

## **Illegal Tobacco Task Force**

### **Notice of Public Meeting**

**Meeting Date:** Thursday, April 6<sup>th</sup>, 2017

**Meeting Time:** 10:30 AM

**Meeting Location:** 100 Cambridge Street, 2<sup>nd</sup> Floor, Room A, Boston, MA

Members will discuss stamping of smokeless tobacco products and will hear a presentation from SICPA regarding the status of stamping machine technology and a timeline for testing and deploying machines to stamp smokeless tobacco products.

- A. Opening Remarks/Approval of Last Meeting Minutes
- B. Housekeeping Items/Member Updates
- C. Legislative Update
- D. SICPA Presentation
- E. Upcoming Meetings
- F. Wrap Up/Closing Comments

*Due to security at the Saltonstall Building, those interested in attending the meeting should allow for additional time to check-in.*

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

Date of Posting: April 4, 2017 @ 9:00am

# Illegal Tobacco Task Force Minutes

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**Meeting Date:** February 28, 2017

**Meeting Time:** 10:30am

**Meeting Location:** 100 Cambridge Street, 2<sup>nd</sup> Floor, Conference Room A

**Board Members Present:** Kajal Chattopadhyay (Co-Chair), Capt. Steve Fennessy (Co-Chair), David Solet, Shawn Collins, Tom Bocian, Christy Fedor, Patti Henley

**Others:** Paul Caron, Scott Delaney, Molly Slingerland, Peter French, Paul D'Amore, Bensen Solivan, Marc Hymovitz, Lisa Dell'Anno, Ellen Tansey, Josh Brabazon, Charles Giblin, Molly Parks, Alex Finkel, Brenda McConville, John Donohue, Scott Cliff, Blanca Lo, Evan Garcia, Julie Flynn.

## **Call to Order:**

- Mr. Chattopadhyay called the meeting to order at 10:39am, and gave a quick recap of the previous meeting and a preview of today's meeting.
- Presentations by the New Jersey Department of Treasury and DOR and were on the agenda, according to Mr. Chattopadhyay, along with the discussions and votes on both the Annual Report to the Legislature and stamping smokeless tobacco products.
- Task Force members were then called by Mr. Chattopadhyay to review the previous meeting minutes.
  - Mr. Solet made a motion to accept the minutes; it was seconded by Capt. Fennessy. The meeting minutes were approved unanimously.

## **Discussion/Vote – Legislative Report:**

- Mr. Chattopadhyay opened discussion on the annual legislative report, due Mar. 1, 2017. Earlier edits were made to the document based on submissions from the Task Force. He indicated that the report is intended to be a high level overview of the work the Task Force has been doing.
- Ms. Henley stated that she had a few concerns with the revenue loss figures contained in the report and how people would cite the information.
- Mr. D'Amore from the State Police explained the basis for the estimates and stressed that the figures were cumulative of several years of revenue loss, which was stated in the text of the report.
- Several other grammatical and technical suggestions were offered by Task Force members. Mr. Chattopadhyay incorporated the changes, and moved to take a vote on the report as revised.
- A roll call vote of all the agencies was taken and the report was unanimously approved.

## **Discussion/Vote – Smokeless Tobacco Stamping:**

- Mr. Chattopadhyay posed a question for the Task Force to vote on. Specifically, the question presented was whether the Task Force should continue to investigate the possibility of stamping smokeless tobacco products.
- Each individual member agency's vote was counted by a roll call:
  - DPH, EOPSS, State Police, Treasury, AGO and DOR – unanimous approval.

#### **New Jersey Buy Back Presentation – Charles Giblin**

- Mr. Chattopadhyay introduced Mr. Giblin of the New Jersey Dept. of Treasury's Office of Criminal Investigation.
- Mr. Giblin was invited to speak about New Jersey's approach to handling seized contraband and to share experiences with New Jersey's buyback program for seized contraband tobacco.
- As a sworn law enforcement officer, Mr. Giblin outlined his unit's work with the Attorney General's office in NJ and how they conducted their buyback program as authorized by statute.
- According to Mr. Giblin, his team seized any unstamped product and any product that was not compliant with the Master Settlement Agreement. Any international product that was seized was not sold – it was destroyed. The NJ Dept. of Treasury operated a two-story warehouse facility and auctioned product was sold back to manufacturers.
- The buyback program operated for several years, but then was discontinued because officials determined that the prices manufacturers offered to pay to buy back product was insufficient.
- Mr. D'Amore highlighted the importance of storage facilities and the manpower it takes to run them. But he noted the high cost to build and maintain such a facility.

#### **DOR Enforcement Presentation – Evan Garcia**

- Mr. Chattopadhyay introduced Evan Garcia from DOR's Miscellaneous Excise Unit, which oversees the tobacco field inspection unit.
- Ms. Garcia, accompanied by several of her field inspection agents, gave a high level overview of what happens during their field inspections, the software they use and also the hurdles they face operating with a small unit.
- She described two types of inspections performed – standard field inspections and quarterly cigarette drives. The cigarette drives draw upon examiners from other units to supplement the work of the tobacco field inspectors and cover as many tobacco retail locations as possible.
- A big concern outlined by Ms. Garcia and her team was OTP enforcement. Since OTP is not stamped (unlike cigarettes), examiners must request and review OTP invoices to verify tax was paid. Inspector Lo indicated that retailers often do not have records on premises and, while inspectors ask retailers to send documentation to DOR offices, retailers often do not comply.
- Mr. Giblin from NJ agreed that stricter OTP enforcement is required and that stamping smokeless tobacco products would significantly improve enforcement capabilities.

