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Lithuania



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TRANSCRIME

Transcrime is the Joint Research Centre on Transnational Crime of Università Cattolica del Sacro Cuore of Milan and the University of Trento. The Centre, directed by Ernesto U. Savona, Professor of Criminology at Università Cattolica, represents the multiannual union between experience and innovation in the field of criminological research.

Its offices are located in Milan and Trento. In each office there is a team of researchers and secretariat/management personnel. Transcrime aims at being a national and international point of reference in the criminological field.

The vision of the Centre is to increase knowledge in the criminological field and in the prevention of crimes, developing innovative ideas and cutting-edge techniques.

Transcrime combines its experience in applied research with the consolidated scientific tradition of Università Cattolica del Sacro Cuore in Milan and University of Trento, mixing a practice-oriented approach with a profound understanding of criminal phenomena. Through this experience, it developed a solid network of relationships in the academic field, institutions, international organisations and businesses.

The Centre also plays an important role in the support and development of educational activities at Università Cattolica del Sacro Cuore of Milan. Its principal aim is to achieve close integration between scientific innovation and academic education. In particular, since the academic year 2005/06, Transcrime has managed a MA programme dedicated to crime and security (until academic year 2012/13 the curriculum Crime&Tech: Crime Sciences and Technologies for Security within the MA in Applied Social Sciences; since the 2013/14 academic year curriculum POLISI: Policies for security within the MA in Public Policy). In addition, the Centre has contributed to the development of the International Ph.D. programme in Criminology, coordinated by Professor Savona, which is currently the only doctoral course dedicated to Criminology in Italy.

Transcrime is an independent academic centre. It pursues an autonomous research agenda, which may be developed also through contracts and funding by private and public local, national and international institutions. The source of funding is always made public through Transcrime's website.

THE FACTBOOK ON THE ILLICIT TRADE IN TOBACCO PRODUCTS

This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products* (henceforth ITTP).

The project has been developed by Transcrime after the *Round Table on Proofing EU Regulation against the Illicit Trade in Tobacco Products* hosted by Università Cattolica of Milan, on 5 May 2011. During the Round Table, participants (researchers and policymakers with experience in the field of the illicit trade in tobacco products) agreed on a research agenda concerning the ITTP (Transcrime 2011). Items 3 and 6 of the research agenda focused on the need for better analysis of the tobacco market taking account of its dual nature (i.e. legal and illicit) and on how licit and illicit markets vary across different countries and regions. Given these considerations, Transcrime has developed the Factbook on the ITTP, a multi–annual research plan providing detailed analyses of the ITTP and of its relations with the legal market and other socio–economic and political factors in a number of countries around the world.

The aim of the Factbook is to provide an innovative instrument able to shed light on the complex mechanisms behind the ITTP in different countries. This report focuses on Lithuania.

Tobacco consumption is undoubtedly a danger for human health, and governments should carefully regulate the tobacco market. Illicit tobacco avoids state regulation and taxation and may jeopardize tobacco control policies.

The Factbook will contribute to raising awareness about the global importance of the ITTP and about the strategies available to prevent it. The Factbook has been developed for a wide readership ranging from policymakers, through academics, to interested stakeholders, **the intention being to provide a support to develop knowledge-based debates and policies on the ITTP.**

The information gathered for this report originates from unofficial sources, academic literature, grey literature, open sources, questionnaires and interviews with experts and stakeholders. Law enforcement authorities' reports and press releases were also a valuable source of information for the study.

The results of the report do not claim to be exhaustive, nor an accurate reflection of criminal practices. They provide an initial assessment of the ITTP in Lithuania and a starting point for future research.

As a concerned stakeholder in the fight against the illicit trade in tobacco products, Philip Morris International (PMI) welcomed Transcrime's initiative to develop the Factbook on the ITTP with financial support and the provision of data. However, Transcrime retained full control and stands guarantor for the independence of the research and its results. Information and data for the study have been collected by Transcrime and have not been shared with PMI.



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EXECUTIVE SUMMARY

This report is part of the project *The Factbook on the Illicit Trade in Tobacco Products*. It focuses on Lithuania, where the illicit trade in tobacco products is an emerging issue, whose importance is due to the high and rising penetration of the illicit tobacco market, to the country's important role in the illicit traffic of tobacco products, and to the historical and social reasons behind smuggling. Moreover, enforcement authorities are concerned about the problem, and in the past their action has shaped some features of the ITTP.

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters:

- **Chapter one deals with the five drivers of the ITTP:** society and economy, legal market, regulation, crime environment and enforcement. ***The drivers are important areas whose structures may positively or negatively impact on the ITTP. To enable comparison with other country profiles, four key indicators have been selected for each driver.*** The data for the driver indicators come from comparable sources (latest available years). When possible, the report provides the most up-to-date data from national sources.
- **Chapter two focuses on the four components of the ITTP:** demand, products, supply, *modus operandi* and geographical distribution.

- **Chapter three identifies the key factors of the ITTP in Lithuania and frames the drivers in the components, analysing how different elements of the drivers influence the components of the ITTP.**

THE FIVE DRIVERS

- **Society and economy:** Lithuania has been strongly affected by the global financial crisis. Indeed, GDP experienced the most severe downturn in the EU and the unemployment rate increased. Nonetheless, the government reacted and the country recovered. GDP rose and the unemployment rate started to fall in 2009. The country still has a high emigration rate and one of the highest levels of income inequality in Europe.
- **Legal Market:** Lithuania is an important exporter of tobacco products in the eastern European area. The Lithuanian tobacco market is highly concentrated and relatively small on a global level. In the past decade, national sales have fallen in volume and increased in value. Cigars and hand rolling tobacco (hereinafter HRT) sales have increased in recent years. Smoking prevalence is decreasing due to the reduction in the number of male smokers. Smoking gender inequality is the highest in the EU.

- **Regulation:** Lithuania has a non-homogeneous tobacco market regulation. The taxation on tobacco products is high, both as tax incidence on the final retail price and as total tax per 1,000 sticks. There is a medium-high level of control on the supply chain and a high level of control on tobacco consumption and sales. By contrast, the regulation of tobacco marketing and promotion is medium. European and international institutions are working to reduce the gap between the Lithuanian and European levels of regulation.
- **Crime Environment:** Lithuania has high, but declining, crime levels. In recent years, Lithuanian citizens have felt safer. Drug consumption is high for cannabis and medium-low for cocaine and opioids. The country shows a medium presence of organised crime activities and shadow economy. Corruption is still a major issue in Lithuania.
- **Enforcement:** Lithuanian anti-ITTP actions are medium, owing to the absence of a national action plan and of yearly publicly-available estimates of the illicit trade. Nevertheless, in 2011 the government launched a nationwide public awareness campaign. Many police and customs agencies are involved in the fight against the ITTP and also cooperate with European law-enforcement agencies.

THE FOUR COMPONENTS OF THE ITTP

- **The demand:** between 35% and 50% of smokers reported buying smuggled cigarettes according to two different surveys. Hence, the demand for illicit cigarettes is high. The main reasons for buying illicit products in Lithuania are increasing goods prices, decreasing incomes, and large price differences with neighbouring countries, as well as the widespread acceptance and tolerance of contraband. Moreover, it is easy to buy illicit tobacco in Lithuania because it is sold in open-air bazaars.
- **The supply:** Lithuania is a destination, transit, and source country for the ITTP. Organised groups and private individuals are involved in the supply of illicit tobacco. Proximity to the main producing countries of illicit whites, and price differentials on excise goods between the two sides of the EU borders, foster the ITTP.

- **The products:** Lithuanian institutions do not provide updated estimates of the illicit tobacco market. Nevertheless, several institutions reveal that the illicit market in Lithuania was between 41.2% and 32.4% of the total cigarettes market in 2012. Illicit whites are the most widespread product, and they are smuggled from Belarus and Kaliningrad. The number of contraband cigarettes has decreased in recent years.
- **Modus Operandi and Geographical Distribution:** illicit tobacco is smuggled via rivers and highways. The two main macro inflows stem from Kaliningrad Oblast and Belarus. Finally, the high non-domestic prevalence of empty packs is correlated with proximity to borders and important transport junctures.

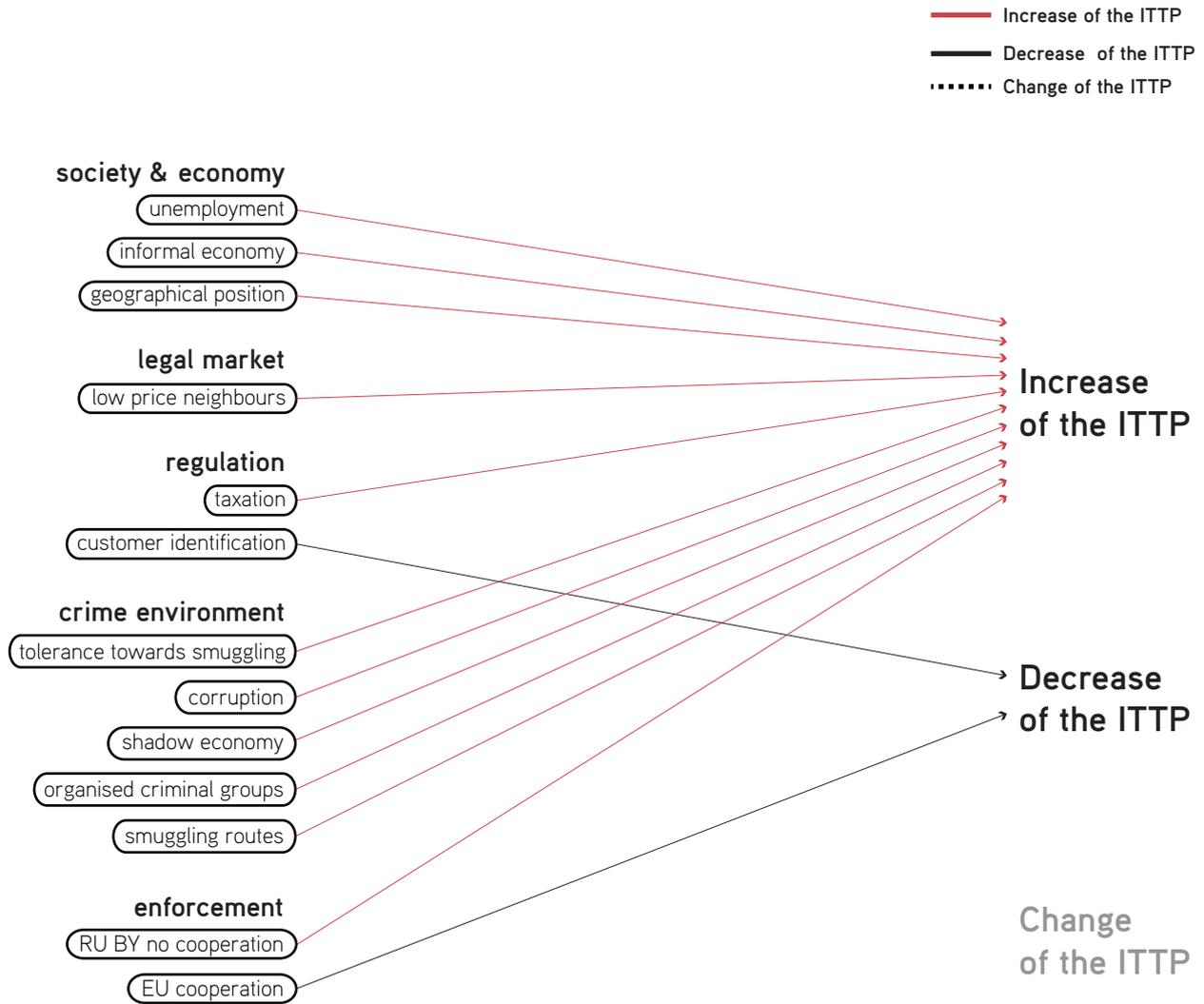
FRAMING THE COMPONENTS IN THE DRIVERS: THE FOUR KEY FACTORS OF THE ITTP

The report identifies four key factors behind the ITTP in Lithuania. **These key factors are the crucial elements through which the five drivers determine the features of the four components.** This chapter analyses how the interaction between the drivers and the components impact or may impact on the ITTP through these **four key factors** (Figure 1, p.9).

- **Economic accessibility:** the price of illicit tobacco, and particularly its relative price compared to the price of legal products.
 - The financial crisis has increased **unemployment**. A recent survey indicates that 46% of Lithuanians consider rising product prices, low and **decreasing income**, and reduced possibilities to afford legal goods as the **key reasons for the increase in smuggling** (Lithuanian Free Market Institute 2013, 6).
 - Since 2008, Lithuania has **increased tobacco taxes** to 75% of the final retail price of cigarettes. Indeed consumers may save between €0.80 and €1.30 per cigarette pack by purchasing illicit cigarettes. Around 50% of current smokers report buying illicit tobacco because of its economic accessibility (Etapius.lt 2013).

Figure 1. Main interactions between the drivers and the ITTP

Source: Transcrime elaboration



- **The majority of Lithuanians trust the quality of contraband cigarettes** (Lithuanian Free Market Institute 2013). The more people trust in the quality of illegal goods, the more they are willing to buy them, because they are convinced that they can buy tobacco products of the same quality but at a lower price.
- **Lower-priced cigarettes in neighbouring countries increase the availability of products to be bootlegged** (Gutauskas 2011; Lithuanian Free Market Institute 2012; Euromonitor International 2012c, 11). Lithuania shares borders with Kaliningrad Oblast and Belarus, where the production of illicit whites takes place. This may increase the availability of these products (Shleynov et al. 2008; Hauptzollamt Rosenheim 2012; KPMG 2013).
- **Availability:** with which both smugglers and consumers can obtain illicit tobacco products.
- The Russian Federation and Ukraine are the main source countries of illicit tobacco products in Europe (Joossens 2011; 2012). **Proximity** to these countries **increases the availability of illicit products for smugglers and consumers** (Joossens 2011; 2012; Customs of the Republic of Lithuania 2013a; GTF 2013).
- The **system of customer identification and verification** provided by the agreements stipulated by the EU Commission with the major tobacco companies complicates the diversion of products from their legitimate channels. **This may contribute to reducing the availability of illicit products** (European Commission 2004; 2007; 2010c; 2010b).

- The distribution of illicit tobacco in Lithuania is based in **open-air bazaars and street markets** (Euromonitor International 2012c). 41% of smokers declare that smuggled products are easily available. In addition, 4 out of 5 people who smoke illicit cigarettes find it very easy to buy smuggled goods (Balsas 2013b).
- **Profitability: the ability of the ITTP to generate profits that exceed its operational costs.**
- **Taxes account for a large share of the final retail price of tobacco, making it a highly profitable product to smuggle** (Merriman, Yurekli, and Chaloupka 2000). In Lithuania, the amount of total taxes per 1,000 sticks is higher than in its eastern neighbouring countries and has increased since the 2004 EU accession. The same holds for tax incidence (WHO 2012; European Commission 2013a). The higher the taxes, the higher the economic incentives for smuggling.
- **Lower retail prices** of tobacco products in eastern neighbouring countries, in particular Belarus, **boost the profitability of bootlegging and smuggling** (Gutauskas 2011; Lithuanian Free Market Institute 2012; Euromonitor International 2012c, 11).
- **The presence of organised criminal groups and consolidated smuggling routes may favour the ITTP** (Europol 2011b; Gutauskas 2011). Indeed, organised criminal groups may exploit scope economies among different goods and make profits with illicit tobacco smuggling.
- **Risk: the threat of detection/accusation/conviction and the sanctions imposable on the actors involved in the ITTP.**
- On the one hand, Lithuanian law enforcement **cooperation** with European and international institutions **improves the effectiveness of anti-ITTP actions and increases the risks for smugglers** (Europol 2011a). On the other hand, the **absence of specific customs agreements between Lithuanian and border countries**, such as Russia or Belarus, creates a lack of law enforcement that **may diminish the risk for smugglers** (Customs of the Republic of Lithuania 2013d; Customs of the Republic of Lithuania 2013a).
- **Law enforcement asymmetries** in the fight against the ITTP among various eastern countries **may reduce the risk of conviction** and facilitate the supply of illicit products (Euromonitor International 2012c, 11; Lithuanian Free Market Institute 2013, 4).
- **The high tolerance of contraband**, especially in a depressed economic environment (Lithuanian Free Market Institute 2013), **encourages citizens to disobey the rules**. This significantly reduces the risk of arrest and conviction for smugglers (Misiunas and Rimkus 2007).
- Lithuania has a medium-high level of corruption (Transparency International 2012). **Corruption reduces the risk for smugglers and increases the supply of illicit products** (Ceccato 2013).
- Lithuania has a **medium level of shadow economy** characterised by widespread smuggling (Schneider, Buehn, and Montenegro 2010; Lithuanian Free Market Institute 2012; Transparency International 2012; Williams e Schneider 2013). This **may greatly affect the *modus operandi* of agents involved in the ITTP by reducing the risk of detection/conviction/accusation** (Ceccato 2013). Indeed, shadow economy 'hotspots' such as open-air markets and bazaars allow the easy and less risky distribution of the products (Misiunas and Rimkus 2007; Euromonitor International 2012c).

CONCLUSIONS

There are no official estimates of the prevalence of illicit tobacco in Lithuania, and this makes it difficult to provide a clear picture of the ITTP. Unofficial estimates reckon that the ITTP is increasing and accounts for around a third of the market. Local differences in the consumption of illicit cigarette are correlated with the presence of routes exploited by smugglers. Indeed, according to EPSs, towns at important junctures with neighbouring countries exhibit the greatest non-domestic penetration. **Illicit whites and genuine smuggled cigarettes are the most widespread products**. Tobacco seizures in 2012 suggest that illicit whites have a prominent role.

In Lithuania, smugglers seem to **exploit mainly inland routes and rivers to import illicit tobacco products** from neighbouring countries. Investigations indicate that small organised groups and single individuals are particularly active in the ITTP.

The present study demonstrates that more research and accurate data would enable better assessment of the ITTP in Lithuania. Considering the limited number of previous studies and the lack of data, the results of this study are provisional. They enable a preliminary analysis of the ITTP in Lithuania, and they show that more research is needed in this field.

The ITTP is a complex problem, not limited to issues of law enforcement and criminal justice policy alone. According to the available sources, **the magnitude of the ITTP in Lithuania exhibits an oscillating trend**. Indeed, it varies according to law enforcement actions undertaken in the past. For example, in 2004 many Lithuanian local criminals were arrested for smuggling cigarettes from Lithuania to Western Europe. As a result, **Lithuania changed from being a transit country for tobacco smuggling to a final consumption market**. Moreover, in 2011, the government launched a national public awareness campaign. However, additional preventive measures, such as a national plan against the ITTP, may be important, because effective action against the ITTP requires comprehensive strategies including criminal law, administrative sanctions, and other indirect measures aimed at reducing crime opportunities.

The evolution of the project showed that countries have very different situations in relation to the available data on the ITTP. In some cases, the quality of the available data is low and there are no official, regularly updated, data. Inevitably, this affects the quality and reliability of the results. In these cases, institutions, businesses and other stakeholders concerned with the ITTP should consider how to improve data collection on illicit tobacco. This will result in improved knowledge about the ITTP and, in turn, in better tobacco control policies, since the impact of specific policy measures upon crime may quite often be overlooked owing to the lack of reliable data.

After completion of the first phase of the project focused on collecting facts and data through the country profiles, Transcrime will conduct comparative analysis among the countries selected. This will yield additional insights into the complexity of the ITTP and allow for the elaboration of policy recommendations.



Location:

Lithuania, officially the Republic of Lithuania, is in Northern Europe and is the largest among the Baltic Republics. It borders on Latvia (North), Belarus (Southeast), Kaliningrad Oblast (Southwest) and on Poland (South). The country consists of 10 counties, and its capital and largest city is Vilnius. Lithuania covers an area of 65,300 square kilometres.

Population: 2,985,509 (2012)

Male: 1,376,320 (46.1%)

Female: 1,609,190 (53.9%)

Growth Annual Rate: -1.5% (2012)

Age Structure: (0–14) 15.0%; (15–64) 69.0%; (65+) 16.0%

Fertility Rate: 1.8 children born/woman (2011)

Life expectancy at birth (years): 74.0 (2011)

GDP: US\$ 42.25 billion (2012)

GDP growth: 4.0% (2012)

Inflation consumer price: 3.1% (2012)

Income level: High

INTRODUCTION

WHY FOCUS ON THE ITTP IN LITHUANIA?

Historical and geographical reasons, cultural factors, and proximity to illicit cigarettes sources make the study of Lithuania of key importance for an overall comprehension of European ITTP routes. Indeed, the current situation is due to a number of factors.

First, Lithuania has a pivotal role in the ITTP. It lies between Belarus and Kaliningrad Oblast (a federal subject of Russia) and close to Ukraine, three of the main sources of illicit whites and smuggling. EU membership and transport infrastructures (rivers and inland routes) make Lithuania an important gateway for the illicit tobacco trade bound for other EU Member States.

Second, tobacco products are among the most popular smuggled items. Indeed, a large share of smuggling attempts relates to cigarette contraband. Moreover, smuggling has deep historical roots in Lithuania and enjoys a certain social acceptance. Furthermore, shadow economy and corruption are not uncommon.

Third, in Lithuania small organised groups are the main suppliers of illicit tobacco. Indeed, small organised groups benefit from smuggling and tend to concentrate on smuggling schemes. Investigations have identified criminal gangs simultaneously engaged in tobacco smuggling, illegal possession of excise goods, narcotic substances, fraud, property extortion, and other crimes.

Finally, there are no official estimates on the illicit tobacco in Lithuania, and there is an overall lack of studies, especially on the retail level of the ITTP, i.e. where supply meets demand. This entails that the actual dynamics of the illicit market and its structure should be subject to further research.

Given the partial lack of information, this report relies on a large number of sources. The study analyses domestic sources such as Customs releases and reports, since these provide the most specific publicly available information on illicit tobacco. Nevertheless, also the contribution of other Lithuanian law enforcement authorities is important. This report also relies on reports by international organisations, KMPG's Star project, Euromonitor International data, Empty Pack Surveys commissioned by the tobacco industry and media new stories. Finally, interviews with local experts and stakeholders have provided further detailed information on the ITTP in Lithuania. Nevertheless, unofficial sources will be treated with caution in order to minimise the impact of their possible bias, and this report should be considered a first attempt to improve understanding of the ITTP. Further studies should assess in greater detail the prevalence and extent of illicit tobacco use in Lithuania.

Tobacco is a dual market consisting of a legal and an illegal part (Figure 2). The two sides of the market are connected with each other. Actions affecting one side of the market influence the other side as well.

Figure 2. The dual tobacco market



The ITTP comprises different activities and products:

Smuggling (or contraband): the unlawful movement or transportation of tobacco products from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export (Joossens and Raw 2008).

Counterfeiting: the illegal manufacturing of a product bearing or imitating a trademark without the owner's consent. Illegally manufactured products can be sold in the source country or smuggled into another country (Joossens and Raw 2008).

Bootlegging: the legal purchase of tobacco products in a low-tax country and the illegal resale of these in a high-tax country. Bootlegging concerns individuals or small groups who smuggle smaller quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income (Hornsby and Hobbs 2007).

Illegal manufacturing: cigarettes manufactured for consumption, which are not declared to the tax authorities. These cigarettes are sold without tax and may be manufactured in approved factories or illegal covert operations (Joossens et al. 2010).

Unbranded tobacco: manufactured, semi-manufactured and even loose leaves of tobacco (Geis 2005), illegally sold by weight, with no labelling or health warnings and consumed in roll-your-own cigarettes or in empty cigarette tubes (Walsh, Paul, and Stojanovski 2006).

Cheap Whites or Illicit Whites: cigarettes produced legally in one country, but normally intended for smuggling into countries where there is no prior legal market for them. Taxes in production countries are normally paid, while they are avoided/evaded in destination countries (Allen 2011).

WHAT CAN BE FOUND IN THIS REPORT?

This report is organised into three chapters.

Chapter 1 is composed of five subsections analysing the **five drivers of the ITTP:**

- 1) society and economy
- 2) legal market
- 3) regulation
- 4) crime environment
- 5) enforcement

The drivers are important areas whose structures may influence the ITTP positively or negatively. Transcrime selected the drivers based on a review of the literature on the ITTP and discussions with stakeholders and experts. Each subsection provides information on the key aspects of each driver.

To enable comparison with other country profiles, each driver has four indicators. The data for the drivers' indicators come from different sources and ensure comparability among different countries in regard to the last available years (e.g. World Bank, WHO, UN). When possible, the report provides the most up-to-date data from national sources. For four indicators, Transcrime has developed composite indicators (Regulation and Enforcement). Composite indicators assess the presence of specific policy measures in the country and range from 0 (no measure is present) to 5 (all measures are present). A higher value on the composite indicators does not always imply a better situation. The purpose of such indicators is rather to assess the intensity of policy measures in a specific field. The information used for the assessment is drawn from the literature, official sources (reports, websites, legislation), and experts.

Chapter 2 analyses the illicit trade in Lithuania, dividing it into the **four components of the ITTP**:

- 1) demand
- 2) supply
- 3) products
- 4) *modus operandi* and geographical distribution.

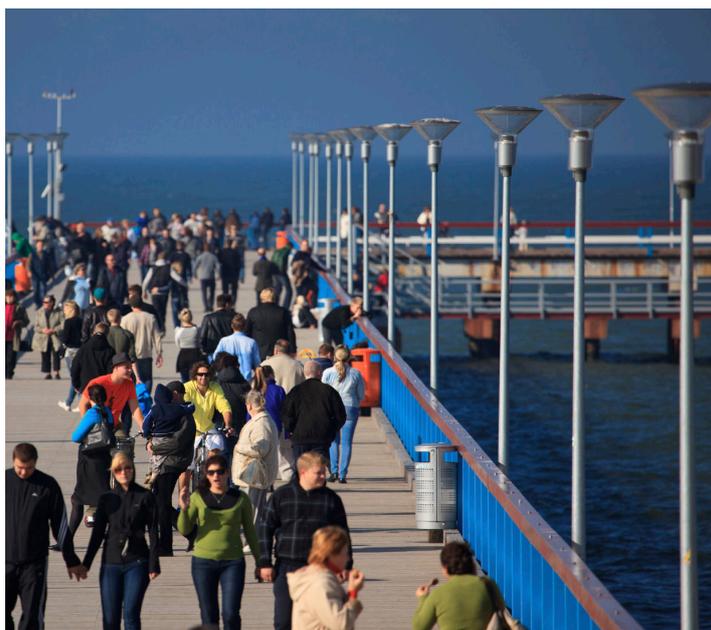
Chapter 3 combines the results of the two previous chapters to identify the **four key factors of the ITTP** and show how the various elements of the drivers influence the illicit trade.

- 1) economic accessibility
- 2) availability
- 3) profitability
- 4) risk.

These factors are pivotal for demonstrating how the various elements of each driver influence the illicit trade.

Chapter 1

the five drivers

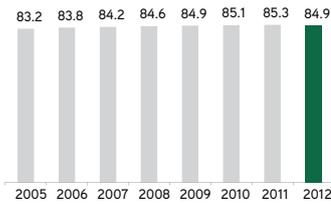


SOCIETY AND ECONOMY

Lithuania was hit hard by the global financial crisis. GDP recorded the most severe fall in the EU and the unemployment increased. Nonetheless, the country has recovered. GDP has increased and the unemployment rate has decreased.

Adult Population

Population aged 15+
Source: The World Bank



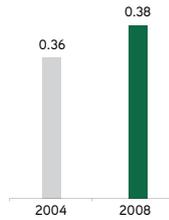
84.9%

24 out of 225 countries
(2012)



Income Inequality

GINI coefficient after taxes
Source: The World Bank



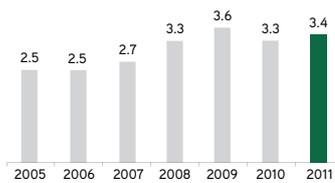
0.38

71 out of 134 countries
(Last available year)



Education System

Education expenditure
as % of GDP
Source: The World Bank



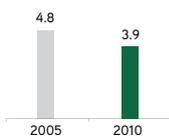
3.4%

43 out of 151 countries
(2011)



Migration

International migrant stock
as % of population
Source: The World Bank



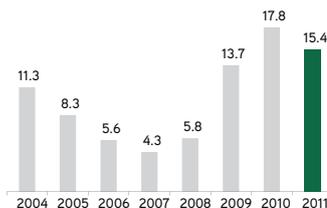
3.9%

107 out of 213 countries
(2010)



Unemployment*

Total unemployment
rate as % of labour force
Source: OECD



15.4%

4 out of 35 countries
(2011)



Last available data (April 2013): **13.1%** (Statistics Lithuania 2013c)

* The rank is calculated from OECD data. Lithuania figure is provided from The World Bank.

- **Lithuania is a developed country which has undergone important evolution in the past decade.**

- The Lithuanian HDI was 0.818 in 2012 and the country ranked 46th out of 186 countries in 2012 (UNDP 2013).
- The country joined the European Union and the NATO in 2004. In December 2007, Lithuania also joined the Schengen Area. As a EU Member State and as a member of the Economic and Monetary Union, Lithuania should adopt the *Euro* (€). However, high inflation, both in 2004 and in 2008, has delayed the adoption of this currency, and the country is still using the *Litas* (Lt). In February 2013, the government approved a plan to adopt the *Euro* in 2015. Processes such as adapting the national law, raising public awareness, making cash changeover, and harmonising monetary policy will be carried out gradually (Tiron and Seputyte 2012; Bank of Lithuania 2013; 15min.lt 2013).

