



Brussels, 24 May 2012

MEETING WITH SICPA ON 24 MAY 2012

Participants

| SICPA | SANCO D4 |
|--|---|
| <ul style="list-style-type: none">• Alastair Sutton (advisor to SICPA)• Pierre Viaud (Senior Director Public Affairs & Government Relations SICPA)• Myron Seto (Technical Director SICPA)• Christophe Renard (Director Marketing SICPA) | <ul style="list-style-type: none">• Dominik Schnichels• Sigrid Wimmer• Isabel Holmquist |

Upon request of Alistair Sutton advising SICPA a meeting between SICPA and DG SANCO was held on 24 May 2012.

SICPA presented the services provided by the company and introduced in particular its activities in Brazil where it is in charge of running a tracking and tracing system of tobacco products at pack level. The details of this presentation are set out in the attached power point presentation.

SICPA inquired about the upcoming revision of the Tobacco Products Directive. DG SANCO indicated that it is essentially in listening mode and cannot share any information regarding the upcoming revision.

No follow-up was agreed. DG SANCO thanked for the information provided.

Attachment: PPT



SICPA

Secure Track & Trace Solutions for Tobacco Trade

*Pierre Viaud, Myron Seto,
Christophe Renard*

Presentation before the Tobacco Division of
DG-SANCO (European Commission)

24 May 2012, Brussels



AGENDA

1. **SICPA GROUP**
2. **FCTC and ILLICIT TRADE PROTOCOL REQUIREMENTS**
3. **SICPA SOLUTIONS FOR FCTC**
4. **EMCS**
5. **BENEFITS**

SICPA – DECADES OF SECURITY EXPERTISE



- Founded in **1927**
- Leading global provider of unique **security inks** for banknotes **and integrated security solutions** for governments and brand owners
- Headquartered in Lausanne, Switzerland; operating in **28 countries** with over **3000** employees worldwide and serving customers globally
- Implementing **secure track and trace solutions** for reconciliation and enhancement of government **tax revenues**
- Implementing product and supply chain integrity solutions for **consumer and patient safety**
- **Open and interoperable systems, proprietary technology**