#### **Other Business:**

- Mr. Chattopadhyay scheduled the next meeting for Apr. 6, 2017. Meeting adjourned at 12:03pm



SICPA

# MASSACHUSETTS EXPANDING SICPATRACE® INTO OTP

Presentation to: MA DOR – Illegal Tobacco  
Task Force

Presented by: Alex Finkel

Title/Department: COO

Company: SICPA

Date: April 6, 2017

Confidentiality level: **CONFIDENTIAL**



Enabling trust

# AGENDA

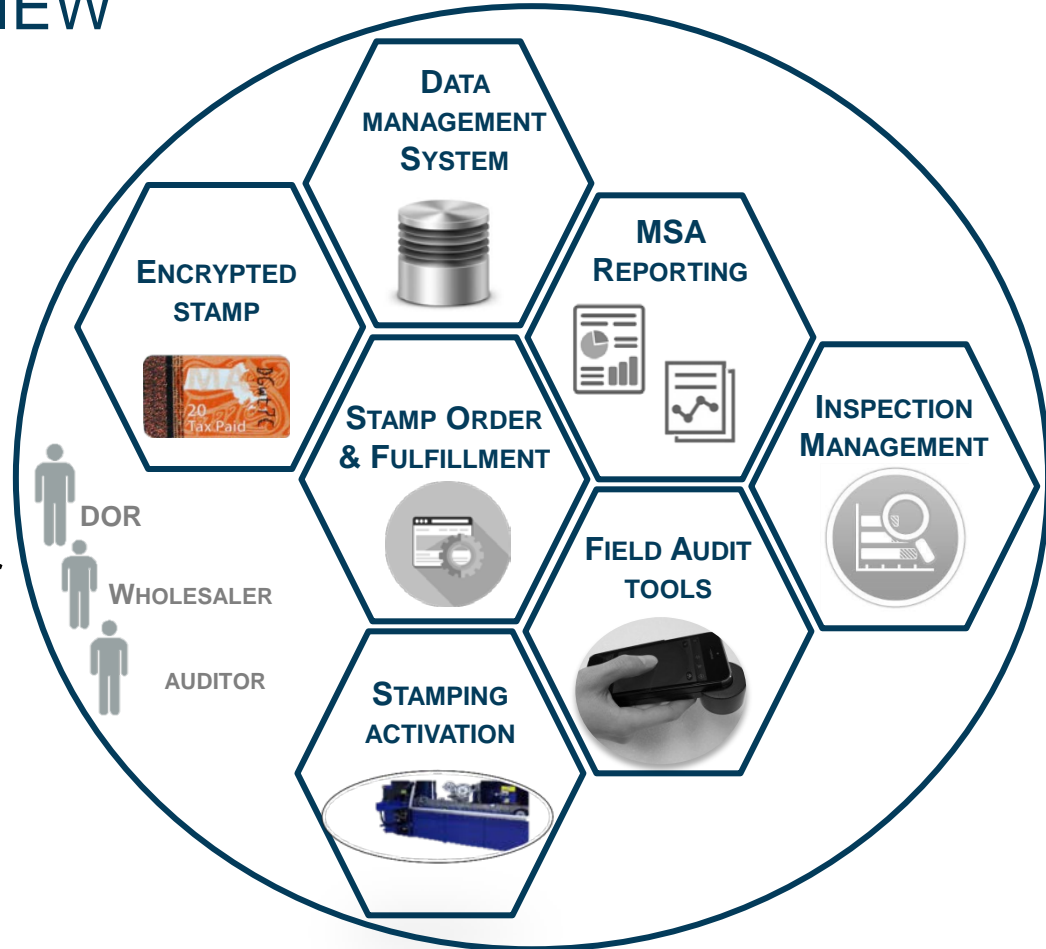
- 1. Overview of MA Tax Stamping Program**
- 2. Enhancing Through OTP Stamping**
- 3. OTP Stamping Implementation Plan**
- 4. Benefits & Next Steps**



