

# Seminar: HEALTH TAXES POLICIES IN LATIN AMERICA AND THE CARIBBEAN:

Are we making progress?

*12 May 2022*

**Tracking and tracing systems – progress in the world.**

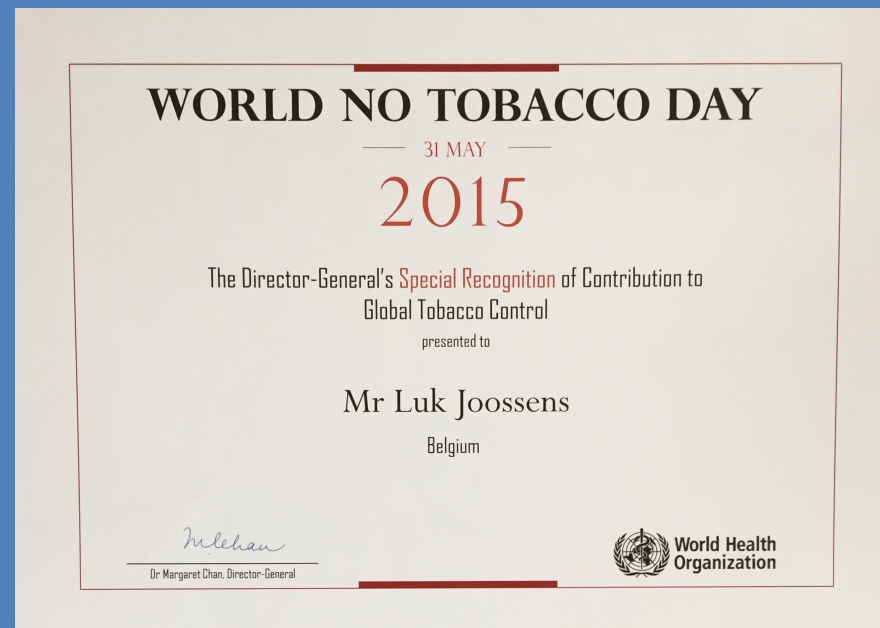
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# No conflict of interest

- No conflict of interest to declare
- 30 years experience on (combatting) cigarette smuggling
- Recipient of the 2015 WHO Director-General Special Recognition Certificate for his work on illicit tobacco trade.



# WHO FCTC Protocol to eliminate illicit trade in tobacco products (ITP)

- ✓ Adopted: 12 November 2012
- ✓ Entry into force: 25 September 2018
- ✓ 65 ratifying parties
- ✓ Objective: elimination of illicit trade in tobacco products
- ✓ Aims to secure the supply chain and promote international cooperation
- ✓ Strong tracking and tracing obligations (article 8)

# Important Parties have ratified ITP

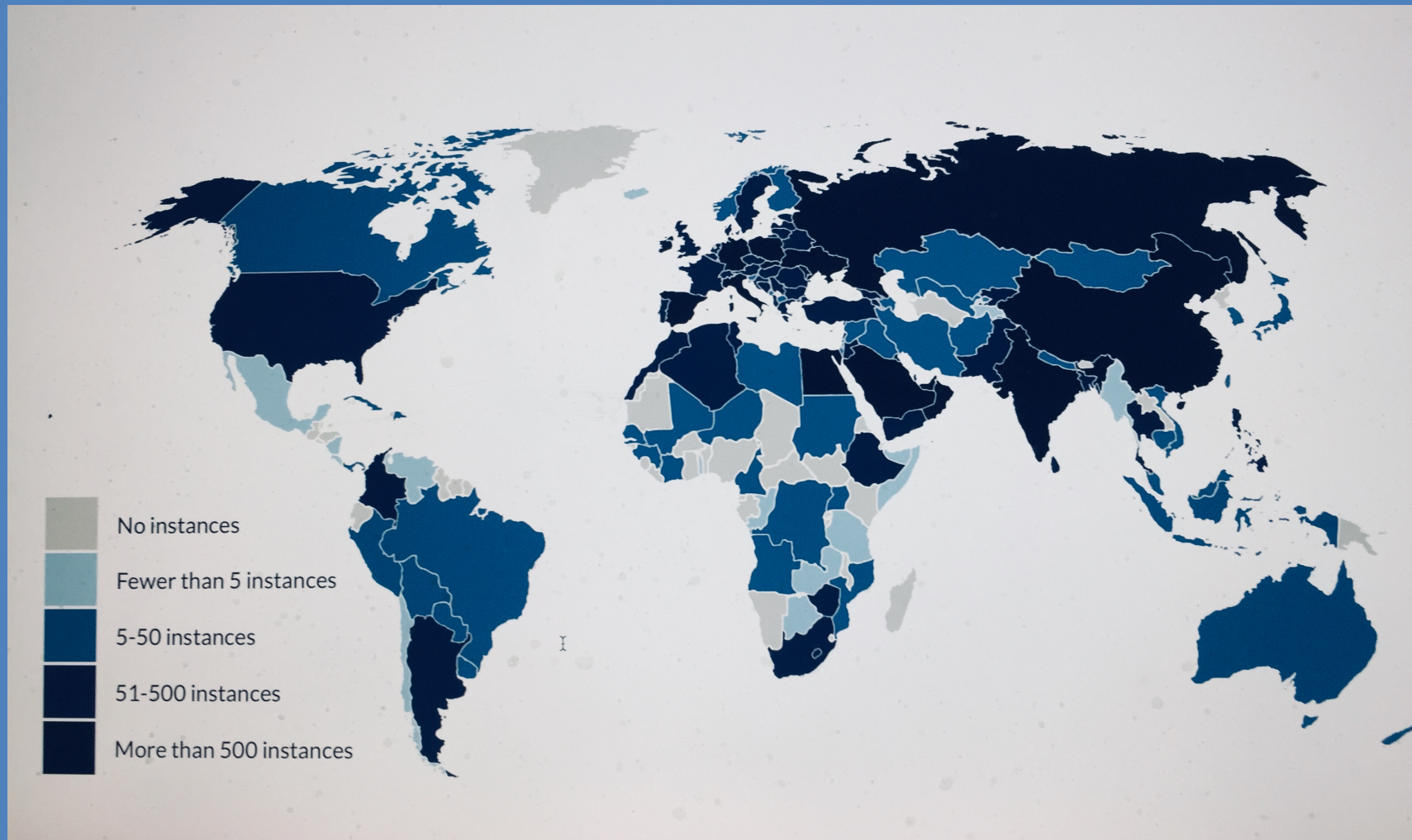
## Parties to the Protocol to Eliminate Illicit Trade in Tobacco Products



