## Logista Main Concern: Role&Liability of Distributors

Logista, as one of the leading distributors in Europe holding some 40% of tobacco market share throughout EU, is deeply concerned about some of the open points still to be clarified by the EU Implementing Acts on Track&Trace, mainly the final role of the distributors and wholesalers, along with the logistics and transport companies participating all along the tobacco supply chain.

The current approach of the studies, discussions and consultations on the Track & Trace requirements is stressing the role of manufacturers and transmission to the data base, whilst on daily operations, most of the events to be transmitted to the T&T data base will be performed (captured, managed and sent) by the Supply Chain Operators, which are in most cases the closest operator to the point of diversion to illicit channels for tobacco products.

Its number (probably beyond 10.000), different type of operations (van-sales, pre-sales and vending) and automation levels will need a very detailed study for the implementation and readiness of all these Supply Chain Operators.

## Logista Postion in EU tobacco market and future T&T scenario

Logista currently distributes some 40% of the total European Union tobacco volumes, with a highly automated operations in some of their markets (France, Italy and Spain) where it reaches almost 99% of market share, but also dealing with special distribution activities in Portugal, such as vending sales and van-sales operations.

Imperial Tobacco Group (ITG) holds today 70% of Logista shares, both companies have signed a Relationship Framework Agreement, in which ITG undertakes to maintain and respect the freedom of management and decision making of the administrative and managerial bodies of the Company, and the neutrality principle in its commercial and services relations with third parties, also establishing the confidentiality of the business information of the Company and the separation of their respective IT systems. The Framework Agreement also regulates related transactions between both companies, and the government and administration of the Company. As a consequence, independence on activities and operations is fully guaranteed, and a proof of it is that ITG main competitors choose Logista as their distribution partner in major markets like France, Italy, Poland, Portugal and Spain.

Logista has already gone through a comprehensive assessment on the future scenario of the T&T requirements within our tobacco footprint, where we are currently dealing every year with over 225 billion cigarette-equivalents, of which 70% is ordered at outer/carton level, meaning around 20 million picking boxes of 12.000 different SKUs.

Our calculations of the additional readings/scanning operations to be performed as a result of the EUTPD T&T requirements, amounts to 1.3 billion readings, of which 80% are purely manual, and only 20% will be performed through our highly automated operations.

## Logista Track & Trace Environment Initiatives

Logista has also been running in the past years some initiatives that may be of interest to the EU Commission, in particular 3 pilot tests (showcases) covering different scopes in major markets, and also some Proofs of Concept with relevant vendors for the T&T repository.

The Showcases take advantage of the current industry operated T&T solution, which is already up and running as a consequence of the bilateral agreements in place between these tobacco manufacturers and European Anti-Fraud Office (OLAF) aiming to tackle illicit trade.

Our showcases go further and deeper, as we are reaching the Point of Sales (PoS) in all markets and managing T&T information down to loose pack level, meeting EUTPD requirements.

* Our first pilot test was launched in France in January 2015, including 8 products representing a 21% of Market Share of the universe of retail shops reached (99% of Paris customers), and testing high-speed scanning of fully automated preparation lines for outers/cartons and manual picking for master cases, and leveraging all learnings for the Plain Packing enforcement planned for November 2016.
* From September 2015, we also started to work in a showcase in the Spanish market, covering a bigger universe of 10.000 PoS (75% of total), taking advantage of our centralised picking structure for the Spanish market, and including 3 products, representing 12% market share. During the Spanish showcase we tested a different type of fully automated preparation lines, and also testing for the first time manual picking (Pick-to-Light preparations) for cartons.
* With these previous satisfactory experiences, Logista, willing to test as much as possible of the potential operations affected by the scope of the EUTPD T&T requirements, proceeded to perform in Italy since 2016 Q1, a third pilot test. This showcase includes for the first time the whole supply chain operations, from product entrance in Logista Italia premises, working on the electronic integration with the manufacturer production sites, to the final verification by the final consumer in the PoS (involving 20 retail shops in Rome) with a mobile app. This app shows all product movements from the moment the product is manufactured (production, place, date, hour, line...) and tracing all product movements throughout the supply chain, including all intermediate warehouses, to the PoS. We have selected 3 products in this showcase representing 20% of market share in Italy.

In all 3 showcases we have invited all stakeholders to different demos, where we have presented the pilot tests to Customs officials, Finance and Health Ministries representatives, Law Enforcement authorities, official organisms ruling the tobacco market and tobacconists associations.

