



Illegal Alcohol: Trends & Challenges



- ✓ GBI is an informal coalition of the world's four largest brewers: SABMiller, AB InBev, Carlsberg & Heineken
- ✓ Together we produce ~60% of the world's beer, in almost every country
- ✓ Our goal is to lead the responsible advancement of beer interests on a global scale

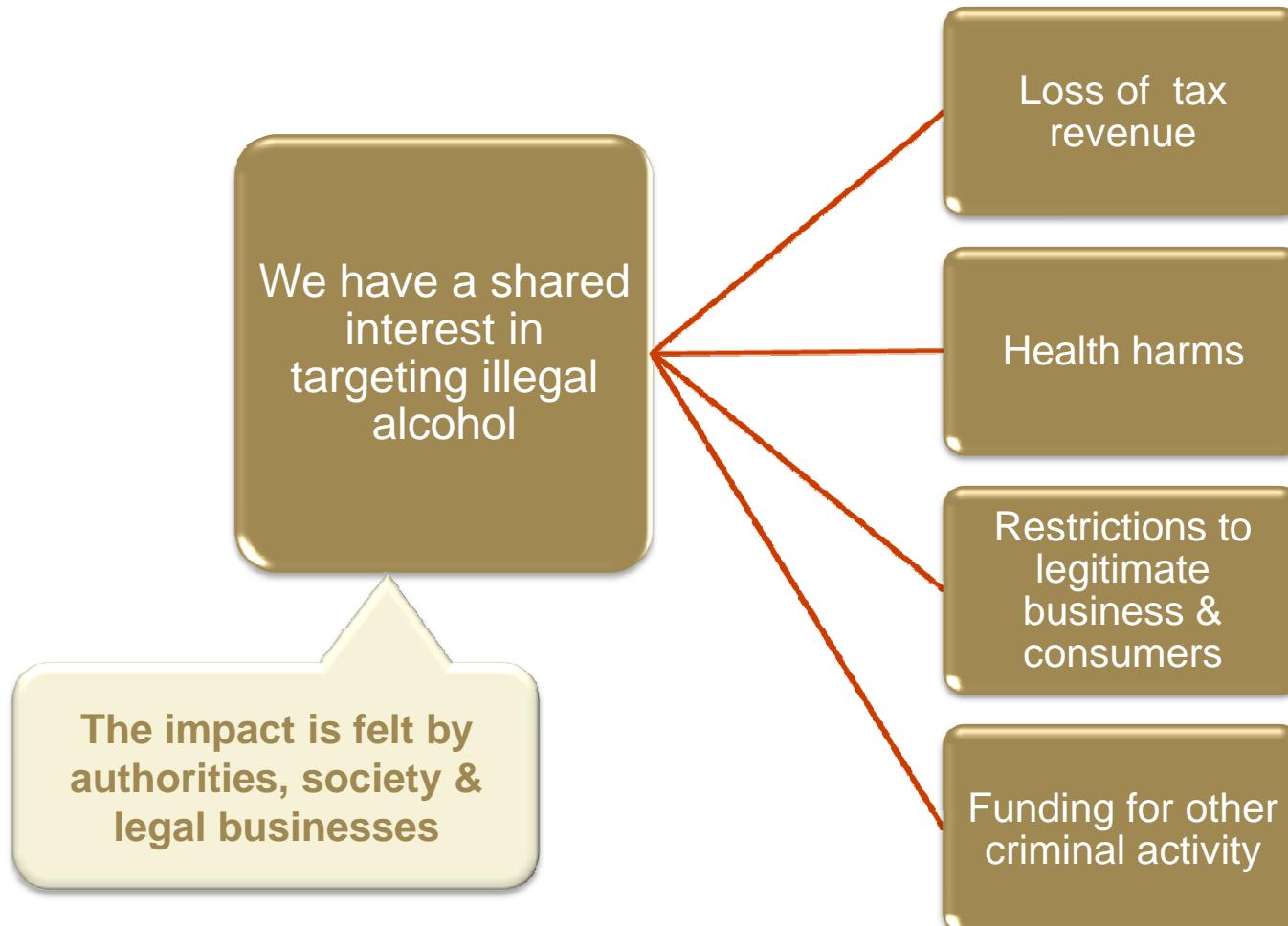




"...Because it is where the money is."