## I. OVERVIEW OF MA TAX STAMPING PROGRAM

# SICPATRACE® - OVERVIEW

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



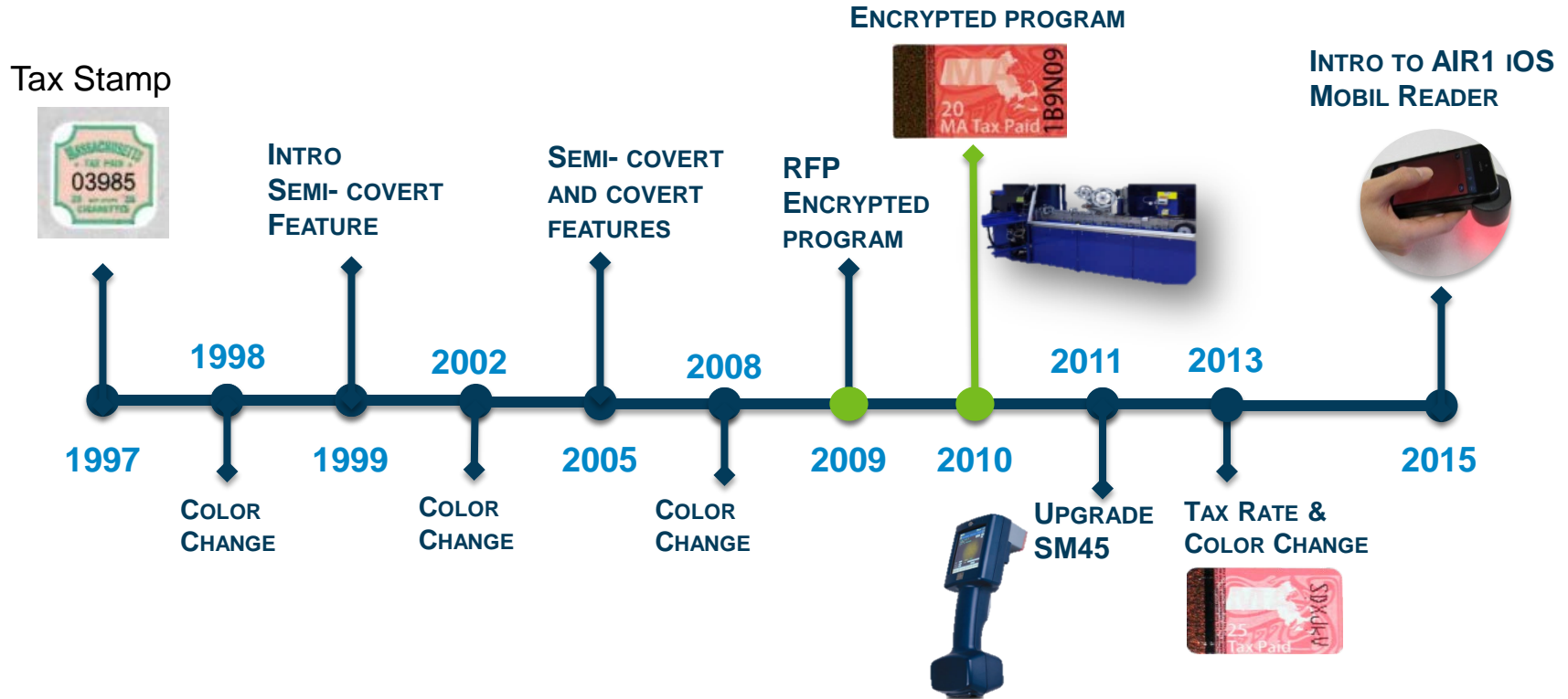


# SICPATRACE® IN MASSACHUSETTS

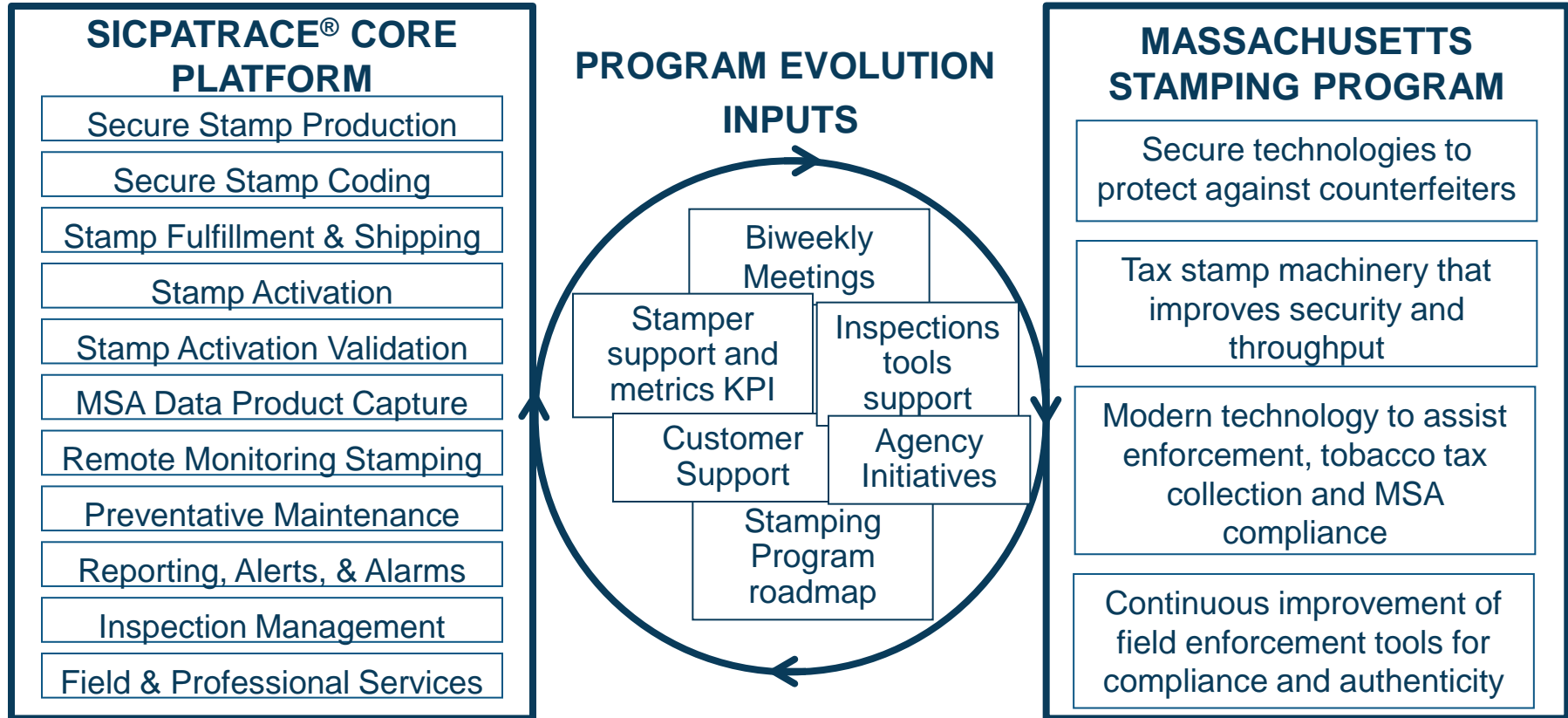
- Feb. 2010: MA DOR awarded SICPA a contract for the implementation of a State Tax Revenue Collection Platform
- The Encrypted Cigarette Excise Stamp Program distributes and tracks 180 million tax packs of cigarettes per year.
- Each stamp leverages self-adhesive stamps carrying overt, semi-covert, covert and forensic security features
- System enables validation of distributor names, date of stamp application, brand variance and other fields
- United Silicone is SICPA's machine partner for the development, implementation and servicing of all High Volume Stamping Machines



