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WCO-ITIC Global Excise Summit

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Summary Report by:

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The World Customs Organization (WCO) and the International Tax and Investment Center (ITIC) joined together to organize, for the first time, a *Global Excise Summit* to discuss the issues raised by excise taxation for customs administrations.

The *Summit* included speakers from the WCO, ITIC, the European Anti-Fraud Directorate (OLAF), the alcohol and computing industries and representatives from tax and customs authorities in the UK, Ireland, South Africa and Indonesia. More than 160 participants from over 60 countries representing public, private sector and academia came together to hear perspectives on a wide range of excise taxation issues including tax policy principles and options, best practice in excise tax administration and enforcement, and practical operational advice for customs officials and industry.

Day One - 2 July

Opening Remarks and Welcome Address

Mr. Mike Norgrove, MBE, Director of Excise, Stamps and Money from Her Majesty's Revenue and Customs (HMRC), United Kingdom, opened the proceedings by welcoming participants and congratulating the WCO on its 60th Anniversary.



Mr. Kunio Mikuriya, Secretary General of the WCO, gave the welcome address. He described the development of the WCO from its birth as the Customs Co-operation Council to the present day. Modern Customs administrations are primarily enforcement agencies protecting society and government revenues at the borders. With the reduction and simplification of tariff rates, international trade has become a key objective. Customs now needs to balance regulation with trade facilitation using risk management and Customs-business partnerships. Following the attacks of 9/11, supply chain security was added to the increasing number of Customs responsibilities.

Mr. Mikuriya encouraged Members to grant benefits/incentives to compliant private sector entities as outlined in the WCO trade facilitation instruments. Customs and the private sector both have important roles to play to deliver fair and accurate revenue collection and economic development. The WCO supports Members in developing efficient and effective cross-border controls and is keen to encourage forums where tax administrators, Customs and private sector can come together and find a way to address specific issues such as valuation, enforcement and auditing techniques, and reduce administrative burdens across Customs, excise, VAT and income tax.

Fundamentals of Excise Duties



Keynote speaker, **Professor Sijbren Cnossen**, Maastricht University, provided tax policy theory content as a foundation for the excise discussions. He defined excise taxation to include all selective levies on smoking, drinking, gambling, consumption, polluting and driving. The three main goals of excise taxation are revenue-raising, efficiency, externalities-correction and progressivity enhancement. As a minimum, excise duties should internalize the costs that consumers of excisable products impose on other people.

Professor Cnossen argued that a specific tax structure is more appropriate than an ad valorem duty in establishing a link with externalities. It is easier to administer and less open to fraud as valuation (transfer pricing) issues do not arise. It should be index linked to protect revenues from inflation. Imported products should be subject to the same excise duties as similar domestically produced goods.

In conclusion, he argued that externalities correcting excise should always be levied, that revenue-raising excise should be imposed only if they can be collected at lower cost than broad-based consumption taxes, such as VAT and that the case for progressivity-enhancing excises is weak.

Excise Tax Administration



Assistant Professor Rob Preece, Regional Manager for South East Asia from the Centre for Customs and Excise Studies at the University of Canberra, described the relationship between policy and administration looking specifically at the role of customs in excise taxation. Though excise is a tax on domestic production, it applies also to imports.

In developing economies, excise can be a “tax on luxuries” with more imports than domestic products liable to excise. Imports of excise goods take many forms. They can be in bulk for further processing/repacking or as finished products. Imported goods or parts may be used in further manufacture with domestic products to make new excisable products.

Customs are responsible for controls in export processing and free zones where excisable goods are produced and for controlling customs bonded warehouses. Customs has a key role to play in protecting excise revenues and co-ordination between the customs department and those administering excise duties on domestic production is essential. The value of customs import duties is reducing whilst excise duties (and VAT) are still payable. With a specific excise structure, controls on domestic production, bonded movements of excisable goods within national and across regional customs union boundaries and a need for supply chain control, customs officials need to develop different skills if they are to tackle smuggling and

counterfeiting of excise goods successfully. Rob noted the developing use of technology in enabling remote monitoring of production, tracking and tracking the movement of excisable goods and the use of X-ray scanners at ports and border crossings.

Protecting Budget Revenues from the Growth of Illicit Trade



Ms. Elizabeth Allen, ITIC Program Advisor and formerly of HMRC, gave an outline of the nature and extent of the global illicit trade in alcohol and tobacco products, identifying drivers and facilitators for the illicit trade and describing means of estimating its extent. Using good practice from several countries, she explained the importance of developing a comprehensive co-ordinated approach to tackling illicit trade. This should include reviewing/revising legislation to ensure that operating as an excise trade is a privilege, not a right, and so that legislation (across all relevant public sectors) is clear and simple to operate for both industry and officials. There should be appropriate offences and penalties, with all requirements and procedures directed specifically at minimising illicit trade.

She stressed the need for voluntary compliance to be reinforced by robust enforcement requiring co-ordination nationally and internationally, across all enforcement agencies, including local authorities and those who check product labels and contents at retail sale. Legitimate industry can help the authorities by signing up to Memoranda of Understanding, providing intelligence through direct channels and giving officials awareness training on business processes and how to identify counterfeit products. Elizabeth referred to supply chain security and the development of unique digital identifiers and the ways in which technology can be used to support excise and customs controls.

