



REPORT FOR NATION

**Confronting Illicit Tobacco Trade in India
for Economic & Socio Development**
(A Resource Guide)

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1. Executive Summary

Illicit trade in tobacco and tobacco-based products is a global problem, leading governments to join public health agencies in calling for stronger measures to combat the practice.

According to the World Bank, smuggled cigarettes account for 6 percent to 8.5 percent of total global consumption. Approximately a fifth of all, cigarette production is exported. Of that amount, almost one-third – about 355 billion cigarettes a year – finds its way into the contraband market.

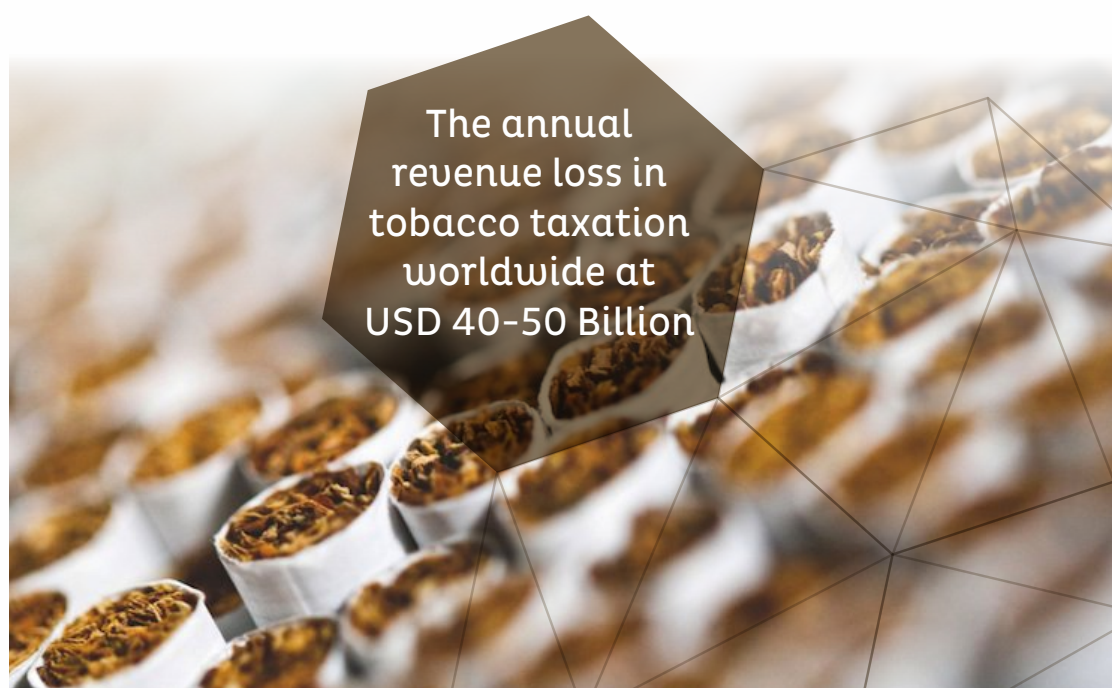
The annual revenue loss in tobacco taxation worldwide at US\$40-50 billion, that is, about 600 billion sticks (individual cigarettes), or 10 percent of global consumption

The illicit tobacco trade robs governments of tax revenue and increases tobacco-related deaths. Cigarettes are a particularly attractive product to smugglers because tax is a high proportion of price, and evading

tax by diverting tobacco products into the illicit market (where sales are largely tax-free) generates a considerable profit margin for the smugglers. The availability of cheap cigarettes increases consumption and thus tobacco-related deaths in the future.

Eliminating or reducing the illicit cigarette trade will reduce consumption (by increasing price), save lives, and increase tax revenue to governments. Governments are currently losing approximately \$40.5 billion annually worldwide. The FCTC protocol proposes several measures – such as tighter control of the supply chain, enforcement, and international cooperation – which are expected to reduce the size of illicit trade globally.

The purpose of this report is to provide a resource guide to the Government of India on the problem of illicit tobacco trade in India and the usage of Phygital Tax Stamps as solutions in combating it.