# HISTORY OF THE MA TAX STAMPING PROGRAM



# SICPA COMMITMENT TO CONTINUOUS IMPROVEMENTS



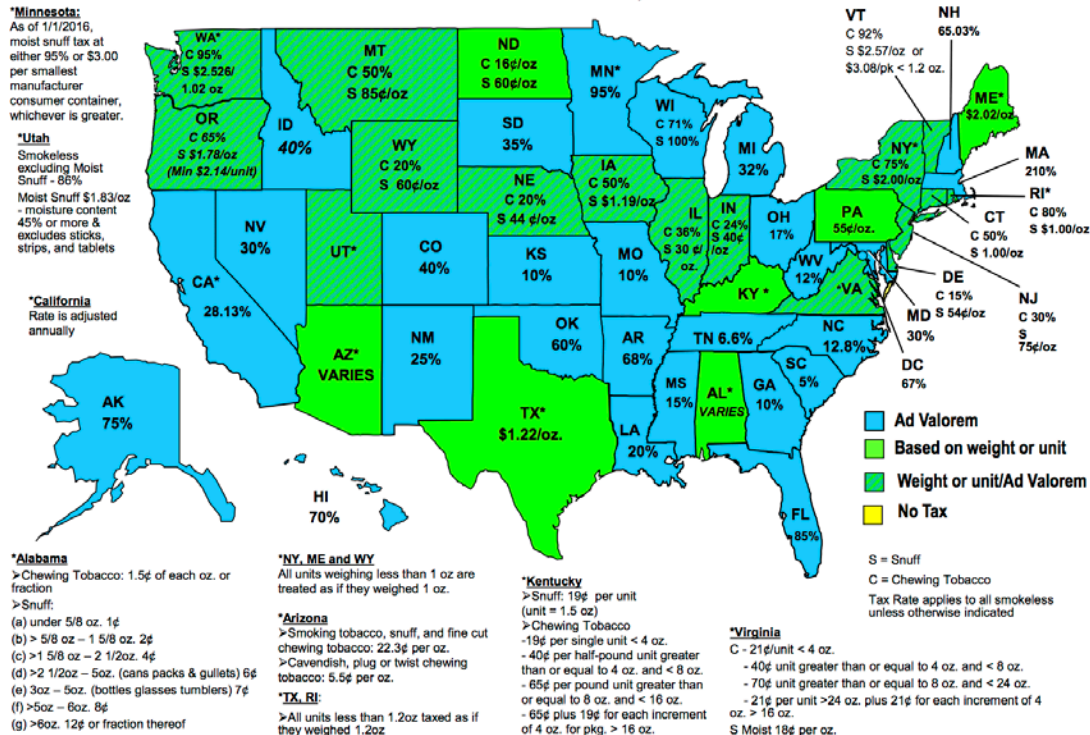


## II. ENHANCING THROUGH OTP STAMPING

# OTP TAX CHALLENGES

## State Excise Taxes on Smokeless Tobacco

*Rates in effect as of Oct. 1, 2016*



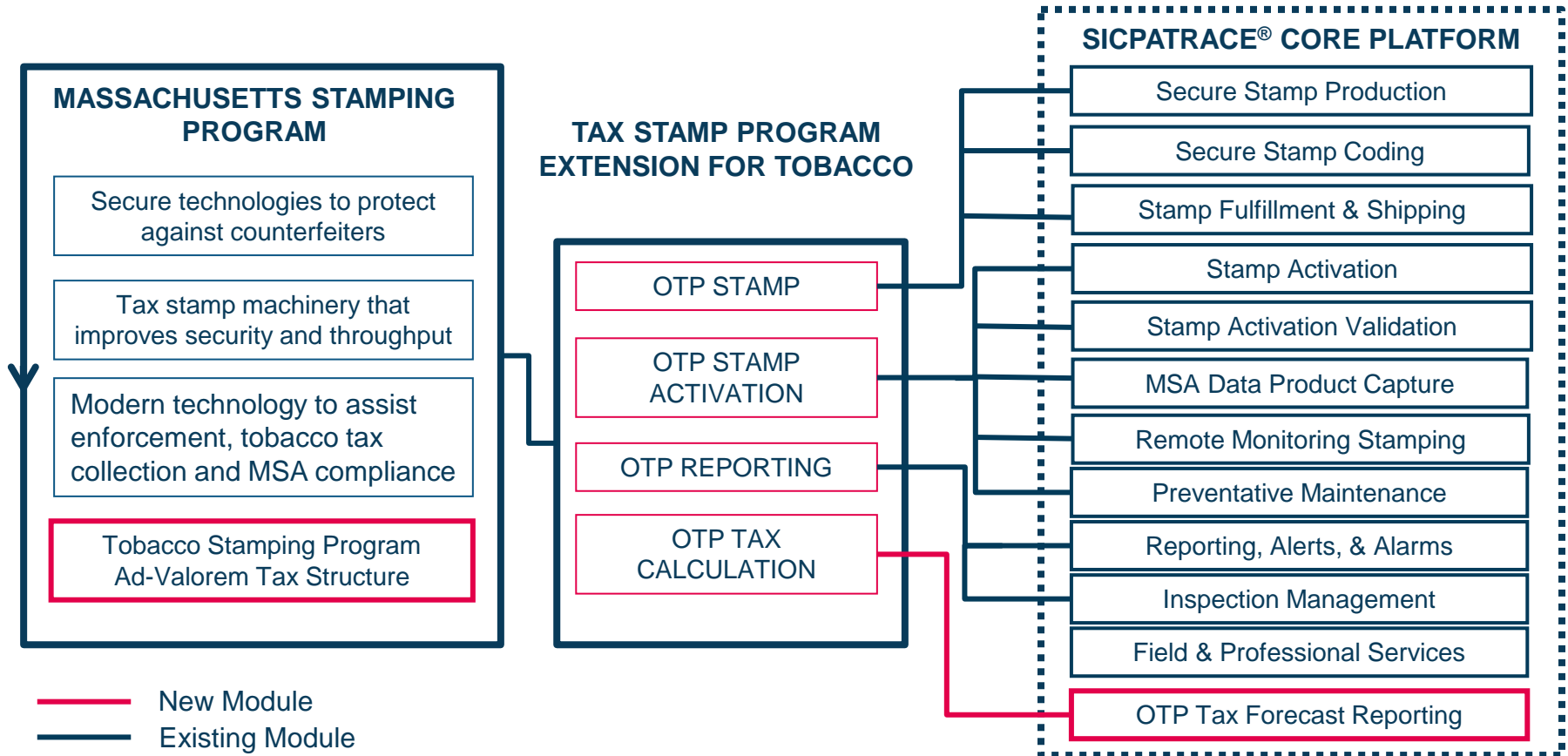
<http://www.natocentral.org/tobacco-tax-maps>

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## Even wider variation in OTP tax rates:

- MA has a flat 210% tax rate on top of wholesale price, NY has a 75% tax on chewing tobacco and a \$2/oz tax on snuff and PA has a flat \$0.55/oz OTP tax - All 3 are neighboring states

