

All You Need to Know About Track & Trace Mechanism

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In the 55th GST Council meeting, the proposal to add Section 148A for goods prone to evasion was made, recommending the introduction of Unique Identification Marking (UIM) on these goods or their packaging. This has now been implemented through the Finance Bill 2025, which proposes two new sections—148A for the track and trace mechanism, and 122B for penalties for non-compliance.

Decoding Track & Trace Mechanism

Before delving into the specifics of the track and trace mechanism, it's imperative to understand what it entails. In simple terms, the track and trace mechanism is a process that identifies the origin of a product and tracks its journey until it reaches the point of sale. Products are assigned a secure, unique ID to ensure they can be monitored and to confirm that all taxes have been paid.

The reasons for implementing such a mechanism range from curbing tax evasion, boosting tax revenue, increased transparency, to eliminating counterfeit products from entering the legal system.

As specified in the Finance Bill 2025, the mechanism will be applicable to notified goods and the class of persons holding such notified goods will have to comply with the provisions of the mechanism. Drawing from the global track and trace initiatives, we anticipate that the mechanism will initially apply to tobacco and tobacco-related products, such as cigarettes, cigars, pan-masala etc.

Statistics

As per information available in the public domain, the shadow market of contraband cigarettes, which

includes both smuggled imports and locally produced goods avoiding taxes, constitutes nearly 25% of India's tobacco market. In the past decade it is estimated that approximately 2500 billion cigarettes have been distributed through illegal channels. Further, according to a 2023 report, illicit cigarette volumes in India reached 30.2 billion sticks in 2022. This illicit trade significantly harms government revenue, with annual losses estimated at around Rs 20,000 crore. Directorate Revenue Intelligence (DRI) data shows that 9.1 crore cigarette sticks worth Rs 179 crore were seized in 2023-2024 which is a 33% increase over the previous year and nearly double of what was seized in 2019-20. Needless to say, these statistics are self-explanatory as to the severity of the issue and the immediate need for action.

Global Landscape

Globally, many countries have already adopted the track and trace for various purposes such as ensuring product authenticity, increased transparency and combating counterfeit products from entering the legal supply chain, as well as boosting tax revenue. To the best of our knowledge, the following are few of the global track and trace initiatives:

1. China

China's PIATS (Product Identification Authentication Tracking System) was launched in 2007. The programme initially covered 69 product categories, including food, beverages, and pharmaceuticals. By 2015, it had shifted its focus to drugs, specifically targeting 275 therapeutic classes. The PIATS system increased tax collection, curtailed the grey market and enhanced data transparency.

2. Turkey

Turkey implemented the Pharmaceutical Track & Trace System, known as İlaç Takip Sistemi (ITS) in 2010 and expanded it to a full track and trace system by 2012. Its primary objective was to ensure reliable and safe supply of drugs to patients. The system has helped in achieving this goal while also enhancing the country's ability to combat sale of counterfeit and smuggled drugs, prevented sale of illegal drugs, barcode scams and drug thefts.

3. Russia

Russia's track and trace system was launched in December 2017. It aimed to combat counterfeit products such as pharmaceuticals, tobacco and alcohol. It uses a 44-character crypto code for security and has a centralized database managed by Center for Research Perspective Technologies (CRPT). The system demands compliance from every distributor and manufacturer in the supply chain and consequences of non-compliance are severe, including substantial fines and product seizures.

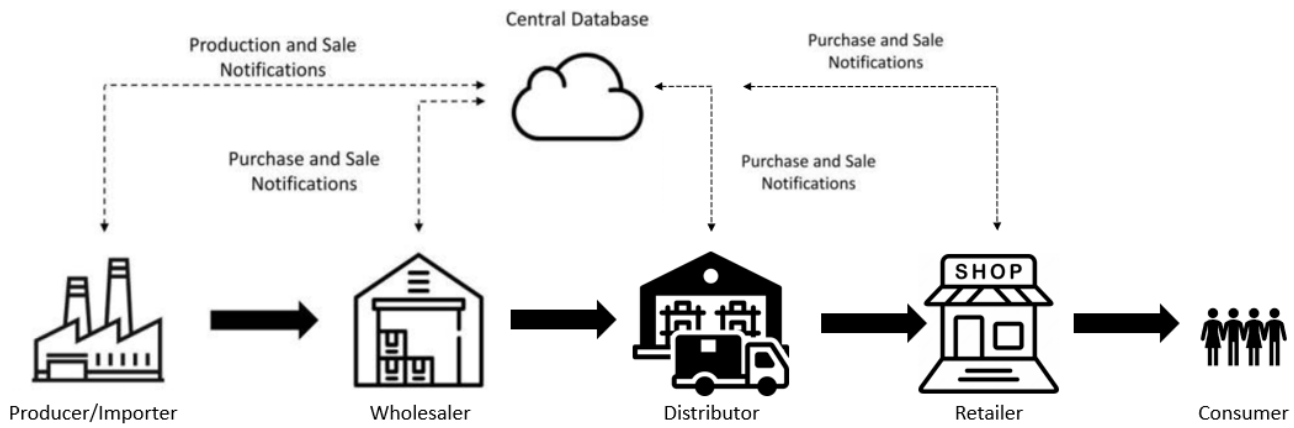
4. UK

UK introduced its Tobacco Track & Trace system (TT&T) from January 1st, 2021. Tobacco products are scanned as they make their way through the supply chain and that data is stored in a UK repository. It tracks products manufactured in or imported into the UK to the first retailer.

Additionally, the World Health Organization's Framework Convention on Tobacco Control (FCTC) and the Protocol to Eliminate Illicit Trade in Tobacco (ITP) require the implementation of a track and trace system to closely monitor and control the legal supply chain of tobacco products.

Way forward

The implementation of the track and trace mechanism will involve an authorized body responsible for issuing IDs. In our view this could be managed by either the GSTN or NIC, from where the taxpayers will be issued the UIMs for their products. With this system in place, the government will then be able to trace the movement of goods at each stage until they are sold. This can be depicted by way of the following illustrative diagram:



Further, the track & trace system can be implemented in two ways. The first approach involves a phased public traceability programme, beginning with a specific industry and gradually expanding to others. The second approach is through a public-private collaboration, whereby responsibility for implementing and maintaining traceability measures is shared. In our view, the trace and track mechanism will be implemented by way of a public traceability programme.

We believe, this initiative will help tackle any potential evasion and align India with globally accepted principles. Additionally, it sets the stage India's transformation from a developing to a developed nation, bringing us closer to the vision of a 'Viksit Bharat' by 2047.