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Green Light in Philippines for Tax Stamp Proposal

The proposal by SICPA for an integrated track-and-trace system for cigarettes and alcohol in the Philippines has been given the green light by the National Economic and Development Authority (NEDA), enabling the Bureau of Internal Revenue (BIR) to pursue its negotiations with the Swiss firm.

The unsolicited proposal, first made by SICPA and endorsed by the BIR in early 2008, involves the use of tamper-proof stamps on cigarettes and alcohol and the installation of scanning and activation software to monitor the number of products produced in the premises of manufacturers. It also involves the pro-

vision of mobile readers to enable tax inspectors to authenticate products in the field.

The project will replace the current supervisory and monitoring system, whereby BIR personnel are assigned to manufacturing plants to monitor the production and withdrawal of products. It will be implemented through a Build-Operate-Transfer scheme, and will result in an estimated increase in tax revenues of nearly \$300m over seven years. The costs of equipment, software and the stamps themselves, estimated at \$193m, will be borne by the industry.

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Tennessee Seeks 660 Million Cigarette Stamps

The Department of Revenue of the US State of Tennessee has issued a request for proposal (RFP) for cigarette tax stamps that represents a departure from standard heat transfer decals, and that appears to have been undertaken with no input from or reference to the principal organisations currently supplying and implementing the state's stamps.

The 45 page document begins by expressing the aim 'to give ALL qualified businesses the opportunity to do business with the state as contractors and sub-contractors'. But it then goes on to provide a very narrow definition of its requirements, namely fusion stamps consisting of five impressions or layers. These are to include 'safety tint lettering' produced by intaglio printing and must be suitable for high speed, positive application with heat to the receiving surface such as cellophane, paper, etc. The stamps, according to the RFP, will measure ½" x ½", are to be of irregular shape and outline and must

contain a minimum of three different and visually distinctive colors. Half-tones, shades, tints, or tones of a color will not be acceptable, nor will the safety tint lettering be considered as one of the stamp colors.

A troubling aspect of this solicitation is that there are only two possible suppliers in the US, Meyercord (the incumbent) and R.E.D Stamp. The latter has a substantial percentage of the stamping machine business in the US and yet had no knowledge of this RFP until it was privately alerted in the last week of November. Equally McLane, the largest distributor in the USA which applies tax stamps in all 48 states, had no knowledge of the RFP and therefore assumed that the state of Tennessee was not anticipating any change to the status quo.

This impression was borne out when Tax Stamp News contacted Tennessee's Department of Revenue in early December enquiring what changes the

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Editorial

Consensus, Not Confrontation

During the 1970s and before, the model for project management was the army; directives came from above and filtered down through a recognized chain of command. During the 1980s, industry evolved a new modus operandi formulated by business gurus who taught that a better way consisted in teamwork and consensus. In 1985, Tom Peters in 'In Search of Excellence' taught the merits of consultation and collaboration instead of confrontation and, in all areas of commerce, such thinking is now

implement the technology. This could help explain why, two years after the winners of the public solicitation were announced, the system is still not deployed.

A similar tactic was followed in the Philippines where initial discussions to consider the proposal made by Swiss firm SICPA were carried out with the Bureau of Internal Revenue (BIR) in the absence of the tobacco manufacturers. As we report here in this edition of Tax Stamp News, talks are now recommencing after a hiatus

manufacturers are not responsible for the application of state tax stamps. That duty falls to the licensed distributors within the state. It is they who must purchase the application machinery and the tax stamps defined by the state and it appears they have not been consulted in the current bidding process. In fact, there is a trend amongst state departments of revenue in the US to formulate a Request for Proposal (RFP) which awards a contract to the same supplier for both stamps and application

It is accepted that the best and quickest way to design and implement a new system is to involve all the parties from the outset

mainstream. Management institutes and business schools still uphold the principles of teamwork defined as 'a state of unity achieved within a group of people working for a specific economic benefit.' It is accepted that the best and quickest way to design and implement a new system is to involve all the parties from the outset.

It is therefore surprising that governments have still not seen the merits of this approach to project planning.

When Canada, for example, decided that it wanted an improved system of tax stamps for marking tobacco products, Canada Revenue Agency is reported to have excluded the tobacco companies from all discussions, even though they were the ones that would be required to

lasting several months. There is every reason to suppose that the acrimony and negative allegations that have surfaced regularly in the local press have been fomented by the tobacco industry. They in part, have little to gain from the implementation of an effective tax stamp management system but, more importantly, wish to demonstrate that they will not be dictated to.

They have a point. Technology does not sell itself. People sell it and they sell it to other people and that means that human nature comes in to play. It is easier to prepare for the crash landing if one has earlier been involved in the take off.

In the current case of the State Government of Tennessee, also reported here, the tobacco

equipment. This was the approach taken by Massachusetts, resulting in unhappy distributors who are now obliged to scrap the machines they were already using successfully and purchase new ones.

It would be nice to see future tax stamp programs emerge as a result of a consultative process in which all stakeholders participate. These would be the revenue collection agency, the manufacturers or distributors (ie. whoever must apply the stamps), the investigators, the stamp manufacturers and the equipment suppliers. Each of these has something to gain from a well chosen system and their active co-operation in the selection process would ensure quicker and more effective implementation.

Green Light in Philippines...cont'd

They will be collected by the BIR and remitted to SICPA.

For months now, however, the proposal has been subject to close scrutiny and considerable controversy – notably from the country's cigarette manufacturers. They were not involved in the early stages of discussions and have questioned the effectiveness and technical merits of the proposal, the means by which it is being handled by the government, and also the costs it will impose on the tobacco industry and, ultimately, consumers.

The proposal has also met stiff op-

position from some of the country's politicians and, earlier this year, the Department of Finance, to which the BIR belongs, opted to freeze all further negotiations pending an assessment by NEDA.

