

ILLEGAL TOBACCO TASK FORCE

Public Meeting #56 Minutes

Meeting Date: Tuesday, July 18, 2023

Meeting Time: 1:00 pm

Meeting Location: Via Zoom conferencing, dial (646) 558-8656, Meeting ID# 871 6677 8020, Passcode 576434

Board Attendance: John Hayes (DOR), Lieutenant Colonel Brian Connors (MSP), Jackie Doane (DPH), John Melander (EOPSS), Nicholas Ogden (AGO), and Dan O'Neil (TRE).

Public Attendance: 23 attendees

Call to Order:

- Mr. Hayes called the meeting to order at 1:04 PM.
- Mr. Hayes informed all participants that this meeting will not be recorded by Zoom and that Cole Doherty-Crestin will take notes to complete the minutes, which will be posted to the website.

Opening Remarks:

- Mr. Hayes thanked everyone for attending. Mr. Hayes welcomed Jackie Doane, new board member designee from the Department of Public Health (DPH), and Molly Butler, alternative DPH designee.
- Mr. Hayes indicated the purpose of today's meeting is to review a presentation by SICPA on new technologies related to tobacco marketing and product tracking.

Approval of Minutes from Meeting #55 on May 18, 2023:

- Cole Doherty-Crestin emailed a copy of the minutes for Meeting #55 to Task Force members prior to this meeting. Mr. Hayes asked members if there were any recommended edits to be made and hearing none. Lieutenant Colonel Brian Connors approved the motion. Nicole Nixon seconded. Mr. Hayes stated that with no objection, the minutes were approved and will be posted to Task Force website.

Presentation: Update on New Technologies (SICPA)

- Mr. Hayes introduced Alberto De La Serna, SICPA. Alberto provided an update on new technologies related to tobacco marking and product tracking. The presentation is provided at the end of this document

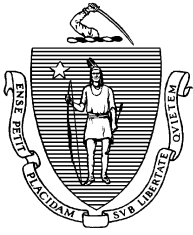
Member Agency Updates & Other Business

- Mr. Hayes provided a brief update on DOR's ENDS disposal process. Mr. Hayes noted that DOR recently completed their first ENDS disposal and the process went smoothly.

Closing Remarks

- Mr. Hayes kindly thanked board members for their attendance. Mr. Hayes asked whether there was a motion to end the meeting. Dan O'Neil approved the motion. Lieutenant Colonel Brian Connors seconded. Mr. Hayes thanked everyone for attending and concluded the meeting at 2:09 PM.

If any member of the public wishing to attend this meeting seeks special accommodations in accordance with the Americans with Disabilities Act, please contact DOR Human Capital Development at 617-626-2355.



The Commonwealth of Massachusetts
Executive Office of Health and Human Services
Department of Public Health
250 Washington Street, Boston, MA 02108-4619

MAURA T. HEALEY
Governor

KIMBERLEY DRISCOLL
Lieutenant Governor

KATHLEEN E. WALSH
Secretary

ROBERT GOLDSTEIN, MD, PhD
Commissioner

Tel: 617-624-6000
www.mass.gov/dph

Geoffrey E. Snyder
Department of Revenue, Commissioner
100 Cambridge Street
Boston, MA 02114

June 21, 2023

Re: DPH Designee to the Illegal Tobacco Task Force

Dear Commissioner Snyder,

Pursuant to the provisions of Mass. Gen. Laws ch. 64C, sec. 40, I, Robert Goldstein, Commissioner of the Massachusetts Department of Public Health, hereby designate Jacqueline Doane to serve as a designee to the Illegal Tobacco Task Force. Molly Butler will serve as alternate.

This designation takes effect immediately.

Sincerely,

A handwritten signature in black ink, appearing to be "R. Goldstein".

Robert Goldstein
Commissioner



SICPA

The image features the acronym 'SICPA' in a white, serif font, centered on a dark blue background. Behind the text is a large, semi-transparent watermark of the letters 'SA' in a stylized, serif font, which is a common logo for the Society for International Certified Public Accountants.

MASSACHUSETTS

Illegal Tobacco Task Force

Alberto De La Serna
Account Executive
SICPA
July 18, 2023



Enabling trust

AGENDA

Supporting Task Force Mission: Combating Contraband Tobacco and Ensuring Compliance

- I. Introduction and Supporting Task Force Mission
- II. Challenges in Combating Contraband Tobacco
- III. Leveraging New Marking Technologies for tobacco
- IV. Modern Enforcement Tools
- V. Leveraging Tobacco Data Management Platform
- VI. Coordinating Efforts and Collaboration
- VII. Conclusion



I. INTRODUCTION AND SUPPORTING TASK FORCE MISSION

INTRODUCTION AND SUPPORTING TASK FORCE MISSION

Mission “*Combating Contraband Tobacco and Ensuring Compliance*”

The Task force empowers:

- sharing information and resource across agencies to maximize enforcement efforts
- coordinating efforts multi-agency actions against illicit trade
- Carrying out Effective enforcement and investigative strategies
- Identifying where illegal tobacco is prevalent and target investigations
- Assessing existing investigative and enforcement methods and improve those methods
- Soliciting cooperation to other enforcement agencies and prosecuting authorities



II. CHALLENGES IN COMBATING CONTRABAND TOBACCO

II. Challenges in Combating Contraband Tobacco

Massachusetts “An Act Modernizing Tobacco Control” ban sale of flavored tobacco products and 75% increase on excise tax of ENDS impact to the Task Force:

- Multi –Agency expansion of scope of investigations and law enforcement efforts
- Increased incentive for illicit tobacco trade from neighboring low tax states
 - Illicit sale of banned flavored tobacco
 - Low tax products traffic across border states
- New License requirements for ENDS retailers
 - Increment the number of inspection targets

MASSACHUSETTS TOBACCO TAX RATES

- Massachusetts is ranked 6th in the U.S. for its cigarette tax of \$3.51 per pack
- Cigars and smoking tobacco are subject to a state excise tax of 40% of the wholesale price
- Smokeless tobacco is subject to a 210% state excise of the wholesale price.
- ENDS is subject to 75% wholesale price



TAX RATES COMPARISON MASSACHUSETTS NEIGHBORING STATES

Tobacco Category	PA	NY	VT	RI	NH	CT	ME	MA
Cigarette Tax	\$2.60	\$4.35	\$3.08	\$4.25	\$1.78	\$4.35	\$2.00	\$3.51
Snuff Chewing & Other	55¢/oz	200¢/oz	257¢/oz. or 308¢/pack if less than 1.2oz.	100¢/oz	65.03% w/s price	300¢/oz	202¢/oz. (with min. tax)	210% w/s price
Smokeless Tobacco	55¢/oz	75% w/s price	92% w/s price	80% w/s price	65.03% w/s price	50% w/s price	202¢/oz	210% w/s price
Smoking Tobacco RYO	55¢/oz	75% w/s price	92% w/s price	80% w/s price	65.03% w/s price	50% w/s price	43% w/s price	40% w/s price
Cigar Tax	\$2.60 (LC)	75% w/s price	92% w/s price for <\$2.17; \$2 per cigar for >\$2.17 to <\$10; \$4 per cigar for ≥ \$10; LC	80% w/s price, 50¢ cap; LC	65.03% w/s price (not premium); LC	50% w/s price, 50¢ cap; LC	43% w/s price	40% w/s price; LC
E-Cigs Wholesale Price (ENDS & Vapes)	40% w/s price	20% RP	92% w/s price	No Tax	Open: 8% w/s price; Closed: 30¢/mL	Closed system: 40¢/mL Open: 10% w/s price	43% w/s price	75% w/s price

Source: <https://www.tobaccofreekids.org/assets/factsheets/0169.pdf>

ESTIMATED TAX RATES COMPARISON E-CIGS AND VAPES

States tobacco tax policies and tax rates on e-cigs and ENDS vary widely. ENDS taxes aim to achieve parity with taxes on cigarettes. The table below is an example of Estimated Tax on Selected E-cigarettes, Based on Cigarette-Parity Ad Valorem Rates. The extract of the table below¹ illustrates potential tax differentials compared to Massachusetts neighboring states.

E-Cig Category	PA	NY	VT	NH	CT	ME	MA
JUUL Pods, 4 pack	\$10.15	\$9.73	\$7.61	\$4.78	\$10.61	\$5.21	\$8.08
Blu Disposable E-Cigarette	\$5.07	\$4.86	\$3.80	\$2.39	\$5.30	\$2.60	\$4.04
Blu Plus+ Tank, with 3 Cartridges	\$9.52	\$9.12	\$7.14	\$4.49	\$9.95	\$4.89	\$7.58
E-Liquid, 30 ml	\$6.83	\$6.54	\$5.12	\$3.22	\$7.14	\$3.50	\$5.43

¹Source: "Taxation of Emerging Tobacco Products: 2022 Update" Frank J. Chaloupka, Table-15, page 41

CHALLENGES FIGHTING ILLICIT ACTIVITY & INCOMPLIANCE INCENTIVES

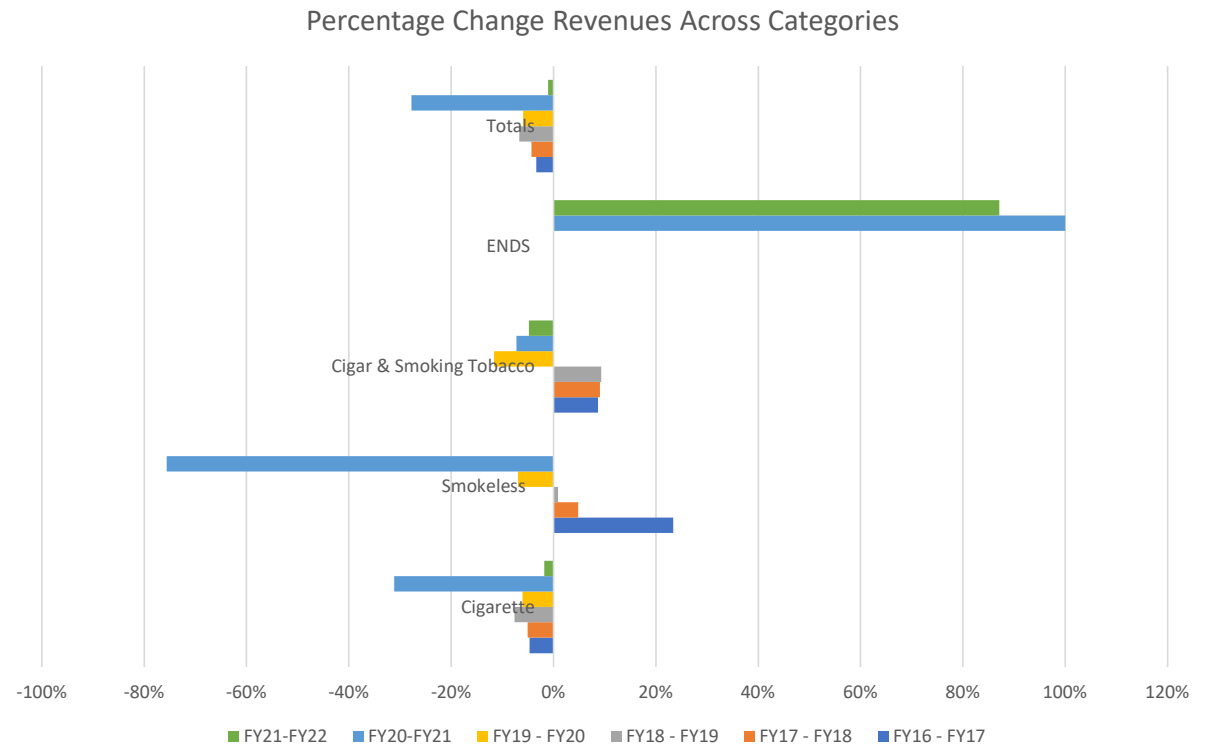
“Commonwealth’s high tax rates on OTP relative to other states provide smugglers an incentive to import such products from low-tax states and sell them to in-state buyers willing to illegally evade payment of the applicable Massachusetts tobacco excise.¹”

