

# 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.

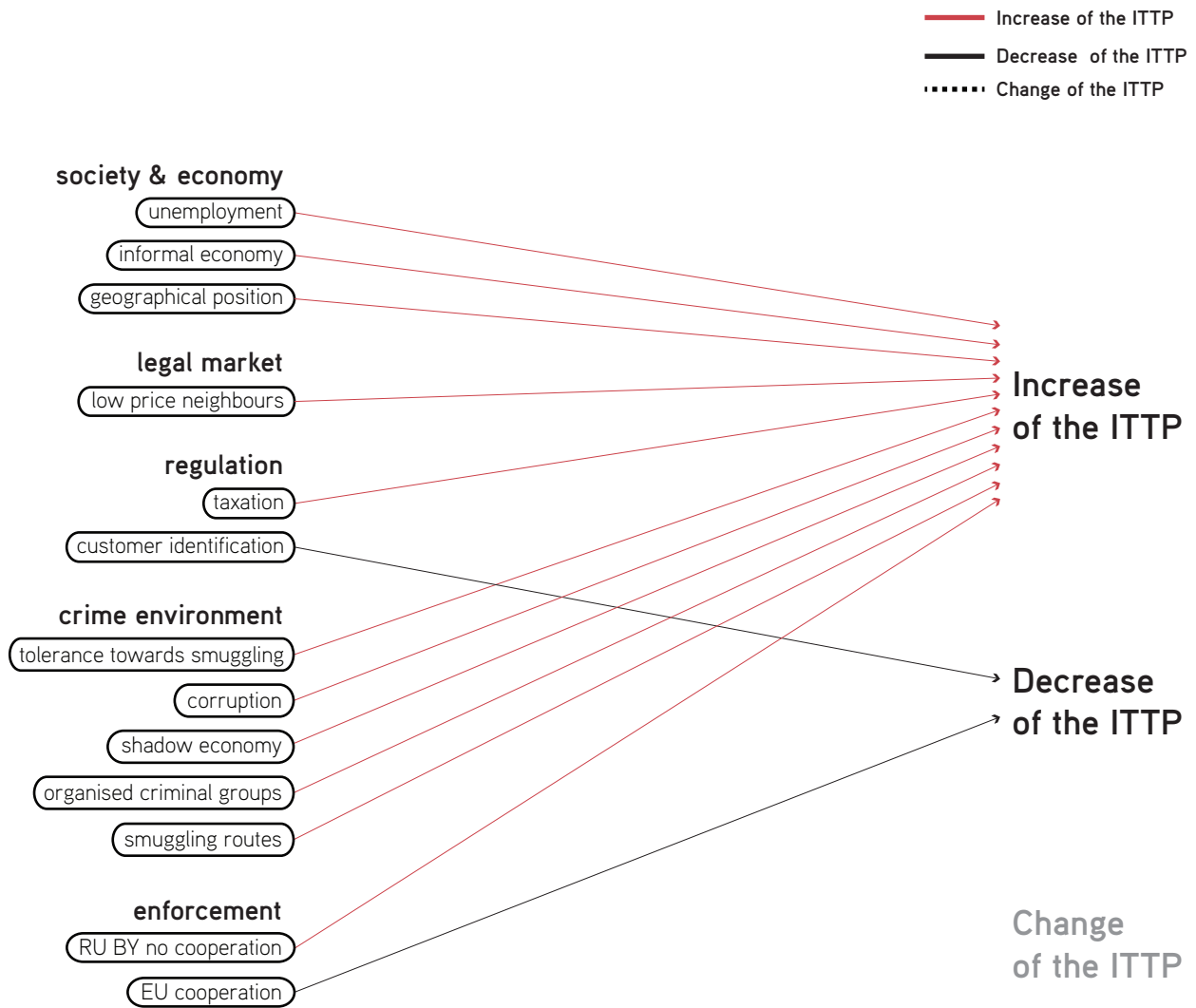
## FRAMING THE COMPONENTS IN THE DRIVERS: THE FOUR KEY FACTORS OF THE ITTP

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).
- **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).
- **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 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