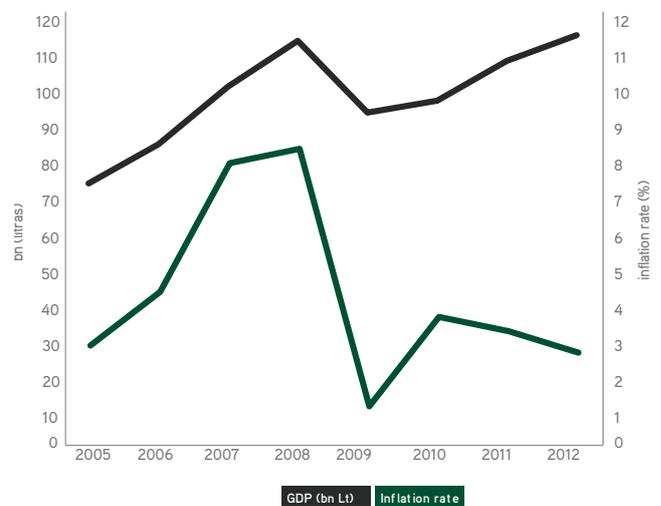
- **Lithuania was hit hard by the global financial crisis. Indeed, it experienced the most severe fall of GDP in the EU (-13.9% in the first quarter of 2009) (Woolfson 2010; Statistics Lithuania 2013c).**

- **The Lithuanian economy grew in the period before the global financial crisis. Growth was driven by the increase in domestic demand.** The GDP growth rate was 8.9% in 2007 and 7.8% in 2006; one of the highest levels in the European Union (Bertelsmann Stiftung 2012). Overall, between 2001 and 2008, GDP grew by 138%, but fell by 18% between 2008 and 2009 owing to the financial crisis (Figure 3) (Statistics Lithuania 2013c).
- Before the global financial crisis, the economy was strongly dependent on exports. Moreover, a constant budget deficit increased the country's debt. Government deficit rose from 3.3% to 9.5% of GDP between 2008 and 2009. Owing to the crisis, increased interest rates stopped the flows from abroad and undermined economic growth. Indeed, higher interest rates made consumption in foreign countries decrease, restricting opportunities to export (Račickas and Vasiliauskaitė 2010; Davulis 2012).

- At the end of 2008, the government decided to increase the rate of value added tax to 19% (later 21%), income-tax, and excise duty on fuel, cigarettes and alcohol as well as to eliminate the majority of reduced tariffs of the value added tax (Davulis 2012).
- Since 2010 the Lithuanian economy has recovered. The country has substantially rebalanced its economy and reduced the vulnerabilities. GDP has returned to pre-crisis levels (Figure 3) (IMF 2013).

Figure 3. GDP in bn Lt and inflation rate, 2005-2012

Source: Transcrime elaboration on Statistics Lithuania (2013c) data



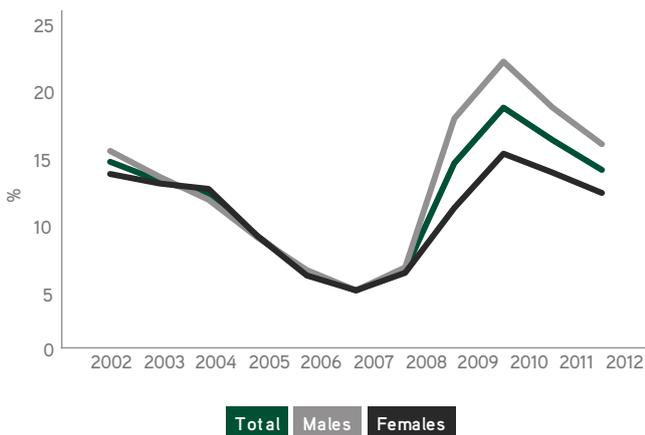
- The inflation rate increased between 2005 and 2008 (from around 3% to more than 8%). Subsequently, inflation decreased, falling to about 1.0% in 2009 (Figure 3). After this low record, inflation started to increase again and reached 1.4% in May 2013, following the re-start of the economy (Statistics Lithuania 2013a).
- **Estimates show that Lithuania's public debt was 38.5% of GDP in 2012 and the country ranked 96th out of 153 countries.** Greece (161.3% of GDP), Italy (126.1%) and Portugal (119.7%) have the highest public debts in Europe, and Estonia the lowest (8.0%) (CIA 2012a).

•• **The global financial crisis also affected unemployment and the average net wage (Statistics Lithuania 2013c).**

- Lithuania has a high unemployment rate. It reached 15.4% in 2011 and Lithuania ranked 4th out of 35 countries (OECD 2012).¹ Unemployment decreased to 13.1% in the first quarter of 2013 (Statistics Lithuania 2013c).
- From 2001 to 2008, unemployment in Lithuania decreased by about 67%. Conversely, from June 2008 to June 2009, Lithuania experienced the largest growth of unemployment in the EU, from 5.1% to 15.8% (Woolfson 2010; Statistics Lithuania 2013c).
- Male and female unemployment rates started to diverge in 2008. The largest difference occurred in 2010, when the male rate was 21.2% and the female rate was 14.4% (Figure 4) (Statistics Lithuania 2013c).
- Lithuania has a particular level of employment since it has a high level of elderly (65 and over) and female employed persons compared with the other EU countries. In 2008 the employment rate among women was 61.8% and that among elderly people was 53.1%. Conversely, the EU averages were 59.1% and 45.6% respectively (Lazutka 2010).

Figure 4. Unemployment rate in Lithuania, % of labour force, 2002-2012

Source: Transcrime elaboration on Statistics Lithuania (2013c) data

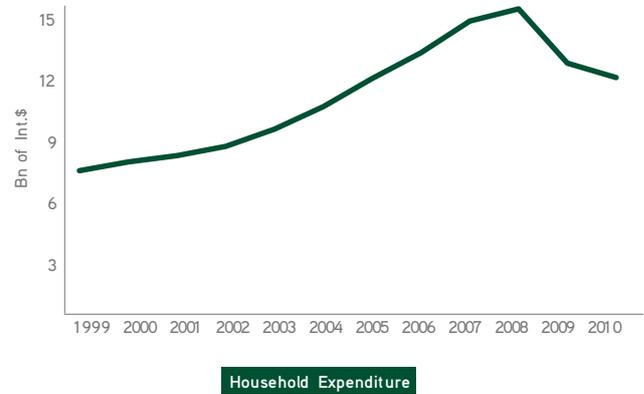


•• **The global financial crisis also affected household expenditure (Figure 5).**

- Household expenditure grew until 2008. Between 2008 and 2010, it decreased by about 23% (The World Bank 2012a).

Figure 5. Household final consumption expenditure, PPP (constant 2005 International \$, 1999-2010

Source: Transcrime elaboration on World Bank (2012a) data



•• **According to a survey, consumption expenditure changed after the 2004 accession to the European Union.**

- A household survey (2004-2006) revealed that a very small number of Lithuanian households considered their financial situation to be very good. However, the majority declared that their financial situation was good because they could cover their expenditure without drawing on their savings (Nikitina 2008).
- The respondents had a negative attitude towards the impact of EU enlargement on prices in the country. They underlined that their expenditure on food and house maintenance increased significantly after accession to the EU (Nikitina 2008).
- Consumption expenditure per household member per month increased by 78%, from Lt412.6 (€119.5) in 2003 to Lt734.3 (€212.67) in 2008 (Table 1, p.21) (Statistics Lithuania 2013a).²

1. In this ranking, the Lithuanian figure is provided by a different source (The World Bank 2012a).

2. The ECB reference Lithuanian Litas/Euro exchange rate is used in this report.

Table 1. Average consumption expenditure per household member per month in Lt, 2003-2008

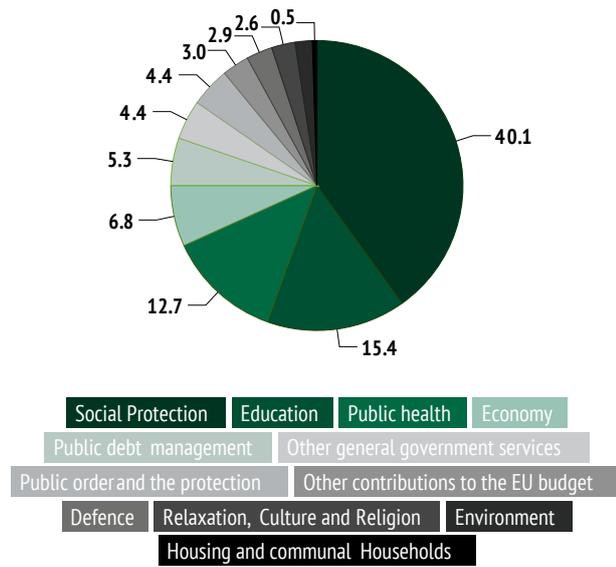
Source: Transcrime elaboration of Statistics Lithuania (2013a) data

	2003	2004	2005	2006	2007	2008
Food and non-alcoholic beverages	131.5	141	158.1	168	198.9	229.7
Housing, water, electricity, gas and other fuels	59.8	61.3	69.0	77.1	88.8	99.5
Transport	39.7	44.3	50.0	65.9	75.8	76.5
Clothing and footwear	38.3	41.9	49.7	57.1	69.0	67.5
Restaurants and hotels	18.9	19.2	26.9	29.7	37.3	41.7
Miscellaneous goods and services	20.6	22.4	26.2	32.2	35.1	39.4
Household equipment and maintenance of the house	18.6	21.4	26.2	35.8	43.3	39.9
Recreation and culture	20.9	22.7	26.9	34.0	41.1	37.8
Communication	24.6	24.8	28.3	31.0	35.8	35.8
Health	17.5	20	22.2	24.8	27.3	31.1
Alcoholic beverages	11.0	11.0	13.4	15.9	20.0	16.9
Tobacco	7.5	7.8	8.3	8.1	8.6	10.3
Education	3.7	4.5	6.7	5.9	5.4	4.2

- If compared with other 27-EU countries, Lithuania suffered one of the greatest falls in consumption expenditure in 2009 (-16.6%). Particularly, contractions regarded expenditure on miscellaneous goods and services (-27.7%), transport (-26.0%) and food (-21.6%), while increases concerned communications (47.0%) and education (24.6%) (Gerstberger and Yaneva 2013).
- Tobacco expenditure, as a percentage of monthly consumption expenditure, decreased between 2004 and 2008 (from 1.8% to 1.4% of total expenditure). In absolute terms, as for other types of spending, expenditure on tobacco increased from Lt7.5 (€2.2) in 2004 to Lt10.3 (€3.0) in 2008 (Statistics Lithuania 2013a).
- **Lithuania ranks 6th out of 136 countries for income inequality (CIA 2012b). Moreover, the country ranks 71st out of 134 countries for the GINI index (The World Bank 2012a).**
- 20% of Lithuanians are at high risk of poverty. This figure has been stable since 2004 (20.5%). In general, people living in rural areas and aged between 18 and 24 are at a higher risk of poverty (Statistics Lithuania 2013a).
- **Lithuania has a liberal welfare system as provided by the Constitution of 1992.**
- **In Lithuania, total health expenditure was 6.6% of GDP in 2011.** Per capita government expenditure on health was International \$953.9 in 2011. This expenditure grew after 2004, the year of the welfare reform. General government expenditure on health was 12.7% of total government expenditure in 2011, stable from 2009 (WHO 2012).
- In 2011, life expectancy at birth was 73.6 years, below the European average (79.0) (The World Bank 2012a).
- **Lithuania ranked 43rd out of 151 countries in 2011 for education expenditure (3.4% of GDP).** The figure is similar to that for 2010 (3.3% of GDP). The country has a slightly higher level of education expenditure than the world average (3.0%) (The World Bank 2012b).
- 2011 public spending in Lithuania concentrated on social protection (40.1%), education (15.4%), and public health (12.7%) (Figure 6, p.22) (Šimonytė 2011).

Figure 6. Composition of total public spending, 2011

Source: Transcrime elaboration on Šimonytė (2011) data



Lithuania was hard hit by the global financial crisis. Nonetheless, GDP has recovered to pre-crisis levels, the unemployment rate has started to decrease and inflation to rise. Income inequality is high.

•• **The emigration rate is high.**

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- Figures on international net migration show that Lithuania is a country of emigration. Between 1990 and 2011, approximately 670,000 Lithuanians emigrated, while 110,000 returned to the country. In two decades, Lithuania lost half a million people. Lithuania has a population of around 3mn inhabitants (Bolzanė 2012). Emigration peaked in 2010 (77,944) and then decreased (Štreimikienė and Barakauskaitė-Jakubauskienė 2012; Statistics Lithuania 2013a).
- As regards migration stock, Lithuania ranked 107th out of 213 countries in 2010, when the migrant population was 3.6% (The World Bank 2012b).
- Lithuania has one of the largest share of adult population in the world. In 2012, Lithuania ranked 24th out of 225 countries, with 84.9% of its population aged over 15.
- In 2011, 84.2% of the population was Lithuanian, 6.6% Polish, 5.8% Russian, 1.2% Belarusian, 0.5% Ukrainian, and 0.6% of other ethnic groups (Statistics Lithuania 2013b).

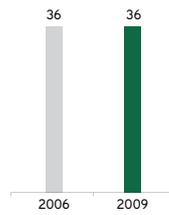


LEGAL MARKET

The Lithuanian tobacco market is relatively small on a global scale, but it is important for its exports in the Baltic area. National sales have fallen in the past decade in volume terms and they have increased in value. Cigars and smoking tobacco sales have increased in recent years. Smoking prevalence is decreasing because of the reduction in the number of male smokers. Since Lithuania has a very low female smoking prevalence, smoking gender inequality remains among the highest in the EU.

Smokers

Current smoking of any tobacco product (age-standardised rate)
Source: WHO-Country reports



36%

15 out of 147 countries
(2009)



Last available data (2012): Daily smokers **33%**(male), **13%**(female) (Lithuanian statistics department 2013)

Affordability

% of annual per capita income needed to buy 100 packs of the cheapest cigarettes
Source: Tobacco Atlas

2.6%

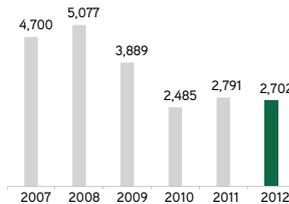
100 out of 168 countries
(2010)



Last available data (2012): **2.0%** (Euromonitor International 2012, International Monetary Fund 2012)

Market Size

Cigarette retail volume (mn sticks)
Source: Euromonitor International



2,702

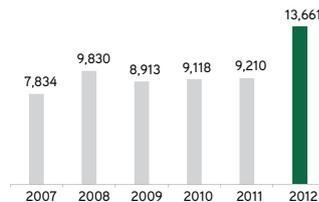
92 out of 209 countries
(2012)



24

Balance of Trade

Cigarette exports-imports (mn sticks)
Source: Euromonitor International



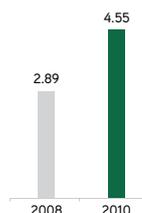
13,661

11 out of 72 countries
(2012)



Price

Price of a pack of the most sold brand (Int.\$, PPP)
Source: WHO



Int.\$, PPP 4.55

40 out of 166 countries
(2010)



Last available data (2012): **Int.\$, PPP 4.81** (Euromonitor International 2012, International Monetary Fund 2012)

TOBACCO MARKET

- **Lithuania is the main tobacco-producing country in the Baltic States.**
- **Tobacco production has increased considerably** in the past decade in Lithuania, rising from 3.8 bn cigarettes in 2001 to 22.3 bn in 2012, a 487% increase (Euromonitor International 2013).
- Philip Morris Lietuva UAB owns a large tobacco plant in the western Lithuanian town of Klaipeda, and it is the only manufacturer and exporter of tobacco products in the country. Production of cigarettes almost doubled between 2004 and 2005 as the company upgraded the capacity of the factory (Euromonitor International 2013).
- Lithuania is the main exporter of finished tobacco products in the Baltic region (Figure 7). In 2012, Lithuania exports around 17.64 bn cigarettes, equal to 80% of its national production. The majority of its exports are directed to nearby countries, such as Latvia, Poland and Germany. These markets currently account for over three-quarters of Lithuanian exports (Euromonitor International 2012d; 2013).
- Lithuania is the only Baltic state to have a positive tobacco balance of trade, equal to **13.67 bn sticks**. The country ranks 11th out of 72 countries (Euromonitor International 2012d). Nevertheless, it also imports tobacco from other countries. Latvia is the largest exporter to Lithuania, followed by the US and Germany (Euromonitor International 2012d).
- **National sales fell by 40% between 2001 and 2012 (Figure 8).**
- The volume of sales has decreased in the past decade (-41%), from 4,583 mn sticks in 2001 to 2,701 mn sticks in 2012 (Euromonitor International 2013). Nevertheless, in 2011 and in 2012 sales stabilised. This may have been due to the economic recovery of Lithuania (Euromonitor International 2012d; Euromonitor International 2013).

Figure 7. Cigarettes balance of trade (exports-imports) in the Baltic states, 2007-2012

Source: Transcrime elaboration on Euromonitor International (2013) data

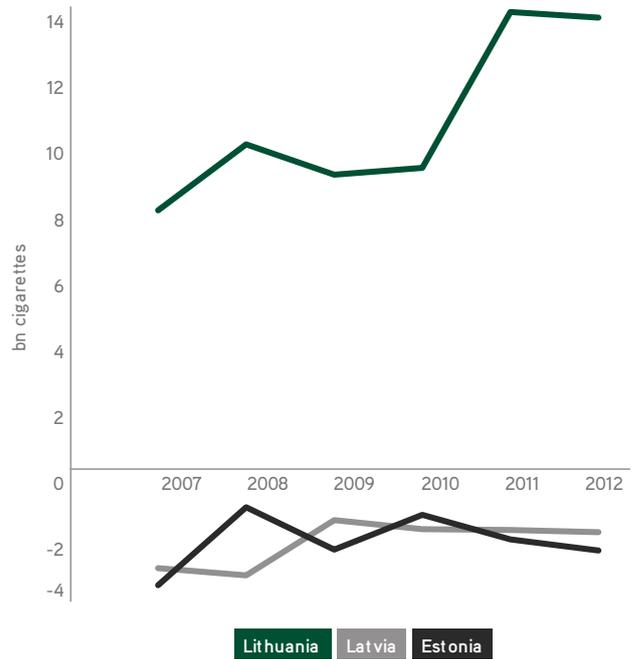
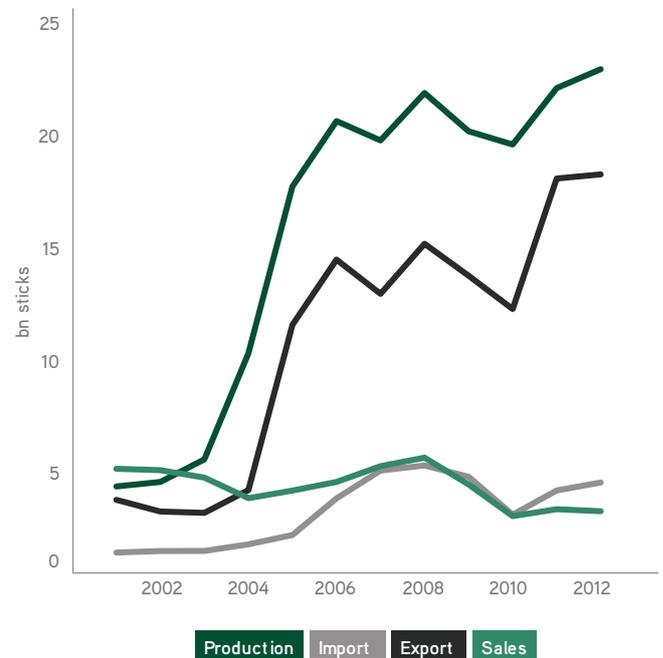


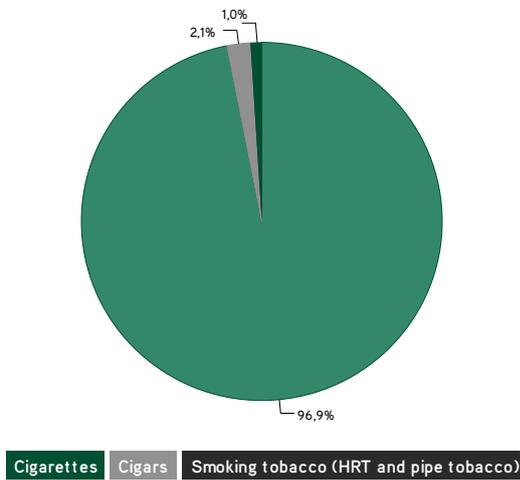
Figure 8. Cigarette production, exports, imports and sales, 2001-2012

Source: Transcrime elaboration on Euromonitor International (2013) data



- **Tobacco crops are rare in Lithuania. The country instead imports raw tobacco and processes it in tobacco manufacturing facilities.**
- Lithuanians cultivated less than 1,000 hectares of tobacco in 2009. Large-scale tobacco production, as in China or Turkey, employs more than 100,000 hectares of land for tobacco cultivation (Eriksen, Mackay, and Ross 2012).
- **The Lithuanian market is relatively small. Its value was €350.5 mn in 2012. Cigarettes are the most popular tobacco product (Figure 9).**

Figure 9. Tobacco products volume of sales, 2012
 Source: Transcrime elaboration on Euromonitor International (2013) data



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- In 2012, the sales of tobacco products reached a value of €350.5 mn. The size of the Lithuanian market was 2,787.4 mn sticks in the same year. The Lithuanian cigarettes market is average on a global scale (92nd out of 209 countries) (Euromonitor International 2013).
- In 2009, 251 enterprises formed the EU's tobacco industry. In Lithuania there were three companies employing 193 people (Pantini et al. 2012, 19).

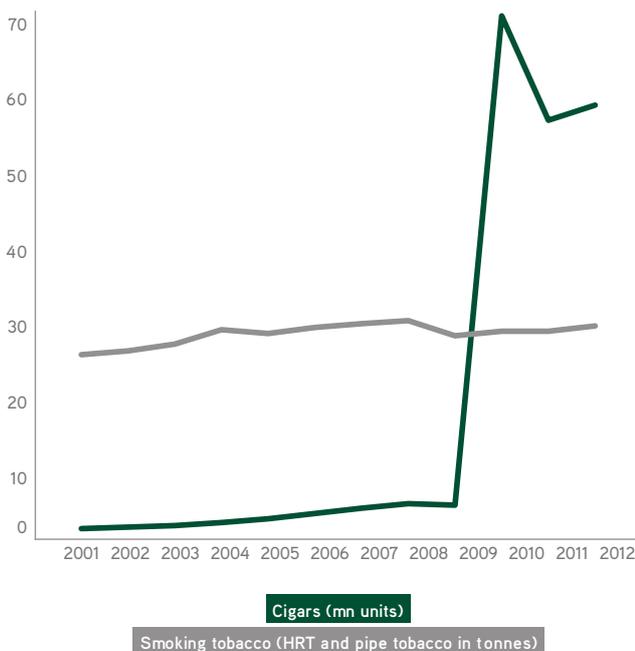
- **Cigarettes constituted almost 97% of the Lithuanian tobacco market in 2012.**
- The cigarette market is an oligopoly, and no domestic companies operate within this market. Philip Morris Baltic, JTI Marketing & Sales UAB, British American Tobacco Lietuva UAB are the dominant players.
- Philip Morris Baltic is the market leader, with a 64.9% volume share in 2012. Philip Morris Baltic leads the cigarette market in all three Baltic States (Estonia, Latvia and Lithuania) thanks to its production facility in the town of Klaipeda. This facility enables the company to supply other branches of Philip Morris International, as well as to export tobacco products to foreign countries. The company was the fourth-largest tax contributor in Lithuania in 2011, providing some Lt106 mn (around €30.7 mn). The most popular cigarettes produced by Philip Morris Baltic are L&M, Marlboro and Bond Street, which are the three leading cigarettes brands in Lithuania (Euromonitor International 2012d).
- JTI Marketing & Sales UAB is the second player in the cigarettes market, with a 20.0% share in 2012. In the past, the company concentrated solely on cigarettes. It has recently launched a HRT product in order to intercept the growing demand for hand rolling tobacco. JTI Marketing and Sales has no production facilities in Lithuania and owns Winston, which was the fourth most sold brand in 2012 (Euromonitor International 2012d).
- British American Tobacco Lietuva UAB is the third largest player in the cigarettes market, with a 13.8% market share. The company is particularly strong within the ultra-low tar cigarettes band, where its popular Kent brand accounts for 19% of retail volume sales (Euromonitor International 2012d).

- **The cigar and cigarillos market constituted 2.1% of the Lithuanian tobacco market in 2012.**

- The cigar market expanded between 2006 and 2011. This was mainly due to loopholes in cigar excise duty rates, which made cigars more attractive to consumers from a price point of view. In volume terms, between 2006 and 2011, the compound annual growth rate was 74.1%, while the total volume growth was 1,500%. The Parliament of Lithuania recognised the differences between cigarette and cigar taxes and raised excise taxes for cigars in 2011. The impact was immediate in terms of volume of sales (Euromonitor International 2012d).
- According to Lithuania's Department of Statistics, in 2009, cigar and cigarillo imports underwent an unprecedented surge consisting of 182.6 mn cigarillos, preceded by a 4.6 mn pieces in 2008 (The Baltic Times 2010).
- The largest increase in cigar sales was recorded in 2009, when Philip Morris Baltic entered the cigarillos market with its Partner brand and secured a 89.2% retail volume share in three years (Figure 10) (Euromonitor International 2012d).

Figure 10. Cigars and smoking tobacco sales in volume, 2001-2012

Source: Transcrime elaboration on Euromonitor International (2013) data



- **The smoking tobacco market constituted 1.0% of the Lithuanian tobacco market in 2012.**

- Smoking tobacco sales are relatively stable (Figure 10) In volume terms, between 2006 and 2011, the compound annual growth rate was -0.30%, while the total volume growth during those years was -1.70%. Current retail value sales of smoking tobacco increased by 20% in 2011 to reach Lt12 mn, while retail volume sales declined marginally to 28 tonnes. HRT performed better than pipe tobacco in 2011, with current retail value sales increasing by 24% (Euromonitor International 2012d).

- The smoking tobacco market involves many players; none of them has a supremacy position (Euromonitor International 2012d).

- **Supermarket and hypermarkets are the main distribution channels (Euromonitor International 2012d).**

- **Supermarkets and hypermarkets** have consolidated their positions as the leading distribution channels of tobacco products in Lithuania. In 2012, such stores accounted for some 55.5% of all cigarettes turnover in volume terms. The range of available brands in such stores suits the needs of virtually all smokers because nearly every cigarette brand can be found (Euromonitor International 2012d; 2013).

- **Convenience stores and independent small grocers** are the other important distribution channels, recording in 2012 volume shares of 11.4% and 9.1% respectively. The former are more common in larger towns, while the latter are usually located in rural areas (Euromonitor International 2012d).

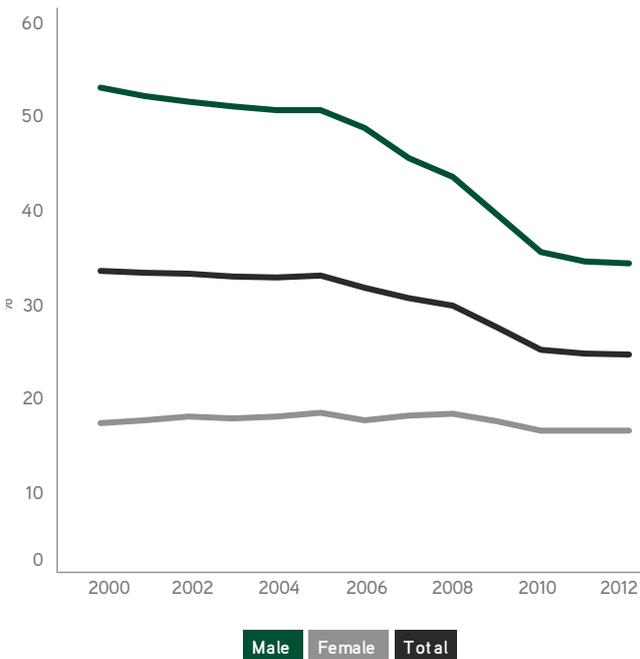
- The distribution of cigarettes is left to private enterprises, which must comply with strict regulations. The wholesalers Sanitex UAB and Mineraliniai Vandenyys are the leading distributors in this area (Euromonitor International 2012d).

- **The Internet retail of cigarettes is banned in Lithuania.** The only exception is electronic cigarettes, which are frequently sold online. Nevertheless, these cigarettes have to date recorded negligible sales (Euromonitor International 2012d, 7).

TOBACCO CONSUMPTION

- **Smoking prevalence is high.**
 - **23.1% of Lithuanian adults are daily smokers.** However, this figure has decreased by 27.1% in the past ten years, mainly due to a reduction in smoking prevalence among men (-34.4% between 2002 and 2012) (Figure 11) (Euromonitor International 2013).
 - According to the WHO in 2009, Lithuania had a smoking prevalence of 36%, the 15th highest among the 147 countries surveyed (WHO 2012).
- **Men smoke more than women.**
 - Men (about 33%) smoke more than women (about 14%) (Euromonitor International 2013; Statistics Lithuania 2013a). Time series show that the gender differences in prevalence are tailing off. Between 2005 and 2012, the female prevalence decreased by 11.2%, while the male prevalence decreased by 33.2% (Figure 11) (Euromonitor International 2013). **Lithuania, together with Romania, has the lowest level of female smoking in Europe** (Boyle et al. 2010).

Figure 11. Smoking prevalence, total and by gender, 2000-2012
Source: Transcrime elaboration on Euromonitor International (2013) data



- **Smoking prevalence is higher among the 25-39 age group.**
 - Prevalence among Lithuanians aged between 25 and 39 (40.0%) and between 40 and 54 (38%) is higher than among the rest of the population (Figure 12). 55% of Lithuanian smokers started before turning nineteen (Figure 13) (European Commission 2012).

