



## 4th WCO TECHNOLOGY & INNOVATION FORUM

12-14 November, 2013  
Buenos Aires, Argentina

### Leveraging Technologies to Build Efficient, Secure, Transparent and Resilient Global Supply Chains

Keynote Address

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*“Supporting governments to protect tax revenue and fight illicit trade. The positive impacts of modern Tracking and Tracing technology”*

The protection of tax revenue and the fight against illicit trade and counterfeiting are among the priorities of almost all governments today. To optimise tax collection, governments need to be able to exercise effective control over the production and importation of products - especially over products which have high tax value such as excisable goods.

**Track and Trace technology can be used by industry and business, but also by government in its mission to tackle tax fraud, be that in the customs arena or in excise.**

**An important principle is the separation of roles between controlee and controller.** This was imposed on the finance world after recent scandals. Separation of roles is a key principle when building trust relationships in manufacturing and trade. This basic principle is increasingly implemented in international public law and prohibits controlees from taking on the role of controller of the supply chain in lieu of government.

**In the United Nations Organization system** the separation of the controlee and controller roles was clearly defined by the World Health Organization in its 2003 Framework Convention

on Tobacco Control and more recently in its Protocol on Eliminating the Illicit Trade in Tobacco Products. It has been made clear that the direct or indirect delegation of tracking and tracing to the tobacco industry is prohibited. The World Health Organization has designated the World Customs Organization and the United Nations Office for Drug and Crime as the enforcement agencies for this Protocol. The WHO - Global strategy to reduce the harmful use of alcohol has made clear that Member States have the obligation of “developing or strengthening tracking and tracing systems for illicit alcohol; ensuring necessary cooperation and exchange of relevant information on combating illicit alcohol among authorities at national and international levels”. Cooperation with the industry: Yes. But delegation to the industry: No.

**It is also the case for Regional International Organizations** such as the Council of Europe with 36 member states. The European Directorate for the Quality of Medicines & HealthCare (EDQM) started the eTACT project in mid-2009 as part of the Council of Europe’s holistic strategy to combat falsified/counterfeit medicinal products. The project aims to develop a secure, harmonised and standardised traceability and mass serialisation system that will be efficient, cost-effective and flexible and can be used by authorities and all stakeholders – including manufacturers, suppliers, distributors, pharmacists, healthcare professionals and patients – whatever the distribution route and including legal internet pharmacies. There are numerous examples worldwide where delegation to the industry is being progressively replaced by governments recovering and exercising their sovereign prerogatives.

**The strategic goals of secure Track and Trace technology to assist governments to enhance revenue collection are straightforward.** They are all focussed on preventing tax fraud. Each nation has its own social organization and tax system reflecting its historic development. But whatever the structure and form of the fiscal system, any government has to protect the integrity of the system, since it is crucial to the maintenance of public order and the existence of the State. Preventing tax fraud is thus at the heart of any state’s mission, especially in the current economic conditions.

**The last ten years have seen a growth in the efficiency of Track and Trace technologies across the globe, especially in the field of assisting governments to enhance their tax collection.** The impact of this technology is threefold.

The first benefit is to **capture the undeclared market**, leading to an immediate proportional increase in tax collection. This is followed by on-going benefits to tax policy support and **reduction of the incentives for under-declaration**. And thirdly there are a number of **non tax benefits** associated with this technology.

There are for example benefits for public **health policy** - an important positive impact when a Custom’s administration – wherever it is in the world – succeeds in its mission. Reducing tax fraud **levels the playing field for honest producers** by reducing the flow of illegal untaxed products onto the market (which represents unfair competition for legitimate and legal producers) and is also a means to **combat organised crime**.

Governments are losing revenues from both non-declaration and mis-declaration. Based on our proven experience providing secure Track and Trace services to a number of states, we at SICPA have developed a tax remediation model. This model estimates the tax lost through non-declaration and mis-declaration. The accuracy of the model relies mainly on the quality of four key inputs: The market volume, the tax scheme, the estimate of the undeclared market and

the undeclared market recovery rate, which depends of course on the level and efficiency of enforcement.

A system based on advanced and secure Track and Trace technology **assures maximum benefit from any tax increase** – it deals with the higher incentive for under-declaration which is often the result of a tax rate increase. The advanced traceability features provided by a comprehensive system like our platform significantly reduce the additional under-declaration and consequent tax fraud which result from a tax increase. It serves as a tool to continuously capture and trace market size allowing volume reconciliation and enhancement of tax revenues. On the basis of figures published by governments in different regions of the world, introducing our traceability technology in conjunction with tax hikes has resulted in an average incremental increase of 14% in taxes collected.