Illegal alcohol is a problem for all of us





First, we need to understand what the problem is... and how big it is

THE ILLEGAL ALCOHOLIC BEVERAGES MARKET IN LATAM – SIX COUNTRIES - 2012

A custom report compiled by Euromonitor International
for SABMiller
October 2013

Different products have different illegal risk profiles

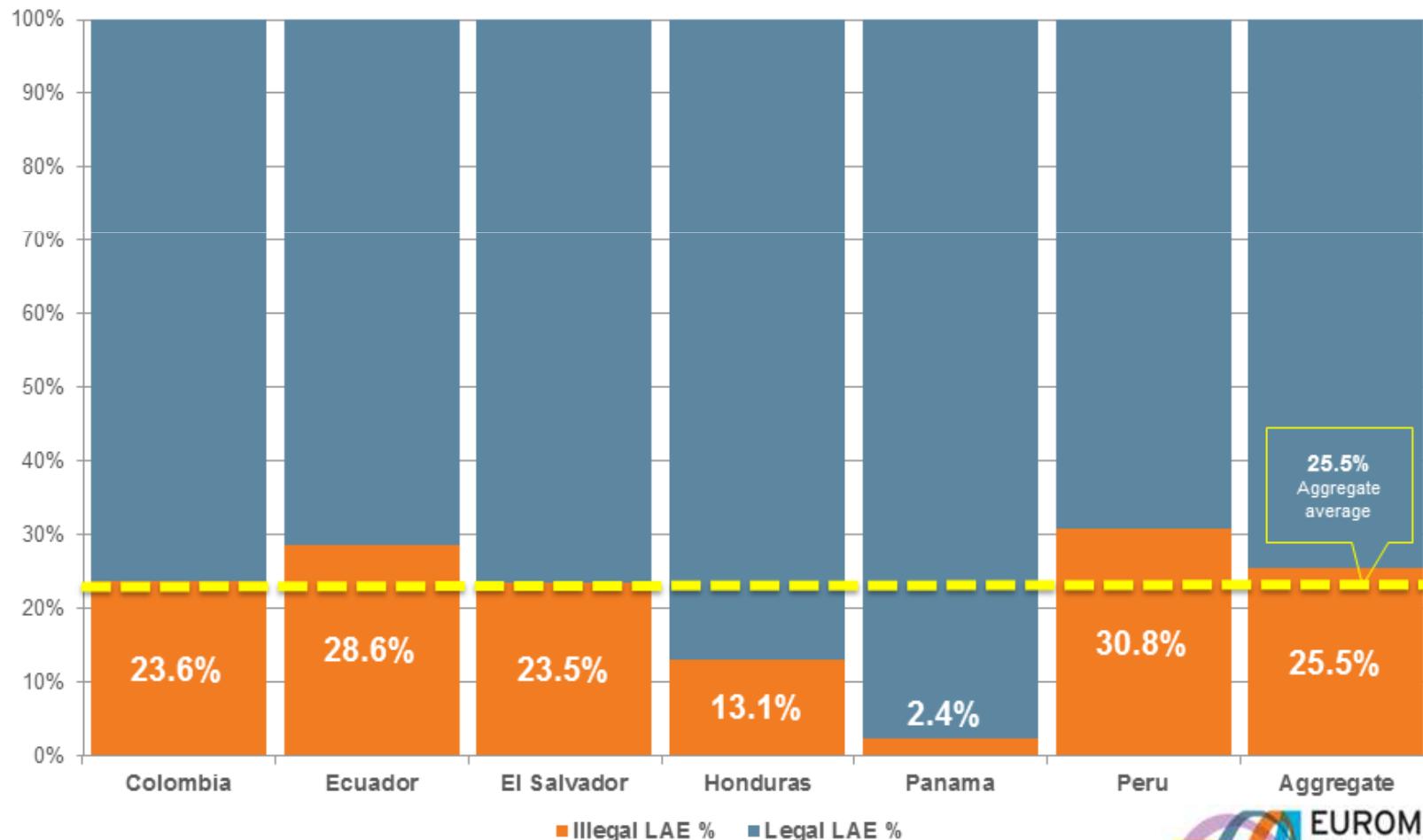
Definitions

Category/subcategory	Definition
Counterfeit & illegal brands	
Substitute/Refill	Illegal alcohol sold as legal brands or empty bottles of legitimate products refilled with cheaper alcohol
Industrial manufacturing of illegal brands	Manufacturing of illegal branded or unbranded alcohol
Contraband	
Ethanol as raw material	Illegal imports of ethanol as a raw material
Finished products	Illegal imports of alcoholic beverages
Illegal artisanal	
	Illegal artisanal alcoholic beverages made for commercial purposes
Surrogate	
	Alcohol not meant for human consumption (e.g. pharmaceutical alcohol) diverted to the alcoholic beverages market
Tax leakage	
	Legal alcoholic beverages (locally produced) on which excise was not paid

A quarter of total alcohol beverages market (Volume LAE) is illegal alcohol

Size of illegal market including tax leakage – Volume LAE (2012)

Peru and Ecuador have illegal market shares above the aggregated average of 25.5%

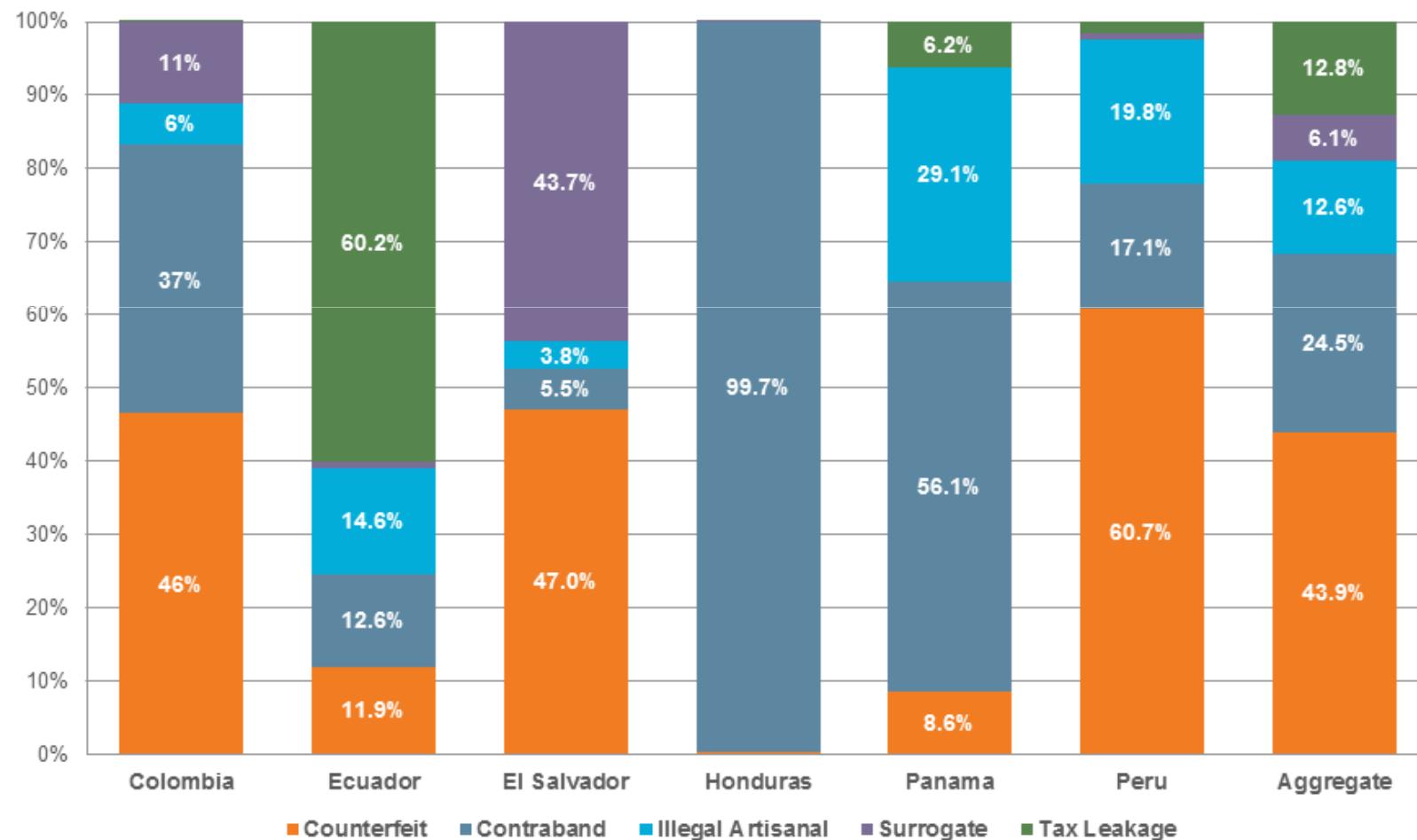




The threat differs by market...