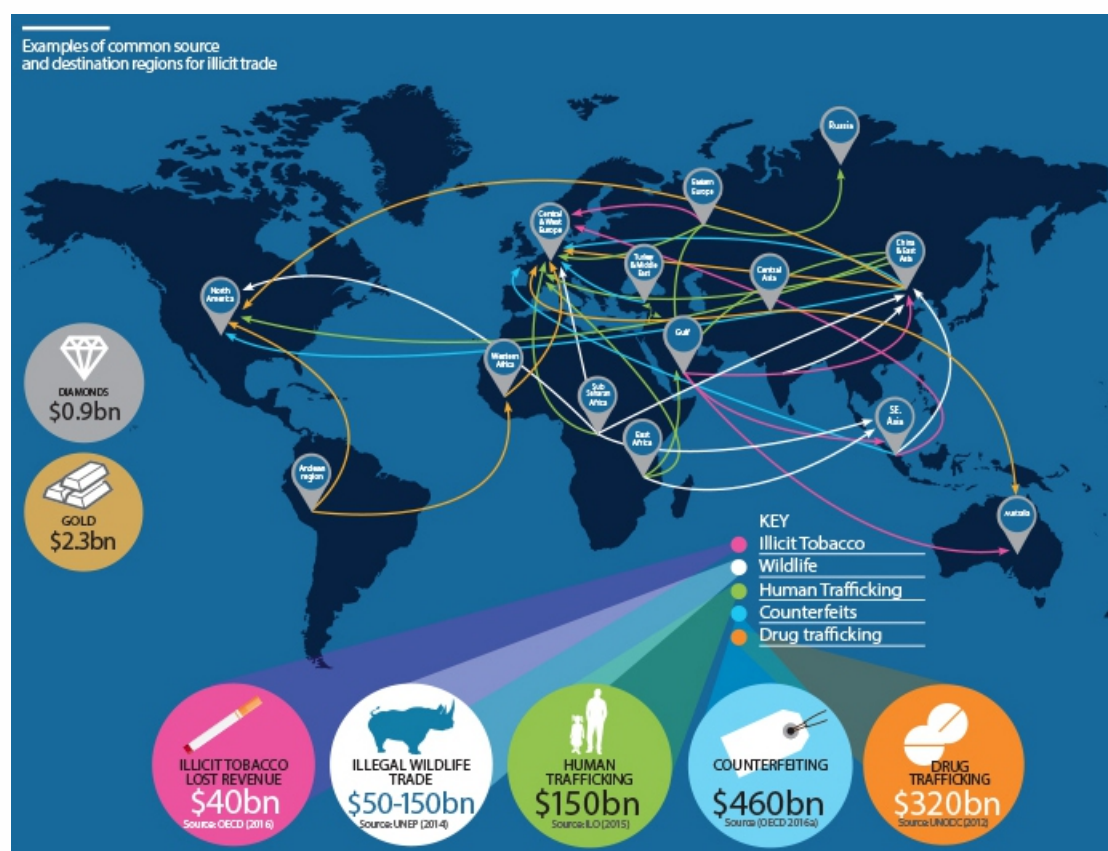


The annual
revenue loss in
tobacco taxation
worldwide at
USD 40-50 Billion

2. What is Illicit Tobacco Trade?

Illicit tobacco trade refers to any practice related to distributing, selling, or buying tobacco products that are prohibited by law, including tax evasion, counterfeiting, disguising the origin of products, and smuggling. Illicit trade can be undertaken both by illicit players who are not registered with relevant government agencies, and legitimate entities whose business operations are

contrary to applicable laws and regulations. Unsurprisingly, the illegal nature of tax evasion makes the task of measuring its scale extremely difficult. Recent consensus among experts estimates the annual revenue loss in tobacco taxation worldwide at US\$40–50 billion, that is, about 600 billion sticks (individual cigarettes), or 10 percent of consumption¹.



Graph: Mapping Illicit Trade

Footnote:

1. Confronting Illicit Tobacco Trade: A Global Review of Country Experiences, Technical Report of the World Bank Group

Retrieved from <https://www.worldbank.org/en/topic/tobacco/publication/confronting-illicit-tobacco-trade-a-global-review-of-country-experiences>

2. April 18, 2016, OECD Review of Risk Management Policies, Illicit Trade – Converging Criminals Network. Retrieved from <https://www.oecd.org/gov/risk/charting-illicit-trade-9789264251847-en.htm>

3. Magnitude of Problem in India

In India, legal cigarettes constitute only 10 percent of the total tobacco consumption. Other tobacco products like chewing tobacco, bidis, and gutkha, etc. comprise the rest of the 90 percent when considered in volume terms. In the last three decades, the legal cigarettes' share amongst total tobacco consumption in India has declined from 21 percent (1981-82) to 10 percent in 2016-17. During the exact period, the overall tobacco consumption within the country has increased by 33 percent. This drop-in legal cigarettes revealed in the shift to the illegal cigarette and the unorganized sectors of the Industry.³

Even though there are no specific figures on the number of bidis are produced annually, estimates vary from 750 billion to 1.2 trillion. As per the last survey in FY 2006-07, according to estimates, only 360 billion bidis were tax paid accounting to 50 percent of consumption.⁴

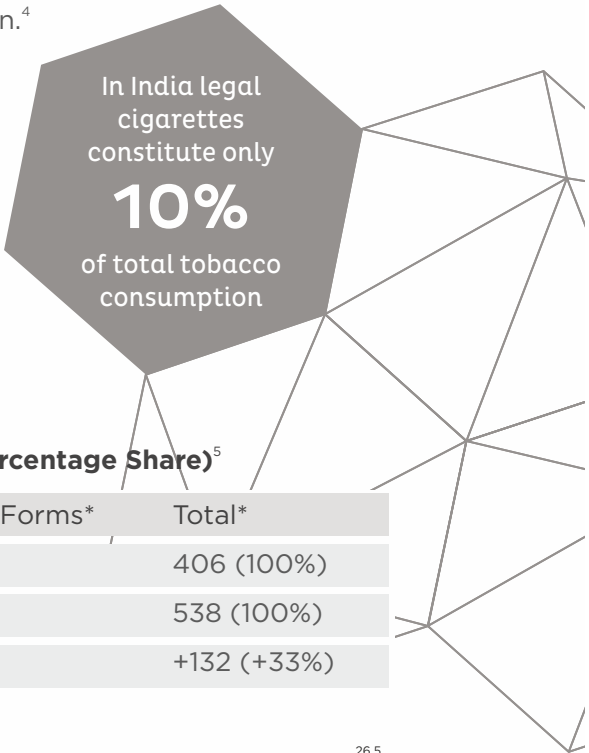
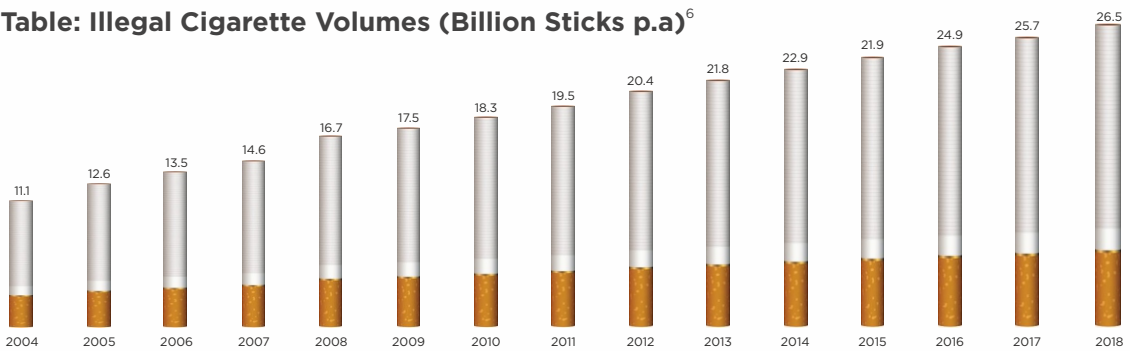