SICPA - GLOBAL ROLE

Securing almost all of the world's currencies and value documents



High security inks for currencies



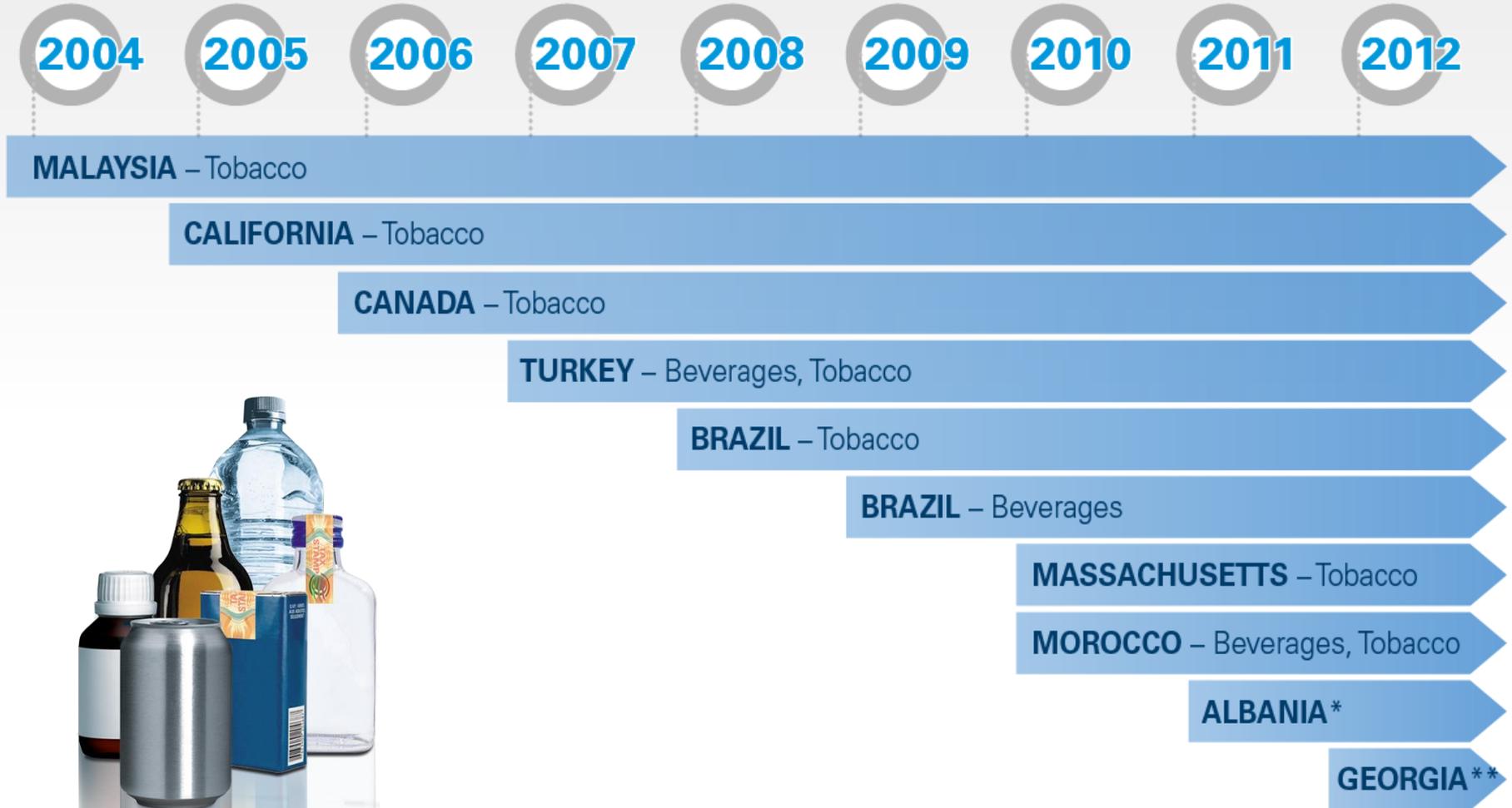
Value documents

Ensuring traceability for over 77 billion products



Track and Trace solutions

SICPA - GOVERNMENT SECURITY SOLUTIONS SINCE 2004



* Beverages, Tobacco, Pharma
 ** Beverages, Tobacco

SICPA IMPLEMENTATIONS FOR TOBACCO PRODUCTS



Brazil (SCORPIOS)



Turkey (TURKTRACE)

- Reduce supply and demand of tobacco products to limit the tobacco epidemic
- Entered into force on 27 Feb. 2005; 175 Parties and 169 signatories to date
- In Article 15, parties may adopt measures to tackle the illicit trade of tobacco products that:
 - **undermines public health policies**
 - **deprives the Government from essential public revenues**
 - **permits criminal organizations to thrive**
- Article 15-2 b) recommends Parties to develop ***“a practical tracking and tracing regime that would further secure the distribution chain and assist in the investigation of illicit trade.”***
- Article 5-3 specifies: ***“In setting and implementing their public health policies with respect to tobacco control, Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law.”***

THE ILLICIT TRADE IN TOBACCO PRODUCTS PROTOCOL

- The Illicit Trade in Tobacco Products Protocol (ITP) is the **1st additional instrument complementing the FCTC**
- Negotiated through the Conference of the Parties (COP)
- Written by the Intergovernmental Negotiating Body (INB), latest text for recommendation to COP5 determined on 4 Apr. 2012 at INB5
- The COP is due to vote in Nov 2012 in Seoul. The ITP will be effective after at least **40** Parties ratify it.

THE ILLICIT TRADE IN TOBACCO PRODUCTS PROTOCOL - 2

- **Article 8 defines technical requirements that a track and trace system should bear in order to efficiently tackle the scourge of illicit tobacco trade**
- Article 8-2 reads “***Each Party shall establish, in accordance with this article, a tracking and tracing system, controlled by the Party for all tobacco products that are manufactured in or imported onto its territory taking into account their own national or regional specific needs and best available practices.***”
- Article 8-12 mirrors FCTC requirements: “***Obligations assigned to a Party shall not be performed by or delegated to the tobacco industry.***”

THE ILLICIT TRADE IN TOBACCO PRODUCTS PROTOCOL - 3

- Technically challenging requirements to cover all stages of the tobacco distribution chain:
 - **Unique, secure and non-removable** identification markings **such as codes or stamps**
 - Affixed to or form part of all **unit packets, packages or any outside packaging of cigarettes**
 - With a **considerable set of information** (date of manufacture, manufacturing facility, manufacturing machine, production shift, product description, intended market of retail sale...)
 - To be **accessible directly or by means of a link**
 - For **imported goods as well as goods produced for domestic market or export**
 - Connexion to **global information sharing focal point**

- Ratifying parties are required to implement the FCTC ITP within a **5 year period** for cigarettes.

