reckless as the imposition of prohibition laws, resulting in lower consumption of legal beverages, smaller pools of tax collections and an increase in demand for untaxed, cheaper illicit alternatives.
- **Ramp up implementation of enforcement measures** to ensure that illicit trade activities caused by the pandemic do not become permanent features of the post-pandemic economy.

CHAPTER 1: INTRODUCTION

The tangled regulatory web of alcoholic beverages

Alcoholic beverages have a long history of regulation. A disparate set of objectives has motivated this, including modulating consumption and maintaining an orderly commercial trade in alcoholic beverages. Minimum age restrictions on sales, limits on the number and nature of sales outlets, and demand-deterring imposition of excise taxes are examples of government efforts to limit the availability of alcohol in pursuit of various public health objectives.[2]

Supply restrictions have also taken the form of dry laws, the most infamous of which were introduced in the U.S. in the 1920s during a period known as *Prohibition*. Over its nearly 14-year ban on alcohol, *Prohibition* delivered a mixed bag of results, where some initial success in reducing alcohol consumption rapidly gave way to largely negative socio-economic impacts: Alcohol became more dangerous to consume; thousands of jobs were eliminated with the closing of breweries, distilleries and saloons, with even more job losses in other related secondary trades; organized criminal groups quickly seized profits that *Prohibition* left on the table; the court and prison systems were stretched; and corruption of public officials was rampant.[3/4] Among the more enduring consequences was the negative impact on government tax revenues, as many states and the Federal government had already developed a dependency on the collection of excise taxes levied on liquor sales to fund their budgets.[5] By some estimates, *Prohibition* cost the U.S. Federal Government a total of $11 billion in lost tax revenue, while costing over $300 million to enforce.[6]

The Noble Experiment of Prohibition in the U.S.

The 18th Amendment to the U.S. Constitution–which banned the manufacture, transportation and sale of intoxicating liquors–ushered in a period in American history known as Prohibition. Prohibition was ratified by the states on January 16, 1919 and officially went into effect on January 17, 1920, with the passage of the Volstead Act. Despite the new legislation, Prohibition was difficult to enforce. The increase of the illegal production and sale of liquor (known as "bootlegging"), the proliferation of speakeasies (illegal drinking locations) and the accompanying rise in gang violence and other crimes led to waning support for Prohibition by the end of the 1920s. In early 1933, Congress adopted a resolution proposing a 21st Amendment to the Constitution that would repeal the 18th. The 21st Amendment was ratified on December 5, 1933, ending Prohibition.

Then and now: authorities dispose seized illicit alcohol

For the most part, the failure of the U.S. experiment with *Prohibition* has provided a sufficient deterrent for governments to avoid the imposition of dry laws as a tool to achieve public health or social objectives. That is until the occurrence of the global COVID19 pandemic, when several countries opted for some form of dry law (total or partially) on alcoholic beverages as a mechanism to enforce social-distancing measures aimed at stopping the spread of the virus.

Whether or not dry laws were effective in addressing the pandemic is not the objective of this report.[7] The hypothesis of this report is that there are lessons about prohibition policy that can be learned from the experience with COVID19 policymaking. The methodology of this report is to analyze the economic and social impacts of dry laws beyond public health, and specifically those consequences associated with illicit trade. The findings, hopefully, will shape future policymaking at the intersection of alcohol regulation, illicit trade and public welfare.

The emergence of dry laws during the COVID19 pandemic

During the early stages of the COVID19 outbreak, governments worldwide grappled with social distancing policies to stem the spread of the virus. Among these, several countries enacted various restrictions on the production and/or consumption of alcohol. While most countries opted for limits on the sale of alcohol and restrictions on venues where alcohol is consumed, (so-called "on-sales") particularly in relation to night life and bars, a few governments announced a complete ban during the lockdown period.

Although the goal of the alcohol bans was ostensibly to mitigate the impact of the COVID19 pandemic, the arguments made in support of these measures varied: Bans 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 in some instances reduce pressure on hospitals and health care systems from potential alcohol-related injuries.[8]

In rare cases these bans became nationwide (e.g., South Africa, India and Panama) and in other cases they were more limited in geography or timing of availability. For example, Greenland announced a ban on alcohol only in the capital city of Nuuk. In Mexico, all breweries were closed for over a month, except for exports. Dry laws that put restrictions on hours of sale or all-out prohibitions on the sale and consumption of alcohol were also implemented in local jurisdictions throughout the country. State and local authorities in Tabasco, Baja California Sur, Sonora, Campeche and Quintana Roo all announced restrictions on or prohibition of alcohol sales, following a trend that began in Nuevo León.[9/10]

The shape of alcohol prohibition during COVID19

India

The National Disaster Management Authority of India (NDMA) issued an order on March 24, 2020 directing the National Government, States and Union Territories to take "effective measures so as to prevent the spread of COVID19 in the country." Later the same day, elucidating the NDMA Order, the Ministry of Home Affairs (MHA) issued mandatory Guidelines for States containing a list of permitted essential goods and services that effectively banned the sale of alcohol as a non-essential commodity. The ban was in place until May 4 when the MHA issued new guidelines permitting certain types of liquor shops to open and allowing individual States to decide for themselves whether to resume alcohol sales.

Panama

On March 24, Panama issued Executive Decree 507 which enacted a nation-wide ban on the distribution, sale and consumption of alcoholic beverages throughout the national territory, making it the most severe case of prohibition in the Americas. The dry law was partially relaxed on May 8, through Executive Decree 612, which limited the sale of alcoholic beverages to either one bottle of wine or spirit or one six of pack of beer per person. The restrictions lasted until June 18, when the State of National Emergency was lifted.

South Africa

South Africa's nation-wide ban on all domestic and export sales of alcohol products and production and transportation of alcohol products went into effect when the country went into coronavirus lockdown on March 26 and lasted—with a six-week relaxation from June 1 to July 12—until August 17. Effective on August 8, the sale of alcohol was permitted again in "licensed premises for off-consumption, from 09h00 to 17h00, from Mondays to Thursdays, excluding Fridays, Saturdays, Sundays and public holidays". The ban on alcohol was the most visible of a string of rules that made South Africa's lockdown measures among the strictest in the world.[11]

A few countries that implemented bans quickly reversed them (e.g., Sri Lanka, Zimbabwe and French Polynesia (Tahiti)), while other bans lasted only a few weeks. India, Panama and South Africa stand apart as their bans persisted for many months.

Looking across these experiences, although the origin, purpose, jurisdiction and duration of the bans differed widely, a commonality across all countries was that the bans were accompanied by a number of unintended consequences, most of which conveyed negative impacts to economy and society beyond public health objectives. So, while lockdown and social distancing may have had some success in limiting the control of the virus, the imposition of prohibition laws was conjectural to this objective and, for the most part, a step too far. In those countries with complete bans (prohibition), the consequences have been more harmful (to consumers) and damaging (to the economy) than policymakers anticipated.