Despite such negotiations now receiving the green light, SICPA is not, however, home and dry yet. The BIR is reported to be looking at reducing the costs of the scheme to lessen the impact of price rises on consumers. Furthermore, part of the NEDA's approval is contingent on the process undergoing a 'Swiss challenge', whereby

all comers are welcome to offer better terms; SICPA, as the original proponent, will have the right to match the challengers' offers. Other companies that are reported to have made proposals include Optaglio, OpSec, EDAPS, Payne Security and a division of Philip Morris. According to local reports, Philip Morris made a proposal of its own for a tax stamp system long before SICPA, but was discounted due to perceived conflicts of interest. Its subsidiary in the Philippines is one of the tobacco manufacturers now objecting to the SICPA proposal.

Counterfeit Tax Stamps in DC

According to the Washington Examiner, the sordid side of contraband cigarettes was exposed when 13 individuals from Washington DC, Virginia, Maryland and New York were indicted for dealing in black market cigarettes recently.

The 14-month investigation was begun by the Stafford County Sheriff's Office. Authorities said the group paid or traded undercover agents more than \$8m in cash, 32,000 pills of Ecstasy and 39 guns for about 77 million cigarettes and fake Virginia and New

York state cigarette tax stamps.

In May, two of the smugglers turned to a gun for hire when they thought they had lost hundreds of thousands of dollars worth of contraband cigarettes. For this they have been charged with attempted murder.

In Virginia, the tax is only 30c per pack but in New York City, the tax on the same packet is \$4.25. This type of crime, where criminals seek to profit from the tax differences on tobacco is not new; it is the details in this case

which make it stand out.

During several raids in November, law enforcement officers found about \$1.2m in cash, 50,000 Ecstasy pills, one firearm and 100,000 counterfeit tax stamps. This mixture of firearms, drugs and contraband cigarettes illustrates the dangerous nature of the trade by organised crime and the importance of anti-counterfeit stamps in making it much more difficult for this trade to be carried out.

Largest Ever Seizure of Illicit Cigarettes in EU

A massive cigarette-smuggling operation by a cross-border criminal gang operating in the Republic of Ireland and Northern Ireland has been broken, following what has been described as the largest ever single seizure of illicit cigarettes – 120 million in total – in the EU.

Around 150 law enforcement officers from both sides of the border were involved. The cigarettes were brought into Ireland from the Philippines, with the cargo declared

as animal feed. The ship had been under surveillance and, after the cargo was unloaded, officers followed it and raided several premises.

According to HM Revenue and Customs spokesman John Whiting, the operation targeted a suspected organised crime group operating on both sides of the Irish border

The cigarettes, if sold, would have netted €50 million resulting in a loss of about €40 million in taxes.

Tax Stamp Fraud in NY

A year-long investigation in New York has resulted in the arrest of 21 individuals for cigarette tax stamp fraud. The individuals, mostly from the Bronx, Staten Island and Brooklyn, face charges of criminal tax fraud under new enhanced New York State laws expressly targeting these tax crimes.

Sales and purchases of more than nine million unstamped cigarettes resulted in a \$21m New York State cigarette excise tax stamp fraud. On multiple occasions the defendants spent over \$16m purchasing the unstamped cigarettes from undercover New York State tax investigators. They would then resell the unstamped cigarettes at a sizable profit to small businesses for individual sale, never paying the \$42.50 excise tax or the sales tax on the cigarette cartons and never reporting the purchases or sales to the State. They would routinely purchase hundreds of cartons of unstamped cigarettes at a time.

New York State imposes an excise tax on cigarettes of \$2.75 per pack of twenty. Additionally, New York City is permitted to impose an additional \$1.50 per pack, bringing the total combined tax rate to \$4.25.

The operation seized over 150,000 counterfeit stamps and household irons, used to attach the stamps, along with boxes upon boxes of untaxed Marlboro and Newport cigarettes. It seems that a large proportion of the cigarettes came from North Carolina, where the state tax is low.

Launch of Tax Stamp Portal

The new Tax Stamp News website – www.taxstampnews.com – is now up and running. It has been designed as a portal to provide supplementary news to the bimonthly newsletter along with other key information for the tax stamp community.

There is, in addition, a subscribers section where you can collect your copy of Tax Stamp News, search articles by keywords and find out contact information for all the revenue agencies around the world. This section is currently being developed



further and will, shortly, provide a range of additional information as well – including key facts and figures, case studies and white papers, a 'gallery' of images of different tax stamps from around the world, a tender alert service and a patent information service,

If you haven't already been assigned your log-in details as a subscriber, please contact us as soon as possible at info@reconnaissance-intl.com.

News In Brief

New African Tax Forum Launches

African Tax Administration Forum



The African Tax Administration Forum (ATAF) was officially launched in November in Kampala by President Yoweri Museveni of Uganda. The Forum comprises 25 member states, with six others as participants. According to the communiqué that accompanied the launch, the mission of the ATAF is to mobilize domestic resources more effectively and increase the accountability of African States to African citizens whilst actively promoting improvements in tax administration through sharing experiences, benchmarking and peer reviewing best practices.

The idea of establishing the ATAF first came about at the Conference on Taxation, State Building and Capacity Development held last year in South Africa. This was attended by African tax commissioners from 30 countries, along with representatives of international organizations, including the OECD's Centre for Tax Policy and Administration, and donors. The conference mandated a steering group of seven countries (Botswana, Cameroon, Nigeria, Ghana, Rwanda, South Africa and Uganda) to work towards the establishment of the forum.