Finally, she mentioned the World Health Organization’s Framework Convention on Tobacco Control and urged operational enforcement authorities to get involved in discussions on all health driven regulatory measures to control tobacco (and alcohol use) so that they can influence outcomes to prevent the inadvertent creation of new or increased opportunities for illicit trade.

Case Study on Revenue Reform

Ms. Anita Iskandar of the Directorate-General of Customs and Excise Indonesia, described excise controls in Indonesia. She outlined the history of excise in Indonesia, from 1886 to the present day, covering excise on kerosene, distilled alcohol, beer, tobacco and sugar. Tobacco revenue accounts for 95.3% of the total excise revenues. The Indonesian Government updated legislation in 1995 for tobacco products, ethyl alcohol and alcohol beverages and has since developed a roadmap to balance the effects of excise taxation on employment, health and revenue. Anita explained that the Indonesian approach to excise taxation is intended to enhance services and optimize revenues through excise revenue sharing with the regions, a maximum

excise tariff, a code of conduct for officials and an enforcement and penalty regime designed to increase compliance.

Developing Tax Systems to Enhance Trust and Voluntary Compliance



Dr. Jeffrey Owens, ITIC *Distinguished Fellow* and former Head of the Centre for Tax Policy and Administration at the OECD, discussed the need for a joined-up government approach to fighting all forms of illicit payments, especially money laundering, terrorist financing and bribery. There needs to be an increased exchange of information

between tax administrations, the FIU, other law enforcement agencies, and a joined-up approach across all taxes and duties. This approach has strong political support as indicated in the latest statements from the G20.

Administrations must find a way of achieving greater consistency in applying valuation rules for transfer pricing and tariff/customs purposes. Because different application methods are used for different taxes and duties, valuations for same product can differ. Dialogue between the WCO, OECD and ITIC might usefully explore options to achieve greater certainty for government and business, secure the revenue and reduce compliance costs. How far could transfer pricing documentation be accepted for customs purposes or could Advance Pricing Agreements be extended to customs? A practical way forward might be to develop joint tax and customs audits.

Excise Enforcement: Impact on Revenues on Curbing Illicit Trade



Dr. Janos Nagy, Former Director General of the Hungarian Customs, focused on effective enforcement to reduce illicit trade, describing the way in which Hungary, Romania and the UK have used enforcement to reduce cigarette smuggling. When Hungary and Romania joined the EU, they had to increase the excise duty level of tobacco products rapidly. In Hungary, this resulted in an almost 80% increase in retail

prices which increased the incentive for smuggling. There was a 30% decrease in legitimate tobacco sales and demand for hand-rolled tobacco quadrupled. From 2000 to 2005, the illicit trade share of the cigarette market in Hungary grew to 27%. Immediate intervention was essential.

Hungary developed a comprehensive enforcement strategy with more staff at critical points, more security elements on excise stamps, new regulations, and improved working

practices, reinforcement of integrity and deployment of non-intrusive x-ray scanners at road and rail crossings. Training was increased and sniffer dogs deployed. The illicit cigarette share of the Hungarian market has thus been reduced to 3.1% in 2012.

In Romania, the level of excise duty rose dramatically between 2008 and 2010. Romanian Customs developed an enforcement strategy with improved legislation, strengthened administrative capacity and specific control activities. In 2012, an integrated enforcement approach was launched involving Customs, the Financial Guard, the Police, Intelligence and Internal Protection. This strategy required and received top-level ministerial support to change laws and regulations to crack down on smugglers. X-ray scanners and new canine teams were put in place, customs staff reduced and reorganised, and joint international actions were set-up with neighbouring countries. A shared cigarette seizure database for Customs and Police and a training centre for mobile and canine teams were set up. Intelligent seals and efficient fiscal fraud identification through better monitoring and risk management completed the enforcement strategy. The share of the cigarette market held by illicit trade reduced from 36.2% in 2010 to 13.4% at the end of 2011.

The UK acknowledged lost revenue of around £2.5 billion from illicit trade in tobacco products in 1999. 70-80% of the contraband arrived in freight and lorries with the remainder in white van traffic. In 1999, the illicit percentage of the hand-rolling tobacco market was estimated at 80%. Again, action was essential. The UK has implemented four tobacco strategies since 2000; each one building on learning from the previous ones.

Initially, HMRC combined its enforcement efforts with those of other enforcement agencies and deployed additional resources, scanners and sniffer dogs introduced a requirement for fiscal marks and developed a publicity campaign to increase public awareness. There has been new legislation and increasing co-operation with international enforcement bodies, especially with OLAF (the EU's fraud investigation arm). Throughout, there has been increasing dialogue with, and strong controls, over industry.

Dr. Nagy summarised the lessons learned from the experiences of Hungary, Romania and UK as:

- No big leaps in excise duty on tobacco;
- Make sure the excise department pays adequate attention to and has sufficient resources and tools to fight fraud;
- Build co-operation with all other players in government at home and abroad; and
- Develop strong co-operation with the industry.

