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Tanzania to Roll Out Second Phase of Tax Stamp Programme

According to *www.thecitizen.co.tz* and other local media, the Tanzanian government is rolling out the second phase of its Electronic Tax Stamps (ETS) programme on 1 August, as it seeks to boost transparency in the collection of various taxes from manufacturers.

The ETS system (which is provided by SICPA) currently gives the Tanzania Revenue Authority (TRA) real-time access to the cigarette, wine, beer and spirits production data of domestic manufacturers, thereby enabling the authority to identify and curb revenue leakages, as well as determine in advance the amount of excise duty, VAT and corporate tax owed by each manufacturer.

The first phase of the project, launched in January this year, involved the installation of electronic stamp devices in the manufacturing sites of all four cigarette companies in the country, as well as seven beer brewers and 12 wine and spirits producers. Furthermore, another seven producers apply the stamps manually under the supervision of the TRA, since they still use old technology that cannot support the ETS system. In addition, 14 importers of cigarettes and alcoholic beverages have also reportedly joined the system.

The TRA Commissioner General, Edwin Mhede, announced through a newspaper advertisement that the second phase of the project would be rolled out on domestic and imported flavoured water and carbonated drinks, adding that a final, third phase would see the system further extended to fruit and vegetable juices, water, films and music… so quite a long list!

Back in April, former Commissioner General Charles Kichere told reporters that in March 2019 (ie. two months after the introduction of ETS), TRA had succeeded in collecting $1.5 million more cigarette and alcohol tax revenue than that collected the previous year. This is an encouraging early result that will hopefully be sustained as the system matures and expands to other products.

ITSA Challenges EU Ruling on Tobacco Laws

The International Tax Stamp Association (ITSA) has lodged an appeal against the European Union Court of Justice's (EUCJ) decision to dismiss ITSA's legal claims surrounding the Tobacco Products Directive (TPD).

Specifically, the claims relate to the non-compliance of the TPD implementing regulations for traceability and security features with the World Health Organisation (WHO) Protocol to Eliminate Illicit Trade in Tobacco Products.

In 2018, ITSA launched a legal challenge at the EUCJ, claiming that the implementing regulations contravene Article 8 of the Protocol, which requires that a track and trace system be under the control of the government and that duties shall not be performed by or delegated to the tobacco industry.

However, in May 2019 the EUCJ dismissed the claims on the grounds that ITSA could not challenge the EU track and trace system because it did not have 'a direct interest' in the TPD implementing regulation.

Now ITSA has confirmed it will appeal against the decision, and in so doing will shed light on the EUCJ's 'misunderstanding of certain basic facts'.

Nicola Sudan, General Secretary of ITSA, said: 'we believe that an association constituted by entities historically involved in the implementation of anti-illicit trade technologies, notably for tobacco products in the EU, does indeed have a direct interest in the matter and therefore should be entitled to discuss it before the highest legal European institution.'

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Happy Birthday Tax Stamp News!

It was 10 years' ago, in July 2009, that *Tax Stamp News*™ (which has since been renamed *Tax Stamp & Traceability News*™) was born. So please raise your glasses in a toast to this 10th anniversary.

TSTN remains the only publication of its kind dedicated to excise tax stamps and their related track and trace and monitoring technologies, a sector which is nevertheless continuing to grow in size and importance throughout the world. We believe that this growth serves to further cement TSTN's role as a conveyor of information and a platform for bringing the tax stamp community together, in an industry where there remains little available in the way of authoritative data and opportunities to exchange views.

As a way to mark this important anniversary, we are introducing a regular feature called *From the Archives*, which will go back to issues covered in TSTN 10 years ago and look at how they have developed since then – if, indeed, they have developed.

So, let's start off this new feature by going back to July 2009 and looking at two interesting headlines. But before we do that, here's a little reminder of what we asked you to do in that very first issue, and what we still ask you to do today:

'As the saying goes, if you like what we are doing, tell others. If you don't, tell us. This news service is for the tax stamp community, and to fulfill this role most effectively your feedback, contributions and input going forward is not just welcome - it is invaluable.'