Shape of illegal market including tax leakage – Volume LAE (2012)

Tax leakage accounts for more than 60% of the illegal market in Ecuador, vs. 12.8% for the region



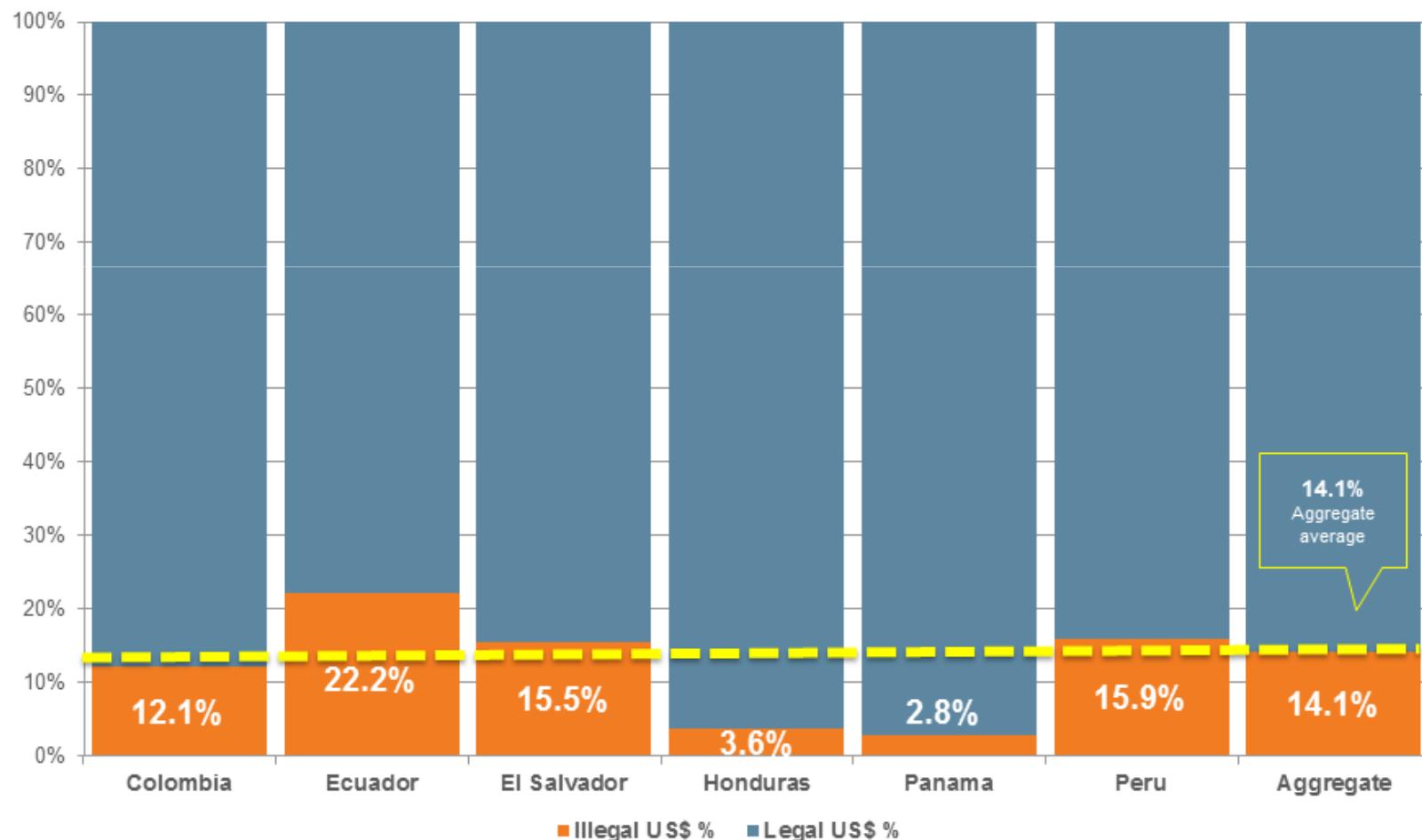
Counterfeit alcoholic beverages are popular in Honduras. However, since the main ingredient is smuggled ethanol all the volumes were classified as contraband to avoid double counting.



14% of total alcohol beverages market (Value US\$mn) is illegal alcohol

Illegal market share including tax leakage – Value US\$ mn (2012)

Ecuador, El Salvador, and Peru have illegal market shares above the aggregated average of 14.1%