Case Study on Motor Spirits

Messrs. John Whiting and Pat Curtis (HMRC), together with **Mr. Niall Butler** (Irish Revenue Commissioners), described how both organizations were tackling fuel fraud. Fuel tax makes a significant contribution to both governments' revenues. In the UK, it contributes over £27 billion annually (nearly 35 billion

Euros). Some fuels are charged at a lower tax rate when used for an approved purpose such as agriculture, marine, aviation, trains and construction. These fuels are marked to prevent their use as a road fuel. The high tax differential equates to large profits from fraud for organised criminal gangs and unscrupulous businesses. Fraudsters use laundering plants to remove markers, counterfeit or extend fuel, smuggle fuel, and false invoicing/incorrect descriptions. Rising fuel prices, the recession, commercial pressures, and the increasing availability of fraudulent formulae on the internet have led to an increase in this fraud. The UK estimates that fuel tax fraud costs the revenue nearly £750 million annually. It also results in huge environmental costs due to abandoned waste. Delegates heard about a specific enforcement operation in the UK.

Mr. Niall Butler described the Irish Revenue Commissioners approach to tackling fuel fraud. This has involved new legislative requirements for licensing road tankers and a crackdown on unlicensed traders, shutting down premises and seizing unlicensed fuel. The enhanced strategic approach includes close cross-border cooperation across enforcement agencies, monthly reporting obligations for licensed fuel traders and exclusion of persons with tax convictions from licensing. There has been extensive consultation between the Revenue Commissioners and Trade Representatives, and a new IT system developed. There will be a new e-return effective 1 January 2013 requiring balanced stock account details for each licence holder. This will facilitate improved supply chain analysis and risk targeting to combat fuel fraud.

WHO Tobacco Protocol and its National Implications: WCO Member Presentation



The debate then moved to the WHO Framework Convention on Tobacco Control and its national implications. **Mr. Coffet Lebepe** spoke for the South African Revenue Service (SARS) explaining that SARS is part of an inter-departmental implementation working group with the Department of Health, the National Treasury, the Department of Trade, and industry. He spoke at

length about South Africa's approach to FCTC implementation, including listing legislation already in place and practical measures incorporated in the SARS Strategic Plan for 2012/13 – 2016/17. To better secure the supply chain, SARS is overhauling its Diamond Stamp system by aligning it to a digital marking and verification system. Record-keeping requirements will be revised to accord with the requirements of Article 7, and excise will adopt a paper-less principle implementing electronic declarations and movements. Delegates were assured that South Africa is striving to ratify, accept, approve and show political commitment to the FCTC.

Taxation of Distilled Spirits



Mr. Mark Baker of Diageo presented the international spirits industry's excise perspective. This industry prefers specific tariffs and taxes based on alcohol content for all alcoholic drinks at a harmonized rate per degree of alcohol (or litre of pure alcohol) and at a reasonable rate that does not create economic incentives for fraud. Specific taxes are easier to administer for industry and government, since they

eliminate valuation issues and discourage illicit trade. Specific excise duty fosters consumer choice, supports responsible drinking decisions, reduces barriers to trade and encourages investment in higher quality products.

Mark touched on transfer pricing issues, describing a tension between customs and income tax officials' view of transfer pricing where he thought the solution lies in specific tariffs and taxes based on alcohol content. As all alcohol beverages compete, he stressed that the tax system should not distort that competition and internal taxes should not be used to protect domestic industries. High tax rates create incentives for illicit markets to flourish. Mark used the Laffer curve to demonstrate his view that the "right" tax depends on government revenue targets, enforcement capacity, perceived reasonableness of the tax, availability of non-taxed or lower-taxed substitutes and a culture of tax compliance. He urged rationalization, simplification, enforcement and transparency to minimize incentives for fraud. A particular issue for Customs is different tax rates for alcohol beverages and the growing number of alcohol products that are not easily classified. The lack of no agreed upon rules of origin for normal trade under WCO/WTO has resulted in a proliferation of free trade agreements with different rules of origin.

Taxation of Beer



Mr. Keith Miller of SABMiller provided an overview of the alcohol market showing the composition of its legal and illegal components. He referred to traditional informal (e.g. home brew) beer production which provides much of the market and is an integral part of the culture in many nations. Traditional informal

production is non-commercial with small scale local sales. Looking at illicit alcohol production, Keith remarked that it is commonly focussed on the most profitable products (i.e. spirits) and that there is no major counterfeit beer production. Uncontrolled and illicit production constitutes a health risk as there is no means of ensuring that the ingredients and methods of production are safe. Thus, it is essential for governments to license production, enforce controls robustly, and educate

the public about the dangers of consuming illicit products. Keith described the methods used by illicit alcohol players in international trade and pointed to the need for tax rates to be set in recognition of affordability of legal products against the backdrop of tax rates in neighbouring countries. Government priorities need to be balanced so that there is sufficient attention and resource devoted to ensure robust enforcement against organised criminals and other fraudulent alcohol traders. Legitimate industry relies on authorities taking appropriate enforcement action.

Keith looked at supply chain security and validation of tax payment at length. He argued that supply chain security/tax stamps are particularly costly for the beer industry because beer is a low value and high volume product in comparison to spirits or tobacco products. They also present production difficulties. He doubted the applicability of a digital marker solution to the need for product authentication for beer as the illicit trade currently concentrates on diversion of legal product rather than counterfeited production.

