



EUROPEAN TOBACCO PRODUCTS DIRECTIVE: **A CAUTIONARY NOTE**

By Tim Driscoll, Senior Vice President and General Manager, Currency & Tax Stamp, Authentix

To achieve compliance with the World Health Organization's Framework Convention for Tobacco Control (FCTC), the European Union's Tobacco Products Directive (EUTPD) became applicable in member states on May 20, 2016. The FCTC, like many overarching regulatory directives, leaves many of the implementation details up to the signatories. Enforceable as of May 20, 2019, EUTPD involves a wide range of stakeholders — security feature providers, secure document printers, tobacco manufacturers, tobacco distributors, data collection and storage companies, traceability solutions providers — and, of course, member state authorities. The EUTPD chose a disaggregated implementation model with multiple stakeholders supporting different parts of the program. Following a disaggregation strategy can help one to select a collection of best practices, which provide an optimal solution for their challenge. Unnecessary disaggregation of the solution, however, can introduce delays and confusion as well as an increased possibility of program fraud. The distributed nature of the EUTPD should be avoided by other countries or economic unions as they consider how to implement their own tobacco track and trace programs.

Centralization: The Key to an Effective Excise Tax Recovery Program

The EUTPD requires that each tobacco product is marked with a unique identifier (ID) to be generated by ID issuers that are financially and legally independent of the tobacco industry. The directive also calls for tamper-proof security features comprised of visible and invisible elements that will allow authorities to determine if the product is genuine or illicit. The tax stamp/security seal must have a combination of overt, semi-covert and covert features and include information such as the unique ID, location and date of manufacture, destination, etc. In the EU model, the three critical responsibilities of ID issuance, stamp design and printing, as well as data collection and storage providers, can be filled by three separate companies.

The International Tax Stamp Association (ITSA) has commented on various shortcomings of the EUTPD related to the lack of specificity regarding feature selection and the degree of responsibility provided to the tobacco companies.^{1,2} Authentix concurs with many of the concerns expressed by ITSA and would like to add the following points to consider.

¹"Tracking and Tracing of Tobacco Products: Defining Roles and Responsibilities in Compliance with the FCTC Protocol"

²"How to Make Unique Identifiers for Tobacco Track and Trace Secure and Independent from the Tobacco Industry: A Standards-Based Approach"

Unnecessary Disaggregation

The EUTPD system contains three separate databases:

1. Economic Operator and Unique IDs managed by the ID Issuer
2. A primary repository for the management of production data by a third party under contract with the tobacco manufacturer
3. A second repository that serves as a surveillance data store for member states and their competent authorities to evaluate the program and identify cases of illicit trade.

As a result of how the primary repository was defined, a member state is unable to select a single supplier to manage the data associated with the generation of the unique IDs and their supply chain events.

Designing a program with multiple databases managed by multiple suppliers creates the possibility of conflict between suppliers. Confusion or disagreements may arise when suppliers follow slightly different implementation approaches to the same standard. Also, troubleshooting issues often become more difficult when parties with shared responsibilities are involved. A comprehensive excise tax recovery program is a complex system. For other countries or economic unions considering FCTC compliance, we strongly recommend that the system is not designed to be unnecessarily complicated.

Role of Tobacco Affiliated Companies

It is clear that some program activities, such as the application of authentication and traceability elements onto the packaging, are best fulfilled by tobacco manufacturers. Other responsibilities such as controlling the production data and issuing aggregation codes have also been assigned in the EUTPD to tobacco companies and companies with strong ties to tobacco. And while many of these entities are compliant participants wanting to leverage these programs to protect their revenues from losses due to illicit trade, some are not. For those starting to consider their approach to the FCTC compliance, this issue can be avoided by centralizing the program and selecting a single trusted partner. Even if one does not believe that there is a significant amount of illicit tobacco trade in their countries, why even introduce the possibility or concern that tobacco affiliated companies may be exploiting the system? Questions of fraud will persist in an implementation model where the

manufacturers manage the production data; whereas if a single service provider is managing a central database, concerns of undue influence are eliminated.

Recommended Approach

Getting the implementation of a tobacco track and trace program right is critical as the recovered lost taxes fund government programs intended to empower citizens, create opportunities and change lives. Authentix believes the best way to achieve these goals is to implement a comprehensive excise tax recovery program involving a single third-party partner responsible for registering the members, generating the unique IDs, and collecting and managing the data in a central database with surveillance controlled by the government.

Authentix – A Comprehensive Tax Stamp Solutions Provider

Authentix collaborates with finance ministries, revenue agencies and custom departments to better understand their tax collection challenges and the complexity of supply and distribution chains operating within their country. Leveraging our experience as a provider of comprehensive tax stamp solutions, Authentix works with FCTC signatories to help them comply with the Protocol. In addition, as a stakeholder in the EUTPD, Authentix enables a European Ministry of Finance to serve as the designated ID issuer for two EU Member States. As a result, we have developed effective implementation and execution strategies to meet WHO and individual signatory mandates.

With the recent acquisition of UK-based secure printing company Security Print Solutions Limited (SPS), Authentix has expanded its security document design and printing capabilities while greatly enhancing its existing tax stamp program proficiency. This relationship strengthens our ability to design tax stamps that resonate with each government and enables us to incorporate a combination of highly effective security features at competitive pricing. Serving as a single source provider of registration, ID issuance, tax stamp creation, printing, data collection and analysis, we collaboratively partner with our customers to help them thrive in supply and distribution chain complexity. Authentix's flexibility also enables us to provide services individually, seamlessly integrating with existing operations and third-party systems.

The Authentix Difference

The Authentix difference is driven by the Authentix Information System (AXIS®), our data collection, analysis and reporting software platform. AXIS consumes data collected through the life cycle of the unique IDs (generation, printing, delivery, application and activation, supply chain distribution, and retirement) and correlates it with additional data sources to highlight various patterns and abnormal events. This increases customer awareness of illicit trade, the efficacy of track-and-trace programs, and anticipates potential threats before they happen.

Authentix has deep experience in implementing new programs driven by government regulations. As an organization that provides authentication and traceability solutions to both commercial and government clients, we work effectively with all parties as we strive for the optimal balance between compliance and production operation realities. This ability allows us to smooth the way for our customers' success and deliver on our mission to safeguard the integrity of global commerce.

For more information, please visit authentix.com/governments/taxstamp.

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