- All tobacco trafficking schemes, regardless of method, depend upon tax avoidance
- Current incentives for tax avoidance
 - Higher profit margins for the sale of an illicit pack of cigarettes, OTP, CIGARS ENDS
 - Consumer willingness to buy at lower price and banned flavor flavored products
 - Flavored ENDS products and cigars purchased from unlicensed distributors across state borders

¹Source Annual Report of Multi-Agency Illegal Tobacco Task Force, Feb. 28, 2023, page 8

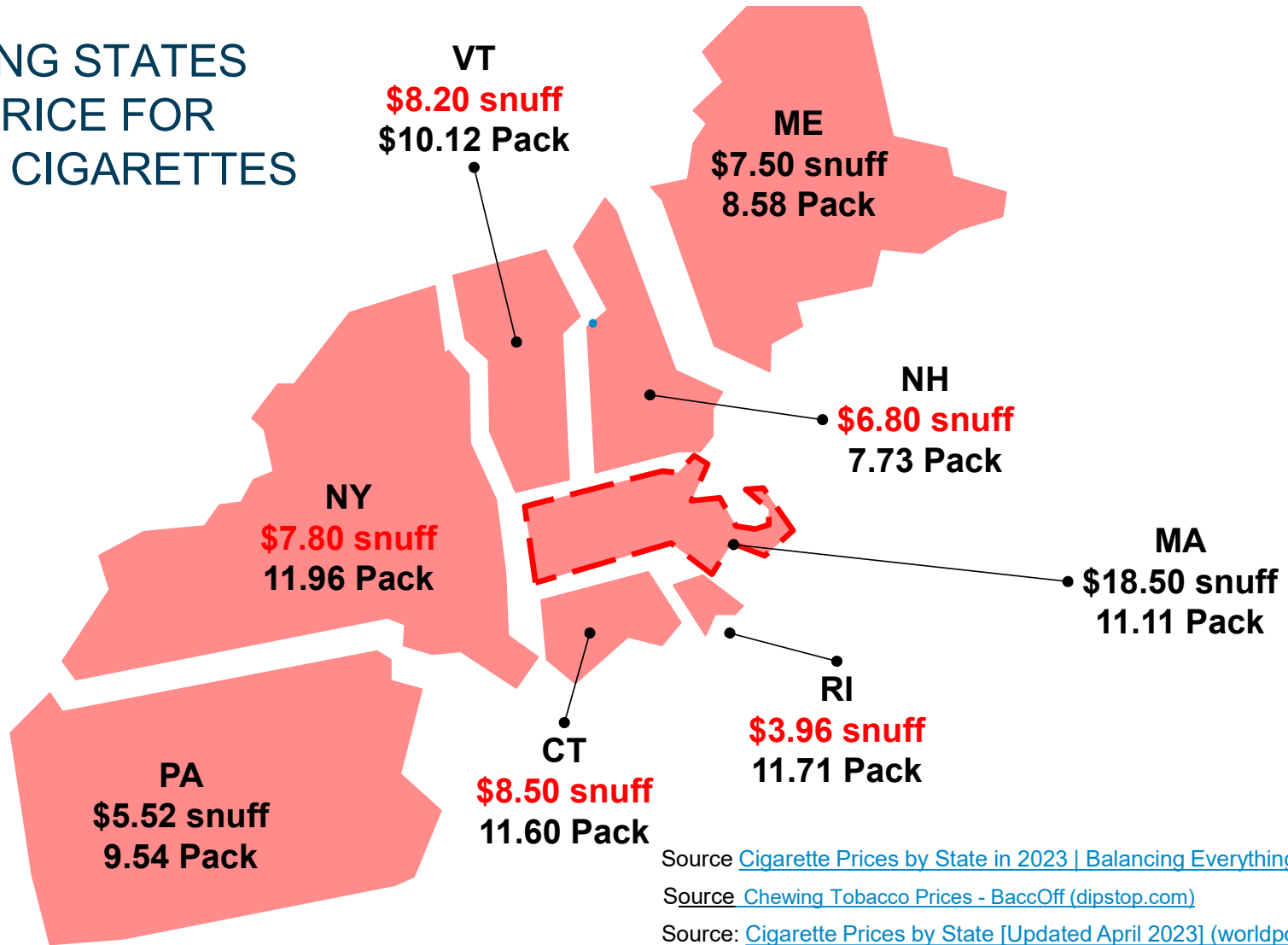
IMPACT TO EXCISE TAX COLLECTION REVENUES