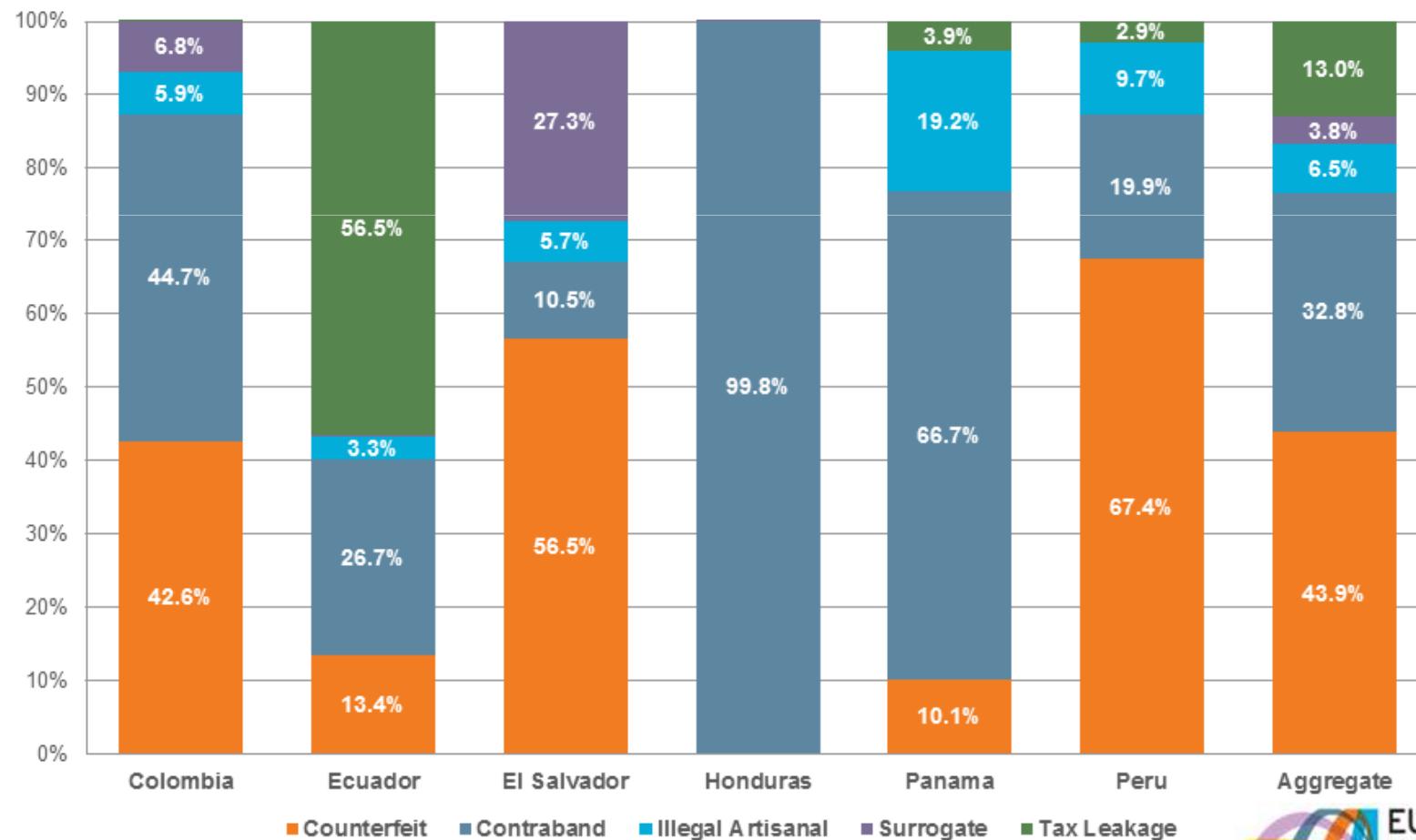


The illegal market size in terms of value was estimated using average illegal retail selling prices (RSP).

The value pool (US\$) has a different profile than the volume (LAE) of IAB across the region

Shape of illegal market including tax leakage – Value US\$ mn (2012)

Counterfeit and contraband are the main categories of illegal alcoholic beverages across the region





To put it in perspective...

Fiscal loss including tax leakage – US\$ mn (2012)

Colombia experiences the largest fiscal loss in the region; its average excise is 32.8% compared to the aggregate 20.9%

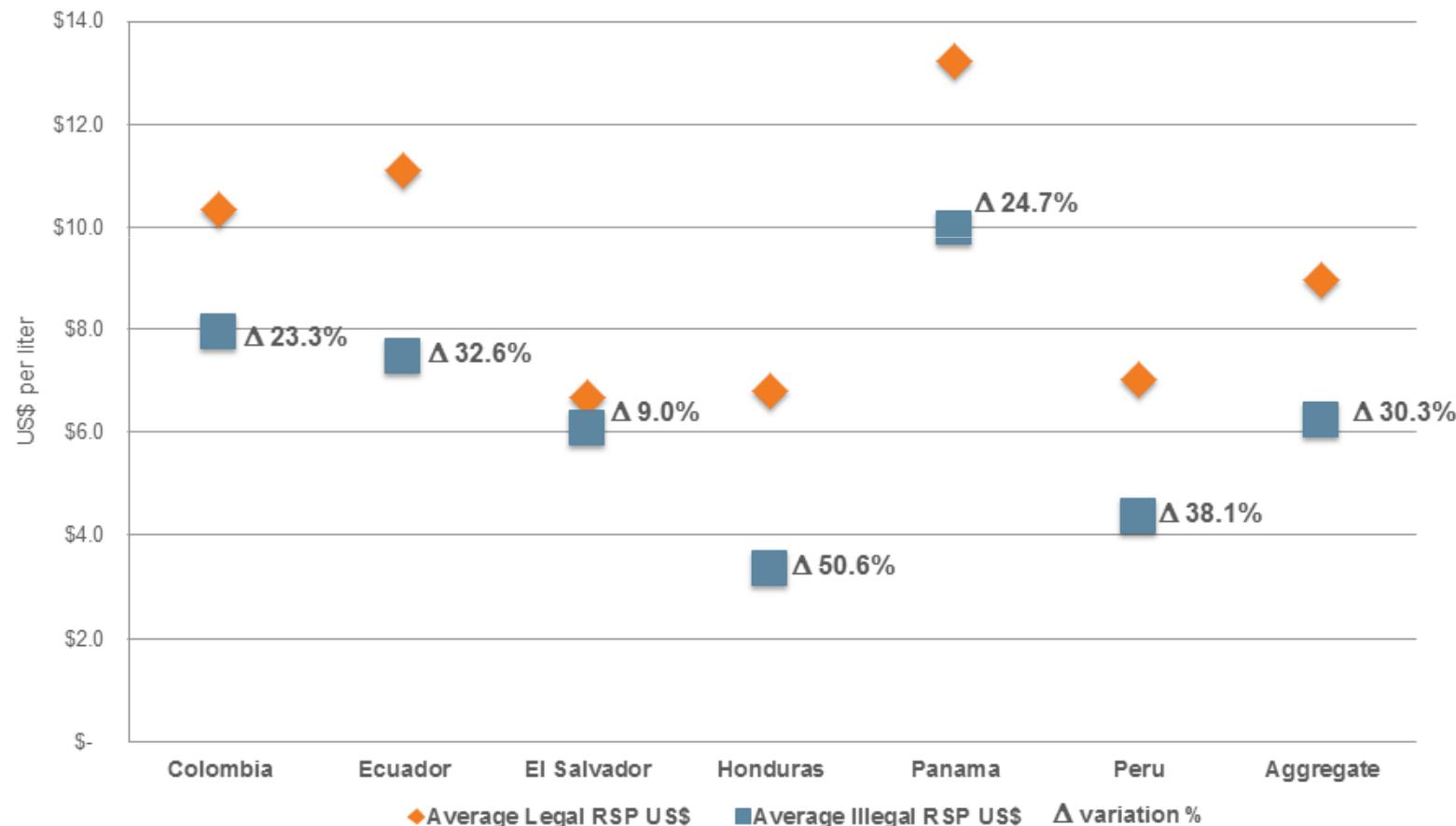
	Illegal market size (US\$ mn)*	Excise (US\$ mn)	Import duties (US\$ mn)	% Excise	Total fiscal loss (US\$ mn)
Colombia	1,357.7	445.1	23.3	32.8%	468.4
Ecuador	748.6	105.9	21.6	14.1%	127.5
El Salvador	70.0	17.4	1.1	24.8%	18.5
Honduras	21.7	1.6	0.6	7.5%	2.2
Panama	19.8	1.2	1.1	5.9%	2.3
Peru	1,172.9	115.8	1.6	9.9%	117.4
Aggregate	3,390.8	710.3	26.0	20.9%	736.3