Figure 12. Smoking prevalence by age groups, 2012
Source: Transcrime elaboration on European Commission (2012) data

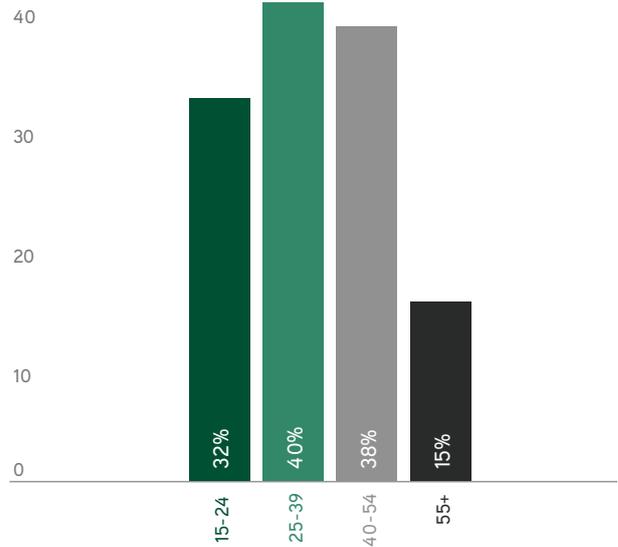


Figure 13. Age at smoking initiation, 2012
Source: Transcrime elaboration on European Commission (2012) data

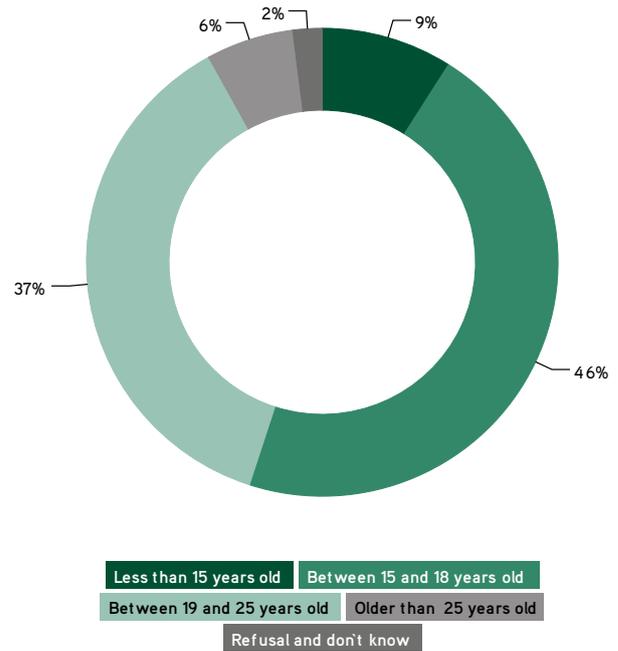


Table 2. Sales of tobacco by category and volume, 2001-2012

Source: Transcrime elaboration on Euromonitor International (2013) data

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cigarettes (mn sticks)	4,583.4	4,522	4,192.1	3,279.6	3,616.9	4,000	4,700	5,077	3,888.8	2,484.5	2,790.8	2,701.6
Cigars (mn units)	1.5	1.7	1.9	2.3	2.8	3.5	4.2	4.8	4.6	69.3	55.5	57.5
HRT (tonnes)	24.5	25.0	25.9	27.8	27.3	28.1	28.6	29.0	27.0	27.6	27.6	28.3

•• **Tobacco legal consumption is decreasing.**

- Volume sales of tobacco products have contracted in the past ten years (-40.1%, 2002-2012). However, **increasing prices** (cigarettes +91.3%, 2007-2012) **have pushed up the value of the market** (+80.0%, 2002-2012) (Table 2). The value rose from Lt603.3 mn in 2001 (€171.3 mn), to Lt1,163.8 mn in 2012 (€337.1), a 50% increase in the past decade. This has been mainly due to higher prices driven by taxation increases (Figure 14) (Euromonitor International 2012e; 2013).
- Nevertheless, in 2011 sales improved, both in volume and value terms. According to market experts, declining smoking prevalence will cause contractions in tobacco volume of sales in the next years. Value growth will maintain a positive trend due to rising cigarettes prices (Euromonitor International 2012e, 4).

•• **Some tobacco consumers traded down to legal cheaper tobacco products during the economic crisis.**

- Consumers traded down during the recession. Tax increases, tight regulation, a depressed economic environment together with the expansion of the illicit market were the main determinants of the decrease in legitimate tobacco sales. A reverse trend is now visible (Figure 15) (Euromonitor International 2012e, 1).
- Between 2009 and 2012, after the economic crisis, cigarettes sales declined by 43%, while smoking tobacco and cigar sales had a positive trend. Cigars achieved the most outstanding volume growth, +92% between 2009 and 2012. Smoking tobacco recorded a 5% increase in the same period (Euromonitor International 2012d).

Figure 14. Retail tobacco market, 2000-2012

Source: Transcrime elaboration on Euromonitor International (2013) data

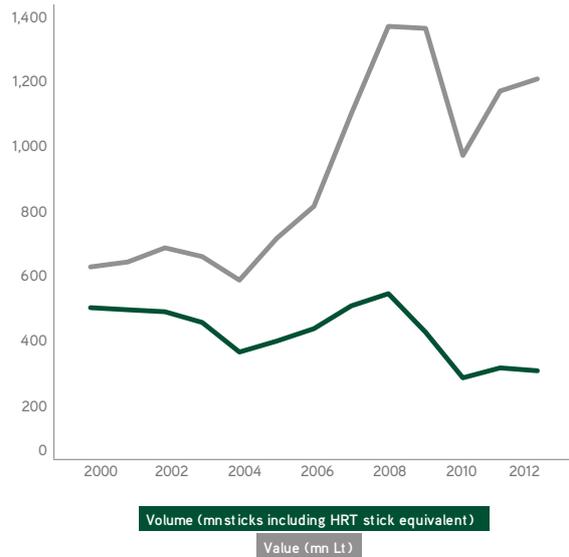
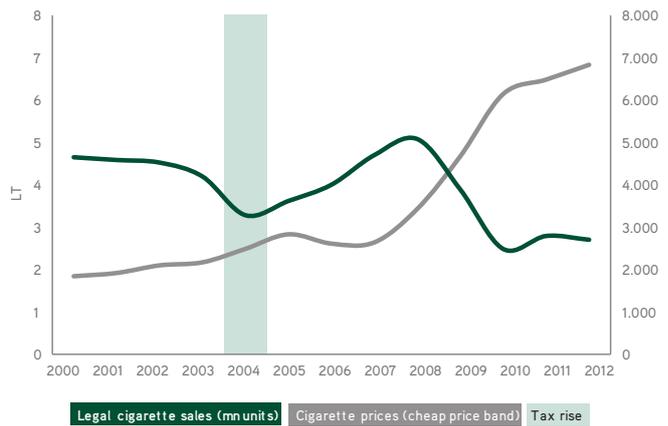


Figure 15. Prices of cheap cigarettes and cigarette sales volume, trends comparison, 2000-2012

Source: Transcrime elaboration on Euromonitor International (2013) and Official Statistical Portal (2013a) data



- In 2009, the launch on the Lithuanian market of the economy Partner cigarillos caused a shift away from cigarettes. The new Partner brand was half the price of a pack of premium cigarettes, hence its popularity. The authorities in Lithuania decided to increase taxes on cigarillos in 2011, thus curbing the growth of cigar sales (Euromonitor International 2012a).
- Economy cigarettes continue to dominate cigarettes sales in Lithuania. However, their share is contracting. It was equal to 49.8% in 2002, 41.8% in 2012 (Figure 16) (Euromonitor International 2013).
- The price of cigarettes is average with respect to the other eastern European countries (Figure 17). In 2013, a 20-cigarette pack of Marlboro, the most popular brand, costs Lt9.30 (€2.69), 4.5% more than in 2012. Interestingly, the selling price of Bond Street, the cheapest brand, is Lt7.10 (€2.06), Lt0.20 (€0.06) less than in 2012 (Euromonitor International 2013; PMI 2013a).

Figure 16. Cigarette volumes according to price bands, 2002-2012
Source: Transcrime elaboration on Euromonitor International (2013) data

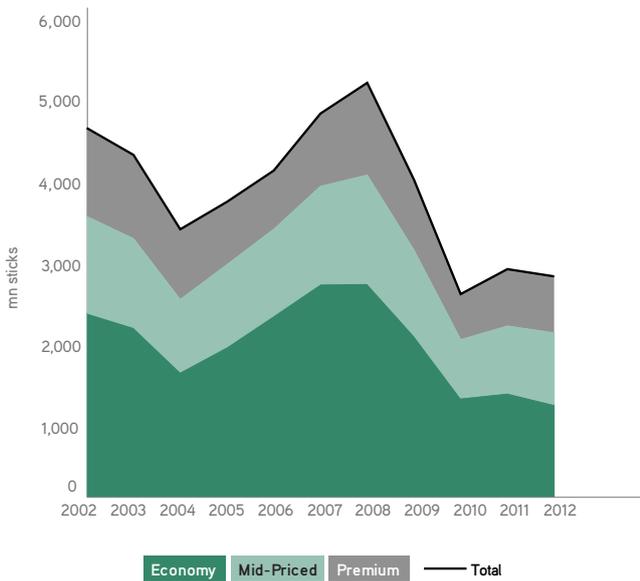
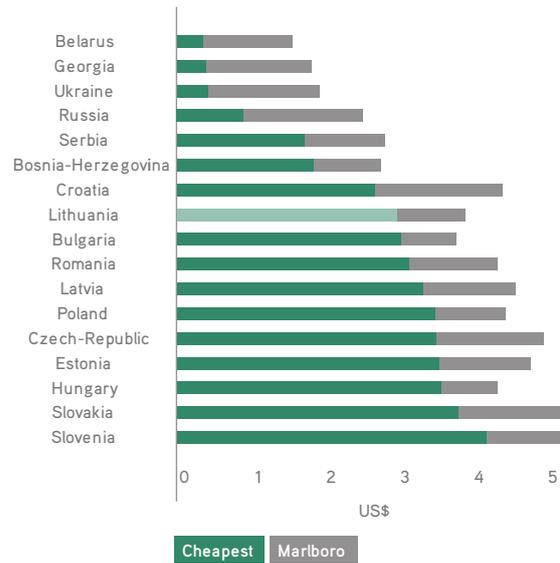


Figure 17. Cigarette prices in Eastern Europe, 2013

Source: Transcrime elaboration on Euromonitor International (2013) data



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- In 2010, the price of the most sold brand expressed in International \$ was 4.55. At that time, it was the 40th highest price among the 166 recorded by the WHO (2011a).
- In 2012, **2.0% of per capita GDP** was needed to purchase **100 20-cigarette packs of Marlboro**. In 2010, 2.6% of per capita GDP was necessary for the same purpose (100th position out of 168 countries) (Eriksen, Mackay, and Ross 2012; PMI 2013b).
- **Legal domestic consumption includes also cigarettes legally imported from foreign countries or bought in duty free areas, i.e. imported within the limits allowed by Lithuanian laws and for personal consumption only (Figure 18, p.31).**
- **Russia is an important source country for legal cigarettes consumed in Lithuania: 12.0% in 2009, 9.6% in 2010, 18.2% in 2011 and 15.3% in 2012 of all legal non-domestic packs consumed in Lithuania. Other increasingly common retail sources are duty free channels, accounting for 62% of legal non-domestic packs consumed in Lithuania in 2012 (KPMG 2013).**

Figure 18. Non-domestic (legal) packs by origin, 2009-2012

Source: Transcrime elaboration on KPMG (2013) data

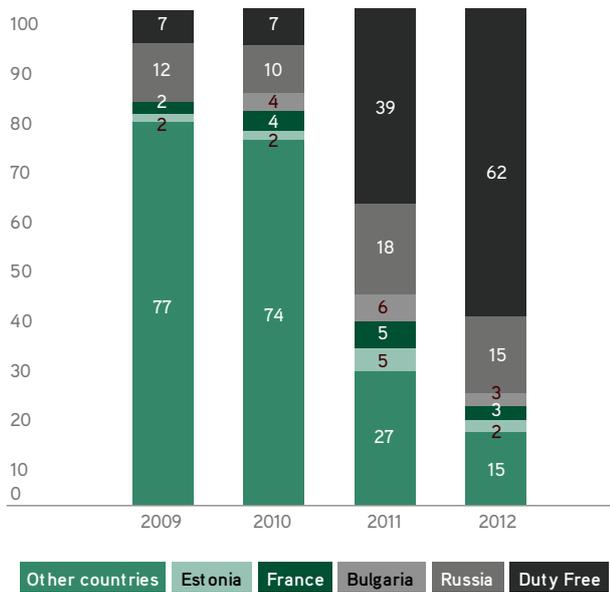
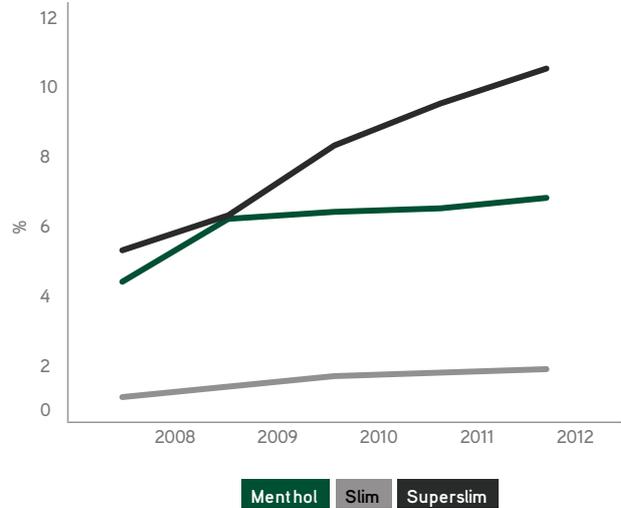


Figure 19. Menthol, Slim and Superslim cigarette shares of the cigarette market, 2008-2012

Source: Transcrime elaboration on Euromonitor (2013) data



- **Slim, superslim and menthol cigarettes are experiencing a growth in the Lithuanian cigarette market (Figure 19).**
- Regular cigarettes accounted for 88.4% of retail volume sales in 2012. Superslim cigarettes increased in popularity and accounted for 10.1% of retail volume sales in 2012. The remaining 1.5% was accounted for by slim cigarettes in 2012 (Euromonitor International 2013).
- **Non-domestic incidence among slim cigarettes is very high in Lithuania, accounting for nearly 50% of slim cigarettes consumed.** The European average is 20% and Lithuania, together with the UK, the Netherlands, Finland and Ireland, records the highest non-domestic incidence within this market segment (KPMG 2013).
- Menthol cigarettes are the only available flavoured cigarettes, and they are growing in popularity (Euromonitor International 2012d).
- The smoking of water pipes is quite popular among young people for entertainment purposes. Fruit and berry flavours are the most popular options (Euromonitor International 2012d, 52).

In conclusion, the Lithuanian tobacco market is highly concentrated and relatively small at a global level. However Lithuania is an important exporter of tobacco products in the eastern European area. In the past decade, national sales have fallen in volume and increased in value. Smoking prevalence is decreasing, especially among men, but smoking gender inequality is still evident.



REGULATION

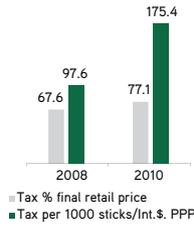
Lithuania has a non-homogeneous tobacco market regulation. The taxation on tobacco products is high. There is a medium-high level of control on the supply chain and a high level of control on tobacco consumption and sales. However, the regulation on tobacco marketing and promotion is medium. European and international institutions are playing an important role in increasing tobacco market regulation.

Taxation

Tax as % of the final retail price of the most sold brand

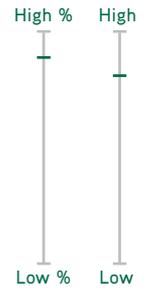
Tax per 1,000 sticks in Int.\$, PPP of the most sold brand

Source: WHO



77.1%
19 out of 181 countries

Int.\$, PPP 175.4
30 out of 164 countries
(2010)

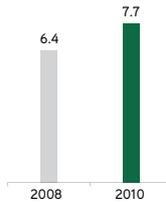


Last available data: (2012) **78.4%** – (2013) **Int.\$, PPP 178.5** (European Commission 2013)

Government Action

Government expenditure on tobacco control not including the control on the ITTP per 1,000 inhabitants (US\$)

Source: WHO–Global Tobacco Epidemic



US\$ 7.7

59 out of 106 countries

(last available year)



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Tobacco Supply Control*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



4/5 points

(2013)

Tobacco Consumption and Sale Control*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



5/5 points

(2013)

Tobacco Marketing and Promotion*

Composite indicator measuring the presence of specific policy measures in the country

Source: Transcrime elaboration



3/5 points

(2013)

* The indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

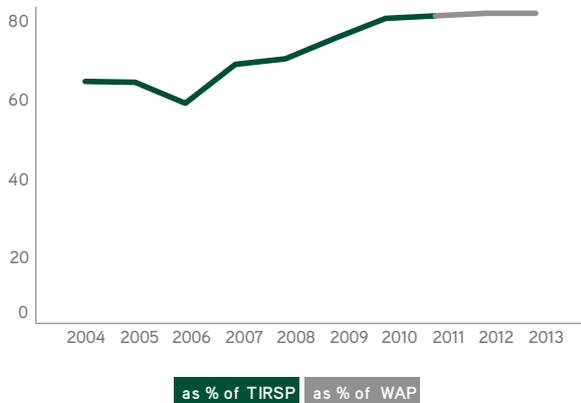
- **Lithuanian regulation on tobacco is low compared to the European average.**
 - In 2010, Lithuania ranked 22nd among 31 European countries on the Tobacco Control Scale (TCS). Between 2007 and 2010, the country lost one position in this ranking. Indeed, the country ranked 21st in 2007 (Joossens and Raw 2011, 8).
- **Lithuanian regulation dates back to 1995 and has been reformed since Lithuania's accession to the EU.**
 - On 20 December 1995, the Government adopted several recommendations of the WTO through Law no. I-443 on tobacco control. The aim was to decrease the consumption of tobacco products and thus reduce the harmful consequences on the population's health. The law introduced various bans on tobacco advertising, promotion, consumption, licensing and sales (Republic of Lithuania 1995) (Table 3, p.37; Table 4, p.38 and Table 5, p.39).
 - The Law on tobacco control was amended in June 2006. Law no. X-699 of 15 June 2006 introduced several changes mainly connected with Lithuania's accession to the EU in 2004. The law included the control and monitoring of tobacco products and the promotion of non-smoking through the media. It established continuous cooperation between Lithuanian and European institutions through a reporting system addressed to the importers and manufacturers of tobacco products (Republic of Lithuania 2006).
- **Lithuanian regulation must comply with European standards and international treaty obligations.³**
 - Council Directive no. 552 of 1989, known as *Television without Frontiers* (TWF), was the first European directive in the field of tobacco control. Art.13 states that 'all forms of television advertising for cigarettes and other tobacco products shall be prohibited' (The Council of the European Communities 1989).
 - European Commission Directive no. 37 of 2001 recommends the adoption of laws, regulations and administrative provisions in the EU Member States concerning the maximum tar, nicotine and carbon monoxide yields of cigarettes, and the appearance of warnings regarding health and other information on unit packs of tobacco products. It also adopted measures concerning the ingredients and the descriptions of tobacco products (Official Journal of the European Communities 2001).
 - Lithuanian law also complies with European Commission Directive no. 33 of 2003 regarding the advertising of tobacco products. Art.4 states that 'all forms of radio advertising of tobacco products shall be prohibited'. Art.5 provides that 'sponsorship of events or activities involving or taking place in several Member States or otherwise having cross-border effects shall be prohibited. Any free distribution of tobacco products in the context of the sponsorship of the events mentioned above, having the purpose or the direct or indirect effect of promoting such products, shall be prohibited' (Official Journal of the European Communities 2003).
 - According to new EU safety standards, all cigarettes launched on the market after 17 November 2011 must be RIP-compliant (i.e. Reduced Ignition Propensity). Cigarettes must be manufactured to guarantee their self-extinguishing in order to reduce the chance of causing fires (Euromonitor International 2012e).

3. The EU Commission Communication entitled 'Stepping up the fight against cigarette smuggling and other forms of illicit trade in tobacco products-A comprehensive EU Strategy' – of 6 June 2013 and directed to the Council and European Parliament – outlines the nature and scale of the EU problem of illicit tobacco trade, focusing on the causes and proposing a EU strategy to fight it (European Commission 2013c).

- Since 16 December 2004, Lithuania has been a **Party to the WHO Framework Convention on Tobacco Control (FCTC)**.⁴
- On 6 September 2013, Lithuania signed the **Protocol to Eliminate the Illicit Trade in Tobacco Products**. The Protocol is part of the WHO FCTC and focuses specifically on the illicit trade in tobacco products (WHO FCTC 2013).
- **Tobacco control groups are active in the country.**
- The National Tobacco and Alcohol Control Coalition (NTACC) participates in the shaping of Lithuanian tobacco policies. It works for the prevention of, and rehabilitation from, alcohol and tobacco addictions (Eurocare 2013).
- **Taxation on tobacco products in Lithuania is high, both as tax incidence on the final retail price and as total tax per 1,000 sticks (Figure 20).**
- Since 2008, Lithuania has been one of the eleven countries (Argentina, Greece, Hungary, Israel, Italy, Latvia, Madagascar, Romania, Slovenia, Turkey) and one territory (West Bank and Gaza Strip) which have increased tobacco taxes above 75% of the final retail price (WHO 2011b).
- In 2010, taxes represented 77.1% of the most sold brand retail price. Globally, this level is high. Indeed, Lithuania ranked 19th out of 181 countries (WHO 2012).
- In 2010, the tax level expressed in monetary terms (total taxes per 1,000 sticks) amounted to International \$175.4, and Lithuania ranked 30th out of 164 countries (WHO 2012).
- In 2012, an increase in the specific excise took place, from Lt132 (€38.2) per 1,000 to Lt140 (€40.6) per 1,000. The increase in total minimum rate has been from Lt221 (€64.0) per 1,000 to Lt232 (€67.2) per 1,000. In 2013, the amount rose slightly to International \$178.5 (Euromonitor International 2012c).

Figure 20. Cigarettes tax incidence as % of the weighted average price and tax inclusive retail sale price, 2004-2013

Source: Transcrime elaboration on the European Commission - Directorate General Taxation and Customs Union Tax policy data (European Commission 2013a)



4. On the legal basis offered by Art.8 WHO FCTC, on 30 November 2009 the Council adopted the Recommendation on Smoke-Free Environments, which invited Member States to introduce smoke-free environments by no later than November 2012 and invited the Commission to report on the implementation, functioning and impact of the measures. Lithuania has implemented the Recommendation. There is a general ban on smoking in workplaces and enclosed public places, but allowing separate, enclosed smoking rooms under specific conditions in order to protect children and adolescents. Lithuania has specified the minimum pack size of cigarettes – 20 – and has banned the introduction of specific additives in tobacco products. Like the majority of Member States, Lithuania has an inter-sectorial Action Plan for alcohol and tobacco for the period 2012-2014 (European Commission 2013b).

• **Lithuania invests very few resources in tobacco control and awareness campaigns.**

- In 2010, the Lithuanian government spent US\$7.7 (€6.0) per 1,000 inhabitants on tobacco control.⁵ The Lithuanian government's annual **expenditure on tobacco control is low in absolute terms, but medium in comparison with other countries.** Indeed, it ranked 59th out of 106 countries for government expenditure. However, the situation has improved compared with 2008, when the annual expenditure was only US\$6.4 (€5.0) per 1,000 inhabitants (WHO 2012).

- In 1998, with Resolution no. 954, Lithuania adopted the State Tobacco Control Programme, under the responsibility of the Ministry of Health. This programme lasted until 2010 and for its implementation the Lithuanian Government established the State Tobacco and Alcohol Control Service, with the aim of identifying and implementing control and coordination policies (Government of the Republic of Lithuania 1998).

5. The ECB annual \$/€ exchange rate is used, the reference period is 2012.

Table 3. Lithuania's regulation on supply chain control

Source: Transcrime elaboration

Supply chain control indicator	Value
1) The retail of tobacco products is subject to licensing	1 point
2) The manufacture of tobacco products is subject to licensing	1 point
3) There is a mandatory system of customer identification and verification applied to the supply chain of tobacco products	0.5 points
4) There is a tracking and tracing system for tobacco products	1 point
5) Absence of free-trade zones for tobacco products	0.5 points

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

- **The Government has launched several awareness campaigns to highlight the health risks associated with tobacco consumption.**
 - The first awareness campaign, *National Smoking Prevention Programme among school children*, was launched in 1992. However, it was only partially implemented because of insufficient funds. The same occurred for other state and municipal health enhancement programmes, such as health propaganda, enhancement of a healthy lifestyle in educational institutions (Government of the Republic of Lithuania 1998, 4). Between 2003 and 2005, three initiatives, named *Smoke free class*, *Quit and win for health professional* and *I am born a non-smoker*, were launched (WHO 2013).
 - The *Help-For a life without tobacco* was the first EU awareness campaign joined by Lithuania. It was launched in 2005 with the aim of achieving prevention and smoking cessation, as well as a reduction in passive smoking (European Commission 2010d). The last awareness campaign joined by Lithuania is *Ex-smokers are Unstoppable*, the three-year EU-wide campaign launched on 16 June 2011. It used a coordinated mix of advertising, social media, events and practical tools to reach smokers and help them to quit (European Commission 2010a).
- **Lithuania has a medium-high level of supply chain control (4 points out of 5, Table 3).**
- **The retail of tobacco is subject to licensing in Lithuania, according to Art.10 of the Law on Tobacco control as amended in 2006 (Point 1 in Table 3).**
 - Licenses are issued by municipality executive institutions to registered undertakings. Generally, a licence is issued for an indefinite period of time. Some exceptions in this regard are resorts, leisure and tourist areas, which are granted a seasonal retail licence. Undertakings that possess a licence cannot authorise or transfer the right to other persons.
- **The manufacture of tobacco products is subject to licensing in Lithuania, according to Art.10 of the Law on Tobacco control as amended in 2006 (Point 2 in Table 3).**
 - The State Tobacco and Alcohol control service issues the licence mentioned. As in the case of the retail of tobacco, the licence cannot be transferred to other undertakings (Republic of Lithuania 2006).
 - The growing of tobacco is subject to licensing, according to Art.10 of Law on Tobacco control as amended in 2006. **A licence for tobacco growing is not required when tobacco is grown for personal use** (see box *Growing tobacco for personal use*, p.38) (Republic of Lithuania 2006).
- **A mandatory system of customer identification and verification is provided by the agreements stipulated by the EU Commission with PMI (2004), JTI (2007), IT and BAT (both 2010) (European Commission 2004; 2007; 2010c; 2010b) (Point 3 in Table 3).⁶**

6. The mandatory system of customer identification and verification provides that tobacco producers conduct their business relations with the 'due license' and report to the competent authorities if customers are engaged in activities in contravention of the obligations arising from the Protocol. They must also ensure that quantities of tobacco products are commensurate with the demand for such products. Tracking and tracing systems (codes, signs and stamps) are helpful for monitoring and tracing or, put more simply, for reconstructing the path of tobacco products in the supply chain. The main distributors of tobacco products in Lithuania are JSC Sanitex and JSC 'Mineraliniai vandenys'.

Table 4. Regulation of tobacco consumption and sales in Lithuania

Source: Transcrime elaboration

Tobacco consumption and sales indicator	Value
1) Ban on smoking in public places	1 point
2) Ban on smoking in workplaces	1 point
3) Ban on the sale of tobacco products from vending machines	1 point
4) Prohibition of tobacco sales to minors	1 point
5) Ban on smoking in bars, cafés and restaurants	1 point

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

•• **There is a tracking and tracing system in Lithuania (Point 4 in Table 3, p.37).**

- Art.8 Sec.4 of the Law on Tobacco Control, as amended in 2006, provides measures aimed at tracing tobacco products. Indeed, in order 'to ensure product identification and traceability, the tobacco product shall be marked by batch numbering or equivalent on the unit packet enabling the place and time of manufacture to be determined' (Republic of Lithuania 2006).

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- At the international level, Art.8 of the Protocol to Eliminate the Illicit Trade in Tobacco Products of 2012, sets a 'global tracking and tracing regime' (WHO FCTC 2013).

•• **There are two free trade zones in Lithuania. Nevertheless, they are not considered to be problematic (Point 5 in Table 3, p.37).**

- The first is located near Kaunas, it is a 534 hectare industrial development area which offers tax relief to entrepreneurs that invest at least €1 mn. More than 70% of total investments in Kaunas FTZ are Foreign Direct Investments. The second free trade zone is located in Klaipeda, the only Lithuanian port city. It was established in 1996 and offers tax incentives to qualified investors that invest at least €1 mn. In 2008, due to overcrowding, the zone was expanded.

GROWING TOBACCO FOR PERSONAL USE

The Government of Lithuania decides the maximum size of a plot of land used to grow tobacco (Republic of Lithuania 1995). According to Art.4 of the Law on tobacco control of 1995, 'the legal and natural person using a plot of land of up to 100 square meters in size, for its personal use, shall be permitted to grow tobacco without a license'. The size mentioned remained unchanged even after the Law in question was amended in 2006 (Republic of Lithuania 2006).

•• **The regulation of tobacco consumption and sales is high in Lithuania (5 points out of 5, Table 4).**

•• **Smoking bans are in place (Points 1, 2 and 5 in Table 4).**

- According to the Law on Tobacco control of 1995, amended in 2006, the consumption of tobacco products is prohibited in all educational establishments, health care facilities, Internet cafes, premises where sport competitions and other events take place, indoor workplaces, all types of public transport, except for long-distance trains where individual cars have been designated for smokers and non-smokers, restaurants, coffee shops, bars, clubs and discotheques.
- **In restaurants, cafes, bars and other premises designated to provide services for people, separate premises (places) may be set aside for smokers.** Municipal councils have the right to prohibit smoking in public places of their competence (Republic of Lithuania 2006).