# SICPA TAX STAMP PROGRAM: OTP EXTENSION



# INTRODUCTION OTP STAMP

STAMP

BENEFITS

## OTP STAMP PROPOSAL



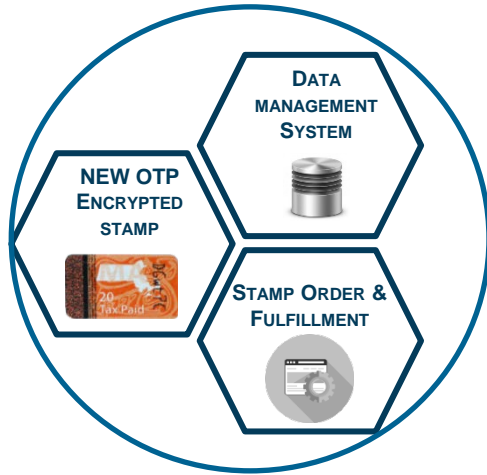
### Advantages

- Non-denominational for variable tax rate retrieval
- Covert code compatible with existing SICPADATA™
- Consistent security features for various stakeholders

### Security Features

- **Overt/Semi-Covert** – Color shifting ink, dual polarizing
- **Covert** – SICPADATA™
- **Tamper Evidence** – Surface
- **Unique Stamp ID** – Visible unique number