Keith stressed that, even with digital security markings, the marks still need to be checked and authenticated. He considered that a combination of better business records, due diligence and strong collaboration between legitimate industry and government to reduce the illicit market would provide for a better solution all round. Keith referred to a case study of improvements made in reducing unrecorded alcohol in Peru.

Establishing an Excise Regime



Mr. Allen Bruford, Deputy Director, WCO Compliance and Facilitation Directorate, described how an excise programme was set up in New Zealand. In 2006/2007, 18% of Customs revenues came from excise tax. Customs obligations are outlined in the law and backed by strong enforcement powers and

penalties. He described the new controls and the way in which the voluntary compliance regime is supported by risk-based decision making based on trade segmentation. There can be incentives to encourage voluntary compliance such as periodic reporting, deferred payment options, simplified customs declarations, non-cash securities over licensed premises, and reductions in inspections or audits for compliant traders. Enforcement is robust with strict intervention and use of administrative penalties. Debt recovery is swift with scope for prosecution/seizure and sale of goods to take place to recover revenue. The courts can be petitioned to put companies into liquidation. Compliance controls take the form of different types of audit. New Zealand has invested in developing technical customs knowledge and skills, audit professionals, customer relationship management, understanding the trade environment and in updated policy and legislation.

Day Two - 3 July

Introductory Remarks



The second day opened with introductory remarks from **Mr. Daniel Witt**, President of the International Tax and Investment Center (ITIC), who welcomed this joint initiative with the WCO. The *Summit* is a continuation of cooperation between the WCO and ITIC that began with an international conference in Brussels in 2009 on how to combat the illicit trade of tobacco products. Both organisations are committed to bringing key parties together, connecting people and resources to develop solutions that will benefit economies worldwide, and learning from the experiences of different countries.

ITIC looks forward to continuing its cooperation with the WCO through future events and publications, including the WCO's participation at ITIC's *Regional Tax Forums*, where many of the same issues discussed at the *Summit* are discussed with tax, customs, industry, and academic experts.

Over recent years, ITIC has witnessed an increasing need for focus on excise because of increasing global revenue losses from illicit trade. Dan encouraged administrations to bring all tax and customs players to the table to join together in tackling the issues. He advised against sudden tax shocks, such as those experienced by new entrants to the EU who were faced with too steep a hill to climb too quickly. Dan referred to the ITIC website (www.ITICnet.org) where there are many resources available online to assist policy makers and operational managers, including a 2011 booklet "The Illicit Trade in Tobacco Products and How to Tackle It". This publication is now available in English, French, Spanish, Arabic, Turkish and Russian. It has proved so popular that, in 2013, ITIC hopes to produce an updated version.

Linkage between Tax Burden and Illicit Trade of Excisable Products



Mr. Adrian Cooper of Oxford Economics explained the linkage between tax burden and the global phenomenon of illicit trade of excisable products with estimated global illicit trade in tobacco products of about 11%, resulting in annual government revenue losses of over US\$ 40 billion. He focused on the negative impacts of illicit trade by identifying the key driver as affordability, as demonstrated by the experiences of the UK, Sweden, Singapore and Canada. Adrian

described the G7 tobacco tax policy experience and the impact on the non-duty-paid cigarette market, citing the experience of Malaysia, Singapore, Ireland and Norway.

Adrian referred to the WHO Technical Manual on Tobacco Tax Administration's recommendation that "all countries should raise tobacco taxes so that they account for at least 70% of retail prices" saying that this proposal makes no allowance for individual characteristics of countries and contradicts other WHO policy recommendations. Tax incidence is no guide to tax yield or to retail selling prices or affordability. The 70% tax incidence advised by the WHO was based on data from nine countries representing just 2.1% of the world's population, therefore it can hardly be presented as "best practice." Meeting the WHO Technical Manual's proposed 70% excise tax incidence would result in very steep increases for cigarettes globally with particularly large increases in low- and middle-income countries. This, in turn, would lead to reduced affordability of cigarettes and a consequent significant increase in illicit trade.

In conclusion, Adrian stressed the three key elements of successful tobacco tax policy were:

- The effect of the tax increase on consumer affordability;
- The level of prices in neighbouring countries; and
- The overall excise level and proposed implementation pace of any tax increase.

He reminded delegates that governments tend to act only after illicit trade has become endemic and that the "one size fits all" tax proposal from the WHO would serve to exacerbate the current problem of illicit trade.

Tools for Efficient Revenue Collection

Mr. Ian Cremer of the WCO described the new WCO Revenue Package developed in response to Members' concerns about falling revenue returns in the context of the global financial crisis ad declining duty rates. In 2009 a schedule of tools, instruments, guidelines etc. relevant to revenue collection was prepared. In 2009/10, regional workshops were held and an Action Plan was approved by the WCO Policy Commission.