- FY21 cigarettes and smokeless categories shows significant decrease on revenue
- FY21 and FY22 ENDS show revenue decrease pattern



¹Source Annual Report of Multi-Agency Illegal Tobacco Task Force, Feb. 28, 2023, page 5 Figure -1

NEIGHBORING STATES AVERAGE PRICE FOR SNUFF AND CIGARETTES



Source [Cigarette Prices by State in 2023 | Balancing Everything](#)

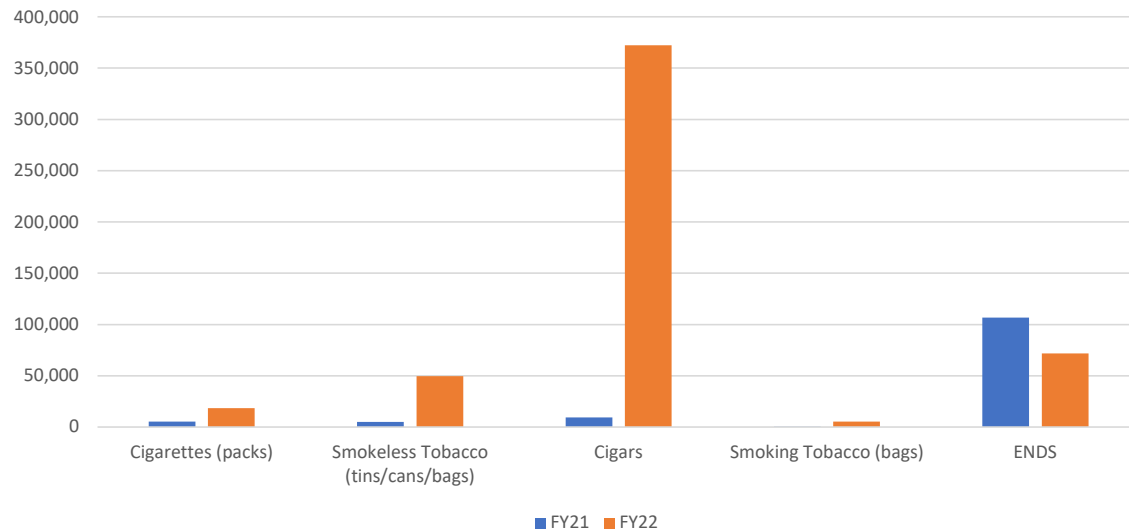
Source [Chewing Tobacco Prices - BaccOff \(dipstop.com\)](#)

Source: [Cigarette Prices by State \[Updated April 2023\] \(worldpopulationreview.com\)](#)

TASK FORCE ACTIVITIES BY THE NUMBERS

Licensed Massachusetts Cigarette retailers	6863
Licensed ENDS retailers and distributors	4070
Licensed Massachusetts cigar retailers and distributors	6258
Cigarette wholesaler/stamper license list	83

Task Force Seizures FY21 FY23



Enforcement actions revealed that:

- High rate of smuggling activity involving OTP
- Task Force identified the cross-border smuggling of untaxed flavored ENDS products, cigars, and menthol cigarettes as the primary challenge for tobacco enforcement in the Commonwealth.

Source [DOR Cigarette, Tobacco and Vaping Excise Tax | Mass.gov](https://www.mass.gov/info-details/dor-cigarette-tobacco-and-vaping-excise-tax)



III. LEVERAGING NEW MARKING TECHNOLOGIES FOR TOBACCO AND OTP

III. LEVERAGING NEW MARKING TECHNOLOGIES FOR TOBACCO AND OTP TO ENHANCE ENFORCEMENT

- Digital and encrypted tax stamps
- Benefits and advantages of digital inspection tools
- Impact of enhanced enforcement tools