FCTC AND ITP - TRACK & TRACE REQUIREMENTS

| ITP - Article 8 | SICPA SOLUTIONS |
|---|---|
| <p>Unique, secure and non-removable identification markings (codes, stamps) on unit packets, and outside packaging manufactured in or imported into a country</p> | <p>Compliant - Compliant at pack and carton level by means of the SICPATRACE® secure encrypted tax stamp or directly applied encrypted SICPADATA® code</p> |
| <p>Data collected at production and be part or linked to unique marking</p> | <p>Compliant - Data Management System (DMS) scalable to collect additional data</p> |
| <p>Data collected at distribution and linked to each unique marking</p> | <p>Compliant – Aggregation and Information Collection System. Extensible to collect other data from distribution stakeholders</p> |
| <p>Data collected at import and linked to each unique marking</p> | <p>Compliant - through the SICPATRACE tracking and counting of imported volumes. Can be extended to meet the FCTC cross-border exchange requirements</p> |
| <p>National or regional system must share data with other parties through focal point</p> | <p>Compliant - as the DMS will interface with external routing systems through proper interfaces defined by WHO</p> |
| <p>Obligations assigned to a Party shall not be performed by or delegated to the tobacco industry.</p> | <p>Compliant - as SICPA is an independent technology provider with no affiliation with the tobacco industry</p> |

FCTC AND ITP - TRACK & TRACE REQUIREMENTS - 2

| ITP - Article 8 | COMMENTS |
|-----------------------------------|---|
| Distribution Track & Trace | Aggregation data and distribution events to be captured for production for both export and domestic markets |
| Distribution Depth | The solution should be flexible so it can capture shipments from manufacturers, and potentially retailer information |
| Manufacturers and/or Distributors | <p>Major manufacturers and/or distributors shall be able to capture and provide:</p> <ul style="list-style-type: none"> - Pallet, master, carton codes or coded labels - Aggregation from carton to pallet - Data from their ERPs (if exists) |
| Import Data Aggregation | <p>SICPA would use exporting producers' data when available to transfer aggregation data to the local DMS and importer / distributor shall rescan if they recondition.</p> <p>In case the data are not available from the foreign manufacturers: As unpacking not realistic > push for foreign manufacturer to comply</p> |
| Data Ownership | SICPA solutions grants full data ownership to the Governments, allowing volume reconciliation and tax collection optimization |

LEGISLATION AND TIME LINE

| EXISTING EUROPEAN LEGISLATIONS | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | |
|---|---|------|------|------|------|--|------|------|------|------|------|---|------|------|------|---|------|---|------|------|--|
| Decision No 1152/2003/EC of the European Parliament and of the Council of 16 June 2003 sets forth the computerizing of the movement and surveillance of excisable products | Computerizing of the movement and surveillance of excisable products | | | | | | | | | | | | | | | | | | | | |
| Council Directive 2008/118/EC of 16 December 2008 "concerning the general arrangements for excise duty" has imposed an excise tax for all Member States of the European Union on the consumption of energy products, alcoholic beverages as well as on manufactured tobacco. | | | | | | Possibility is offered to Member States to apply tax markings or national identification marks used for fiscal purposes, as set by Article 39 | | | | | | | | | | | | | | | |
| Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco (codification) | | | | | | | | | | | | At the final stage of harmonization of the excise duty, at the latest the rules for collecting the excise duty shall be harmonized . During the preceding stage, the excise duty shall, in principle, be collected by means of tax stamps | | | | Every 4 years, the Commission shall submit to the Council a report and a proposal concerning the rates and the structure of excise duty laid down in this Directive | | | | | |
| FCTC Illicit Trade In Tobacco Products Protocol to be adopted at COP 5 , Seoul, Nov.2012. Will enter into force after 40 ratifications. | | | | | | | | | | | | | | | | | | 5 years after 40 ratifications for cigarettes and 10 years for OTPs | | | |

