

# **Increasing compliance: Electronic monitoring system for production & trade**



**World Health  
Organization**

---

# COMMON FEATURES



# Security Features of Banderoles

- ❑ Visible (Overt) Security Features
- ❑ Invisible (Covert) Security Features



# Digital tax stamps

## Visible (Overt) Security Features

- Example from Turkey

- Pink and green colors in 2009 banderole are switching between.
- “TÜTÜN” (TOBACCO) mark on the tobacco banderole.



# DIGITAL TAX STAMPS

## Invisible features

### TURKEY

- When it is controlled with the special filter TAPDK's logo is seen green on the left window and red on the right window

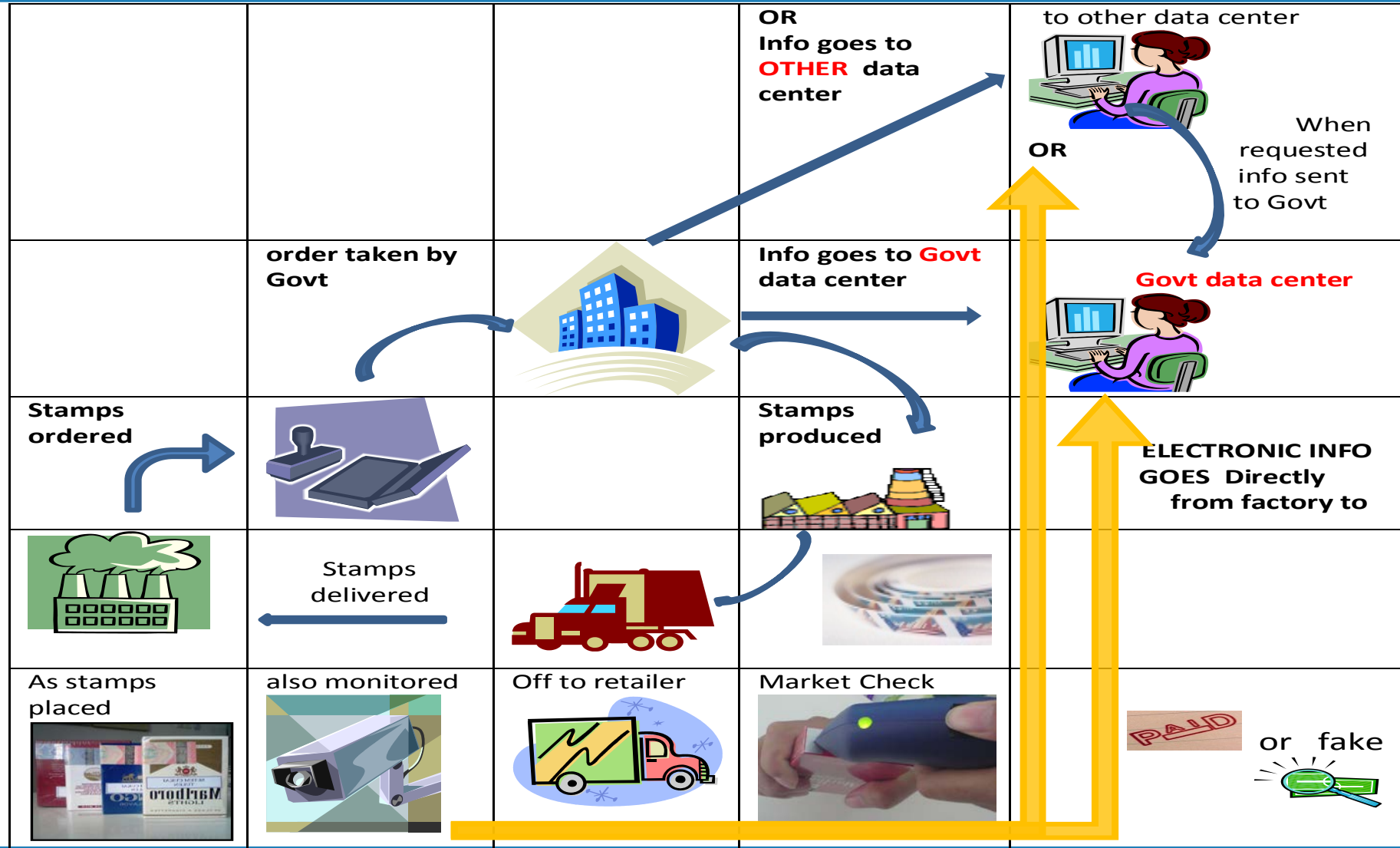


# Invisible Security Items of Banderole TURKEY

- ❑ Banderoles of tobacco products, alcoholic beverages and beer codes have several invisible security items
- ❑ All invisible security items can only be controlled with field audit mobile
- ❑ The audit mobile connects to the data held on PRA's data management system (DMS) and check the code across the production information (serial number, code type, date of coding, place of production, etc.) and activation information (activated, not activated, etc.)



# Application of electronic monitoring system



# WHERE is THE INFO GATHERED?

- GOVERNMENT DATA CENTER
  - MANUFACTURERS
- INDEPENDENT COMPANIES





# WHICH INFO IS TRANSFERRED?

- AGGREGATE – weekly, monthly
- DETAILED INFO as production takes place,
  - PRODUCT TYPE,
  - BRAND NAME,
  - MANUFACTURER,
  - PRODUCTION DATE,
  - PRICE etc.

# Info transferred as production takes place

## Turkey, Brazil

Manufacturer	Brand	Date & time of production	Production facility	price	OTHER
MAN A	BRAND A	DAY/TIME/MM/YY	FACTORY X	\$2.30	
MAN A	BRAND B	DAY/TIME/MM/YY	FACTORY Y	\$3.50	
MAN B	BRAND C	DAY/TIME/MM/YY	FACTORY Z	\$2.00	
MAN B	BRAND D	DAY/TIME/MM/YY	FACTORY K	\$1.50	