The Commissioner for the South African Revenue Service, Oupa Magashula, has been elected as the first chairperson. He leads a 10-member general council comprising the heads of tax administrations of the elected

countries. Each of the five geographical regions of Africa (north, south, east, west and central) elect a regional representative, and the four remaining positions on the general council are filled by a majority vote of ATAF members. The first general council comprises representatives from Botswana, Gabon, Ghana, Kenya, Nigeria, Rwanda, Senegal and Zimbabwe. Morocco is expected to make up the tenth member of the council. The Secretariat will be hosted by the South African Revenue Service.

The ATAF has constituted itself as an independent legal body with a first council meeting to be held in March 2010. In the meantime, it has resolved as a first step to establish a database of African tax systems and methodologies, and an African Tax Centre.

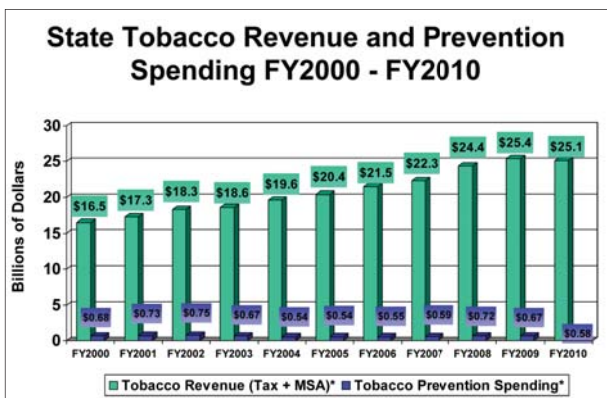
Report Slams States for Diverting Tobacco Revenues

A report released recently by a coalition of public health organizations in the US has criticised the states for collecting record revenues from tobacco taxes at the same time as cutting funding for programs to reduce smoking.

The report is entitled 'A Broken Promise to Our Children: The 1998 State Tobacco Settlement 11 Years Later', and is published annually to assess whether states are keeping their promise to use funds from the state tobacco settlement as well tobacco taxes to fight tobacco use.

This settlement refers to the money won - \$206 billion - in the landmark 1998 lawsuit against the major tobacco companies, which is supposed to be used to pay for healthcare for tobacco-related illness as well as smoking cessation efforts. In addition, many states have recently imposed hefty increases in taxes; on top of a 62-cent increase imposed by the federal government earlier this year.

According to the report, the state



will collect \$25.1 billion in the current fiscal year, but are spending just 2.3% - \$567.5m - on tobacco prevention and cessation measures. The states also receive \$62m in federal grants and, with states increasing tobacco taxes, the revenue figure is set to increase.

In the past year, however, funding has been cut by \$103.4m, or 15.4%.

Increases in taxes are often presented as a measure to reduce smoking and improve public health, not only in the US but around the world. This report will, however, give voice to critics who claim that tax hikes are first and foremost an excuse to simply squeeze more revenue from smokers.

The full report can be downloaded from www.tobaccofreekids.org.

Biggest Tobacco Bust in US History

The State of Mississippi has recently held an auction of almost one million cartons of contraband cigarettes, which constitutes the largest seizure of contraband tobacco in US history. The auction took place at the end of October and realized \$1.9m, of which more than \$1.6m was destined for the federal government. It was, however, far short of the \$5m that was hoped for.

The cigarettes, which were seized in April, were auctioned inside one of two warehouses where they were discovered without tax stamps. In May, Mississippi increased the tax rate by \$5.80 to \$6.80 per carton. Given that the state has one of the lowest tobacco taxes in the US, it is reasonable to suppose that the traffickers were waiting for the tax rate to increase before releasing the cigarettes.

Mississippi-based Hudsons Salvage of Ellisville purchased over 750,000 of the assorted cartons of cigarettes and small cigars. Ironically, the company's president Myles Hudson disclosed that he plans to ship them for sale in the Philippines to avoid paying the state tax of more than \$5m and the federal tax in excess of \$7.5m.

Indonesia - Protecting a Major Source of Government Revenue

Indonesia is the world's fourth most populous state, and the fifth highest consumer of cigarettes, with 30% of the population smoking. The percentage of total government revenue provided by taxes on cigarettes is more than 7% - an enormous amount - and, not surprisingly, the government takes great pains to protect this revenue. The recent news of a raid that put paid to an illegal stamp printing operation, which was the biggest bust in the history of Indonesian customs (see TSN July/August 2009) underlined, however, the task facing the country - with the operation alleged to have cost the state Rp 560 billion (US\$509m) over a seven year period. In this case study we look at the efforts the government is putting into securing its stamps, and hence a major source of its revenue.

In Indonesia excise revenue from cigarettes and liquor accounts for an extremely high percentage of total excise revenue - 98%. Due to both increasing consumption of cigarettes over the past two decades and the level of success in collecting excise duty, it increased from 4.3% to 7.3% of total government income over the ten years from 1990 to 2000.

Income is targeted to grow even further in years to come. The Customs and Excise Department of the Ministry of Finance collected Rs 40.8 trillion in 2007 and Rs 51 trillion in 2008. The figures for 2009 and 2010 are estimated to be Rs 54.54 trillion billion and Rs 57 trillion respectively (1 million Indonesian Rupiahs = c. US\$105). This is based not so much on predicted growth in production by the country's 3,000-plus domestic producers - currently standing at around 240 billion cigarettes per annum - but by better enforcement and increases in excise duty.

Increased Duty

In early 2009 this went up by an average of 7% while a rise of 5% is expected in 2010. The level of excise duty depends on the classification of cigarettes. For machine-rolled cigarettes, for example, the duty represents 40% of the pack price, while for hand-rolled cigarettes, the rate is 4%. Of the 240 or so billion cigarettes of one form or another smoked in the country per year, the vast majority (85% or more) are kretek cigarettes, which combine tobacco with cloves and which are virtually unique to Indonesia.