In conveying lessons learned through December 2020, this report draws on publicly available information gathered in countries where dry laws were imposed. For the most part, this information is from news reports, academic journals, data released by trade associations and government agencies, and observations and opinions of government officials, as reported in local media.

At the time of this report, the pandemic remained in full swing, with information still being conveyed, assessed and synthesized. Consequently, it is not possible to report on findings in absolute terms, although it was possible to aggregate information in places. It is also notable that the reports and observations, while not purely anecdotal, are not enough to determine trends other than incidents (e.g., tax losses, job losses, deaths) observed in restricted markets were greater than during comparable times in the past. Finally, this body of knowledge has concentrated on utilizing and evaluating dry-law specific information only. This means that analysis of secondary impacts of the pandemic, such as job losses due to economic downturn or government-imposed quarantines, have been avoided.

CHAPTER 2: LESSONS LEARNED FROM LOCKDOWN

Unintended consequences of lockdowns, dry laws and severe supply restrictions

During the COVID19 pandemic, government-imposed restrictions on the availability of alcoholic beverages have provided many tangible lessons on the effectiveness and unintended consequences of the restrictions. In every observable case, regardless of the motive, duration or geographical coverage, strict COVID19 alcohol bans facilitated growth in illicit trade—swelling the market for illicit supplies and entrenching the criminal activity that underpins it—exposed consumers to health risks from toxic illicit alternatives, and rapidly drained government revenues dependent on excise tax collections.

Perhaps not surprisingly, the negative impacts of COVID19 restrictions mirror those recorded during U.S. *Prohibition* and demonstrate similar unintended consequences to consumers, businesses, and governments alike.

Where excessive restrictions have been imposed, growing numbers of consumers engaged in harmful behaviors. Those behaviors included substitution of dangerous and sometimes deadly alternatives, alcohol looting, panic buying, and breach of social distancing and lockdown rules.

At the same time, private sector distillers and brewers found themselves sidelined, unable to maintain production and sales through local distribution networks dependent on turnover to keep business afloat and people employed.

Moreover, the sharp declines in excise tax revenues and spikes in consumption-related deaths punctuated the disjunction in government policymaking.

Prohibition measures from government leaders were counterproductive to their ongoing efforts to hold back markets for illicit alcohol, especially in markets like South Africa or Mexico, where the market share of illicit alcohol already exceeded 20 percent. Moreover, the sharp declines in excise tax revenues and spikes in consumption-related deaths punctuated the disjunction in government policymaking.

This chapter examines crisis-driven alcohol prohibition laws during COVID19, and the negative impacts related to illicit trade in alcohol. It delineates these findings in four lessons learned from lockdown:

1. Supply restrictions incentivize illicit markets and criminal activity
2. Beware of associated consumer health risks
3. Prohibition reduces tax collections and constrains budgets
4. Prohibition sidelines legitimate businesses and depresses formal job opportunities.

Lesson 1: Supply restrictions incentivize illicit markets and criminal activity

Situational analysis

Sudden restrictions in access to legal alcohol create a downward shift in supply that causes two things to happen: (1) the price of legal alcohol increases and its demand decreases; (2) the demand for illicit substitutes increases and illicit suppliers enter the market to meet the new demand. In the case of outright bans and dry laws, consumers are prevented from purchasing legal alternatives and pent-up demand has no other alternative than to shift entirely to illegal markets.

These trends reflect warnings by the World Health Organization (WHO), which stipulated that restrictions on availability of alcohol that are *too strict* may promote the development of a parallel illicit market.[12] The most notorious example of this was the period during the alcohol ban in the U.S. from 1920 to 1933—an era marked by a flourishing black market for illicit alcohol.

One hundred years later, this trend resurfaced in the countries that implemented dry laws as part of their COVID19 lockdowns, where the immediate impact was increased markets for illicit alcohol in a variety of forms including counterfeit, contraband and surrogate products. In addition, new markets for home brews and other bootleg substitutes were also observed. According to online search data, the phrase "how to make alcohol at home" peaked in India during the first week the nationwide lockdown was imposed.[13] Similarly, Google reported that "how to brew homemade alcohol" was among their highest internet search requests in South Africa after the alcohol ban came into force, registering millions of hits each week.[14] A 900% increase in pineapple sales and a doubling of price per kilo in South Africa illustrates the extreme measures that people will take to circumvent alcohol bans. Triggered by the posting of a traditional recipe for pineapple beer that spread rapidly through social media, the home-brew phenomenon became so widespread that supermarkets started selling the fruit as a package with sugar and yeast.[15]

In the case of outright bans and dry laws, consumers are prevented from purchasing legal alternatives and pent-up demand has no other alternative than to shift entirely to illegal markets.

In addition to an increased demand for illicit alcoholic beverages, criminals and unscrupulous illicit traders rapidly entered markets, eager to fill gaps left by government-imposed supply shortages. Examples ranged from "first time" small scale producers who shifted to illicit products as a way to survive to large scale smuggling rings and the involvement of organized crime.

Lessons from lockdown

The following are examples from countries where COVID19 government-imposed restrictions on the availability of alcoholic beverages have been observed. They are delineated here to elucidate the lesson from lockdown—that *supply restrictions incentivize illicit markets and criminal activity*—and to, hopefully, pave the way to avoiding similar consequences in the future.

- **Example from Mexico:** In an interview with *El Financiero*, the National Association of Wholesale Grocers President Iñaki Landaburu said that restrictions on sales of legal liquor during the pandemic promoted an illegal market. "Consumers, not finding legal alcoholic beverages, opted to be satisfied in a different way at a lower price."[16] The expansion of an already dangerous black market was evidenced by several deaths from the consumption of adulterated alcoholic beverages in Mexico.[17]
- **Example from India:** Quickly after the initial ban on alcohol sales in India, signs of growth in illicit markets were observed. Customs and police reported that consumers were turning to illegal liquor and there was a marked increase in seizures of country liquor.[18] In just the first 38 days, the Government Excise Department seized quantities of illicit alcohol almost equal to the amount seized *during the whole of 2019.*[19] In the context of the imposed lockdown, Kerala State arrested more than 500 people for producing illicit, fermented alcohol. Other Indian States were also quick to report evidence of increased illicit activity, including reports that Gurugram police registered 20 first information reports, arrested 27 people, and recovered large quantities of Indian-made foreign liquor (IMFL) and country-made liquor. In Maharashtra, as many as 102 new cases against illicit alcohol sale were registered and 46 people arrested. And, during a series of raids, police seized vehicles and quantities of illicit liquor worth Rs 1.6 million (US$ 22,000).[20] Further evidence of increased illicit activity included reports of legitimate

bottles of (legal) branded alcohol being traded by bootleggers for 3-4 times the retail price and an increase in online-fraud through misleading advertisements that promised home delivery of alcohol.[21]