The Action Plan includes provision of technical assistance

to verify declared value and preferential rules of origin, plus improving classification and infrastructure together with the availability, knowledge and use of existing tools and instruments. Practical guidelines are now available for valuation policy and legislation, managing valuation risk and developing an effective valuation control programme. For post-clearance audit, the new guidelines reflect modern techniques and provide support to administrations developing post-clearance audit and migrating controls from frontiers to inland. There are guidelines and practical tools on the improved WCO website together with wider distribution of freely-available texts supported by technical assistance programmes and training events.

WCO Director Giuseppe Favale commented that, as the profit incentive for illicit trade is determined by the amount of tax, there needs to be a higher level of convergence of tax rates within the EU and other regional customs unions.

Case Study

Dr. Peter Keller, of the German Zollkriminalamt, described the new challenge for law enforcement posed by the growth of "cheap white cigarettes" or uncommon brands. Over the past decade, as authorities have imposed tighter controls on legitimate industry, there has been an exponential growth in the smuggling of "cheap whites" into the EU. "Cheap whites" are cigarettes made legally by small independent manufacturers in the country of manufacture. They are then smuggled across borders into countries where there is no legitimate market for them. "Cheap whites" are sold at lower prices than well-known smuggled brands and appeal to consumers who no longer want counterfeit cigarettes due to poor quality. They look like a legal product. These cigarettes are not sold in shops or retail outlets but in street markets and through other informal distribution mechanisms.

German Customs are now controlling deliveries, seizing cigarettes, arresting suspects and trying to identify organisers, the supply chain and further loads destined for Germany.



During Day One of the Summit, participants gathered for a luncheon hosted by Mr. Kunio Mikuriya, Secretary General of the WCO. From left to right: Mr. Allen Bruford (WCO); Mr. Mark Baker (Diageo); Mr. Pat Heneghan (BAT), Mr. Sergio Mujica (WCO); Mr. Mike Norgrove (HMRC); Mr. Kunio Mikuriya, Mr. Daniel Witt (ITIC); Mr. Keith Miller (SABMiller); Dr. Jeffrey Owens (ITIC); and Mr. Rob Preece (CCES).

Cooperation with the Tobacco Industry

Mr. Austin Rowan from OLAF, the EU's fraud investigation arm, explained the EU approach to co-operation with the tobacco industry in tackling illicit trade. The EU has signed legally binding and enforceable agreements with Philip Morris, Japan Tobacco, British American Tobacco and Imperial Tobacco. These agreements cover approximately 80% of the total EU market for legitimate cigarettes. They cover business compliance, track and trace, seizure mechanism, payments by industry, annual payments and anti-money laundering provisions. He described detailed requirements for industry to "know your customer" and track and trace. The Anti-Money Laundering component of the Agreements sets out acceptable forms of payment by customers. If a company's products are seized, the Member State may notify OLAF who may follow-up by inspection of the company records for the goods seized. OLAF can call for payment of duties, taxes and supplemental payments amounting to 100% (in certain cases 500%) of the taxes and duties payable. The companies also pay substantial annual monetary payments which OLAF deploys to help fight illicit trade. The effect of being able to impose seizure payments under the Agreements is that the company is guaranteeing an end to smuggling of its genuine products.

In conclusion, these Agreements now ensure that OLAF and Member States have more certainty that the legitimate companies are doing their utmost to comply.

Information Technology

The focus moved to information technology. **Mr. David Evans** of Bull SAS provided the perspective of a supplier of services, products, and software to revenue and customs administrations. Revenue and Customs authorities' IT systems requirements used to focus on tax process management. As a result of moving to integrated revenue management, systems now need to be able to manage multiple taxes. Revenue authorities aim to control traders across many taxes using functionally based systems

(e.g. for registration, ledger, audit and debt management). With the voluntary compliance approach, there has been the development of taxpayer services.

Revenue authorities are large organisations requiring major information systems for which re-useable and flexible components from industry can deliver a comprehensive IT infrastructure. Key to the success of this approach is the ability of the revenue authority to specify in detail the business needs and requirements, and to understand the implications of the interface between the different components in the infrastructure.

Public-Private Partnership/Solution Providers to Governments

The IT theme continued with **Mr. Daniel Hubert** of the Digital Coding and Tracking Association (DCTA) explaining how a digital coding and tracking system can secure the supply chain and assist the authorities in fighting illicit trade and securing government revenues. To assist in prevention and detection, technology needs to be usable internationally because the goods have to be capable of being tracked and traced across the globe. Nationally, revenue authorities will also want to verify tax payment and authenticate the goods.

DCTA suggests that the development of agreed international open data standards will provide the best structure for international tracking and tracing capability as required under the Framework Convention on Tobacco Control (FCTC).

DCTA has developed Codentify, which offers a secure low cost digital tax verification solution that all manufacturers can deploy. It enables mass consumer verification using cheap, existing technologies such as SMS, internet, and smartphone. Enforcers can use it to verify products anytime and anywhere. The large database required to track and trace millions of movements every day allows enforcers to analyse illicit trade issues and trends. It meets the needs of revenue and customs authorities for a technological solution that offers:



- End-to-end security of the supply chain,
- Correctly addressing the different types of illicit trade,
- Easy to operate and affordable for all manufacturers,
- Usable by all stakeholders across the supply chain,
- The requirements of the FCTC,
- Protecting government revenue, and
- An easy, effective enforcement tool under full government control.