Table 5. Regulation of tobacco marketing and promotion in Lithuania

Source: Transcrime elaboration

Tobacco marketing and promotion indicator	Value
1) Ban on tobacco sponsorship and advertising in radio and TV broadcasts and print media	1 point
2) Ban on billboards and outdoor advertising	1 point
3) Ban on the display of tobacco products at point of sale	0 points
4) Ban on free distribution of tobacco samples	1 point
5) Mandatory pictorial health warnings	0 points

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

- **It is forbidden to sell cigarettes from vending machines.** Art.10 of the Law on Tobacco control of 1995 banned the sale of cigarettes through vending machines. This ban was confirmed by Art.15 of the above Law, as amended in 2006 (Republic of Lithuania 1995; 2006) (Point 3 in Table 4, p.38).
- **Selling tobacco to minors is banned.** Since the introduction of the Law on Tobacco Control of 1995, the legal smoking age has been 18. Legal persons violating the prohibitions set forth in Art.15 are subject to a fine ranging from Lt1,000 and Lt3,000. If they commit another violation within a year, they are subject to a fine between Lt3,000 and Lt5,000 (Art.26 Law on Tobacco Control as emended in 2006) (Republic of Lithuania 1995; 2006) (Point 4 in Table 4, p.38).
- **The regulation of tobacco marketing and promotion is medium in Lithuania (3 points out of 5, Table 5).**
- **Several forms of tobacco advertisement are banned by the Law on Tobacco Control of 1995 (Point 1 in Table 5).**
 - It is prohibited to issue part of tobacco production for free or as a bonus; apply discounts to owners by way of coupons published by the mass media; circulate tobacco products or new samples for free; supply tobacco products to lotteries or in other public contexts; organise retail trade subject competitions which would promote tobacco product sales; sponsor public events for children and teenagers aged under 18 (Republic of Lithuania 1995).
- **Billboards and outdoor advertising are banned (Point 2 in Table 5).**
 - Billboards and outdoor advertising are prohibited. Nevertheless, there are some minor exceptions. Indeed, it is possible to display the registered names and trademarks of undertakings whose principal activity is the sale of tobacco products, on buildings where the offices or branches of these are located, and during events sponsored by such undertakings but not presented in radio and television programmes (Republic of Lithuania 2006).
- **In Lithuania there is no ban on the display of tobacco products at points of sale. The advertising of tobacco products is prohibited at tobacco sales outlets, but the prohibition does not apply to information such as the brand names of the tobacco products sold, the words ‘We trade in’ and ‘We sell’, or indication of the prices of tobacco products (Art.17 of the Law on Tobacco Control) (Point 3 in Table 5).**
- **In Lithuania the free distribution of tobacco samples is banned (Point 4 in Table 5).**
 - It is prohibited to supply tobacco products as prizes in lotteries, contests, and sports competitions and to supply tobacco products as prizes in lotteries or contests (Euromonitor International 2012b).
 - It is prohibited to manufacture and/or sell toys, food products and other goods whose design imitates tobacco products or packaging, and to enlist persons under 18 years of age in any activity promoting the purchase and/or consumption of tobacco products (Euromonitor International 2012b).

- **There are no mandatory pictorial health warnings on tobacco products (Point 5 in Table 5, p.39).**
- Lithuania is not among the European countries requiring pictorial warnings. However, the country complies with the mandatory text warning covering. The warnings must cover at least 30% of the surface area on the front of the pack and at least 40% on the back (European Commission 2003; Smoke Free Partnership 2011; Euromonitor International 2012).

Overall, regulation of the tobacco market in Lithuania is medium. Although taxation on cigarettes is high (both as tax incidence on the final retail price and as total tax per 1,000 sticks), the country has invested very few resources in tobacco control policies and awareness campaigns. There is a medium-high level of supply chain control and a high level of control on tobacco consumption and sales. The regulation of tobacco marketing and promotion is medium.

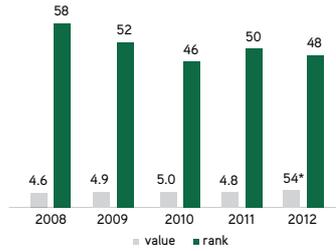


CRIME ENVIRONMENT

Lithuania has high, but declining, crime levels. Nevertheless, Lithuanian people have recently felt safer. Drug consumption is high for cannabis and medium-low for cocaine and opioids. The country records a medium presence of organised crime activities and shadow economy. Corruption is still a major issue in Lithuania.

Corruption

Corruption Perception Index
Source: Transparency International



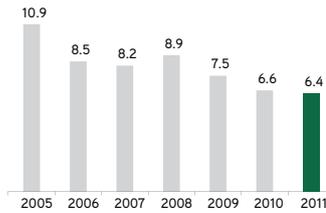
54.0*

48 out of 176 countries
(2012)



Homicides

Homicide rate per 100,000 inhabitants
Source: UNODC



6.4

84 out of 188 countries
(last available year)



Organized Crime Index

42

Composite Organized Crime Index
Source: Van Dijk (2008), "The World of Crime"

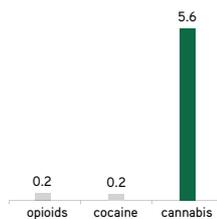
45.7

72 out of 156 countries
(last available year)



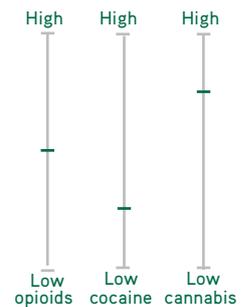
Drugs

Annual prevalence of opioids, cocaine and cannabis use (15-64)
Source: UNODC-World Drug Report



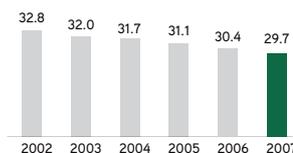
opioids 0.2
cocaine 0.2
cannabis 5.6

opioids: 68 out of 133 countries
cocaine: 69 out of 92 countries
cannabis: 29 out of 120 countries
(last available year)



Shadow Economy

Indicator of the presence of market-based activities that escape the official estimates of GDP
Source: Schneider, Buehn, Montenegro (2010), "New Estimates for the Shadow Economies all over the World"



29.7

64 out of 146 countries
(2007)



Last available data (2012): 28.5% (Williams and Schneider 2013)

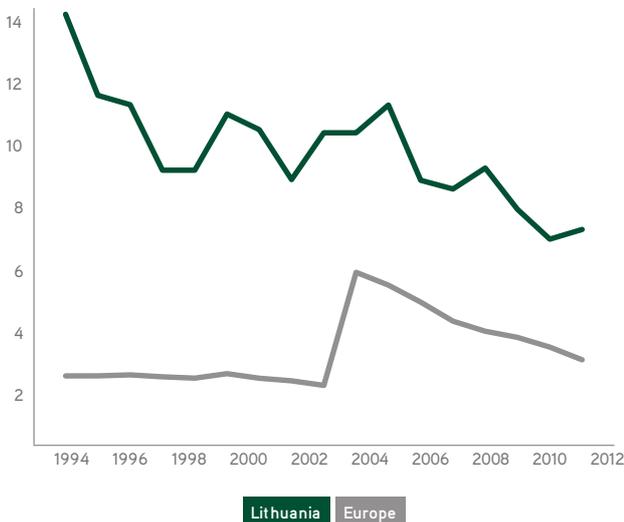
* Corruption perception index ranged from 0 to 10 until 2011. Since 2012, it ranges from 0 to 100. Highly corrupted countries occupy low positions in this rank.

CRIME TRENDS

- **Crime rates have recorded an overall decrease in recent years, but the level of homicides is still high.**
- Crime figures show a downward trend in violent crimes, except for kidnapping. Homicides, robberies and assaults have recorded a significant decrease. In particular, assaults have exhibited the largest decline, with a drop of 53% since 2003 (UNODC 2012a).
- Lithuania ranks 84th out of 188 countries for homicide rate. Despite a long-term decreasing trend, in 2010 the Lithuanian homicide rate was still the highest in Europe (UNODC 2012a). It was 6.4 per 100,000 inhabitants in 2011, about four points above the European average (2.8) (Figure 21) (UNODC 2011a; 2013a). According to official statistics, the number of homicides is still decreasing (The IT and Communications Department Under the Ministry of Interior 2013).

Figure 21. Homicide rate per 100,000 inhabitants, Lithuania and Europe,⁷ 1994-2012

Source: Transcrime elaboration on UNODC (2012a) data



- All property crimes have decreased since 2003. Domestic burglaries and motor vehicle thefts decreased substantially between 2008 and 2012 (by 42% and 33% respectively) (The IT and Communications Department Under the Ministry of Interior 2013).

- According to the most recent National Survey (2012), the feeling of safety is growing in Lithuania.⁸ The percentage of inhabitants who felt safe in their own district rose from 47% in 2005 to 66% in 2011 (Vidaus reikalų ministerija 2012).
- Public opinion perceives violent crimes, corruption and road traffic safety as the main public safety concerns (Vidaus reikalų ministerija 2012).
- Between 2006 and 2011, there was a significant growth (+60%) among Lithuanians who considered contraband to be a major concern (from 10% in 2006 to 16% in 2011 with a peak of 28% in 2010) (Vidaus reikalų ministerija 2012).
- Crime in Lithuania is determined by several factors, such as unemployment and low healthcare expenditure. The unemployment of males aged between 10 and 25 combined with low social care expenditure and the unequal distribution of public funds motivate individuals to commit crime. Indeed, social investments restrain crime by promoting welfare and moderating the negative influences of structural factors such as poverty and unemployment (Ceccato 2007).
- The areas of Vilnius, Kaunas and Klaipėda have the highest crime rates (The IT and Communications Department Under the Ministry of Interior 2013). Crime in Lithuania is deep-rooted in urban areas because there are greater opportunities to commit it than in rural areas (Ceccato 2007).

7. The value is calculated for the countries that the UNODC classifies as 'Europe'.

8 In Lithuania the expression 'feeling of safety' is more common than the expression 'fear of crime'. It combines the public perception of the crime situation, the possibility of being a victim of crime, and assessment of the effectiveness of law enforcement (EUCPN 2013).

DRUG CONSUMPTION AND MARKETS

•• **Drug consumption is high for cannabis and medium-low for opioids and cocaine (Figure 22).**

- The annual prevalence of cannabis use is high. Lithuania ranks 29th out of 120 countries (UNODC 2013b). Cannabis is the most consumed drug in Lithuania, with a 5.6% prevalence in 2008 (UNODC 2011b; 2012b; 2013b). Prevalence increased after 2004 (from 2.2% to 5.6%). Moreover, among people aged 15-24, the prevalence of cannabis use recorded in 2008 was 7.0% (EMCDDA and Drug Control Department 2008; 2009).
- Cocaine consumption is low and the country ranks 69th out of 92 countries. 0.2% of adults reported having consumed cocaine in 2008 (UNODC 2011b; 2012b; 2013b). However, according to the World Drug Report, the area of the Baltic countries is showing signs of possible expansion of the cocaine market (UNODC 2013b).

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- The prevalence of opioids' use is medium. Lithuania ranks 68th out of 133 countries, with a prevalence of 0.2% (UNODC 2011b; 2012b; 2013b).
- Also the use of amphetamine and LSD increased by 0.4 and 0.1 percentage points from 2004 to 2008. The consumption of ecstasy and LSD decreased, while that of heroin remained stable (Figure 22) (EMCDDA and Drug Control Department 2008; 2009).
- The lifetime prevalence rates for the use of legal substances that imitate the effects of illicit drugs are medium (5.2% compared with the 4.8% of the European Union) (UNODC 2013b). Young people in Lithuania also record high rates for lifetime prevalence of the use of tranquillisers and sedatives (9% among males; 21% among females) (UNODC 2012b; 2013b).

•• **Drug seizures have not shown a clear common trend since 2006 (Figure 23).**

Figure 22. Last year prevalence of drug use, 2004 and 2008

Source: Transcrime elaboration of EMCDDA and Drug control Department (2008; 2009) and UNODC (2013b) data

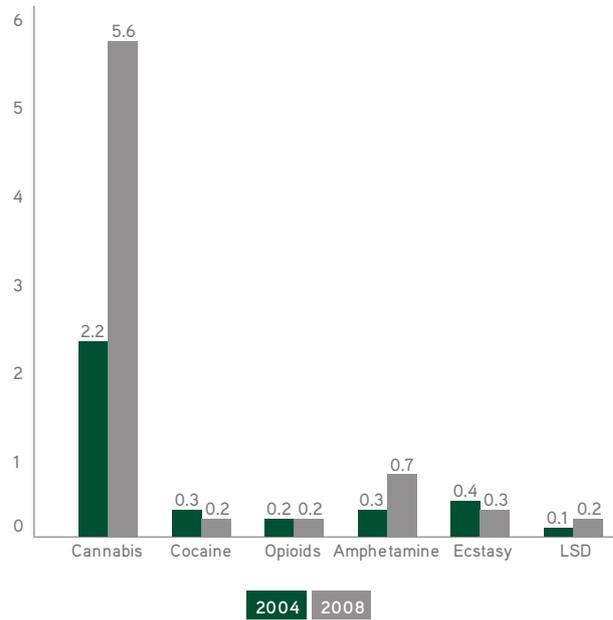
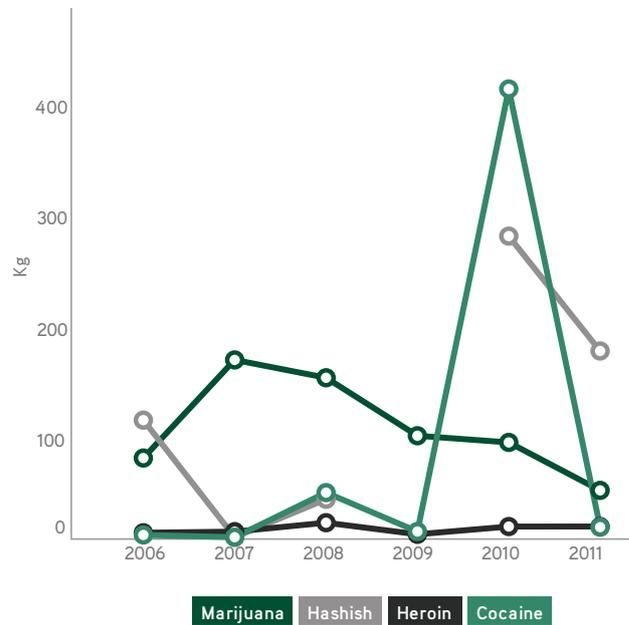


Figure 23. Seizures of marijuana, hashish, heroin and cocaine, 2006-2011

Source: Transcrime elaboration on EMCDDA and Drug Control Department (2008; 2009; 2010; 2011; 2012) data



- Seizures of marijuana decreased by 41% between 2006 and 2011. Seizures of amphetamine and ecstasy also decreased during the same period (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012). Seizures of hashish and heroin increased (by 58% and 121% respectively) (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012).
- Heroin arrives in Lithuania through the Silk Road from Central Asia, passing via Russia and Belarus, and also from the Balkans (Central Asia-Caucasus Institute Silk Road Studies Program 2004).
- Cocaine seizures increased by 227% between 2006 and 2011 (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012). In 2010, in Estonia, Latvia and Lithuania there was a spike in cocaine seizures. There is evidence that some of the cocaine smuggled into this area is then trafficked to Eastern Europe and possibly to Scandinavia (UNODC 2013b).
- Finally, seizures of methamphetamine and BMK (Benzyl Methyl Ketone) increased (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012). Also seizures of medicine substitutes increased between 2007 and 2011. These data may confirm the increasing abuse of these substances (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012).
- **In Lithuania, during the 2006-2011 period almost 1% of crimes were committed by persons under the effect of drugs or psychotropic substances (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012).**
- In 2011, 1.5% of murders were committed under intoxication, 0.6% of thefts, 0.8% of robberies and 1.3% of property damage (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012)
- Data show that, between 2010 and 2011, the number of persons who committed criminal acts while

intoxicated with narcotic or psychotropic substances decreased from 279 to 212 (EMCDDA and Drug Control Department 2008; 2009; 2010; 2011; 2012).

ORGANISED CRIME AND CORRUPTION

- **Lithuania has a medium presence of organised crime activity.**
- Lithuania ranks medium on the Composite Organized Crime Index, scoring 45.7 and occupying 72nd place among 156 countries (van Dijk 2008).
- In 2010, more than twenty criminal groups were active in the country. In the past two years, law enforcement has dismantled some of them. However, a new generation of organised criminal groups is replacing them (Gutauskas 2011).
- Organised criminal groups engage in various forms of cross-border crime, mainly drug and excisable goods smuggling. Their criminal activities also include currency counterfeiting, vehicle theft, property extortion, fraud, money laundering, prostitution and human trafficking (Europol 2011b; Gutauskas 2011; Bikelis and Nikartas 2013).
- According to Europol's EU Organised Crime Threat Assessment 2011, Lithuanian OCGs operate in many other EU Member States, including the UK, Ireland, Germany, Sweden, Denmark, Finland, France, Belgium, the Netherlands and Spain (Europol 2011b).
- **Corruption is medium-high.**
- In 2012, Lithuania scored 54 on the Corruption Perception Index. Between 2008 and 2012, the score improved, and the country rose from 58th to 48th position among 176 countries (Transparency International 2012). Corruption is more widespread in the regions bordering on Belarus than in the rest of the country (Gounev and Bezlov 2010).
- In the same period, the number of recorded bribes increased by 110.7% (Figure 24, p.46) (The IT and Communications Department Under the Ministry of Interior 2013). This figure may represent an

improvement in law enforcement performance in detecting cases of bribery (Special Investigation Service of the Republic of Lithuania 2013).

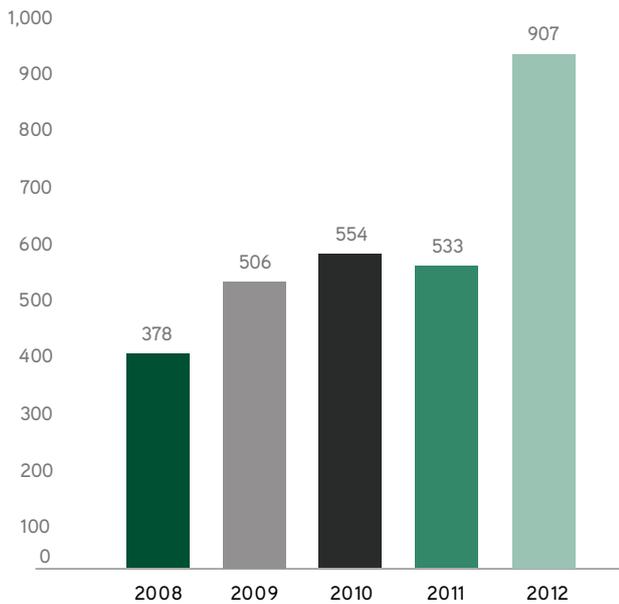
- In 2011, the government approved the national anti-corruption programme. This plan focuses on operational activities of state and municipal authorities, including law enforcement (Special Investigation Service of the Republic of Lithuania 2013).

(Resolution no. XII-51 of 13th December 2012), the government promised to combat corruption and to reduce the scale of shadow economy (Art.23).

In conclusion, Lithuania has high, but declining,

Figure 24. Number of detected cases of bribery, 2008-2012

Source: Transcrime elaboration on the IT and Communication Department Under the Ministry of Interior (2013) data



46

•• **Lithuania has a medium level of shadow economy.**

- According to a study on shadow economies over the period 1999-2007, Lithuania ranked 64th out of 146 countries, with a value of 29.7 (Schneider, Buehn and Montenegro 2010). In recent years, the shadow economy has remained relatively stable. The 2012 value was 28.5 (Williams and Schneider 2013). According to a study conducted by the Lithuanian Free Market Institute, smuggling activities account for the largest proportion of the Lithuanian shadow economy (Lithuanian Free Market Institute 2012).
- In the 16th Government Programme for 2012-2016

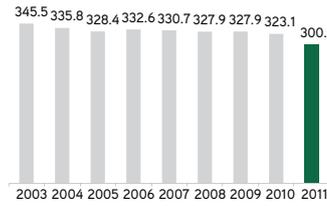


ENFORCEMENT

Lithuania has a medium level of law enforcement with an average number of police forces, a medium-high rate of judges and a very high prison population. Several bodies are involved in the fight against illicit trades. There is a medium level of anti-ITTP actions because of the absence of a national action plan against the ITTP and of publicly available estimates of this phenomenon. Nevertheless, the fight against the ITTP is an important concern for Lithuanian authorities.

Police

Police personnel rate per 100,000 inhabitants
Source: UNODC



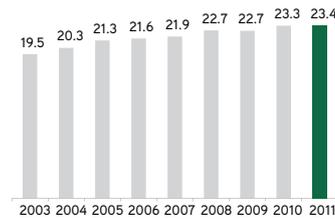
300.1

46 out of 87 countries
(2011)



Judiciary

Professional judges rate per 100,000 inhabitants
Source: UNODC



23.4

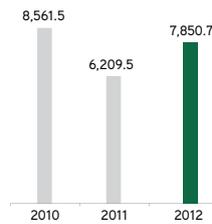
15 out of 75 countries
(last available year)



Tobacco Products Seizures

48

Quantity of seized tobacco in Kg per 100,000 inhabitants
Source: Lithuanian Customs and law enforcement (2013)



Tob. 7,850.7 Kg

(2012)

Penalty for ITTP

Likely maximum penalty for an hypothetical serious case of ITTP
Source: Transcrime elaboration

15 years of imprisonment

Anti-ITTP Action*

Composite indicator measuring the presence of specific policy measures in the country
Source: Transcrime elaboration



2.5/5 points

(2013)

* The indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

crime rates and medium levels of both organised crime and shadow economy. The country has a medium-high level of corruption, which is still a major concern. Drug use is high for cannabis and medium-low for opioids and cocaine.

LAW ENFORCEMENT IN LITHUANIA

- The police personnel rate per 100,000 inhabitants in 2011 was 300.1. It was average in comparison with other countries; Lithuania ranked 46th out of 87 countries (UNODC 2012a).
- The rate of judges per 100,000 inhabitants in 2011 was 23.4. Lithuania ranked 15th out of 75 countries. The rate has gradually and steadily increased since 2003, when it was 19.5 (UNODC 2012c).
- In 2010, the total number of persons held in prisons, penal institutions or correctional institutions per 100,000 inhabitants was 275.0, corresponding to a total amount of 9,139 detained persons. In 2010, Lithuania ranked 24th out of 110 countries for its prison population (UNODC 2012c).
- According to the International Centre for Prison Studies classification, Lithuania ranked 29th out of 223 countries surveyed in 2012 for prison population rates, with a rate of 314 detained persons per 100,000 inhabitants (ICPS 2013). More than half of the countries in the world have a prison population rate below 150.0 per 100,000 inhabitants (Walmsley 2011). Regardless of the estimate chosen, Lithuania has a very large prison population.
- On 1 January 2002, the **Customs Criminal Service (CCS)** was established as a separate Customs Office with the purpose of implementing international and interdepartmental cooperation in investigating smuggling, organising and performing the prevention of violations of legal acts (Customs of the Republic of Lithuania 2011b). The CCS collects and analyses information on smuggling trends, evaluates the economic, social and criminogenic reasons for the existence and development of smuggling and its operational activities. It also coordinates and organises the implementation of national and international enforcement projects within the Customs (Customs of the Republic of Lithuania 2011).
- The **Customs Department-Violent Crime Prevention Division** deals with risk management, mobile groups (inland control), coordination of Customs units through 24-hour liaison centres, mutual assistance on Customs matters (Customs of the Republic of Lithuania 2010b).
- The **Customs Information System Centre (CISC)** was established as an independent Office on 1 January 2001 in order to promote Lithuania's integration within the European Union. The CISC aims at developing information systems, services, and products for the Lithuanian customs' automation. Moreover, it ensures the continuous operation of the integrated Customs Information System. Finally, it ensures the implementation of customs decisions. The experts of the customs offices and CISC have developed mutual cooperation with the EU (Customs of the Republic of Lithuania 2010b).⁹

THE FIGHT AGAINST THE ITTP IN LITHUANIA

- **The main bodies involved in the fight against the ITTP are:**
- The **Lithuanian Customs**, an institution responsible for the control of international trade. Its role is particularly important in protecting the state market, fighting against corruption and ensuring citizens' safety (Lithuanian Customs 2008). It comprises the Customs Criminal Service (CCS), the Customs Department-Violent Crime Prevention Division, Customs Information System Centre, and the Vilnius Territorial Customs Office (TCO).

⁹ Examples of information systems developed and introduced by CISC are: the NCTS system (which exchanges data with OLAF, also providing for the creation of a new electronic enquiry and recovery procedure); the Export Control System – ECS – (which ensures data exchange not only in Lithuania, but also within the entire EU territory); the Tax Calculation and Validation System – MAPS – (which enables economic operators to assess the EU duties and national taxes on goods carried, and to receive information on special documents to be submitted for clearing the customs procedures).

Table 6. Punishments for smuggling, Art.199 section 1 of the Criminal Code, 2009-2011

Source: Transcrime elaboration on Bikelis (2012) data

	Fines	% of the total	Imprisonments	% of the total	Total penalties
2009	93	81.6	21	18.4	114
2010	63	81.8	14	18.2	77
2011	91	82.7	19	17.3	110
2009-2011	247	82.1	54	17.9	301

- The **Vilnius Territorial Customs Office (TCO)** performs many activities. Its main aim is to prevent the introduction of smuggled and illegal goods into the Lithuanian territory. Moreover, it organises and controls the activity of the Customs structural units, analyses and summarises the results of their activities, and protects intellectual property. Furthermore, the TCO manages the collection of export duties, taxes and fees and, if necessary, confiscates goods brought into the country illegally (Customs of the Republic of Lithuania 2013e).
- The **Lithuanian State Border Guard** is in charge of controlling and maintaining the security of Lithuania's borders. It has the purpose of ensuring the inviolability of state borders and implementing the policy of state border surveillance. It has also the functions of guarding the state on land and sea, exerting control over persons and means of transport crossing the state borders; enforcing regulations on the frontier and environmental protection, and of taking part in the enforcement of customs regulations (State Border Guard Service 2013).
- The **Police Department**, under the authority of the Ministry of the Interior, assists the General Police Commissioner of Lithuania in developing strategies for police activity and their implementation. It organises the territorial police units and ensures the implementation of police functions in Lithuania (Police Department under the Ministry of the Interior 2013a). The Local Police Units aim at preventing criminal acts and other violations at the municipal level (Police Department under the Ministry of the Interior 2013a).
- Finally, the **Lithuanian Criminal Police Bureau** has the main task of preventing and disclosing serious and major crimes, illicit activities related to the functioning of criminal organisations and their members, as well as co-ordinating investigations. The officers also cooperate with foreign law enforcement and European law-enforcement agencies (Police Insignia 2004; Police Department under the Ministry of the Interior 2013a).
- The **Lithuanian police cooperate effectively with European law-enforcement agencies (Subačius 2013)**.
 - Lithuanian law enforcement agencies cooperate with European Institutions through **Europol**, **Cepol**, **Schengen** and **Interpol**. The cooperation mainly takes place through the activity of the International Liaison Office, which is an international cooperation platform within the Lithuanian Criminal Police Bureau.
 - **Europol**¹⁰ supports national law enforcement agencies in the struggle against the illegal manufacturing and distribution of tobacco products, which annually costs the EU about €10 bn in lost revenues (Europol 2011a).
 - In 2011, the Police Department of the Republic of Lithuania, in collaboration with the Lithuanian Police School, hosted a **Cepol** course on 'Police Cooperation and Europol', which attracted 19 participants from 12 Member States of the EU and Turkey (CEPOL-European Police College 2001).
 - **Schengen Countries** have agreed that police services, in the field of police cooperation, will endeavour to foster and accelerate cooperation, especially by exchanging information needed to combat crime, as well as information in the field of crime prevention. They have also agreed to provide police and legal help when investigating and analysing criminal cases and to prosecute the suspect under surveillance on both sides of the border and criminals during the commission of crime (Police Department under the Ministry of the Interior 2013b).

10. On 11 July 2013 – in occasion of the Law Enforcement Working Party of the Council of the EU – submitted to the European Parliament and Council for the EU was a proposal on the regulation of Europol in order to assist it in collecting and analysing criminal intelligence information and exchanging the results of such analyses with the EU Member States, and to ensure more effective Europol support for national police forces. It was also proposed to merge Europol and Cepol. Both proposals received little support from Member States and the European Parliament.

- Lithuanian Customs participate actively in international operations through **OLAF** (the French acronym for: *Office de Lutte Anti-Fraude*), which has thwarted several tobacco smuggling schemes. The OLAF provides assistance in the organisation of joint consultations with law enforcement institutions in various countries on investigations involving tobacco smuggling. Indeed, in 2010 it organised three meetings (held in Warsaw, Berlin and Brussels) with the aim of coordinating investigative actions against tobacco smuggling.
- Thanks to agreements between the EU Commission and the four largest tobacco companies, OLAF is informed by the Customs Criminal Service (CCS) on all cases of detention in Lithuania of cigarettes, and it carries out additional investigations regarding the origin, authenticity, and place of manufacture of these cigarettes, informing Lithuanian Customs of their results. Several sources regulate smuggling and counterfeiting in Lithuania (Customs of the Republic of Lithuania 2010a).
- **Cooperation with Russia and Belarus is difficult (Subačius 2013).**
- The Russian authorities forbid direct communication with Customs in Kaliningrad. Communications must be in written form and must pass from Moscow. In general, Russia's willingness to cooperate is extremely low (Subačius 2013).
- In Russia and in Belarus the levels of avoided taxes which determine criminal liability are much higher than in Lithuania (Subačius 2013).
- **Various laws regulate smuggling and counterfeiting in Lithuania.**
- The Law on Tobacco Control of 1995 (Chapter V, Art.19 and following) as amended in 2006 (Chapter IV, Art.25 and following), the Code for Administrative Offences of the Republic of Lithuania and the Criminal Code of the Republic of Lithuania (Chapter XXXI, Art.199 and following) are the main normative sources that regulate smuggling and counterfeiting in Lithuania.

- The Law on Tobacco Control (1995 as amended in 2006) provides economic sanctions if individuals and legal entities (such as enterprises, institutions and organisations) violate the law. Sanctions comply with the procedure laid down in the Code for Administrative Offences of the Republic of Lithuania and the Criminal Code of the Republic of Lithuania. Violation of the law entails: the confiscation of smuggled and counterfeit tobacco products. Confiscated tobacco products are destroyed in accordance with the procedure established by the Government of Lithuania.
- Between 2009 and 2011, there were 301 convictions for smuggling in Lithuania. The proportion of fines and imprisonments was stable across the three years. Around 82% of the penalties were fines, while imprisonments accounted for the remaining 18% (Table 6, p.50) (Bikelis 2012; Bikelis and Nikartas 2013).
- Imprisonment penalties vary. Most frequently, imprisonment lasts between three and six months. However, sentences to more than two years of imprisonment are not uncommon. Overall, more than half of the persons imprisoned for smuggling in 2010-2011 were sentenced for more than two years, and two people were sentenced to imprisonment for between 42 and 48 months (Figure 25) (Bikelis 2012; Bikelis and Nikartas 2013).