- **Example from South Africa:** Industry groups in South Africa reported unprecedented levels of illicit trade in alcohol during the pandemic, with losses from illicit trade expected to rise considerably over the R12.9 billion (US$ 877 million) a year that the South African alcohol sector was already losing prior to COVID19.[22] Further evidence of increased illicit activity included reports that police in Durban seized 20 cases of sealed fake alcohol labeled as Smirnoff Vodka, barrels of stocked alcohol and hundreds of empty bottles ready to be filled.[23] This report came weeks after local police found another 196 bottles of empty Smirnoff 1818, 100 litres of ethanol, artificial Smirnoff 1818 closures, and bottles that had been refilled with counterfeit Smirnoff 1818.[24] In another instance, South African police reported an increase in smuggling of contraband from neighboring countries,[25] including Mozambique[26] and Zimbabwe.[27]

Counterfeit Smirnoff Vodka seized in Durban, South Africa

- **Example from Panama:** Before COVID19, illicit trade in alcohol was negligible in Panama. However, once dry laws were imposed,[28] the Mayor of Panama City reported a considerable increase in illicit alcoholic beverages.[29] Further evidence of increased illicit activity included reports that Police had seized several cargoes of illegally commercialized beer.[30] In the first month alone, more than 600 boxes of different liquors were seized.[31] Officials at Panama's free zone reported that counterfeit and artisanal production of alcoholic beverages had skyrocketed, filling a void left by a drop in product throughput in legal supply chains.[32]

- **Example from Russia:** To counteract COVID19, a number of regions across Russia established restrictions on the sale of legal alcoholic beverages, up to a complete ban in some places. The restrictions were however canceled after a short period as officials quickly noticed that the restrictions did not lead to the achievement of the stated goals but rather had pronounced negative socio-economic effects by stimulating illegal sales and encouraging buying in bulk. In April the Ministry of Industry and Trade issued a document urging regions not to restrict alcohol sales beyond existing federal norms "unless absolutely necessary" as "additional restrictions could lead to a growth in the illegal production of alcohol and its sale, as well as to an increase in social tensions."[33]

- **Example from Peru:** Widespread bootlegging operations have thrived under the nation's state of emergency, which includes localized restrictions on the sale of alcohol.[34] In June, Peru's National Police announced the seizure of industrial drums containing over 1,500 liters of alcohol along with nearly 500 bottles of presumably adulterated beverages in Lima.[35]

- **Example from Colombia:** Colombia's *National Association of Financial Institutions* reported that illicit trade in alcohol (smuggled, contraband and counterfeit) represented 12-29% of the market in Colombia before COVID19. According to the National Association, the implementation of dry laws would increase this figure to at least 40% of the market.[36] According to Euromonitor, the closure of the physical points of sale of alcoholic beverages, such as bars and

- discos, helped to further accelerate the commercialization of illegal beverages online, including on WhatsApp.[37]
- **Example from Namibia:** Following the government-imposed lockdown in March, Namibian police reported a jump in illegal cross-border smuggling of beer and whiskey from neighboring Angola and Zambia. Police informed local media that there had been an "overwhelming increase" in the sale of illicit Angolan beer in northern Namibia, while the Zambezi region in the Northeast had seen a steep rise in spirits smuggled from Zambia.[38]
- **Example from Sri Lanka:** According to reports from the Department of Excise, the ban on alcohol led to a 500% escalation in the production of illicit alcohol.[39] Local police reported over 18,000 instances of illicit alcoholic drinks produced since the ban took place in late March.[40] Sri Lankans reportedly resorted to moonshine and bathtub fermentation to create alcoholic drinks for personal use and sale to circumvent bans placed by the Government. The Department of Excise also noted that the illegal production of [toxic] substandard liquor during the curfew is likely to be even worse than the Coronavirus disaster.[41]

Lesson 1a: Step up measures to prevent the infiltration of organized crime

While lockdowns forced legitimate businesses to slow or shutter operations, public safety policies did little to dampen the determination of organized criminals to exploit supply shortages, consumer fears, and otherwise distracted customs and law enforcement officers.

Known for its ability to exploit regulatory gaps and inconsistencies, organized crime has proven to be particularly well suited to take advantage of supply shortages associated with COVID19 alcohol bans. With legal companies sidelined by the bans, and law enforcement preoccupied with social distancing regulations, criminal groups have entrenched their market positions by diversifying distribution channels and maximizing newfound economies of scale.

The Global Initiative Against Transnational Organized Crime reports that "the disruption caused by coronavirus has been quickly exploited by some criminal groups as a 'window' to scale up their activities [...] the fact that the attention of police and policymakers is currently focused elsewhere has cast a shadow that has allowed some criminal groups new scope to operate in the realm of illegal markets."[42]

The combination of dry laws with a national health crisis has also meant that already stretched law enforcement agencies were forced to allocate resources to COVID19 related activities, such as enforcing quarantines, thereby weakening or redirecting existing anti-illicit alcohol enforcement efforts. Unattended enforcement of traditional anti-illicit trade activities, consequently, has provided ample opportunities for organized criminal groups to thrive.

- **Examples from Colombia and Panama:** Law enforcement agencies in Colombia and Panama reported that they faced extra burdens due to the imposition of alcohol restrictions in their countries. Firstly, additional manpower and other resources were needed to enforce the dry laws. Secondly, it was necessary to invest considerable resources in identifying and seizing illicit products.[43]
- **Example from South Africa:** According to the head of the South African Revenue Service (SARS), the alcohol ban has benefited criminal networks who have gained a foothold in the market.[44] The Institute for Security Studies reported that criminal networks active during the pandemic had added illicit alcohol to illegal products they offer clandestine customers, such as narcotics. Consequently, the restrictions gave a massive boost to organized crime, with the supply side shifting into the control of the illicit industry.[45] Another example includes a raid where police in KwaZulu-Natal confiscated counterfeit alcohol worth more than R500,000 (US$ 33,000).[46] These circumstances are undoing a decade-long drive to formalize the

alcohol sector in South Africa and bring it under regulatory control.[47]

Lesson 1b: Beware of emergency restrictions that jeopardize long-term employment and growth

Economic dislocations from alcohol prohibitions can have immediate effects as well as lingering effects that can, for example, slow economic recovery, invigorate criminal activity and further entrench the deep-rooted connections between illicit trade and organized crime, corruption, money laundering and other criminal activities.[48]

As restrictions are lifted and normality resumes, governments should be wary of threats to economic recovery presented by criminal networks, informal economies and illicit markets that thrived during the lockdown. Certainly, efforts to disband the criminal networks should be paramount.

At the same time, it will be critical to nurture the legitimate industry, which will be recovering from lost sales and employee layoffs and will have to catch up on production and re-establish inventories and supply chains. Any imposed impediments on legal industry operators will keep downward pressure on employment and contributions to GDP.