Table: Tobacco Consumption in India (Million Kgs. / Percentage Share)⁵

Year	Legal Cigarettes	Other Tobacco Forms*	Total*
1981-82	86 (21%)	320 (79%)	406 (100%)
2016-17	52 (10%)	486 (90%)	538 (100%)
Difference(%)	-34 (-40%)	+166 (+52%)	+132 (+33%)

Table: Illegal Cigarette Volumes (Billion Sticks p.a)⁶



Footnote:

3. Legal Cigarette: Tobacco Consumption. The Tobacco Institute of India. Retrieved from <https://www.tiionline.org/facts-sheets/tobacco-consumption/>

4. The Economics of Tobacco & Tobacco Taxation in India. Series of report on tobacco taxation funded by Bloomberg Philanthropies & Bill & Melinda Gates Foundation. Retrieved from https://www.tobaccofreekids.org/assets/global/pdfs/en/India_tobacco_taxes_report_en.pdf

5. Tobacco Consumption in India: USDA, Tobacco Board. Retrieved from <https://www.tiionline.org/facts-sheets/tobacco-consumption/>

6. Invisible Enemy - A Threat to our National Interests: Extent Causes and Remedies <http://ficci.in/spdocument/20807/final-Smuggling-report.pdf>

4. Impact of Illicit Tobacco Trade

Illicit trade in tobacco products contributes to numerous health, economic, and governance challenges. Nevertheless, the following are salient.

4.1 Impact on Public Health - Illicit tobacco kills:

The fundamental reason to confront illicit trade in tobacco products is that it entails public health impact. All tobacco products are harmful to human health, even if they are produced and marketed legally. Nevertheless, illicit tobacco harms individual and population health in additional ways. From a public health

perspective, illicit trade weakens the effect of tobacco excise taxes on tobacco consumption - and, consequently, on preventable morbidity and mortality by increasing the significance, attractiveness, and access to tobacco products. It has been estimated that the illegal cigarette market reduces average cigarette prices by about 4 percent and is accountable for about 2 percent higher cigarette consumption. If the global illicit trade were eliminated, in just six years, over a million lives would be saved.

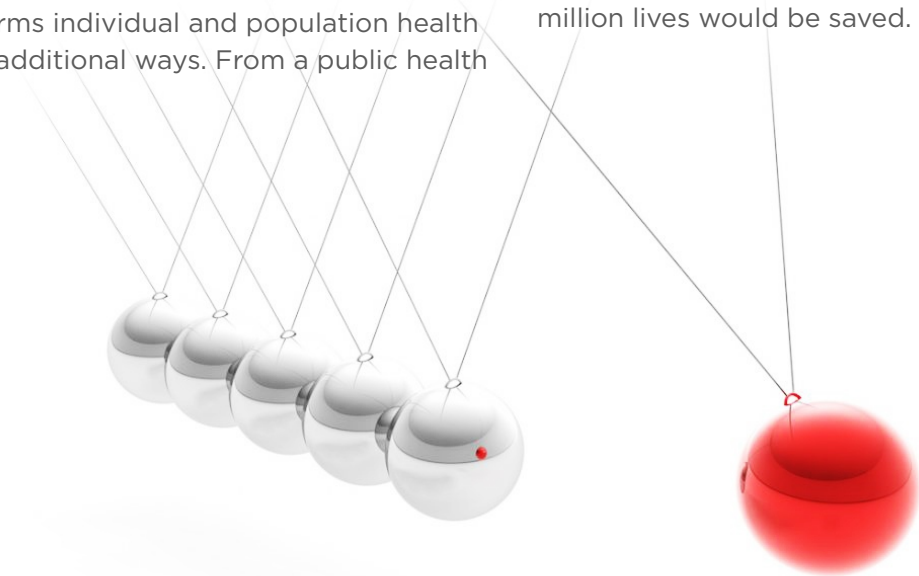


Table: Revenue Generated & Lives Saved with Elimination of Global Illicit Trade⁷

	Global	High Income Countries	Low- & Middle-Income Countries
Current situation			
Total illicit cigarette market (% of consumption)	11.6%	9.8%	12.1%
Total illicit cigarette market (cigarettes per year)	657 billion	124 billion	533 billion
Total revenue lost to governments	\$40.5 billion	\$17.6 billion	\$22.9 billion
Estimated deaths in 2030	8.3 million	1.5 million	6.8 million
If this Illicit trade were eliminated			
Immediate gain in revenue	\$31.3 billion	\$13 billion	\$18.3 billion
Lives saved in 2030 and annually thereafter	164,000	32,000	132,000

4.2 Impact on Society & Youth:

Illicit trade makes tobacco products more affordable and accessible to individuals from low-income groups, as well as children. These products are being sold at prices that were lower, thus increasing consumption. According to reports, the average street price of cigarettes was 50 to 60 percent lower in comparison to taxation paid cigarettes. Cost and tax policies are recognized as among the most efficient way of reducing demand for and consumption of tobacco goods. Nevertheless, the illegal trade undermines tax policies, facilitates the uptake of tobacco use among youth, and increases health inequalities inside the society.