# OTP STAMPING PROGRAM: Data Management System



## New Encrypted OTP Stamp

- New Stamp Design
  - New Code Type
  - New Roll Type

## Registering Tobacco Wholesalers

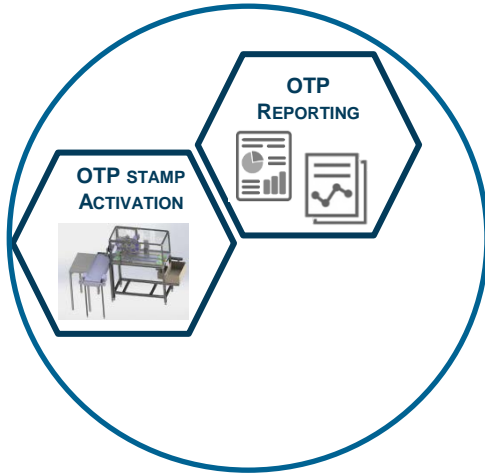
- New licensees access MA DOR web portal to order OTP stamps
  - Stamp order fulfillment training

## New Tobacco Product Directory and Tax Rates

- OTP Product Directory
  - Rules and tax rate calculations



# OTP STAMPING PROGRAM: Stamping and Reporting



## High Volume Stamping Machine (new device)

- Transports pucks of, varying dimensions, across at 80 pucks per min
- Product Registration
- Encrypted stamp application and activation to product
  - Capture and store product registration
  - Capture and store stamp data
  - Merge product registration and Stamp data to create unique data packets
- Deposit stamped pucks into a collection device/bin

## Low Volume Stamp Application (leverages current install base)

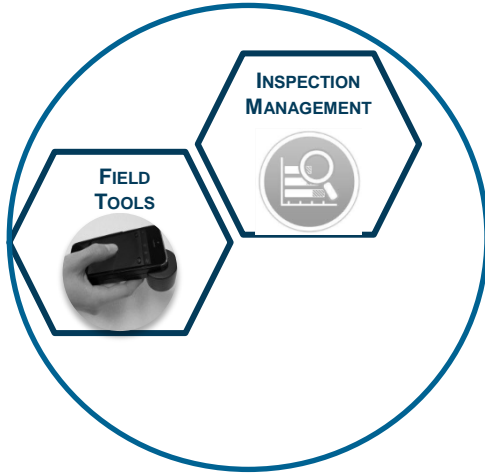
- OTP software client application
- OTP modified activation workflow



## Tax Rate Calculation and Forecasting

- Tobacco Product Directory and tax rates tables
- Algorithm to determine Variable tax rate

# OTP STAMPING PROGRAM: Field Auditing



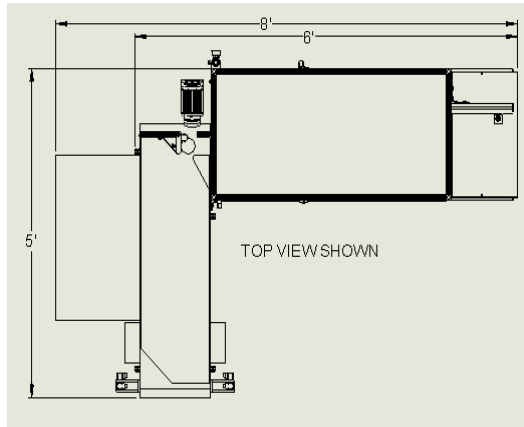
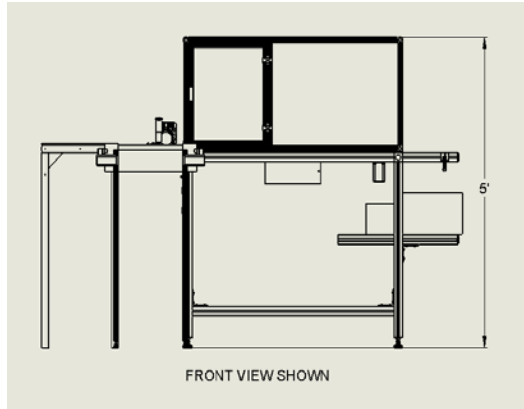
## Auditing through SICPA Air1®

- Single Inspection Platform for both cigarettes and OTP
  - Ability to identify illicit product
  - Validate genuine product
  - Validate retail licenses
  - Report price discrepancy
  - Online synchronization with data management system
- While some OTP information is already being captured by field enforcement, application changes to capture OTP stamp information required

## Inspector Management

- Capture all OTP field audit information through a single reporting Platform
  - Field audit reporting of OTP data to be configured