The challenge to post-pandemic recovery is elucidated by South African Revenue Service (SARS) Commissioner Edward Kieswetter, who pointed out that the COVID19 ban on domestic alcohol sales has encouraged illegal and criminal operators that have now "marketed themselves to previously honest [...] drinkers, embedded [themselves] in the supply chain and it will take us years to reverse the impact."[49]

Industry observers echoed these concerns and warned that it could take years and considerable financial resources to curb the advances in illicit trend and bring consumers back into the legal system.[50]

Lesson 2: Beware of associated consumer health risks

Situational analysis

Perhaps the most alarming consequence of alcohol prohibition measures was the jump in consumer exposure to health risks associated with toxic illicit alternatives. Beyond the fact that these illicit substitutes do not comply with sanitary, quality and safety regulations, the most hazardous are contaminated with toxic chemical additives and supplied by criminals and otherwise unscrupulous illicit traders.

According to the WHO, "consumption of illicitly or informally produced alcohol could have [...] negative health consequences due to higher ethanol content and potential contamination with toxic substances, such as methanol.[51]

This was the situation in virtually every country where some form of prohibition was introduced. Consequently, the sombre lesson about prohibition and illicit alcohol is found in the collective harm, serious injury and hundreds of reported death counts. Beyond these reports, the tragedy extends to the thousands of people who have consumed adulterated alcohol during the pandemic and did not die, but nonetheless suffered significant health consequences.

In the worst cases, people died from consuming illicit beverages as a substitute or as a perceived remedy to COVID19. In other cases, they were driven to engage in harmful behaviors, such as alcohol looting and panic buying, all of which undermine social distancing objectives and their exposure to the COVID19 virus.

In all cases, alcohol bans carried direct and indirect risks to consumers, conflicting with the public health objectives for which COVID19 emergency measures were enacted. These findings leave no doubt that exposure to toxic illicit alcohol must be fully considered by governments before they impose prohibition laws.

Source: National Commission Against Addictions in Mexico (CONADIC)

Lessons from lockdown

The following are examples from countries where COVID19 government-imposed restrictions on the availability of alcoholic beverages have been observed. They are delineated here to elucidate the lesson from lockdown—*Beware of associated consumer health risks*—and to, hopefully, pave the way to avoiding similar consequences in the future.

- **Example from Mexico:** Citing recent data from the National Commission against Addictions (CONADIC), the Mexican journal El País reported the death of nearly 200 people in 11 Mexican states from suspected illicit alcohol poisoning in a period of just three months.[52] The deaths occurred as people who sought to circumvent the dry laws were poisoned by contraband or counterfeit alcohol.[53] Between the end of May and the beginning of June, 18 people died in the Mexican city Tlapa de Comonfort from consuming adulterated beverages, almost the same number of deaths caused by the coronavirus in the municipality.[54]
- **Example from Costa Rica:** Illicit liquor consumed in Costa Rica has historically been smuggled in from Panama, where taxes are significantly lower; and local bootlegging operations (who dilute liquor with lethal methanol) appear to have been incentivized by travel restrictions and stringently enforced local dry laws in parts of the country.[55] As reported by the Ministry of Health, 65 cases of suspected of methanol poisoning from illicit alcohol, leading to 30 deaths, was a red flag that the entrenchment of illicit production of alcohol can present enduring health risks.[56]
- **Example from Colombia:** Methanol poisoning caused 26 deaths in the first half of 2020, mostly in the capital of Bogotá. This represents a 60% increase over previous years. According to El Instituto Nacional de Medicina Legal, the growth in deaths is a result of quarantine measures that have driven more people to consume toxic industrial alcohols.[57]

- **Example from South Africa:** 26 people died after consuming tainted alcohol to get around the strict alcohol ban, including homemade beer mixed with methanol and methylated spirits.[58]

- **Example from Botswana:** Following the government ban on the sale of alcohol, and suspended liquor licensing in response to the pandemic, people resorted to tainted, dangerous and illegal alternatives such as Mokoko o Nchebile. The drink was banned in 2008, following multiple deaths.[59]

- **Example from Honduras:** In October 2020, 23 people died in the city of San Pedro, after drinking adulterated liquor.[60]

- **Example from India:** In August 2020, 113 people died in the state of Punjab, and 15 more in the state of Andhra Pradesh from consuming toxic illicit alcohol.[61]

The haste in which COVID19 related alcohol bans were imposed led to situations that in themselves undermined objectives for protecting public health. For instance, examples of panic buying quickly emerged in the lead-up to COVID19-related restrictions, especially complete lockdowns, which in turn resulted in product shortage and consumer actions at odds with social distancing requirements. These unintended consequences also included health risks to consumers with pre-existing alcohol dependence who turned to toxic illicit substitutes during the COVID19 prohibitions. As the pandemic grew, significant misinformation spread through social media and other communication channels that consuming high-strength alcohol was a remedy for the COVID19 virus. These circumstances contributed to additional illicit alcohol related deaths.

- **Example from India:** In just the first week of the lockdown, reports of suicides related to alcohol withdrawal started coming in.[62] In Kerala and Telangana, 17 people ended their lives after being unable to cope with withdrawal symptoms. In many States, hospitals already burdened with COVID19 cases were overwhelmed with similar incidents.[63] At least 36 people died in Andhra Pradesh after consuming sanitizer and surgical spirit mixed with water and soft drinks to quench their alcohol addiction during the lockdown. Cases have been reported in West Godavari, Visakhapatnam, Guntur, Prakasam, Vijayawada and Kadapa.[64]

- **Example from Thailand:** When the ban on selling alcoholic beverages in Bangkok was announced suddenly on April 10, there was a rush to liquor stores and supermarkets to stock up in the few hours before it came into effect. The short notice created exactly the type of crowded gatherings that the bans were intended to discourage. The timing on the ban was particularly ill-conceived given the concomitance with Songkran, the Thai public holiday celebrated on 13th April.

  Furthermore, as lockdowns eased and several State governments reopened alcohol sales, long serpentine queues quickly formed throughout the country, in obvious public defiance of social distancing rules. This called for additional resources to be invested by these State governments who had to monitor and regulate social distancing among the crowds.