4.3 Impact on Government:

Illicit trade siphons tax revenues away from governments, which subsequently decrease the capability of authorities to provide decent governance. It also reduces the allocation of resources for socio-economic development, particularly in low-income nations that rely on consumption taxes. Recent consensus among experts estimates the yearly loss of income from tobacco taxation globally at US\$ 40-50 billion, that's about 600 billion sticks or 10 percent of consumption. Illicit tobacco trade sponsors criminals and funds organized crime. These include drugs, human and arms trafficking, and armed insurgent groups with a possible impact on the general level of corruption and security. In contrast, confronting illegal trade in tobacco products can strengthen taxation administration,

compliance, and enforcement.

Controlling illegal trade in tobacco products and overall governance is mutually reinforcing.

According to a recent report released by Bloomberg Philanthropies, titled "Task Force on Fiscal Policy for Health", if all countries increased their excise taxes to raise prices on tobacco, alcohol, and sugary beverages by 50 percent, over 50 million premature deaths could be averted worldwide over the next 50 years while raising over US \$20 trillion of additional revenues in present discounted value. Raising taxes and prices further in future years would save additional lives and raise even more revenues.⁸

4.4 Uncontrolled illicit trade in tobacco provides opportunities for the tobacco industry to misinform public opinion and unduly influence public policy:

The tobacco industry uses inflated prices of the impact of tobacco taxes on illegal trade to campaign against tobacco tax increases and misinform public opinion. By accurately measuring and better controlling illegal trade in tobacco, authorities reduce the industry's capability to distort coverage.

Footnote:

7. How Eliminating the Global Illicit Cigarette Trade Would Increase Tax Revenues and Save Lives: Retrieved from website https://www.tobaccofreekids.org/assets/global/pdfs/en/ILL_global_cig_trade_full_en.pdf

8. The Task Force on Fiscal Policy for Health – Co-Chaired by Mike Bloomberg and Economist Larry Summers, Former Secretary of the U.S. Treasury and Former Director of the National Economic Council. Retrieved from website <https://www.bloomberg.org/program/public-health/who-global-ambassador/#task-force-fiscal-policy-health>

5. What causes illicit trade in tobacco products?

Contributing factors to illicit trade are complicated. Nevertheless, contrary to tobacco industry arguments, taxes and prices only have a limited impact on the illicit cigarette market share at the country level. Evidence suggests that the illicit cigarette market is relatively larger in countries with low taxes and prices while relatively smaller in nations with high cigarette taxes and prices. Non-price factors such as governance status, weak regulatory framework, social acceptance of trade, and the availability of informal distribution networks seem to be far more significant determinants of the size of the illicit tobacco industry. Measures controlling the illicit tobacco market are an essential component of a well-designed tobacco control policy. The amount of government effort to combat illicit trade in tobacco products will be motivated both by the possible tax revenue profit and from general health gains due to lower tobacco usage.

Since illicit trade in tobacco products is determined by multiple factors, an

effective strategy to address this issue would need to be explicitly multi-sectoral, involving all relevant agencies of government. Preferably, ministries of finance, trade, industry, foreign affairs, justice, interior, customs, education, and wellness is going to be involved, in addition to civil society and the media. Vested interests of key stakeholders and public opinion concerning illicit tobacco trade can help determine the amount of tax evasion and, consequently, also need to be examined. Prioritizing and coordinating control of the whole distribution chain (from the areas at which tobacco leaves are grown, or the port of entry, to the final purchase by the respective consumer) and enforcement of tobacco regulations have proven to be effective measures in reducing tax evasion with the consumption of tobacco products.

Measures controlling the illicit tobacco market are an essential component of a well-designed tobacco control policy.



6. What are the common categories of illicit tobacco trade?

Tobacco and cigarettes lend themselves to a set of Customs and Excise fraud typologies, both in terms of legitimately manufactured cigarettes and illicit cigarettes. The following fraud typologies make the analogy with distinct internal excise and VAT regions. These fraud types can occur in both the original country of manufacture, at the border and post-border.

Table: Summary of Tobacco Fraud Archetypes⁹

Fraud Archetype	Fraud Archetype
Illicit Manufacturing	Illicit Manufacturing in which a product bears a trademark without the right Holders' consent. Illegally manufactured products can be sold in the source country or smuggled into another country. Excise Tax is rarely, if ever, paid on counterfeit and on unlicensed manufacturing.
Transit Fraud and Ghost Exports	Product declared for in-transit removal to country B but kept in country A and sold in the local market. This includes acquittal fraud, which happens when documentation is provided that falsely indicates that the product has been exported (referred to as a ghost export), with the product having been sold in the local market. This may allow an unlawful reclaim or non-payment of excise duty and non-payment or refund of VAT.
Diversion	Products are declared for consumption in one country (with taxes and duties often legitimately paid in that country), to illegally move the products into another territory where taxes and duties would otherwise be higher.
Illicit Whites/cheap Whites	Brands manufactured legitimately in one market, either taxed for local consumption or untaxed for export and sold knowingly to traders who transport them to another country where the products are sold illegally without domestic duty paid'.
Mis-Declaration	Mis-declaration of tariff code to attract a lower rate of duty, or to avoid undue scrutiny of the consignment or misdeclaration of the end destination.
Round Tripping	Cigarettes are legally exported to country B and then smuggled back into country A to be sold on the local market illegally, in order to avoid paying VAT and Excise Duties on sales in the local market in Country A.
Smuggling	The movement of goods across a Customs frontier in any clandestine manner, evading Customs control. Non-declaration (where no product is declared at port of entry) is also a form of smuggling.
Undervaluation	Typically, incorrectly declaring weight, quantity or value, and invoices differing from the bill of lading, in order to minimize the payment of import duty and VAT.
Under the Declaration of Production Volumes	Legitimate manufacturer under-declares production volumes, siphoning off some of their production and selling the cigarettes off the books, to avoid paying excise duties, VAT, and subsequently income tax.

