



March 2018 Newsletter

Mexico finds more fake tequila and why the US rarely faces this issue. But this could change!

With Spring Break on the horizon, it seems like a good time to talk about alcohol product safety. After numerous reports last year of tourists blacking out after drinking at high-end resorts in Mexico, more stories came to light about drownings, assaults, falls, and other injuries from tourists who drank even small or moderate amounts of alcohol.

This led the US Government to issue travel warnings and recommendations that travelers drink moderately, never go out alone, and seek medical attention if they begin to feel ill.

Following these reports and some pressure from US lawmakers, Mexican health authorities raided 31 resorts, restaurants and nightclubs and seized 10,000 gallons of illegal alcohol. At the end of February, Mexican authorities announced they found another black-market tequila distillery and shut it down. Tests revealed that 235 gallons of the product contained dangerous levels of methanol, an extremely toxic substance.

A 2015 report by Euromonitor International found that about a quarter of alcohol consumed in Latin America is illicit, meaning it could have been manufactured without health and safety standards and could contain substances not approved for human consumption. Beyond the tragic human cost, counterfeit alcohol has enormous financial impact in the form of revenue lost by governments, and an uneven playing field among businesses.

Incidents like this remind us of the safety of the US system.

We have few problems with counterfeit and tainted alcohol because of our state-based, three-tier alcohol regulatory system. The Constitutional amendment that repealed Prohibition gave states the authority to regulate alcohol. Most adhere to an effective system that requires alcohol to be sold through three separate market tiers: manufacturers/suppliers, wholesalers and retailers. This closed distribution system helps

prevent adulterated and contaminated products from reaching consumers because alcohol is required to go from a licensed manufacturer to a licensed distributor to a licensed retailer.

The three-tier system also helps ensure consumer confidence in the alcohol industry. Even the best, licensed manufacturers can mistakenly produce a tainted batch or have an issue with packaging. In today's market, minor problems with product quality can cripple a company or disrupt a commodity market. This is much less likely to happen in the US alcohol marketplace because licensed alcohol wholesalers must track every bottle and can. This minimizes harm and can save a business. The few product recalls in recent years have primarily involved the possibility of broken glass falling into beer bottles. These products are usually identified within 36-48 hours and pulled from the market with the result that there are no known consumer injuries from these recalls.

But we are gradually moving away from a closed system by granting small brewers, wineries and distillers the ability to "self-distribute." Self-distribution involves selling out of a tasting or tap room, selling at festivals, direct shipment to customers, and direct selling to retailers (stores, restaurants, bars). All but 13 states allow this kind of distribution.

Now is the time to assess our system for product safety before we encounter problems. With all of these products skipping steps in the regulatory system, testing and tracking may be more difficult to monitor. According to their 2016 report, the US Alcohol and Tobacco Tax and Trade Bureau (TTB) only tested 450 products. Some companies and states do product testing, but it is not widely known which, and for what purpose.

In contrast, Ontario, Canada has an extensive testing program. In a 2016 presentation to the National Alcohol Beverage Control Association

Board, Dorina Brasoveanu, Manager of the Liquor Control Board of Ontario's Quality Assurance Laboratory, revealed that they tested 24,000 products from their 650 stores. They also have a complaint system which resulted in testing of spirit products that had a higher alcohol content than what was stated on the label. The products were quickly pulled and there were no known ill effects to consumers.

Because alcohol is primarily regulated at the state level, state regulators need to review their systems to determine whether the needs for adequate testing and tracking are being met. Some discussion with the federal TTB may also be warranted. Whenever states change laws, they should determine whether product safety will be impacted. Not only could tainted products harm consumers, but publicity about the products' problems could hurt business. In addition, there are other enforcement and administrative costs in permitting alcohol products to flow outside of the three-tier system. Staff is needed to monitor the special privileges to ensure that the conditions are met, that taxes are collected and that product safety is ensured.

Meanwhile, members of the public may want to review the safeguards listed below, recommended by the UK which has only recently adopted an aspect of our three-tier system. They now require wholesalers to be registered and for retailers to only buy from them, versus the "white van that rolls down the street"!

Sources:

Mexican authorities seek illicit alcohol in crackdown at resorts, Milwaukee Journal Sentinel, Raquel Rutledge

Mexico police shut down second black market tequila operation, investigate if tainted alcohol headed to resorts, Milwaukee Journal Sentinel, Raquel Rutledge

Safe and Sound: How the three-tier alcohol regulatory system promotes safe products and high revenue collections, a short report by Pamela Erickson, <http://healthyalcoholmarket.com/wordpress/reports>

The 4 P's, UK Food Standards Agency <https://www.food.gov.uk/news-updates/campaigns/fake-alcohol#ps>

The UK's Food Standards Agency came up with a system to help consumers detect counterfeit products that got past the usual safeguards.

The 4 "P's" consist of:

Place: Make sure you buy from a reputable vendor.

Price: If a deal looks too good to be true, it probably is.

Packaging: Look out for:

1. Poor quality labelling, spelling mistakes.
2. Improperly sealed caps or other signs of sloppy packaging or tampering.
3. Duty stamp, if applicable.
4. Fake bar codes. If you have an app on your phone that scans bar codes, make sure it's the correct product.

Product: Look out for fake versions of well-known brands and be wary of unusual brand names you haven't seen before. Vodka is the most commonly counterfeited spirit; watch out for white particles or sediment.

If any alcohol tastes or smells bad, don't drink it. Particularly look out for the smell of nail varnish. ~