The country's tax stamps are issued by the Directorate of Customs and Excise, part of the Department of Fi-



nance, and produced by the state security printer and papermaker Pura. They were first issued in the 1970s, their security originally relying on the base paper and security print features alone. Needless to say, as mass-produced items with a relatively high unit value, the stamps were vulnerable to forgery - particularly with the rapid advances in reprographic technology which made the task of quantifying losses by distinguishing counterfeit from genuine products extremely difficult. Hence the decision to upgrade the stamps in the mid-1990s with the introduction of a hologram, which has itself undergone successive upgrades as the technology has advanced.

Advanced Technology

The latest hologram - introduced in 2006 - incorporates a variety of different advanced techniques and effects for different levels of authentication. These include dynamic 2D/3D and kinetic effects, a coloured foil, partial demetallisation, laser-viewable optical code, hidden text and proprietary chemical taggant. It is also chemically sensitised and contains a unique machine readable feature that can be detected only by Pura's proprietary hand-

held 'hologram reader'. Interestingly, in the aforementioned bust of the illegal stamp printing operation, the fakes looked identical to the genuine article, even down to the UV features. According to Director General of the Customs Directorate, Anwar Supriyadi, the only feature that had not been reproduced was the machine read component.

Up to 18 billion stamps for all tobacco products are now produced annually in a three-way partnership between three of Pura's 24 divisions. The paper is supplied by PT Kertas Padalarang, the hologram by PT Pura Nusapersada and the printed stamp by Perum Peruri.

The stamps are, according to Pura, recognised by the government as a highly effective and proven means of protecting and increasing its revenues, offering as they do a deterrent to counterfeiters and a strong recognition feature for government officials and customs officers to undertake a fast and easy verification of genuine cigarettes. They need to be, given that only 800 of the 3,000 or so producers in the country ever buy excise stamps, and that counterfeiting is still estimated to result in losses of Rs 4 trillion (\$474m) per year.

QUICK FACTS

Population: 235 million

GDP per capita: US\$3,900

Annual production of stamps: 18 billion

Year stamps introduced: 1970s

Tax authority: Directorate of Customs and Excise

Supplier: the Pura Group



Special Feature

A History of Federal Tax Collection in the USA

To an outsider, it seems curious that in the USA, the only tax stamps visible on tobacco products are state stamps and not federal ones. But it was not always so since, prior to 1959, the US Internal Revenue, Alcohol and Tobacco Tax Division of the federal government stamped cigarettes (as well as cigars and manufactured tobacco).

In 1862 the first federal tobacco tax was introduced (an earlier tax, of 1794, applied to snuff only) and, three years later it was applied to cigarettes as well, principally to fund the American Civil War. By 1868, liquor and tobacco taxes were the main source of



This tobacco tax paid stamp dates to 1868 and shows a fieldworker hoeing between the tobacco plants. It was attached to a 5 pound batch of tobacco leaf in the days when cigarette manufacture and consumption were in their infancy. It was printed by the Continental Bank Note Company of New York.

government revenue. Needless to say, although the Civil War ended in 1865, the levying of tobacco taxes continued and by 1890 accounted for 31% of total federal tax receipts, or \$39.8m (of which 50% was derived from smoking and chewing tobacco, 40% from cigars and cheroots, and less than 2% from cigarettes). Although cigarettes represented such a small proportion, this grew rapidly over the next few years as manufactured cigarettes (which made their first appearance in 1860) took hold, aided by the invention of the first cigarette rolling machine in 1879.



This example from 1870 was intended to be signed by the tax inspector who physically attached it to a forty pound batch of tobacco leaf. This was also printed by the Continental Bank Note Company which was one of the nation's premier engraving and printing companies until it was absorbed into the American Bank Note Printing Co in 1879.



Before the 2nd World War, some of the New England states began to embrace the idea of levying their own tobacco taxes. The above proof examples are from Rhode Island and New Hampshire respectively and were printed by American Bank Note Co. Ltd.

In the 1920s the individual states began to get in on the act. In 1921, Iowa became the first state to realize the financial potential of tobacco by taxing cigarettes and, by 1930, 11 other states had adopted the revenue measure. In 1950 this had grown to 40 states and the District of Columbia, with the rates ranging from 1-5 cents for a pack of 20, with the exception

Today, manufacturers file a bi-monthly return to the federal government and pay taxes on the product at the time of removal from the factory premises. It is the responsibility of these manufacturers to provide adequate controls and facilities to establish accurate records of the quantities removed without the payment of tax, or transferred to bond, along with the



This stamp issued by the IRS immediately after the 2nd World War is indicative of taxation by the federal government which continued until 1959.

of Louisiana, which levied an 8 cent tax on cigarettes. In 1958, Montana imposed an equivalent rate.

The federal method of taxation was discontinued in 1959 because it was determined that the administrative cost of the stamping program was more than what was being collected from the sale of the tax stamps. History is unclear as to whether the tobacco companies lobbied for this move although there are indications that, on the contrary, they were unhappy about losing the stamps because of the counterfeit deterrence that these provided.

quantities, type, and class of all tobacco products removed subject to federal excise tax (FET). The Alcohol and Tobacco Tax Trade Bureau (TTB) performs audits of these returns/records on a regular basis.

The method for collection of state taxes, by contrast, is via distributors, with 47 out of the 50 states using tax stamps as the vehicle. In addition, excise taxes are also levied at the local level in cities in eight states.

The division between state and federal authority, including the right

Continued on page 8

US Federation of Tax Administrators – Advancing Standards and Enforcement

The USA is one of the largest tax units in the world. The task of levying and collecting taxes (and here we are concentrating on excise duties as they relate to tobacco) is complex because the nation is divided into 50 states, each with its own authority and laws relating to how those duties/taxes should be approached.