Footnote:
9. Adapted from European Commission Report No EAHC/2013/Health/11 2013/S 068-112544. Analysis and Feasibility Assessment Regarding EU systems for Tracking and Tracing of Tobacco Products and for Security Features
<https://op.europa.eu/en/publication-detail/-/publication/4a99b1b8-f745-44b6-bc45-b5f69b533840/language-en>

7. What measures Are Countries adopting to confront illicit trade in tobacco products?

Experiences in many countries, states, and other jurisdictions demonstrate that a comprehensive approach to address illicit tobacco markets is most effective. The table highlights the approaches to addressing illicit trade taken by a selection of countries. As with other tobacco control strategies, most of these actions would be most effective as part of a comprehensive approach rather than as individual interventions.

"In September 2018, the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products entered into force."

By providing comprehensive norms and a framework for global cooperation, the Protocol provides countries a game-changing opportunity to advance progress against tobacco-related morbidity and mortality by challenging illicit trade in tobacco. By seizing the opportunity and intensifying action against illicit trade, in line with the Protocol, countries can harness increasing political momentum, forge global and regional partnerships for

collaboration and knowledge sharing, and score decisive victories against illicit trade in tobacco in the years ahead. To fully benefit from the Protocol, policymakers and implementers now seek to connect its normative guidance with empirical data and analysis on countries' illicit trade in tobacco control experiences to date—what has worked, what has not worked, and why.



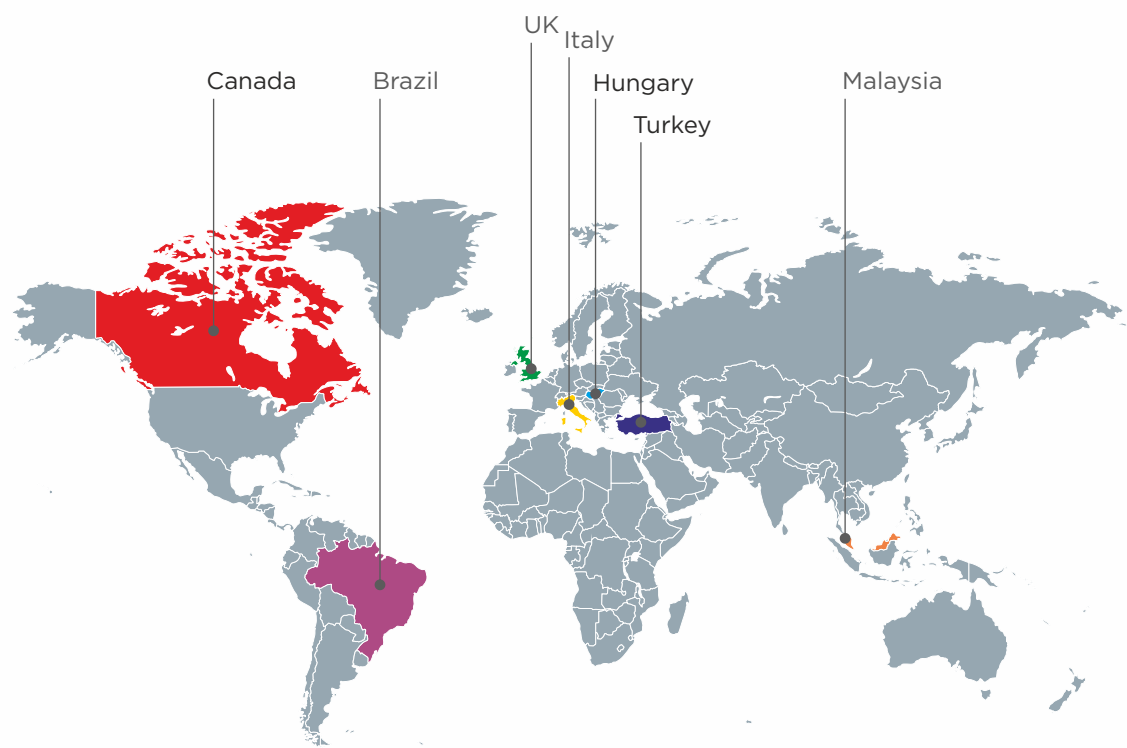
A comprehensive approach refers to an approach that includes enhanced coordination, enforcement, and penalties at all levels of government, and the set of measures in the highlight box below.