PROPERTIES OF MARKING TECHNOLOGIES



REAL-TIME



SECURE



EVENT DRIVEN



CLOUD-HOSTED



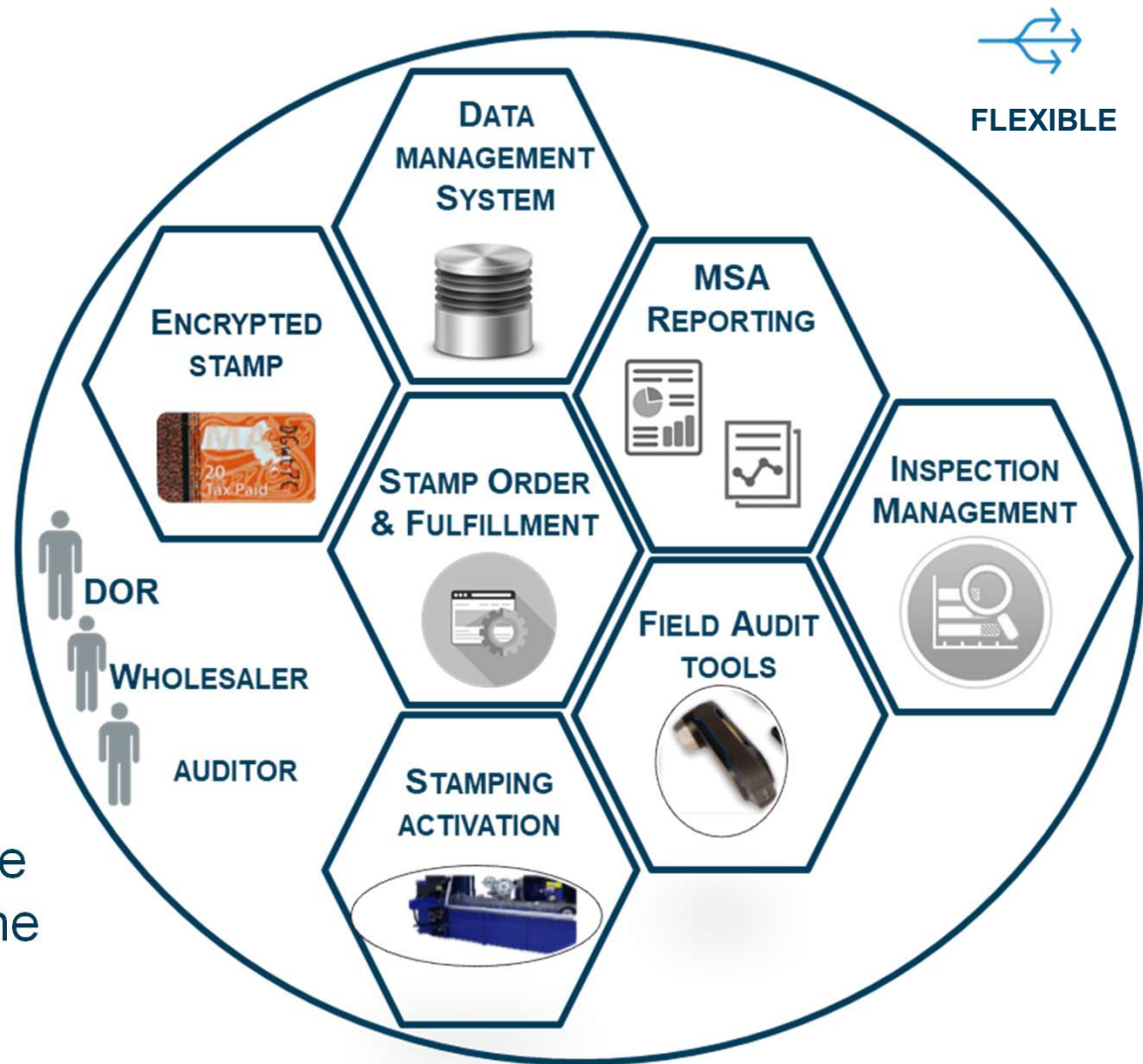
COMPREHENSIVE



FLEXIBLE

MA DOR SICPATRACE® TODAY

- Proven technology platform for tracking and tracing
- Modular Components
- Includes both material- and information-based security
- Provides ‘Diligent Enforcement’ Capabilities for MSA
- Provides Task Force with complete ownership of data generated by the Platform



DIGITAL/ENCRYPTED STAMP AND INFORMATION SECURITY



Secure Adhesive Stamps

AUGMENTING CONTEXT TO INSPECTIONS

- ✓ Visual Anti-counterfeit **proof of tax paid**
- ✓ Scannable Digital/encrypted code
- ✓ UPC product brand confirmation
- ✓ Stamper/Distributor information
- ✓ Mobile App and Location capture
- ✓ Data reporting and information sharing
- ✓ OTP, VAPE, ENDS reporting

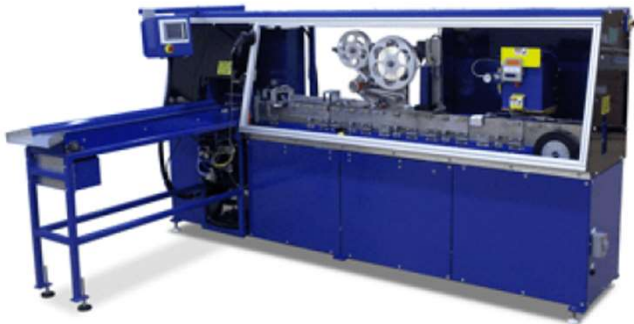
Stamps enable immediate visual differentiation of legitimate products from illicit and counterfeit products

TECHNOLOGIES THAT SUPPORT STAMP ACTIVATION AND AUTOMATION



REAL-TIME

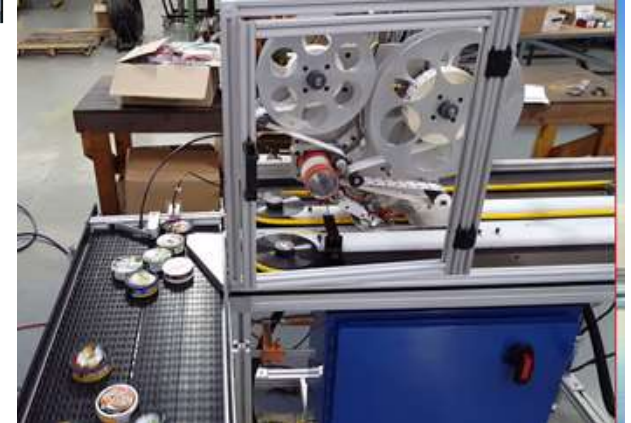
MA Cigarette Program stamp activation



Future state for OTP & VAPE stamp application and activation



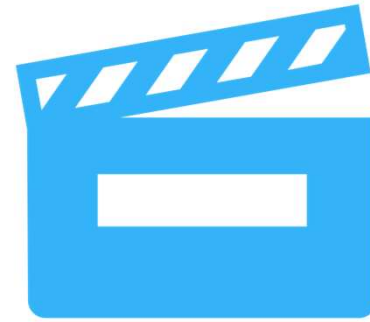
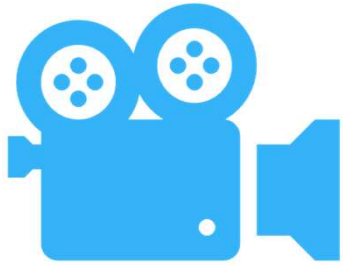
Confirmed technical feasibility of applying stamps to moist snuff tins and vapes