# Efficient Physical Controls

## Examples of countries employing digital stamps by electronic monitoring system

- **Implementing countries- objective**
  - Malaysia – purely on illicit control
  - Turkey – compliance and illicit control
  - California
  - Canada
  - Brazil- compliance and illicit control
  - Kenya (in process) – compliance and illicit control
- **Considering countries**
  - Ukraine - compliance
  - Philippines – compliance and illicit control
  - Pakistan – compliance and illicit control

# Monitoring System in Turkey: Compliance increased



www.gib.gov.tr

## System Results as of July 2008

Comparison Table Jan.-July 2007 vs 2008		2007 Production	2008 Production	Production Declaration Increase (%)	Tax Rev. Increase (%)
Alcoholic Beverages	January July	38,2 Million litres	56,8 Million litres	49 %	23 %
Beer	January July	541,4 Million litres	582,9 Million litres	7,7 %	10,2 %
Tobacco	January July	3.065 Million Packs	3.204 Million Packs	4,5 %	16,3 %

Source: Ministry of Finance, Revenue Department, Turkey

# Monitoring System in Brazil: Compliance increased

- Government closed 3 manufacturing facilities due to tax evasion and avoidance
- Tax revenue increased as tax authority verified the level of taxable production level.



---

# PROCESS OF SETTING UP MONITORING SYSTEM



# How to establish a monitoring system?

## Example by Turkey

- Government opens a public tender.
- Winning company and the tax authority can issue working contract for a fixed period – etc. 5 years.
- The firm can be held responsible for
  - Operation of banderole printing facilities
  - Installation the banderole activation system on mass production lines in production facilities of tobacco manufacturers
  - Distribution of the banderols to manufacturers
  - Monitoring the operation of the system and intervening for system failures and informing tax authority
  - Providing required information to the tax administration by transferring data about production of cigarettes.