### **Secure Track and Trace technology is based on four essential pillars:**

The first pillar is the **marking of legitimate production**. By marking I mean the application of a means to authenticate that the product is genuine or show it is fake, and also to record production details. The two most widely used marking techniques are:

- a. First, secured tax stamps. To prevent counterfeiting, tax stamps must have multiple levels of security features (visible, semi-covert, covert and forensic) and bear a unique code associated with metadata recorded in a database.
- b. Second, direct marking, which consists of printing a unique code on each product with visible and/or invisible inks.

To be robust, useful and efficient, both marking techniques have to combine material-based security and information-based security. They also have to be suitable for high-volume production lines, such as those used to manufacture cigarettes, beer, soft drinks or pharmaceutical products, with no impact on production speed. Widely deployed, marking is essential to ensure reliable Tracking and Tracing of products through transport and storage up until final purchase by consumers. Marking prevents under-declaration by manufacturers. Effective marking systems eliminate the damaging “garbage in, garbage out” phenomenon well known to systems managers - marking and on-line activation ensure fully accurate measurement of production and the data is transmitted in real-time to the central database. For full efficiency, both imported products and exported products should be marked to fight against well-known frauds.

The second pillar relates to the **Track and Trace functionalities**. As soon as excisable products are uniquely marked at production or importation, their logistical and fiscal life can be reliably tracked and traced. To do this it is necessary to capture events along the distribution chain from the manufacturer or importer to the point-of-sale.

The third pillar consists of **auditing and authentication tools** to detect if excise products have valid marks or stamps.

The fourth pillar is the **consolidation of excise trade data** to provide meaningful business intelligence, risk profiling and powerful reporting tools. Excise trade data is transferred seamlessly from the marking, tracking and tracing systems mentioned above. As long as all excise products produced in a country or imported are marked and as long as their distribution and authentication are controlled in a reliable way, the Government, the Ministry of Finance and the Customs services have the means to tackle excise fraud.

**This new technology is a secure tracking and tracing system** that aims to combat illicit trade and which is totally independent from the business interests of the industry to be controlled. Complete independence can only be ensured if the system is fully under the control of the relevant government agencies.

So, the primary benefit of implementing such an independent system is a **fundamental shift of control**; from dependence on the industry to a secure government controlled and regulated secure track and trace platform. This platform also provides immediate verification and authentication for officials, thus removing the need for an intermediary web site or public call-in numbers. There is thus a fundamental shift of power to the customs or tax official who are able themselves to distinguish the genuine from the fake and the licit from the illicit.

This new technology uses highly Secure Tax Stamps or direct marking applied on each and every product, locally produced or imported. It provides multiple layers of authentication targeted at each stakeholder in the distribution chain thus ensuring that illegal products can be identified as soon as possible in the product life cycle. In addition, by combining state-of-the-art material and information based security, the Secure Tax Stamps or the secure marks allow many types of illicit activities to be tackled simultaneously - counterfeiting, smuggling, diversion or even tampering.

The monitoring platform is composed of a network of field deployed sub modules, integrated into strategic points of the supply chain, to ensure product compliance while building a track and trace record for each product. The primary objective of the system is to monitor and control each pack of product on a national scale, on a regional scale or on an international scale.

Once products are available at the point of sale or at any point during the supply chain, supply chain partners, law enforcement agents and investigators are able to authenticate the product immediately and unequivocally. Supply chain partners authenticate the product via the overt and semi-covert security features while law enforcement agents and investigators, equipped with a secure audit system authenticate the product via the covert authentication security properties of the Secure Tax Stamp or the secure direct marking. The core service package also provides ongoing operational support to relevant government authorities through near real time system monitoring, as well as extensive training programs and a 24/7 Help desk.

Secure marking, tracking and tracing adds proven value. It will become standard practice worldwide in support of the WCO guidelines, the SAFE Framework, the Customs Management Systems and all underlying legislations.

This technology has a crucial role to play in strengthening and unifying international customs and excise systems, therefore helping Customs and the World Customs Organization to connect at borders.

**Enabling trust, providing the means for secure global trade**, is a goal that the WCO and everybody in this room has understood and is trying to address. It is also the mission of my company which provides high security inks and other features to protect banknotes across the globe. SICPA is a unique provider of security solutions to Governments, already protecting 77 billion products of excise taxed products annually. We stand ready to work together with you to make sure that you are successful in achieving your goal of making the economic world a safer and transparent place.