*Illegal market size in terms of value based on legal RSP, including tax leakage.

Prices of illegal alcohol are 30% lower than legal retail prices at a regional level

Average illegal and legal RSP in the region

*In Honduras and Ecuador, where contraband and tax leakage are dominant, price variation is strong.
In El Salvador, prices in the illegal market are very similar to those for legal products.*



RSP= Retail selling prices

Average RSP per liter of illegal alcoholic beverages



Conclusions – Regional analysis



In 2012 the illegal market accounted for 25.5% of the total market in terms of volume (LAE) and 14.1% in terms of value (illegal RSP)

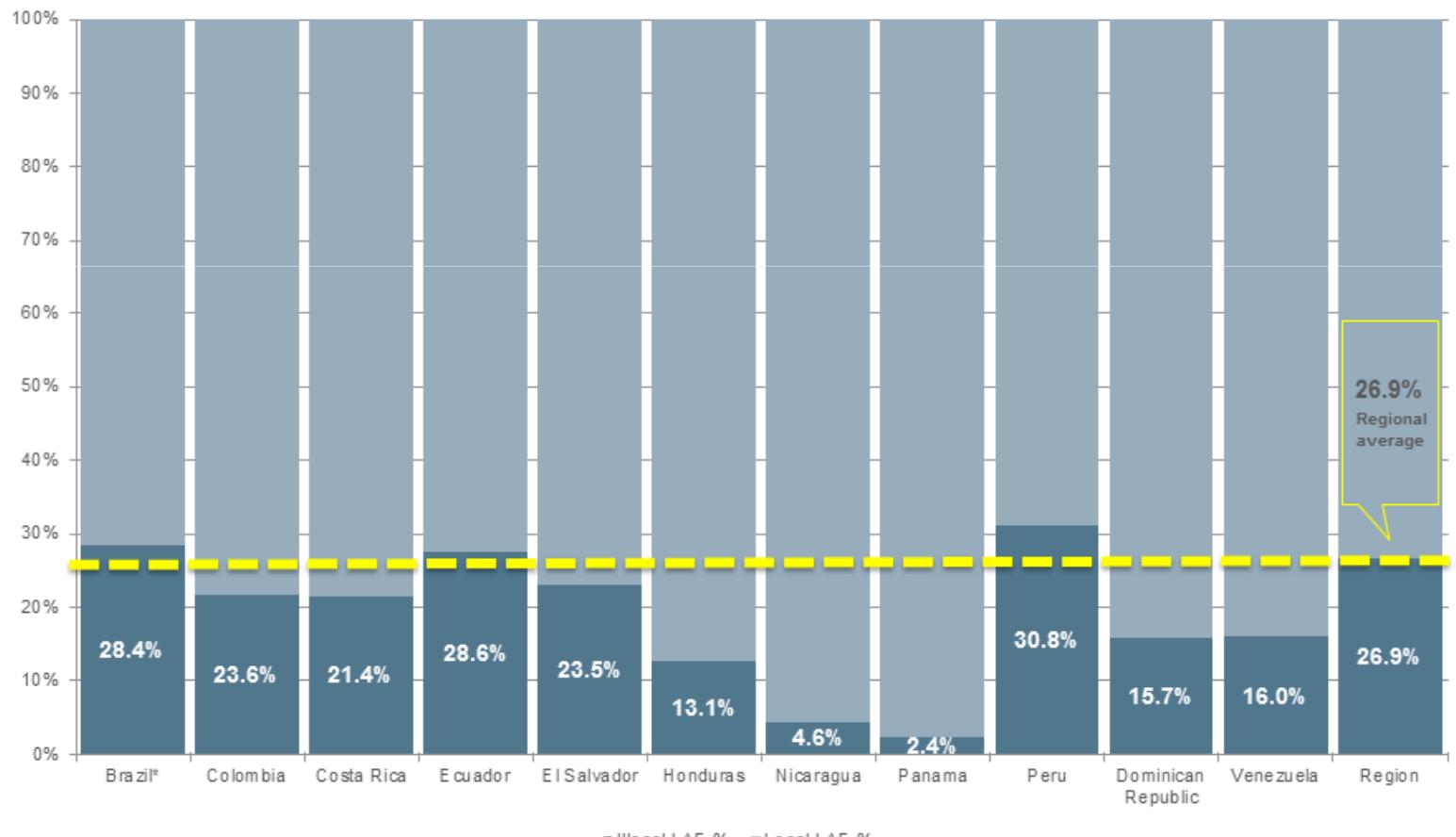
On average, the retail prices of illegal products were 30.3% lower than those of their legal counterparts in 2012

In 2012, the illegal alcohol market represented a total fiscal loss of US\$736 mn, with counterfeit and contraband the main categories responsible for this loss

IAB: a common problem throughout the region (and beyond)

Regional comparison of illegal market shares – Volume LAE (2012)

Brazil, Ecuador, and Peru have illegal shares above the regional average of 26.9%