Mr. Paul Miller of De La Rue talked about how his organization, a commercial security print solutions provider, can help revenue authorities protect revenue income, secure the global supply chain from criminal threats, and enable compliance with the FCTC requirements. He advocated deployment of label technology using state of the art two dimensional barcode design allowing manufacturers to incorporate more information and security features into product packaging so as to deploy track and trace technology.

Closing Keynote Address



The closing keynote address about the Oslo Dialogue was delivered by **Mr. Achim Pross** of the OECD. The OECD tax work covers areas directly relevant to the WCO. In particular, has been looking at tackling tax and other financial crimes with initiatives on combating bribery, co-operation between tax and law enforcement authorities to combat serious crimes, money

laundering awareness and typologies work on trends and methodologies in financial crime. The OECD Task Force on Tax Crimes and Other Crimes (TFTC), established in 2010, aims to improve co-operation between tax and law enforcement agencies to counter crimes more effectively, whilst improving the ability of tax administrations to identify, investigate and disrupt tax crime and other serious crimes. It seeks to raise global awareness of the links between tax crime and other serious crimes.

The Oslo Dialogue, launched in March 2011, has as its three main pillars (a) effective domestic co-operation between tax, regulatory and law enforcement agencies; (b) a global response to addressing financial crime including co-operation and sharing of information plus (c) knowledge of strategic and practical investigation techniques. Achim described the achievements of the second forum of the Oslo Dialogue in June 2012, the extensive range of practical tools available as a result, and plans for delivering training for criminal tax investigators in 2013.

Finally, Achim referred to the June 2012 FATF Report on the Illicit Tobacco Trade available at www.oecd.org/ctp/taxcrimes. This report analyses the extent of money laundering and terrorist financing vulnerabilities of the illicit tobacco trade at global,

regional and domestic levels. The OECD welcomes close co-operation with the WCO in developing policy and practical solutions to global issues, and in the fight against all forms of financial crime. Among the priority issues for ongoing OECD and WCO cooperation is the valuation rules for tax and customs purposes - one of the key issues discussed during the *Summit*.

Closing Remarks



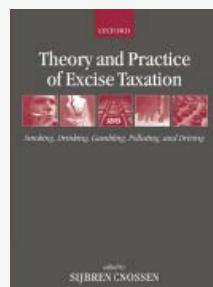
Before closing the *Summit*, **Mr. Mike Norgrove** invited questions from delegates. In answer to a query about the usefulness of the Excise Movement and Control System in fighting illicit trade, he replied that the UK has already found it useful in detecting illicit movements, and he instanced a recent seizure of 25 containers. A delegate commented that the World Health Organization

had mandated track and trace requirements leaving individual countries to decide exactly what to require. Without global standards, this could lead to a multiplicity of different systems across the world. In turn, this would make international data sharing complex and difficult, and render the task of customs officials more complex as they would need to access different databases for different systems with different handheld devices whenever goods are moving across international borders. It would also add significantly to industry costs to have to use different track and trace solutions for different markets. He called for the development of an international standard for track and trace solutions.

Mike reviewed the key points of the *Global Excise Summit* which are set on the following page.

He closed the first WCO *Global Excise Summit* thanking all contributors and commending the excellent organization by the WCO Secretariat and the work by the interpreters. It was evident that there is going to be a continuing need for more such events as excise remains an important source of revenue and an attractive target for smugglers.

Excise Book Available



Theory and Practice of Excise Taxation Smoking, Drinking, Gambling, Polluting, and Driving, edited by Keynote Presenter Sijbren Cnossen, is available for purchase at the Oxford University Press website: www.oup.com.

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Summary Conclusions

The World Customs Organization (WCO) and the International Tax and Investment Center (ITIC) joined together to organize for the first time a *Global Excise Summit* to discuss customs tax administration and enforcement activities aimed at fair and efficient revenue collection.

More than 160 participants from over 60 countries representing Public, Private Sector and academia came together to discuss public/private partnership regarding tax administration and enforcement.

Key presentations and discussions are summarized as follows:

- The WCO Secretary General opening comments encouraged Members to grant benefits / incentives to compliant private sector entities as outlined in WCO trade facilitation instruments. He said in the areas of fair and accurate revenue collection and economic development Customs and the private sector had important roles to play. He reiterated that customs were law enforcement organization and the WCO would continue to support Members to develop efficient and effective cross-border controls.
 - The WCO is keen to encourage forums where tax administrators, Customs and Private Sector can come together and discuss specific issues such as valuation, enforcement and auditing techniques to reduce administrative burdens between Customs, excise, VAT and income tax.
 - The fundamentals of excise regimes, the strengths and weaknesses of current excise policies and administrations and how they may be strengthened for the future to meet government, societal and trade expectations were outlined.
 - Excise duties remain a significant component of governments' revenue receipts. Therefore, it is important to have a transparent, predictable and balanced approach to excise tax administration,
- reducing bureaucracy and providing real incentives to encourage compliance.
- The need to establish and maintain robust excise controls at national level, building on an increased cooperation between Customs, excise, tax authorities and other law enforcement agencies aimed at the protection of budget revenues at risk from the growth of illicit trade was identified.
 - WCO Members presented their experiences on revenue reforms and their implication for Customs' operations.
 - Cross-border cooperation at the international level significantly improves the operational impact of enforcement activities and supports coordinated responses to tackle excise tax evasion and illicit trade.
 - Cooperation of Customs / tax authorities with legitimate and compliant businesses improves transparency and security of the supply chain of licit trade and supports joint interests of both public and legitimate private sector entities to curb illicit trade.
 - Knowing the governance regimes of key industry sectors are an important element when evaluating risk and reporting requirements. Customs and trade should build relationships and share information to understand both domestic and international markets.
 - Public and private sector parties involved in excise tax management are encouraged to explore how different delivery channels, such as key account client management and third party audits can be utilized / developed to provide increased revenue assurance at best cost for trade and governments.
 - Technology and electronic solutions support tax administration and Customs in enhancing transparency, revenue protection and supply chain control. This could be of particular relevance when considering dematerialization / digitalization of documents and automated risk assessment systems.

