

# Improving tobacco control and boosting government revenues

The World Health Organization's Framework Convention on Tobacco Control (WHO FCTC) has been described as the world's first public health treaty. It has been developed in response to the global tobacco epidemic and contains a set of wide-ranging measures and recommendations that will ultimately lead to governments having better control of the tobacco market. What is less well known is the significant impact this treaty can have on increasing government revenues



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**T**he WHO FCTC, the first international treaty negotiated by the WHO, features an extensive series of measures to combat the health impact of tobacco. Some relate to price levels and taxes; others are non-financial approaches, such as regulating the ingredients, packaging and labelling of tobacco products, and promoting smoking cessation campaigns and research.

The FCTC's governing body, known as the Conference of the Parties, can make recommendations and decisions to promote the implementation of the treaty by adopting a protocol. Added to the FCTC at the end of 2012, the first protocol, Illicit Trade Protocol (ITP), focuses on eliminating the illicit trade in tobacco products. A total of 53 countries, plus the European Union, have now expressed their political approval of the treaty by signing up to implement the protocol, and that number is likely to grow over the coming months.

The ITP is the framework that will help governments across the world control the supply chain more effectively and consistently. A key element of the protocol

is the requirement that a global track and trace system for tobacco products – seen as being fundamental in helping to stop the flow of illicit products – is established within five years of the protocol coming into force.

## The problem and the solution

Customs officials across the world face the constant challenge of trying to prevent cross-border smuggling by sophisticated and well-funded criminal operations. The WHO estimates that up to 600 billion cigarettes are circulating in the black market, which represents about 10 per cent of the total cigarette market. This is, without doubt, a global problem.

The illicit trade in tobacco products comes in many forms, from petty criminal activity to the work of highly organised criminal gangs. The activity can be broadly categorised into three areas:

- Smuggling involves moving undeclared products between tax jurisdictions operated on a small scale by individuals or highly organised gangs trading very large quantities;
- Counterfeiting of cigarettes requires access to raw materials and equipment and often involves large-scale manufacturing. The resultant cigarettes have none of the safeguards of legitimate products and often have highly increased toxicity levels; and
- Tax evasion involves the falsification of shipping and taxation documents to allow criminals to take advantage of different tax levels between territories without physically moving the products.

The crimes are similar and interlinked and all have the same outcomes – impacting public health, fuelling criminal activity and reducing government revenues.

The WHO's Tobacco Free Initiative (a WHO programme set up in 1998 to focus

international resources and attention on the global health issue of tobacco) recommends that the most up-to-date technologies should be adopted, wherever possible – in particular, state-of-the-art monitoring of the supply chain, and tracking and tracing systems on products themselves. Introducing track and trace technology would give each pack of cigarettes a unique identity stored centrally on a secure database.

WHO FCTC also requires a unique, secure and non-removable identification marking to be fixed to each pack.

Highly secure labels and printing technologies have been used to great effect in this area, and with the addition of unique, machine-readable barcodes this provides law-enforcement officials with a powerful set of tools.

Customs officials can be armed with barcode scanners and authentication tools to rapidly identify and prosecute illicit trade and facilitate genuine trade.

The challenges for governments are to select and integrate the technology into existing processes, retain implementation independence from the tobacco industry and ensure that taxpayers get value for money.

## The benefits

Many countries already run successful tax stamp programmes for tobacco, alcohol and pharmaceutical products. In 2011, more than 80 governments had tax stamp programmes in place and there were over 150 billion tax stamps in use to fight illicit trade and boost government revenue.

That means there are still more than 100 countries that could benefit from implementing a government revenue solution on tobacco products. It is estimated that close to \$33 billion in tax on tobacco products is not being



collected. These countries are missing out on significant and predictable sources of government revenue. As illicit products are blocked from the market, consumers switch to taxed products, which increases tax collections.

## The partner: De La Rue

As more countries seek to adopt the WHO FCTC treaty and accompanying protocol, De La Rue's status as a long-term trusted partner of governments in areas of key national interest, such as banknote production and identity systems, means it is well positioned to help governments introduce robust revenue protection schemes. Its Government Revenue Solutions business has introduced schemes in 20 countries across the world.

De La Rue's track and trace system is specifically designed to support government revenue protection programmes. It links secure stamps and unique codes to a central database holding important production and tax data, enabling government officials to track activity and verify products quickly in the field.

Based on De La Rue's experience, introducing unique identifying marks to individual products will enable product verification, significantly reduce illicit trade and boost revenue collected on the sale of high-tax products. Across North America,

Europe, Asia and Africa the implementation of unique code verification systems has led to significant gains, including revenue increases in excess of 100 per cent.

Stemming the huge tide of illicit cigarettes passing through borders and circulating in countries on all continents can only be achieved through coordinated and sustained efforts by police and customs officials, government departments and

industry experts sharing knowledge, best practice and information across borders.

A coordinated approach can deliver a significant return on investment for taxpayers. The benefits to governments are clear – compliance with the WHO protocols, reduced illicit trade and better health controls, which are all funded by the improved collection of existing taxes.

Helen Cochrane is an expert advisor to both governments and global organisations on the critical elements of a successful revenue protection programme to help combat illicit trade. Driving product and market strategy in De La Rue, Helen also manages key stakeholder relationships and works with organisations such as the WHO, WCO, UN and product manufacturers. Helen regularly travels internationally advising clients and stakeholders on strategies to combat illicit trade, protection of revenues and health while maximising genuine trade and cross-border activity.

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