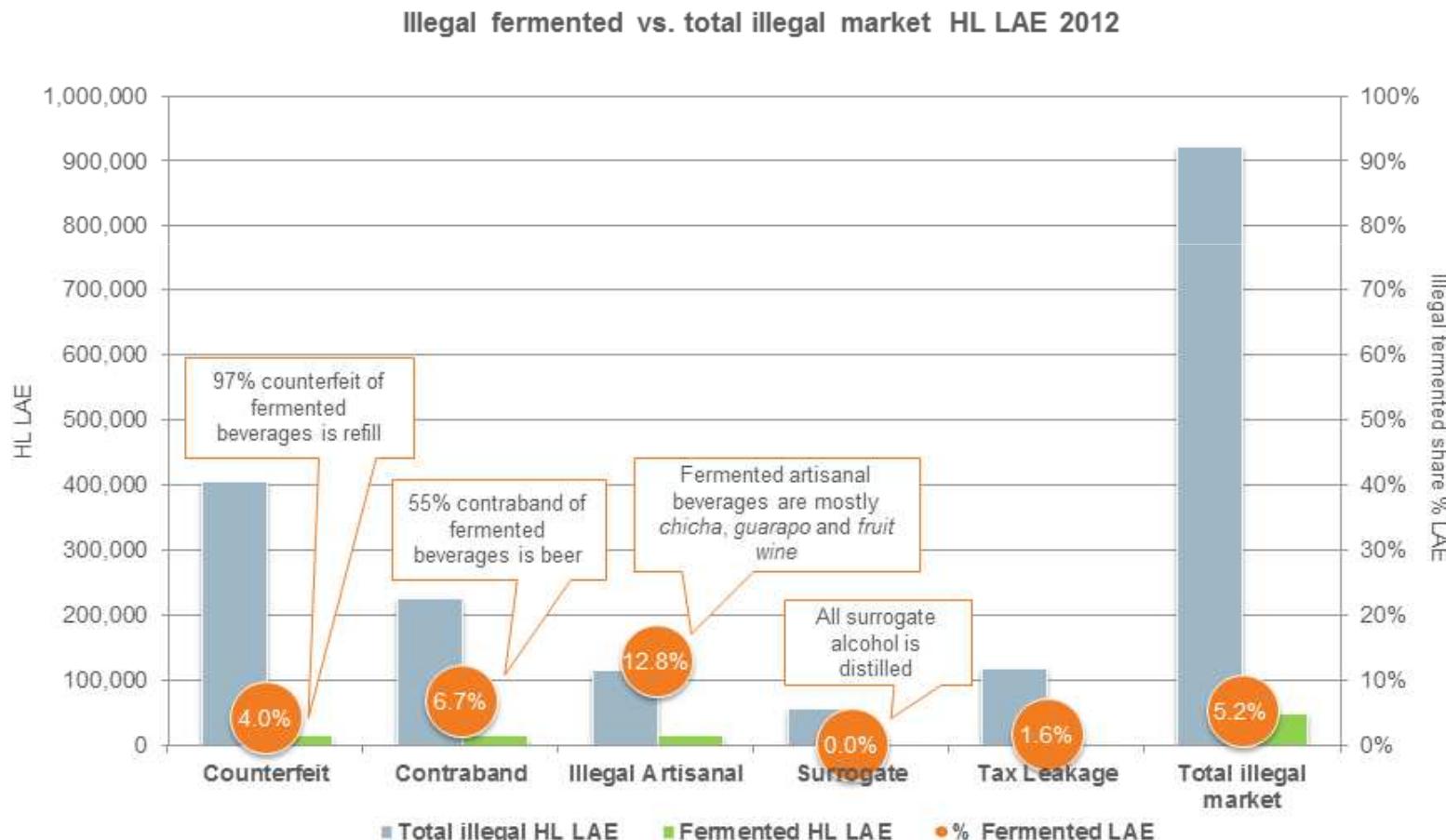
*Brazil numbers do not include tax leakage

Brazil, Dominican Republic, and Venezuela are 2011 figures

What is the contribution of fermented beverages to the IAB market in volume?

Illegal fermented vs. illegal market – Volume LAE (2012)

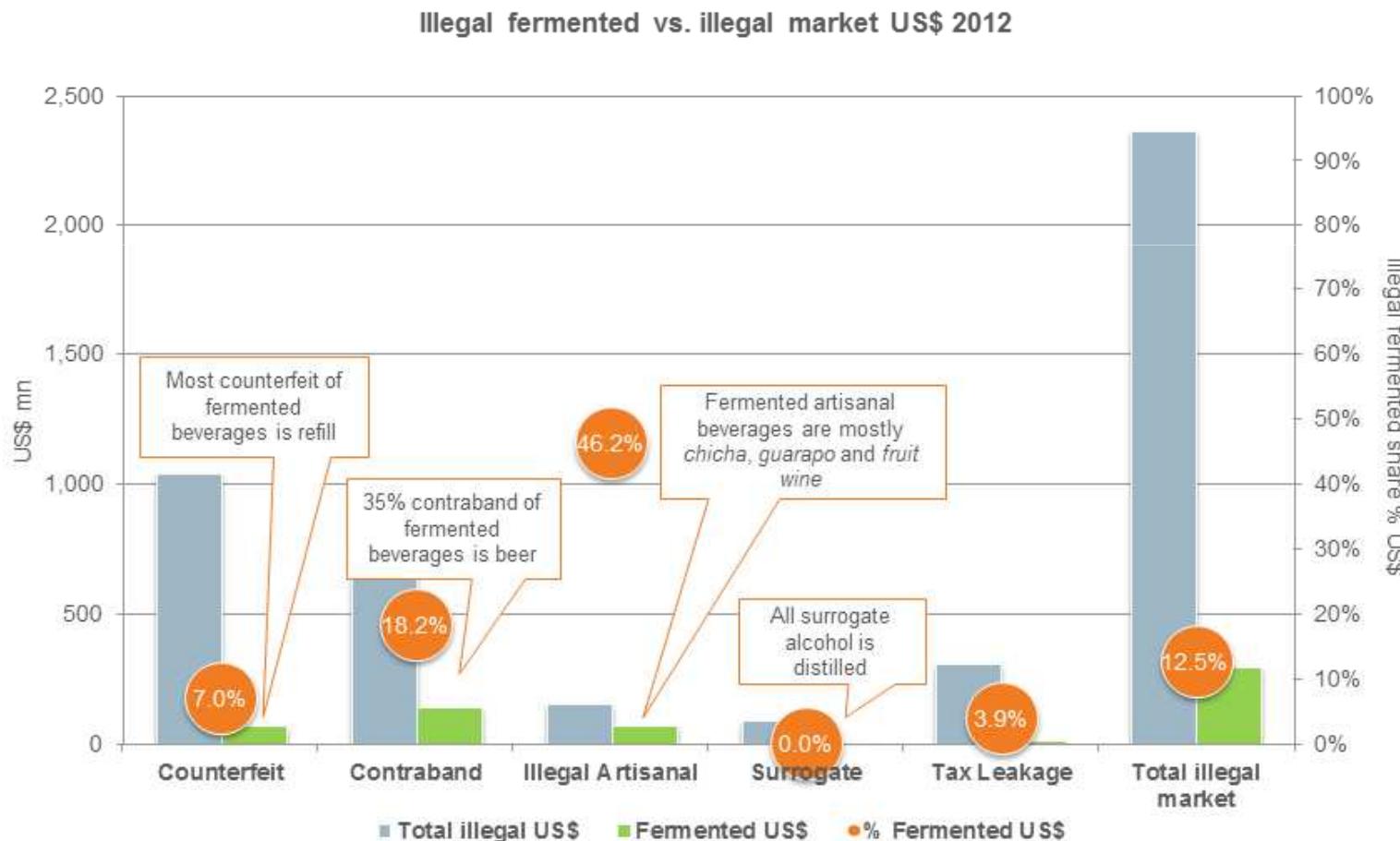
Fermented alcoholic beverages, including beer, represent 5.2% of the total illegal market LAE across the region



