

Track and Trace Systems to Address the Illicit Trade of Tobacco Products: Best Practices & Country Experiences

A track and trace system, required under Article 8 of the Protocol to Eliminate Illicit Trade in Tobacco Products (ITP), is an essential component of any comprehensive approach to reduce or eliminate the illicit trade of tobacco products.¹

What is a Tracking and Tracing System for Tobacco Products?

A tracking and tracing system for tobacco products is a system for monitoring in real time the movement of tobacco products throughout all stages of the supply chain – from production or import sites to retail outlets – and for identifying where illicit activity has occurred.¹ In practice, an effective tracking and tracing system for tobacco products should be able to ensure at least:²

- Verification of the volume produced/imported;
- Verification of the correct tax payment;
- Tracking of the products through the supply chain;
- Tracing of the products back to its source, and;
- Authentication of the shipped product.

To this end, the ITP asserts that an effective tracking and tracing system should include packs with unique and secure markings, including codes or stamps that are both overt and covert and that are affixed to packs and packages. The ITP states that these codes and stamps should track information such as the date and location of manufacture, the names, invoices, and order number, the intended retail point, and the product description.¹

In addition, an effective tracking and tracing system also requires national recordkeeping structures, and the transfer of data into an information-sharing database.¹

Importantly, while a tracking and tracing system should be tailored to a country's needs, it should be designed and performed independently from the tobacco industry and its costs fully paid by the tobacco industry.¹

Kenya: A Model System

As the center of the tobacco trade in East Africa, Kenya is a major transit corridor for illicit cigarettes, in part because it shares porous borders with five countries: Somalia, Ethiopia, Uganda, Tanzania, Sudan.^{3,4} Estimates of the size of the illicit tobacco market in Kenya ranged from about 11% to 30%, depending on sources.⁵ This corresponded with high levels of tax evasion and tax avoidance, estimated to be K sh. 1 billion annually by the Kenya Revenue Authority (KRA), and even larger economic costs.⁶

Best Practices

(quoted from *Measures to Control Illicit Tobacco Trade*)²

- Real time control on all production lines with real time secured data transmission to a government authority.
- Tracking and tracing codes activation on production lines.
- Independent real time control of aggregation on all production lines with real time data transmission to a government authority.
- Linking stock keeping unit (SKU) labels and logistic codes with the tracking and tracing code.
- Integration of the tracking and tracing system with a computerized system for monitoring movements of excise goods for which no excise duties have yet been paid. This will allow physical control of declared goods movement.
- A push-button device capable of immediate and unequivocal authentication of fiscal marks, confirmation of genuine products, fulfilment of excise obligation, verification of tracing information, and uploading information for reporting of audit results.

In 2003, the KRA introduced paper stamps on cigarette packs for domestic sale. However, these stamps had a limited positive impact because they were easy to counterfeit or steal, had to be counted manually, and could not be linked to the type of product, its source or destination.

In 2010, the government implemented several measures to enhance monitoring of its domestic market by requiring licenses that had to be renewed annually for producers, while importers had to register with the KRA. Producers and importers were required to provide detailed information on their products, including source and destination. Failure to comply carried a high and prohibitive penalty. To ensure compliance, the country also deployed enforcement units at various stages of production lines. To complement this greater control of domestic production, the KRA introduced an electronic cargo tracking system (ECTS) to track the actual movement of cigarettes produced for export. The ECTS used GPS technology to identify deviation from a prescribed cargo route.

The KRA and their counterparts in other countries collaborated to verify and clear cargo shipments at borders. A new track and trace system, the Excisable Goods Management System (EGMS), was implemented in three phases in 2013-14:^{2,3}

1. New tax stamps were introduced that are unique, secure and non-removable with an array of features such as holograms, florescent ink, and ultra violet fibers. These stamps are proof of payment for both the excise and VAT tax.
2. A new control and monitoring system for manufacturing facilities was implemented, whereby photosensitive readers were placed on manufacturing lines that can scan up to 200 cartons every 15 minutes, and send the product type and quantity data in real time to the KRA. The tax stamps are attached to the packs in the production line.

Don't Be Fooled!

Codentify[®], a brand authentication system, was developed and promoted by the tobacco industry as a tracking and tracing system.⁷ The product was later sold to INEXTO in 2016.⁸ Given its origins, any tracking and tracing system product promoted by INEXTO should be rejected as not sufficiently independent from the tobacco industry.

3. An excise tax enforcement unit was created, whose officers have the power to inspect any production facility and arrest suspected offenders. Officers use hand held devices that can detect from the tax stamp when the stamp was issued, the producer, product category, and brand. This information allows officers to verify the authenticity and tax compliance status of the product in real time.