# Cost of Monitoring System

## *Based on evidence from Turkish application*

- Total cost of the system was divided total production volume of tobacco and alcohol products within 5 years.
- Then the cost of system has been recovered from the banderoles price (sophisticated stamps).
  - The cost of the system for a pack of 20 cigarettes in 5 years was US\$0.10
    - The cost is adjusted by Producer Price Index each year.

Types of Banderole	Cost in USD per 1000 units
Tobacco products	\$5
Alcoholic beverages	\$27



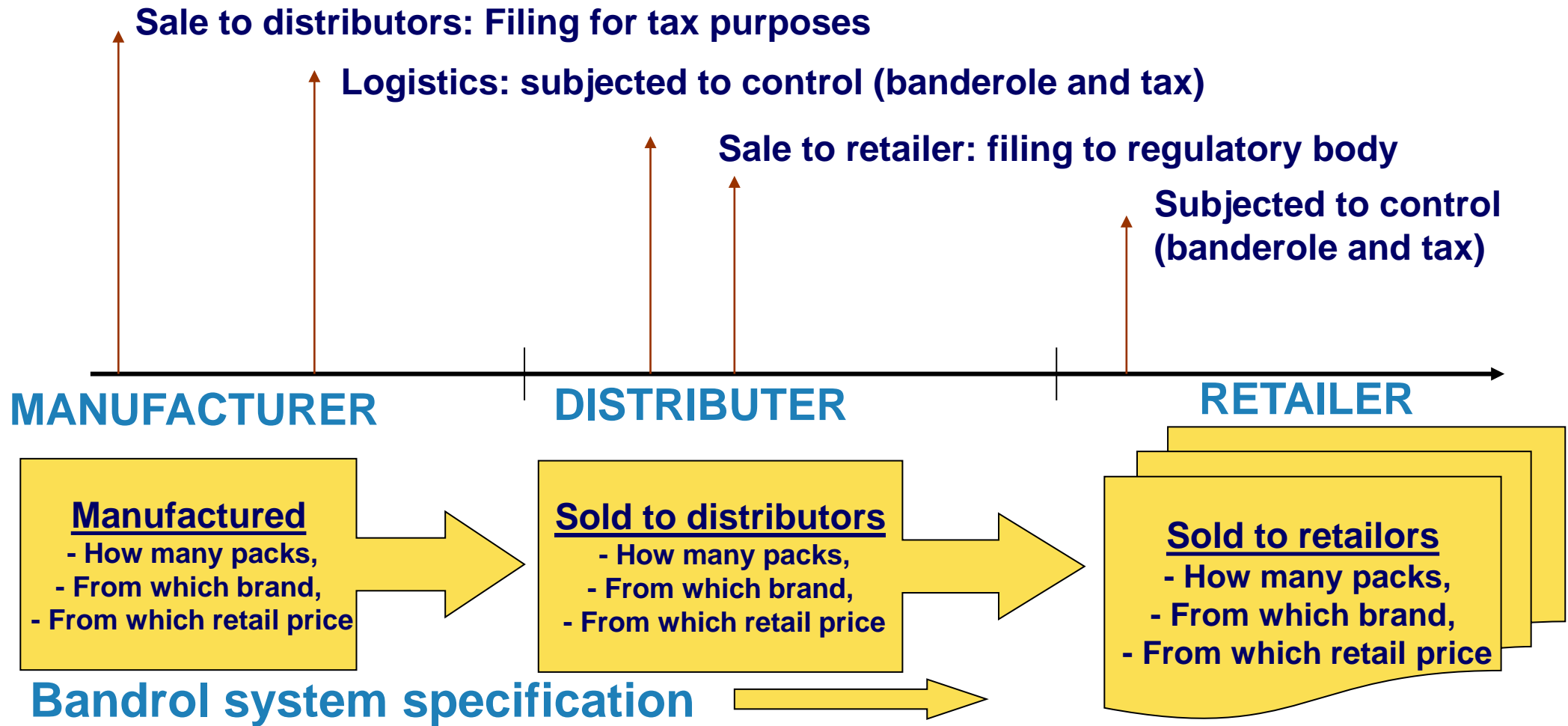
# Application of Monitoring System: *Turkish experience*

- The system entered into force without putting any additional burden over the manufacturers of tobacco and alcoholic beverages.
  - System applied 181 activation lines in 210 facilities,
- Firm set up the banderole printing center at the place that was identified by the Administration,
- Tax authority received 500 units of mobile supervision devices,
- Firm established banderole and code application facilities at 3 customs that were identified by the Administration
- Firm brought and applied the system softwares.
- Firm printed and sold banderoles to all manufacturers of tobacco and alcohol for five years.

