Labelling

Questions for the Centre for Development of Perspective Technologies

a) Labels

1. It is not clear whether/how individual labels/codes will be made available to the sender abroad for labelling or if it will be possible to apply the label upon arrival.

It is important to note that goods are labelled before being subjected to customs release for domestic consumption or reimport.

In the current pilot on medication labelling, the marketing authorization holder for a medication orders the labelling codes and sends them to its foreign manufacturer. The foreign manufacturer notifies the holder of the completed labelling, and the latter, in its turn, submits the data to the 'Goods Monitoring' State Information System. After that, the goods may undergo the necessary customs procedures.

The same applies to footwear and tobacco products.

2. It is not clear whether the registration is needed for the product itself (every single item) for a category or for a group of categories.

Every category of goods needs to be registered in the 'Goods Monitoring' State Information System by the manufacturer or the importer only once. Afterwards the manufacturer (importer) can order the necessary amount of labelling codes in the system for the produced (imported) goods pertaining to these categories.

3. The information to be included in Data Matrix should be clarified as soon as possible and the equipment necessary for code identification made swiftly available to importers. The obligation to mention the date of import will be challenging for many companies as it depends on a wide range of criteria which are likely to be unknown at the time the label will be put on the product (capacity planning of carriers, forwarders, customs clearance in Russia, etc.). For this reason, we would recommend deleting this requirement.

The labelling code consists of the identifying and the verifying parts. The identifying part consists of Foreign Economic Activity Commodity Nomenclature code and the serial

number of the particular commodity item of that type. The verifying part of the code amounts to a digital signature protecting the identifying part from any alterations. These are the mandatory identifying elements for any labelled product.

For certain types of goods, additional data can be included in the labelling, such is maximum retail price for tobacco products. For perishable products, expiry dates may have to be specified, in order to control their freshness when selling them to end-consumers.

The main goal of labeling is to be able to identify every single item in the 'Goods Monitoring' State Information System, so that all the operations with this item, including its import to the Russian Federation, could be registered in the system by the respective actors.

The information on individual items and their trade can be attributed to them in the 'Goods Monitoring' State Information System using labelling codes, but it's not included in the labelling code. The labelling code cannot be altered during the life cycle of the labelled item and for a considerable period of time after it exits trade circulation.

4. **To date, it isn't clear where labelling is supposed to occur. To keep the system flexible, it would be key for companies to be able to label goods themselves, either in the factory or at the warehouse. The payment process for the received tag should also be clarified.**

Goods may be labelled anywhere BEFORE they enter commercial circulation on the territory of Russia. For imported goods, identifying labelling must occur before they are subjected to customs of release for domestic consumption of reimport.

5. **The Data Matrix code (even in PDF) is a cryptologic facility. As such, its transfer abroad could be done only after a notification to the authorities – given the volume of transactions expected, making individual requests would be an overly burdensome process for both market players and Russian authorities. We would recommend that importers could request the authorization to share those codes with the factories they are working with abroad only once. Factories will then be entitled to labels products to be sold on the Russian market without the need to send another notification for each product – shipment.**

This proposal may be considered by the competent Federal authorities, with a mandate to formulate state policies in this area.

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b) Information security

6. **Excessive requirements in terms of <u>information disclosure</u>. For some companies it is not possible to disclose all information, for commercial reasons. They are also concerned about data breach possibilities and, worse, with the possibility that the submitted confidential information might be misused.**

The 'Goods Monitoring' State Information System ensures data protection as per the requirements of Federal Law No. 149-FZ of 27 June 2007 "On information, Information Technologies and Information Protection" as well as the requirements of the Federal Service for Technical and Export Control Regulation of 11.02.2013 "On the Approval of Requirements for the Protection of Information not Constituting State Secret and Contained in State Information Systems." The Russian law also envisages administrative and criminal liability for disclosing confidential information, including trade secrets.

7. **Therefore companies call for adoption of clear and unambiguous provisions lying down the responsibilities of third parties and the penalties they could face if the confidential information shared with them is not efficiently protected or is used for purposes other than the ones mentioned in the regulation.**
    This are extremely important aspects of access to proprietary and confidential information by the data operator, since the misuse of such data could cause serious threats to IP infringement, leading to growth of counterfeit goods on the market.

Users of the 'Goods Monitoring' State Information System get access to data subject to compliance with the requirements of the laws and regulations listed in paragraph 6. He disclosure of sensitive information carries administrative or criminal punishments as per the Russian law.

c) Control

8. **We would appreciate clarifications as to where controls are expected to take place and how they will be conducted (at customs, retail, warehouse). In addition, further information on the elements to be mentioned on import (e.g. Cargo Customs Declaration and financial documents (VAT-invoice and delivery note for wholesale customer) are needed.**

The mandates of the control and oversight bodies remain unchanged. HOWEVER, the information uploaded to the 'Goods Monitoring' State Information System will enable them to receive real-time data on the circulation of goods, which will help the bodies identify non-compliances and promptly react to them. Thus, the information labelling system will help expand the practical application of risk-based approach and could help reduce the amount of necessary control and oversight measures.