The federal government imposes a tax on all tobacco products sold in the US, which is collected from the manufacturers. Some local administrative jurisdictions also levy local taxes. Between the two are state tobacco taxes, which is where – for the purposes of Tax Stamp News – the interest lies since state taxes are collected through the supply of tax stamps, in 47 out of the 50 states at least. In this article, we look at the historical development of the national federation for all those involved in the collection of these taxes.

The Federation of Tax Administrators (FTA) was set up in 1937 by representatives of the North American Gasoline Tax Conference (NAGTC), the National Association of Tax Administrators (NATA), and the National Tobacco Tax Association (NTTA). In 1984, the three associations consolidated into a single organization - the National Association of Tax Administrators (NATA). NAGTC became the NATA Motor Fuel Tax Section and NTTA became the NATA Tobacco Tax Section. In June 1988, NATA merged with FTA, assuming the Federation of Tax Administrators as its name.

Key Objectives

The purpose of the FTA's Tobacco Tax Section is to improve the techniques of tax administrators and the work of their profession, and to advance standards relating to the administration and enforcement of state and local taxation of cigarettes and other tobacco products (the term 'tobacco' referring to cigarettes and other tobacco products, including snuff, rolling tobacco, cigars etc).

In pursuit of these objectives, the goals of the Tobacco Tax Section are as follow:

First, to facilitate the discussion of issues and exchange ideas and infor-



mation among state tobacco tax administrators related to state tobacco tax administration and enforcement. These activities are conducted through the Section's national conference, regional meetings, training sessions, and conference calls.

Second, to serve as a clearing house through which members communicate with each other and respond to administrative and enforcement issues that might arise from industry or government action.

Third, to communicate and exchange ideas with the tobacco industry.

Fourth, to the extent that is practicable, to promote simplicity and uniformity in tobacco tax law and tax administration among members.

And fifth, to evaluate federal legislation related to tobacco issues that is of a mutual interest to the members, and to recommend positions of support, opposition, or neutrality regarding such legislation to the FTA Board of Trustees.

Regional Structure

All members of the FTA that are engaged in the administration and enforcement of tobacco taxes are eligible

for membership of the Section. This consists of four regions - Northeastern, Southern, Central, and Western regions. Each region may engage in other specific activities with the approval of the Executive Board.

The national officers comprise the Chairperson, Vice-Chairperson, and national Secretary (there is no Treasurer because financial matters, such as the accounting for the national conference, are handled by the FTA).

The duties of the Chairperson (currently Don Jones of the Oregon Department of Revenue) involve setting the agenda and presiding at all meetings of the Executive Board, implementing matters that have been approved by the Board, presiding at national meetings, appointing members to committees and projects, and representing the Section on a regional and national level.

The officers of each region consist of the Governor, Lieutenant Governor, and Secretary. The Governor organizes and presides at regional meetings, coordinates all interaction between the state and national organization and serves on the Executive Board.

The Executive Board, meanwhile,

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Tennessee Cigarette Stamps...cont'd

state was looking for in the new stamp. The reply on the following day from Orlando Jordan, Procurement Officer II at the Department of Revenue in Nashville, TN, simply stated 'Currently we have a vendor. If we have to bid stamps out again we will contact you. Thanks for your interest'.

The proposal was issued on November 9, and the deadline for submission was December 7. The contract will be signed on 30 December and will last for four years, from the beginning of January 2010 to the end of December 2014.

The specified quantity in the RFP is 660 million stamps. The stamps are to be printed on a watermarked paper processed by Meyercord. When exposed to UV light, the paper will fluoresce pink or grey. The anti-copy paper will be chemically-sensitized, changing to a predetermined colour within seconds on application of a chemical reagent. It will also contain a taggant detectable by a special reader that will give an audible beep and display a green light if the stamp is authentic. This test will be capable of performance instantaneously under almost all light conditions by state personnel equipped with the taggant testers.

To aid visual authentication, meanwhile, the stamps will feature an optically variable image including the state initials, which will change colour according to the viewing angle. In addition, this image will fluoresce green under UV short wave light.

During the term of the four-year contract, the contractor will supply to authorized distributors machines designed to apply the stamps. These machines will be readily available for lease and features will include high-speed automatic carton feed, repacking conveyors, carton openers, gluers and closers. Leased machines made available will be able to affix stamps at the rate of at least 80 cartons per minute for 30 minutes.

The full text of the RFP can be viewed at www.state.tn.us/finance/rds/ocr/documents/34713-12019.pdf

US Federation of Tax Administrators...cont'd

brings together both national and regional officers, comprising the current Chairperson, Vice Chair and National Secretary, active past Chairpersons, the current regional officers and the appointed representative of the FTA.

It is the Executive Board that conducts the regular business of the Section, with the FTA representative advising it of proposed federal tobacco laws and regulations, as well as reviewing all contracts and representing the Section on matters of tobacco taxation that come before the FTA itself.

A key event in the calendar is the annual national meeting. This is rotated among the four regions and is open to both members and non-members. While registration to attend is open to all, the Section usually reserves the right to conduct some of its sessions in private. Such closed sessions are for government entities only. In contrast, the industry sessions are open to all.

The next meeting will be held in Louisville, Kentucky in September 2010.

Key Committees

Also key to the Section are the various committees, to which various members of the FTA are co-opted along with, where appropriate, members from external organisations.

The Time and Place Committee, chaired by the national Secretary, includes all the regional Lieutenant Governors and solicits expressions of interest in hosting the national meeting from members.

The Nominating Committee, chaired by the Chairperson, includes four other Executive Board members and recommends a slate of national officers to be elected at the national meeting.