- **Example from USA:** Following the government closure of all state liquor stores indefinitely from mid-March, residents of Pennsylvania made their way to neighboring states to circumvent the restriction, resulting in a surge of border crossings and cross-border sales. In addition to impacting the local economy, it also undermined the intent of the containment measures, as people would travel far and crowd into liquor shops, breaching social distancing best practices.[65] The issue was so pervasive that the neighboring State of Ohio banned the sale of liquor to out-of-state Pennsylvanians.[66]

- **Example from Turkey:** In April 2020, 30 people died and 20 were hospitalized after consuming toxic illicit alcohol in the belief this would protect them from COVID19.[67] In October 2020, 78 more people across 10 provinces in Turkey died of methyl alcohol poisoning, according to state-run Anadolu news agency.[68]
- **Example from Dominican Republic:** The Health Ministry reported in June 2020 that 215 people in the Dominican Republic died after drinking a local illicit alcoholic beverage known as Clerén.[69] Medical tests concluded it contained more than 50% toxic methanol. Many people believed that consuming Clerén was an effective way to fight the virus.[70]
- **Example from Peru:** Even though alcohol was not prohibited in Peru, confusion and misinformation led to 21 deaths by those who consumed adulterated alcohol under the premise that it prevented the spread of COVID19.[71]
- **Example Iran:** As many as 480 people are reported dead from drinking methanol, following rumors that drinking high-proof alcohol, which is banned in the Islamic Republic, is a remedy for COVID19.[72] Some citizens, according to the Iranian Health Ministry, drank alcohol that was adulterated with toxic methanol in place of ethanol, using bleach to mask the color.[73]

Lesson 3: Prohibition reduces tax collections and constrains budgets

Situational analysis

Taxes collected on alcohol at various points along the legitimate supply chain are traditionally an important source of revenue for many governments. Consequently, a fiscal priority is to stop the revenue leakages associated with the sale and consumption of untaxed illicit alcohol. For example, across 21 countries in Latin America, Eastern Europe and Africa, tax losses deriving from illicit alcohol represent an annual fiscal loss of US$ 3.6 billion.[74] These are significant losses that strip governments of income intended for public investment, with relatively more severe impacts on developing countries.

Consequently, the lesson learned from lockdown is that governments that implement draconian supply restrictions on the alcoholic beverage sector end up depriving their own treasuries of much-needed fiscal revenue. While it is difficult to imagine that Finance Ministers would be surprised by this result, perhaps this situation highlights the need for Finance Ministers and Health Ministers to improve coordination, consultation, and joint impact assessment of proposed laws.

> *Consequently, the lesson learned from lockdown is that governments that implement draconian supply restrictions on the alcoholic beverage sector end up depriving their own treasuries of much-needed fiscal revenue.*

In addition to the immediate drain on treasury revenues, negative impacts on future fiscal collections can be significant. The longer that legal businesses are sidelined, the greater the opportunity for illicit traders to capture market share and fortify demand for their low-priced but untaxed products. Under these circumstances, the pool of products subject to taxation can be reduced by 50% or more and regaining revenue losses can take years.

In all cases, reduced tax revenue induced by a government's own alcohol prohibition laws puts extra burdens on budgets at a time when fiscal stimulus is needed most.

Lessons from lockdown

The following are examples from countries where COVID19 government-imposed restrictions on the availability of alcoholic beverages have been observed. They are delineated here to elucidate the lesson from lockdown—*that Governments must anticipate that prohibition reduces tax collections and constrains budgets*—and to, hopefully, pave the way to avoiding similar consequences in the future.

- **Example from South Africa:** The government-imposed lockdown, which in its first phase ran from April to June 2020, had a significant impact on South Africa's alcohol tax collections. In 2019, the regulated alcohol sector accounted for 10% of its total tax revenue (on sales equal to 3.4% (R173 billion) of GDP). The complete ban on alcohol sales and production, consequently, had a crippling effect on this tax base precisely when the government most needed the income. In the first four months of lockdown an estimated R9.5 billion (US$ 645 million) in alcohol in alcohol (and tobacco) taxes were lost, with the alcohol sector representing most of the losses.[75] The South African Treasury indicated that losses from illicit trade were mounting,[76] and could preclude tax collections in the future.[77] Among the reasons for significant tax losses, Tax Chief Edward Kieswetter included the ban on alcohol alongside reduced economic activity and increased business failures.[78]

Collaboration between government and industry

"The closing of tax leakages and efficient collection of revenue is one of the key priorities for the country's economic recovery. The alcohol industry is committed to working with the South African Revenue Service (SARS) to find solutions to the problem of illicit trade which poses a mutual revenue risk for both government and the industry." [79]

– Sibani Mngadi, Spokesman for the South African alcohol industry

- **Example from India:** The alcohol ban blocked a crucial source of direct tax collection for Indian States that were already struggling to pay for social and healthcare programs. This is critically important because many Indian States earn 15-30% of their revenues from excise duties on alcohol sales. States like West Bengal earned less than 5% of their 2019 tax revenue income from the sale of alcohol than during the same time in 2019.[80] Overall, the loss of alcohol tax revenues was estimated at 7 billion rupees (US$ 92 million) a day for a total of Rs 24,000 crore (US$ 3.6 billion) during the 36-day lock down period. In response to the rapidly mounting losses, Revenue Service officials from several State governments requested the central government to lift the ban.[81]

- **Example from Colombia:** The National Association of Financial Institutions reported that tax revenue losses from COVID19 bans on alcohol and beer reached US$ 113 million, or roughly 10% of annual excise tax revenue collections on these products.[82]

- **Example from Kenya:** The ban on alcohol has been estimated to cost the Government sh5.88 billion (US$ 52.8 million) in excise duty, value-added tax, and excisable goods management system fees. The county governments also saw additional losses of Sh3.4 billion (US$ 30.5) million) in excise taxes and alcohol license payments associated with lost sales whilst bars remain closed.[83]

- **Example from Sri Lanka:** The Government estimated that it was losing some 500m Sri Lankan rupees (US$ 2.6 million) per day in forgone tax during the ban. It even implored the telecommunications regulator to find some way to stem the sharing of recipes on social media in an attempt to stop home production of illicit bootleg beverages.[84]

- **Example from Mexico:** In early April, 52 municipalities in 21 Mexican states banned the sale of alcohol with the intention of avoiding mass parties and gatherings to reduce coronavirus contagions. The Federal Government also banned the production of beer, considering it a non-essential activity. The combined consequences of the temporary closure of the industry, the dry law and restrictions on selling in some states were immediate: Between January and July 2020, excise tax collection from beer was US$ 19,9 million, a decrease of 15%, compared to the same period in 2019.[85]

- **Example USA:** After Pennsylvania closed all its state-owned liquor stores, the state lost US$ 10-12 million in excise tax revenue per week.[86]
- **Example of Panama:** According to industry estimates, for each week that the dry law was in place the Panamanian government lost approximately US$ 2.4 million in Selective Consumption Tax (ISC) and ITBMS (VAT). The alcoholic beverages industries contribute US$ 125 million dollars annually in ISC and ITBMS, and the beer industry alone represents approximately 1.3% of the national GDP and sustains approximately 6,000 direct and 40,000 indirect jobs.[87]

Lesson 4: Prohibition sidelines legitimate businesses and depresses formal job opportunities

Situational analysis

Restrictions on alcohol sales and production had an outsized impact on legitimate industry, jeopardizing long-term employment and growth, while fueling a parallel underground market that sets back the legal sector's ability to rebound once restrictions are lifted.

