

Belgian Federation of Tobacco Wholesalers¹ Position Paper on Feasibility Assessment Regarding EU Systems for Tracking and Tracing of Tobacco Products (TPD – Art. 15)

A) General

- Fetadis has the firm conviction that the whole feasibility report has been written focusing on the potential impact of a T & T system primarily from the viewpoint of the tobacco manufacturers. Whereas art. 15 of the TPD impacts all actors of the distribution chain from manufacturers over wholesalers to retail. Indeed, in the report, there is few detailed consideration on the operational (and other) impact for the wholesale.
- Moreover, the authors of the report clearly did not take into consideration that the wholesale sector is completely different in every member state and operates accordingly in a completely different set-up.
- Whereas the manufacturers are mainly a group of **5** multi-national companies active in **all 27** member states, the wholesale business :
 - Is mainly operated by family owned small and medium-sized companies,
 - **merely** active in only **1** member state,
 - and/or even in one trade segment of that one member state.
- The wholesale business is characterized by small operational entities with very limited means :
 - as well in terms of staff,
 - in technical capabilities,
 - in know-how,
 - in lobbying resources,
 - and financial resources.
- The limited financial resources of the wholesalers are determined by following facts :
 - there are predominantly 5 multi-national tobacco manufacturing companies, being the “strong” suppliers for the wholesalers, strongly limiting “the room for negotiation” of trade terms.
 - the retail sector is for the bigger part characterized by strong, sometimes even multi-national companies, having the choice between a number of wholesalers for their supplies and as such able to “impose” their trade terms to the wholesalers.

¹ Fetadis represents the main tobacco wholesalers active on the Belgian market. Together they represent over 80% of the Belgian market.

- the remaining part of the retail sector is characterized by a large number of small independent shops with higher financial risk and cost.
 - in countries with a tax-stamp and a predominantly "Ad valorem" tax-structure (in casu Belgium), the consumer selling price is determined by the tobacco manufacturer. This selling price includes the margin of the whole distribution chain, i.e. wholesale and retail. Thus the profitability and liveability of the wholesale business is de facto determined by the tobacco manufacturers.
- ⇒ **as a result, the part of the value chain remaining with the wholesalers as gross margin is only approximately 1 % of the consumer selling price.**

B) Affected stakeholders

- **Manufacturers**
 - In our view, the implementation of a T & T system on tobacco products can be easily implemented in the current and existing manufacturing process at limited extra cost.
 - The manufacturers already do have the know-how and the expertise to implement such a system.
 - Depending on the chosen option or method, this limited operational cost might only be increased by a one-time investment in some hardware, with negligible impact on the profitability of this large multi-national companies.

- **Wholesale**

The wholesale process is a complex process with many different steps. Without going into details, hereby the main areas of impact :

- Validation of goods receipt (incoming goods) per manufacturer of brand and packaging
- Re-allocation of stock over warehouse and / or picking facilities
- Order-entry per customer
- Order-entry per GLN
- **Scanning per individual delivery unit as well as packaging material during picking process**
- Process T & T obligations during aggregation in picking process of both goods and packaging
- Administrative encoding of data (outgoing goods) to EU-repository
- Process T & T obligations in transport
- Process T & T obligations with transport documents / invoices
- Management of reverse logistics

The above mentioned impact on processes will lead to an important increase of structural costs and investments :

- Resources : extra operational activities (see above), slower processes, expensive shift work, ...
 - High administrative burdens, extension of tasks, ...
 - Investments in hardware and software, maintenance, ...
 - Increased costs in training
 - Increased costs in audit and controlling
- ⇒ **Based on a first test and conservative estimate, it appears that the structural operational cost for the wholesaler (without the extra administration cost and investments) will increase by over 70 % !!!**
- ⇒ **The contribution of the manufacturers in the deployment phase is absolutely not covering nor compensating the structural extra cost in the operational phase.**

C) Option Mapping

Since, as above mentioned, the impact of a T & T system on the wholesale business was not fully examined, it is difficult to appraise the different options.

D) Assessment of Expected Economic Impacts

Regarding the cost analysis however, we sincerely doubt that the analysis is appropriate as it does not take into account the real cost impact on the wholesale business. (See points A, B, C and E)

E) Conclusion

As wholesalers, any T & T system must respect the particularities of the wholesale business :

- It must be operationally feasible
- It must be global European system
- It must be financially affordable
- It may not increase administrative burden
- It should actively and proven contribute to reduce illicit trade

Taking into account the already low profitability, the Belgian Wholesale Federation, Fetadis , requests that the implementation of a T & T system is done on basis of a fair and equitable sharing of all related costs (both investments and operational) between the stakeholders (manufacturers – wholesale – retail)