# How does monitoring work?

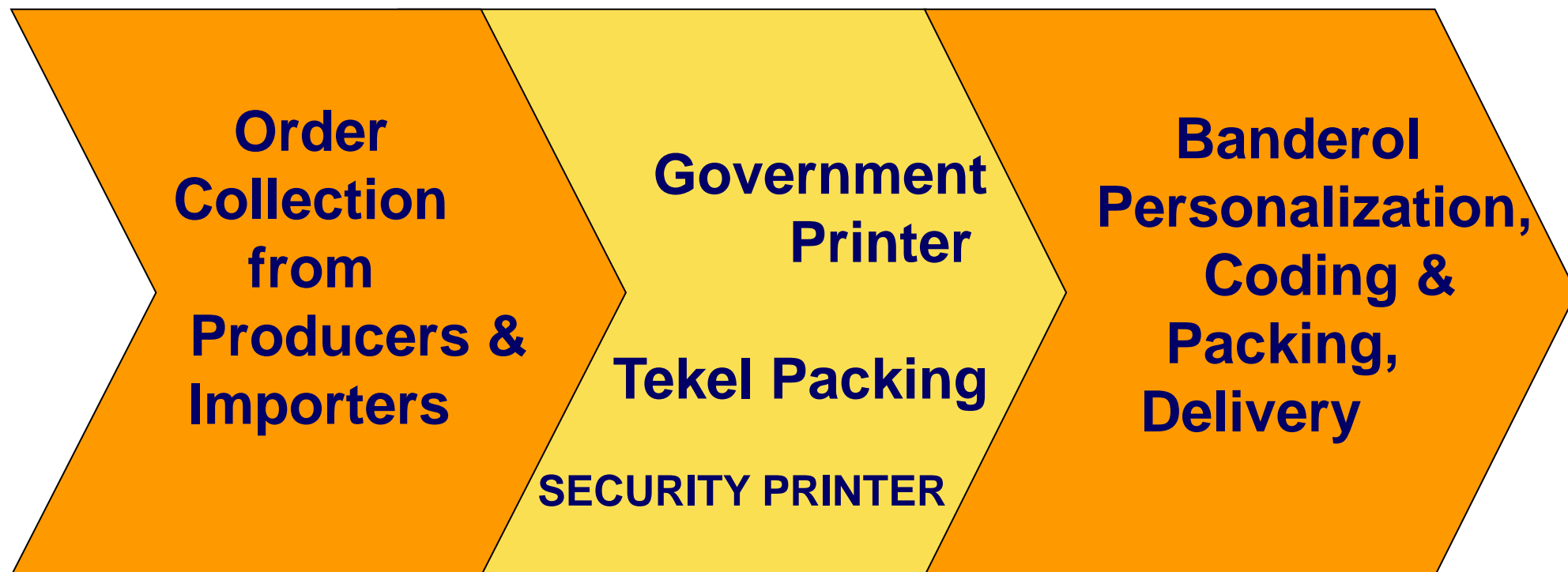
## *Turkey example*

In general: in the production line and