SICPATRACE® SECURE TRACK AND TRACE SYSTEM - OVERVIEW

1 Coding / Marking of legitimate production



2 Distribution chain tracking functionalities



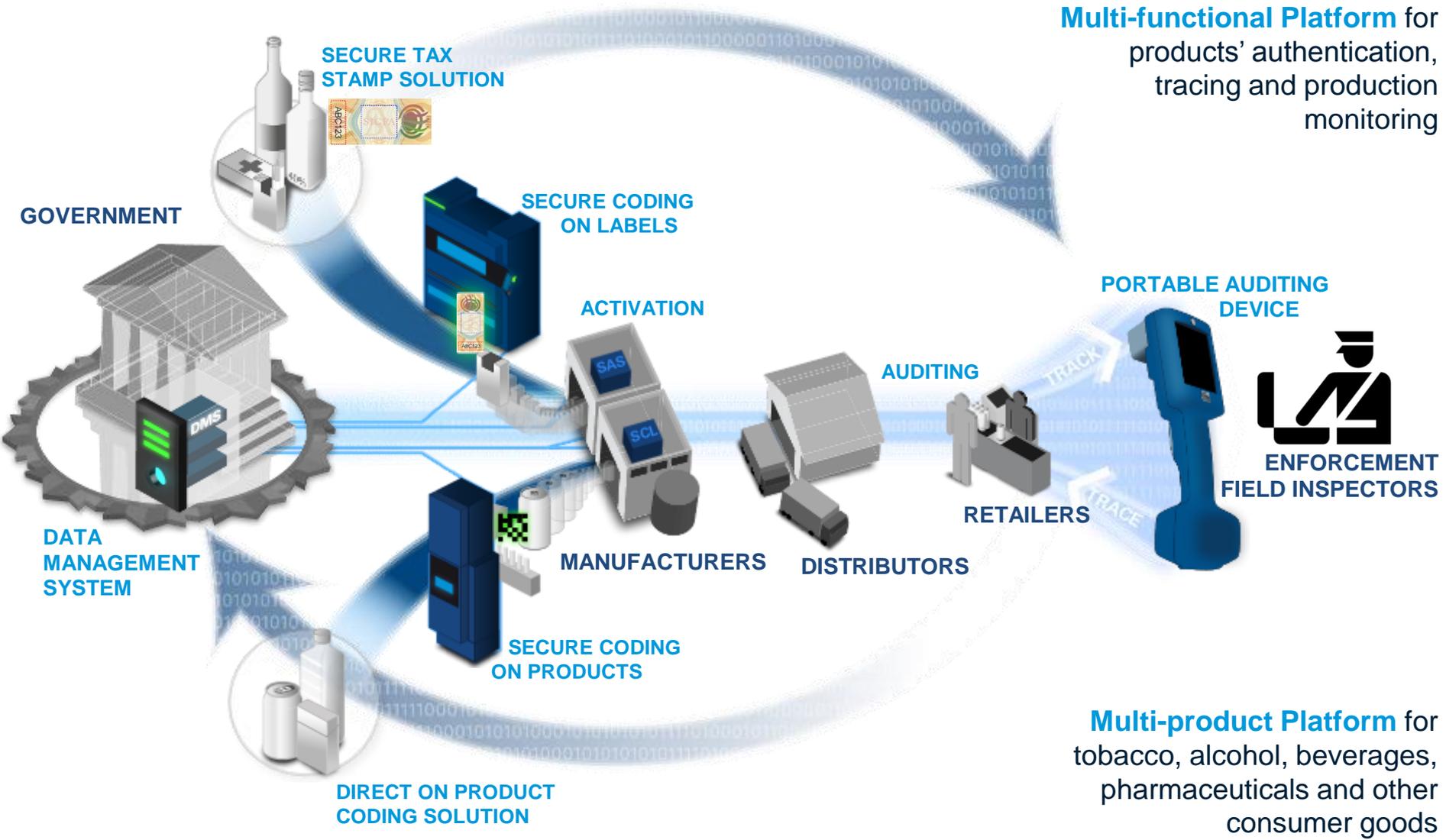
3 Auditing and authentication tools



4 Data management, business intelligence and reporting



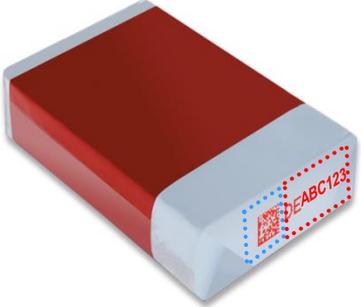
SICPATRACE® SECURE TRACK AND TRACE SYSTEM – OVERVIEW - 2



Multi-functional Platform for products' authentication, tracing and production monitoring

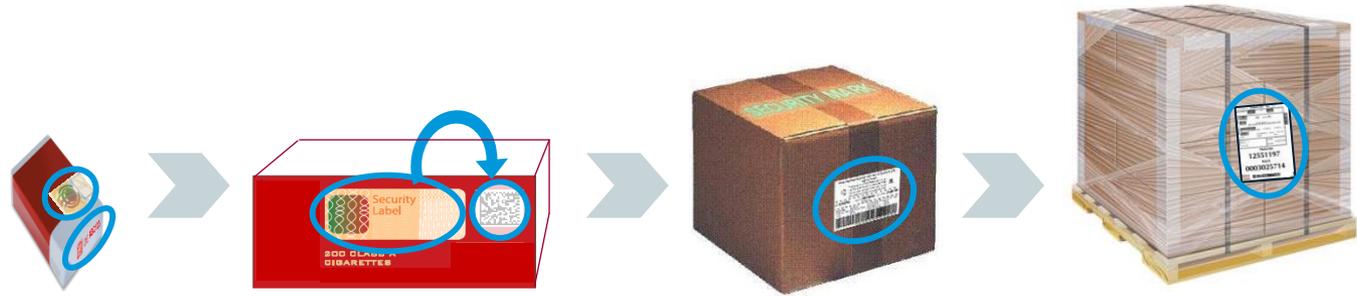
Multi-product Platform for tobacco, alcohol, beverages, pharmaceuticals and other consumer goods