Equipment is available to the market



SEE VIDEOS



MANUAL STAMPING ACTIVATION FOR LOW VOLUMES PRODUCTS





III. MODERN ENFORCEMENT TOOLS

MODERN ENFORCEMENT TOOLS



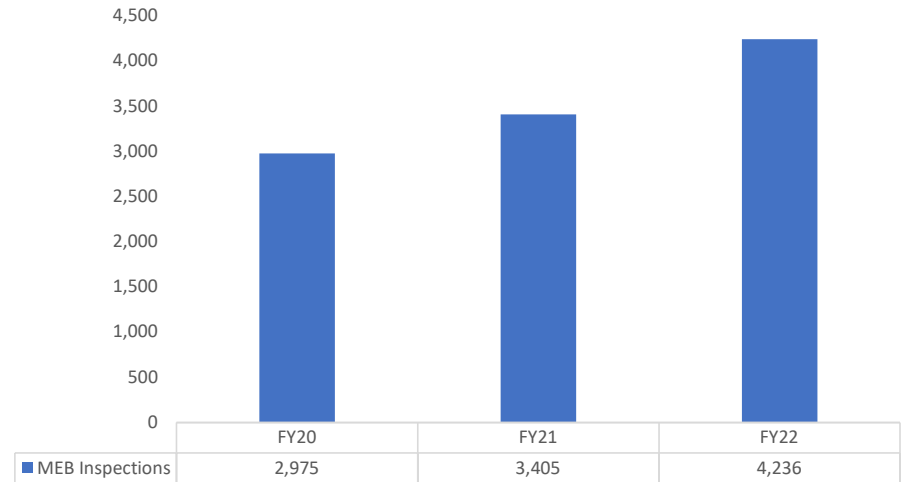
EVENT DRIVEN

- Tax stamp are a secure vehicle of information
- Visual inspection + access to information secure information
- Leveraging existing inspection tools and adding new methods for field inspections
- Added context of Vape, OTP, ENDS inspections with mobile tools and reports

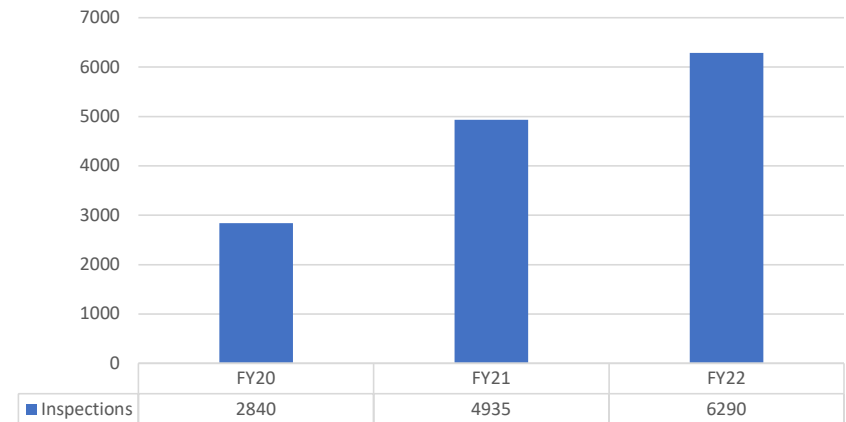
DOR INSPECTIONS

- MEB had 20% increase FY22 compared to FY21
- LBHO had 22% increase FY22 compared to FY21
- Task Force can quantify the efficiencies of modern inspection tools based on time savings for visual identification and scanning of OTP, Vape, and ENDS products

DOR Tobacco Inspections



LBOH Tobacco Inspections



ELECTRONIC VERIFICATION TRACK AND TRACE

- Overview

- Validation of stamps observed in the field
- Ability to access product data using mobile field tool
- Capture of stamp scanning into SICPATRACE®

- Value

- Builds on existing tax stamp verification tools currently supplied by SICPA to MA DOR
- Cross-reference of retailer invoices to stamp origination
- Ensure tax compliance and products are authorized for sale in the Commonwealth