It's important to note that the alcohol industry extends beyond well-known multi-national producers; it includes small tavern owners, restaurant owners, large liquor outlets as well as independent liquor stores, local craft brewers, boutique gin and whiskey distillers, vineyards, and small barley and grape growers. The sector also touches on logistics and transport, such as small-to-medium-enterprises (SMEs) and truck drivers, and it relies on (and employs) people in packaging and glass manufacturing, which in turn rely on other industries.[88] Thus, the impact of completely shutting down this sector, even for a short period, has far reaching consequences on businesses and jobs across many other industries.

The challenges for industry have also been compounded by unclear, poorly communicated and ever-changing restrictions and goalposts that created confusion and difficulties for business to comply with. In Nepal, for example, owners of legal alcoholic beverage stores were penalized or shut down by police for [unknowingly] operating outside of restricted hours. In addition, industry was often not told what the conditions need to be in order for governments to remove the dry laws.

Lessons from lockdown

The following are examples from countries where COVID19 government-imposed restrictions on the availability of alcoholic beverages have been observed. They are delineated here to elucidate the lesson from lockdown—*that governments must anticipate that prohibition sidelines legitimate businesses and depresses formal job opportunities*—and to, hopefully, pave the way to avoiding similar consequences in the future.

- **Example from South Africa:** The long, nationwide ban on the sale of all alcohol products, production and transportation was hugely detrimental to South Africa's legal alcohol industry. For example, the largest brewer, South African Breweries (SAB), announced a halt on a R5 billion (US$ 330 million) planned investment because of the alcohol ban. The company stated that "the cancellation of this planned expenditure is a direct consequence of having lost 12 full trading weeks, which effectively equates to some 30 percent of the SAB's annual production."[89] Similarly, Heineken announced that it abandoned plans to build a R6 billion (US$ 395 million) brewery in the port city of Durban, which would have created 400 jobs. Not surprisingly, the knock-on effects

Counterfeit liquor worth an estimated R500,000 seized in Mandawe area (South Africa) in April 2020.

of alcohol prohibition soon showed up in other South African industrial sectors. Consol Glass, for example, is the largest glass bottle manufacturer in South Africa and depends on the legal alcohol beverages industry for 85% of its sales. Not long into the pandemic, Consol announced that “the combined effect of COVID19, the current alcohol ban, ongoing restrictions on on-premise consumption, and lost compound growth will see the South African glass industry decline by 15% over the next 12 months.” The company also pulled back construction of a new R1.5 billion (US$ 99 million) manufacturing plant.[90]

While it is challenging to evaluate the full effect of prohibition laws on an industry that employs millions of people in primary and secondary sectors, any job losses—especially those lost via alcohol bans—are particularly debilitating in a country where the overall unemployment rate already stood at 30%.[91] The following points provide further evidence of job losses associated with the alcohol ban.

- It is estimated that around 165,371 jobs across the alcohol value chain were lost during the first alcohol ban, while nearly 800 small- and medium-sized alcohol manufacturers faced bankruptcy.[92]
- According to *Wines of South Africa*, an industry organization that promotes wine exports to international markets, the flourishing South African wine industry lost more than R7 billion (US$ 462 million) in revenue and roughly 21,000 jobs during the lockdown.
- *VinPro*, representing South African wine producers, cellars and stakeholders, reported that it expected more than 80 wineries and 350 wine-grape producers to go out of business.[93]
- *Grain SA* reported that the ban of alcohol sales has put downward economic and labor pressure on farmers that produce commodities (e.g., sorghum, barley, maize, potatoes and grapes) that are key ingredients in the manufacture of domestically produced alcoholic beverages, with small scale farmers particularly vulnerable.[94]

- **Example from Kenya:** According to the Alcoholic Beverages Association of Kenya (ABAK), the COVID19-related ban on alcohol reduced demand for locally harvested agricultural products such as barley and wheat. ABAK also noted that the “impacts of COVID19, closure of bars, and the ban on consumption of alcohol in restaurants and eateries will lead to industry-wide economic losses of Sh9.1 billion (US$ 81.7 million) and 57,000 job losses between July and September 2020.”[95] Another 57,417 job losses have been attributed to the secondary value chain, including factories and farmers, along with associated economic losses of Sh2.72 billion (US$ 24.4 million). The demand for barley and sorghum was projected to fall by nearly eight million kilograms, affecting the livelihoods of 6,800 farmers.[96]
- **Example from India:** The COVID19 lockdown and restrictions have been a huge blow to India’s legal alcohol industry and put at risk the jobs and livelihoods of millions who are employed in the alcohol sector. The sector sustains nearly 4 million farmers and employs nearly 2 million people directly and indirectly.[97]
- **Example from Colombia:** According the *National Association of Financial Institutions*, the liquor and beer industries employ 120,000 people, with the 35,000 self-employed reported to be most vulnerable to the negative economic impacts imposed by the dry laws.[98]
- **Example from Mexico:** The government declaration that brewing was a “nonessential” activity, and the subsequent halting of beer production in Mexico, had significant impacts on the local economy. The National Alliance of Small Merchants (ANPEC) estimated that up to 300,000 jobs were affected and predicted

that 56% of small businesses could lose up to 60% of their income. According to la Cámara Nacional de Comercio, Servicios y Turismo en Pequeño (Canacope), more than 200 businesses were permanently closed as a result of the Yucatán dry law.[99] Mexico is the largest beer exporter in the world and the fourth-largest producer in volume. The shutdown had a devastating effect on exports, bringing them down 32% in April 2020 compared to April 2019. Overall, exports dropped 19% in the first five months of the 2020.[100] The restriction on beer production also caused significant shortages and incentivized a lucrative black-market that exposed consumers to overpricing, corruption and theft, with beer in the informal market selling for 65% of its regular price.[101]

- **Example from Australia:** Alcohol Beverages Australia (ABA) reported on how, even in the absence of an alcohol-specific ban, the Australian alcohol sector was indirectly impacted by the COVID19 pandemic, as lockdowns and social distancing forced the closure of pubs, bars, clubs, and restaurants. According to ABA, the loss of jobs and revenue in this sector was crippling. At the peak of isolation measures, 10% of annual sales and 441,400 jobs had been lost in enterprises dependent on serving alcoholic beverages. This represented a loss of a third of their total workforce.[102]
- **Example from Trinidad and Tobago:** In April 2020, Trinidad and Tobago was the first country in CARICOM to appoint a Committee for COVID-19 'Road to Recovery", comprised of leading industry representatives, activists and economists to help chart a way forward in light of the COVID-19 pandemic.[103] One accomplishment was reopening protocols for the on-trade and off-trade channels for alcohol sales. This constructive and proactive dialogue is a good example of how public-private cooperation can align priorities and identify recommended practices that can be used to help mitigate exposure to the COVID-19, while also creating conditions consistent with the safe operation of the Hospitality, Food & Beverage Sector.

CHAPTER 3: HOW CAN LOCKDOWN LESSONS HELP SHAPE THE RECOVERY?

Unprecedented levels of pandemic-driven unemployment, waves of business foreclosures, and lost GDP left many governments faced with rendering emergency stimulus measures to rebuild economies.