Cigarette Manufacturer Slams Canadian Regime

Back in 2009, we find the President and CEO of Imperial Tobacco Canada, Benjamin J Kemball, warning the government that the Canadian tobacco industry had become a 'free-for-all' that was causing the collapse of tobacco control. He said this was due to both provincial and federal governments ignoring the growing crisis of illegal tobacco sales, which represented more than 30% of all cigarettes bought in Canada and resulted in losses of about C$2.4 billion in taxes.

Canada's tax regime is characterised by both federal and provincial taxes, with the latter varying throughout the 13 provinces and resulting in price differentials which are a major cause of smuggling. In addition, the country has a number of reservations for native communities which enjoy tax-free status. Not only is there considerable diversion of products intended for these communities, but they are believed to be a major source themselves of counterfeit and contraband.

The abuse of this tax-free status was seen by Kemball as key to the parlous state of the country's tax regime. He called for enforcement of existing laws, the control of the supply of raw materials and machinery and, critically, a revenue-sharing agreement with the First Nation communities equivalent to a provincial tobacco tax.

Kemball's concerns were raised prior to the introduction of a new federal tax stamp scheme in 2010 as part of the Canadian Revenue Agency's (CRA) Tobacco Compliance Strategy, which the agency described as 'an effort to prevent contraband tobacco products from entering the Canadian market, and to ensure the integrity of the tobacco tax system.'

Before then, cigarettes were 'marked' with simple stickers or colour-coded self-adhesive tear tapes applied to the filmic overwrap, the colour denoting the province of origin. The CRA awarded the contract for the production of the new stamps to Canadian Bank Note (CBN) and SICPA. The

stamps were required for both domestically produced and imported tobacco and would contain overt security features, a unique sequential identifier and covert machine-read features.

Fast forward to 2014, and the *GfK Illicit Monitor* survey reported the overall share of illicit tobacco in Canada to be 17.9%, which indicated a significant decrease from the previous 30% – although the province of Ontario remained very high, at 31.1% (see TSN July 2016).

Today, SICPA and CBN continue to provide tobacco stamps to CRA, both at provincial and federal level. Furthermore, following the full legalisation of marijuana in Canada in 2018, the SICPA/CBN contract was extended to cover the provision of marijuana tax stamps, based on the design and security features of the tobacco stamps.

FCTC Body Meets in Geneva to Agree on Protocol

The publication of the first issue of TSTN coincided with the conclusion of the third session of the Intergovernmental Negotiating Body (INB) on the Protocol to Eliminate Illicit Trade in Tobacco Products, which forms part of the Framework Convention on Tobacco Control (FCTC). Held in Geneva, the eight-day session was attended by representatives from some 130 countries to debate and reach agreement on the Protocol, the target date for the adoption of which was 2010.

In particular, the Protocol calls for measures that include an international track and trace system for tobacco products, a system of record-keeping and obligations on companies to control their supply chains.

Although the target adoption date had been set for 2010, the actual date of adoption was November 2012, with the entry into force of the Protocol taking place in September 2018, following the deposit of the 40th ratification. Today, 55 countries plus the European Union are parties to the Protocol, a full list of which can be viewed at **treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IX-4-a&chapter=9&clang=_en**

Inside this Issue

EU Tobacco Traceability Should Not be Considered Blueprint, Warns FCA

The International Tax Stamp Association (ITSA) is not the only body to raise concerns about the compliance of the EU tobacco track and trace system under the Tobacco Products Directive (TPD) with the provisions of the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products (see page 1).

In a recent blog post, the Framework Convention Alliance (FCA)* warned that the EU system should not be considered as a blueprint for the track and trace system required under the FCTC Protocol, and that the shortcomings of the system, together with its unique European context, required that parties to the Protocol take a 'close look under the hood' before deciding on any wholesale adoption of the system in their own territories.

The blog post refers to an FCA policy briefing entitled Why the *EU tracking and tracing system works only for the EU*, in which the FCA highlights key shortcomings of the system and makes a number of recommendations for parties to the Protocol to consider. These include:

Key shortcomings

- A major flaw in the EU system is that it conflicts with Article 8.12 of the Protocol, by allowing certain obligations to be delegated to tobacco companies. For instance, manufacturers and importers are able to choose their own data storage providers and auditors;
- Independent third parties do not have sufficient control over the unique identifiers applied to tobacco products at the time of manufacture. This is a weakness that the tobacco industry can exploit to flood the black market with cigarette packs that have no (or cloned) unique identifiers;
- When it comes to the rules for third parties and data storage companies involved in the EU system, several data storage providers with historical links to tobacco companies have already been appointed to be part of the EU tracking and tracing system;
- The security feature under the EU system is required to authenticate the pack, but not necessarily the unique identifier, whereas Article 8.3 of the Protocol requires a 'unique, secure, and non-removable identification marking.' Furthermore, the EU system only requires that one out of five authentication elements be sourced from an independent provider;
- The longer list of elements to be included in the unique identifier under the EU system results in an unnecessarily complex system requiring input from the tobacco industry, with traceability data gathered from multiple sources. This model will prove a significant challenge, particularly for middle and low income countries. In contrast, the FCTC Protocol only requires that the unique identifiers include date and place of manufacturing, manufacturing facility, product description and, where available, intended market of retail sale;
- The EU system requires a time stamp at the time of manufacture. This seems to be a good idea, on the surface. But make no mistake: time stamps add another layer of complexity and create a problem when tax stamps are used for traceability purposes because tax stamps are generated in advance of the manufacturing.

Key recommendations

- Parties should not choose a track and trace solution which, as in the case of the EU TPD, allows for the delegation of obligations to tobacco companies, such as the choice of data storage providers. This would be a breach of the independence requirements of the Protocol;
- Parties should require that providers of data storage services and generators of unique identifiers should not be selected by the tobacco industry itself and furthermore have no links to the development of the tobacco industry's track and trace solutions;
- Parties to the Protocol should use authentication elements and anti-tampering devices (such as digitally signed alphanumeric codes and security ink, as found in tax stamps). Digital signatures prevent third parties from generating their own codes, and security features prevent the copying of the unique identifier;
- Parties should ensure that all authentication elements are supplied, installed and controlled by authorities independent from the tobacco companies;
- Parties should require that the unique identifier includes only the elements listed in the Protocol (ie. date and place of manufacturing, manufacturing facility, product description and where available intended market of retail sale), and not the longer list required by the EU;
- Parties should give serious consideration as to whether a time stamp is necessary and whether it can be replaced by the use of a camera and/or an anti-tampering device, which records the time of production and controls the correct applications of labels or stamps on the packs.

** The Framework Convention Alliance is made up of nearly 500 non-government organisations from over 100 countries, working on the development, ratification and implementation of the world's first modern-day global public health treaty (ie. the WHO FCTC).*

The full FCA Policy Briefing can be found at: **www.fctc.org/wp-content/uploads/2019/07/FCA-Policy-Briefing_Why-the-EU-tracking-and-tracing-systems-works-only-for-the-EU.pdf**

The full wording of the EU Implementing Regulations and Decisions for tobacco traceability system and security features: **publications.europa.eu/en/publication-detail/-/publication/536e4d37-4140-11e8-b5fe-01aa75ed71a1.**

The FCTC Protocol to Eliminate Illicit Trade in Tobacco Products: **apps.who.int/iris/bitstream/handle/10665/80873/9789241505246_eng.pdf;jsessionid=52D5A8D3BE219F04649F5C2387C7F7D7?sequence=1**

ITSA Challenges EU *(continued)*

Ms Sudan continued: 'the EUCJ appears to have confused the track and trace systems deployed by ITSA's independent members with the tobacco industry's *Codentify*® solution, which is largely under the control of the major tobacco companies. We are concerned that the European Commission has conceived and is promoting an EU track and trace system based on a governance model that unnecessarily entrusts core functions to the tobacco industry itself. This is at odds with the basic principles of the WHO Protocol, which limit the need for industry involvement to the extent strictly necessary and, essentially, prohibit the tobacco industry from influencing public policy.

'In addition, the EU track and trace system does not provide for strong authentication tools to counter illicit tobacco trade and does not allow for a completely interoperable track and trace system based on established international standards and best practice. Our aim is to uphold the adoption of international technical standards to harmonise anti-illicit trade technologies and promote best practices, including those related to ISO 22382, which provides valuable guidance on the development of and specifications for excise tax stamps.

'We hope that the EUCJ reconsiders its stance towards the admissibility of our claim and takes a closer look at the type of track and trace systems being applied under the TPD implementing regulation.'