Table: Few Measures to Control the Supply of Illicit Tobacco Products¹⁰

Approach	Definition
Licensing	Official authorization for engaging in any activity within the tobacco supply chain, from tobacco growing to product manufacturing to product transportation, wholesale, retail, and the import/export of tobacco products. It motivates the licensees to follow legal business practices under the threat of losing the license. Linking licensing systems with product markings/stamps, recordkeeping, and a tracking and tracing system makes it more effective. Licensing producers and distributors of acetate tow, cigarette papers, and manufacturing equipment needed to produce tobacco products could control illegal manufacturing.
Product markings/ stamps	Counterfeit-resistant, affixed images on product packaging that indicate at least date and location of manufacture, manufacturing facility, and product description. They should have both overt and covert security features. Markings/stamps serve up to three functions for any party in the supply system and the final buyer: a product authentication tool, a tracking/tracing tool, and a revenue collection tool. They are particularly helpful in identifying products on which taxes have been paid. They are usually applied to both domestic and imported products, but also to export if appropriate.
Track-and-trace	Systems combining markers with a national record-keeping structure to enable tracking of tobacco products throughout the supply chain, authentication, and tracing the movement of products by consulting the tracking data kept in a national information sharing database. The system involves systematic, real-time accounting of all products, random serialization, aggregation, and monitoring of the products' movement through the supply chain. It aids crime-prevention and facilitates investigations by identifying where the originally legal products were diverted into illicit channels. The system is less effective in controlling illegal manufacturing facilities or counterfeits, even though it increases the distribution costs of such products and aids their detection in the retail environment.
Eliminating loopholes/ exemptions in the tax law	Sales occurring via virtual channels (e.g., internet, mail, phone) needs to be subject to the appropriate taxes. Eliminating exemptions from tax payments or managing exemptions in a way that prevents their misuse by those involved in the illicit tobacco trade. These include, for example, policies addressing sales in territories exempt from taxes and in duty-free shops.
Due diligence	Requiring parties engaged in the supply chain of tobacco, tobacco products, and manufacturing equipment to exercise due diligence in conducting business, including proper identification of customers, monitoring sales to these customers, and reporting any suspicious activities that could result in law violation.
Record keeping	Requiring all parties engaged in the supply chain of tobacco, tobacco products, and manufacturing equipment to maintain complete and accurate records of all relevant transactions such as acquiring materials used in production, intended markets of retail sale and their volumes, the intended shipping routes, volumes kept in stock, under the transit regime or in duty suspension regime.
Supportive legal environment	Adopt legislation that clearly defines unlawful conduct related to the supply of tobacco products, determines what constitutes administrative, civil, and criminal offences, and establishes liabilities for such conduct.
Penalties	High/escalating fines, license revocation, or other measures that can be aimed at retailers, consumers, and other participants in illicit trade to deter this activity.
Public awareness	Dissemination of information about the consequences of engaging in illicit tobacco trade. Educating the public about how to distinguish legal from illegal tobacco products. Dissemination of information about the impact of illicit tobacco trade on society, including easier access to tobacco products by youth, lost revenue, and support for other illegal activities. Avoid the "illegal cigarettes are more harmful" message since it can promote legal tobacco products.

Table: Approach empowerment by few countries

Approach / Implemented	Turkey	Hungary	Canada	Brazil	Malaysia	Italy	UK
Licensing	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Markers	Yes	Yes	Yes	Yes	Yes	Yes	Yes
National record keeping	Yes	Yes	Yes	Yes	-	Yes	Yes
Track & Trace	Yes	Yes	Yes	Yes	-	-	-
Enforcement	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tax harmonization	Yes	Yes	-	-	-	Yes	Yes
Agreements with industry	Yes	Yes	Yes	-	-	Yes	Yes
Public awareness	Yes	-	Yes	-	Yes	Yes	Yes
Agencies co-ordination	Yes	Yes	Yes	Yes	-	Yes	Yes
WHO FCTC: year ratified	2004	2004	2004	2005	2005	2008	2004
WHO FCTC protocol to eliminate illicit trade in tobacco Products: year signed / year of accession	2013						2013



Footnote:

10. Note: Adapted from Hana Ross, Muhammad Jami Husain, Deliana Kostova, Xin Xu, Sarah M. Edwards, Frank J. Chaloupka, Indu B. Ahluwalia. Approaches for Controlling Illicit Tobacco Trade — Nine Countries and the European Union. MMWR Weekly Vol. 64, No. 20 May 29, 2015; and from Frank J. Chaloupka, Sarah M. Edwards, Hana Ross, Megan Diaz, Marin Kurti, Xin Xu, Mike Pesko, David Merriman, Hillary DeLong. Preventing and Reducing Illicit Tobacco Trade in the United States. Centers for Disease Control and Prevention. 2015. [http:// www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf](http://www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf); and Protocol to Eliminate Illicit Trade in Tobacco Products, World Health Organization 2013; and Chris Holden. Graduated sovereignty and global governance gaps: Special economic zones and the illicit trade in tobacco products. Political Geography 59 (2017) 72-81

11. The Protocol to Eliminate Illicit Trade in Tobacco Product. Retrieved from website <https://www.who.int/fctc/protocol/en/>

8. Tax Stamps as Solutions



The success of physical tax stamps comes from their dual role in supply chain monitoring and visual authentication, for both enforcement authorities and consumers.

8.1 What is it?

Tax Stamp is a stamp affixed to certain products (mainly used in sin products) to indicate that the required tax has been paid. According to its usages, it knows by a variety of names, for example, excise stamps, excise adhesive labels, banderols, etc. They have been around for hundreds of years and continuously evolving with innovation. In the last few years, the new generation PHYGITAL Tax Stamps are evolved in response to demands for higher security and integrated supply chain control.

It is more than a small strip of paper sold by a revenue authority to a taxpayer to stick on products or documents to show that excise tax has been paid on them. A tax stamp must conform to several strict parameters that render it more complex to be counterfeited. Various products, including medicines, alcoholic beverages, and tobacco, are taxed by countries using tax stamps.

8.2 What is the purpose of a Tax Stamp?

They have been extensively used in alcohol and tobacco products. The main purpose of a Tax Stamp, and the reason it was created in the first place – is to provide an authentic physical means of collecting tax. The stamp denotes that a payment has been made – or is due to be made – to a recognized governing authority regarding an excisable item. The success of Phygital tax stamps comes from their dual role in supply chain monitoring and visual authentication, for both enforcement authorities and consumers. Even at an early stage in their existence, tax stamps took on additional roles – albeit unintentionally – just by the fact of being attached to a product. Along with



Fig: Position of TAX Stamp on Cigarette Packs

providing visible proof of tax payment, their very presence acted, to an extent, as a guarantee that the product was genuine and authentic. Furthermore, by being positioned over the opening of a tobacco package or alcohol bottle, they acted as an anti-tampering/anti reuse seal.

8.3 What is it format & application?

Tobacco tax stamps come in many shapes and sizes but are typically around 20mm wide and 45-50mm long. It is used across the whole top and side openings of the box or as opposed to sealing one side only. For example, on soft packs, it is invariably placed over the central part of the top surface, attaching to the front and back faces. Whereas on the hard, flip-top packs, it often covers the side of the flip-top. By this means, it must be tampered to open the packet. In terms of application, tax stamps fall into three broad categories; wet-glue, pressure-sensitive and heat-transfer methods.