Figure 25. Duration of convictions for smuggling, 2010 and 2011 judgements

Source: Transcrime elaboration on Bikelis (2012) data

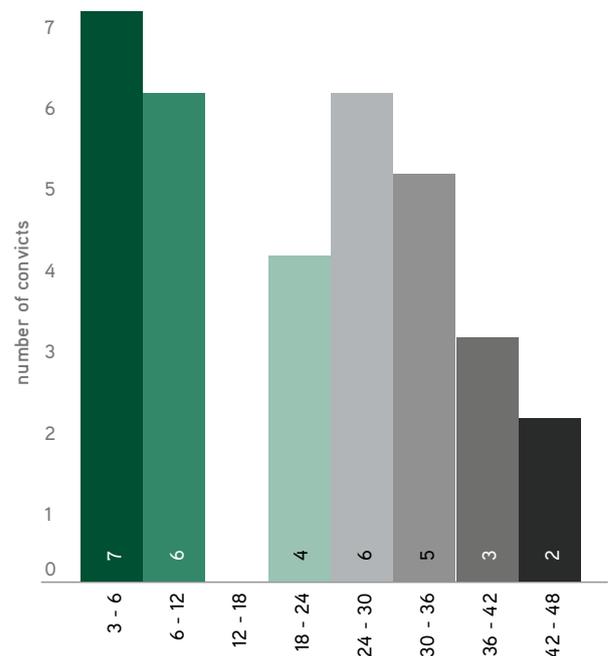


Table 7. Measures against the ITTP in Lithuania

Source: Transcrime elaboration

Anti-ITTP action indicator	Value
1) National Action Plan against the ITTP	0 points
2) Cooperation agreements between national public bodies and tobacco companies to prevent and control the ITTP	0.5 points
3) National public awareness campaign against the various forms of the ITTP	1 point
4) Legal duty for tobacco manufacturers not to facilitate smuggling	0.5 points
5) Official estimates of the size of the ITTP	0.5 points

Note: the indicator should not be interpreted as if a higher value is always better than a lower value. The objective is rather to synthetically assess the intensity of policy measures in a specific field.

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- **Current legislation discourages the trafficking of goods (Subačius 2013).**
- Overall, **the criminal penalties in a serious ITTP case seem to be severe** (see box *Hypothetical case*, p.53).
- According to Žilvinas Subačius, Head of the Crime Investigation Department at the Customs Criminal Office, sanctions are quite severe, as confirmed by the fact that courts rarely give the maximum available sanction (2013).
- Given the types of sanctions, repeat offending by members of large organised crime groups is rare. It is more common among small-scale offenders (Subačius 2013).
- **Anti ITTP action in Lithuania is medium (2.5 points out of 5 on this indicator) (Table 7).**
- **There is no National Action Plan against the ITTP in Lithuania (Point 1 in Table 7).**
- **National public bodies and tobacco companies have signed specific agreements to prevent and control the ITTP (Point 2 in Table 7).**
- The European Commission has signed legally binding and enforceable agreements with the four largest tobacco manufacturers (PMI, JTI, BAT and IT). The latter are engaged in financing the EU and the countries participating in the agreement to prevent their products from falling into the hands of illicit traffickers; to supply only the quantities of tobacco required by the legitimate market and to ensure that they sell only to legal clients by implementing a tracking system (European Commission 2004; 2007; 2010b; 2010c).
- The Lithuanian Police Department, Customs and Border Guards signed, in 2011, a Memorandum of Understanding on the fight against illicit trade. The Memorandum foresees the creation of seven permanent working groups responsible for actions in the regions adjacent to non-EU countries (PMI 2012).
- **A nationwide public awareness campaign against the ITTP was launched in 2011 (Point 3 in Table 7).**
- The Lithuanian government has implemented a number of measures to increase awareness of the ITTP and decrease tolerance towards it. In 2011, Philip Morris Baltic, together with the Lithuanian Police and Customs Departments, launched an awareness information campaign against illicit tobacco. The purpose of the initiative was to educate smokers about the damage caused by supporting illegal shadow activities (Euromonitor International 2012c).
- **In Lithuania there is no legal duty for tobacco manufacturers not to facilitate smuggling (Point 4 in Table 7).**
- However, the four major tobacco companies have signed agreements with the EC, represented by OLAF. The Parties aim to eliminate the ITTP on the EU's territory and to assist law enforcement agencies (European Commission 2004; 2007; 2010b; 2010c).
- **There are no yearly, publicly available estimates on the size of the ITTP in Lithuania (Point 5 in Table 7).**

HYPOTHETICAL CASE

A criminal organisation composed of eleven members used a house in the periphery of a large city as an illicit factory for the production and distribution of tobacco products. For at least sixteen months, with a clear division of tasks and functions among them, the members of the organisation illegally manufactured tobacco products (cigarettes and hand rolling tobacco); packed them in packaging bearing false trademarks of legitimate brands (produced by the same organisation); distributed the products to various wholesalers and retailers; and sold the illicit products through a network of bars and street sellers. No tax or duty was ever paid on these products. The law enforcement seized a total of ten tons of illegal tobacco products stocked inside the house. All the members of the organisation had previous records for fraud, forgery and illicit trade in tobacco products. The members could not justify their incomes through any form of employment, suggesting that the illicit business was their sole source of income.

The applicable penalties in Lithuania

According to Lithuania law, the above-described activities constitute criminal offences in the following areas:

1. Criminal association

According to Art.25 Sec.4 of Criminal Code (hereinafter CC), a criminal organisation is formed of three or more members with a distribution of roles and tasks, consistent mutual relations, and the purpose of committing one or more crimes. According to the CC, Art.249, the penalty for membership of a criminal organisation is a term of imprisonment for 3 to 15 years. The leaders of the criminal association shall be sentenced according to Art.249 Sec.3 (sanction from 10 to 20 years of imprisonment or by life imprisonment).

2. Unlawful possession of goods subject to excise duties

The Law on Excise Taxes states that smoking tobacco and tobacco products are subject to excise tax (Art.3). Moreover, if a person fails to pay excise taxes, the unpaid taxes shall bear an interest of 0.3% for each overdue day (Art.9 Sec.3).

According to the CC, a person who acquires, stores, transports, uses or handles goods subject to excise duties (with a value exceeding the amount of €9,413) shall be punished with a fine or imprisonment for a term up to seven years.¹¹

3. Intellectual property infringement

According to Art.195 of the CC, a person who violates industrial property rights may be subject to a fine, arrest or imprisonment for a term of up to two years.

Applying a third party trademark to goods, selling those goods in a large quantity, and gaining a steady income through this illegal activity is a criminal offence under Art.204(1) of the CC (Illicit use of a third party trademark). The 'large quantity' is an evaluative criterion determined by a court upon consideration of the concrete circumstances of the case. The penalty for this criminal offence is a monetary fine or limitation of freedom or imprisonment for up to two years.

4. Counterfeiting tax stamps

According to Art.224(2) of CC, counterfeiting, as well as the use of counterfeit tax stamps in a large quantity or of large value, is a criminal offence, and the applicable penalty is a term of imprisonment of up to four years.

11. Lithuanian Criminal Code Art.199(2) Unlawful Possession of the Goods Subject to Excise Duties.

5. Illegal commercial activity

Lithuanian law states that the manufacturing of tobacco products is subject to licence (Law on Tobacco Control, as amended in 2006, Art.10).¹² Counterfeit or contraband tobacco products, or ones without special labels, which have been marketed, stored and transported in the Republic of Lithuania shall be confiscated (Art.25, Law on Tobacco Control, as amended in 2006).¹³

Pursuant to Art.202 of the CC, a person who undertakes activities without holding a licence to engage in those activities shall be punished by community service or by a fine, or by restriction of liberty or by imprisonment for a term of up to four years.

6. Illicit enrichment

Art.189(1) states that 'a person who acquires, uses or handles a property while being aware that this property has been obtained by criminal means shall be punished by a fine or by restriction of liberty or by arrest or by imprisonment for a term of up to four years'.

7. Contraband

Art.199. states that 'a person who, when transporting across the state border of the Republic of Lithuania the items which must be declared at the customs and whose value exceeds the amount of 250 MSLs, fails to go through the customs control or otherwise avoids this control or transports across the state border of the Republic of Lithuania, without an authorisation, movable cultural properties or antiques shall be punished by a fine or by imprisonment for a term of up to eight years. (...)'. A legal entity shall also be held liable for the acts provided for in this Article.

8. Incomes without legal justification

Art.189 Sec.1 states that a person who acquires, uses or handles a property while being aware that this property has been obtained by criminal means shall be punished by a fine or by restriction of liberty or by arrest or by imprisonment for a term of up to two years.

Applicable penalty

Art.63 of the Lithuanian CC prescribes that when several criminal acts have been committed, a court shall impose a penalty for each criminal act separately, and subsequently impose a final combined sentence (either a consolidated sentence or a fully or partially cumulative sentence). In this case, ex Art.63 Sec.2 a court will tend to impose a consolidated sentence since the committed criminal acts differ markedly in their degree of dangerousness and are assigned to different types or categories of criminal acts according to articles 10 or 11 of the Criminal Code. Where a consolidated sentence is imposed, the final combined sentence shall be equal to the most severe penalty imposed for all the separate criminal acts. In this case, the most severe penalty is applied for criminal associations. Therefore, the maximum possible penalty is imprisonment for 15 years. Nevertheless, according to Art.63 Sec.6, a part of the imposed sentences may be consolidated, whereas others may only be fully or partially accumulated. Indeed, a court shall combine sentences by way of consolidation and accumulation of sentences. A court shall make a choice of the procedure for combining sentences upon assessing the nature and dangerousness of the committed criminal acts.

¹² Law on Tobacco Control (as amended in 2006), Art.10: 'The growing of tobacco, the manufacture, wholesale and retail sale of tobacco products shall be allowed in the Republic of Lithuania only after a licence issued in accordance with the prescribed procedure has been obtained'.

¹³ Law on Tobacco Control (as amended in 2006), Art.25: '1. Natural persons shall be held liable for violating this Law in accordance with the procedure laid down in the Code for Administrative Offences of the Republic of Lithuania and the Criminal Code of the Republic of Lithuania. 2. Where marketed, stored and transported in the Republic of Lithuania tobacco products are counterfeit or contraband, or without special labels - tax stamps, as well as where the purchase of tobacco products is not certified by legally valid documents or they have been stored, sold without the licence, such products shall be confiscated in compliance with the Code of Administrative Offences of the Republic of Lithuania or the Criminal Code of the Republic of Lithuania respectively'.

In the case described above, the court would first apply Art.63 Sec.5 p.1 'there is a full concurrence of criminal acts'. This means that the same acts fall fully under various articles of the CC and consequently the highest sanction would cover lower sanctions (Art.63 Sec.2). Nevertheless, the Supreme Court states that participation in criminal association and other crimes incurs only partial concurrence, so that the rules of 63 Sec.3 and 4 apply, i.e. a fully cumulative sentence is imposed, which means that all more lenient sentences which have been imposed shall be added (or only a part) to the most severe penalty imposed for one of the criminal acts committed.

Moreover, as the members of the association had previous convictions, depending on the number and seriousness of those previous convictions, Art.56(2) may apply, prescribing that, for the commission of a premeditated crime, a dangerous repeat offender shall receive a penalty more severe than the average custodial sentence prescribed by the article on the crime committed.

Table 8. Seizures of tobacco products by authority involved, mn units, 2010-2012

Source: Transcrime elaboration on Lithuanian authorities (2013) data

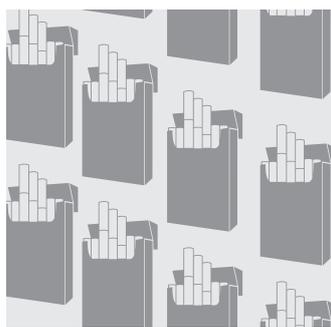
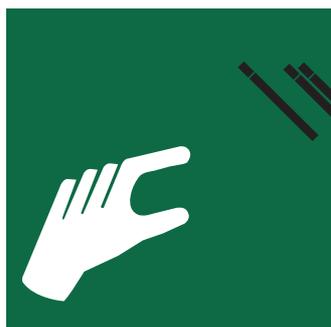
Lithuanian Authorities	2010	2011	2012
LT Customs	211,083	112,009	168,572
State Tax Inspectorate	457	31	7
Police Department	27,214	27,197	17,230
State Border Guard	41,375	43,891	48,575
Financial Crimes Investigation Agency	1,272	5,030	0
Total	281,401	188,158	234,382

- There are no publicly available estimates on the size of the ITTP in Lithuania. Nevertheless, several Lithuanian agencies and institutions provide yearly estimates on tobacco seizures (Table 8).
- Between 2003 and 2009, approximately 338 mn cigarettes were seized. Between 2008 and 2009 there was a 87% increase in cigarettes' seizures and +53% increase in pre-trial investigations (Customs of the Republic of Lithuania 2011c).
- **The Belarusian border is a 'hotspot' for the seizure of illicit tobacco.**
 - Seizures of tobacco products vary according to the year considered and the authorities involved (Table 8). The Lithuanian Customs are the authorities that make the largest seizures, followed by State Border Guard and the Police. It is estimated that only around 10% of smuggled cigarettes are currently confiscated (Euromonitor International 2012c).
 - In 2011, the Parliaments of Lithuania and Belarus ratified an agreement on a simplified entrance regime for inhabitants of areas within fifty km from their border. This agreement allows the 1.4 mn people living in that area to cross the border without visas but with special permission, and stay abroad for ninety days within six months. Belarus has not yet implemented this agreement (Bikelis and Nikartas 2013).
- **Customs employ modern devices to control the border with Kaliningrad (Bikelis and Nikartas 2013).**
 - Border security officers control the border with Kaliningrad using a modern surveillance system installed along the Nemunas River, which flows along most of the border with the Kaliningrad Oblast. Officers also use movement sensors, fences, footstep lines, air patrolling, X-ray cargo controls, weighting and risk analysis methods (Bikelis and Nikartas 2013).

In conclusion, the ITTP action is medium in Lithuania because of the absence of a National Action Plan and of yearly, publicly available estimates of this phenomenon. Nevertheless, in Lithuania there is a national public awareness campaign against the ITTP, and many bodies are involved in the fight against the illicit trade. Moreover, they also cooperate with European law-enforcement agencies.

Chapter 2

the four components



THE DEMAND

The demand for illicit cigarettes in Lithuania is high. Decreasing income and rising unemployment are the main social determinants of this high demand. Moreover, the widespread acceptance and tolerance of contraband, the relative simplicity of finding illicit tobacco, together with high trust in the quality of contraband goods, boost the demand for illicit tobacco products.

•• **The demand for illicit cigarettes in Lithuania is high.**

- Between 35% and 50% of smokers reported buying smuggled cigarettes according to two different surveys.
- The average price of a pack of illicit cigarettes in the towns of Vilnius and Kaunas, for which data are available, is €1.35. The price of legal cigarettes in Lithuania ranges between €2.1, for the cheapest brand, and €2.7 for Marlboro. Indeed, consumers can save up to half the legal price when purchasing illicit tobacco products (Philip Morris International 2012).
- Illicit tobacco in Lithuania is cheaper and more accessible than legal tobacco. A survey conducted by Berent Market Research revealed that 52% of current smokers buy illicit tobacco (Etaplius.lt 2013). Instead, an opinion poll conducted by Spinter Research in 2013 in Estonia, Latvia and Lithuania, showed that 35% of Lithuanians bought illicit cigarettes in 2012 (see box *A consumer of illicit tobacco*) (Lithuanian Free Market Institute 2013).

A CONSUMER OF ILLICIT TOBACCO

Tomas, from Klaipeda, Lithuania's third-largest city, says he buys illegal cigarettes at half price, saving about Lt180 (€52.1) a month, 'a very substantial sum' compared with his monthly income of Lt1,200 (€347.5) from self-employment.

'Nobody in my family buys cigarettes from a shop,' said Tomas, 26, who asked to be identified by his first name because buying smuggled goods is a crime. 'I don't remember the last time I filled up my tank at a gas station. You simply pre-order and get Russian products delivered in a day or two'.

•• **Increasing goods prices, decreasing incomes, and large price differences with neighbouring countries are important determinants of the demand for illicit tobacco (Lithuanian Free Market Institute 2013).**

- According to Lithuanian citizens, the demand for illicit tobacco is driven mainly by the increasing price of commodities, decreased earnings, inability to afford legal tobacco products, and large price differences with neighbouring countries, determined by higher taxation on tobacco products. Generally, in cities consumption of illicit tobacco products is driven by savings; while in the provinces ITTP consumption is more a matter of habits due to proximity to the border and worse economic conditions (Lithuanian Free Market Institute 2013).

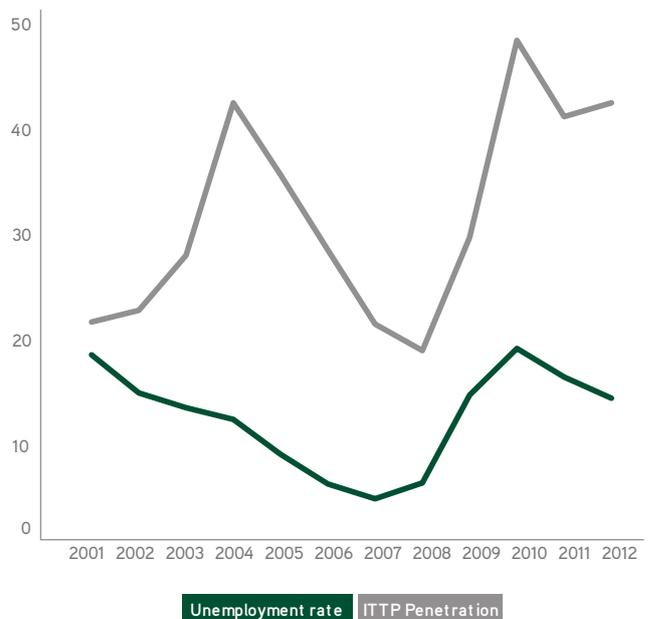
•• **Unemployment and ITTP penetration have followed the same path since 2004 (Figure 26).**

- A lower living standard forces people to spend more time on finding cheaper commodities and to take the risk of buying illicit goods (Lithuanian Free Market Institute 2004).
- The unemployment rate and the illicit trade penetration of the tobacco market in Lithuania are closely linked. This correlation proved particularly evident in 2010, when the unemployment rate reached its highest point in the past decade (18%) and the ITTP penetration was also the highest in the past decade, according to all available estimates.

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Figure 26. Unemployment rate and ITTP penetration, 2001-2012

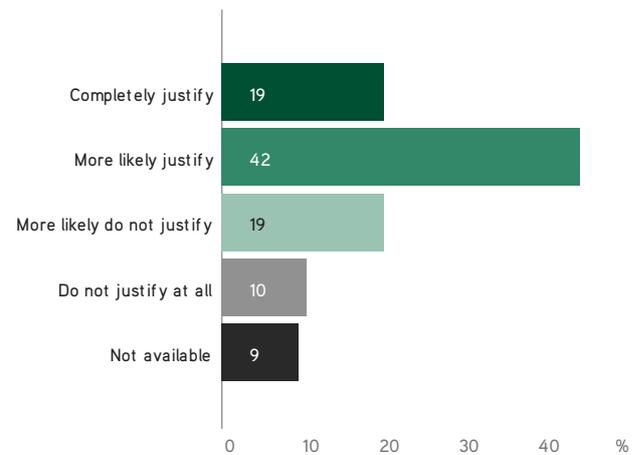
Source: Transcrime elaboration on Eurostat, Euromonitor International (2001-2012) data



- **The approval of the *Tobacco Products Directive* may impact on the demand for illicit cigarettes, particularly on the menthol category.**
- The legal consumption of menthol cigarettes in Lithuania is among the highest in the European Union. The menthol segment corresponds to 6.4% of the legal market. Only six countries in the European Union record a higher share of the menthol market segment (Caneppele, Savona, and Aziani 2013; Euromonitor International 2013). The approval of the EU *Tobacco Products Directive*, banning among others menthol cigarettes, may increase the percentage of smokers who buy illicit tobacco. Indeed, 23% of Lithuanians who smoke cigarettes of this kind may look for them in the illegal market instead of quitting smoking (Lithuanian Free Market Institute 2013).
- **There is widespread acceptance of contraband in Lithuania. This stimulates the demand for illicit tobacco and its availability. Moreover, Lithuanians are more prone to justify smuggling when the economy grows worse (Lithuanian Free Market Institute 2013).**
- Lithuanians tend to justify the purchase of illegal goods for various reasons. In some cases, the act of buying smuggled tobacco is perceived as a way to 'steal from the rich and give to the poor'. In other cases, consumers consider the purchase of smuggled tobacco as a way to take revenge for unwanted government measures. Finally, when the economic situation worsens, people tend to justify the shadow economy more. This creates favourable conditions for the consumption of illicit goods, making smuggling and buying illicit tobacco products a socially accepted activity (Misiunas and Rimkus 2007; DELFI Verslas 2012; Lithuanian Free Market Institute 2013).
- People's trust in illegal products and services is an important precondition for a shadow activity such as tobacco smuggling. In Lithuania, 61% of the population completely justify or are more likely to justify the smuggling and consumption of illegal goods (Figure 27) (Lithuanian Free Market Institute 2012).

Figure 27. Do you justify the illegal consumption of cigarettes, alcohol and fuel? (2013)

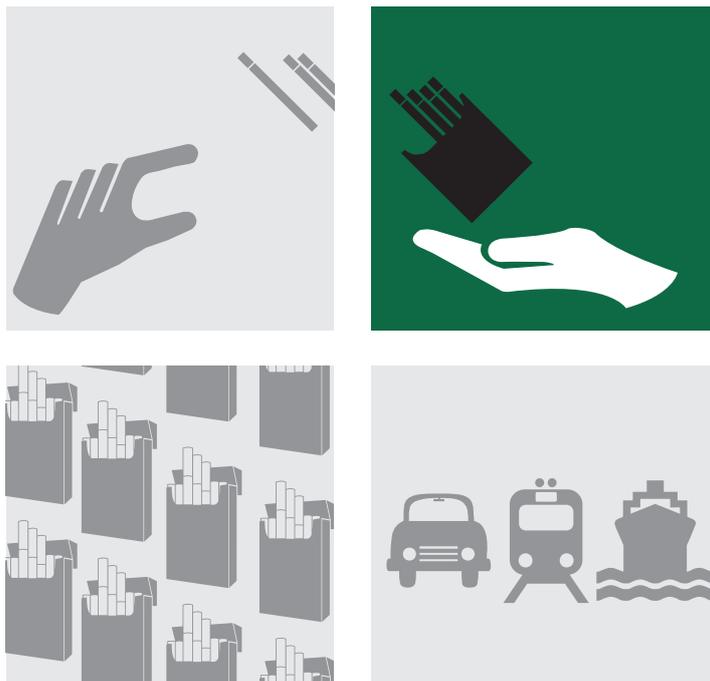
Source: Transcrime elaboration on The Lithuanian Free Market Institute (2013) data



- **The Lithuanian government has implemented a number of measures to increase consumer awareness about, decrease the tolerance of, and curb the demand for illicit tobacco.**
- In 2011, Philip Morris Baltic, together with the Lithuanian Police and Customs Departments, launched an awareness information campaign against illicit tobacco. The purpose of the initiative was to educate smokers about the damage caused by supporting illegal shadow activities (Euromonitor International 2012c). According to an evaluation of this campaign conducted by Spinter Research in 2012, 38% of the respondents who had seen the campaign believed that it could reduce public tolerance of the consumption of smuggled cigarettes, and 25% believed that the information campaign might induce adult smokers to stop buying smuggled cigarettes (Spinter Research 2012).
- In May 2013, a public website (www.besese.lit) was launched to tackle the Lithuanian shadow economy and involve Lithuanians in reporting where illicit goods are available in the country. This website, called '*Lithuania without a shadow*' (*Lietuva be šešėlio*), encourages Lithuanians to indicate anonymously on maps the places where they can find smuggled goods such as cigarettes, alcohol and fuel. Since its launch, the website's users have identified around 800 different spots where illicit tobacco products are sold (Nevartok.lt 2013).

- There are also confidential telephone numbers and email addresses to report illegal trafficking to Customs in exchange for a financial reward for valuable information. People decide to report to Customs for various reasons: law-obedience, but also envy, conflicts between trafficking partners, and the intent to remove competitors (Subačius 2013).
- The creation of a distribution network of illicit tobacco depends on the degree of consumer tolerance towards smuggled products (Lithuanian Free Market Institute 2004). Indeed, the illicit tobacco distribution process is rather easy. Open air bazaars remain the most popular distribution channel for the retail of smuggled goods (Euromonitor International 2012c).
- There are two types of sellers in open markets: people standing close to the entrance or in other visible places; and 'under the table' sellers, who sell legal products, and also illicit cigarettes or/and other illegal products (i.e. illicit pharmaceuticals). Typical sellers in open markets are old women (*babushka*), gypsies (usually women) or socially marginalised people (usually unemployed persons, or alcohol and drug addicts) (Bikelis and Nikartas 2013).
- Smugglers can also exploit the areas close to shops and supermarkets where there is a constant movement of people. Moreover, kiosks may sell illicit tobacco products without licences. Distributors quite often sell not only cigarettes but also illicit alcohol in private houses or close to densely populated neighbourhood blocks (Bikelis and Nikartas 2013).
- Illicit cigarettes are also sold in 'mobile shops', such as trucks or vans, providing products for people living far from cities. Finally, a consumer can find these products via announcements on the Internet or via friends and acquaintances (Bikelis and Nikartas 2013).
- Illicit tobacco consumers tend to accumulate stocks of contraband cigarettes with a view to possible future increases in tobacco excise. Orders are made directly to suppliers, who deliver the illicit cigarettes directly to the consumers' homes (Kazakevicius 2011).
- 79% of smokers declare that they buy smuggled goods from friends and acquaintances. However, as much as 41% say that smuggled products are easily available in street markets. In addition, 4 out of 5 smokers of illicit cigarettes find it very easy to buy smuggled goods (Balsas 2013b).
- **Lithuanians trust the quality of illegal goods such as contraband cigarettes, alcohol and fuel. The more people trust in the quality of illegal goods, the more they are willing to buy these goods (Lithuanian Free Market Institute 2013).**
- Among the Baltic countries, Lithuania is the one that trusts most in the quality of illicit goods (Lithuanian Free Market Institute 2013).
- The Spinter Research, conducted in the Baltic countries in 2013, shows that 18% of Lithuanians 'completely trust' the quality of illicit cigarettes, while 36% 'rather trust' them. More than half of Lithuanians (54%) trust the quality of smuggled tobacco (Lithuanian Free Market Institute 2013).

In Lithuania, between 35% and 50% of smokers consume illicit tobacco. Decreasing income, rising unemployment, and proximity to lower-price markets are crucial factors in determining the demand for cheaper tobacco products. Other important elements are the widespread acceptance of the consumption of illegal goods, trust in their quality, and their relative availability. Moreover, the approval of the European Commission Tobacco Products Directive may impact on the demand for illicit cigarettes, particularly for the menthol and slim categories.

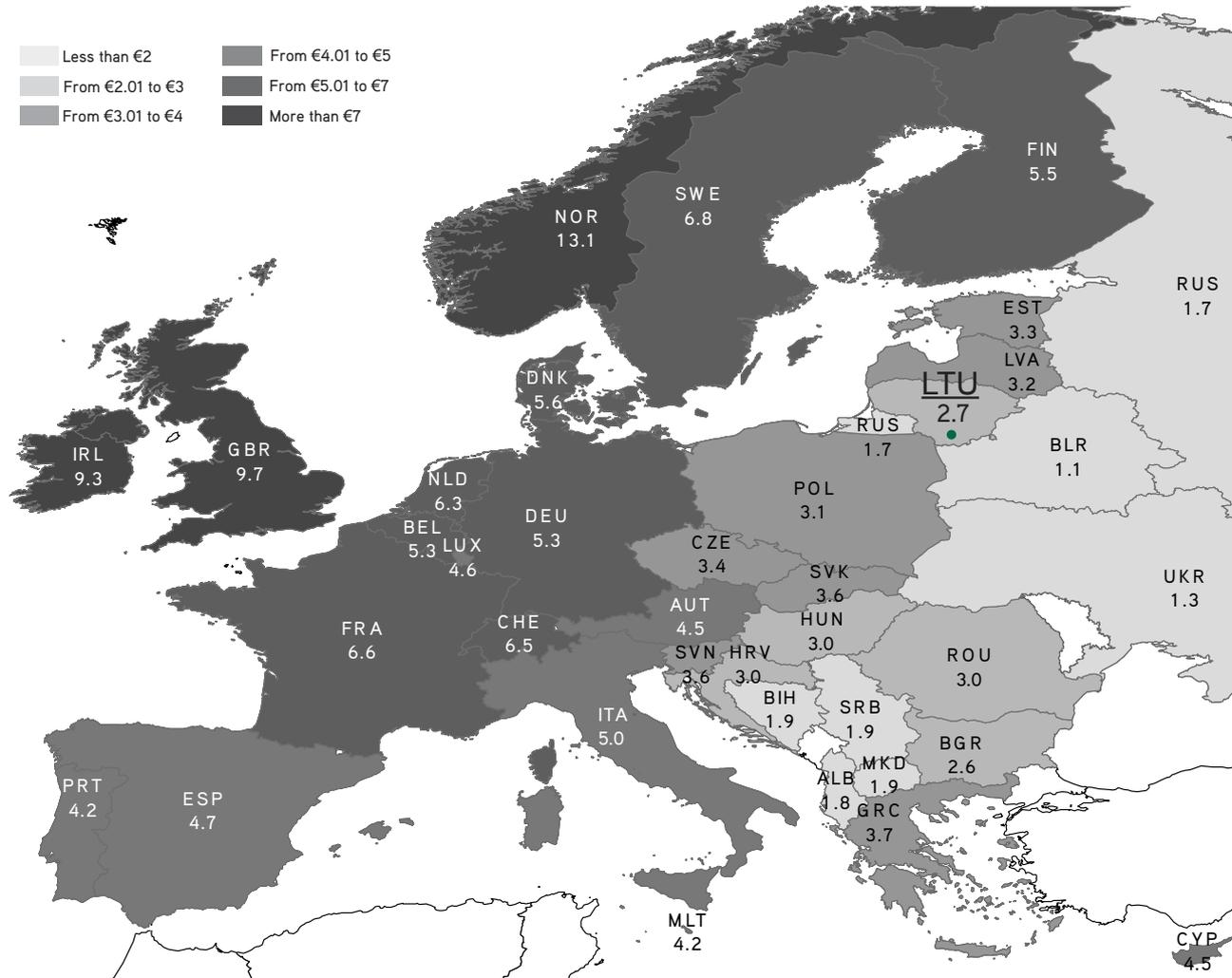


THE SUPPLY

Small organised groups are the main suppliers of illicit tobacco products; also single individuals participate in this traffic. Proximity to the main producing countries of illicit whites and high price differentials across the EU borders foster the ITTP.