The findings from this report suggest that, as governments move from crisis management to recovery planning, valuable lessons from alcohol prohibition can usefully shape constructive and inclusive ways to build back economic activity, employment and growth.

The question, of course, is how and which measures can regrow the economy without inadvertently suppressing it even further. Lifting social distancing restrictions or perhaps the introduction of a vaccine is the low-hanging fruit that will immediately enable businesses to reopen and people to return to work. This will provide the initial bump to economic re-growth.

But what else is on the table?

As discussed above, the alcoholic beverage sector and its multiple and varied secondary industries are significant contributors to GDP and employment—and tax revenues—in virtually every economy worldwide. Because of this, jumpstarting the sector will be an important part of recovery.

Moreover, it would be judicious for policymakers to be mindful that this sector and the people who work there have already been particularly hard hit by prohibition measures that were imposed on the industry during the months of lockdown. Careful consideration should be given to lesson #4, from above: *Governments must anticipate that prohibition sidelines legitimate businesses and depresses formal job opportunities.*

Think twice about sudden increases in excise taxes

Among the various emergency "economic recovery" measures under discussion in some national capitals is the option of increasing excise taxes levied on alcoholic beverages as a means to replenish budget shortfalls. By September 2020, some countries had already increased ad hoc taxes on alcohol sales by 70%.

Excise taxes can be a powerful way to raise public sector revenues and they are particularly effective on products which have a low elasticity of demand. Nonetheless at a price point set too high, increases in taxes will have negative consequences, triggering a double threat to tax revenues by reducing purchases of taxable legal products and driving consumers to seek unregulated, untaxed illicit products.

Therefore, prudence should dictate whether raising taxes further will contribute to a positive recovery. A quick fix approach could end up being as reckless as the imposition of prohibition laws, resulting in lower consumption of legal beverages, smaller pools of tax collections and an increase in demand for untaxed, cheaper illicit alternatives.

- **Example from India:** In the aftermath of national bans on alcohol sales, several Indian States implemented an additional tax on alcohol of up to 75% of the retail price. However, this quickly proved to be counterproductive as it led to sharp declines in sales and pushed consumers towards illicit and untaxed alternatives.[104] A report by trade association CIABC showed that States which imposed a post-lockdown "COVID-tax" on liquor of more than 50% witnessed an average 59% decline in sales in May and June.

However, states where up to 15% additional COVID-tax was imposed, witnessed only 16% decline. This indicates that taxation, beyond a point, becomes counterproductive.[105] To correct the fiscal incongruency, several States repealed or adjusted the tax increase laws.[106]

- **Example from Turkey:** Turkey has historically imposed high taxes on alcohol. The tax on the spirit Raki, for example, is 234% over the original price. In July, the Government raised taxes on alcoholic beverages by a further 6.9% and media reports linked the tax increases with surging demand for substitute illicit alcohol along with 45 deaths within three weeks of the tax increase.[107] The Turkish Medical Association (TTB) claimed that bans, high tax increases and restrictions on alcohol were the main contributing factors to the soaring number of deaths related to bootleg alcohol consumption.[108] The Governor of the province of İzmir where the most deaths were reported, pledged to intensify efforts to combat the production and sale of illicit alcohol and urged the public not to buy alcohol from illegal or unauthorized dealers.

People are anxious to get off the sidelines and return to jobs

Any measure intended to boost post-COVID19 economic recovery must carefully consider the impact on local employment. A challenge greater than refilling tax coffers is to restore employment for millions of people who were forced into the swollen ranks of unemployment.

The alcohol sector—and the universe of industries that it nourishes—were particularly hard hit by prohibition policies. Millions of employees, direct and indirect, were sidelined and sent home during the worst phases of the pandemic. Traditional alcohol production, distribution and retail were all crippled. Beyond that, secondary industries including printers, bottlers and glass manufacturers found themselves without work. But that is just the beginning, people working in restaurants, bars, pubs, and any of the millions of venues selling alcoholic beverages found themselves sitting at home with no job, for months.

- **Example from South Africa:** South Africa has 34,500 licensed tavern owners, 10,000 shebeen permit holders, 2,700 independent liquor store owners employing 25,000 staff and around 7,000 restaurant owners with about 250,000 employees.[109] Illegal trading directly results in losses for the Treasury, and it affects all those working in the regulated sector, from farmworkers and distributors to retailers and producers, as well as the hospitality industry. These job losses have been particularly debilitating in a country where the overall unemployment rate already stood at 30%.[110]
- **Example from the USA:** The brewery industry in the United States saw a stunning 230% increase in jobs from 2007 to the pre-pandemic peak of 2019, making breweries the fastest growing manufacturing industry in the country. Referencing its role as a significant job creator, the US based think tank Progressive Policy Institute (PPI) recently called for temporary excise tax cuts for brewers to be made permanent, *"Yet, with the pandemic on the upswing across the country and unemployment still high, the notion of raising taxes on an extremely successful job-creating industry seems misguided, at best. That's the equivalent of removing a tire from your fastest, most reliable car in the biggest race of the year."*[111]

There are better options than increasing excise taxes

There are a great number of alternative options to increasing excise taxes, and consideration should be given to this portfolio of time-proven regulatory measures that can complement tax policies, not undermine them.

These measures start with increasing the accessibility of regulated taxable products that generate legitimate and significant levels of tax revenues. Governments cannot collect taxes on legal products that are not sold nor can they collect taxes on illicit products that exist outside of tax regimes.

Imposing sanctions on the bad actors that supply markets with fakes or smuggle contraband across borders is an effective way to plug fiscal leakages by disincentivizing the supply of illicit, untaxed products and increasing the pool of regulated, taxable products.

Increasing consumer awareness about the harms of illicit alcohol is another important measure that governments can use to steer people away from harm and into the legal, regulated and taxable marketplace.

In all cases, the result is greater tax collections on a larger pool of legal, taxable product—with the knock-on value of reduced consumer risk and economic growth.

- **Example from Norway – stronger border control.** Norway presents an example of the value of controlling fiscal leakages by strengthening border control of smuggling, thereby stopping the entry of untaxed contraband that displaces legal products upon which excise taxes are collected. Norway's Ministry of Finance, for example, reported a 19% increase in alcohol excise revenues after the government introduced stricter border controls at the beginning of the COVID19 pandemic.[112] The Confederation of Norwegian Enterprise said the increase in alcohol excise revenues demonstrated how much revenue the state loses to cross-border trade every year.
- **Example from India – increase online sales.** In May 2020, the Supreme Court of India rejected a Public Interest Litigation to close alcohol shops following reported violations of social distancing norms. In its explanation, the Court suggested that states consider "non-direct sales including on-line sale/home delivery of liquor to facilitate social distancing."[113] In an unprecedented response, a few state governments including Chhattisgarh, Maharashtra, Punjab, Tamil Nadu, Kolkata, Odisha and West Bengal for the first time introduced e-commerce and home delivery of alcohol.[114] Online sales of alcohol can take place safely and there are many examples of where industry has worked with governments to ensure proper protocols are in place.