The Legislative Review Commit-

tee is chaired by a person appointed by the Chairperson and includes at least four other Executive Board members, one of whom is the FTA Representative. This committee assembles and evaluates federal legislation related to tobacco issues that are of a mutual interest to the members and makes a recommendation to the Executive Board.

The Awards Committee is chaired by the Section's Vice-Chairperson and includes all the Governors. This committee recommends members and committees that should receive recognition for their efforts or service.

Other committees are also set up on a periodic basis as required, including as an example the Technology Committee. Currently headed by Don Jones (the current Chairperson) with Maurice Gilmore (Arkansas Tobacco Control), Brian May (Altria Client Services) and Dennis Loper of the California Distributor's Association also on the team, this committee is developing a recommendation for a track and trace indicator for use with tobacco products.

Another example is the Uniformity Committee, headed by a Terry Crumly from the Illinois Dept of Revenue, which is attempting to standardize the way in which all distributors in the US file their tobacco tax returns - a seemingly impossible task given the different requirements of each state.

According to the Tobacco Tax Section, this framework enables its members to work together to educate, develop best practices, and develop solutions to common concerns. It also creates a forum for cooperative efforts with the federal government, Canadian tobacco regulatory agencies, and with the wider tobacco industry.

History of Federal Tax...cont'd

to levy taxes, is jealously guarded by the individual states in the US. However, federal tax stamps could be making a reappearance, if anything comes of the *Smuggled Tobacco Prevention Act (STOP)* – HR5689 – proposed last year. Designed to prevent the illegal diversion of tobacco products, a key component of the Act

is the introduction of digital federal tax stamps – similar to those used in California and, shortly, Massachusetts. According to the provisions of the bill, the stamps and corresponding systems for tracking and enforcement would be designed to coordinate and avoid interference with state and local tax stamps or markings.

Intaglio – Cornerstone of Security Printing

The latest reports from South America indicate that two of its largest countries are installing new intaglio systems in order to upgrade their tax stamps. Neither has yet been confirmed. But these reports, coupled with the news that Tennessee looks like being the first state to break with tradition in the US and adopt intaglio on its stamps - has prompted an analysis (as the subject of this issue's Technology Profile) on the merits of intaglio printing and which companies can supply the appropriate technology for the specific requirements of tax stamps.

Intaglio printing, often referred to as the cornerstone of security for banknotes, provides a high barrier to counterfeiting through the complexity of the process, the myriad of overt and covert features that can be created and the distinct tactility that it imparts to banknotes. This tactility, along with the features, cannot be easily replicated. It is a key element in the traditional and what has become intuitive 'feel' of banknotes, and one of the main means by which the public can distinguish them from fakes.

The process uses thick lacquers that are transferred under high pressure to sit on the surface of the substrate. It is this that gives intaglio documents their distinctive raised feel. In addition, however, the process can be used to create special effects and features through the manipulation of line structures, perfect registration and the combination of inks and blind embossing.

Intaglio inks, meanwhile, can carry taggants and light sensitive features that, due to their large particle size, cannot be incorporated into the inks for offset printing (the other mainstay of high security printing that builds up images by way of line as opposed to dot structures, enabling fine lines and blocks to be created in subtle colours that give a unique look to security documents).

Limits on Use

Although intaglio printing is used for applications other than currency, its use has been restricted by a variety of factors. These include complexity and cost, both in the technology itself, and in the origination of images (many of which, until relatively recently, were still done by traditional hand engravers).

In addition, thanks to a deliberate policy on the part of the manufacturers of intaglio presses to limit their sales to bona fide security printers, the technology is not easily available.

Another factor still is that most of the world's intaglio presses, used by banknote printers around the world, are configured for – to state the obvious – banknotes, the production of which is characterised by long runs and large sheets. They are inherently inflexible and not, in the main, suited for the shorter runs and different technical requirements of tax stamps.

The fact that so many tax stamps do, nevertheless, feature intaglio is not surprising, given that the majority are produced by state printworks as an adjunct to banknote printing. But there are now alternatives, developed specifically with the tax stamp market in mind, that offer flexibility, easy set-up and fast turnaround, options to output as reels to accommodate the requirements of the labeling and packaging operations that increasingly need to apply them to cigarettes and bottles, as well as the ability to print on substrates other than paper.



Serbia is one of a growing number of countries that has upgraded its tax stamps with the addition of intaglio print in recent years

This solution is the *i-con*, a small format web- as opposed to sheet-fed printing system that has been configured to offer some, although not all, the features of the large-scale sheet-fed systems for currency, but which offers other benefits that make it ideal for short runs and faster turnarounds.

The *i-con* is a 3-colour 24" wide continuous web system that can create 4,000 impressions, or sheets, an hour from a single plate. Because it is a stop-and-go system, it is able to achieve high quality print similar to that obtained on a sheet-based machine but, as the machines is fed in reels, the printer has the flexibility to deliver products in either sheets or rolls.

A key feature that makes the *i-Con* suited to the tax stamp market is the fast make-ready time. Using one plate, the *i-con* can be set up and running within three hours – a fraction of the time it takes for the larger, multi-plate banknote systems. This, says the company, is a critical advantage to companies producing short runs.

New Pre-Press Service

The intaglio presses themselves are just part of a suite of products ranging from pre-press to finishing systems, all configured to work with *i-con* applications. To support the introduction of the *i-con* and its deployment for tax stamps, meanwhile, KBA-GIORI has also introduced a new pre-press service that offers rapid turnaround of origination and plate production in five days from start to finish, and is available to its

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KBA-GIORI's *i-con* web-fed intaglio system for tax stamps and other non-currency high security documents

KBA-GIORI's *i-con*

The manufacturer of one such system is Swiss company KBA-GIORI, on whose equipment more than 90% of the world's banknotes are printed. It has recently introduced what it terms a 'cost-effective and accessible' version of presses for government printers to produce non-banknote high security documents, such as tax stamps.