Figure 28. Marlboro price in Euro per 20 cigarettes, January 2013

Source: Transcrime elaboration on PMI (2013) data



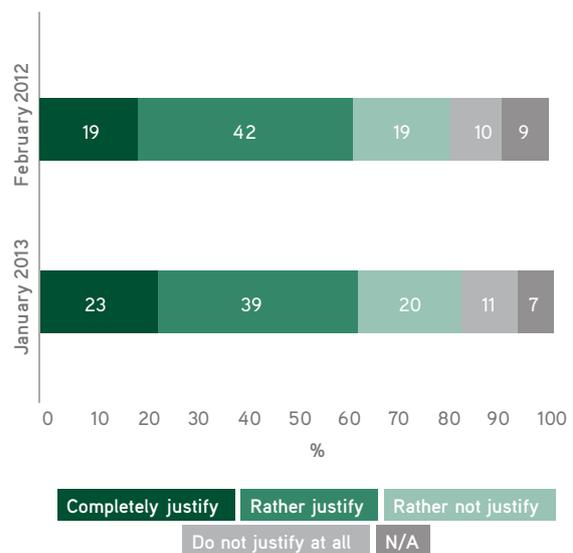
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- **Proximity to the main producing countries of illicit whites boosts the supply.**
- The Russian Federation and Ukraine are the main source countries of illicit tobacco products in Europe. According to Joossens and colleagues, sharing a land or sea border with Ukraine, Russia, Moldova or Belarus is a main determinant of the level of ITTP in a country (2011; 2012).
- In 2012, **99.9% of illicit cigarettes circulating in Lithuania originated from outside the EU** (KPMG 2013, 133). **Lax enforcement against the ITTP in eastern countries** facilitates smuggling (Euromonitor International 2012c, 11). Most seizures of Ukrainian illicit cigarettes, for example, take place in neighbouring EU countries such as Romania, Poland, and Hungary (Kaplan 2009, 31).
- **Price differentials on excise goods across the EU borders foster the ITTP.**
- **Prices of cigarettes are lower in eastern extra-EU countries than in the Member States.** Lithuanian prices are among the lowest in the EU, but still higher than in eastern neighbouring countries (Figure 28 and Figure 29, p.63) (Eriksen, Mackay, and Ross, 2012; Customs Department, 2013). In January 2013, a 20-cigarette pack of the cheapest brand in Lithuania cost 3.3 times more than in Russia and 8.2 times more than in Belarus (PMI 2013a).
- A recent survey reports that 46% of Lithuanian respondents considered 'rising product prices, low and decreasing income and possibilities to afford legal goods' to be the most important reasons for the increase in smuggling. 45% of the respondents considered the 'big price differences compared to neighbouring countries caused by big taxes (excises)' to be important. No other option received more preferences (Lithuanian Free Market Institute 2013, 6).

- In addition to tax evasion, **the lower prices of tobacco products in eastern neighbouring countries**, in particular Belarus, **also increase the attractiveness of bootlegging** (Figure 28, p.62; Figure 29, p.63) (Gutauskas 2011; Lithuanian Free Market Institute 2012; Euromonitor International 2012c, 11).
- In western and northern European markets, the prices of cigarettes are significantly higher than in Lithuania. Smuggling illicit products from Lithuania to these countries may further increase the returns on the ITTP (Figure 28, p.62 and Figure 29, p.63) (Customs of the Republic of Lithuania 2013d).
- For organised crime, the ITTP may be more profitable than drug smuggling (Lisicki 2009, 9; Lentowicz 2010). Overall, the return on investment for criminal organisations is around 375%, according to tobacco industry estimates (EUbusiness 2010).
- **The ease of retail distribution increments the supply (Euromonitor International 2012c).**
 - Once the cigarettes have entered Lithuania, they are easily distributed in open air markets, or through friendship networks (Misiunas and Rimkus 2007; Euromonitor International 2012c; Balsas 2013b).
- **Smuggling enjoys social acceptance (Lithuanian Free Market Institute 2013, 3).**
 - The majority of Lithuanians justify the smuggling and illegal consumption of cigarettes, among other goods (Figure 30). People defend smuggling more when they economy grows worse; the acceptance of smuggling has increased since the eruption of the economic crisis (Lithuanian Free Market Institute 2013, 4).
 - Widespread tolerance of the phenomenon may incentivise the supply, while making controls by law enforcement more difficult (Lithuanian Free Market Institute 2013, 4).
- **Lithuania is a transit and source country for the ITTP.**
 - Due to its position, **Lithuania is a transit country for illicit cigarettes** bound for the western EU markets (see *Modus operandi* and geographical distribution) (Europol 2011b; Gutauskas 2011; Customs of the Republic of Lithuania 2013d). In 2011, more than 2.2 bn sticks were smuggled from Lithuania to other EU countries (Lithuanian Free Market Institute 2012).
 - Different sources provide conflicting estimates of the share of smuggled cigarettes exported to other EU markets. Figures range from 30-40% to 78% (Customs of the Republic of Lithuania 2011d; Frontex 2012, 19).
 - The disparities between tax levels on cigarettes expressed in monetary terms create these illicit opportunities (Gutauskas 2011; Frontex 2012, 19; Euromonitor International 2012c, 11).
 - Enforcement officers have detected illegal tobacco factories employing Lithuanian citizens or established by them, as well as Lithuanian smugglers in the UK, Poland and other western European countries (TSV-zollagentur 2013; Ciecierski 2007, 3; DNA 2010, 156; Europol 2011b; Junek 2011; Ministry of the Interior 2012, 170–171; Evans 2013).

Figure 30. How do you personally evaluate smuggling (contraband) and illegal consumption of cigarettes, alcohol products and fuel? (2012 and 2013)

Source: Transcrime elaboration on Lithuanian Free Market Institute (2013) data



•• **Corruption characterises the Lithuanian ITTP (Ceccato 2013).**

- Indeed, trafficking tactics are becoming more and more advanced due to corrupt relations with Customs officers, who advise on how to avoid detection (Subačius 2013).
- In some cases, customs and border control officers have participated in smuggling. They may receive bribes to aid smugglers, but they may also act as organisers of the traffic (Lithuanian Free Market Institute 2004; Customs of the Republic of Lithuania 2013d).
- Top politicians may also take part in smuggling by exerting influence on important, strategic policy decisions in favour of smuggling (Lithuanian Free Market Institute, 2004). According to a survey conducted in 2013, 24% of respondents considered the corruption of the government to be one of the main drivers behind the spread of smuggled and illicit goods (Lithuanian Free Market Institute 2013, 6).

•• **Four categories of suppliers take part in the Lithuanian ITTP (Vainauskienė 2008; Subačius 2013):**

- Very complex and well organised criminal alliances (50-150 members), with clearly defined responsibilities (functions), disciplinary liability, centralised management of criminal gains, wide relations with corrupt Customs and Police officers, links with politicians, strong leaders, participation in international criminal networks, many international links, and huge amounts and value (millions of EUR) of the trafficked goods.
- Small organised crime groups, such as 5-10 people groups, where everyone has a different function and responsibility (Lithuanian Free Market Institute, 2004; Seputyte, 2010; Gutauskas, 2011; Customs Department, 2013).
- Small groups with one leader.
- Single individuals (Lithuanian Free Market Institute, 2004, p.6; Euromonitor International, 2012, p.11).

- These different actors have different motives, profits and responsibilities (Lithuanian Free Market Institute 2004, 6). Smuggling channels mirror other illicit markets. For example, drug trafficking does not have a hierarchical supply chain but consists of fluid networks (Pearsons and Hobbs 2001, 12).

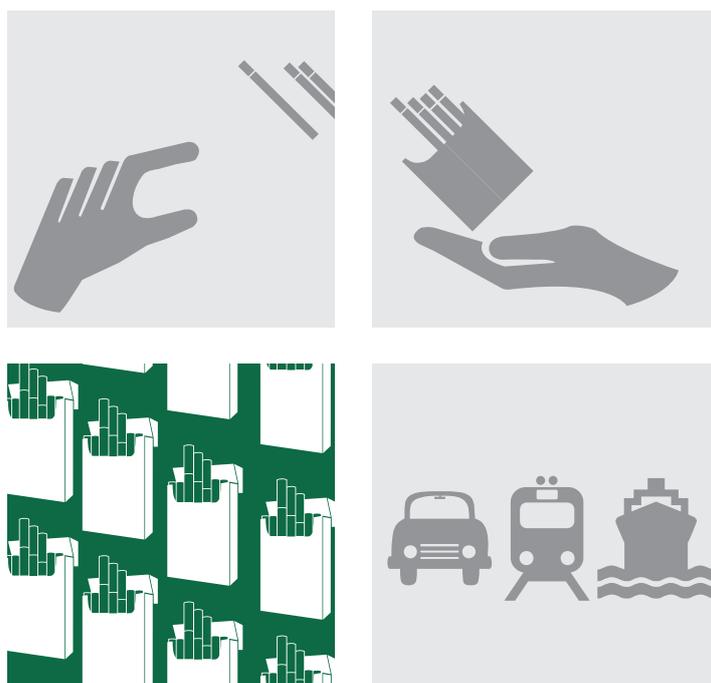
•• **International organised groups are involved in cigarettes and narcotics trafficking (Subačius 2013).**

- These groups vary from trivial to extremely developed multi-level organisations, and they have relations with criminals throughout Europe, in Belarus, Russia and Ukraine (Subačius 2013). Large organised groups are usually specialised in more than one field of illicit trade: for example, smuggling and trade of illicit tobacco, alcohol, drugs, stolen cars, or illicit medicine. In addition, cigarettes represent 90% of all illicit trade in Lithuania (Bikelis and Nikartas 2013).
- Opportunities to commit crimes have increased in Lithuania for various reasons: increased mobility in the EU, improved communications, greater experience in criminal activities, and relations with corrupt officers. Smugglers are mostly men, aged 25-50, and Lithuanian. They are wealthy or have above-average incomes, and sometimes enjoy respectable social status in the local community (Subačius 2013).

•• **Small organised criminal groups are the most recurrent actors in the ITTP.**

- In 2004, law enforcement made numerous arrests among members of international organised criminal groups. Therefore new local criminals had the opportunity to engage in tobacco smuggling without competition (Ceccato 2007).
- Today, lower-level Lithuanian OCGs tend to organise smuggling schemes, while international OCGs mainly provide illicit commodities (Vainauskienė 2008; Gutauskas 2011, 308). However, investigations have detected criminal gangs simultaneously engaged in tobacco smuggling, illegal possession of excise goods, narcotic substances, fraud, property extortion, and other crimes. Among them are the *Buduliai* and *Švinius* groups (Gutauskas 2011, 313; Customs of the Republic of Lithuania 2012a, 6).

- Around thirty organised crime groups smuggling cigarettes to western European, Scandinavian and northern countries operate in Lithuania. Six or seven with larger networks also reach the UK (Vainauskienė 2008). In 2011, Customs officers stopped the activities of two of these groups. Each organisation had more than twenty-five members and a turnover superior to Lt10 mn (€2.9 mn) (Customs of the Republic of Lithuania 2012a, 6).
- In this case, smugglers are mostly men, aged 20–45, and Lithuanian, mostly unemployed or fictitiously employed with low incomes (Subačius 2013).
- **Single individuals tend to be active in small-scale activities and see smuggling as an opportunity to earn their livings (Lithuanian Free Market Institute 2004, 6).**
- They may be related to larger organisations through some kind of labour relationship. They may have to perform specific tasks and are remunerated for the accomplishment of these tasks. Distributors, for example, are usually salaried employees who compete with each other both over employment and the venues of sales (Lithuanian Free Market Institute, 2004). Individual traffickers carry smuggled cigarettes directly to the markets, or through friends who sell goods in these markets. The greater the organisation of the group (and the levels of distribution), the longer the distance from traffickers to consumers (Subačius 2013).
- Roma and gypsy citizens seem to be active on the supply side of the ITTP (Balsas 2010; (Gintautas Dirgela and Jurate Petkeviciene 2013). Gypsies usually participate in the retail of illicit tobacco products (and also illicit products like drugs). Gypsies (especially women) sell cigarettes in open markets and near supermarkets (for example, standing near the entrances, etc.). Moreover, they mostly live in the Vilnius area close to the Belarus border (Bikelis and Nikartas 2013).
- However, as said in regard to small organised criminal groups, the individuals involved are mostly men, aged 20–45, Lithuanian, mostly unemployed or fictitiously employed with low incomes (Subačius 2013).
- Other important actors in the illicit cigarettes trade are '*babushka*', a term which means 'grandmother, good old little woman'. The role of '*babushka*' usually concerns the trade in illicit cigarettes at retail level. There are two typical forms of '*babushka*' trade: trade in open markets, where legal products are displayed for sale and cigarettes are kept 'under the table'; and trade in private houses, especially in rural districts. Moreover, the term '*babushka* millionaire' denotes elderly women who sell illicit cigarettes and have been repeatedly detected and fined. Sometimes their debt to the state amounts to hundreds of thousands of litas, and they have no property or legal income (except for their small pensions, which are in part protected by the prohibition on the confiscation of the means to live), to pay their fines. Hence they continue to sell illicit tobacco (Bikelis and Nikartas 2013).
- Smuggling may provide income opportunities, especially when unemployment is high. Indeed, unemployment may encourage people to offer their services as carriers or distributors of contraband, notably in the border regions. A low living standard also forces people to spend more time on finding cheaper commodities and to take the risk of buying illicit goods (Lithuanian Free Market Institute 2004).
- **Young persons have active roles in the ITTP.**
- The involvement of teenagers in the ITTP as lookouts is a concern, even if, in recent years, it has begun to decline. When the lookouts involved in the smuggling are not yet 16, their parents may be punished with an administrative sentence for not supervising their children (Digrytė, 2012).



THE PRODUCTS

Illicit whites are the main products of the ITTP in Lithuania. Belarus and Kaliningrad Oblast host two of the main factories of illicit whites. Other illicit products are genuine contraband cigarettes and bootlegged cigarettes. Bootlegging is favoured by strict norms and the availability of cheap cigarettes in neighbouring countries.

Table 9. Estimates of the size of the Lithuanian illicit cigarette market. Percentages of the total market, 2001-2013

Source: Trascrime elaboration on Euromonitor International, KPMG and EPSs data

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Euromonitor International	20.5	21.6	26.8	41.2	34.4	27.3	20.3	17.8	28.5	47.1	39.9	41.2	
KPMG						40.8	25.7	15.5	22.5	40.7	31.3	27.5	
EPS									17.2	42.1	32.7	32.4	29.6

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• **Lithuanian institutions do not provide estimates of the illicit tobacco market. Nevertheless, several institutions produce useful estimates to analyse the ITTP (Table 9).**

• **KPMG**, through its Star Report and using several sources, provides interesting estimates. It divides cigarette packs among C&C (Counterfeit and Contraband), LDC (Legal Domestic Consumption), and ND(L) (Non-Domestic Legal Consumption). KPMG investigates the illegal penetration into the Lithuanian market. C&C halved between 2006 (40.8%) and 2012 (27.5%), even if a high peak occurred in 2010 (40.7%). In 2011- 2012, C&C incidence decreased by 3.8%. With the 27.5% of C&C incidence as a proportion of the total consumption, Lithuania is second in Europe after Latvia for illicit market share (KPMG 2013).

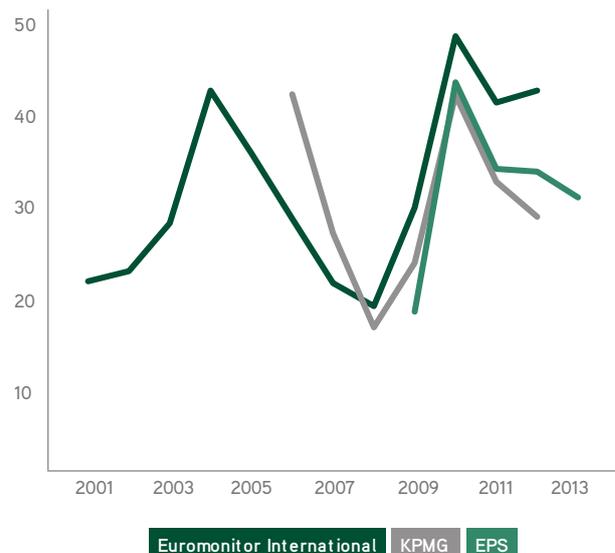
• **Euromonitor International** estimates the size of the Lithuanian illicit market as a percentage of the total market.¹⁴ Estimates range between 20.5% in 2001 and 41.2% in 2012. Illicit cigarettes strongly increased in 2004, when Lithuania joined the EU. Between 2004 and 2008 the illicit cigarettes market diminished, but it started to grow again from 2008, when the Lithuanian government decided to increase tobacco taxation (from 66.9% in 2008 to 72.1% in 2009). In 2010, the size of the illicit market reached 47.1% of the total market (Euromonitor International 2012c).

• **‘Empty Pack Surveys’** – henceforth EPSs – are estimates provided regularly by the tobacco industry on the number of non-domestic packs found in Lithuanian towns. These data should be used with caution because EPSs consider only the packs of cigarettes – excluding HRT and individual butts – and because they do not differentiate between legal and illegal packs, paying attention also to the former. Finally, EPSs do not consider the smuggling of domestic tobacco products and their diversion to illicit channels. In spite of these shortcomings, EPSs are valuable sources for analysis of the illicit cigarettes market in Lithuania. The EPSs data for Lithuania are available from 2009 to 2013. The non-domestic incidence of cigarettes doubled between 2009 (17.2%) and the second quarter of 2013 (29.6%).

• As shown in the figure, the size of the illicit market in Lithuania in recent years has increased since 2008 (Figure 31).

Figure 31. Estimates of the size of the Lithuanian illicit cigarette market, 2001-2013

Source: Trascrime elaboration on Euromonitor International, KPMG and EPSs data



¹⁴ Euromonitor International estimates the illicit market through industry press releases, press materials, interviews with manufacturers and retailers, as well as local market sources.

- In Lithuania, three types of illicit products are most widespread: contraband cigarettes, illicit whites and bootlegged cigarettes.

CONTRABAND CIGARETTES

- The number of contraband cigarettes has decreased in recent years.
- According to KPMG estimates, counterfeit and contraband cigarettes declined after 2010, reaching 27.5% of total cigarette consumption in 2012 (KPMG 2013).
- Between 2011 and 2012, the market share of illicit tobacco decreased by 3.8 percentage points. However, the figure is still high if compared with the EU-wide share (10.9%).
- EPSs data show that the number of smuggled cigarettes decreased from 2011 (about 40% of the non-domestic market) to 2013 (about 27% in the second quarter). Around 18% of the non-domestic packs are JTI products.

ILLCIT WHITES

- Illicit whites are a major concern in the Lithuanian cigarettes market.
- In 2012, illicit whites accounted for about 50% of all seized cigarettes produced by the Grodno Tobacco Factory (GTF, 36.8% of total seized cigarettes) and the Baltic Tobacco Factory (BTF, 13.5%) (see box *Jin Ling*). Among the brands most seized in 2012 were Fest 7 (17.8%, produced by GTF), Jin Ling (12.3%, produced by BTF), and Minsk (7.6%, produced by GTF). Illicit whites may cost up to half the legal price (Customs of the Republic of Lithuania 2011c).
- EPSs data show that the number of illicit whites increased between 2011 and 2013 from 54.1% to 72.1% of non-domestic packs collected (Figure 32).

JIN LING

Jin Ling is the main European brand of illicit whites. It started to flow from the Russian exclave of Kaliningrad into Lithuania in 2005 (Europol 2011b, 32; KPMG 2012, 49).

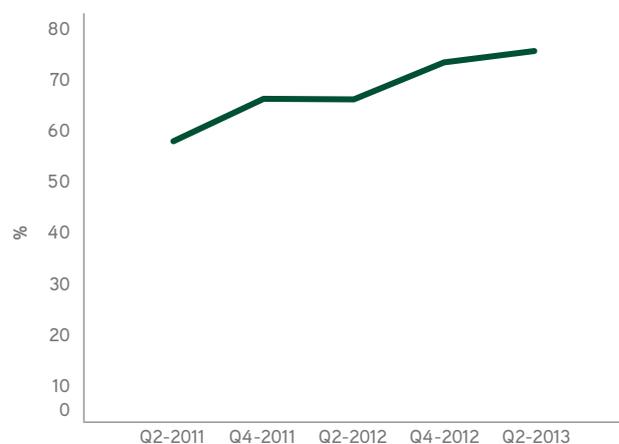
The Baltic Tobacco Factory (BTF) manufactures Jin Ling. BTF bought its facilities in the Russian Federation and Ukraine from subsidiaries of the JTI Group; its manufacturing now takes place in Russia, Ukraine, Moldova, and most of all in Kaliningrad, a well-known hotspot for smuggling and OC.

From Kaliningrad, smugglers move billions of Jin Ling cigarettes directly to Poland or, through Lithuania, Latvia, Belarus, and Russia, by sea and inland routes to other European markets. There are criminal networks trafficking this product in at least twelve countries: Germany, the UK, Poland, Latvia, Romania, Greece, Turkey, Italy, Bulgaria, the Netherlands, Belgium and France (Shleynov et al. 2008; Hauptzollamt Rosenheim 2012).

Packs of Jin Ling are clearly illegal because they lack the mandatory health warnings. However, some Jin Ling packs found in Europe bore 'duty free' stickers, or counterfeit Russian tax paid stamps, apparently as a marketing tactic to confer prestige and credibility on the product (Shleynov et al. 2008).

Figure 32. Illicit whites incidence, % of non-domestic packs, 2011-2013

Source: Transcrime elaboration on EPSs data



- According to the most recent EPS, the Grodno Tobacco Factory (GTF) is the main manufacturer of the illicit whites consumed in Lithuania (see box *Grodno Tobacco Factory*). GTF produces 64.4% of Lithuanian non-domestic cigarettes. Moreover, its consumption is increasing. Its Minsk, Fest and Premier brands are the three most widespread brands among non-domestic ones and among illicit white brands (23.2%, 22.6 and 9% respectively). NGTF also commercialises NZ (7.2% of non-domestic packs), Queen, Magnat, Matrix and Portal.
- Another important illicit whites manufacturer is the Baltic Tobacco Factory (BTF), which produces 3.3% of Lithuanian non-domestic cigarettes. BTF commercialises Compliment, Lifa, Jin Ling (0.3% of non-domestic cigarettes) and Byron.
- The *Project Star* found that illicit white consumption is highly concentrated in ten countries, representing over 90% of total illicit white consumption (Poland, Italy, Greece, France, the UK, Romania, Spain, Bulgaria, Lithuania, and Germany). Lithuania ranked 9th, with an increase between 2011 and 2012 of more than 2% (KPMG 2013).
- In Lithuania, Marlboro cost €2.70 per 20 sticks, while in Belarus and Russia the price is respectively €1.10 and €1.70 (as of January 2013). The cheapest brand costs €2.10 per 20 sticks in Lithuania, while in Belarus and Russia the price was €0.30 and €0.60 respectively (PMI 2013b).

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BOOTLEGGED CIGARETTES

- **Bootlegging and small-scale smuggling are a problem in Lithuania.**
- Travellers may bring up to 800 cigarettes into Lithuania from EC Member States if those goods are meant for personal consumption and not for re-sale (the limit for HRT is 1kg) (Customs of the Republic of Lithuania 2011a). The allowance from non-EC countries depends on the mode of transport. Travellers by air are allowed to bring 200 cigarettes (250g for HRT), while travellers arriving by other means of transport are allowed to bring 40 cigarettes (50g for HRT) (Customs of the Republic of Lithuania 2012b). The restrictions for people coming from third countries are severe. Indeed, according to KPMG, most cigarettes of Belarus origin are illegally imported into Lithuania (Figure 33, p.71).

GRODNO TOBACCO FACTORY

Grodno Tobacco Factory (GTF) is Belarus' largest manufacturer of tobacco products (80% of the market). The company was founded in 1861, and was transformed into a joint-stock company with all shares controlled by the state in December 2007. The Grodno tobacco factory buys raw materials from more than 20 countries in the world (GTF 2013).

GTF manufactured 12.2 bn sticks in 2007, and 23.4 bn sticks in 2011. The company's production quota for 2012 is set at 24 bn sticks (Euromonitor International 2012b).

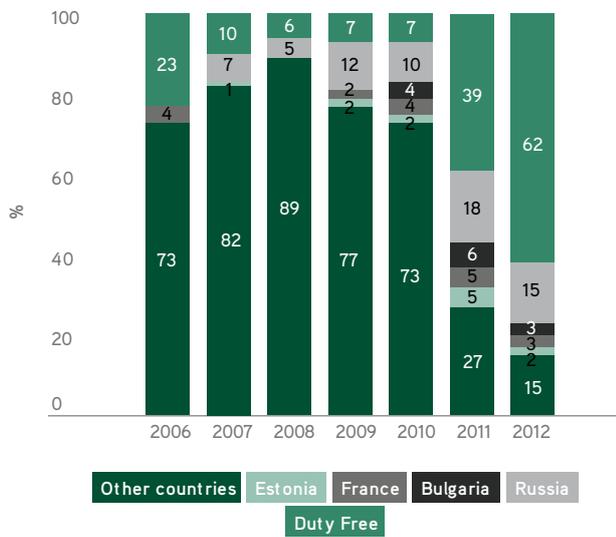
KPMG reports that the GTF is the fastest-growing illicit whites manufacturer: its output rose from 0.7 bn sticks consumed in 2009 to 4.6 bn in 2012. In 2009, Grodno brands were exported to Lithuania and Poland, and they were found in only four countries in Europe. In Latvia, Lithuania, and Poland, more than 0.5% of the consumed tobacco consisted of Grodno Tobacco brands; in the Czech Republic, GTF brands were between 0.1% and 0.5%. However, in 2012 these products were consumed in ten countries. In Lithuania, Poland, Hungary, Estonia and Latvia, more than 0.5% of the tobacco consumed consisted of Grodno brands. In the Czech Republic, Germany, Belgium, the UK and Italy, GTF brands comprised between 0.1% and 0.5% of the consumed tobacco (KPMG 2013).¹⁵

In 2012, flows of illicit whites from Belarus comprised Grodno Tobacco brands –such as Fest, Minks and NZ (KPMG 2013).

¹⁵ This KPMG analysis (based on EPSs) found that in a large number of Lithuanian cities at least 1% of packs collected were Grodno tobacco brands. The number of these cities increased between 2009 and 2012 (from 10 to almost 30) (KPMG 2013).

Figure 33. Legal sales of non-domestic packs by country of origin. Percentages of total non-domestic legal sales, 2006–2012

Source: Transcrime elaboration on KPMG 2013 data



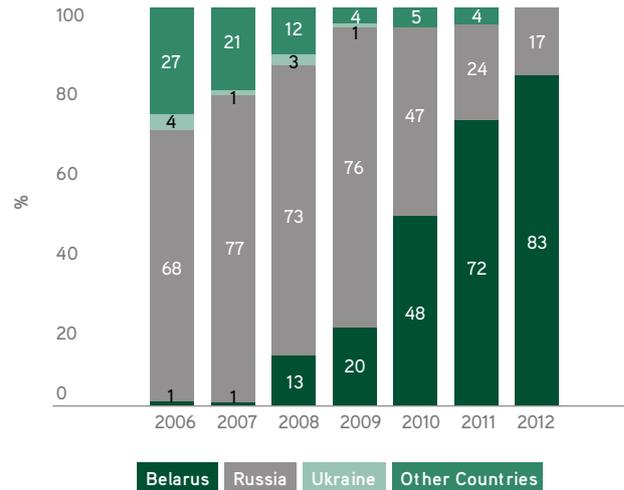
PRICE AND ORIGIN OF ILLEGAL TOBACCO PRODUCTS

- **Illicit cigarettes can generally be purchased at a third of the price of legal products.**
- According to the media and researchers, the price of a 20-cigarette pack of illicit cigarettes varies from Lt1.00 to Lt2.70 (from €0.29 to €0.78) (Misiūnas and Rimkus 2007; ZEBRA 2008).
- In 2012, a study was conducted on illegal selling prices in two Lithuanian towns. In Vilnius, the price varied from Lt4.1 (€1.2) for a pack of Premier Blue or Red to Lt5.7 (€1.65) for a pack of Minsk or Byron. In Kaunas, there was the same range: Lt4.1 (€1.2) for a pack of Premier Blue or Red; Lt4.5 (€1.3) for a pack of Magnat Blue or Red; and Lt5.7 (€1.65), for a pack of Viceroy (Philip Morris International 2012).
- **The number of contraband and counterfeit cigarettes imported from Belarus has increased.**
- In 2012, 83% of contraband and counterfeit cigarettes came from Belarus, 16.7% from Russia, 0.2% from Ukraine, and 0.1% from other countries (Figure 34) (KPMG 2013).

- According to other sources, cigarettes originate from: the Russian Federation, Belarus (the Grodno Tobacco Factory is close to the Lithuanian state border), China (cigarettes are imported by sea through the port of Klaipėda), and United Arab Emirates (cigarettes are imported by sea from tobacco factories established in the Arab free economic zone) (Subačius 2013).

