



Testimony

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China's Role in Synthetic Opioid Trafficking

Efforts to Reduce Supply of Precursor Chemicals at the
Primary Source

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*China's Role in Synthetic Opioid Trafficking: Efforts to Reduce Supply of Precursor Chemicals
at the Primary Source*

Testimony of David Luckey¹
RAND²

Before the Select Committee on the Strategic Competition Between the United States and the
Chinese Communist Party
United States House of Representatives

April 16, 2024

Chairman Gallagher, Ranking Member Krishnamoorthi, and distinguished members of the Committee, thank you for inviting me to testify before the Committee on China's role in synthetic opioid trafficking. I'm David Luckey, a professor of policy analysis at the Pardee RAND Graduate School and a senior international and defense researcher at RAND. This testimony is generally drawn from my time leading the research and analysis and drafting the final report and technical appendixes for the bipartisan, bicameral, joint legislative-executive branch Commission on Combating Synthetic Opioid Trafficking,³ which was mandated in the FY 2020 National Defense Authorization Act.

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research.

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³ Commission on Combating Synthetic Opioid Trafficking, *Commission on Combating Synthetic Opioid Trafficking: Final Report*, 2022, https://www.rand.org/pubs/external_publications/EP68838.html; Commission on Combating Synthetic Opioid Trafficking, *Commission on Combating Synthetic Opioid Trafficking: Technical Appendixes*, 2022, https://www.rand.org/pubs/external_publications/EP68839.html.

Introduction and Background

The reemergence of illegally manufactured synthetic opioids has complicated the United States' already difficult illegal drug supply- and demand-reduction efforts. Even as demand persists for heroin and diverted prescription opioids, fentanyl and other synthetic opioids have made their way into the illegal drug supply, confounding traditional efforts to raise prices by reducing the quantity of drugs available to users. It is essential to understand the challenges at hand so that appropriate approaches to solutions can be developed. The United States could be doing more to help reduce supply and should devote resources to efforts expected to produce the greatest return on investment. Of course, it is also necessary to make equal perhaps even greater demand- and harm-reduction efforts, but in this testimony, I will only focus on China's role on the supply side of the equation.

Overarching Aspects of the Supply Problem

The production, distribution, and use of illegally manufactured fentanyl should be thought of as an ecosystem, and the People's Republic of China (PRC) is at the beginning of the fentanyl global supply chain in this ecosystem. RAND found, in its research and analysis for the Commission on Combating Synthetic Opioid Trafficking, that the PRC produces and distributes the vast majority of the precursor chemicals used in illegal fentanyl production.

There are several aspects of this ecosystem through which the United States can influence and disrupt China's role in this supply chain: from money laundering and cryptocurrency to the internet and social media, as well as in the more commonly understood issues of border security and non-border security law enforcement. To make the point, a single 55-gallon drum of synthetic opioid precursor chemicals equals potentially millions of doses of fentanyl on the street. Interfering with and preventing precursor production and trafficking is likely the most effective means of reducing the amount of fentanyl available to users.

Supply Reduction

The United States must not only continue to collaborate bilaterally with China in areas related to the production and distribution of synthetic opioids and precursors to affect the flow indirectly, but it must also act unilaterally to do everything that will directly stem the flow. While China scheduled fentanyl in 2019, it appears it might not be doing all it can to stem production and distribution. To surmount this will take not only a whole-of-government approach but also a whole-of-nation effort by the United States. Some overarching examples of this effort are improving coordination with state, local, tribal, and territorial entities; filling any unfilled critical executive branch appointments and ensuring proper staffing levels for related jobs; and reviewing, assessing, and working with the executive branch to update U.S. legislative and regulatory drug control frameworks that can influence drug supply in areas such as enhancing intelligence and surveillance and improving data analysis. There is almost certainly a greater payoff in the reduction of individual doses of fentanyl sold at the retail level in the United States by disrupting the flow of precursors earlier in the supply chain.

Supply Chain Disruption

Supply reduction requires a multidimensional approach that involves interdiction and law enforcement, such as restricting the distribution of chemicals needed to manufacture synthetic opioids; disrupting online sourcing; and tackling the enabling functions of criminal elements, primarily in China, but also in Mexico.

Improving the oversight of large chemical and pharmaceutical sectors and enhancing investigations of vendors and exporters in China; transshippers in the United States, Canada, and elsewhere; and importers in Mexico could help disrupt the flow. Additionally, actions on the domestic front must focus on improving how drug supply investigations are conducted and on strengthening law enforcement intelligence-sharing and training. These efforts, taken together, are likely to have a positive effect on reducing the supply of precursor chemicals and finished product.

A greater focus on maritime container and air cargo shipments departing the PRC and heading east, and in North America arriving from the west, will concentrate interdiction efforts where quantities of precursor chemicals are largest and most concentrated.

Reducing Fentanyl Flow into the United States

Available material and human resources in Mexico, such as port screening for fentanyl precursors arriving from China, have proven inadequate to assist the United States in this struggle with fentanyl. Working to revise existing law and rules at home and abroad is necessary to ensure that U.S. assistance improves the capacity of key partners to prevent incoming contraband, such as precursors and pill presses.

The United States should strive to enhance its own interdiction capabilities, especially in the mail and express consignment systems that facilitate fentanyl trafficking. Although the United States has identified and closed several gaps with advance electronic data for international mail, ensuring that more data are complete for inbound items to allow enhanced screening, vulnerabilities remain. For example, the Department of Homeland Security (DHS) could assist by sharing information with the United States Postal Inspection Service in areas such as shipping documentation and photos of packaging and labels from Customs and Border Protection (CBP) National Targeting Center data.

