

Illegal Tobacco Task Force

Notice of Public Meeting

Meeting Date: Thursday, April 7th, 2016

Meeting Time: 10:30 AM

Meeting Location: 100 Cambridge Street, 2nd floor, Room A, Boston, MA

Task Force members will hear presentations from the Northeast Association of Wholesale Distributors (NEAWD) and Altria Client Services regarding the Commonwealth's encrypted stamping program and issues presented by its potential expansion to include smokeless tobacco. In addition, Task Force members will discuss Task Force organization, projected spending, and its report to the Legislature. Finally, subject to final approval, Task Force members will discuss proposed legislative changes to existing tobacco statutes.

- A. Opening Remarks/Approval of Last Month's Meeting Minutes
- B. NEAWD Presentation
- C. Altria Client Services Presentation
- D. Discussion of Potential Legislative Changes*
- E. Discussion of Task Force Organization and Spending
- F. Discussion of Task Force Report to Legislature
- G. Upcoming Meetings
- H. Wrap Up/Closing Comments

* Tentative Item/Subject to Change

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 5, 2016 @ 9:00am

Illegal Tobacco Task Force Minutes

Meeting Date: March 8, 2016

Meeting Time: 10:30am

Meeting Location: 100 Cambridge Street, 2nd Floor, Conference Room

Board Members Present: Kajal Chattopadhyay (Co-Chair), Steve Fennessey (Co-Chair), David Solet, Shawn Collins, Michael Sweeney, Lea Susan Ojamaa, Christy Fedor, Tom Bocian

Others: Brenda McConville, Evan Garcia, Joe Fisher, Josh Brabazon, Lisa Dellanno, Bensen Solivan, Chris Bauthin, Casey Harvell, Scott Delaney, Molly Slingerland, Peter French, Alex Finkel, Molly Parks.

Call to Order:

- Meeting was called to order at 10:37am by Co-Chair Kajal Chattopadhyay
- Mr. Chattopadhyay mentioned there were several names misspelled in the previous meeting minutes. They were subsequently corrected.
- Previous meeting minutes were presented to the Task Force and read independently by every member. Michael Sweeney made a motion to approve the minutes and was seconded by David Solet. All members voted unanimously to approve the minutes. (Amber Villa was not present for the vote).

Discussion on Task Force Organization and Spending:

- Each Task Force member was given the opportunity to review and comment on the draft ISA agreement to be signed by representatives from each of the Task Force agencies . The ISA outlines the responsibilities of each member agency.
- Mr. Chattopadhyay asked each agency to double check their agency signatories. An opportunity to make changes to the signatories will be available as needed. Once finalized, each ISA will be signed and an official copy will be filed.
- Mr. Chattopadhyay also reminded the Task Force of their individual financial ISA's, which are soon to be finalized.
- Lea Susan Ojamaa mentioned a need to clarify the ISA managers at the Department of Public Health. Mr. Chattopadhyay said he will correct the ISA managers' names in the final draft.

SICPA/Meyercord Presentation – Alex Finkel:

- Mr. Chattopadhyay introduced Alex Finkel of SICPA/Meyercord, the Commonwealth's current encrypted stamping vendor. The focus of his presentation was tax compliance with Other Tobacco Products (OTP) and the development of new software and equipment that will potentially enable encrypted tax stamping of smokeless tobacco in the future.

- After the introduction, Mr. Finkel gave an overview of SICPA/Meyercord and an overview of the OTP market and where tax enforcement technology can be a solution. Currently, SICPA administers \$12 billion annually worldwide in tax stamps. Of that total, \$180 million annually comes from Massachusetts.
- Mr. Finkel outlined the process of the stamping operation. Massachusetts uses two stamps -- pink and red -- and utilizes over 23 high volume stamping machines throughout the state.
- According to Mr. Finkel, Massachusetts is a leader in reporting on Master Settlement Agreement (MSA) payments. Currently, state officials use a SICPA device for the iPhone 5 to track data and audit information and to ensure that cigarette packs sold in Massachusetts are stamped in compliance with statutory requirements.
- Task Force member Thomas Bocian asked Mr. Finkel if Massachusetts is fully using the tools available with the encrypted stamping program. Mr. Finkel replied that the Commonwealth is doing a good job utilizing the technology embedded in the encrypted stamps, similar to California. There are other ideas, but Mr. Finkel indicated that is a much bigger discussion for another day.
- Turning to data, Mr. Finkel moved on to cover the OTP market and methods to capture lost revenue from OTP on which the appropriate Massachusetts tax has not been paid. According to the data presented, while the cigarette market has been shrinking consistently for the past several years, the OTP market has grown significantly during that period. Currently, no jurisdictions in the United States stamp OTP outside of some taxing jurisdictions in Alabama.
- Based on publicly available data, Mr. Finkel and SICPA estimate that Massachusetts loses approximately \$27.2 million - \$63.44 million per year in tobacco excise revenue on illegal sales of smokeless tobacco.
- One potential solution to capture lost revenue on smokeless tobacco is to explore stamping of smokeless tobacco products, including the potential expansion of the encrypted stamping program to smokeless tobacco. The challenge in stamping smokeless tobacco is packaging. Because of the varying sizes used in OTP packaging, SICPA/Meyercord is developing equipment to stamp tobacco products of varying sizes.
- A major pilot test of the newest developed equipment will take place at Garber Brothers. There, Mr. Finkel says they will work on where to place the stamp, desleeving and resleeving packaging successfully and feeding the product into stamp machines.
- Task Force members were then given the opportunity to ask additional questions to Mr. Finkel.

Legislative Changes:

- Mr. Chattopadhyay informed the Task Force of the status of the legislative proposals. He is still awaiting approval to share a draft of the proposed changes with the Task Force.
- Mr. Chattopadhyay reminded the Task Force of their first reporting deadline of March 1. He has been in touch with legislative leaders to inform them that the report will be late and was informed that, if the report does not contain any legislative proposals, no formal extension of the deadline would be required.

- Since approval to discuss the legislative proposals has not yet been obtained, Mr. Chattopadhyay proposed that the Task Force submit a somewhat scaled down report which will highlight the activities and accomplishments of Task Force to date. This report would be submitted to satisfy the Task Force's March 1 reporting obligation and would not include any discussion of legislation. Mr. Chattopadhyay further proposed that the Task Force prepare and submit a longer report with legislative proposals and recommendations as part of its next report, which is due by July 1.
- Mr. Chattopadhyay made the proposal to begin working on the scaled down report. The Task Force then voted on Mr. Chattopadhyay's proposal and to authorize Mr. Chattopadhyay to file a formal request for an extension to file the March 1 report if such a request is required. Mr. Sweeney made the motion and Mr. Solet seconded. All members voted unanimously to approve Mr. Chattopadhyay's proposal and to authorize him to seek a formal extension of the March 1 report if required.
- A draft version of the March 1 report will be ready for review by the April 7 meeting.

Meeting was adjourned at 12:12pm