

Key inputs of illicit cigarette production

A roadmap to controlling critical raw materials, intermediate goods, and manufacturing equipment

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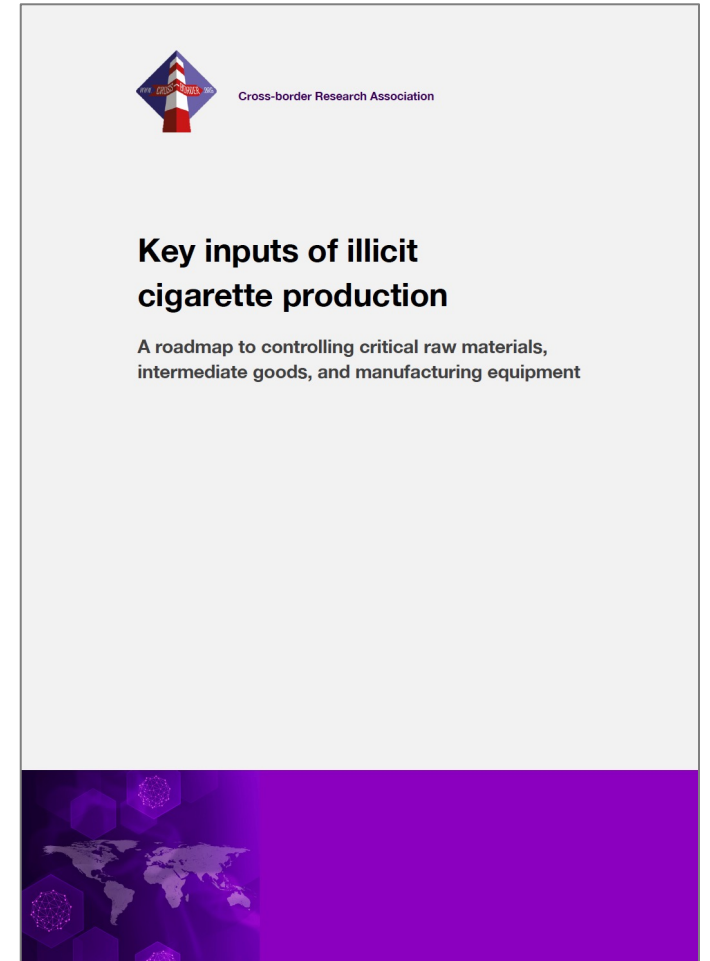
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Objectives of the study

1. To analyse key inputs of cigarette production and describe the upstream part of the cigarette value chain
2. To study forward-thinking solutions for controlling key inputs
3. To recommend ways for governmental and industry stakeholders to strengthen their control on key inputs and this way limit the availability of production-critical materials for illicit cigarette businesses



How we completed the study

22 experts interviewed

100+ documents reviewed

50+ vendors contacted

2 country validations



+120 suppliers analysed in **10** upstream industries

PART I
“The challenge”



PART II
“The solution”



PART III
“The action”