importation: banderoles apply



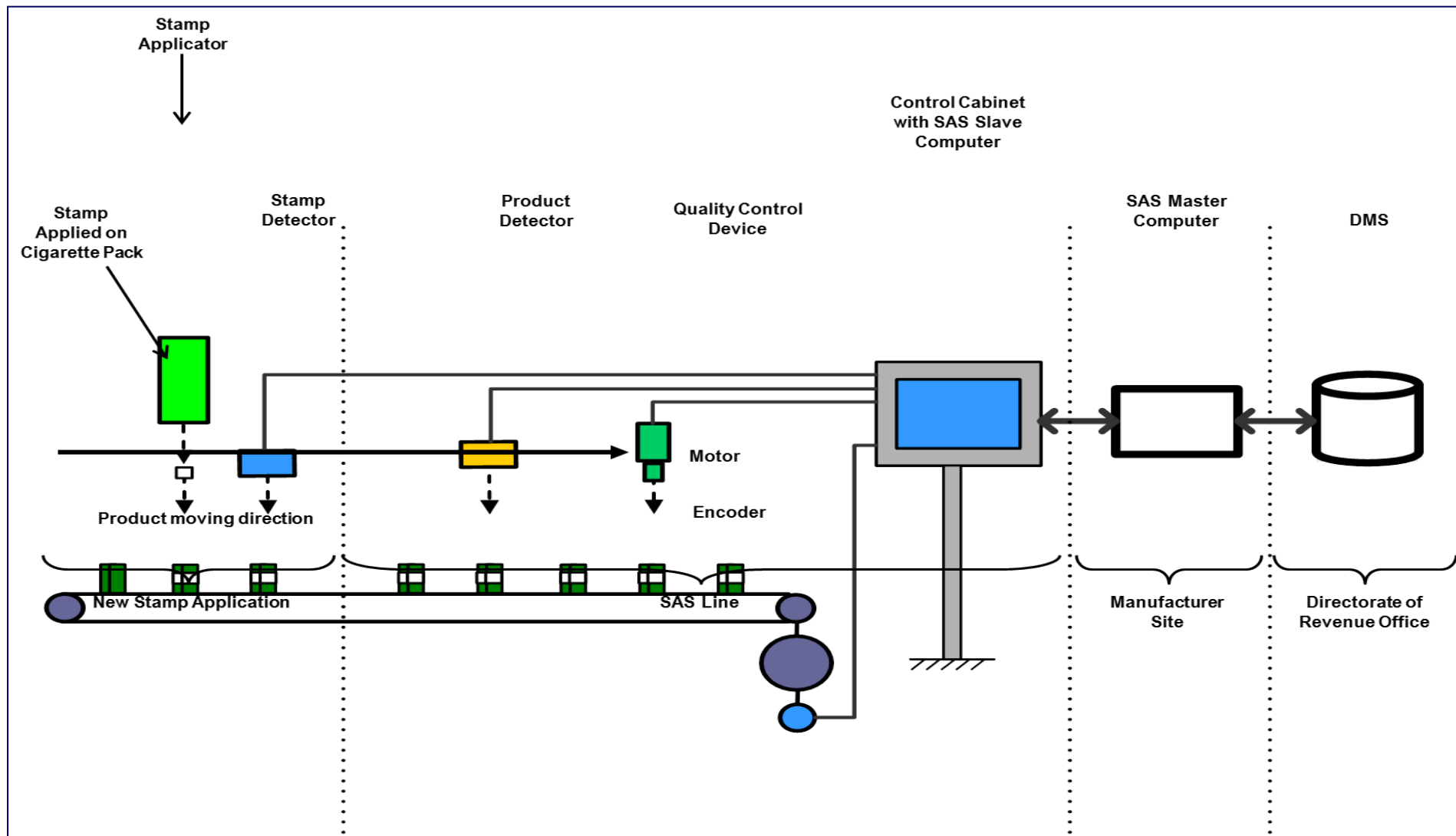
# **Banderol Produce Process**

## ***Turkey example***