SICPATRACE® SECURE TRACK & TRACE SYSTEM – FCTC FOCUS - 1

| Pack Level Stamp or Coding Security Features | Secure Tax Stamp | On-line Coding Alternate option when on-line coding is mandated by law |
|--|--|--|
| <p>Covert security with invisible FCTC compliant SICPADATA® CODE</p> |  |  |
| <p>Overt alphanumerical code for international related matters</p> | | |
| <p>Micro-cuts and frangible substrate</p> | | |
| <p>Guilloche and Micro-text</p> | | |
| <p>SICPASTAR® color-shifting effect SICPA OASIS® polarization effect</p> | | |
| <p>Benefits:</p> | <ul style="list-style-type: none"> ▪ FCTC Compliance ▪ Covert security for Governmental agencies ▪ Immediate authentication of copying or tampering attempt by consumers or distribution stakeholders | <ul style="list-style-type: none"> ▪ FCTC Compliance ▪ Covert security for Governmental agencies |

SICPATRACE® SECURE TRACK & TRACE SYSTEM – FCTC FOCUS - 2

▪ Aggregation



| | <i>Pack</i> | <i>Carton</i> | <i>Master Case</i> | <i>Pallet</i> |
|-------------------------|--|--|--|--|
| <i>Packaging Coding</i> | SICPA Stamps or On-product coding | SICPA Labels or On-product coding | Manufacturers' labels | Manufacturers' labels |
| <i>Linking</i> | SICPA Pack "Scanning and Activation System" linking SKU and code | SICPA Carton "Scanning and Activation System" linking label and logistic codes | By Manufacturers | By Manufacturers |
| <i>Aggregation</i> | None | SICPA "Pack-to-Carton" optional module | "Carton-to-Master Case" by Manufacturers | "Master Case-to-Pallet" by Manufacturers |

▪ Interfaces by Customer Profile

| | | <i>1st Stakeholder Profile – High volume & ERP*</i> | <i>2nd Stakeholder Profile – High Volume, No ERP</i> | <i>3rd Stakeholder Profile – Small volume</i> |
|-------------------------------------|---|--|---|---|
| <i>Pack production</i> | At Manufacturers | SICPATRACE | | |
| <i>Pack-to-carton aggregation</i> | At Manufacturers | None | SICPA “Pack-to-Carton” module integration | |
| <i>Carton-to-Pallet aggregation</i> | At Manufacturers | Done by large manufacturers - Electronic data interface to DMS | SICPA automation integration | Done by small producers, using SICPA application & client |
| <i>Distribution data collection</i> | From Manufacturers finished goods to last Wholesalers | Events captured by large distribution partners - Electronic data interface to DMS | SICPA automation integration | Done by small distribution partners using SICPA application & client |
| <i>Importers</i> | Importers | Events and aggregation captured by SICPA “Digital Activation System” web application, if available to foreign manufacturers | | |