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Illicit trade in alcohol is neither a new, nor a COVID19-specific phenomenon. According to Euromonitor's 2018 Global Study on Illicit Alcohol, one in four alcohol bottles are illicit, representing 25.8 percent of all global consumption.[115] These findings correspond to World Health Organization (WHO) estimates that unrecorded alcohol accounts for 25.5 percent of total worldwide adult alcohol consumption.[116]

The increase in illicit alcohol trade during COVID19 has a notable distinction of being a pandemic construct, in that it was both predictable and preventable. Consequently, the main conclusion from this report is that governments should or should have known better and should take heed of these lessons to avoid a repeat in future.

Given that illicit alcohol was already a known and significant problem, the increase in illicit alcohol trade during COVID19 has a notable distinction of being a pandemic construct, in that it was both predictable and preventable.

So, while markets for illicit alcohol existed and persisted, before and during COVID19, it has become clear that the introduction of new, crisis-driven restrictions on the sale, production and consumption of alcohol exacerbated the problem and intensified the trade in unregulated illicit alcohol.

The main conclusion from this report is that governments should know or should have known better. There is a long history that shows sudden restrictions in access to legal alcohol—in particular outright bans and dry laws—result in growth of illicit markets, with ensuing health implications for consumers and severe financial impacts on governments.

On top of the basic economic principles that should have deterred governments from imposing alcohol bans, there is the American experience with *Prohibition*, a notorious period when the U.S. banned alcohol from 1920 to 1933. This era was marked by a roaring, dangerous black market for illicit alcohol, significant levels of associated unemployment where 250,000 alcohol industry employees were forced out of work, and excise tax losses that reached US$11 billion.[117]

It was reckless for governments in 2020 to have ignored the basic tenets of supply and demand and the infamous case study of *Prohibition*, again suggesting that governments should have known better: Alcohol prohibition is not a solution, but rather a failed policy instrument that generates significant, negative social and economic externalities.

Four lessons learned from lockdown

1. Supply restrictions incentivize illicit markets and criminal activity

Sudden restrictions in access to legal alcohol create a downward shift in supply that causes increases in the demand for illicit substitutes and incentivizes illicit suppliers to enter the market to meet the new demand. In the case of outright bans/dry laws, consumers are prevented from purchasing legal alternatives and pent-up demand has no other option than to shift entirely to illegal markets.

And, while lockdowns forced legitimate businesses to slow or shutter operations, public safety policies did little to dampen the determination of organized criminals to exploit supply shortages, consumer fears, and otherwise distracted customs and law enforcement officers. With legal companies sidelined by the bans and law enforcement preoccupied with social distancing regulations, criminal groups entrenched their market positions by diversifying distribution channels and maximizing newfound economies of scale.

2. Governments must beware of associated consumer health risks

Perhaps the most alarming consequence of alcohol prohibition measures was the jump in consumer exposure to health risks associated with toxic illicit alternatives. Beyond the fact that these illicit substitutes do not comply with sanitary, quality and safety regulations, the most hazardous are contaminated with toxic chemical additives. In the worst cases, people died from consuming illicit beverages as a substitute or as a perceived remedy to COVID19. In other cases, they were driven to engage in harmful behaviors, such as looting and panic buying, all of which undermine social distancing objectives and increase the risk of exposure to the COVID19 virus.

Therefore, the sombre lesson about prohibition and illicit alcohol is found in the collective harm, serious injury and reported death counts.

3. Prohibition reduces tax collections and constrains budgets at a time when revenue is needed most

Taxes collected on alcohol at various points along the legitimate supply chain are traditionally an important source of revenue for many governments. Consequently, a fiscal priority is to stop the revenue leakages associated with the sale and consumption of untaxed illicit alcohol.

During the pandemic, tax and revenue authorities from India, South Africa, Colombia, Sri Lanka, Mexico, United States and Kenya all reported significant drops in taxes collected on alcoholic beverages—with calls for the bans to be lifted as soon as possible. As the pandemic played out, governments that implemented draconian supply restrictions ended up depriving their own treasuries of much-needed fiscal revenue.

4. Prohibition sidelines legitimate businesses and depresses formal job opportunities

Emergency restrictions on alcohol sales and production have had an outsized impact on legitimate industry, jeopardizing long-term employment and growth, while fueling a parallel underground market that further harms the legal sector's ability to rebound once restrictions are lifted.

While it is challenging to evaluate the full effect of prohibition laws on an industry that employs millions of people in primary and secondary sectors, any job losses—especially those lost via a government's own alcohol bans—are particularly debilitating in countries where the overall unemployment rate is already high.

Recommendations

In dealing with the challenges associated with COVID19—or any other crisis—government decisions must be careful, balanced and prudent. The four lessons-learned delineated in this report are put forward in the hope that policy makers of today and tomorrow will guard against the negative socio-economic consequences that have so often followed the imposition of alcohol prohibition laws.

This situation highlights the need for Finance, Trade and Health Ministers to improve coordination, consultation and joint impact assessment of proposed laws.

There is also a role for private and public sector dialogue on ways to prevent illicit trade, a common goal they both share. If new restrictive measures are being considered, governments should consult and cooperate with the responsible companies within the industry to ensure that any restrictions are temporary in nature, proportionate and sustainable. Any such measures should be accompanied by appropriate public health messaging and reinforced by responsible retail standards.

Governments must also ramp up implementation of enforcement measures to ensure that illicit trade activities caused by the pandemic do not become permanent features of the post-pandemic economy. All stakeholders have an interest in stamping out illicit trade in alcohol and all benefit from collective action.

Recommendations for governments

- Avoid prohibition laws as emergency response measures to protect people from the spread of virus. The benefits are conjectural, while the negative consequences are many and counterproductive to interdependent health, employment, and economic objectives. As such, the perspectives of multiple public decision-makers and Finance, Trade and Health Ministers should be consulted and assessed.
- Ensure availability and access to legitimate products that conform with social-distancing objectives without inducing demand for illicit substitutes.
- Avoid the imposition of "emergency tax" increases on alcohol. A quick fix approach could end up being as reckless as the imposition of prohibition laws, resulting in lower consumption of legal beverages, smaller pools of tax collections and an increase in demand for untaxed, cheaper illicit alternatives.
- Ramp up implementation of enforcement measures to ensure that illicit trade activities caused by the pandemic do not become permanent features of the post-pandemic economy.

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[7] TRACIT acknowledges the severity of the Covid-19 crisis and understands the need for rigorous and sustained action from governments in these unprecedented times. We are supportive of measures aimed at minimizing the spread of Covid-19 through social distancing. This includes measures that, while placing a serious economic burden on business operators, temporarily suspend the on-premise consumption of food and beverages (including alcohol) in cafes, restaurants, bars and other on-trade outlets.

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