The New Luminescence

It has been 18 months since the world's largest ink and pigment specialist, Sun Chemical, acquired Luminescence International Ltd, the British specialist producer of security printing inks and threads, so *Tax Stamp & Traceability News*™ spoke to Gerben van Wijk, the recently appointed Sales and Marketing Director, to learn about the progress since then.

Gerben van Wijk.

Gerben was appointed in March this year and has therefore had a steep learning curve to understand the merged company and its products. What he has brought to the company is many years of experience in the security print field, which means he is well-known and confident in helping the merged operation to position its products in the market.

It was interesting to learn more of the logic and motives for this acquisition. Luminescence was a family company, formed in 1987 by four Cooper brothers – Paul, Andrew, John and Nick – which had grown to a staff of around 90 people, mostly in production and R&D, making a range of security inks, coatings and secure stitching threads for passports, but with limited scope to service large and high-value orders, such as larger banknote orders which often require bid bonds.

Sun Chemical, on the other hand, is a multinational with around 20,000 staff, many production facilities and 17 large-scale R&D laboratories all over the world. It is wholly owned by the Japanese DIC Corporation (formerly Dai Nippon Ink and Chemicals Inc until the name-change in 2008), which is one of the world's biggest ink, printing and specialty chemicals companies.

Sun Chemical had identified security inks as a growth market, having established a security division to serve this market. It saw the opportunity to quickly expand its product portfolio at a time when Luminescence was looking for a way to make the jump to being able to supply inks for larger banknote orders.

The two companies complement each other, Luminescence bringing its comprehensive product portfolio and Sun Chemical bringing its global reach, R&D, legal and other investment/financial resources. As Gerben put it, if there is a need to supply security inks from a plant outside the UK, then Sun Chemical can readily devote space in one of its factories, even to the extent of creating a secure plant-within-a-plant.

The business currently has the former Luminescence production sites in Harlow, England, and the Sun Chemical plant in Thourotte, France, but has its eyes set on opening further secure production sites across the world.

Gerben also singled out inkjet as an R&D field in which Sun Chemical is particularly strong, with several laboratories and over 100 people dedicated to inkjet R&D, a resource which could readily be used by the security business to further expand its comprehensive range of inkjet security inks. Inkjet's place in the tax stamp and traceability market is growing strongly and the company aims to launch various new solutions.

Luminescence the strong brand

An indication of how Sun Chemical sees the relationship and the strength of Luminescence's products and brand is the renaming of its security inks division as Luminescence Sun Chemical Security (LSCS), with the first word used as the short reference and for branding purposes. It is also notable that Paul Cooper has become the President of this operation.

Gerben explained that the intention is to create a single unit which is focused on security, so it operates independently of Sun and DIC, even with its own management and control information systems (whereas most DIC units share the parent's system). LSCS is DIC's first truly global business division.

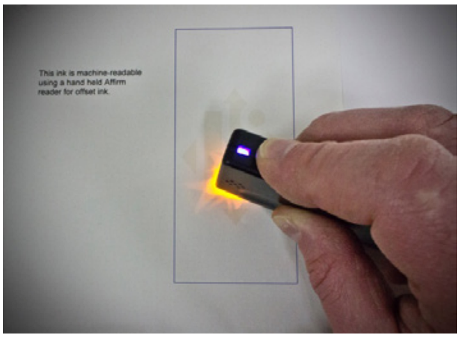
Gerben is the operation's first dedicated Sales and Marketing Director – another indication of the merged operation's commitment and intent. At Luminescence Ltd the four brothers jointly undertook this function, alongside their respective roles managing offset and intaglio inks production and marketing.

Nick is now Regional Manager for the Americas, while John is Technical Services Director, with Andrew taking the opportunity to retire. Gerben is building a sales and marketing team consisting of four international sales managers and two product managers, with more people to be recruited.

New traceable taggants

In terms of product and market development, the merged operation's largest market sector by value is currency, where its inks are currently on banknotes of 55 countries, and it has negotiated a technology transfer agreement with India (which has a strategic plan for all its banknote components to be produced in-country).

Tax stamps are another large market – smaller than currency in terms of value, but similar in volume – with LSCS supplying intaglio, offset, flexo, gravure and digital inks for use on stamps. In response to the requirements of the EU's Tobacco Products Directive (TPD) and its requirement for traceability, the company has developed a molecular taggant and proprietary readers for use on stamps or other labels or packs. It has also developed similar taggants for incorporation into offset inks.