Highlights of the study

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PART I — THE CHALLENGE

2

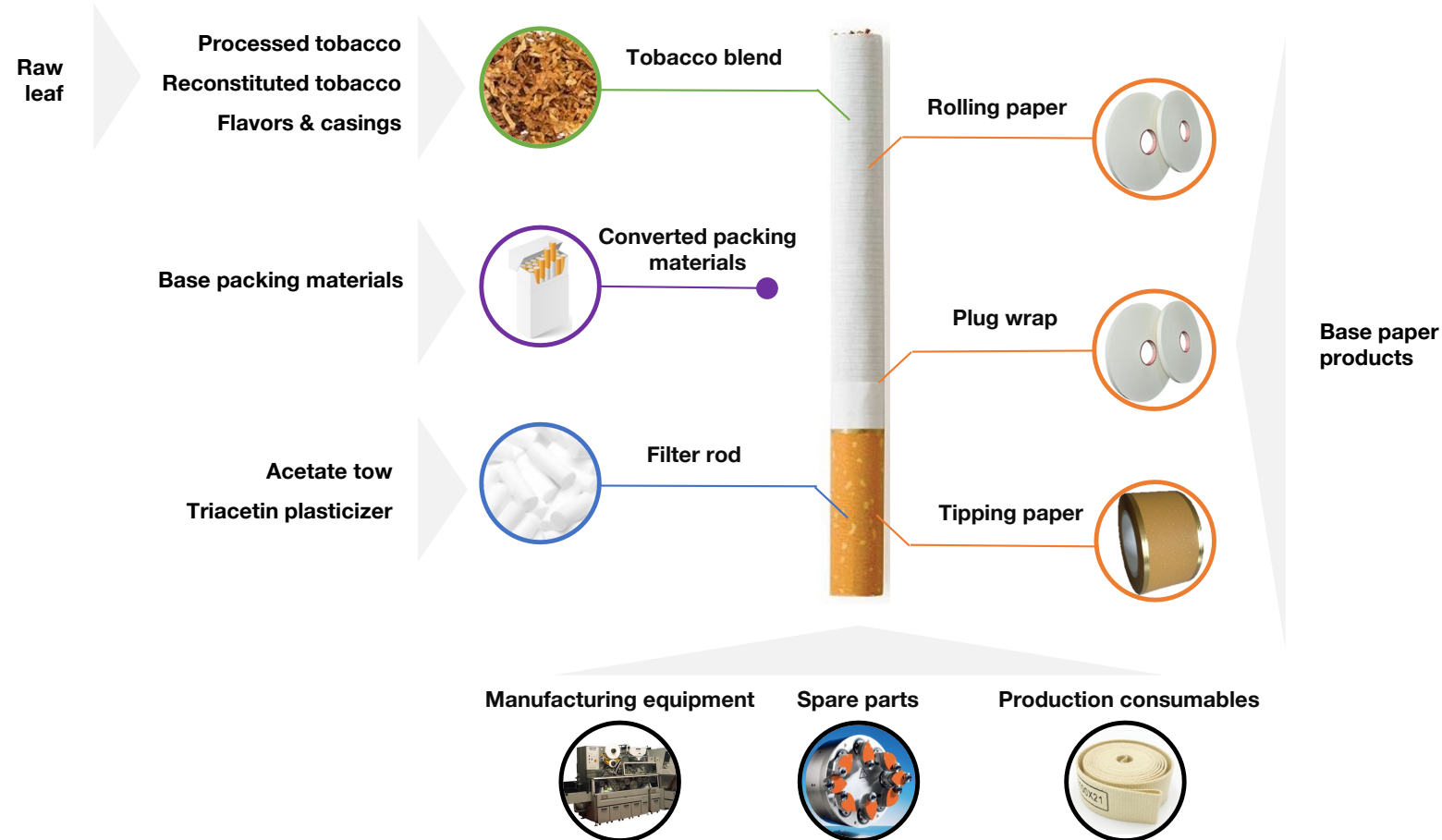
PART II — THE SOLUTION

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PART III — THE ACTION

What are critical key inputs of industrial-scale cigarette production?

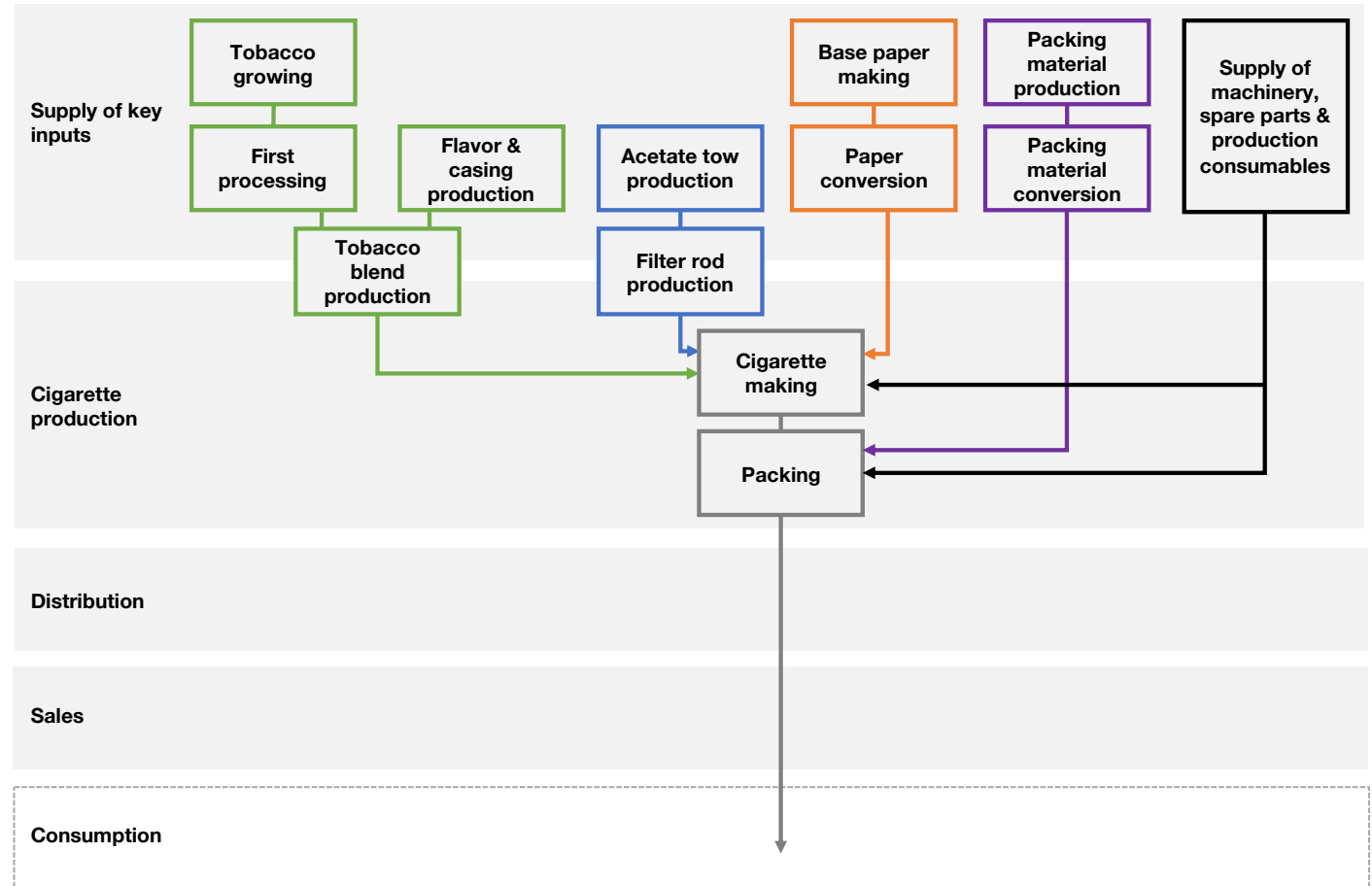
- Characteristics of key inputs in terms of
 - Criticality to cigarette production
 - Potential for substitution
 - Multipurpose
 - Number of suppliers