The new treaty aims at eliminating all forms of illicit trade in tobacco products. It provides tools for preventing illicit trade by securing the supply chain, including by establishing an international tracking and tracing system, by countering illicit trade through dissuasive law enforcement measures and a suite of measures to enable international cooperation.



**Some Parties with high trafficking instances (origin, transit or destination of seized tobacco products) are missing.**



**Source: World Customs Organization, 2019**

# Eliminating the global illicit cigarette trade might help to raise revenue.

- Revenue losses estimated at \$40.5 billion annually.
- If the global illicit trade were eliminated, governments would gain at least \$31 billion.

World Bank income group	Illicit market share (2007)	Revenue lost to government (US\$)
WORLD	11.6%	40.5 billion
High income	9.8%	17.6 billion
Low and middle income	12.1%	22.9 billion

# Elimination of illicit cigarettes would increase tax revenues.

A more recent study, undertaken by a team of WHO health economists, found that the elimination of illicit cigarettes would increase the tax revenues from the sale of cigarettes by 11.2%.

Source: Goodchild M, *et al.* Potential impact of eliminating illicit trade in cigarettes: a demand-side perspective, *Tobacco Control* 2020;0:1–8.

# The SWOT analysis: Protocol and T&T

## Strength:

- ✓ International collaboration, control of the supply chain and more enforcement are effective to combat illicit trade.

## Weakness:

- ✓ Lack of financing and lack of expertise of health officials on illicit trade in general and traceability specifically.

## Opportunity:

- ✓ Tracking and tracing and supply control measures are strong obligations in the ITP.

## Threat:

- ✓ Tobacco industry and INEXTO are proposing their own traceability system or software solutions which they control.



# What is Tracking and Tracing?

Tracking and Tracing covers a wide variety of systems to determine the current and past locations of goods.

**Article 1 of the Protocol** : “Tracking and tracing” means systematic monitoring and re-creation by competent authorities or any other person acting on their behalf of the route or movement taken by items through the supply chain, as outlined in Article 8.”

# Purpose of Tracking and Tracing

The purpose of a tracking and tracing system is “to assist Parties in determining the origin of tobacco products, the point of diversion if applicable, and to monitor and control the movement of tobacco products and their legal status.” (article 8.4.1)

# Tracking and Tracing (article 8)

- ✓ Each Party has to establish a national or regional T&T system, controlled by the Party (Art. 8.2)
- ✓ The national T&T system has to cover all tobacco products that are manufactured in or imported onto its territory (Art. 8.2)
- ✓ Unique, secure and non-removable identification markings on all outside packaging (Art. 8.3)
- ✓ Requirement to record product information and to make it accessible to the global T&T regime (Art. 8.4.1)

# Tracking and Tracing

- 1) Unique identifier, including a serial number
- 2) Data carrier with key product info on packs
- 3) Applying the unique identifier and aggregation on all outside tobacco product packaging
- 4) Recording of events along the supply chain
- 5) Independent storage of the data.
- 6) Exchange of data globally with the Global Information-Sharing Focal Point

# Unique identifiers

The unique identifier should contain a **serial number** for each package of tobacco products. The serial numbers are a distinctive combination of numbers, alphabet characters or both that are unique for each pack/item. **For instance**  
**AAE5F26G7H**

Unique marking should give direct access to key product information (Art. 8.4.2), contained in a data carrier:

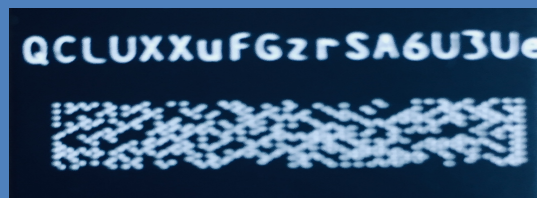
- Date and location of manufacture,
- manufacturing facility,
- intended market of retail sale and
- product description.