LSCS supplies a wide range of dedicated readers to support product authentication.

The third major market is identity documents, where LSCS is strong in stitching threads and security inks for all printing processes used on passports and in particular inks for polycarbonate.

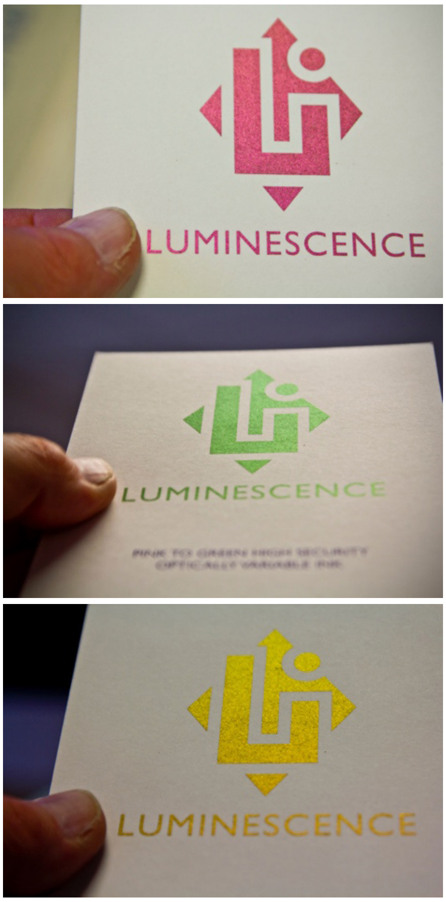
Gerben also sees brand protection as a growth market, a field in which Sun Chemical has already developed markers and codable coatings, but also anticipates working with other specialist traceability suppliers in offering new products to the market. This is one area where integration of the former company operations is still being considered. Gerben pointed out, though, that this is a tough market where margins are always under pressure as brand owners seek to keep costs down.

Not to compete with customers

Asked how the company sees its developing market position, Gerben's underlying point is that 'we don't want to compete with our customers!'.

The new division wants to be known as a specialist supplier of security inks and related chemical formulations, not a comprehensive solutions provider. But as Sales and Marketing Director Gerben – and indeed Paul as President – meet and deal with people at all levels of the customer chain, including printers, revenue authorities, passport issuers and central banks, the company could be a main contractor, although it's more likely that the printer it supplies will fill that position.

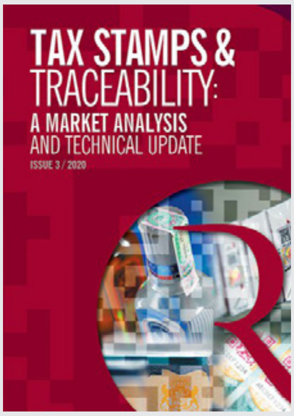
‘It’s important to talk to people involved in the design and production, to ensure that our inks are used correctly. Our ink is a carrier which needs to be used in the right way,’ Gerben said.



Colour shift inks continue to play a vital role in creating security.

It is this collaborative spirit that prompted Luminescence to become a Charter Subscriber to Tax Stamp & Traceability News, according to Gerben, who is also a member of the board of the International Tax Stamp Association (ITSA). ‘We have an obligation to the market, not just to ourselves, and there’s value in sharing information. As this is the only publication dedicated to tax stamps and traceability, we want to support it. For the same reason we’re members of the International Currency Association, the Document Security Alliance, ITSA and other industry associations. It’s a sign of our long-term commitment!’
www.luminescence.co.uk

Coming in 2020… New Tax Stamp & Traceability Report



Reconnaissance International is pleased to announce that the third edition of its highly acclaimed report *Tax Stamps & Traceability: A Market Analysis and Technical Update* will be released in early 2020.

Described as ‘the definitive source of data and analysis on the market worldwide for tax stamp and excise recovery programmes’, this is the only report of its kind to examine and analyse the global tax stamp and traceability market for alcohol, tobacco and other products subject to excise.

The report provides invaluable insight into how governments can develop effective tax revenue collection and anti-illicit trade regimes that comply with the latest international regulations through the use of tax stamp and track and trace programmes, as well as how suppliers of physical and digital tax stamp solutions can both help drive forward the market, and benefit from the growing opportunities provided in this field.