Note: Some key inputs were excluded from the study at the scoping phase.

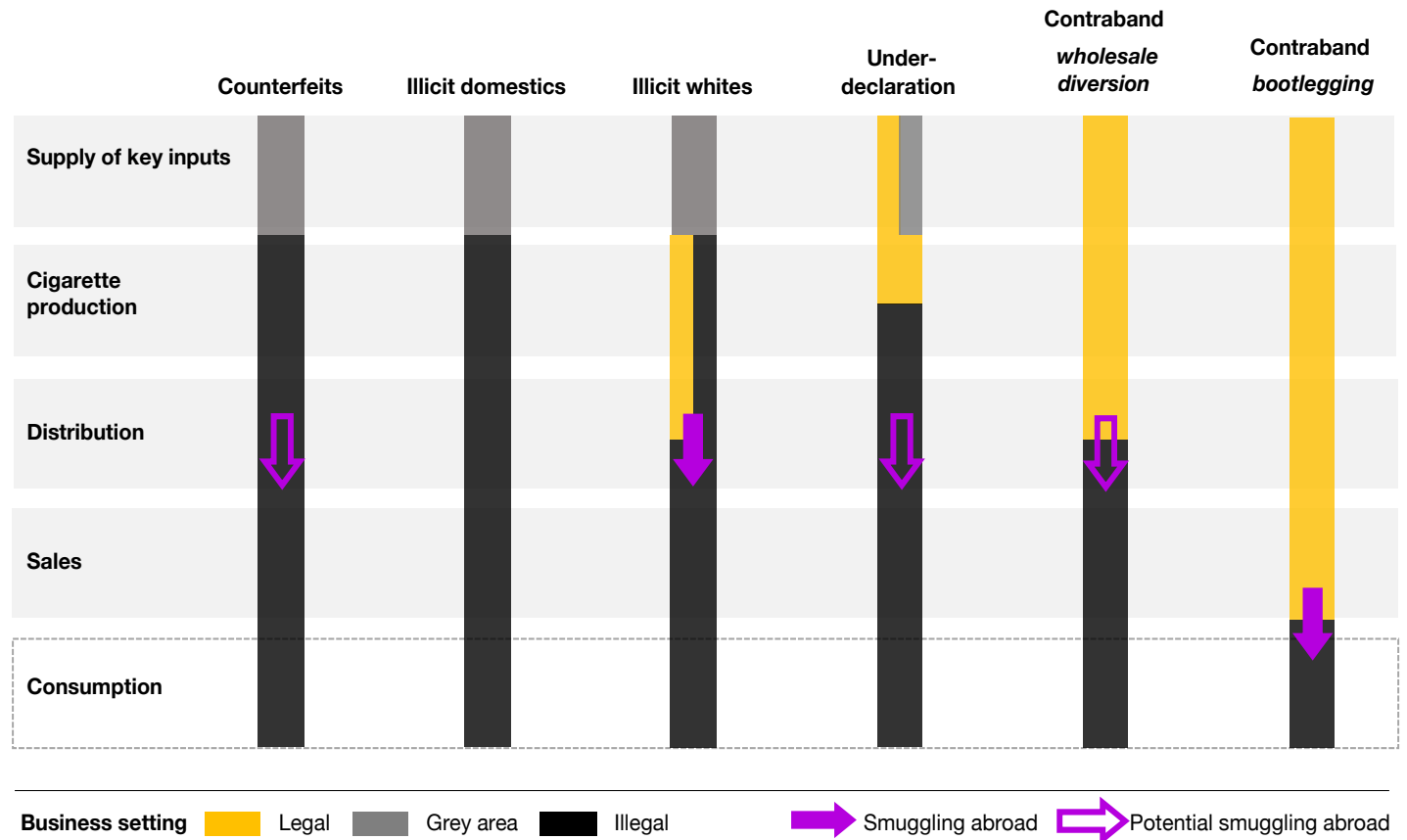
How do cigarette factories acquire production-critical key inputs?