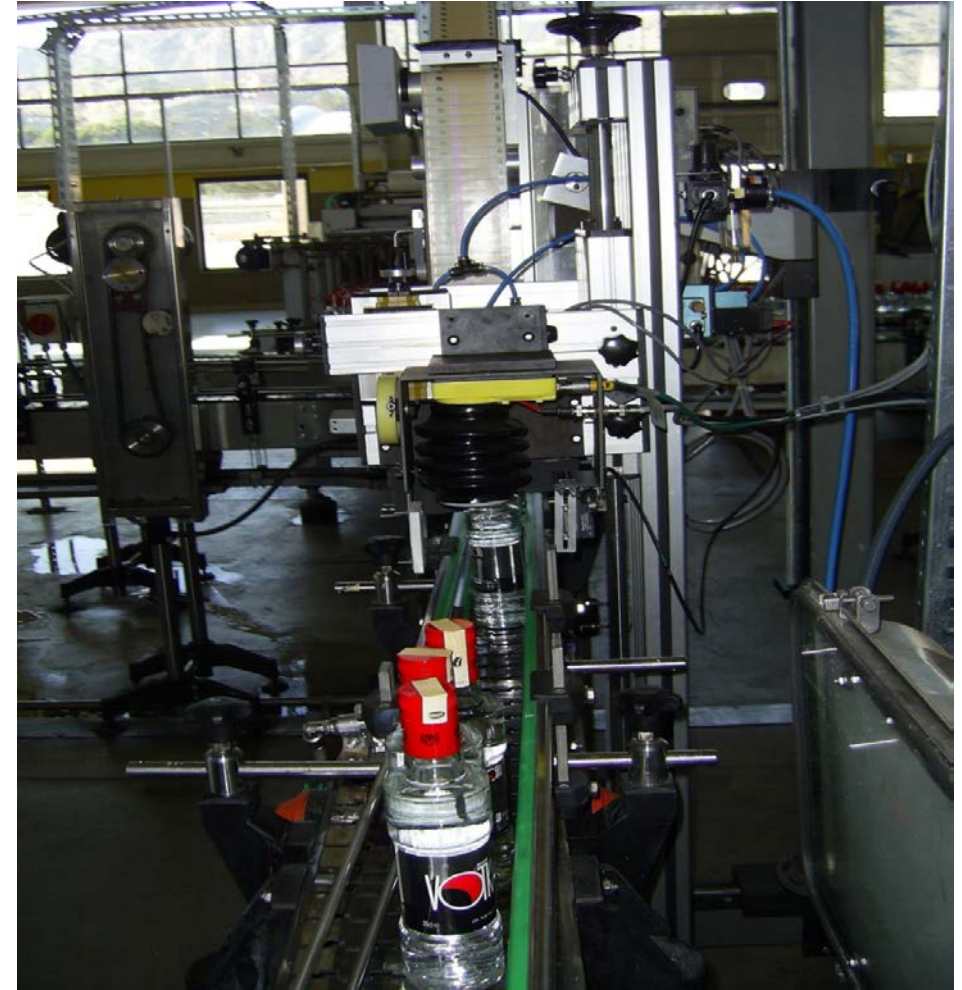
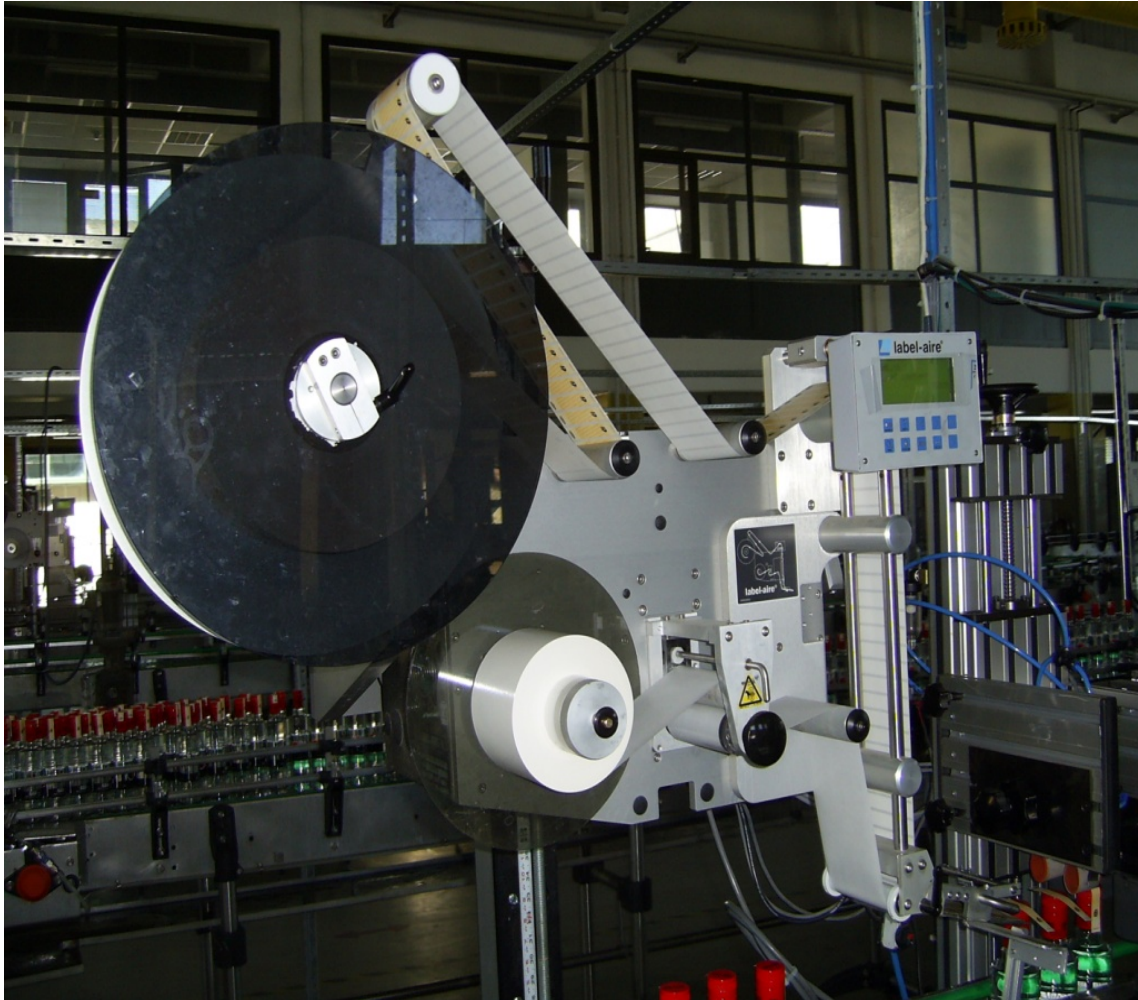
# System of scanning and activation for tobacco lines