World Customs Journal to Release Excise-Specific Issue

The next edition of the *World Customs Journal* will focus on excise policy and practice, and will include articles based on papers presented at the *Summit*. The following articles have been submitted:

- *Fundamentals of Excise Duties* by Professor Sijbren Cnossen
- *The Illicit Trade in Tobacco Products and How to Tackle It* by Ms. Elizabeth Allen
- *The Linkage between Tax Burden and Illicit Trade of Excisable Products – The Example of Tobacco* by Messrs. Adrian Cooper and Daniel Witt
- *Tackling Cigarette Smuggling with Enforcement: Country Case Studies Reviewing Experience in Hungary, Romania and the United Kingdom* by Dr. Janos Nagy
- *Excise Tax Administration* by Mr. Rob Preece

More information on the *Journal* can be found at: worldcustomsjournal.org

Agenda

Monday, 2 July

Session I: Opening Session

- **Introductory Remarks**
Mr. Mike Norgrove, Chair of the Summit
- **Welcome Address**
Mr. Kunio Mikuriya, Secretary General, World Customs Organization
- **Keynote Address – Fundamentals of Excise Duties**
Professor Sijbren Cnossen, Maastricht University and University of Pretoria

Session II: Customs Tax Administration

- **Excise Tax Administration**
Assistant Professor Rob Preece (Moderator), Regional Manager: South East Asia, Centre for Customs & Excise Studies, University of Canberra
- **Protecting Budget Revenues from the Growth of Illicit Trade**
Former senior official, Her Majesty's Revenue and Customs / Author of *The Illicit Trade in Tobacco Products and How to Tackle It* and lead author of *Guidebook to the Successful Introduction of a Specific Excise Tax on Alcohol Beverages*
- **WCO Member Case Study on Revenue Reform**
Ms. Anita Iskandar, Directorate-General of Customs and Excise Indonesia
- **Developing Tax Systems to Enhance Trust and Voluntary Compliance**
Mr. Jeffrey Owens, Former Head of the Centre for Tax Policy and Administration, OECD

Session III: Fair and Efficient Tax Collection

- **Excise Enforcement: Impact on Revenues on Curbing Illicit Trade**
Dr. Janos Nagy, Former Director General, Hungarian Customs
- **WCO Member Case Study on Motor Spirits**
Messrs. John Whiting and Pat Curtis, Her Majesty's Revenue and Customs, U.K.
Mr. Niall Butler, Irish Revenue Commissioners
- **WHO Tobacco Protocol and its National Implications: WCO Member Presentation**
Mr. Coffet Lebepe, South African Revenue Service

- **Taxation of Distilled Spirits**
Mr. Mark Baker, Director, International Trade Affairs, Diageo
- **Taxation of Beer**
Mr. Keith Miller, Group Indirect Tax Manager, SABMiller (on behalf of the Brewers of Europe)
- **Establishing an Excise Regime**
Mr. Allen Bruford, Deputy Director, WCO Compliance and Facilitation Directorate

Tuesday, 3 July

Session III: Continued

- **Introductory Remarks**
Mr. Daniel A. Witt, President, International Tax and Investment Center
- **Linkage between Tax Burden and Illicit Trade of Excisable Products**
Mr. Adrian Cooper, Chief Executive Officer, Oxford Economics
- **Tools for Efficient Revenue Collection**
Mr. Ian Cremer, World Customs Organization
- **WCO Member Case Study**
Dr. Peter Keller, German Zollkriminalamt

Session IV: Public-Private Partnership & Technology Solutions

- **Cooperation with the Tobacco Industry**
Mr. Austin Rowan, OLAF
- **Information Technology**
Mr. David Evans, BULL
- **Public-Private Partnership/Solution Providers to Governments**
 - Mr. Daniel Hubert, Digital Coding & Tracking Association
 - Mr. Paul Miller, Director of Strategic & Product Marketing, Solutions, De la Rue

Session V: Closing Session

- **Closing Keynote Address**
Mr. Achim Pross, OECD
- **Closing Remarks**
Mr. Mike Norgrove, Chair of the Summit