* ERP = Enterprise Resources Planning = production and operations IT system

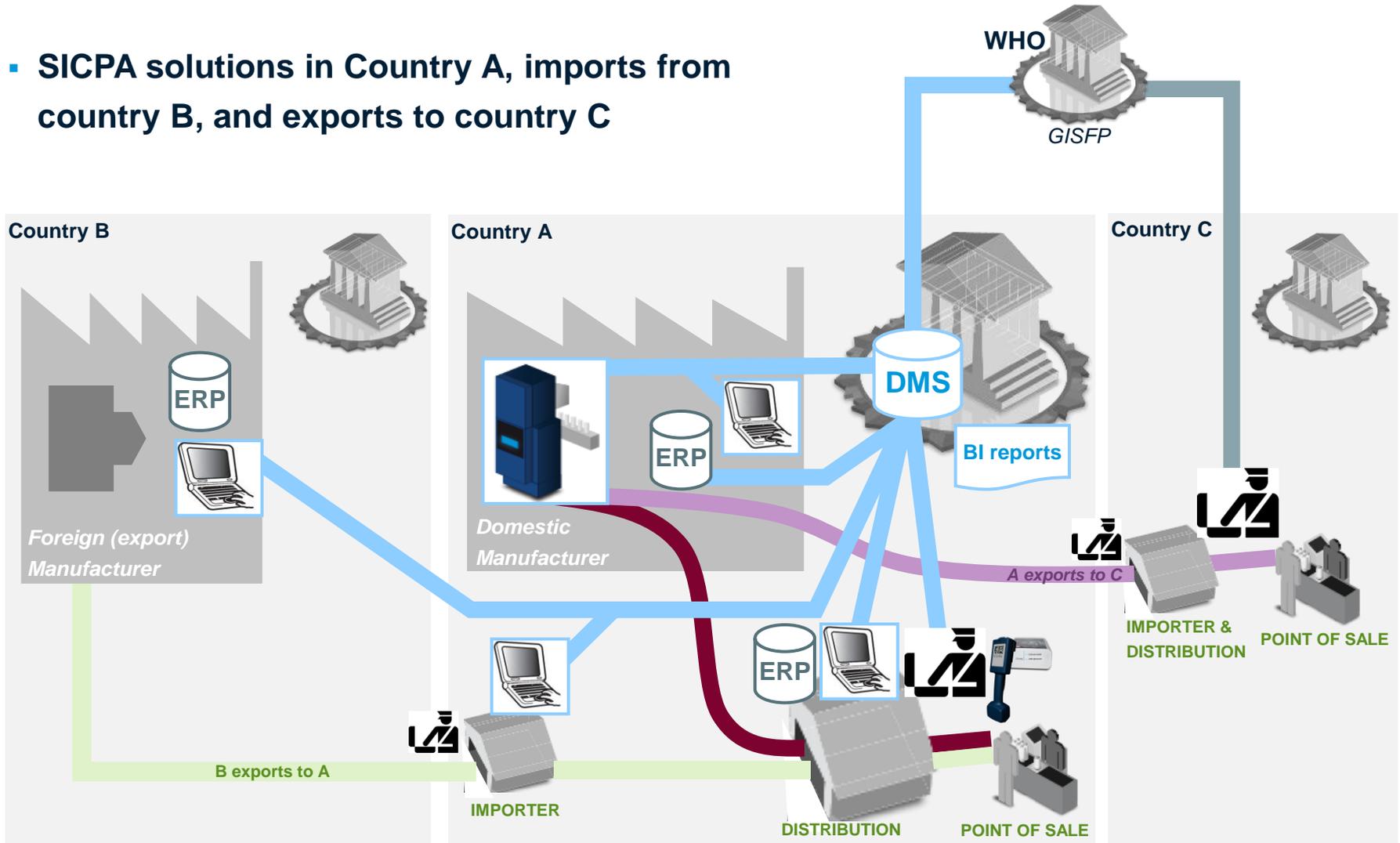
Imports / Exports Goods Tracking

| | | | | |
|--|--|--|--|--|
|  Exporting country, with | Importing country, with | SICPA solutions | No SICPA Solutions | No FCTC |
| | SICPA solutions | Country to country Data Management System data transfers | Inquiries through GISFP* | Option for country to country data transfers if exporting party agrees |
| No SICPA solutions | Data transfers through Data Management System and GISFP* | Inspectors inquiries through GISFP* in case product is discovered on a "SICPA country" | Inspectors inquiries through GISFP* in case product is discovered on a "SICPA country" | |
| No FCTC | Data transfers through Digital Activation System | Inquiries through GISFP* or no data available | <i>Not Applicable</i> | |

*GISFP = Global Information Sharing Focal Point, at WHO

SICPATRACE® SECURE TRACK & TRACE SYSTEM – FCTC FOCUS - 5

- SICPA solutions in Country A, imports from country B, and exports to country C



SICPAMOBILE® audit

- **Step 1:** Validation that product is genuine
- **Step 2:** Retrieval and validation of all product specific data from DMS