The topics to be covered in the report include: the tax stamp eco-system; specification, regulation and enforcement of tax stamp programmes; current technologies; tax stamps and traceability systems; best practice case studies and global use of tax stamps; and future trends and market developments.

The report is being produced in partnership with Axess Technologies. You can become involved in the third edition by contributing content and/or sponsoring. Please visit **https://www.reconnaissance.net/tax-stamp-news/publications/tax-stamp-report-3/** to find out more.

Kenya Sets Stage for New Water Tax

Following a delay in the extension of its Excisable Goods Management System (EGMS) to non-alcoholic beverages (which was caused by a court ruling that has since been overturned), Kenya Revenue Authority (KRA) is now preparing to introduce the system on bottled water, juices, soda, energy drinks, other non-alcoholic beverages, food supplements and cosmetics with effect from 1 September 2019.

From that date, all concerned manufacturers will be required to affix excise tax stamps to all of these products (the system is already in place for tobacco and alcoholic beverages).

According to a report in *www.theeastafrican.co.ke*, by extending the EGMS to these additional products, the KRA hopes to raise an additional $30 million from excise tax that had previously been lost as a result of unregulated products.

Security Print Software and Digital Print Open Doors in Tax Stamp Production

Since Fedopress, the Belgian state printer, began producing tax stamps for Belgium and Luxembourg in 2016, using AGFA's *Arziro* security print design software and a Xeikon digital press (see TSN March 2016), Agfa Graphics – the company's print and graphics division – has continued to innovate with its security print software, while also recognising and focusing on the opportunity to use this software, linked to a high-speed digital printing system, to encourage state printers to expand into the security document arena.

The digitally printed Belgian tax stamp.

Arziro Design 4.0 – the fourth iteration of this specialist Adobe Illustrator plug-in – was introduced in August last year, while *Fortuna 11*, the latest version of its complementary security design and pre-press assembly software suite, was introduced earlier in 2018. Allied to the latest generation of digital printers, such as the Xeikon CX3 – the latest model in the Xeikon *Cheetah* range – these enable general printers to produce uniquely numbered documents with specialist software-originated security graphics and other security elements.

Focus on US states

These developments have seen Agfa, through its New ProImage America print software marketing and service subsidiary, identify an opportunity for tax stamp production at state-owned printworks in the USA.

Each US state is responsible for many security documents, including birth certificates, driving licences, education certificates, ownership or title documents and tax stamps. Historically, many of these documents were provided to the state by commercial printers. While higher security documents such as driver licences were often sourced from specialist security printers, lower-level documents, including certificates and tax stamps, were, in some cases, produced by local generalist printers.

The Fedopress model is now allowing state printers – which may not previously have been producing any security documents – to explore the possibility of printing such documents in-house.

Randall Burgess, Director of Government and Industry Sales for Security Printing at New ProImage America, pointed out to *Tax Stamp & Traceability News*™, that state printers see that they can use this capability to produce their own professional licences, vehicle titles, tickets, temporary IDs, passes, and other items. By doing so, they increase their value to other state agencies, consolidating their position as a necessary state agency at a time when there is a move to reduce state activities.

Randall goes further in pointing out that this also opens the door for state printers to produce their state's own tax stamps. The US is unusual in that most states use heat transfer tax stamps; only three use pressure-sensitive adhesive stamps, although these are among the most commonly used form of stamp elsewhere.

Most states therefore have outside suppliers for their stamps because their printers do not have the equipment to produce heat transfer stamps, but if they can make a good return-on-investment case for adding the new equipment, with the necessary skilled workers, then they could bring not only tax stamps but numerous other serialised and security-designed documents in-house.

Randall believes that with the Agfa security print software and the Cheetah CX3 printer they can make this case, because with this equipment they can produce both pressure-sensitive and heat transfer stamps, or other documents, with only some simple alterations to settings.

Xeikon CX3 label press aka 'the Cheetah'.

An advantage of Xeikon's business model is that, once the equipment is purchased, it charges for consumables but doesn't make a 'click charge' (ie. a charge per unit printed), which is important for the confidentiality of production of this type of security document.

Multiple copy versus single copy attacks

Randall also drew attention to the change in mindset that this development requires of state officials dealing with security documents.