IV. Data Management Platform

DATA MANAGEMENT PLATFORM

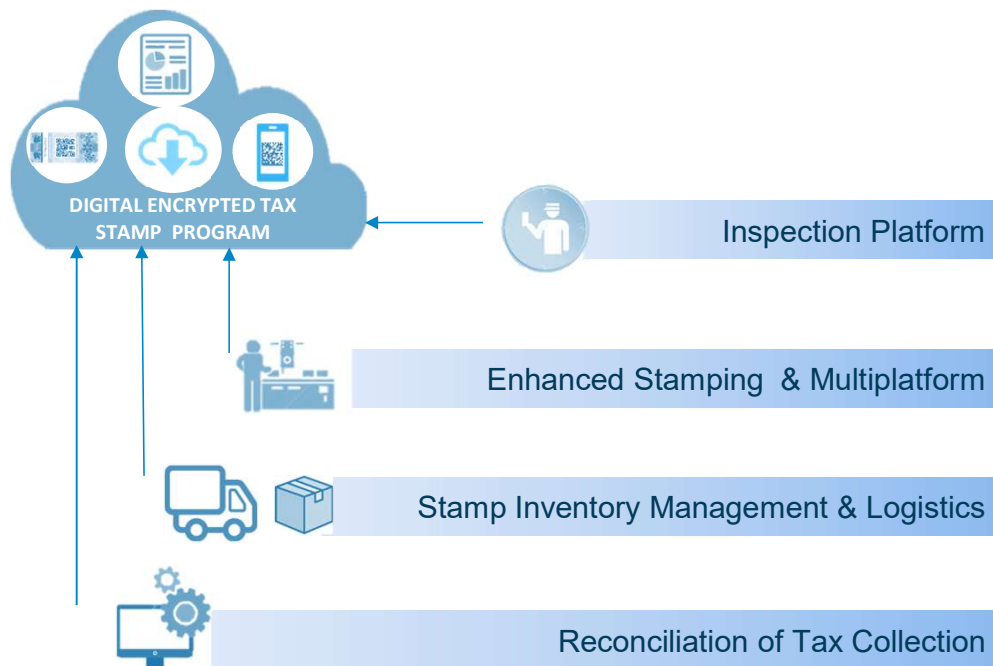
Overview

- Tax stamp program captures orders, movement, events and audit
- Information captured in reports can be exported and shared
- Tobacco, OTP, Vape product directory management
- Product activation including sites, dates, and locations
- Site inspections enable stamp scanning for tracking and tracing

Value

- Task Force has immediate access information in the field
- DOR can add remove products out of directory and detect banned/unauthorized products
- Data for inspection reports support targeted investigations
- Visual Inspections augment site inspections and invoice product matching

DIGITAL/ENCRYPTED TAX STAMP PROGRAM ENHANCEMENTS

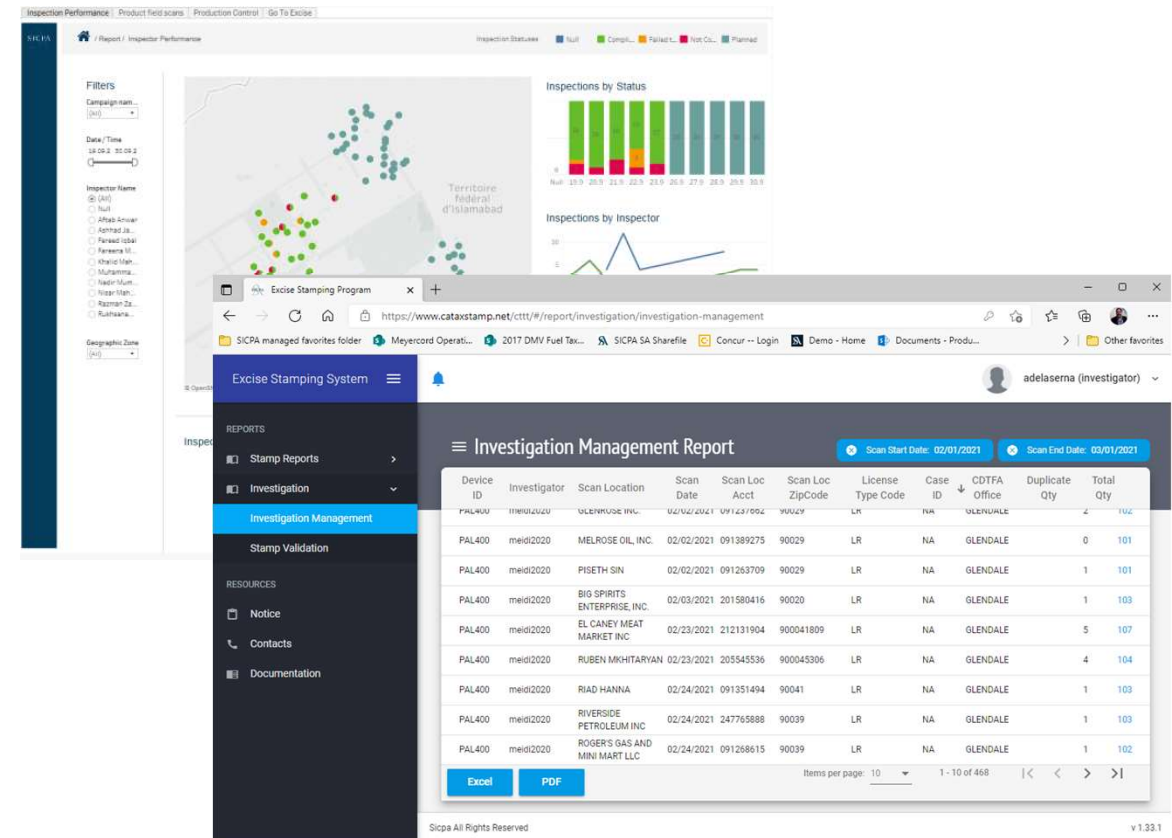


BENEFIT OF PROGRAM ENHANCEMENTS

- ✓ Task force actions based on data
- ✓ Reports on trends based on activation
- ✓ Management product directory
- ✓ Inspection data for targeted investigations
- ✓ Information sharing across organizations