In the process of customs clearance for domestic consumption or reimport, the information on the goods must be specified in their declaration.

Currently, there is no requirement to additionally enter such information in the financial documentation accompanying the goods. However, the information on the documents themselves (their reference numbers and dates) must be entered into the 'Goods Monitoring' State Information System for each product.

d) Footwear

9. **Deadlines & timings: the labelling for shoes is supposed to be working from July and now a pilot project is running to check the system, so some companies can try it and adapt their procedures.**

Together with industry representatives, the Center for Research in Perspective Technologies has drafted its recommendations on the step-by-step introduction of the labelling system for footwear and prepared a draft regulation on the labelling of products in stock as at the start date of mandatory labelling.

From 1 July to 1 October 2019, market players must **get registered** in the system on the web site http://честныйзнак.рф/ (chestnyznak.ru) and **apply** for digital code equipment (code issue recorder). At this stage, market players can start **labelling in-stock goods.** No issue recorder is necessary for this: simplified codes can be issued to companies directly from their personal pages in the system.

From 1 October 2019 to 1 February 2020, code issue recorders start to be given to companies; the system is fine-tuned, and stock labelling is completed.

As of 1 February 2020, the manufacturing, retail trade, and other circulation of unlabeled products will be forbidden. The remaining stocks with simplified codes may be sold within 2 years from their introduction into circulation.

10. **Still, companies will need some time to adapt their production to cope with this new requirement. It usually takes months before a product reaches its final consumer (production, transport, customs check, delivery to warehouse and retail store, etc.). If all footwear placed on the market on the territory of the Russian Federation as of July 2019 must bear a new label, manufacturers shall already start implementing the required changes. However, while the new law has been adopted on December 25, 2018, the exact requirement and processes remain unclear. Therefore a one-year transitional period is recommended, starting after the full evaluation of the footwear pilot project is available and the IT systems necessary for the national track & trace system are fully operational. The latter criteria is critical for the sporting goods industry as the success of this initiative primarily lies on the abilities of intermediaries to deliver an efficient system in due time. A transitional period would also solve the issue of re-labelling current stocks. The market players will have one year to ensure that all**

products present on the territory of the Russian Federation have all the necessary information on their label.

The labelling of footwear will be rolled out in phases (see answer to Q9 for information about the phases).

Moreover, should the remaining stocks of footwear and clothing still be unlabeled at the moment when it becomes obligatory, the current owner of the stocks may order the necessary identification means on physical media through authorized labelling centres and label the stocks with them.

11. Footwear labelling
   It is our understanding that label should be placed either on a unit package, a goods label, a hang tag, or the product itself. This interpretation should prevail as putting label on both shoes of a pair would be impractical.

Both shoes in a pair need not be labelled. In the current pilot, manufacturers or importers put 2D Data Matrix codes on boxes or labels of footwear (in the absence of retail package). A manufacturer or importer may select ONE of these locations for identifying codes at its own discretion.

   e) Clothing

12. In the case of clothing, the situation is different and more complicated, as there is not a running pilot project yet and, actually, the clothes that are supposed to be selling in December are now been manufactured (and, of course, it´s not possible to comply with the law when it´s not clear and when the system hasn´t been implemented or tested).

A draft regulation on piloting the labelling of certain clothing industry goods has already been prepared and should shortly be announced by the Government of Russia.

13. For these reasons it would be feasible to introduce a transition period for the products produced before the new system launch which are to be in stores by December, as it is not possible to meet the requirements which have not been approved yet.

An intermediate and final report will be prepared following the pilot. They will inform the conclusion of the Russian Government on whether the industry is ready for mandatory labelling starting 1 December 2019.

14. Another option is to take into consideration the whole product cycle and to approve the new regulation according to it (creating special timing for the customs, then for the retail, etc.)

For every product group, the Government will adopt a special regulation on labelling, factoring in its specific features and setting the period of transition to mandatory labelling regime. See, for instance, Governmental Regulation No.224 of 28.02.2019 establishing requirements for tobacco products.

f) Practical matters

15. Currently, the code contains 88 symbols in its verifying part and 4 in the key part. The market expects the verifying part to be decreased ('cutting the crypto-tail').
When could it happen? How many symbols would remain?

Right now, the verifying code length limits are set separately for different types of goods. The development of guidelines will help establish individual code structures, and hence, code lengths for different types of goods. For instance, the structure of codes for medications has already been abridged following consultations with market players, including foreign manufacturers.

Significant shortening of the verification code will create a threat of it being picked, which would open opportunities for faking labelling codes used by good-faith market players.

16. Companies have yet to test the software by generating crypto codes from the cloud. When will they be able to do it? Or will there be other solutions for receiving codes?