As the EGMS effectively replaced the previous system (ECTS), it does not currently mark cigarettes intended for export, which in turn prevents exporting cigarettes with the intention of illegally re-importing them.

These reforms have resulted in a significant crackdown of illicit trade and comparably higher excise tax collections from legal sales. Overall tax compliance increased by 45%, and excise tax revenue from cigarettes sales rose by an average of 20% per year in real terms between 2013 and 2016. For imported cigarettes, the excise tax revenue increased by 4728% in just 6 months from July through December 2014.³

In 2014, at least 20 million illicit cigarettes were seized. In 2016, the government released a mobile app, KRA Stamp Check, which anyone can download and use to check the authenticity of a cigarette pack (or alcohol).³

Georgia

Georgia is a transit country for illicit cigarettes that originate from Russia, Armenia, Azerbaijan, or Ukraine and destined for neighboring countries, primarily Turkey. It was estimated that in the early 2000s, almost half of all cigarettes sold in Georgia were illegal.⁶

In 2013, Georgia adopted and implemented an integrated system of movement and registration of products, requiring all packs to carry a paper-based tax stamp that was highly secured with overt, semi-covert and covert security features that were unique and non-removable. Stamps include a serial number that provides information on the duty paid, producer, importer, product details, and volume, that can be linked to a data management system located at the Georgia Revenue Service (GRS). This system serves both as a tracking and tracking system. Cigarette packs intended for export must have the name of the destination country on it.⁶

The GRS stores and manages the tax stamp data, which is transmitted almost immediately. GRS officers use hand-held devices to check the authenticity of cigarettes in retail shops. While the government paid the upfront costs of the tracing system, in 2018 the tobacco industry began paying for it.⁶

Over this period, Georgia simultaneously modified its tobacco excise tax system and significantly increased the tax burden on cigarettes, with the excise share increasing from 33.3% of the retail price in 2008 to 54% in 2016.⁹

In 2017, in spite of the tax increase, the Head of the Healthcare Committee of the Georgian Parliament stated that the illicit cigarette market represented less than 3% of total consumption, a number corroborated by external data.^{6,10,11}

This contrasts with the tobacco industry's repeated arguments that illicit trade stems from increased taxation, and refutes the industry's false statement that illicit trade in cigarettes had increased 18-fold in 2017!¹⁰

Although illicit trade has significantly decreased, the impact on tax revenue was small. This is explained in part because of the large tax gap between filtered and non-filtered cigarettes, the fact that Georgian cigarettes are still relatively much cheaper than in neighboring countries (with several brands becoming more affordable) and because of forestalling (the practice of purchasing a large quantity of tax stamps before tax increases).⁶

REFERENCES

1. WHO Framework Convention on Tobacco Control. Protocol to Eliminate Illicit Trade in Tobacco Products. Geneva: World Health Organization; 2013.
2. Ross, H. Measures to Control Illicit Tobacco Trade. Tobaccconomics and Economics of Tobacco Control Project, University of Cape Town, 2015.
3. Muthaura K. Challenges and Success of Tracking Illegal Trade in Excise Products. Kenya Revenue Authority, Prepared for the 3rd Annual Tax Summit, University of Nairobi. Powerpoint presentation. 2017.
4. ITC Project. ITC Kenya National Report. Findings from the Wave 1 (2012) Survey. University of Waterloo, Waterloo, Ontario Canada; Ministry of health [Kenya], Kenya Medical Research Institute, International Institute for Legislative Affairs, and university of Nairobi, Nairobi, Kenya. 2015.
5. Ross, H. Tracking and tracing tobacco products in Kenya. Preventative Medicine, Vol 105; 2017.
6. World Bank. Confronting Illicit Tobacco Trade: a Global Review of Country Experiences (English). WBG Global Tobacco Control Program. Washington, D.C. : World Bank Group, 2019.
7. Joossens L, Gilmore AB. The transnational tobacco companies' strategy to promote Codentify, their inadequate tracking and tracing standard. Tobacco Control 2014;23:e3-e6.
8. Digital Coding & Tracking Association. DCTA technology ownership transferred to Inexto, an affiliate of Impala Group. 2016. Available at: www.dcta-global.com/docs/DCTA_Press%20Release_1June2016.pdf
9. WHO report on the global tobacco epidemic: monitoring tobacco use and prevention policies, Appendix IX. Geneva: World Health Organization; 2017.
10. Zoide A. The tobacco smuggling rate in Georgia doesn't exceeds 3%. Commersant: Tbilisi; Georgia, 2017. Available at: <https://commersant.ge/ge/post/akaki-zoidze-saqartveloshi-tambaqos-kontrabanda-3-s-ar-agemateba-rac-dzalian-mcire-machvenebelia>
11. Euromonitor International. Passport database 2017.