Intaglio – the Cornerstone of Security Printing...cont'd

customers that do not have the resources or the need to invest in the pre-press technology themselves.

This service is based on the company's *ONE*TM design system and a version of its *CTiP*TM (computer-to-intaglio plate) technology. The former is a digital design and assembly system that can accept artwork via a wide range of graphic file formats and that defines the structure of the intaglio images. It is also used for step and repeat (either of a single design, or multiple different designs on the same plate) as well as the generation of registration marks and cutting lines.

On completion of the design, the data is then transferred to the CTiP unit. This is a major advancement in pre-press technology, eliminating many of the cumbersome steps involved in traditional plate production and reducing the time to generate intaglio production plates from weeks to days, or even less. The CTiP Direct system laser engraves the design onto a cylinder-mounted brass plate to a resolution of 2,540 dpi. The plate is then flattened, cleaned, polished and chromed, ready for despatch. From start for finish, the whole process can take under 24 hours.

Self-Adhesive Substrates

An additional benefit of the i-con is its ability to print intaglio onto self-adhesive substrates. Traditionally, intaglio printing and self-adhesive substrates have not gone well together - the pressure from the intaglio process resulting in the adhesive leaching out from the underside of the substrate which affects not only printing but conversion as well. As a result, self-adhesive tax stamps have generally been offset or gravure printed, neither of which offers the same level of security as intaglio. KBA-GIORI has overcome this together with its substrate partner Tullis Russell, which has developed a smooth coated paper with a high tack permanent adhesive that is not affected by the intaglio process.

According to Mark Huskie, KBA-GIORI's security products manager, the traditional tax stamps used in many countries are offset printed and offer only limited security, but increased counterfeiting combined with growing

awareness among governments as to the effectiveness of tax stamps to aid recovery of excise duty, is leading to a rapid expansion in the deployment of tax stamps with enhanced security. Intaglio is a key and proven tool for such enhancement but, in terms of price, turnaround and availability of the technology, has not – until now – been an option that can be easily



Samples of intaglio-printed pressure-sensitive labels from Sekuworks

implemented.

The arrival of the i-con and the pre-press service has changed that, he says, and will, the company hopes, accelerate the adoption of intaglio for tax stamps.

Goebel Returns to Roots

Second is Goebel of Darmstadt, Germany. Formerly part of the rotary web offset specialist Drent Goebel, until the latter went into administration this summer, it has spun off as a separate company and returned to its roots as a supplier of security printing presses.

The company is the market leader in rotary web-fed security printing technology. Currency is a market, albeit a limited one. A much greater market is tax stamps, for which the company has developed what it terms a 'modular printing line concept' that integrates a number of different printing and finishing processes in one production line.

These processes include offset, multi-colour intaglio (recto and verso), silk screen, gravure and, most recently, digital printing. Finishing processes include hologram application, perforation, numbering, sheeting, die-cutting, rewind if output as reels

is required, and packing. Special modules are available for gummed and pressure-sensitive papers.

According to the company, the modular concept means that companies can start off with a basic configuration, adding to this the capability to offer more advanced features as required.

Sekuworks Offers Change

Third, and on the other side of the Atlantic in Ohio, is Sekuworks, which has recently obtained a patent for its *Sekuweb*TM Secure Technology Print System. This integrates multiple security printing process (flexographic, rotary screen and intaglio), die-cutting, holographic application, numbering, and placement of variable data all in one pass in a roll to roll web format. According to the company, the Sekuweb produces complex, multi-layered security products in a fast, efficient, and cost effective manner, forming a cornerstone of Sekuworks' product integration and delivery platform.

The proprietary technology was developed by Joseph Schutte III, Sekuworks' founder and currently its Chief Technology Officer, who based his designs on years of experience building intaglio presses for major government operations, including the US Bureau of Engraving and Printing, the Bank of England (when it produced notes on web-fed presses) and the Banque de France (which still does).

According to Mr Schutte, 'I wanted to leverage the strong security aspects of intaglio printing by combining it with flexography to produce high value security documents and brand protection solutions.' He added, 'this is the first system designed to produce intaglio printed markers or labels in varying repeat formats and marks a paradigm shift for the security printing industry.'

Sekuworks began operations in 2003. It was acquired in 2007 by SCT International which, earlier the same year, had also purchased Northern Bank Note Company, an intaglio security printer based in Illinois that was formerly owned by CFC. The following year, SCT also acquired Graphic Options, a security design

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Poland Hosts Anti-Smuggling Conference

The Customs Service of Poland has recently hosted the 14th International Task Group Cigarettes Conference, organized jointly with OLAF (the European Anti-Fraud Office) in Warsaw in October.

Representatives of customs services and police forces from EU member states and around the world were in attendance, along with guests from the World Customs Organization and Europol. The main objectives of the conference, which has been held every year since 1996, is to exchange infor-

mation on the latest achievements and trends in combating cigarette smuggling. Under discussion were how to fight organized crime, how to increase the effectiveness and efficiency of cooperation between the EU member states and how to improve their cooperation with other countries.

Poland is particularly active in the fight against illicit tobacco, being a 'frontline' EU state into which contraband flows from the East, in the case of cigarettes for onward shipment to more lucrative markets in Western Eu-

rope. In recent years, combating smuggling and illicit trade in cigarettes has been a priority of the Polish Customs Service, which is credited by OLAF as being the second most efficient in this respect in the EU after the UK.

In 2008 some 626 million fake cigarettes were seized, representing a loss in government income of 1.5-2 billion Zlotys (\$530-705m). Excise revenue returned from the 5 billion legal tobacco products sold was 15 billion Zlotys.

New Venue for 2nd Tax Stamp Forum



The second Tax Stamp Forum, due to take place from June 14-15 2010, will now take place in London, and not Latvia as originally announced.