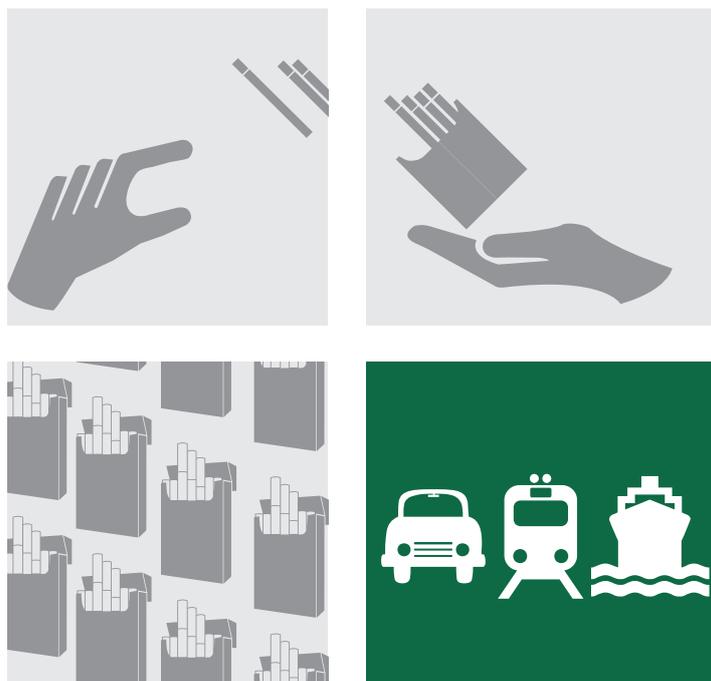
Figure 34. Contraband and counterfeit cigarettes by country of origin, % shares, 2006–2012

Source: Transcrime elaboration in KPMG (KPMG 2013) data



- The majority of smuggled cigarettes come from Belarus and Russia owing to price differentials between these countries and Lithuania. This is because the two source countries have the weakest tax regimes in the region (Euromonitor International 2012a).
- The large increase in the number of contraband and counterfeit cigarettes from Belarus (from 1.0% in 2006 to 83.0% in 2012) is related to price differences between the countries – the price is five times lower in Belarus than in Lithuania – and to the difficult economic situation. A severe economic crisis hit Belarus in 2011, devaluing the national currency (Belorussian Ruble) by 63.3% and increasing the price gap between Belarus and Lithuania (Euromonitor International 2012c).

Contraband cigarettes, illicit whites, and bootlegged cigarettes are the main products of the ITTP in Lithuania. Common factors explaining their diffusion are geographical position, the attitude towards smuggling, and price differentials.



MODUS OPERANDI AND GEOGRAPHICAL DISTRIBUTION

The geography of Lithuania strongly affects the modus operandi of the ITTP. Indeed, the country is traversed by important smuggling routes from source countries such as Belarus and Kaliningrad Oblast. Inland routes are prevalent, but some rivers have a key role for the ITTP. Finally, illicit consumption seems to be correlated with favourable conditions, such as proximity to borders or important infrastructures.

THE *MODUS OPERANDI*

- **The *modus operandi* of the illicit tobacco trade varies according to the type of trade, the destination, the availability of transportation connections, and the need to evade countermeasures.**

- According to the Lithuanian *Customs Criminal Service* (hereinafter *CCS*), 78% of the cigarettes seized in 2010 were not intended for the Lithuanian market but for the black market of other states of the European Union – notably Great Britain, Germany and Poland (Customs of the Republic of Lithuania 2011d). Today different sources describe different situations. According to Frontex (European Agency for Border Management), in 2011-12 an estimated 60–70% of all smuggled cigarettes were sold in Lithuania, while the rest were smuggled to other European countries (Frontex 2012). According to Lithuanian Customs, approximately a quarter of cigarettes are intended for the Lithuanian black market. Moreover, most of these stem from Belarus (Subačius 2013).

- The role of Lithuania as a transit or destination country has oscillated over the years. In 2002, 99% of the cigarettes seized were intended for the black markets of Western Europe. One year later, the pattern changed after some enforcement actions stopped international smuggling via Lithuania. The main outcome was a rapid rise in the smuggling of cigarettes intended for the Lithuanian black market. Later, international smuggling via Lithuania regained importance (Customs of the Republic of Lithuania 2011d).

- **The four categories of suppliers involved in the ITTP exhibit different *modi operandi* (see The supply).**
- **Large organised criminal groups are complex, employing between 50 and 150 members**, with predetermined roles and functions. They usually deal with larger amounts of illicit tobacco, and they have relations with corrupt Customs and Police officers, international criminal networks, and even politicians. They may employ sophisticated smuggling methods involving work specialisation within the group (Subačius 2013). Small groups and small groups with one leader deal with average quantities of smuggled products and employ more traditional smuggling methods. Indeed, they generally smuggle illicit products passing borders through elaborated concealments. Finally, individuals deal with small amounts and consider the ITTP as an opportunity for extra income (Subačius 2013).
- **Towns with good transportation links – highways or rivers – are more likely to attract illicit flows and/or to be important junctures of illicit routes.**
- EPS data show that towns with the highest non-domestic prevalence are at important junctures of Lithuanian infrastructures. Indeed, Taurage recorded 50% of non-domestic prevalence in collected packs in the second quarter of 2013. The town is located on the Jūra River, close to the border with the Kaliningrad Oblast, on a road linking Lithuania and the Russian exclave.
- Alytus recorded 40%. This town is located near the highway that connects Vilnius and Kaunas to Belarus. Moreover, it is crossed by the River Nemunas. Smugglers are reported to use small boats along the River Nemunas (Frontex 2012; Lrytas 2013).
- Marijanpole recorded the highest non-domestic prevalence in several EPS rounds. The town is located on an important road connecting Kaliningrad to Lithuania, near Kybartai, which is an important border town.

SMUGGLING VIA INLAND ROUTES

Smuggling by car is the most common method.

The main routes are Kaunas-Bialystock, Kaliningrad-Vilnius via Nida, Klaipeda-Mikytai Jurbarkas. Cigarettes are mostly hidden in a car's spare wheel storage compartment, the tailgate trim, the passenger cabin, and the boot (Alfa 2006; ZEBRA 2007; ZEBRA 2009; Customs of the Republic of Lithuania 2011d).

Smuggling by truck is a widespread way to traffic illegal cigarettes. Cigarettes are hidden in semi-panels, in the ceiling, or in expanded clay building blocks transported by such trucks. Cigarettes are often hidden by a canopy imitating the wall of the semi-trailer. The trucks come from Ukraine, Belarus, Russia (ZEBRA 2007; Lrytas 2009; Balsas 2011; Customs of the Republic of Lithuania 2011f; Lrytas 2013b).

Train smuggling is less frequent, but has gained in importance in recent years. The boxes of cigarettes are hidden in the wagon of a train, and the main routes originate from Belarus (Customs of the Republic of Lithuania 2011f).

- **Illicit tobacco products smuggled via inland routes are transported by cars, buses or lorries (see box *Smuggling via inland routes*, p.75).**
 - Smuggling involves a broad range of actors. Indeed, both individuals (so called 'ant smugglers') and large-scale enterprises involving organised groups are active in this field. They use private cars, buses and lorries. Minivans and lorries are equipped with elaborate hidden compartments (i.e. false floors, walls and double-walled fuel tanks). Smugglers often use four-wheel drives or tractors at different off-road borders (Frontex 2012; Bikelis and Nikartas 2013; Subačius 2013).
 - Larger groups sometimes cooperate with transport companies. Indeed, in addition to the above-mentioned means of transport, more developed organisations use higher-capacity means such as trucks, train wagons, and ship containers. Compared to 2010, the *modus operandi* of smugglers has

remained constant, with the exception of the use of rail shipments in some cases (Frontex 2012; Bikelis and Nikartas 2013; Subačius 2013).

- **Train smuggling has gained importance.**
 - Criminals transport illicit products or they use sophisticated concealments in the trains. Sometimes workers are involved in the smuggling scheme and they hide illicit products during the transportation. The main routes stem from Belarus (Customs of the Republic of Lithuania 2011e; Customs of the Republic of Lithuania 2013b; Customs of the Republic of Lithuania 2013c).
- **Illicit tobacco products smuggled via river are either transported by boats or left floating in the river.**
 - The geographical configuration of Lithuania makes smuggling via rivers a profitable and low-risk activity. The Nemunas River is the most important one, since it is more than 900 km long. It originates in Belarus and it separates Lithuania and Kaliningrad Oblast (see box *Seizures at the Nemunas River*). This method of smuggling involves cooperation between Lithuanian and Belarusian smugglers. The latter put boxes of cigarettes with Belarusian stamps in the Nemunas River and the former pull the boxes out of the river on its Lithuanian side (Lrytas 2011a; 2011b; 2012; 2013a).
 - Smuggling via rivers includes the use of boats and diving equipment to cross state borders. The Nemunas and Neris rivers are important routes. Smugglers usually carry small amounts of packs in operations via rivers (Subačius 2013).
- **Overall, many factors affect the extent of the ITTP in Lithuania.**
 - Weather conditions shape the extent of smuggling activities. In autumn and winter, cigarette smuggling incidents decrease, while they increase in spring and summer (Frontex 2012).

SEIZURES AT THE NEMUNAS RIVER

On Wednesday 27 February 2013, the Lithuanian State Border Guard Service (VSAT), retrieved from the River Nemunas a wrapped polyethylene film containing four boxes of two thousand packets of 'Fest' cigarettes with Belarusian excise labels. Belarusian smugglers had dropped the boxes in the river so that they would be pulled out by Lithuanians smugglers on the opposite bank (Lrytas 2013a).

Similar cigarette smuggling tactics were discovered in January 2012. The first discovery concerned nine boxes of 'Fest' and 'Credo' cigarettes, for a total of 4,500 packets with Belarusian stamps wrapped in a canvas sheet. The second seizure concerned fourteen cartons of 'Fest' cigarettes with Belarusian excise labels, for a total of seven thousand packets wrapped in tarpaulin. The boat carried navigation devices. It was discovered because it got stuck on the ice (Lrytas 2012).

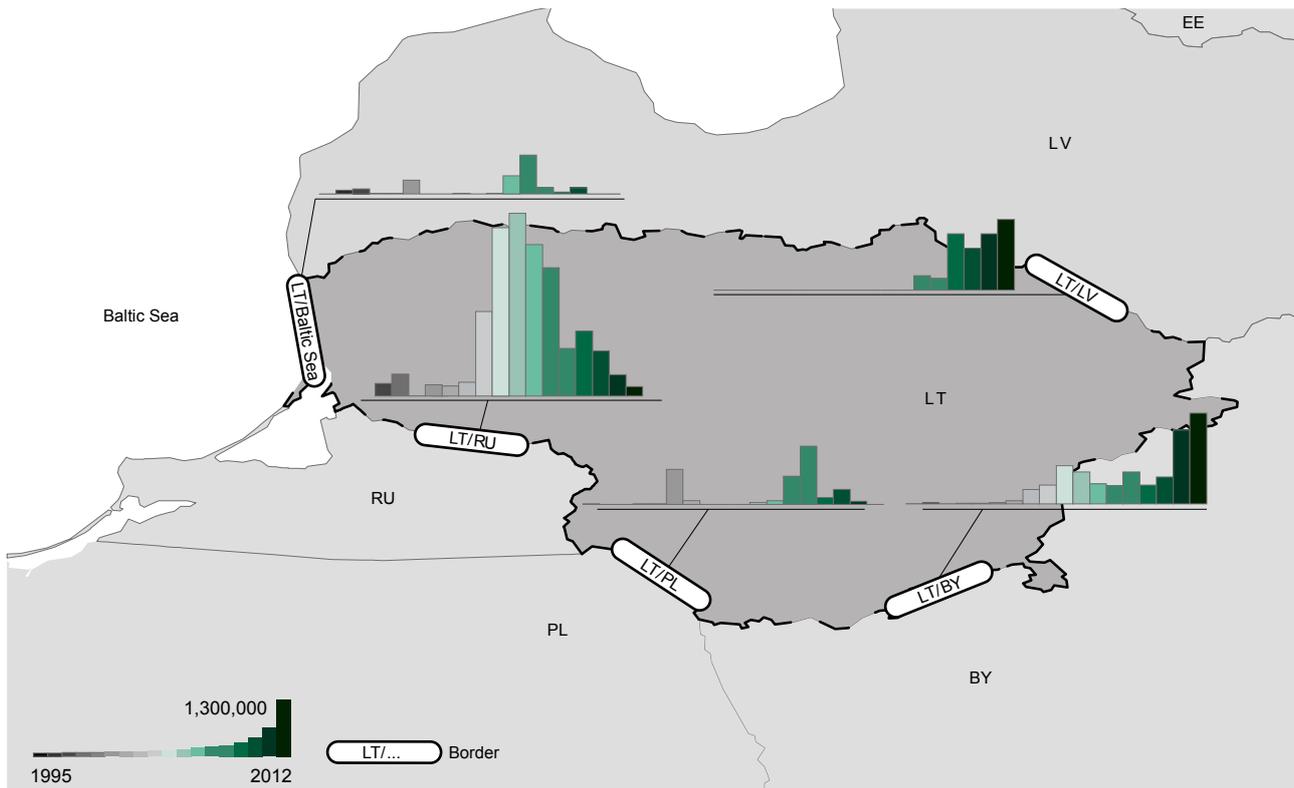
In May 2011, where River Neman meets the Russian border, the State Border Guard Service (VSAT) arrested two persons carrying boxes of 8 or 4 thousand packets of 'Saint George 7' cigarettes with Russian stamps (Lrytas 2011a). On 5 December 2011, Neman border guards discovered 31 boxes containing 15,500 packets of cigarettes with Belarusian stamps wrapped in a tarpaulin. According to Customs, this method of tobacco smuggling is worth more than Lt112,000 (€32,400) (Lrytas 2011b).

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- Recently, the number of cigarette smuggling cases has decreased, but the actual number of items seized has nearly doubled. This suggests that smugglers attempt to traffic larger amounts of cigarettes per shipment. This fact may signal the increasing presence of organised groups in this field (Frontex 2012).
- Data on the interception points of smuggled products indicate that the itineraries of smuggled products change according to enforcement responses. For instance, after the uncover of one of the main criminal groups of smugglers, Lithuania stopped being a transit country. As a consequence, smuggling for the domestic market increased (Customs of the Republic of Lithuania 2011d).
- In Lithuania, enforcement actions have had an impact on the routes of ITTP, and so have external factors. According to various sources, the illicit trade's penetration has fluctuated over the years. 2004 was marked by the arrests of Lithuanians who had smuggled large quantities of cigarettes. This increase in the involvement of local criminals seemed to be the result of the imprisonment of members of leading criminal groups which previously smuggled cigarettes to Western Europe. Local criminal groups saw this as an opportunity to engage in smuggling without competition (Ceccato 2013).
- Corruption also plays a role in shaping the *modus operandi* of the ITTP. Indeed, corrupt Customs officers may advise on how to avoid detection (Subačius 2013).
- **Lithuania borders on four countries: Russia (Kaliningrad region), Poland, Belarus and Latvia, and is on the Baltic Sea. Each border corresponds to specific inflows and outflows of illicit tobacco products.**
- The two main macro inflow routes stem from Kaliningrad Oblast and Belarus. Data on seizures by the State Border Guard seem to confirm the presence of these two macro routes. Moreover, whilst seizures on the Kaliningrad border are decreasing after a peak, seizures at the border with Belarus have increased in recent years (Figure 35, p.77).
- The Lithuanian-Belarus border is also problematic for corruption among Customs officers. Recently, criminal charges for bribery and corruption have been brought against 29 Customs officers (one-third of all the checkpoint staff) at Medininkai (on the border with Belarus) (Subačius 2013).
- In 2009 Lithuanian Customs seized 21.9 mn units of cigarettes carried from China by sea transport – one tenth of all seized cigarettes. Nevertheless, the bulk of seized cigarettes consists of Jin Ling cigarettes produced in the Kaliningrad Region of the Russian Federation. In 2009 Customs officers seized only 5 % of all illegal cigarettes at the sea border (Customs of the Republic of Lithuania 2011d).

Figure 35. Seizures at different borders, 1995-2012

Source: Transcrime elaboration on State Border Guard data (2013)



- Data from the Customs confirm the prominent role played by Belarus. Indeed, in 2012, 43.6 mn seized units stemmed from the Grodno Tobacco Factory located in Grodno, Belarus, on the Nemuras River, which produces various illicit whites brands such as Fest (the most seized brand in 2012 with over 21 mn sticks), Minsk (more than 9 mn), and Premjer (more than 7 mn) (Customs of the Republic of Lithuania 2013; GTF 2013).
- In 2012, Customs seized large quantities of cigarettes from the Baltic Tobacco Factory located in Kaliningrad Oblast. More than 16 mn originated from that factory. Almost all seizures were of Jin Ling, a notorious illicit white brand (Customs of the Republic of Lithuania 2011c).
- The Lithuanian authorities have raided and closed numerous illicit cigarette factories in recent years (see box *Uncovered Illegal Tobacco Factories*).

UNCOVERED ILLEGAL TOBACCO FACTORIES

In May 2013, the Customs Criminal Service and Vilnius Police discovered an illegal tobacco factory in Avižieniai, near Vilnius. The factory was producing mainly counterfeit HRT and cigarettes. Officials discovered about 1,200kg of raw tobacco, for an estimated tax-revenue loss of about Lt224,000 (€64,900) (Balsas 2013a; Lrytas 2013b).

In March 2010, the Customs discovered an illegal tobacco factory in Vilnius. Overall, three Lithuanian and three UkrainianS were arrested. Investigators seized 8.5 tons of raw tobacco (enough to produce 9mn sticks), with a potential loss in taxes of about Lt3 mn (€870,000). Moreover, Customs found 22,000 packs of counterfeit 'West' cigarettes and 145,000 unpacked 'West' and 'Jin Ling' cigarettes. The value of these products exceeded Lt210,000 (€60,800) (Delfi 2010; Lrytas 2010; Customs of the Republic of Lithuania 2011).

In April 2006, after a long investigation, CCS officers raided a factory of counterfeit cigarettes located in Vilkaviškis, near Marijampolė. A tobacco chopping machine, 3.5 tons of products, and about 2 tons of tobacco leaves were found on the premises. The illegal factory mainly produced HRT (Customs of the Republic of Lithuania 2011d).

GEOGRAPHICAL DISTRIBUTION

- **The consumption of illicit tobacco varies across different areas.**
- *'Lithuania without a shadow'* is a web project that lets Lithuanian citizens signal the places where they have seen specific types of illicit product on sale, including illicit cigarettes. Large towns and border zones record the highest number of reports. The borders with Kaliningrad Oblast and Belarus are particularly troublesome (Beseselio 2013).
- EPSs confirm that illegal cigarettes prevail in bordering regions. Alytus, Marijampolė and Tauragė recorded high levels of non-domestic prevalence in the five quarters considered. High levels of the consumption of illicit tobacco are also observed in central towns, such as Jonava and Panevėžys. Utena and Visaginas record low levels of consumption (Figure 36).

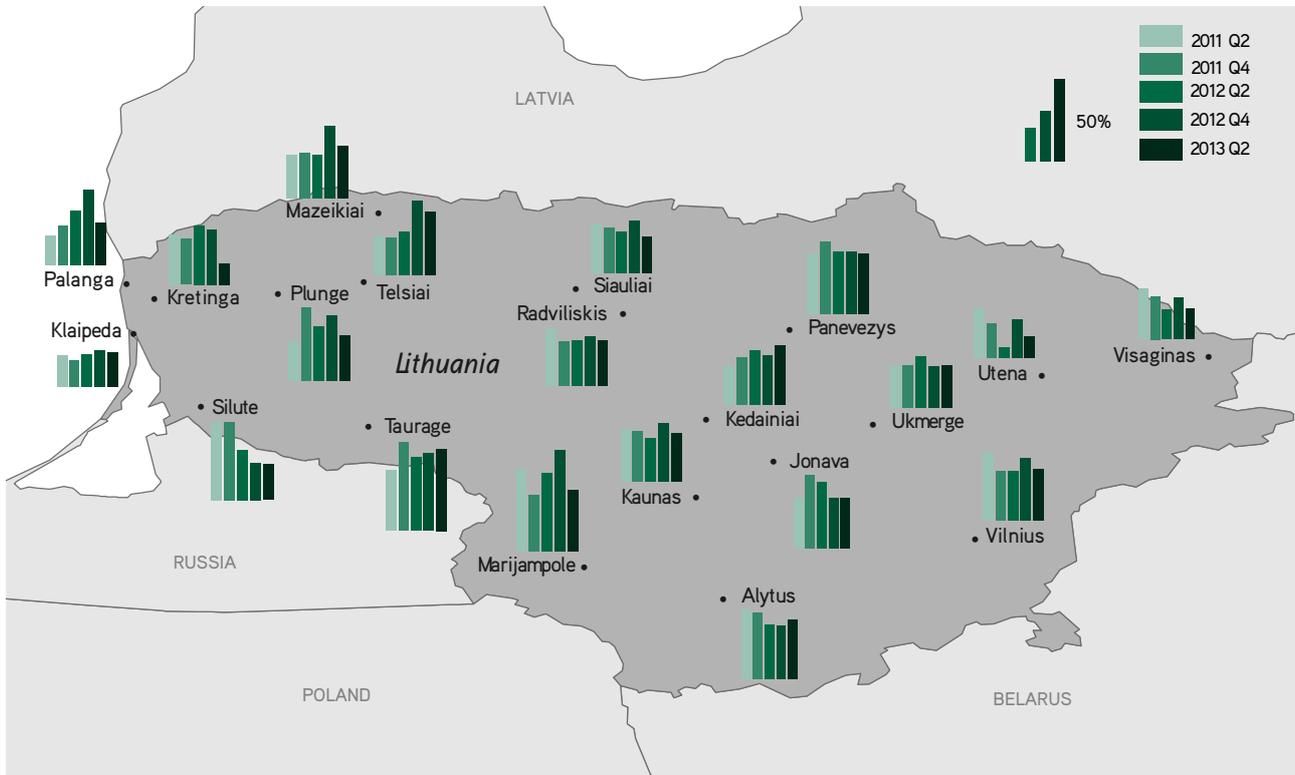
- No correlation among smoking prevalence, lower socio-economic conditions and consumption of illicit tobacco has been detected from the available data. Given the country's small size, it is possible that illicit tobacco can reach all its regions.

In conclusion, Lithuania has a pivotal geographical position for the ITTP. Smugglers use inland routes and rivers for their activities. Indeed, towns located at important junctures exhibit high levels of non-domestic packs penetration. Enforcement actions shaped the *modus operandi* in the past. Bordering regions and areas at important infrastructural junctures seem to exhibit higher non-domestic prevalence.

Figure 36. Non-domestic prevalence of empty packs by town, 2011-2013

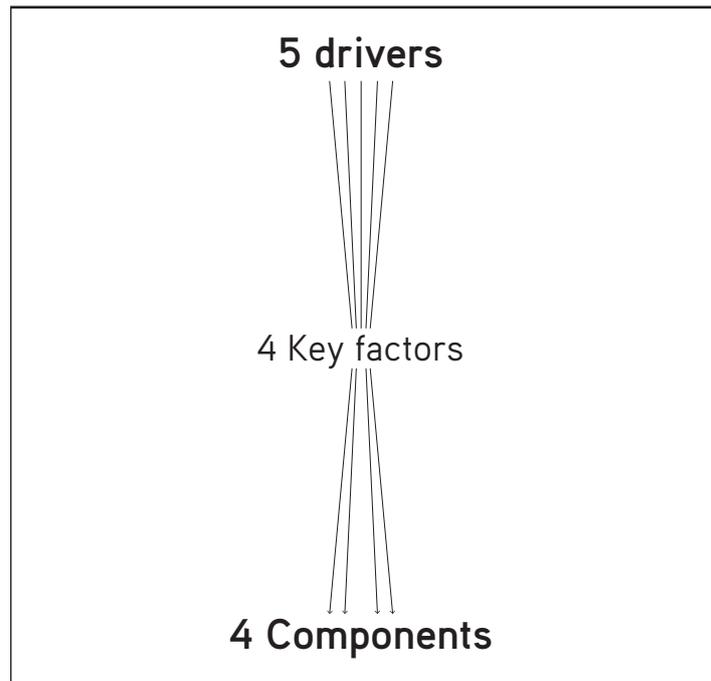
Source: Transcrime elaboration EPSs data

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Chapter 3

*framing the components
in the drivers*



FRAMING THE COMPONENTS IN THE DRIVERS: THE FOUR KEY FACTORS OF THE ITTP

INTRODUCTION: THE FOUR KEY FACTORS

This chapter draws on the results of the previous analyses and identifies the key factors of the ITTP. These constitute the opportunities that can affect the ITTP. Like any other market, also the tobacco products market creates illegal opportunities and hosts specific actors and activities. They derive from the link between drivers and components of the ITTP. The drivers impact or may impact on the different components of the ITTP through four key factors. Therefore, it is necessary to identify the possible interactions between drivers and components in order to remove any possible opportunity/vulnerability which may facilitate the action of criminal players and shape the illicit trade in tobacco products.

The four key factors of the ITTP are economic accessibility, availability, profitability, and risk. Hereafter, four subsections analyse how the various elements of the drivers influence demand, supply, products, *modus operandi*, and geographical distribution of the ITTP.

The four key factors:

- **Economic accessibility: the price of illicit tobacco, and particularly its relative price compared to the price of legal products.**
- **Availability: the ease with which both smugglers and consumers can obtain illicit tobacco products.**
- **Profitability: the ability of the ITTP to generate profits that exceed its operational costs.**
- **Risk: the threat of detection/accusation/conviction and the sanctions imposable on the actors involved in the ITTP.**

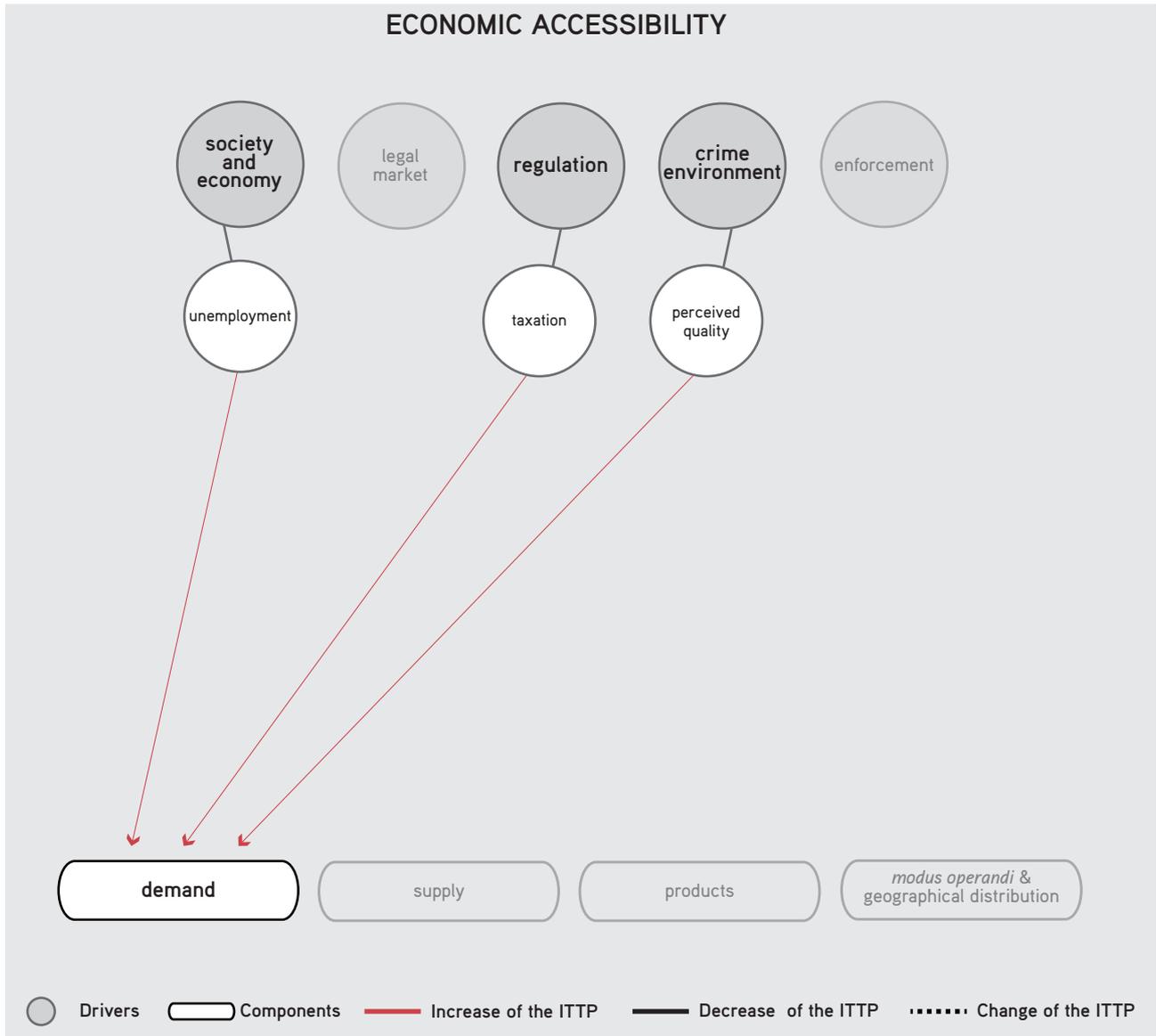
ECONOMIC ACCESSIBILITY

(Figure 37, p.82)

- **Increased unemployment, reduced purchasing power, and rising tobacco product prices increase the demand for illicit tobacco, which is a more economically accessible product.**

Figure 37. Framing the components in the drivers through the economic accessibility

Source: Transcrime elaboration

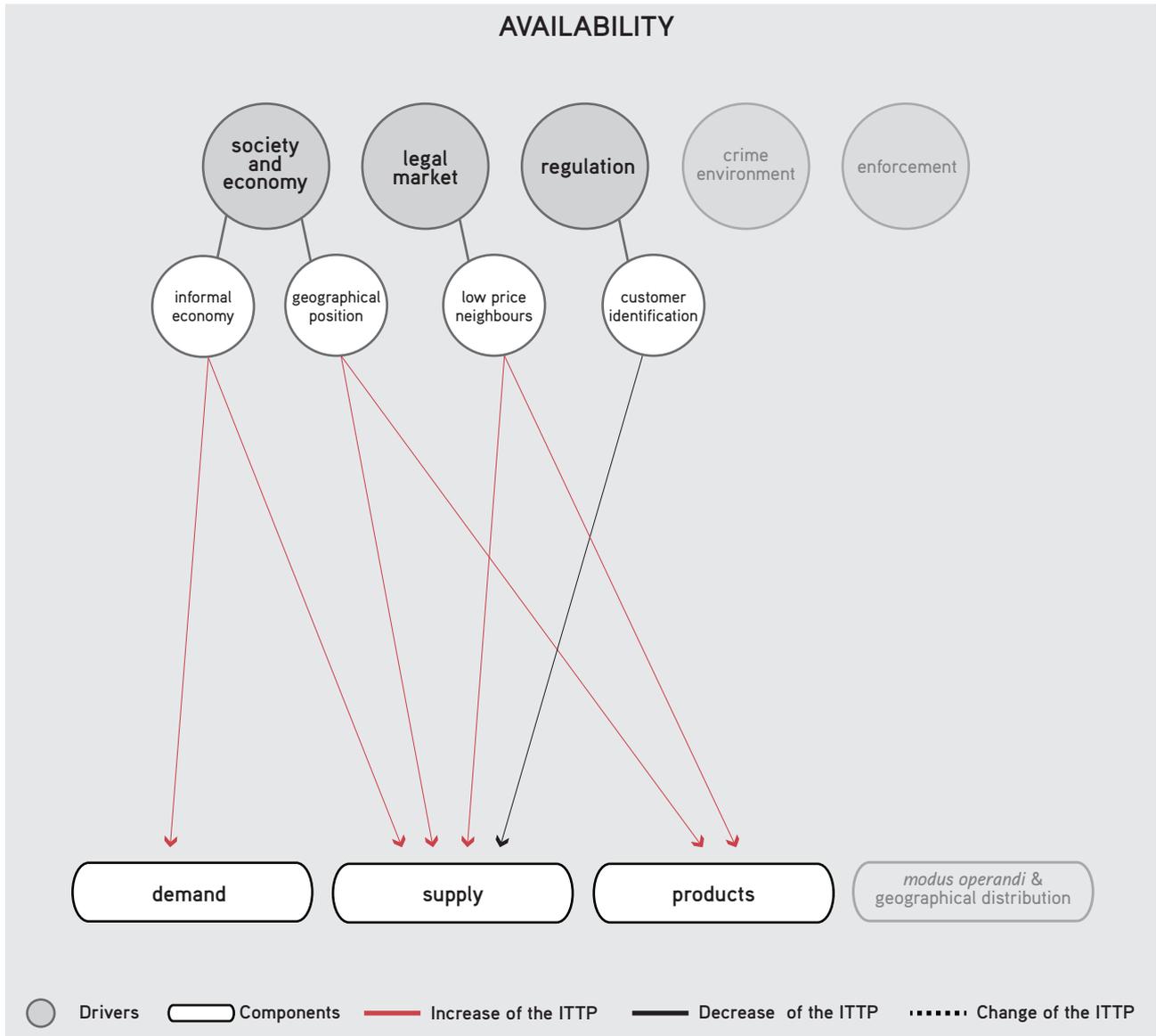


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- The financial crisis has increased unemployment. Reduced purchasing power, in particular that of unemployed people, may increase the attractiveness of both cheap legal and illegal cigarettes. A recent survey indicates that 46% of Lithuanians consider rising product prices, low and decreasing income, and reduced possibilities to afford legal goods to be key reasons for the increase in smuggling (Lithuanian Free Market Institute 2013, 6).
- Tax hikes and price increases make illicit cigarettes more economically accessible to consumers.
- Since 2008, Lithuania has increased tobacco taxes up to 75% of the final retail price of cigarettes. Indeed consumers may save between €0.80 and €1.30 per pack by purchasing illicit cigarettes. 52% of current smokers report buying illicit tobacco because of its economic accessibility (Etapius.lt 2013).
- **The economic accessibility of illicit tobacco, together with the perception among Lithuanians that its quality is equal to that of legal tobacco, boosts the demand for illicit tobacco.**
- The majority of Lithuanians trust the quality of contraband cigarettes (Lithuanian Free Market Institute 2013). The more people trust in the quality of illegal goods, the more they are willing to buy these goods because they are convinced that they can buy tobacco products of the same quality but at a lower price.