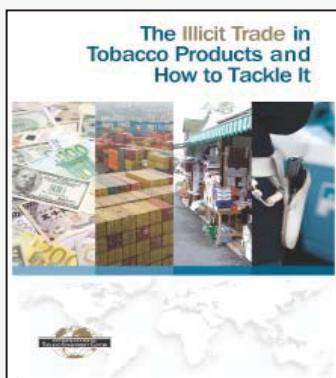
Documents Available on ITICnet.org

- Agenda
- List of Participants
- Summary Outcomes
- Principles of Excise Taxation: Professor Sijbren Cnossen
- Administering Excise Duties: Mr. Rob Preece
- Illicit Trade in Alcohol and Tobacco Products: Ms. Elizabeth Allen
- Tackling Cigarette Smuggling with Enforcement – Reviewing Recent Experiences in Hungary, Romania and the United Kingdom: Dr. Janos Nagy
- Tackling Fuel Fraud Together: Mr. Pat Curtis
- Operation Ashbox: Mr. John Whiting
- Mineral Oil Project: Mr. Niall Butler
- WHO Tobacco Protocol and its National Implications: South African Revenue Service
- A View from the Spirits Industry: Mr. Mark Baker
- The Challenge of Illicit Alcohol: Mr. Keith Miller
- Setting Up an Excise Program in Support Of Revenue Assurance: Mr. Allen Bruford
- Linkage between Tax Burden and Illicit Trade of Excisable Products: Mr. Adrian Cooper
- Revenue Package Presentation (English)
- Revenue Package Presentation (French)
- Cheap White Cigarettes / Uncommon Brands: Dr. Peter Keller
- EU/MS Cooperation Agreements: Mr. Austin Rowan
- How Information Systems Support Best Practise: Mr. David Evans
- Securing the Supply Chain: Fighting Illicit Trade and Securing Government Revenues: Mr. Daniel Hubert
- Protecting Revenues through Public / Private Partnership: Mr. Paul Miller
- The Oslo Dialogue: A Whole of Government Approach to Fighting Financial Crimes, including Tax Offences and Financial Fraud: Mr. Achim Pross

Delegations from WCO Member States

| | |
|----------------------------------|----------------------------|
| Angola | Indonesia |
| Australia | Iran (Islamic Republic of) |
| Austria | Ireland |
| Azerbaijan | Israel |
| Bangladesh | Kenya |
| Belgium | Latvia |
| Benin | Lesotho |
| Bermuda | Mexico |
| Bhutan | Moldova |
| Brunei Darussalam | Morocco |
| Bulgaria | Netherlands |
| Burkina Faso | Nigeria |
| Burundi | Papua New Guinea |
| Cambodia | Poland |
| Central African Republic | Rwanda |
| Chad | Saudi Arabia |
| China | Serbia |
| Comoros | Slovakia |
| Democratic Republic of the Congo | South Africa |
| Djibouti | Spain |
| Dominican Republic | Sweden |
| Finland | Thailand |
| France | Togo |
| Hong Kong - China | Ukraine |
| Iceland | United Kingdom |
| India | |

The Illicit Trade in Tobacco Products and How to Tackle It



The Illicit Trade in Tobacco Products and How to Tackle It has proven to be a “best seller” among public policy publications since its launch in April 2011. The booklet is now in its second printing, with over 5,000 copies distributed. The booklet has been translated into Russian, Arabic, Spanish, French, and Turkish.

The Illicit Trade in Tobacco Products and How to Tackle It was also highlighted as special feature articles in the April, June, and November 2011 issues of the *Tobacco Journal International*.

The booklet is available for download on ITIC’s website (www.ITICnet.org).

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ITIC Excises Studies Available

Over the past year, ITIC and Oxford Economics have released a number of excise-related studies:

- *An Analysis of Tobacco Taxation and Affordability Issues in Russia* (May 2012)
- *An Analysis of Tobacco Taxation and Affordability in Ukraine* (January 2012)
- *The Impact of Imposing a Global Excise Target for Cigarettes: Experience from the EU Accession Countries* (September 2012)

Copies of all ITIC publications can be found in the “Publications” section of ITIC’s website (www.ITICnet.org).

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About the Organizers

World Customs Organization



The World Customs Organization (WCO) is the only intergovernmental organisation exclusively focused on Customs matters. With its worldwide membership, the WCO is now recognised as the voice of the global Customs community. It is particularly noted for its work in areas covering the development of global standards, the simplification and harmonisation of Customs procedures, trade supply chain security, the facilitation of international trade, the enhancement of Customs enforcement and compliance activities, anti-counterfeiting and piracy initiatives, public-private partnerships, integrity promotion, and sustainable global Customs capacity building programmes. The WCO also maintains the international Harmonized System goods nomenclature, and administers the technical aspects of the WTO Agreements on Customs Valuation and Rules of Origin.

International Tax and Investment Center



ITIC serves as a clearinghouse for information on best practices in taxation and investment policy, and as a training center to transfer know-how on improving the investment climate of transition and developing countries, thereby spurring formation and development of business and economic prosperity. Organized in 1993, ITIC is an independent non-profit research and education foundation with offices in Russia, Azerbaijan, Kazakhstan, the Philippines, Ukraine, Jordan, the United Kingdom, and the United States.

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