8.4 Physical and Digital Tax Stamps Features

Tax Stamps contains state-of-the-art visible and hidden identifiers and security features like those found on high-security documents. The stamp also has hidden security features that only Excise Authorities and law enforcement agencies can detect. These features allow law enforcement agencies, retailers, and consumers to identify counterfeit and illicit liquor products more easily.

New generation Phygital tax stamps (Combination of Physical and digital technologies) work better because they are easier to see and distinguish than existing state tax stamps and harder to visually counterfeit. More importantly, they also contain useful encrypted codes and information that enforcement officials and others can read with

"Tax Stamp contains state-of-the-art visible and hidden identifiers and security features like those found on high-security documents"

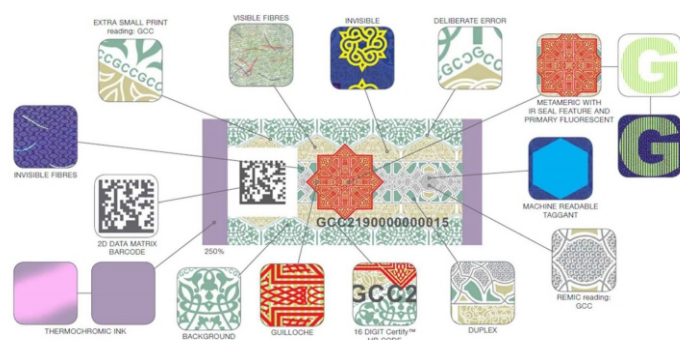


Fig: Features in TAX Stamp

portable scanners, thereby making the stamps almost impossible to counterfeit. With high-tech tax stamps, enforcement officials can scan liquor bottles wherever they find them to distinguish real tax stamps from even the most sophisticated fakes, identify the wholesaler that applied the stamp and initially sold the liquor, and obtain other encrypted information useful for tracking, tracing, and enforcement purposes. By preventing contraband trafficking and other cigarette tax evasion, high-tech tax stamps not only fight crime and increase government revenues but also help to protect public health and reduce smoking by stopping illegal cigarette sales at below-market prices.

8.5 Why Countries are using them?

Primarily, tax stamps are stamps used by governments to collect taxes, fees as well as to prevent counterfeit products from entering the market. According to International Tax Stamp Association (ITSA), more than 90 countries across the globe are using tax stamps in the current scenario. In India, more than 22 State Excise Departments are already using them on liquor products. They are certainly not the only solution to address the issue of tax recovery and illicit trade. However, they are proving to be one of the key elements of several measures that, when used together, produce the best results for governments and other stakeholders.


Excise taxes on tobacco products provide government with approximately 3-4 percent of all revenues in developed countries and significantly more in developing economies. The new generations' sophisticated Tax Stamps with traceability have become the key components of integrated systems for track and trace, monitoring and auditing.

8.6 Success of Tax Stamps – Proven results

Many examples prove the significance of Tax Stamps. In our neighboring country, Bangladesh, the illicit trade in a cigarette was reduced from 20 percent in 2000 to 1.2 percent in 2009. In Turkey, Tobacco tax revenues rose by 31.5 percent within the first year of implementing the system, even though tax rates remained the same. In the Indian scenario, according to various reports, the usage of Tax Stamps has not only minimized the tragedies due to spurious liquor but has also substantially increased the excise revenue collection by more than 15-20 percent on year to year basis with proper enforcement.

In India, more than
22 State
Excise Department
are already using
Tax Stamps on
liquor products

Success Stories - Tax Stamp Benefits

Country/State	Benefit
<p>Turkey</p> 	Tobacco tax revenues rose by 31.5 percent within the first year of implementing the system, even though tax rates remained the same (NRC and IOM, 2015).
<p>Indonesia</p> 	The government expects to secure 147.59 trillion-rupiah (10.071 billion U.S. dollars) revenues from cigarette tax by the year-end. Approximately 18 billion stamps for all tobacco products are currently in usage. The market share of illegal cigarettes has decreased significantly, the share fell 42 percent, from 12.1 percent in 2016 to 7.0 percent in 2018
<p>Bangladesh</p> 	Illicit trade in a cigarette was reduced from 20 percent in 2000 to 1.2 percent in 2009. Currently, about 11 percent of revenue earned by the National Board of Revenue comes from the tobacco sector, which is quite a significant amount compared to the single-digit percentages of many other countries.
<p>Philippines</p> 	Legal domestic sales of cigarettes in the Philippines dropped from 4.3 billion packs in 2013 to 3.1 billion packs in 2016, a 28.3 percent decline in four years. Annual domestic cigarette sales declined by 24 percent from 2013 to 2014 and by 18.4 percent from 2015 to 2016. Despite this steep decline in sales, the Philippines' tobacco excise tax collection in 2016 had risen by approximately 289.6 percent over its 2009 level.
<p>California</p> 	The initial implementation of California's encrypted stamp was highly successful, leading to the recovery of \$125 million in tax revenues in the first 20 months of implementation (US Department of the Treasury, 2010). In the first decade following the implementation and upgrading of California's encrypted tax stamp, the state has recovered an estimated \$450 million in additional tax revenue, well beyond the incremental implementation and enforcement costs (NRC and IOM, 2015)
<p>Massachusetts</p> 	Despite decreases in smoking rates and consumption, which reduced overall sales, the state still generated an average of \$551 million in cigarette excise tax revenues in the first 3 years following the full implementation of the encrypted stamp in July 2010, compared to \$555 million in FY 2010 when smoking rates and consumption were higher.

Graph: Tax Stamps around the world.