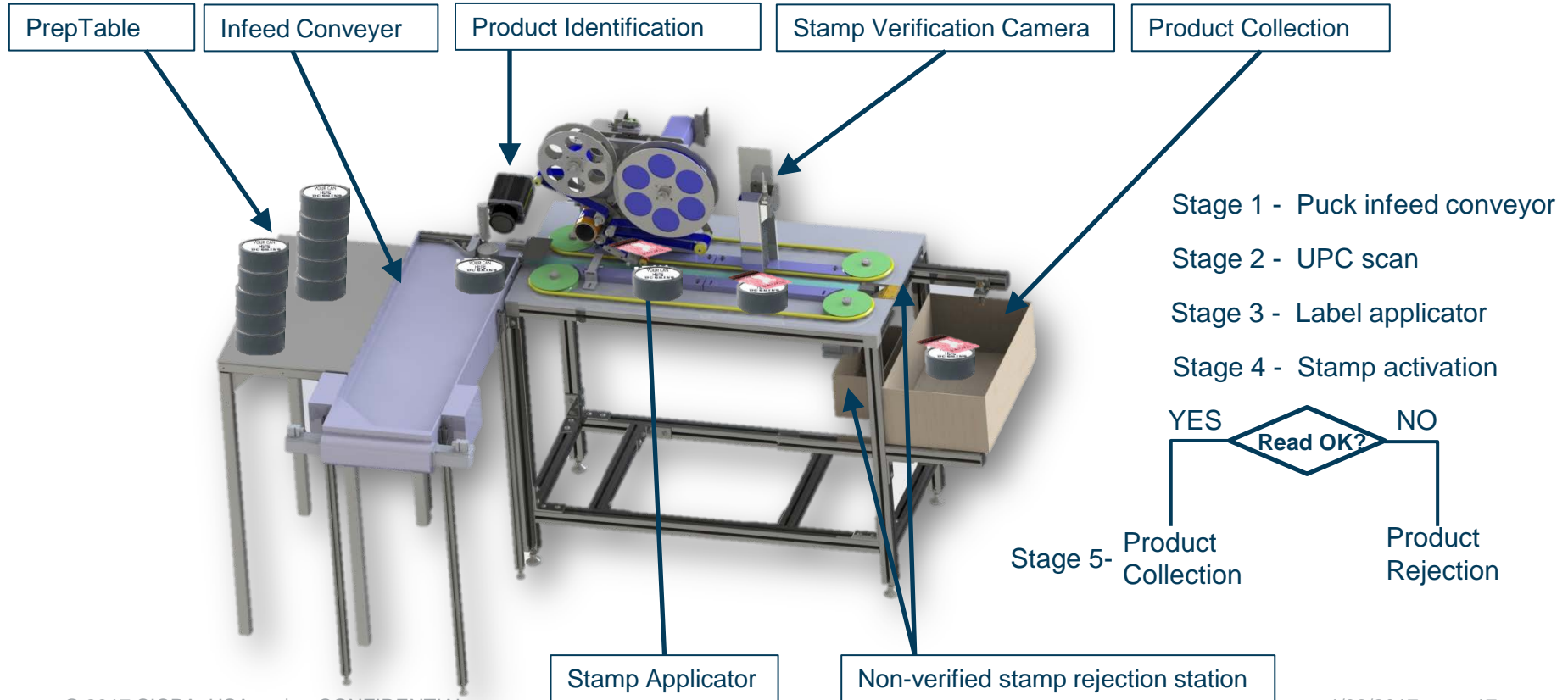
# OTP STAMPING PROGRAM: Machine Specifications



## Technical Specifications

Length (with dump table)	8 ft.
Length (without dump table)	6 ft.
Width	5 ft.
Height	5 ft.
Stamp Applicator Speed	80 pucks/min
Power	110 volts A/C 20 Amps (Requires 3 lines)
Compressed Air	100 psi
Required number of operators	1

# OTP STAMPING PROGRAM: High Volume Stamping





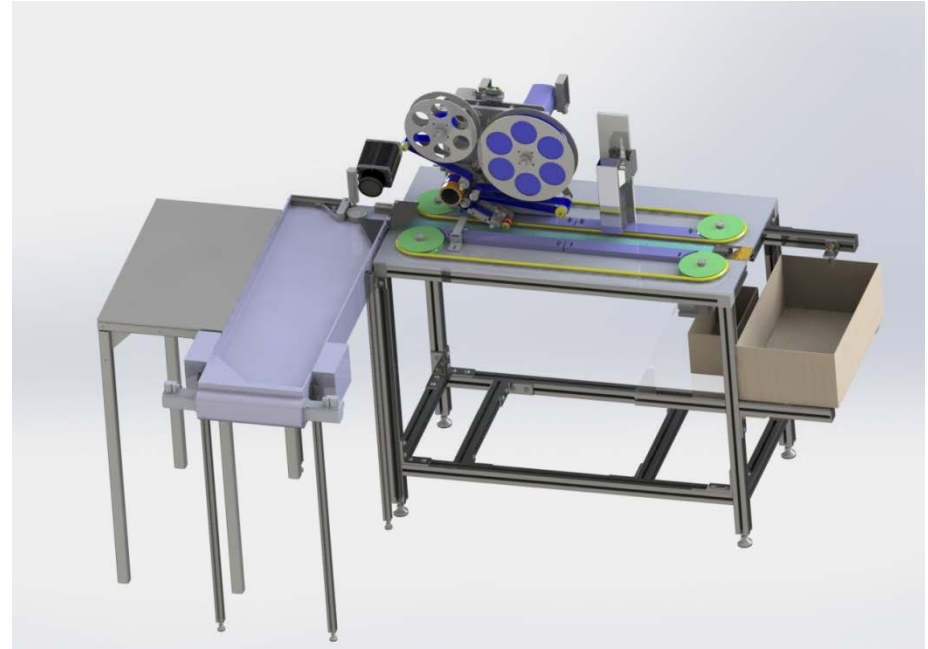
### III. OTP STAMPING IMPLEMENTATION PLAN