Figure 38. Framing the components in the drivers through the availability

Source: Transcrime elaboration



AVAILABILITY

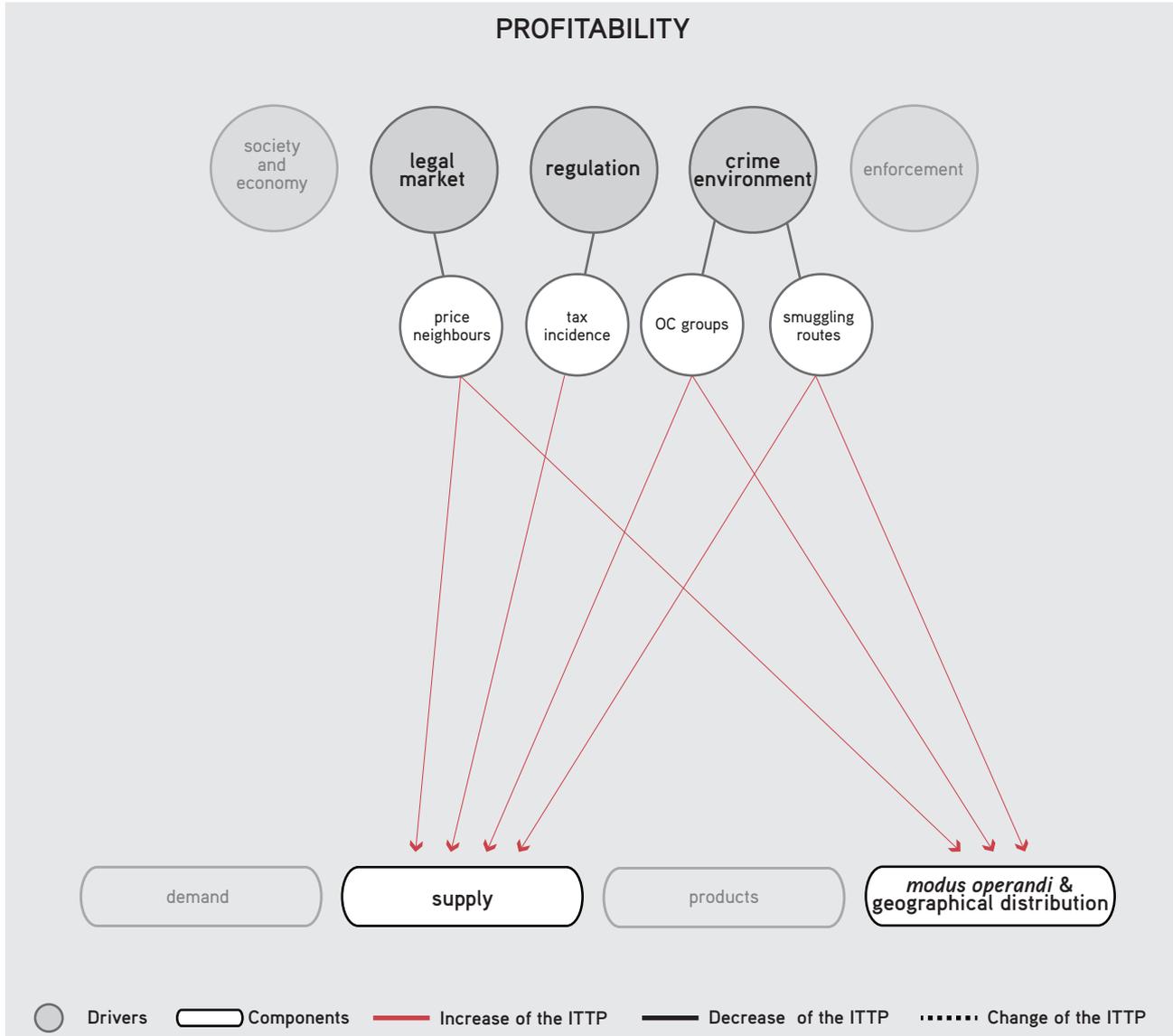
(Figure 38)

- **Proximity to source countries of illicit tobacco increases the availability of different types of products.**
- **Lower prices cigarettes in neighbouring countries increase the availability of products to be bootlegged and smuggled** (Gutauskas 2011; Lithuanian Free Market Institute 2012; Euromonitor International 2012c, 11). Prices are 3.3 times higher than in Russia and 8.2 times higher than in Belarus (PMI 2013a). Indeed, according to data, Belarus is the main supplier of illicit cigarettes for the Lithuanian market (KPMG, 2013, 133).

- **Lithuania shares borders with Kaliningrad Oblast and Belarus, important sources of illicit whites.** This may increase the availability of these products in Lithuania (Shleynov et al. 2008; Hauptzollamt Rosenheim 2012; KPMG 2013).
- **The availability of illicit tobacco in open-air bazaars and street markets and the relative simplicity of buying it increase the demand for illicit tobacco.**
- The distribution of illicit tobacco in Lithuania is based on open air bazaars, street markets, and personal networks (Euromonitor International 2012c). 41% of smokers declare that smuggled products are easily available. In addition, 4 out of 5 people who smoke illicit cigarettes find it very easy to buy smuggled goods (Balsas 2013b).

Figure 39. Framing the components in the drivers through the profitability

Source: Transcrime elaboration



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- Regulation and enforcement measures have an ambivalent effect on the availability of illicit tobacco products. They may either discourage or boost the availability of illicit tobacco in Lithuania.
- The system of customer identification and verification provided by the agreements stipulated by the EU Commission with the four major tobacco companies complicates the diversion of products from their legitimate channels. This may contribute to reducing the availability of illicit tobacco products (European Commission 2004; 2007; 2010c; 2010b).

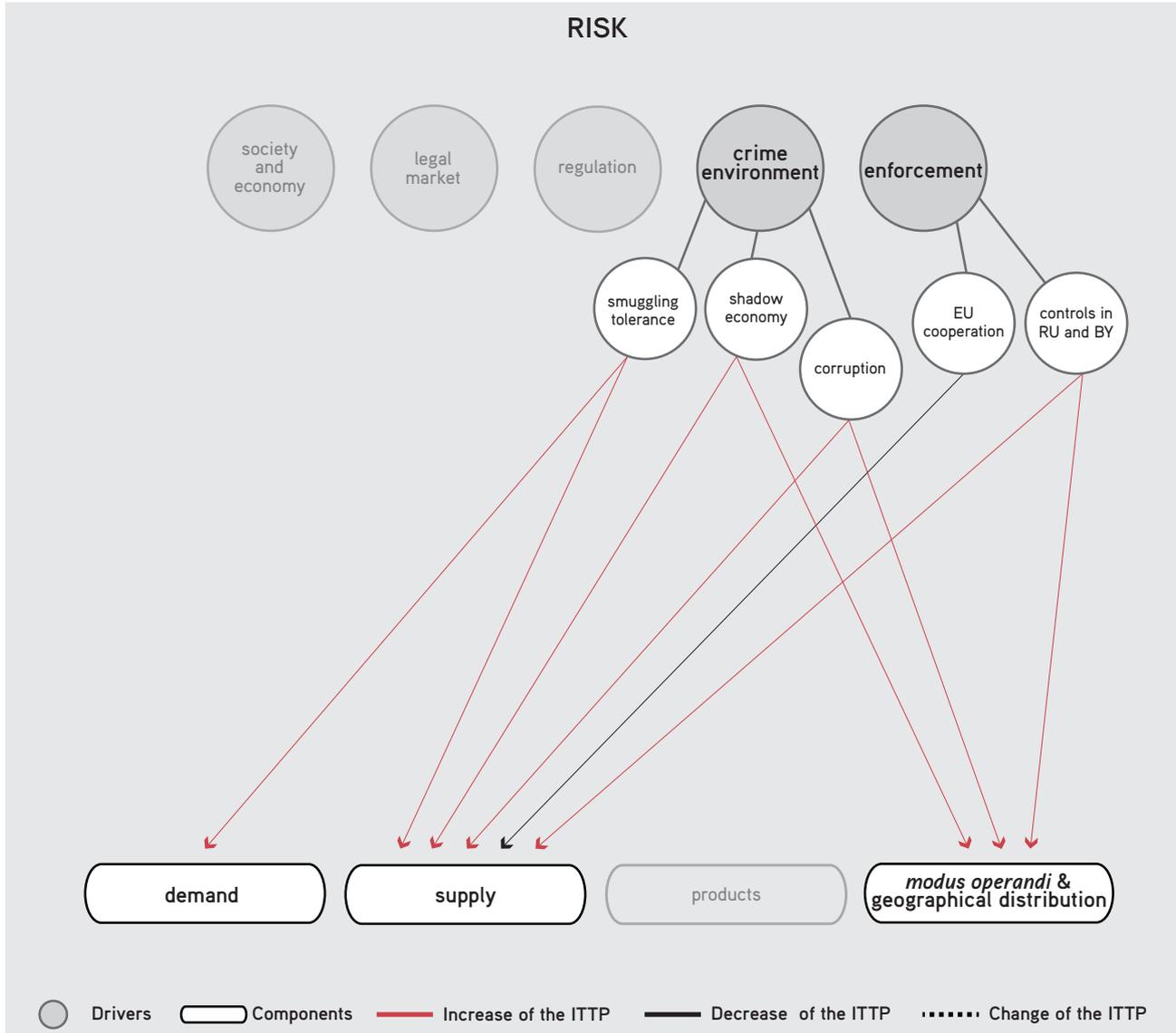
PROFITABILITY

(Figure 39)

- Taxes account for a large share of the final retail price of tobacco, making it a highly profitable product to smuggle (Merriman, Yurekli, and Chaloupka 2000).
- In Lithuania, the amount of total taxes per 1,000 sticks is higher than in its eastern neighbouring countries, and it has increased since the 2004 EU accession. The same holds for tax incidence (WHO 2012; European Commission 2013a). The higher the taxes, the higher are the economic incentives for smuggling.

Figure 40. Framing the components in the drivers through the risk

Source: Transcrime elaboration



- The **lower retail prices of tobacco products in eastern neighbouring countries**, in particular Belarus, boosts the profitability of bootlegging and smuggling (Gutauskas 2011; Lithuanian Free Market Institute 2012; Euromonitor International 2012c, 11).
- The presence of organised criminal groups and consolidated smuggling routes may favour the ITTP and increase the profitability of this activity (Europol 2011b; Gutauskas 2011). Indeed, organised criminal groups may exploit scope economies among different goods.

RISK

(Figure 40)

- Law enforcement cooperation or lack of cooperation in the fight against tobacco smuggling have a significant impact on the ITTP by increasing or decreasing the risk for the actors involved.
- Lithuanian law enforcement agencies cooperate with European and international institutions, thus increasing the effectiveness of anti-ITTP actions (Europol 2011a) and increasing the risk for the actors involved. Nevertheless, the absence of specific customs agreements between Lithuanian and border countries, such as Russia or Belarus, creates a lack of law enforcement that may diminish the risk for the smugglers (Customs of the Republic of Lithuania 2013a, 2013d).

- Law enforcement asymmetries in the fight against the ITTP in eastern countries may reduce the risk of conviction and facilitate the supply of illicit products (Euromonitor International 2012c, 11; Lithuanian Free Market Institute 2013, 4).
- **Tolerance towards contraband activities may boost the demand and the supply of the ITTP by diminishing the risks for the players.**
- **The widespread acceptance and tolerance of contraband** is a major factor in determining the demand for illicit tobacco and its availability. The large **tolerance towards contraband**, especially in a depressed economic environment (Lithuanian Free Market Institute 2013), encourages citizens to disobey the rules. This **significantly reduces the risk for smugglers** of being detected (Misiunas and Rimkus 2007).
- **The presence of corruption and widespread shadow economies diminish the risks for the actors involved in the ITTP.**
- **Corruption reduces the risk for smugglers, thus increasing the supply of illicit products** (Ceccato 2013). Corrupt Customs officers may receive bribes to aid smugglers, or they may act directly as organisers of the traffic (Lithuanian Free Market Institute 2004; Customs of the Republic of Lithuania 2013d).
- **Lithuania has a medium level of shadow economy characterised by widespread smuggling** (Schneider, Buehn, and Montenegro 2010; Lithuanian Free Market Institute 2012; Transparency International 2012; Williams e Schneider 2013). These may severely affect the *modus operandi* of agents involved in the ITTP by reducing the risk of detection/conviction/accusation (Ceccato 2013). Indeed, **shadow economy 'hotspots' such as open air markets and bazaars allow the easy and less risky distribution** of the products (Misiunas and Rimkus 2007; Euromonitor International 2012c).

CONCLUSIONS

This report provides the Lithuanian country profile of the *Factbook on the Illicit Trade in Tobacco Products* project. Considering the limited number of previous studies and the lack of data, the results of this study are provisional. It offers a first analysis of the ITTP in Lithuania and shows that more research is needed in this field. The ITTP is a complex phenomenon comprising a variety of activities, products and actors. The analysis of the illicit trade must take into account a number of factors, which may significantly influence it.

This report has analysed the multiple facets of the ITTP in Lithuania. The information gathered originates from academic literature, grey literature, open sources, questionnaires and interviews with experts and stakeholders.

THE FIVE DRIVERS

Chapter 1 (The Five Drivers) of the report analysed in detail the five drivers of the ITTP: society and economy, regulation, legal market, crime environment and enforcement. The five drivers are areas whose structures positively or negatively affect the various components of the ITTP.

- **Society and economy:** during the global financial crisis Lithuania experienced the most severe GDP fall in the EU and the unemployment rate increased. Nonetheless, the country rapidly recovered: already in 2009, GDP started to increase and unemployment rate to fall.

- **Legal Market:** in the past decade, national sales of tobacco products have fallen in volume terms while increasing in value. Indeed, male smoking prevalence is decreasing but prices have increased. The Lithuanian tobacco market is highly concentrated and relatively small on a global scale. However, with respect to Eastern Europe, Lithuania is an important producer and exporter of tobacco products.

- **Regulation:** Lithuania regulates its tobacco market in a non-homogeneous way. The taxation on tobacco products is high, both as tax incidence on the final retail price and as total tax per 1,000 sticks. There is a medium-high level of control on the supply chain and a high level of control on tobacco consumption and sales. However, the regulation of tobacco marketing and promotion is medium. European and international institutions spur Lithuania to close the gap with European standards.

- **Crime Environment:** crime levels are high. Nevertheless, they are decreasing, and Lithuanians have recently felt safer. The country records a medium presence of organised crime activities and of shadow economy. Phenomena of corruption still afflict Lithuania. Drug consumption is high for cannabis and medium-low for cocaine and opioids.

- **Enforcement:** anti-ITTP actions are medium in Lithuania. There is neither a national action plan against the ITTP nor official, publicly-available estimates of the illicit trade. On the other hand, numerous agencies are involved in the fight against the ITTP, and there is a certain degree of cooperation with European law-enforcement agencies.

THE FOUR COMPONENTS OF THE ITTP

Chapter 2 (The Four Components) discussed in detail the characteristics of the illicit trade in Lithuania by breaking the illicit tobacco market down into its four components: demand, supply, products, *modus operandi* and geographical distribution.

- **The demand:** the demand for illicit cigarettes in Lithuania is high. Decreasing income and rising unemployment are the main social determinants for the high demand. Moreover, the widespread acceptance and tolerance of contraband, the relative simplicity of finding illicit tobacco, together with a high level of trust in the quality of contraband goods, boost the demand for illicit tobacco products.
- **The supply:** small organised groups are the key suppliers of illicit tobacco products. However, also single individuals take part in the traffic. Proximity to the main producing countries of illicit whites and wide price differentials between the two sides of the EU borders foster various forms of the ITTP.
- **The products:** available estimates reveal that the illicit market in 2012 accounted for between 32.4% and 41.2% of the total cigarettes market. These values indicate a decrease with respect to the 2010 peak. Illicit whites from Belarus and Kaliningrad Oblast are the most widespread illicit products.
- **Modus Operandi and geographical distribution:** illicit tobacco mainly enters the country via rivers and highways. The two principal inflow routes stem from Kaliningrad Oblast and Belarus. Lithuania is simultaneously a destination, transit, and source country for the ITTP. The consumption of illicit products, approximated by EPSs, is more concentrated in bordering areas and near to good transport links.

FRAMING THE COMPONENTS IN THE DRIVERS

Chapter 3 (Framing the Components in the Drivers) addressed the interactions between the drivers and the components of the ITTP. The analysis identified four key factors with a fundamental role in shaping the illicit market (economic accessibility, availability, profitability and risk).

Economic accessibility: illicit cigarettes and cheap legal ones become more inviting because of the increase in unemployment and rising taxation.

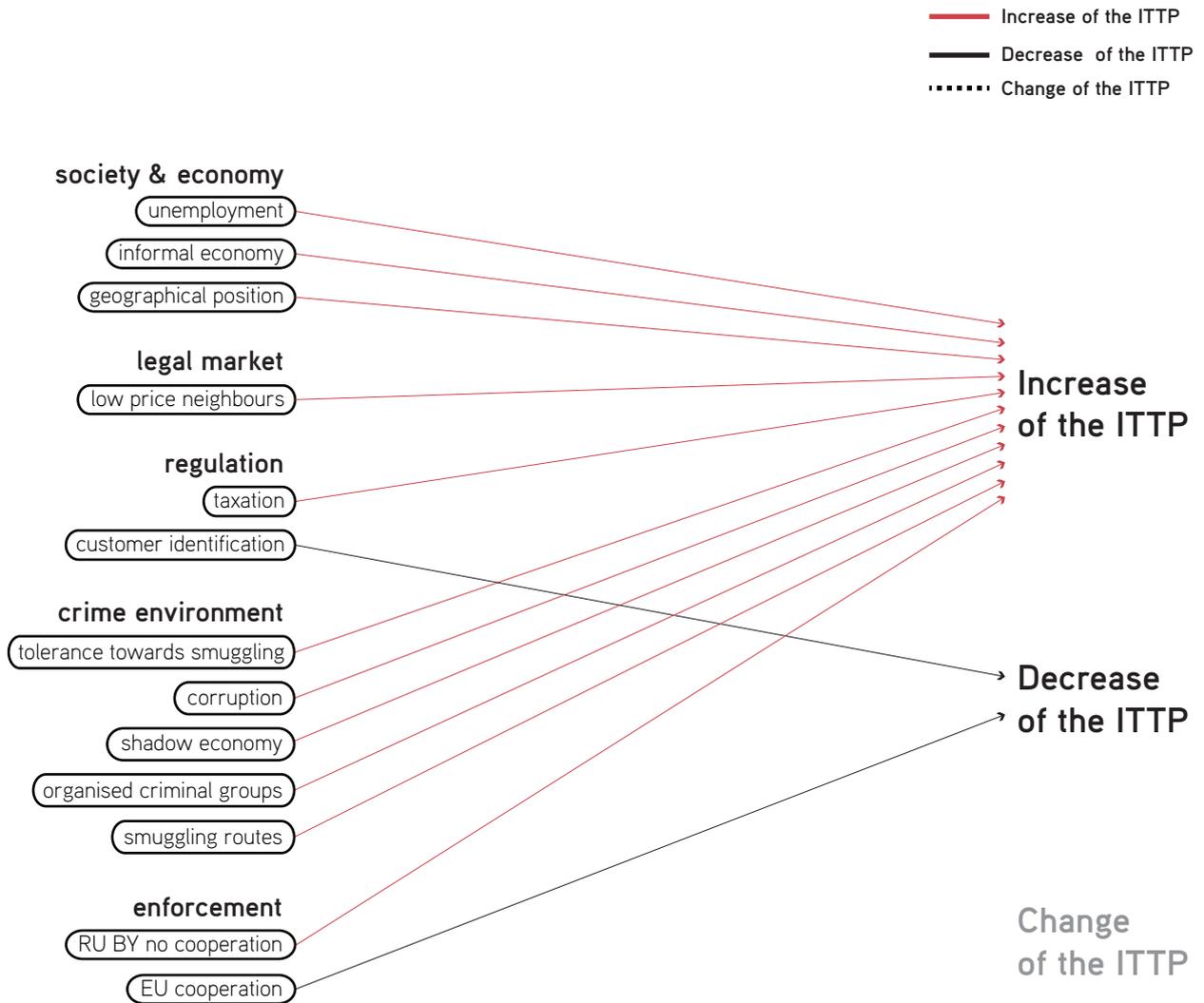
Availability: proximity to the main source countries (Russia-Kaliningrad Oblast and Belarus) of illicit tobacco products and the lower cigarette retail prices in eastern neighbouring countries boost the availability of illicit products for smugglers. Conversely, the system of customer identification and verification complicates the diversion of products from their legitimate channels and may reduce the availability of illicit products. From the point of view of consumers, Lithuanians easily find illicit tobacco products in open air bazaars or in street markets.

Profitability: in Lithuania, the levels of tax incidence and of taxes per 1,000 sticks are higher than in its eastern neighbouring countries. These differentials guarantee the profitability of the ITTP. In the same way, the price differential between cigarettes in Lithuania and in western and northern European countries induces smugglers to extend their traffic to those countries.

Risk: there are no cooperation agreements between Lithuanian law enforcement agencies and those of Russia and Belarus. This lack of agreements makes law enforcement actions less effective in convicting smugglers. Moreover, tolerance of the phenomenon may incentivise the supply, complicating controls by law enforcement. Furthermore, the medium-high level of corruption and the medium level of shadow economy reduce the risk for smugglers, thus increasing the supply. By contrast, agreements with other EU customs agencies increase the risk for smugglers.

Figure 41. Main interactions between the drivers and the ITTP

Source: Transcrime elaboration



As pointed out in the present analysis, the ITTP is a complex phenomenon caused by several determinants. After close analysis of the ITTP in Lithuania, there follow the main findings of the Factbook (Figure 41).

Socio-economic conditions in Lithuania determine the size of the ITTP. Some crucial elements are the rising unemployment rate and the widespread acceptance of contraband goods among Lithuanians. Moreover, geographical proximity to the main illicit cigarette manufacturing countries such as the Russian Federation impacts on the availability of illicit cigarettes within the country. In particular, the proximity to Kaliningrad Oblast and Belarus favours the availability of illicit whites within Lithuania’s borders, a growing concern for Lithuanian Customs. **These aspects impact mainly on demand and supply through economic accessibility and availability.**

The Lithuanian **legal tobacco market**, whose prices are among the lowest in the EU but among the highest in most eastern neighbouring countries, is a crucial factor in determining the extent of the ITTP and the demand for cheaper tobacco products among Lithuanians. Lower prices of legal cigarettes in neighbouring eastern countries also favour the smuggling and bootlegging of genuine products in Lithuania. **These characteristics impact mainly on supply through availability and profitability.**

Regulatory interventions, such as raising taxation on cigarettes to 75% of the final retail price, has made lower-priced cigarettes in neighbouring countries more appealing and economically accessible to Lithuanian consumers. Nevertheless, other regulatory interventions may have a negative impact on the ITTP in Lithuania. Indeed, the customer identification and verification systems established within the agreements between the EU Commission and the tobacco industry make the diversion of tobacco products from their legitimate channels more difficult. **These aspects impact mainly on demand and supply through economic accessibility and profitability.**

Lithuania's '**crime environment**' features, such as a medium-high level of corruption, a widespread presence of the shadow economy, the existence of consolidated smuggling routes used by organised criminal groups, make the country more vulnerable to ITTP penetration. **These features mainly affect the supply and *modus operandi*, reducing the risk of engaging in the ITTP.**

Moreover, '**law enforcement**' has a significant impact on the magnitude and geographical distribution of the ITTP in Lithuania. The two main macro inflows of tobacco stem from Kaliningrad Oblast and Belarus, as confirmed by Customs' seizures. The lack of effective agreements between the Lithuanian Customs and countries such as Russia and Belarus, may facilitate illicit tobacco product flows into Lithuania from these entry points and decrease the risks for the smugglers. On the other hand, existing cooperation between Lithuanian law enforcement agencies and European institutions make smuggling more risky and less attractive for smugglers within the EU's interior borders. **These characteristics impact mainly on supply and *modus operandi* by increasing or reducing the risk of taking part in the ITTP.**

RECOMMENDATIONS FOR FURTHER RESEARCH

Considering the limited number of previous studies and the lack of data, the results of this study are provisional. They offer a first analysis of the ITTP in Lithuania and show that more research is needed in this field.

- Available **academic publications focusing on the ITTP in Lithuanian are rare**. The scarcity of fully reliable studies complicates the development of comprehensive and robust analyses of the phenomenon.
- **No study has investigated the effects on the ITTP of the profound changes that have occurred in Lithuania since 1989**. These changes warrant further research because they have affected purchasing behaviour and the consumption of smuggled products.
- There is a **lack of analysis on the actors active in the supply side of the ITTP**; in particular, at the retail level. A better understanding of the distribution channels of illicit tobacco products could help in developing more effective anti-ITTP policies.
- Lithuanian institutions **do not provide any estimates of the penetration of the ITTP**. The lack of official and publicly available figures concerning the ITTP diminishes the possibility to conduct sound evaluations of the anti-ITTP policies implemented.

In conclusion, the results of the study show that the ITTP is a complex and multifaceted phenomenon. Both individual factors, such as employment status and opinion concerning illicit products, and structural conditions like proximity to countries with lower-priced tobacco products or to producers of illicit products, should be considered when developing anti-ITTP policies.

Given the complexity and the multitude of factors involved, **it is necessary to develop effective law enforcement and criminal justice policies**. In addition, **it is necessary also to adopt non-criminal measures to prevent illicit consumption and to reduce smuggling**. Finally, the government should tackle the ITTP, especially in the border regions and larger towns, with comprehensive strategies including criminal, non-criminal/administrative, and other indirect measures, for example through a wide-ranging situational crime prevention approach.

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