## Turkey example



Source: Ministry of Finance, Turkey

# SCANNING and ACTIVATION SYSTEM for Alcohol



*Source: Ministry of Finance, Turkey*





# Pre-activated Banderols

- Small Producers
  - Pre-activated banderols are applied by producers manually
- Importers
  - Option 1: Imported goods can be labeled in the specialized custom facilities (İstanbul, İzmir, Mersin) right after custom clearance
  - Option 2: Importer can send the pre-activated banderols to the producer

# Banderole Crimes

Those who provide or engage in the sale or shipment of the products

- with no banderoles,
- with counterfeit banderoles
- with improper banderoles

shall be punished with deprivation of liberty from 2 to 5 years and fiscal fine equal to 5000 working days.

# Best Practices for Administration of Monitoring System

- Monitor and gather data as the production takes place
- Ensure data repository by the tax authority
- Analyze the data
  - Tax authority should monitor the production and produce monthly analysis.
- Impose:
  - Strong penalties or
  - Criminal sanctions for :
    - producing or possessing counterfeit stamps and
    - for persons who deal in illicit products.
- Make it an offence for:
  - A retailer or
  - Wholesaler to possess tobacco products that do not bear authentic stamps.
- Have the authority to revoke the operating licenses of
  - Retailers and wholesalers who are repeat offenders.