Additionally, in order to be able to assess correctly the data volumes to be stored and therefore the size of the databases to be managed for the whole Logista footprint, we have worked in different proofs of concept (PoC) with some of the most experienced technical vendors in major data bases/repositories

We have simulated a whole Logista market (the biggest and most complex, Italy) one-year operations, translating them into EPCIS standard events, and extrapolating the result for the whole Logista footprint, and testing and/or simulating queries to the data base, aggregation and hosting requirements, resulting in a data base 100 times bigger than any currently managed by Logista, which represents a major IT challenge for our company.

Throughout these pilot tests and proofs of concept we have gained very relevant insights and learnings that Logista is willing to share with all EU stakeholders in the workshops that will be held in the near future, to which Logista has formally asked its intention to participate in. Key learnings obtained are about the need of a standardization of the data carriers nature, location and printing quality, massive impacts on productivity (downgrades) in manual operations, the actual unfeasibility of reaching a 100% readability rate taking into account current technology and human intervention in the process, or doubts about the feasibility/operability of a single all-European T&T data base.

Regarding standardization, we have been dealing with GS1 codes, and getting different readability rates, depending on the printing quality of the code, its size and position, so we strongly suggest going through a prior data carriers’ standardisation process to ensure the optimal structure and outcome of the T&T model. Non standard data carriers or low quality, reduced size could lower readability rate over 20% in some high speed processes (ex. Fully automatic picking ).

## High Level Assessment on Cost of EUTPD requirements in Distribution

Although final requirements of the regulation are still pending clarifications from final implementing acts, Logista has already a high level estimation of the impacts of the implementation of traceability as required in EUTPD.

Logista cost estimation includes:

1. Depreciation of investments in IT and Installations, including a T&T repository data base to store and communicate T&T events. Depreciation of investments accounts for around 20% of the additional annual T&T running costs.

2. Operating costs in distribution. Accounting for some 80% of the additional annual costs. It is important to mention that operating costs resulting of productivity downgrade (which according to our first estimations could represent 30% downgrade in manual process) accounts for 60-70% of the additional annual costs

It does not include:

1. Ramp-up costs & Pre project costs

2. Other stakeholders costs (Manufacturers, or Member States Authorities)

3. Any Security features related cost

4. HUB – Discovery service related costs

5. Third parties costs (ex. transport companies)

6. Licenses cost to use any proprietary technology

Main assumptions:

1. Logista group will have its own T&T repository

2. Additional 1.3 Billions of additional scanning / readings per year from 2019 throughout Logista EU footprint (70% made at outer level)

3. Industry operated solution (A.1)–based in one system with repository per Product/TM + HUB – dispatcher

4. A product has to be tracked when there is a change in property and when there is a change in location (intermediate movement).

5. Open standards (EPCIS, GS1)

6. Reporting on a daily basis – not real time.

Logista is willing to share its knowledge and its estimations in the frame of Stakeholders workshops to be organized by EU. As there are a large set of open points pending to be clarified by EU and directly impacting future T&T cost base, Logista is not providing any detailed figure in response to this consultation because we believe that it is absolutely mandatory to have these topics cleared and understand first Logista complexity and the major hypothesis assumed to built up our estimation.

## Pending areas to be defined by the Implementing Acts

According to our view, some of other areas still to be clarified from a distributor point of view are:

* As previously mentioned, our main concern is about the final role and liabilities of distributors and wholesalers.
* Define certification requirements on processes and procedures to ensure compliance.
* Obligations of vending machine operators as a first retail point and van-sales representatives operations.
* Obligations of warehousing and transporting companies (double scanning and related liabilities).
* Obligations for EU imports and exports as long as they take place outside of the EU.
* Methodology for record of invoices and order information as well as payments (definition of standards and order-to-cash matching policy)
* Obligations of retail organizations operating a warehouse.
* Methodology how to manage returns among other special flows (co-packing, rework...)
* EU as a guarantor for standardization (labelling, communication, central product master data...)

All these open points where a further clarification and/or decision is still pending become even more critical when taking into account that a very short 16-month period will be given to implement and test the systems before 20 May 2019, deadline for cigarettes and smoking tobacco T&T requirements entry into force, affecting hundreds of manufacturers/importers, thousands of distributors/wholesalers and an unknown but larger number of warehouse and transport companies if finally obliged by Implementing Acts.