HNB in China
中国的加热不燃烧产品

Leaf Diversification
烟叶多元化

Spare Parts
备件
By Thomas Schmid

As EU member states consider how best to combat the illicit trade in tobacco products and implement the European Union’s tobacco products directive 2 (TPD2), they need to ensure that any measures will be compliant with the World Health Organization’s (WHO) international blueprints for the regulation of tobacco production and distribution, the Framework Convention on Tobacco Control (FCTC) and its protocol. The International Tax Stamp Association (ITSA) has been warning for the past couple of years or so that what may be compliant under TPD2 could in fact violate FCTC protocol, which only came into effect in September this year and which – as an international law – takes precedence over TPD2.

Concern over certain TPD2 requirements

In particular, ITSA has voiced concern that TPD2 and some of its technical standards for traceability and security features, along with data storage, do not comply with WHO’s protocol. The association has repeatedly highlighted weaknesses in the EU directive that could undermine the security of the track-and-trace (T&T) systems to be implemented. It has also pointed out that some responsibilities are being unnecessarily delegated to the tobacco industry in contravention to protocol provisions. “There are a number of security and product identification requirements included in TPD2 that need to be compliant with WHO protocol, which require that key tasks should not be delegated to the tobacco industry itself or performed by it,” ITSA secretary-general Nicola Sudan was quoted as saying in a press release issued by the association in late July 2018. The association noted that fraud takes many forms and that according to academic authorities such as Bath University in the UK, the tobacco industry has and continues to be directly associated with certain of them. This is why WHO believes it is so crucial that control systems are outside their control.

The International Tax Stamp Association is warning that the EU’s TPD2 may not be compatible with WHO’s FCTC as far as track-and-trace requirements are concerned and that some adjustments may be sorely needed.

ITSA: Some Beef with TPD2
The International Tax Stamp Association (ITSA), headquartered in Sunbury-on-Thames in the UK, brings together leading industry companies and stakeholders to promote a better understanding of the benefits of tax stamp programs and the highest professional standards within the sector. Over 150 revenue agencies around the world use tax stamps to collect tax duties and excise payments, involving the worldwide production of some 140 billion stamps annually. As well as providing visible proof of tax payment and revenue collection, tax stamps are used for product authentication, anti-tampering, and traceability applications.

The World Health Organization’s Framework Convention on Tobacco Control (FCTC) protocol to eliminate illicit trade in tobacco products provides a blueprint for the regulation of tobacco production and distribution, as well as international cooperation between enforcement authorities. The 40 required state ratifications were achieved in late June of 2018 (when the UK ratified the treaty), thus putting FCTC into force as of September 25, 2018. Parties to the protocol have five years to put in place a global system for tracking and tracing. A first meeting of the protocol parties to take decisions on the way forward has been held in October.

New ITSA guideline helps address the situation

ITSA recently published a new guidance on security and traceability for tobacco products*, which it has shared with key EU stakeholders and which is available on its website. The document offers advice on how tax stamp programs can combine the traceability and security feature requirements specified in TPD2 technical standards whilst also providing a fully independent sourcing solution in compliance with FCTC. In its guidance paper, ITSA recommends that all authentication elements required by EU directive should be provided by a third party and combined with the digital data in the unique

* Courtesy of ITSA

Nicola Sudan, ITSA secretary-general

Tobacco tax stamp issued by Ecuador
A scathing BdZ-published caricature: Germany’s cigar manufacturers are not crushed by the illusionary burden of cigar smuggling but the pressure exuded by heavy-handed EU lawmakers in Brussels.

“Nonsensical Rules” Threaten Future of German Cigar Makers

Discontent with TPD2 has also been brewing in some sectors of Europe’s tobacco industry. Although the directive has yet to come into effect, Germany’s Cigar Industry Federation (BdZ) has voiced strong opposition against the directive’s T&T provisions since last year, even appealing to the government “to protect the interests of medium-sized enterprises” in the country.

In a press release issued in November of 2017, BdZ pointed out that while the cigar industry was still trying to cope with the recently implemented FCTC protocol, it now also had to brace for TPD2, which is to come into force rather sooner than later. “For the cigar industry, these [TPD2 T&T] provisions not only mean an extreme financial burden, but in addition they also are completely nonsensical,” the association’s managing director, Bodo Mehrlein, commented in the press release. "The traceability system [proposed by TBD2] is supposed to combat tobacco smuggling, but this doesn’t occur in the market segment for cigars and cigarillos anyway. Therefore, [the relevant provisions] severely violate the principle of proportionality that ought to be the basis or any law or regulation.”

BdZ recently challenged Germany’s federal government to reject the draft directive. “Further rounds of negotiation are needed to arrive at a framework that also can be implemented by the cigar industry both operationally and economically”, Mehrlein urged. “It must not be allowed”, he said, “that the EU can create an enormous bureaucracy monster that will suffocating medium-sized cigar companies whose products are not being smuggled in the first place.” The directive in its current form, he added, not only required the affixing of a tracking code to products in order to trace distribution channels and sales markets but that - at a later stage - a flood of additional data, even including the license plates of trucks and vans deployed would have to be added. „Production must be controlled through an appropriate system provided by an independent third-party”, Mehrlein said, mirroring almost exactly the demands of ITSA’s Nicola Sudan (see main story).