Step 1



Material based security

Step 2



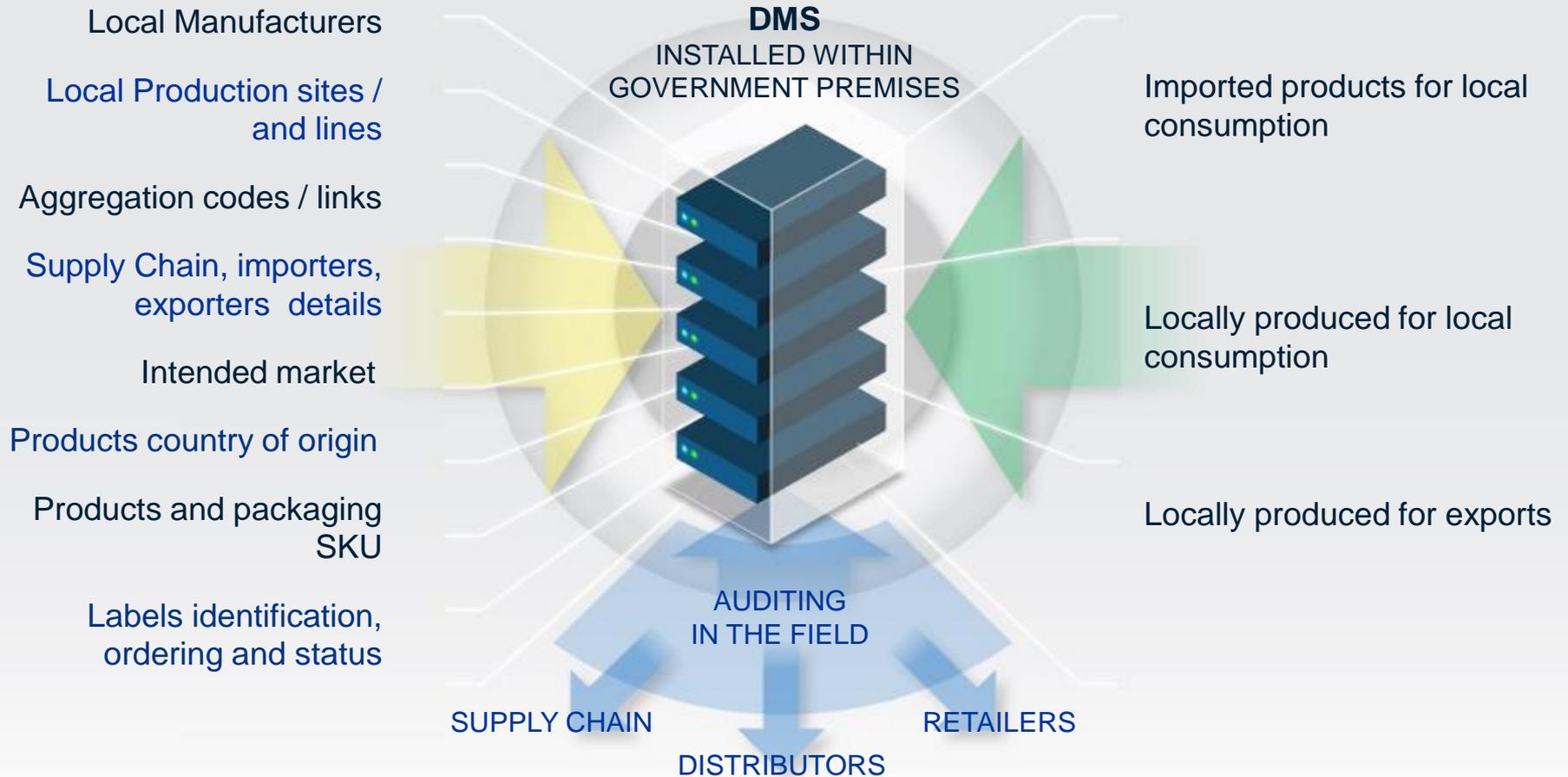
Information based security

SICPA DATA MANAGEMENT SYSTEM (DMS)