And what is the contribution of fermented beverages to the IAB market in value?

Illegal fermented vs. illegal market US\$

Fermented alcoholic beverages, including beer, represent 12.5% of the total illegal market in value across the region

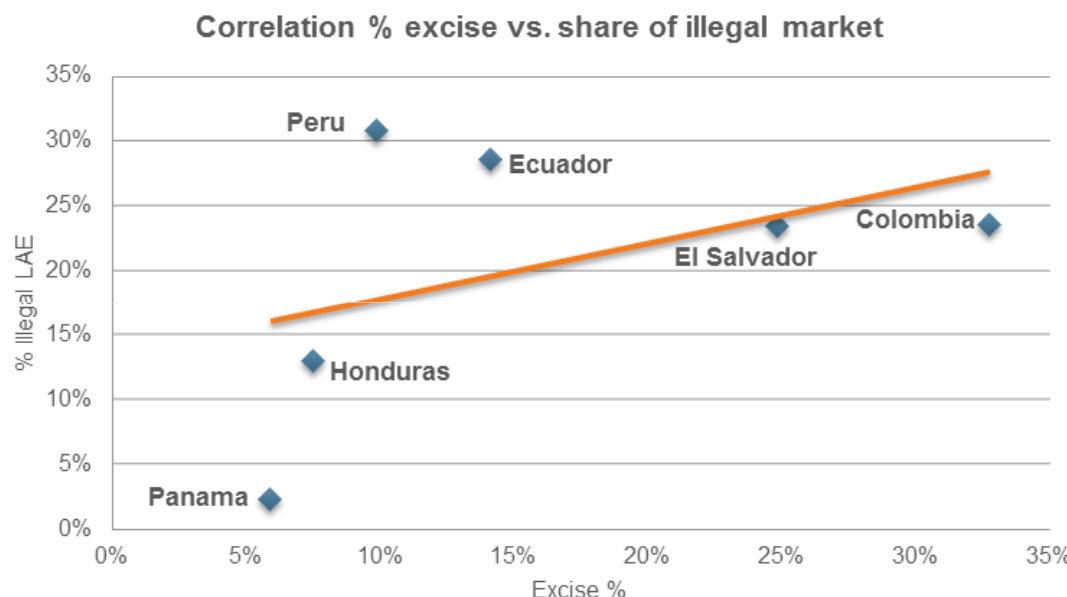


*Value in illegal RSP

Does excise level affect illegal alcohol markets?

What is the impact of excise on the size of the illegal market?

Excise % has a 18.3% impact on the % of the illegal alcohol market, based on 2012 figures



- The relationship between a country's excise (average %) and the share of its illegal market is positive, which means that if the % excise increases the share of illegal market will grow.
- Based on the correlation coefficient, the relationship between the variables is moderate.

Hypothesis	As excise increases the illegal market will grow
Correlation coefficient (R)	+ 0.43
Coefficient of determination (R²)	18.3%

Correlation coefficient: measure of the strength and direction of the linear relationship between two variables.

Coefficient of determination: measure of the proportion of variability in a data set that is accounted for by a statistical model.

For the correlation analysis, Euromonitor International considered the average % excise and the % illegal market size (LAE)



In 6 LatAm countries, beer tax evasion
is not an issue because....

Excise
rate is
unified at
national
level

Beer has
a low
intrinsic
value
compared
to spirits

There is a
handful of
production
plants

Effective
fiscal
controls at
the plants
is already
in place



Tax stamps / fiscal marking is
expensive and ineffective because it is:



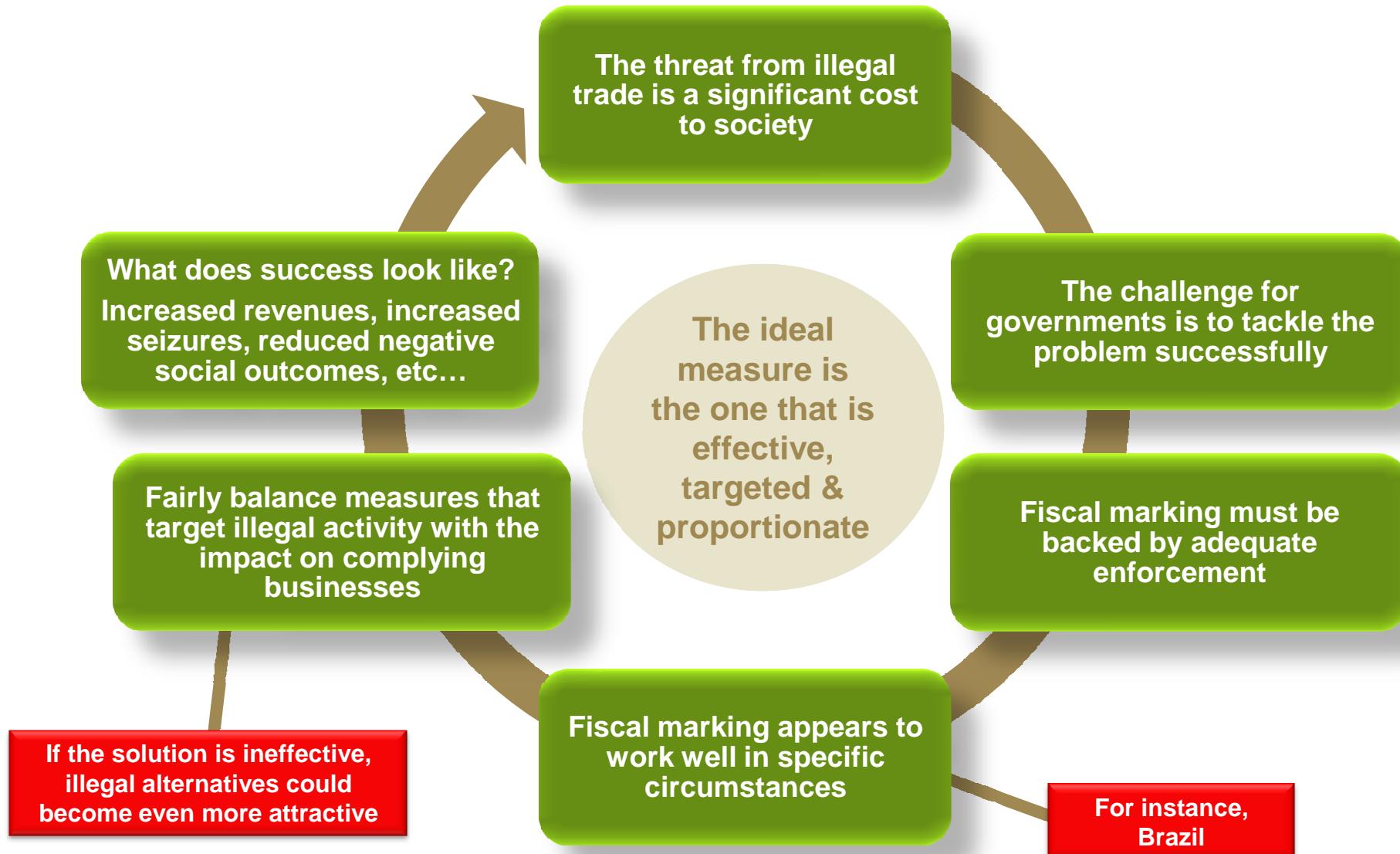
- Highly disruptive and costly (billions of bottles/cans)
- Unfair technical barrier to beer imports
- Disproportionally affects artisan beer production



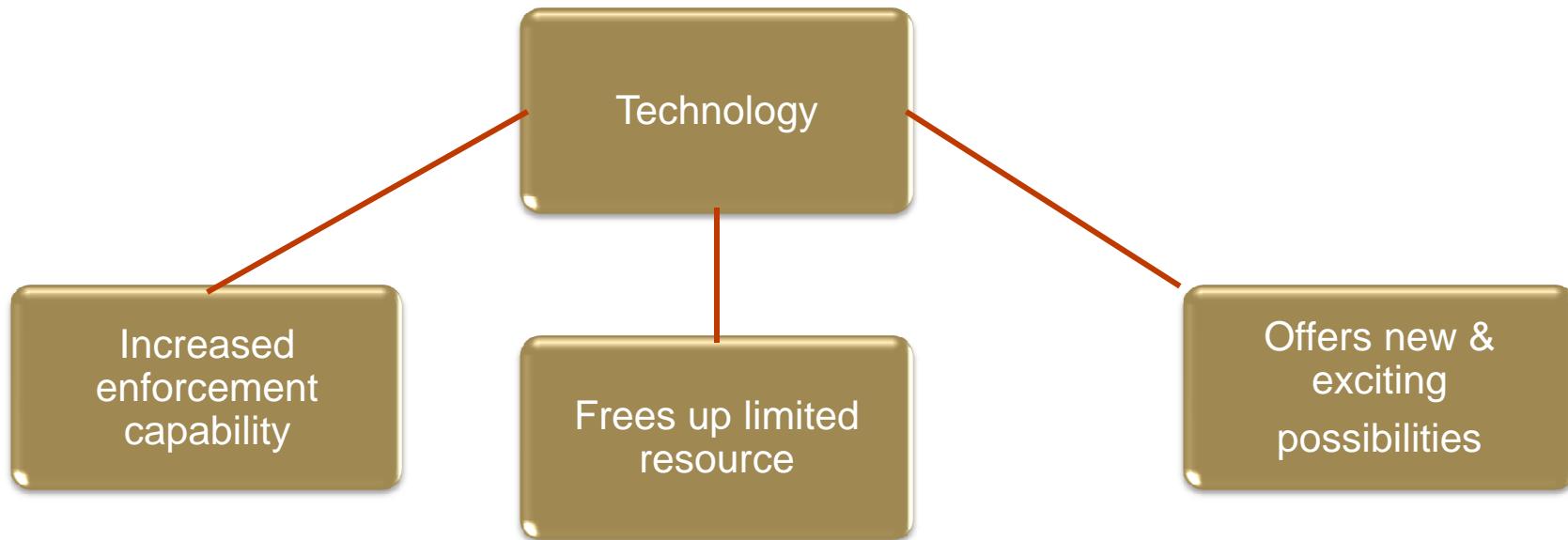
Is a tax stamps / fiscal marking regime effective for beer?



Tackle the problem effectively, promoting a virtuous circle



Technology is an enabler



Technology supplements enforcement... it does not replace it.

- The first step is to understand the nature & size of the challenge
- Technology can offer a perfect solution...to the wrong problem
- ...or offer a solution to a problem that does not exist...



Focus on the problem, not the technology

Conclusion

The challenge: to control fiscal loss in the most effective way