But apart from violating the principle of proportionality, the EU directive in the opinion of BdZ also disregards the harmonization of the EU domestic market as well as neglect the need for “better regulation” in favor of inflated red-tape bureaucracy. Mehrlein cautioned that “in the end, the only winners under such a cost-intensive regulation are going to be the well-financed international cigarette industry corporations, while medium-sized cigar companies will be driven to the limits of their financial capacity.”

The most practical and seamless way to compliance

ITSA also pointed out that 23 out of 28 EU member states already have tax stamp programs in place and that upgrading existing programmes where needed would provide the most practical, cost-effective and seamless way of complying with TPD2 technical standards. And for those member countries without a tax stamp system in place, this could be the ideal moment to introduce one. “From the point of view of high-level security, ease of examination, and independent sourcing, combining all the authentication and ID elements together onto one tax stamp undoubtedly provides the best and most secure overall solution,” asserted Sudan. “And where current tax stamps don’t fully comply, they can be easily upgraded, thus ensuring cost effective product traceability, which will fight fraud and support tax collection.”

“A copy of the ITSA guideline can be downloaded from the association’s website at www.tax-stamps.org.

Sewtec: affordable TPD2 compliance

EU bureaucrats have frequently shown that they lend precious little ear to the concerns of any industry sector when it comes to introducing new laws that often turn out as impractical as they are unfair. Whatever ITSA’s stance on TPD2 issue, manufacturers can be reasonably certain that the directive’s T&T provisions are going to hit soon - unless someone in Brussels comes to their senses (which, as the past has shown, is highly unlikely). Installing new or upgrading existing T&T systems can be a costly endeavor, though, which especially may stretch small and medium-sized companies’ finances to capacity. But there just might be salvation in sight.

UK-based outfit Sewtec Automation said it is going to roll out affordable compact versions of its various full-scale T&T solutions in time for TPD2 kicking in. The company claims those compact versions will be just as compliant with the EU directive as its full-scale ones on which they are based. Founded in 1982, Sewtec Automation currently employs 90 people in its offices and design and production facilities located in the West Yorkshire town of Dewsbury. In August of 2017, Sewtec completed a management buyout (MBO) backed by private equity firm Endless and led by identifier (UID) in a multi-layered security bearer, such as a tax stamp. Integrating digital data with authentication features would add important anti-fraud protection, assuring UID cannot be fraudulently duplicated. WHO protocol puts a much stronger emphasis on the need for suppliers of T&T control systems to be independent of the tobacco industry rather than the modular system on which the EU has compromised.
Where there’s smoke, there’s firewater.

Because no one flavors tobacco like TTI.
An impressive array of T&T equipment

The currently available line-up of full-scale T&T solutions specifically developed for the tobacco industry is impressive: For cigarette lines, Sewtec offers a combination of its CML OL701 high-level infeed pack aggregation and labelling system with an MC121 case labeler for outer to case aggregation. Likewise for cigarette production there is the RALPH OL711 low-level infeed pack aggregation and labelling system, again combined with the MC121. Furthermore, there exist similar set-up for OTPs, for example pouch lines. Read and aggregation systems for retro fitting to bundle wrappers such as Focke 052 and Emkon Strike are also available, according to Sewtec’s program manager Jeff Jones. Last but not least the company provides robotic case packing systems for buckets and zip bags. “All of our full-scale versions of track-and-trace equipment are fully compliant with TPD2’s relevant regulations”, Jones told Tobacco Asia.

Magic mantra: from full-scale to compact

With TPD2 now dangling over everyone’s head like Damocles’ sword, the company decided to develop compact versions of its T&T solutions when it realized that there existed considerable demand. “We found that demand is driven by a number of factors, like cost, factory floor space, as well as the need to get a return on investment by introducing automation.

Where floor space is restricted it is usually because certain lines are manual packing lines; and these will have to be upgraded [in order] to satisfy TPD2”, Jones elaborated. The compact versions, expected to be launched before the end of the year, will be available for both OTP and cigarette production, combining pack coding, outer/bundle labelling, case packing, and case labelling.

“TPD2 requires that external codes are used on packs and our systems apply them via lasers at pack level”, explained Jones. “We take the code data into a line database and then compare read codes throughout the aggregation process on the line to the database. This ensures that codes reported via our system at the end of the process are genuine activated codes.”

Lower cost and less floor space

The main advantages of compact over full-scale systems in this case are price (as in investment cost) and the fact that the compact systems require less floor space and thus can be utilized in most production facility scenarios.

Sewtec solutions at line level can be implemented within three months subject to workloads at the time, according to Jeff Jones. But unlike the easier-to-set up compact version, a full-scale system from the customer point of view also would necessitate the involvement of other parties such as, for example, high-level IT interface suppliers as well as providers of external repositories.

Sewtec always provides onsite installation and commissioning with a high level of software support for its own equipment and interfacing with other parties, while all systems come with a 12-month warranty.

“We think our development of a fully integrated case packer ‘combi’ that includes pack coding through to case aggregation and labelling is unique, and an attractive investment particularly for independent tobacco product manufacturers”, Jones concluded. And he could be spot on with his assessment once the TPD2 doomsday clock strikes twelve.