9. Conclusion

Illicit tobacco trade contributes to massive harm to public health and economies worldwide and threatens public safety. This clandestine trade deprives treasuries of enormous revenues and adds to the devastating global death toll from tobacco use, now estimated at 5.4 million people a year and rising. The global illicit tobacco epidemic must be addressed effectively and demands a strong international response, tailored to help bring improved public health and greater economic security.

Companies operating in smokeless tobacco space will need to strengthen the supply chain monitoring system in order to implement this regulation successfully. Cigarette companies operating in India are very limited and may easily be able to help the government in enforcing this regulation. Proper monitoring of the supply chain and distribution should help in controlling illicit tobacco consumption. An increase in information sharing between various stakeholders and regulatory authorities will lead to better tracking of the illicit tobacco trail and curtail illicit tobacco. This regulation will be easy to implement in cigarettes compared to the highly fragmented market of smokeless tobacco. While the Indian Government can benefit from tax stamps from the learning of neighboring, these are not something that is not new to the country.

Tax stamps (Excise Adhesive Labels) are tested and implemented successfully on alcohol by the State Excise Department. In tobacco, although the application is different, the central government authorities take benefit of tested and implemented solutions from State

Excise Departments. A comprehensive approach to tobacco tax stamping could be an important tool in reducing illicit trade and revenue loss in India.

Applying Phygital tax stamps to all tobacco products in-country will make an important impact on reducing illicit trade and further reduce smoking and associated health care costs as well as recoup lost revenues from illicit trade.

The new generation Phygital Tax Stamps with technological innovation in security printing, serialized coding, data processing, and mobile communications can be into sophisticated devices with additional roles that related to product authentication, supply chain security & data intelligence.



Annexures - 1

International Regulations –WHO FCTC Protocol the Protocol to Eliminate Illicit Trade in Tobacco Products:

The Protocol to Eliminate Illicit Trade in Tobacco Products is an international treaty to eliminate all forms of illicit trade in tobacco products through a package of measures to be taken by countries acting in cooperation with each other: it is a global solution to a global problem. The Protocol was developed in response to the growing illegal trade in tobacco products, often across borders. Illicit trade poses a serious threat to public health because it increases access to – often cheaper – tobacco products, thus fueling the tobacco epidemic and undermining tobacco control policies. It also causes substantial losses in government revenues, and at the same time contributes to the funding of international criminal activities. These matters were so serious that the Parties to the WHO Framework Convention on Tobacco Control (WHO FCTC) decided that a protocol – a new international treaty – was needed to specifically address the illicit tobacco trade. The Protocol is based on Article 15 of the WHO FCTC, which refers to the threats posed by the illicit trade and measures countries must take to prevent it. The Protocol was negotiated by the Parties to the WHO FCTC over several years and was adopted by them in November 2012.

Objective and key elements of the Protocol: The objective of the Protocol is the elimination of all forms of illicit trade in tobacco products. “Illicit trade” in tobacco products in the context of the Protocol means any practice or conduct related to producing, shipping, receiving, being in possession of, distributing, selling or buying tobacco products and that is prohibited by law. In order to prevent this illegal trade, the Protocol aims to make the supply chain of tobacco products secure through a series of measures by governments. It requires the establishment of a global tracking and tracing regime within five years of entry into force of the Protocol, comprising national and regional tracking and tracing systems and a global information-sharing point located in the Secretariat of the WHO FCTC. Other provisions to ensure control of the supply chain include licensing, record keeping requirements, and regulation of Internet-sales, duty-free sales, and international transit. The Protocol’s obligations cover tobacco, tobacco products and manufacturing equipment (machinery to make tobacco products), not all of which are covered by every provision of the Protocol. Considering the irreconcilable conflict between the tobacco industry’s interests and public health interests, the Protocol contains obligations regarding the tobacco industry. Parties must ensure that any interaction with the tobacco industry is carried out with maximum transparency, and in relation to tracking and tracing, Parties must not delegate any of their obligations to the tobacco industry. Any Party to the WHO FCTC may become a Party to the Protocol. The Protocol will enter into force on the 90th day following the deposit of the 40th instrument of ratification, acceptance, approval, formal confirmation or accession with the Depositary. The Meeting of the Parties (MOP) will be the governing body of the Protocol once it enters into force and will be made up of all Parties to the Protocol. The implementation of the Protocol will require close cooperation between the Parties and international organizations with expertise in the relevant areas (including customs and international crime) and, at the national level, among different sectors of government. This intersectoral and international collaboration will be crucial to the successful achievement of the objective of the Protocol For the status of ratification, please see <http://www.who.int/fctc/protocol/en/>

"As a nation, we now face a serious threat and challenge from the illicit economy.

Illegal activities slowed industrial growth, thus affecting producers, and stunted revenue, hitting job growth. Consumers were the ultimate victims of counterfeiting, smuggling, and piracy as they paid excessive prices for substandard products that also increased exposure to health and safety risks.

To fight the crime of the 21st Century, the involvement of all stakeholders is important and therefore, we must maintain all that we can do to prevent it. A hand is what is required to come out of the and this is where we prove our responsibility".

JOIN US IN FIGHT AGAINST FAKES!

About



The Authentication Solution Providers' Association (ASPA) is a self-regulated, non-profit organization of authentication solution providers.

Formed in 1998 with the objective to curb counterfeit products in various sectors, it is the only association of its type in the world primarily focused on the adoption and advancement of authentication technology and solutions for brand, revenue, and document protection. As an industry body of authentication solutions providers, ASPA encourages its members to adopt best practices, standards, and usage of advanced technology in providing cost-effective anti-counterfeiting solutions against counterfeiting. ASPA members protect over 15,000 brands worldwide through the identification of genuine products and documents. ASPA works closely with global authorities such as International Hologram Manufacturers Association (IHMA), Counterfeit Intelligence Bureau (CIB), FICCI-CASCADE, CSIR-NIIST, ACMA, CII & other industry bodies in India.

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