DETAILED INFORMATION

CENTRAL REPOSITORY

VOLUME MONITORING



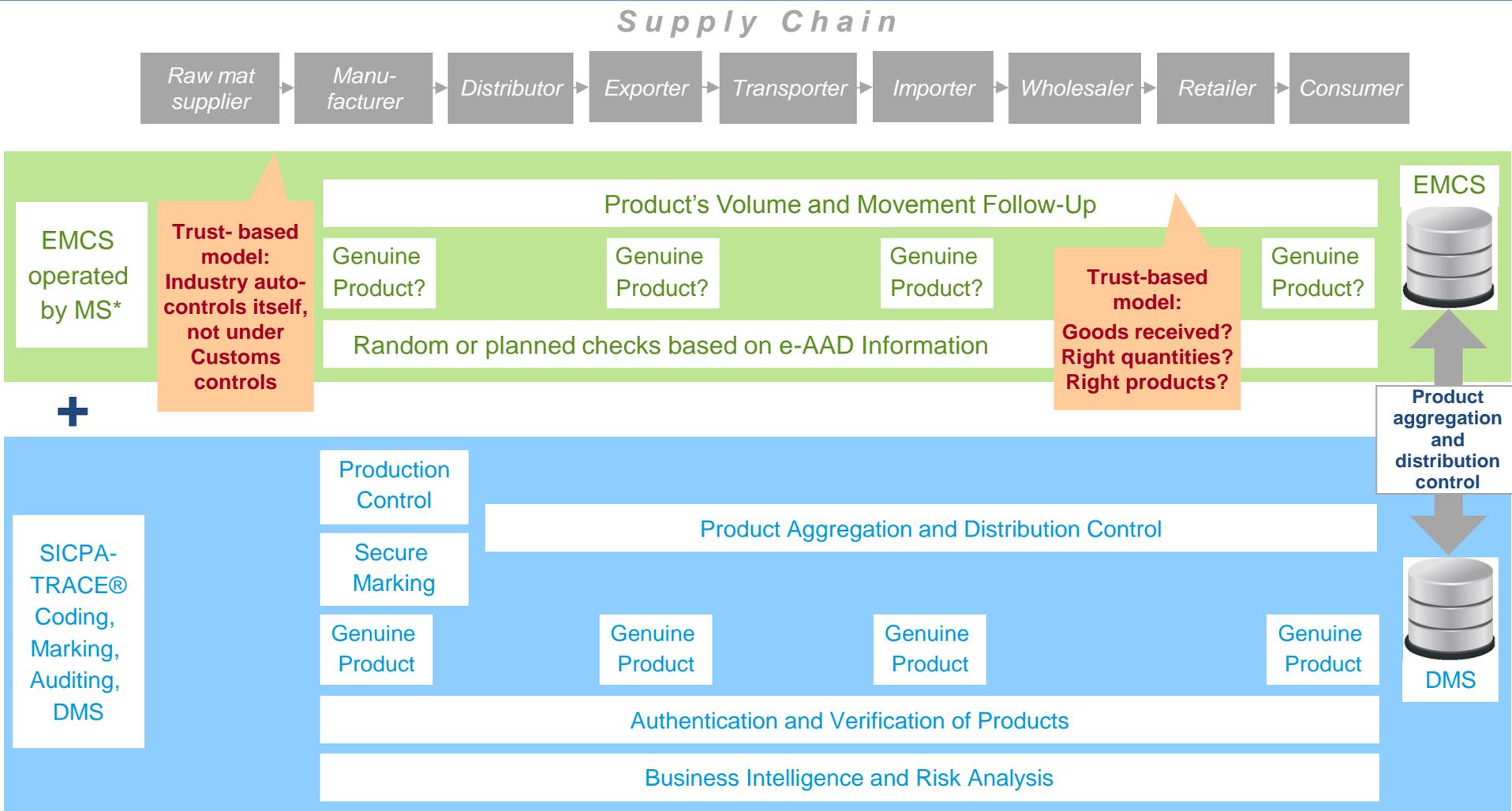
Reports can be generated at all times for all processes

“SICPATRACE® is compatible with and complementary to EMCS”

- statement made by DG TAXUD on 28 September 2011

- The Excise Movement and Control System (EMCS) is an operational electronic documentary process within the EU 27; SICPATRACE® offers the means for **physical control** of the products in circulation
- SICPATRACE® combined with EMCS provides a **unique & secure ID to each product and connects this unique ID to its related e-AAD**
- SICPATRACE® reinforces the EMCS by **bridging the gap between dematerialized information and the physical flow of goods, thus assisting law enforcement governmental agencies to fight illicit trade, smuggling, contraband or carousel fraud**

EMCS AND SICPATRACE® - COMPLEMENTARITY



≡ Consolidation / analysis of electronic data with field data, to trigger actions and controls.

SICPA SOLUTIONS FOR TOBACCO TRADE - BENEFITS

| FEATURES | BENEFITS OF USING SICPA |
|--|---|
| Secure tax stamp with multilayered security features for immediate product authentication by consumer | Increased customer confidence |
| Centralized database providing visibility on manufacturing, export, import and distribution of tobacco product | Optimal management of the tax, customs and FCTC / ITP compliance enforcement resources |
| Real-time monitoring | Enhanced tax revenue and early detection of non compliance |
| Scalable and flexible solution that can be implemented down to various stages in the distribution chain, and that provides both large and small players with adequate interfaces | Efficient, optimized implementation tailored to one country's particular needs and industrial environment |
| Security features that can be read only by authorized officials, interactive field Audit systems | Improved, optimized enforcement and prosecution |
| Business intelligence reporting module that provide full visibility to government on product flows and audit results | |