LEVERAGING INSPECTION DATA AND REPORTING

- Web access to data reporting
- Ease of information share
- Inspection augmentation for Vapes and OTP (Mobile Tools & reporting)
- Visual product identification Serialization of VAPES and OTP
- Product activation for Vape and OTP manufacturer and brand
- \$\$ Amount of excise tax estimates
- Managed Data Management of VAPE and OTP product directory online



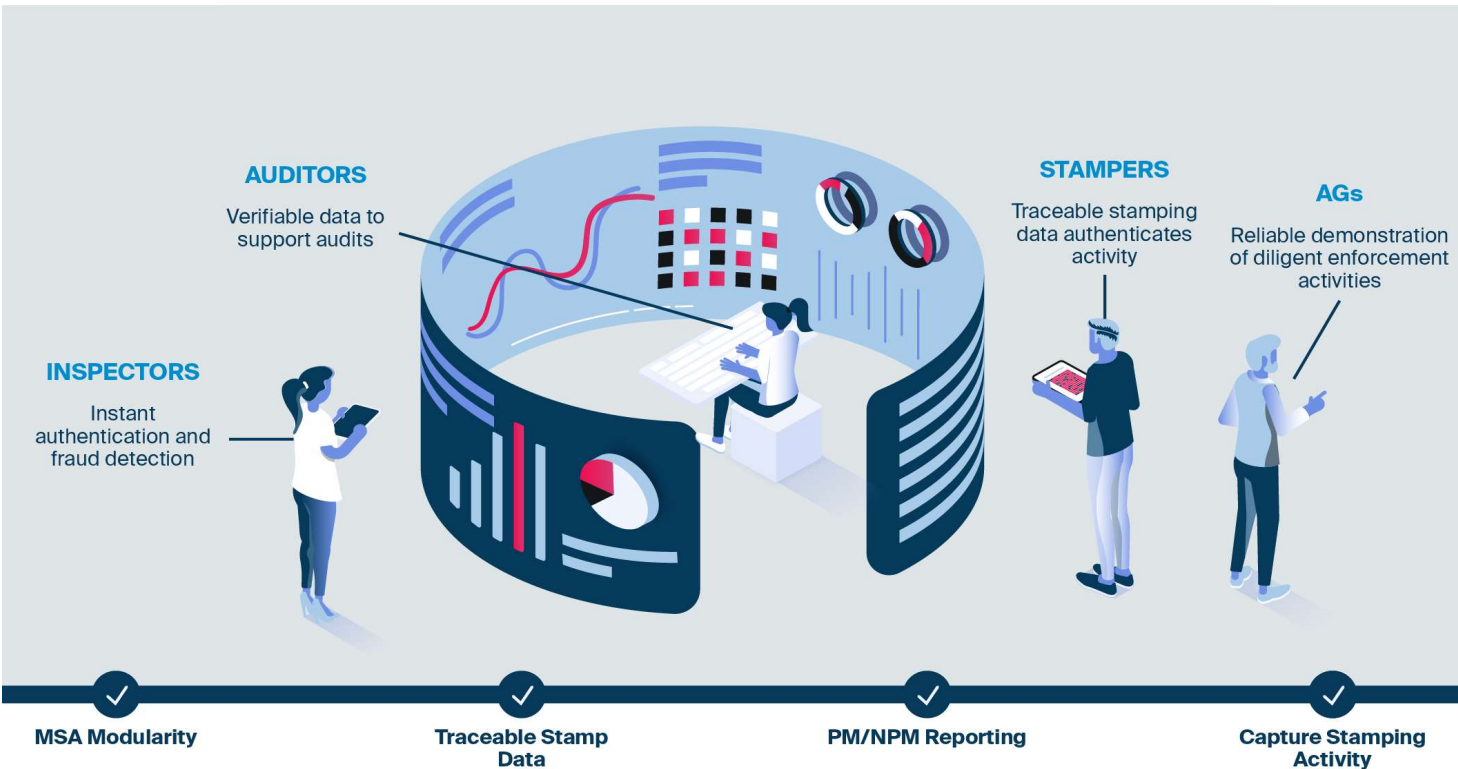


V. Coordinated Efforts and Collaboration

COORDINATED EFFORTS AND COLLABORATION



COMPREHENSIVE



- ✓ Information share
- ✓ Identification of trends
- ✓ Data support for audit
- ✓ Inter-agency collaboration
- ✓ Targeted investigations



VII. CONCLUSION

EXPANSION OF DIGITAL ENCRYPTED TECHNOLOGIES FOR TASK FORCE

Available Technological Capabilities	Benefits
Anti-counterfeit Stamps	Enables marking and serialization OTP, VAPE, and ENDS for visual identification of tax paid products
Scannable encrypted code	Supports effective enforcement and investigative strategies with immediate access to information
Stamp activation and UPC directory match	Incentivizes automation for licensees for compliance and transparency for stamping approved tobacco products for distribution and retail
Mobile data tools for locations and retailer capture	Supports identification where illegal tobacco is prevalent and target investigations
Automated data management (DMS) and reports	Enables sharing information and resource across agencies to maximize enforcement efforts
Access to DMS Trace products back to distributor	Supports carrying out Effective enforcement and investigative strategies
User role-based access to Track and Trace Data	Enables coordinating efforts multi-agency actions against illicit trade

QUESTIONS?



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THANK YOU
FOR YOUR ATTENTION



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SICPA