The type of document they normally issue – certificates, licences and so on – are mainly subject to single copy fraud attacks, whereby someone copies or alters a document for their own use, whereas tax stamps are more similar to banknotes, in that fraudulent attacks see thousands or even millions of fakes produced.

Combined with the much smaller size of a tax stamp and the little time that is usually spent examining one, this engenders a different set of challenges for the designer, printer and issuer. If a state printer can meet those opportunities this would give it a whole new range of market opportunities (even if that market is its sister state agencies).

On the other hand, the states recognise the need to support wholesalers, support the application of the stamps produced, and add staff with new skill sets, while some states may also need to make legislative changes to bring stamp production 'in-house'. So, there are barriers to entry into stamp production, but the capabilities of this digital equipment may encourage states to invest, even if their subsequent move into the production of security documents is a step-by-step process.

A partnership model?

Although these developments could be seen as a threat by established commercial security printers currently supplying states with tax stamps or other secured documents, Randall sees them as an opportunity for these printers. The just-in-time model offered by digital printing eliminates the costs of inventory management and physical security, while enabling current producers to place production near to or even inside customer facilities where they can provide printing for other security documents, such as the finishing of birth certificates, in addition to tax stamps.

This model, he argues, can benefit a current security printer by strengthening an enterprise relationship, or it can benefit a government printer that wants more control and oversight without making a direct capital investment.

Also, existing producers of tax stamps can have their designers work more closely with a state's graphic design department to make sure their offerings align if a state wants its branding guidelines to include tax stamps. For instance, some states like their spot colours to be on all documents, secure or not.

US states and their tax stamps represent a particular approach to a jurisdiction's security document production needs, but is this a model that would also work for other countries, provinces or states?

The Rise of Public-Private Alliances in Latin America

At the end of July, a committee in the Costa Rican legislative assembly approved a project to implement changes in the contraband laws pertaining to the adulteration of all alcoholic beverages in the country.

According to *adiariocr.com*, apart from increasing the penalties for adulterating alcohol products, the changes include an obligation for the Treasury to implement a track and trace system for domestic and imported alcohol, whereby a central repository controlled by the government will be responsible for monitoring the products, their manufacturing date, and any related tax payments.

The day after the project was approved in the committee, the Vice Minister of the Treasury – Mr Nogui Acosta – criticised the project in a radio broadcast, mentioning, among other remarks that:

- Track and trace is a very expensive mechanism to control alcoholic drinks;
- Track and trace systems cannot control illicit trade and have not been effective in other countries;
- The Ministry of the Treasury does not have the infrastructure to implement a track and trace system;
- The final price of the product will increase significantly as a result of introducing a track and trace system, which will have the effect of increasing rather than decreasing illicit trade;
- The project does not mention who will finance the purchase of the technology.

Such criticism is of particular concern to Costa Rica's anti-tobacco organisation, Red Nacional Antitabaco (RENATA), which states that the Vice Minister is well aware of the benefits of using track and trace technology on alcohol products, as demonstrated in other Latin American countries such as Colombia and Ecuador.

However, his participation, since 2014, in a public-private alliance between the Ministry of Finance and the Association of Producers and Importers of Alcoholic Beverages in Costa Rica – set up for the purpose of combating illegal commerce – means that he is heavily influenced by the industry.

RENATA has spoken publicly about the inadmissibility of including private sector entities (ie. the manufacturers themselves) in plans to control their own industry, but the current government has declared that this complaint is a 'non-issue' and that both public and private sectors are working together to resolve the problem of counterfeiting and fraud.

Similar concerns in Mexico

Nevertheless, similar concerns about such public-private alliances have also been raised by the World Bank, in particular with regard to an alliance established in Mexico for tobacco products.

In its recent publication, *Confronting Illicit Tobacco Trade: A Global Review of Country Experiences*, the World Bank includes a country case on Mexico which states that an inter-institutional task force set up in 2013 by the Mexican tax authority (SAT) to combat illegal practices, relating to products including alcohol and tobacco, ignores specific WHO FCTC guidelines on how governments and the tobacco industry should interact. In particular, there are concerns that the details of concrete collaborative actions between government bodies and the industry are not being made public, leading to questions over possible conflicts of interest.

Such a lack of transparency was reflected in the introduction, in late 2017, of fiscal marks on tobacco products in Mexico. The marks consist of a 12-digit alphanumeric sequence (similar to the *Codentify*® system originally developed by the tobacco industry itself), accompanied by a two-dimensional, machine-readable code.