The venue is the four-star Millennium Hotel, just a couple of miles from London's West End but conveniently situated on the western side of the city centre for easy access from Heathrow Airport as well as mainline railway stations.

The theme of the Tax Stamp Forum

is *Effective Programmes to Maximise Revenues* and, in common with the first Forum held in Budapest earlier this year, the two-day event will be divided into four sessions covering the tax stamp environment, putting theory into practice, anti-counterfeiting and serialisation technologies and end-to-end tax stamp systems.

Reconnaissance International is now inviting organisations to submit proposals for presentations that fall within these categories. Those that can demonstrate the proven success of the deployment of new techniques or systems will be of particular interest, as will presentations on new technologies that represent the next generation of opportunities for effective tax stamp programme implementation. Case

studies in different countries demonstrating successful solutions and best practice will be particularly welcome.

Proposals should be submitted to Astrid Mitchell at Reconnaissance International (astrid@reconnaissance-intl.com).

As previously announced, the Tax Stamp Forum also offers a number of sponsorship and exhibitor opportunities for companies involved in supplying this market. There will be one platinum and three gold sponsorships, as well as space for around 15 exhibitors. Demand outstripped the availability of these at the First Tax Stamp Forum, so companies interested in participating are urged to contact Reconnaissance as soon as possible to secure their place.

Contact: www.taxstampforum.com

Intaglio – the Cornerstone of Security Printing...cont'd

and flexographic prepress company specializing in advanced imaging and plate making. It utilises a proprietary process to produce high resolution flexographic plates containing security features such as vignettes, microtext and ultra fine line screens with a resolution of 500 dots per inch.

Following these acquisitions, Robert Spiller was named President and CEO. According to him, 'most of our solutions start with intaglio and then layer-in numerous additional security components incorporating existing and newly developing technologies'.

Multiple Features

The intaglio element of the Sekuweb enables two colour fine line printing of latent images, microline

and microtext. This is combined with up to eleven printing stations of standard and security inks including invisible UV, thermochromic, solvent reactive, erasable and tagged. The rotary screen section enables colour shifting, IR invisible, and other screen-applied inks to be added. In addition, the Sekuweb offers in-line hologram application, numbering, barcoding, die cutting and line hole punching, with output delivered as rolls or sheets.

Spiller cites one of the key benefits of the Sekuweb system as its ability to carry out the high pressure (3,000-5,000 lbs per linear inch) application of intaglio print onto pre-existing pressure sensitive label stock. As noted earlier, intaglio does not normally work

on self-adhesive substrates, but this is not the case with the Sekuweb system.

Furthermore, said Spiller, the chemistry of the inks has been optimized such that the intaglio print can be applied and dried at high speed to allow a continuous web of label stock to be printed and rolled up, in contrast to conventional sheet fed processes where the sheets can take hours to dry.

With counterfeiting of tax stamps a growing concern, it will be interesting to see if intaglio – one of the most traditional and enduringly successful security features for currency – begins to enjoy similar widespread success, thanks to these new alternatives, in the fiscal recovery market.

Russia Turns Back the Clock?

A proposal by the Russian government to impose a state monopoly on alcohol sales in the country looks set to turn the clock back by nearly 20 years. The 300-year old monopoly, introduced by Peter the Great, was scrapped in 1991 following the demise of the Soviet Union and the move to free markets. Its reintroduction has been proposed by Rospotrebnadzor (the Russian Federal Service for Consumer Rights Protection) as a measure to curb alcohol abuse, and in particular the high mortality rate from counterfeit alcohol poisoning.

According to Russia's chief public health official, Gennadiy Onishchenko, nearly three million Russians indulge in alcohol abuse today and, in 2007 alone, over 75,000 Russians died prematurely from alcohol consumption, many from counterfeit products. Up to 60% of all vodka is produced illegally and cases of large-scale poisoning periodically sweep the country. Annual per capita pure alcohol consumption in Russia is now said to be twice the level the World Health Organization describes as dangerous. And as the medical journal *The Lancet* reports, half of all Russian deaths between the ages of 15 and 54 can be attributed to alcohol-related causes.

Back in September Russia's President Dmitriy Medvedev ordered the government to develop a set of measures aimed to combat the sale of illegally-produced alcohol, describing rampaging alcoholism as a 'national disaster'. The proposal was made in response to the appointment of this committee.

Russia has the highest per capita consumption of liquor in the world – along with Latvia – equating to 3.8

billion bottles per year (75cl with an alcohol content over 18%). This has doubled since the scrapping of the state monopoly, which was followed soon afterwards by the introduction of tax stamps as a replacement mechanism for control and collection. These were rolled out in 2000 for all spirits with an alcohol content of more than 9%, and included both federal and provincial stamps. This scheme was replaced in 2006 with an ambitious new programme involving a federal stamp only and a complex new nationwide electronic tracking system. Introduced with insufficient time to prepare, the system failed and, for a time, the distribution of spirits came to a virtual standstill. Ironically, this resulted in an upsurge in counterfeits to fill the vacuum left by the absence of legitimate products – the very issue the new programme was designed to prevent.

At that time, proposals were also made to reintroduce an element of state control but were opposed by the then President, Vladimir Putin. Perhaps he was mindful of the attempts by Mikhail Gorbachev to clamp down on alcohol consumption in the 1980s, which is believed to have contributed to his subsequent downfall and enduring unpopularity in some sections of the Russian community.

Distributors and retailers, meanwhile, are sceptical of the motives behind the latest proposal. 'Alcohol abuse is not a new thing in Russia,' said one. 'It looks artificial and suspicious that the volume of the alcohol market looks attractive and is now worth nationalising.'

A decision is expected by March 2010.

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