The Operator is currently deploying the test and demo environments in which integrations can be practiced and all the mechanisms fine-tuned. The access to them will be granted to users by the service upon application for a particular product group.

17. When are you planning to let users receive crypto codes from the cloud?
Will it be done through the personal pages of foreign manufacturers?

Foreign manufacturers – with the exception of pharma producers – do not sign up as users of the labelling system. Users can receive codes through API or as labels through their personal page. Even in case of pharma, foreign manufacturers cannot receive their codes directly from the system; they have to have their representatives register as users.

18. How (between which legal entities) will crypto code issue agreements be signed?
Has a model agreement been drafted?

The conditions of providing the service by the Operator are set forth in the agreement that the Operator signs with a player involved in the circulation of goods subject to labelling. The model form of the agreement is approved by the Ministry of Industry and Trade of the Russian Federation.

19. What is the projected price of labelling 1 package with a crypto code?

Indicatively, the fee per one code issued and traced should be 50 kopecks (before VAT).

The Operator is supposed to provide identification devices and code issue recorders to the manufacturers of products subject to mandatory labelling free of charge, charging them subsequently for every code issued and traced in the labelling information system.

The code issue service is to be paid for by a player before the data on the coding of the item, its packaging or a material medium to be thus identified are entered into the information system.

20. How are payments from abroad to be made?

Only Russian legal entities may be registered in the 'Goods Monitoring' State Information System: a legal entity with a Russian VAT number, a Russian representative office on behalf of a foreign legal entity, or, in most exceptional cases, a legal entity acting directly from abroad.

The reason is that the users of the 'Goods Monitoring' State Information System utilize advanced qualified electronic signatures, which are practically never issued to non-Russian entities.

Therefore, in the vast majority of cases, users will pay for codes from their Russian (or foreign) accounts to the rouble account of the labelling system Operator. There is no foreign currency transaction requiring special procedures.

For the handful of cases when the entity pays from abroad (without a Russian legal entity) banking documents will be made out (FYI, the Central Bank of Russia dropped the requirement for filling out transaction passports as of 01/03/2018, which significantly facilitates the paperwork).

21. What is the current status of public authorities' connection to the system for monitoring the movement of medicines?

The Ministry of Healthcare, the Federal Service for Supervision in Healthcare with its territorial offices, the Ministry of Industry and Trade, the Federal Tax Service, and the Federal Customs Service are connected. The Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing and the Federal Service for Accreditation are finalizing their connections.

22. Is the Federal Customs Service already connected? What is its mandate in the process?

The mandates of the Federal executive authorities are described in the Russian Government's Regulation No. 1556 of 14.12.2018.

Currently, the connection of the Federal Customs Service to the 'Goods Monitoring' State Information System is underway. The mandate of the Service will remain unchanged. HOWEVER, the information uploaded to the 'Goods Monitoring' State Information System will enable the Service to receive real-time data on the circulation of goods, which will help it identify non-compliances and promptly react to them. Thus, the information labelling system will help expand the practical application of risk-based approach and could help reduce the amount of necessary inspections.

23. What timeline and stages of EAEU-level integration does the Centre project?

The pilot projects on tobacco (with Kazakhstan) and footwear (with Belarus) are to be run in 2019. Moreover, under Regulation No.270 of the Russian Government of 14 March 2019 "On Amending Regulation of 11 August 2016 No.787 of the Government of the Russian Federation", the mandate of the Operator of the fur labelling system is being transferred from the Federal Tax Service to Operator-CRPT LLC. Within the framework of this project, the integration of the labelling system with the Eurasian Economic Commission's information systems has already been completed and will further be developed and updated by the Operator itself.

24. What is the readiness of reports on the movement of labelled goods?

We are now actively working on the personal page of the Federal executive authorities in the 'Goods Monitoring' State Information System. The reports functionality has been developed for all the competent Federal executive authorities. The access to report will be granted to all the stakeholder executive authorities through both the web interface and the mobile app. These tools will give authorized officials of the control (oversight) bodies access to the information on the whole life cycle journey of labelled goods. Based on the requests of the state authorities, the section of the personal page containing detailed analytical reports on labelled goods is being further improved now.

25. What scope of information will be accessible for the manufacturers (and other legal entities?)

According to the Concept of Establishment and Operation of the System for Track-and Trace Goods Labelling in the Russian Federation and to Federal Law No. 381-FZ, every market player registered in the 'Goods Monitoring' State Information System is granted non-discriminatory, free-of-charge access to the data it provides to the 'Goods Monitoring' State Information System on the goods manufactured by that player and circulated in Russia.

The Concepts also envisages a ban on the use of information on the movement of labelled goods in the commercial interests of third parties.

26. Will the system have information and tech support in English once launched?

As of now, all the regulatory and reference information provided is also presented in English. To accommodate the market players of multiple nationalities represented in the system, the Operator does provide information and technical support in English.