- Industries at the upstream of the cigarette value chain
- Critical activities and material flows in the value chain



How are upstream industries and activities connected to different branches of illicit cigarette trade?

- Stages where cigarettes turn illicit in the value chain
- Legal reason why cigarettes become illicit
- Parties who can be held responsible for illicit actions taking place in the value chain



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Solutions are applicable to different sectors

Solution	Leaf	Filter	Paper	Packing material	Machine
Buyer due diligence	✓	✓	✓	✓	✓
Clearinghouse	n/a	✓	n/a	n/a	n/a
Export controls	n/a	✓	n/a	n/a	n/a
Tracking	✓	✓	✓	✓	✓
Traceback investigations	✓	✓	✓	✓	n/a
Decommissioning of machines	n/a	n/a	n/a	n/a	✓
Customs enforcement capability	✓	✓	✓	✓	✓
Collaborative intelligence work	✓	✓	✓	✓	✓
Hotline for reporting suspicious activities	✓	✓	✓	✓	✓
Licensing of upstream operators	✓	✓	✓	✓	✓
Voluntary industry certification	✓	✓	✓	✓	✓
Law enforcement and judicial capacity	✓	✓	✓	✓	✓

Customs enforcement capability

- Rethinking of control priorities
 - Cigarette production is not possible without leaf, filters, cigarette papers and tobacco machinery. Controlling access to these critical production inputs disrupts illicit production and the cigarette black market
 - Updates to the HS system
 - Unique tariff codes under the Harmonized System (HS) help to monitor trade. No accurate HS codes for filter rods.
 - Investments in modern detection technologies and techniques
 - X-rays, dogs and on-site laboratory equipment (for the identification of counterfeits)
 - Training of customs officers
 - To recognize key inputs of cigarette production
 - Tell a difference between genuine and fake cigarettes
 - Knowledge of common routings, concealment methods, and fraud techniques that dishonest traders use to smuggle cigarettes and input materials for cigarette production
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Collaborative intelligence work

- Assignment of liaison customs and police officers to hotspot countries
 - Customs and police authorities could can regional tobacco crime units and organize cross-border operations to seize illicit cigarette factories and dismantle their supply chains
 - For example, the Operation Gryphon II lead by the World Customs Organization
 - Customs-police cooperation helps to organise controlled deliveries and conduct joint investigations
 - Customs and police authorities could also cooperate with industry players and private sector investigators
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Clearinghouse for acetate tow and filter rods

- A third party service that looks for signs of oversupply by monitoring aggregate trade volumes across suppliers, buyers, and countries
- Monitoring potential oversupply would make it harder for illicit cigarette businesses to acquire acetate tow and filter rods
- Industry-wide initiative

Task	Description
Estimate justified demand for every buyer and country	Estimates can be constructed based on production, sales, and tax data of the previous year. This data can be obtained from trade and tax databases as well as from the buyers themselves.
Tally total order volumes for every buyer and country	Invoices from suppliers would provide sufficient information.
Compare total order volumes against the estimated legitimate demand	Are the total volumes, possibly sourced from multiple suppliers, consistent with the warranted demand?
Notify authorities and suppliers about suspicious buyers and potential cases of oversupply	No supply beyond the justified demand.
Mediate between suppliers to solve cases of oversupply	Which suppliers should cut back sales to suspicious buyers? How to orchestrate fair yet effective industry response?

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Recommendations for EU customs

1. Rethink control priorities
 - Realise how controls on key inputs can disrupt illicit cigarette trade
 2. Harmonize tariff codes for key inputs
 - Unique tariff codes under the Harmonized System (HS) help to monitor trade. No accurate HS codes for filter rods.
 3. Assign more resources to fight cigarette-related crimes
 4. Continue special law enforcement operations
 - Gryphon II by WCO, Magnum II by OLAF and EUROPOL, Black Poseidon by INTERPOL
 5. Make better use of industry expertise
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