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How to score the winning goal in the fight against illicit trade in Central America?

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How to score the winning goal in the fight against illicit trade in Central America?

The score is 1 – 0, second half, one less man in the team and there is an imminent danger of another goal. This would be the analogy that would best describe the current disadvantage that the world's governments are currently facing against illicit trade.

Illicit trade is a global problem that is affecting every corner in the world. In the case of tobacco, the World Bank estimates that the illicit trade of cigarettes represents 11% of total consumption [1] which means 600 billion illicit cigarettes are consumed worldwide yearly. Central America is not exempt from this phenomenon. Among the myriad of products that are smuggled, this article will focus on two products that generate important excise taxes to the governments such as tobacco and alcohol.

According to CID Gallup Latinoamérica, the current smuggling routes of cigarettes in Central America are as follow:



Figure 1. The current smuggling routes in Central America [2]

The main hubs in the region are Panama, Belize and Guatemala. Panama as per his condition of being well connected due to the Panama Canal as well as being a duty-free zone is the main port of entrance to smuggled goods to the region. Normally, the smuggled cigarettes arrive from China, India and Paraguay and then they are distributed to the other countries in the region. The main routes are from Panama to Costa Rica, Nicaragua and Belize, and



these are subsequently redistributed to Guatemala, Honduras and El Salvador.

It is estimated that the consumption of illicit cigarettes represents 67% in Panamá, 31% in El Salvador, 20% in Honduras, 20% Guatemala, 16% Costa Rica and 5% in Nicaragua [3]. These numbers are from 2015 which means it is more likely that these could have increased in the past 5 years as none of these countries have put in place a track and trace solution for these products that are widely smuggled within their borders.

In 2019, the illicit trade, in general, was calculated to surpass 4% of the GDP in the region [4]. It is difficult to establish a definitive number, but according to the estimates and following the growth pattern of illicit trade of tobacco and alcohol, every year governments in Central America could be losing approx. USD 900 million. **If we illustrate that number, it could represent 11 new hospitals of 200 beds each, 500 new full-time schools, 11,000 new football fields, or 75,000 new children's playgrounds every year.**

Who is winning?

Organised crime and gangs. This is how they finance their illegal and criminal activities as most of the time people underestimate the power and the magnitude of this issue. They are increasing their presence in the region, putting extra pressure on the government and threatening the people.

Who is losing?

The general population and governments. This is not related just to a security problem but also to a public health problem as people sometimes do not know what they are consuming. For instance, in 2019, it was reported that 29 people died in Costa Rica due to the consumption of tainted alcohol [5].

Similarly, some counterfeited cigarettes were seized in Nicaragua and México; these were manufactured with forbidden chemicals and even animal faeces [6], jeopardizing the citizens' lives. On the other hand, governments are losing millions of dollars every year due to tax evasion which increases the cases of corruption and the risks of destabilisation in the region.

How can we fight this problem?

Establishing a comprehensive tax scheme solution and involving the different stakeholders (government, manufacturers, distributors and consumers).

DLR Certify™ is a solution that allows the government to retake control and





have visibility of every step of the supply chain. This solution combines the approach of a physical tax stamp for providing authentication and a direct to product marking for a complete track and trace.

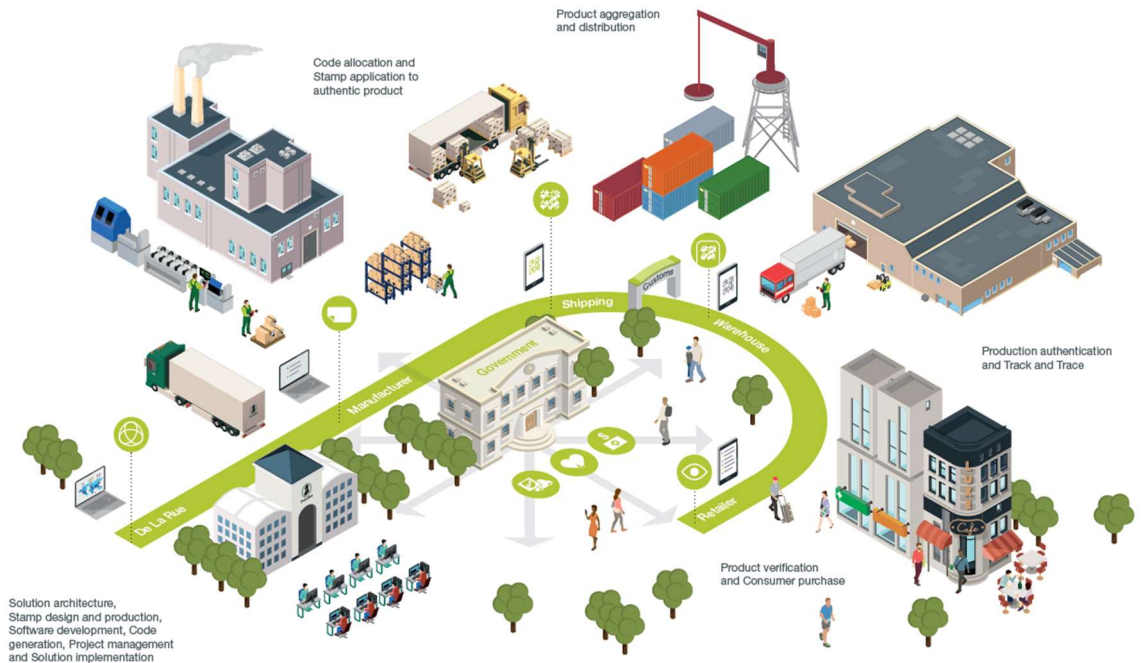


Figure 2. DLR Certify™ throughout the supply chain

This solution is compliant with the Framework Convention on Tobacco Control (FCTC) and the European Union Tobacco Products Directive (EUTPD). Moreover, with an end-to-end solution like DLR Certify™, customs officials, inspectors and members of the Central American governments will gather information and intelligence at every stage of the supply chain that will help them to better focus and improve their inspection activities.

When the solution is fully implemented and supported throughout the life of the scheme, it should bring significant increases in excise tax collection year after year. Besides, manufacturers and importers will see increases in sales of legitimate goods and, most importantly, citizens will be protected from the uncontrolled damage caused by counterfeited products.

Implementing these measures would help the government to score a goal and tie 1-1 and would give the essential advantages to score the second necessary goal and win this battle against organised crime in Central America. Going to penalty kicks is not an option!

With over 200 years of anti-counterfeit experience, De La Rue is dedicated in the fight against illicit trade and the protection of brands, reputation and revenues. If you would like to find out more, please contact me directly on LinkedIn or at tadeo.mota@delarue.com





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