The World Bank report is concerned that critical details of the application of the marks – and the transparency of the information flowing from them – are unknown. Furthermore, as no bidding process was involved, it is not clear who developed the technology to generate the codes, how SAT obtained that technology and how much it cost. 'In other words, it is impossible to rule out conflicts of interest in the implementation process and to assess the extent to which the code is under exclusive control of the SAT,' concluded the report.

The full World Bank report is available at **documents.worldbank.org/curated/en/677451548260528135/pdf/133959-REPL-PUBLIC-6-2-2019-19-59-24-WBGTobaccoIllicitTradeFINALvweb.pdf**

Arjo Solutions Expands into Latin America

Arjo Solutions – a subsidiary of the French industrial group Impala, and a leading provider of identification, authentication and traceability systems – recently announced its international expansion in Latin America with the launch of its first subsidiary in São Paulo, Brazil.

Antoine Dubacq, Head of the Brazilian subsidiary said: 'Latin America, which has been affected by the boom in illicit trade, is an important growth area for Arjo Solutions. We bring brands and public bodies unique and innovative authentication solutions. In particular, we supply connected and highly secure labels that, like a banknote, incorporate several layers of security: visual elements such as holograms and invisible elements providing flawless authentication. As well as those purely security-related aspects, our labels also add a unique digital dimension to the products they protect, enabling our clients to monitor their products but also consumers to check their authenticity and provenance via a simple smartphone scan.'

Arjo Solutions CEO Aurélien Tignol, added: 'we want to bring our clients in Brazil and across Latin America local support. Launching this first overseas subsidiary is a significant step for our company's international development strategy. We're very proud of the work that our team has done onsite and are determined to accelerate our expansion in Latin America.'

The Impala group is also the owner of INEXTO, successor to the tobacco industry-invented *Codentify*® technology.

www.arjo-solutions.com

UAE to Become First Country to Impose Tax Stamps on E-Cigarettes

From 1 November, the UAE will become – at least to our knowledge – the first country to apply tax stamps to e-cigarettes and shisha. Although other countries (as well as some US states) have started imposing excise taxes on e-cigarettes (or vapour products, as they are also called), no jurisdiction has yet begun applying tax stamps to such products.

According to *www.arabianbusiness.com*, this move by the UAE (which will also be followed by Saudi Arabia) forms part of the Federal Tax Authority's (FTA) strategy to expand the scope of its 'Marking Tobacco and Tobacco Products Scheme' to cover all tobacco products, both imported and domestic.

Phase one of the scheme already went into effect from 1 January this year, on imported and domestically produced cigarettes. As of 1 May, the import of any type of cigarettes into the UAE not bearing tax stamps has been prohibited, while the sale of unstamped cigarettes across UAE markets will be prohibited from 1 August.

There are two types of stamps used for tobacco products: a red one for products sold on the domestic market and in duty-free arrivals, and a green one for duty-free departures. The stamps are printed with a unique identifier that allows the products to be electronically tracked along the full length of the supply chain, from the manufacturing site to the point of sale to the end consumer.

The stamps, together with their associated online order management and track and trace systems, as well as the tools used for their onsite authentication, are provided by De La Rue. The company has been commissioned by the FTA to produce 350 million tobacco stamps per year.

In July, the results to date of the various tax administration systems implemented by the FTA were raised at an FTA board meeting. During this meeting the FTA Chairman, HH Sheikh Hamdan bin Rashid, was happy to report that the authority's strategic partnerships with government and private entities had led to a drastic increase in self-compliance rates and tax awareness among taxpayers, with the number of businesses and tax groups registered for VAT surpassing 307,000, and the number registered for excise tax totalling 724.

The UAE was the first Gulf Cooperation Council (GCC) state to introduce excise tax on soft drinks and cigarettes in 2017, in a bid to curb consumption and introduce new sources of state income in the wake of rapidly declining oil prices. In order to administer these new tax regimes, the FTA was established in 2016, which was a first for this country of seven constituent monarchies.

The fact that the UAE has been able to implement a comprehensive tax stamp and track and trace system on cigarettes just three years after the creation of its tax administration authority can be considered a significant achievement, especially when compared to other countries that have been battling for what seems like decades to introduce such systems.

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