# Unique markings on all unit packs, cartons, master cases and pallets

A link and parent-child relationships (called aggregation) between the different packaging units.



Unique identifier  
Data carrier with key  
Info





## No Tobacco industry interference

“8.2. Each Party shall establish, in accordance with this Article, a tracking and tracing system, **controlled by the Party** for all tobacco products”

8.12. Obligations assigned to a Party **shall not be performed by or delegated to the tobacco industry.**

8.13. Each Party shall ensure that its competent authorities, in participating in the tracking and tracing regime, **interact with the tobacco industry and those representing the interests of the tobacco industry only to the extent strictly necessary** in the implementation of this Article.”

# INEXTO is proposing easy to use software to generate unique identifiers.

## CERTIFICATE OF STATEMENT

We, Inexto SA, having its registered office at Avenue Edouard-Dapples 7, 1006 Lausanne, Switzerland, hereby declare that the Inexto has delivered or our software has supported track and trace or digital tax verification systems with integrated databases of codes in over 35 countries.

No.	Country
1	Russia
2	Europe (EU TPD 28 member States)
3	Mexico
4	Ecuador
5	Burkina Faso
6	Switzerland
7	Ghana
8	Lithuania
9	Ivory Coast

# Progress so far

- We estimate that there are thirty-seven existing Track and Trace systems among Parties and nine under preparation:
- 19 EU countries + UK have a system based on the EU regulations,
- 9 on tax stamp regimes (Brazil, Ecuador, Egypt, Kenya, Mali, Mauritius , Saudi Arabia, Togo , Turkey)
- 8 on other characteristics (Iran, Iraq, Congo, Samoa, Sri Lanka, Comoros, Senegal, Burkina Faso).
- 9 have a system under preparation (India, Pakistan, Norway, Montenegro, Cote d'Ivoire, Chad, Ghana, Qatar, Kuwait)

# Effectiveness

The global and international system does not exist yet, but the effectiveness of enhanced tax stamp regimes with Tracking and Tracing characteristics on the domestic market is well described in the literature.

(The 2011 IARC Handbook on Effectiveness of Tax and Price Policies for Tobacco Control and the 2019 World Bank Report on Confronting Illicit Tobacco Trade).

# Kenya

- The 2019 World Bank report was very positive: “Kenya’s experience demonstrates that even a lower-middle-income country has the capacity to implement such a system successfully.”
- “The Kenyan Revenue Authority reports that the illicit cigarette market declined from 15 percent of the total market in 2003–13 to 5 percent after the implementation of the excisable goods management system which includes enhanced tax stamps.”
- However, the system in Kenya does not apply to the export market. (With the exception of Brazil, most enhanced tax stamp systems don’t apply to the export market)

# EU

- ✓ The EU traceability system is a tracking and tracing system at regional level for tobacco products.
- ✓ The system is operational since 2019-2020 and 45 billion unique identifiers were applied on tobacco packs at the end of 2020.
- ✓ No report has been published so far on the results of the EU traceability system.



# EU

- In a 2021 survey among EU Member States, a few EU countries stated that the obligation to place a unique identifier should strongly limit the possibility of introducing illicit products in the EU market.
- Two EU countries added that the traceability system was a powerful tool for national authorities in charge of investigating smuggling and other offenses.
- An other EU country found that the traceability system was helping to some extent, due to better databases in place.

# The way forward

- ✓ Time is running: Tracking & Tracing obligations are entering into force in September 2023.
- ✓ Parties in the Latin America and Caribbean region could consider to establish a regional T&T system based on the experience of Brazil and Ecuador, but without the support or software solutions suggested by INEXTO or the tobacco companies.
- ✓ The need for international standards: domestic traceability systems might not communicate with each other in a global setting.
- ✓ Tracing and Tracing obligations should apply to the export market, transit trade and duty free sales.

# Conclusions

- ✓ Eliminating the illicit cigarette trade might raise billions of dollars and could increase tax revenue from cigarette sales.
- ✓ 65 Parties have ratified the Illicit Trade Protocol. 37 parties have a Tracking and Tracing system and nine have a system under preparation.
- ✓ Latin America and the Caribbean Region could consider more national systems or a regional initiative to establish a Tracking and Tracing system.