

Liquor Tax Stamps in India: Lessons NOT Learnt by Uttar Pradesh as it Follows in Delhi's Footsteps



In an astonishing move, one of the biggest states in India – Uttar Pradesh – has decided to replace its holographic liquor tax stamps with plain barcoded stamps devoid of any physical security features. This was announced to *Tax Stamp News™* by Chander S Jeena, Secretary, Authentication Solution Providers' Association, New Delhi, India.

Uttar Pradesh was one of the first states in India to adopt holographic tax stamps almost 17 years ago and today such stamps are used in most Indian states on spirits and wine.

Nevertheless, this early adopter of holographic stamps has now become an equally early adopter of black and

white barcoded labels. The decision to switch to these labels was taken by the Uttar Pradesh Excise Department, in conjunction with a move to implement track and trace technology as part of the state's 2018-19 excise policy.

Although track and trace technology that uses a unique 2D barcode is considered a good technology for traceability purposes, the general, international, consensus is that a barcode on its own is not much help when it comes to solving the problem of counterfeiting.

Instead, track and trace technologies must work in tandem with a dedicated physical anti-counterfeiting technology like a security hologram, advised Chander. If they don't, an excise department may leave itself exposed to acts of sales diversion and loss of revenue – which is what happened in Delhi. It is therefore astounding that Uttar Pradesh has nevertheless opted to follow in Delhi's footsteps.

Lessons NOT learnt from Delhi experience

The barcode label currently used in Delhi was introduced in 2013 as part of the Delhi Excise Department's *Excise Supply Chain Information Management System* – an initiative for enhancing excise revenues and controlling illicit flows of spirits, wine and beer into the territory (see TSN January 2016).

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Canada All Set to Legalise Marijuana

Canada is to become the second country in the world (after Uruguay) to fully legalise marijuana, now that the senate has approved legislation. Prime Minister Justin Trudeau announced that 17 October would be the actual date of legalisation of recreational marijuana (given that medical cannabis is already legal in Canada).

The impending legalisation has unlocked new revenue tools for the federal government and has ushered in a series of Canada Revenue Agency (CRA) registration requirements for federal cannabis license-holders. This means that by 17 October, all licensed cannabis producers and processors must obtain a CRA cannabis license.

In addition, all packaged cannabis products released to provincially authorised retailers or the public must be affixed with an excise stamp.

As advised in TSN May 2018, the tax stamps will be provided by the contractual joint venture of SICPA and the Canadian Bank Note Company (CBN), under an 18-month extension of the CRA's current tobacco stamp programme, which runs until September 2019. As of that date, and in accordance with statutory procedure, there will be an open competition for the contract (in fact, the CRA has already issued an RFP with an 8 August deadline).

The SICPA/CBN programme is now all set to go live on 17 October.

Rotarylogic launches New Registered Hologram Converting Module

Rotarylogic, a well-established UK manufacturer of registered hologram converting machines, held its first open day in June to launch its new high-precision registered hologram application module, *Fusiion 550 Indexer*. The new module will remain in its showroom for dedicated customer tests and demos. During the event, the company produced a promotional tax stamp label on the Fusiion 550.

The event was sponsored by leading industry suppliers KURZ, UPM Raflatac, Rotometrics, Printcolor and UK Labels.

The machine offers latest technology features, including total servo with camera control for closed-loop production to enable short set-up, excellent registration accuracy, minimum foil waste and minimum operator input to ensure consistency during production.

The machine is able to apply multi-stream registered holograms, cross-stripping and continuous foiling, from reel to reel or reel to sheet.

For an information pack, including a sample of the promotional tax stamp sample, please contact bmgrobconsulting@gmail.com or sales@rotarylogic.co.uk.



Demonstration of the Fusiion 550 for tax stamps during Rotarylogic's open day.

Liquor Tax Stamps in India: Lessons NOT Learnt *(continued)*

The label is a very plain, purely digital affair that seems to go to the opposite extreme of its earlier full-face hologram, said Chander. It is devoid of colour, as well as of any material-based overt or covert security features for physical authentication. There is no way of telling, just by looking at the label, whether it is a fake, unless it happens to be sitting next to a label with an identical code. This lack of visible security is one reason duplicates have been able to slip into the market so easily.

Another reason for the ease of duplication lies in the fact that the responsibility for generating the barcodes and printing the labels is outsourced to the distilleries, (and breweries and wineries) themselves. The distilleries – which are all based outside of Delhi – are even able to procure the labels from the open market, if so desired, which provides a fertile ground for code duplication.

The only element of the labels that the distilleries do not generate themselves is the unique serial number which – along with the central data management system – is under the sole control of the Delhi Excise Department.

Since the implementation of the label in Delhi, there have been reported cases in the media of the rampant misuse of the 2D code – including by excise and law enforcement officials themselves. For instance, in April 2015, nine excise officials were held in Delhi for liquor smuggling activities that had allegedly caused an estimated loss of INR 25 billion (\$365 million) to the exchequer.

In addition, enforcement authorities discovered that a large proportion of liquor products were not even going inside

some of the warehouses after the barcode scanning process, but were instead being unloaded right at the warehouse gate and transported directly to liquor shops. The liquor was then being sold off as a priority, and the police were even reported to be issuing fake transport permits to ward off excise inspectors.

Then in December 2016, criminal cases involving forged barcodes on bottles of foreign liquor brands were reported. Investigations revealed that the bottles with the original barcodes had been sold many months back, whereas the bottles of liquor with fake barcodes had been purchased more recently.

Layered approach is always better

The layered approach that combines physical with digital security is always better, concluded Chander – a view that is supported by international bodies such as the International Tax Stamp Association and ISO standards such as 16678 and 22382 (the tax stamp standard). ISO 16678 covers the relationship between unique identification and authentication, and recommends that in order to mitigate the risk of duplicated (or cloned) unique identifying codes, an intrinsic, physical security layer can be incorporated into a code as an authentication element. As for ISO 22382, it recommends tax authorities to:

- 'achieve the best protection for a tax stamp by using a combination of specific and layered security features (overt and covert), depending on the configuration and the control to be performed (eg. by consumers or authorities) during the life cycle of the product; and

- 'note that a printed UID not associated with one or more authentication features or not protected against copying or replication cannot provide authentication.'

The success of tax stamps in India comes from their dual role in supply chain monitoring and visual authentication, for both enforcement authorities and consumers, said Chander. However, this dual role needs to be supported by the appropriate organisation and regulation of the Indian liquor trade.

If we do not integrate both digital and non-digital (physical and sensory) authentication methods into our approach, then we risk wasting the major investments that are about to be made in track and trace – including investments in tobacco track and trace, now that India has ratified the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products.

Of course, there are no completely foolproof processes or systems. There are however, complexities within these processes and systems that can deter both professional and not-so-professional counterfeiters. There are always two primary objectives involved: one is to provide, safe, genuine products while protecting the revenue stream of the government, and second, of course, is to be able to catch offenders.

The untenable predilections of the Delhi and Uttar Pradesh state excise departments towards non-secure barcoded labels for track and trace might have helped with regard to short-term gains, but have not yielded benefits in the longer run.

It therefore seems that the lessons have not been learnt yet.