# OTP STAMPING IMPLEMENTATION PLAN: OTP TRANSPORT

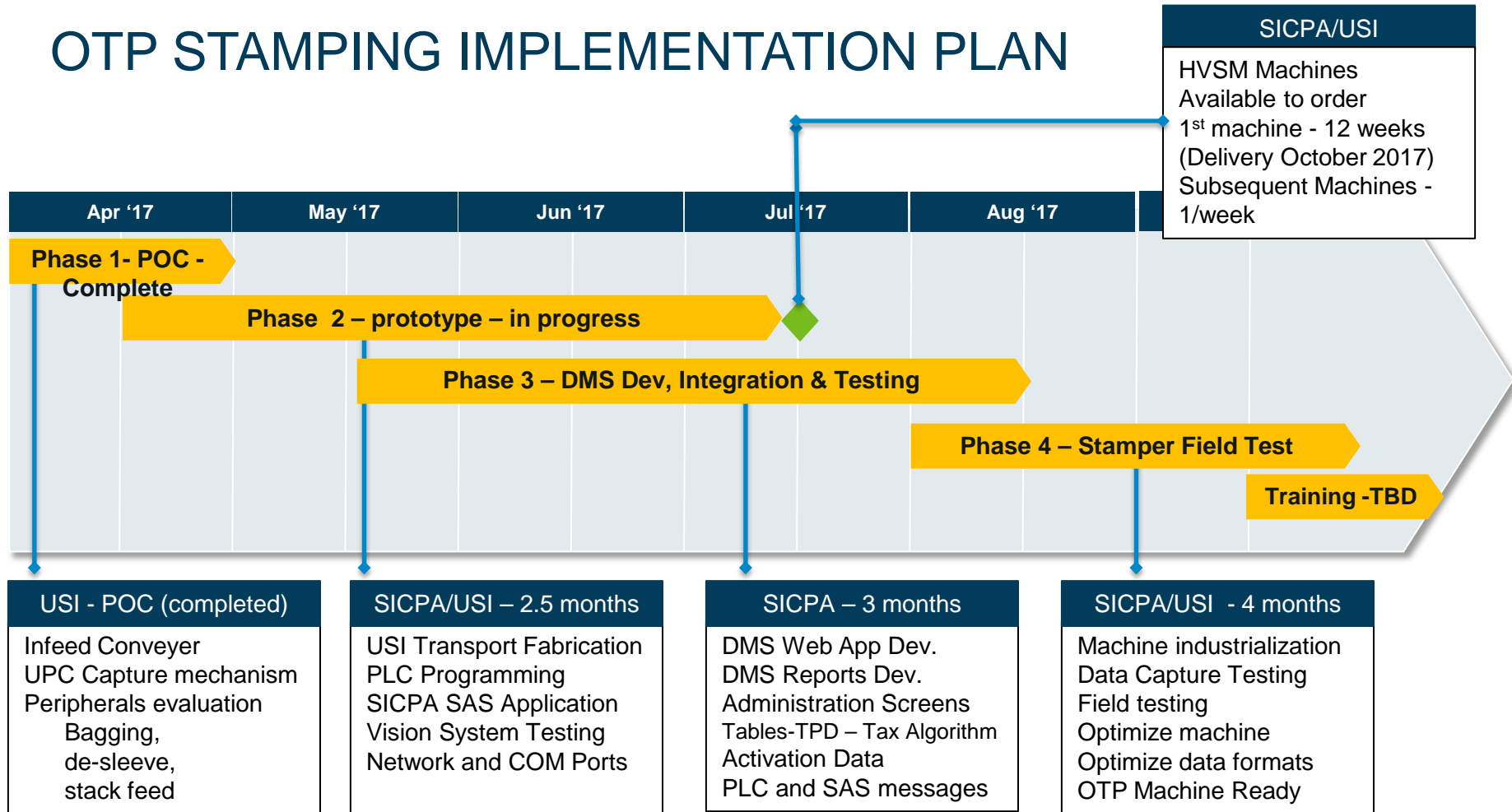
HVSM Components	Number of Units
In-feed conveyor	1
Main transport	1
Stamp applicator	1
Injection bin	1
Total cost	\$45,000

Bagging System	Number of Units
Bagging unit	1
Total cost	\$32,000

SICPA Kits	Number of Units
SICPA Vision System	1
SICPA Ancillary Equipment	1



# OTP STAMPING IMPLEMENTATION PLAN





## IV. BENEFITS & NEXT STEPS



# NEXT STEPS

- Complete Platform Development
  - Phase 2 – Prototype Development
  - Phase 3 – Software Module Development and SICPATRACE® integration
- Task Force Support
  - OTP Stamping technology evaluation
  - Environment investigative process
    - Number of potential stamper and install base

# OTP STAMPING PROGRAM: IMPACT and BENEFITS

- Leveraging similar stamp design concepts in order to facilitate consumer and retailer compliance
- One stop portal for DOR, AG, Stampers and other agencies:
  - One reporting platform for DOR/AG
  - One inspection device/platform for DOR
  - Same stamp ordering and delivery process for licensed Stampers
  - Same activation process and support for MA licensed stampers
- Potential Market Impact
  - \$16M was FY16 smokeless tobacco tax revenue
  - \$58M - \$78M range revenue estimate
    - Based on shipments & smokeless use in MA and consumption model
  - \$41-61M range revenue recovery potential
  - Positive revenue protection for legitimate, MA licensed stampers



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