One example of this is an interim final rule that requires CBP to collect advance electronic data (AED) for all international mail containing goods destined for the United States, and submit those data to the United States Postal Service.⁴ If AED loopholes and limitations related to synthetic opioids or precursor chemicals remain, CBP should address and close them.⁵

⁴ IEC Regulatory Impact Analysis: Mandatory Advance Electronic Data (AED) for International Postal Shipment Interim Final Rule Final Report, February 24, 2021.

⁵ Electronic Code of Federal Regulations, Title 19, Customs Duties; Chapter I, U.S. Customs and Border Protection, Department of Homeland Security; Department of the Treasury; Part 145, Mail Importations; Subpart G, Mandatory Advance Electronic Data for Mail Shipments; Section 145.74, Mandatory Advance Electronic Data (AED); Paragraph (e), Exclusions from AED Requirements for Mail Shipments from Specific Countries, [https://www.ecfr.gov/current/title-19/chapter-I/part-145/subpart-G/section-145.74#p-145.74\(e\)](https://www.ecfr.gov/current/title-19/chapter-I/part-145/subpart-G/section-145.74#p-145.74(e)).

Additionally, DHS could promote additional technological solutions to enhance border screening of cargo and vehicles at ports of entry. Detection of illegal drugs or precursor chemicals at ports of entry remains a challenge, and additional research and development into novel, noninvasive technologies could help address any gaps.

Money Laundering and Cryptocurrency

Chinese money-laundering operations are a potential ancillary service for the Mexican transnational criminal organizations. The use of money-laundering organizations in the PRC, however, is not specific to the emergence of synthetic opioids in illegal drug markets and instead is related to domestic Chinese currency controls. Thus, the focus of any action should be on the PRC's current role in and responses to the illegal or unregulated production of synthetic opioids and their input chemicals.

Mexican transnational criminal organizations have made tens of millions of dollars of cryptocurrency payments to Chinese chemical producers for fentanyl precursors.⁶ While the size of the retail fentanyl market is unknown because of a lack of data, it is likely that it equates to potentially billions of dollars of illegal fentanyl entering the United States.

The Internet and Social Media

Two years ago, RAND found, in its research and analysis supporting the Commission on Combating Synthetic Opioid Trafficking, an online presence of illegal fentanyl vending on the open web that was almost entirely based in the PRC. Aggregated data we uncovered and reviewed yielded contact information on 166 unique illegal sellers, 58 of which directly included affiliations indicative of a corporate entity as identified by email domain name (e.g., email suffixes that point to registered chemical or pharmaceutical companies located in the PRC).

We did a deep dive on 11 randomly selected websites—or 9 percent of the 115 unique sites we found. The country of registrar for all 11 of these domains was the PRC; additionally, all sites except one were Chinese hosted and managed.

The clear net plays an important role in the supply of synthetic opioids. Suppliers based in the PRC are likely routing listings through business-to-business (B2B), e-commerce websites, and online classified ads. In the case of some listings emanating from websites registered in the Caribbean, for example, further analysis identified by email domain suggested that suppliers were most likely based in China. Furthermore, as identified by unique usernames or email addresses, Chinese firms used different platforms to advertise precursors or other related products. Listings can be added to many platforms, easily concealed using Chemical Abstracts Service (CAS) numbers and other coded words to circumvent website monitoring efforts. The use of public online platforms to attract buyers interested in fentanyl precursors will require constant and continuous monitoring by federal authorities.

⁶ Sean Lyngaas, “‘This Isn’t Some Random Dude with a Duffel Bag’: To Catch Fentanyl Traffickers, Feds Dig into Crypto Markets,” CNN, August 5, 2023.

Conclusion

The Commission on Combating Synthetic Opioid Trafficking final report and technical appendixes contain 78 enabling action items, many of which are directed at Congress and involve China. The action items are binned into five pillars: (1) policy coordination and implementation, (2) supply reduction, (3) demand reduction and public health, (4) international cooperation, and (5) research and monitoring. Each pillar contains a series of key actions and associated enabling actions. The Commission focused on actions the United States could take to stem the illegal flow of synthetic opioids or develop ways to mitigate overdose deaths. Examples of key action items most relevant to this committee include

- increasing coordination of U.S. authorities, filling critical appointments, and ensuring proper staffing levels
- targeting distribution of synthetic opioids and related chemicals advertised online, and, with the help of private entities, reducing online advertising and sales
- intensifying efforts to counter transnational criminal organizations' money laundering
- strengthening coordination with multilateral institutions to promote enhanced control and reporting of drugs and other chemicals
- examining how the international drug control regime can be improved, expanded on, or otherwise supplemented
- pressing the People's Republic of China to adopt clear rules to improve regulatory oversight and enforcement over industries, control over movements of chemicals and related equipment, and other restrictions on exports
- directing federal efforts to improve understanding of the illegal supply of synthetic opioids
- analyzing emergent trends in drug markets and related behaviors using a systematic and standardized approach
- utilizing novel, high-frequency, and real-time systems to enhance market surveillance.

The Commission's report and technical appendixes contain the additional key action items, the 78 enabling action items, and the supporting analyses.

It is, understandably, difficult to know where to start even with just this brief extract of key action items, let alone the many associated enabling action items. I suggest assessing these and any other recommendations across several dimensions that might include

- information on the level of the supply chain or market that the recommended action affects (for example, production, processing, export, import, wholesale, retail, or user)
- anticipated fiscal impact (cost and return on investment)
- time frame for implementation
- prioritization of the expected impact on reducing the harms caused by illegal synthetic opioid trafficking.

I would like to thank the Committee for the opportunity to submit this testimony on such an important topic that affects Americans' lives and wellbeing and our national security.