Country Spotlight: Lithuania
Cost and quality assurance key to reducing illicit trade

Lithuanian stakeholders—executives, policy-makers and law enforcement—estimate illicit trade to have remained flat, though with a 2% decrease in illicit cigarettes and an increase of 4% in medicines over the last three years. Current consumption of illicit goods in Lithuania is on par with the European average (14% vs. 13%).

Lithuanian consumers estimate that roughly 16% of all goods they purchase are illicit (compared with 11% average), and appear to show more doubt about the legitimacy of their goods, compared with the European average. They say that 32% of all goods they have purchased may be possibly illicit (compared with 27% for Europeans overall).

Consumers are composed of far fewer Opportunists* (24% vs. 40%) and significantly more Activists (20% vs. 14%) and Critics (44% vs. 32%) than the European average. For Critics, assuring the quality of genuine products would have the greatest likelihood of steering shoppers away from buying via illicit channels—this also ranked highest amongst Activists. For both Opportunists and Bargain Hunters, reducing the cost of licit merchandise would be the strongest deterrent.

Over the next three years, executives’ planned implementations were reported at much higher rates than other countries, with a focus on using digital technologies to authenticate products (57%) and increasing consumer awareness campaigns (53%). And 68% of policy officials plan on providing business guidance and discussion forums, and will update penalties for retailers along with legislation and legal frameworks (both 55%). Lithuanian law enforcers will focus on measuring the effectiveness of enforcement initiatives (66%), as well as collaborating with policy-makers and public-sector officials (60%) and e-commerce suppliers, couriers, and depots (57%).

* Note: See definition of consumer segments on slide 10.
Illicit trade levels remained flat, except for medicines

In your country, how much of total consumption do you estimate is illicit? How much has illicit trade in your country increased in the last three years?

Lithuania, stakeholders

<table>
<thead>
<tr>
<th>Product</th>
<th>Total consumption estimated as illicit today</th>
<th>Increase in illicit trade in the last 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total products</td>
<td>14%</td>
<td>0%</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>12%</td>
<td>-2%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>14%</td>
<td>1%</td>
</tr>
<tr>
<td>Films</td>
<td>13%</td>
<td>-1%</td>
</tr>
<tr>
<td>Clothing</td>
<td>14%</td>
<td>0%</td>
</tr>
<tr>
<td>Medicines</td>
<td>14%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics stakeholder survey, Lithuanian business executives, law enforcement, and policy officials respondents, n=216
‘Possibly illicit’ sales are above European averages

How likely are some of the products that you’ve purchased been illicit?
_All countries vs. Lithuania, consumers_

Source: Oxford Economics consumer survey, Lithuanian respondents, n=1,017
To change consumer behaviour, focus on cost and quality

COUNTRY SPOTLIGHT: LITHUANIA

Motivation / outlook
Social

Product

Critics
44%
- Assure quality: 39%
- Track illicit goods: 35%
- Increase chance of prosecution: 34%

Activists
20%
- Assure quality: 55%
- Clarify goods are legit: 51%
- Raise fines and penalties: 50%

Opportunists
24%
- Reduce cost: 65%
- Assure quality: 57%
- Increase availability: 56%

Bargain Hunters
12%
- Reduce cost: 74%
- Increase availability: 67%
- Assure quality: 61%

Source: Oxford Economics consumer survey, Lithuanian responses, n=977
Business execs will step up efforts over the next three years

Which of the following initiatives aimed at reducing illicit trade have you carried out or do you plan to carry out?

Lithuania, business execs

- Change product design: 35% implemented, 50% plan to implement
- Product advertising & promotion: 29% implemented, 39% plan to implement
- Supply chain tracking, monitoring & reporting: 21% implemented, 51% plan to implement
- Change manufacture or packaging: 36% implemented, 44% plan to implement
- Change the price, quality, or service: 25% implemented, 49% plan to implement
- Supply-chain contractual controls: 25% implemented, 50% plan to implement
- Collect intelligence about consumer attitudes: 22% implemented, 45% plan to implement
- Share info with others: 30% implemented, 44% plan to implement
- Collaborate with others: 23% implemented, 47% plan to implement
- Product authentication using digital technology: 33% implemented, 44% plan to implement
- Collect intelligence about illicit trade patterns: 57% implemented, 33% plan to implement
- Consumer awareness campaign: 53% implemented, 23% plan to implement

Source: Oxford Economics stakeholder survey, Lithuanian business executive respondents, n=150
Policy officials will focus on business guidance

Which of the following initiatives aimed at reducing illicit trade have you carried out or do you plan to carry out?

*Lithuania, policy officials*

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Implemented over last 3 years</th>
<th>Plan to implement over next 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collect information on illicit trade patterns</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>Coordinate with other departments</td>
<td>42%</td>
<td>39%</td>
</tr>
<tr>
<td>Collaborate with international organizations</td>
<td>39%</td>
<td>32%</td>
</tr>
<tr>
<td>Update legislation and/or legal frameworks</td>
<td>23%</td>
<td>55%</td>
</tr>
<tr>
<td>Change penalties for businesses</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Consumer awareness campaign</td>
<td>29%</td>
<td>42%</td>
</tr>
<tr>
<td>Business guidance and/or discussion forums</td>
<td>13%</td>
<td>68%</td>
</tr>
<tr>
<td>Update penalties for criminals</td>
<td>42%</td>
<td>32%</td>
</tr>
<tr>
<td>Change penalties for consumers</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Change penalties for retailers</td>
<td>19%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: *Oxford Economics stakeholder survey*, Lithuanian policy officials respondents, n=31

Note: Findings are indicative because of low sample size.
Law enforcement will improve collaboration and analytics...

Which of the following initiatives aimed at reducing illicit trade have you carried out or do you plan to carry out?

Lithuania, law enforcement officers (1/2)

- Automate manual customs procedures: 31% implemented, 40% plan to implement
- Collaborate with e-commerce suppliers, couriers and depots: 26%, 57%
- Collaborate with international organizations on joint initiatives: 17%, 51%
- Collaborate with others in your industry/trade associations: 40%, 37%
- Collaborate with others to identify high-risk imports: 23%, 49%
- Collaborate with policy makers & public sector officials: 20%, 60%
- Collect information on illicit trade patterns: 46%, 46%
- Data analytics to target enforcement: 31%, 57%

Source: Oxford Economics stakeholder survey, Lithuanian law enforcement respondents, n=35
Note: Findings are indicative because of low sample size.
COUNTRY SPOTLIGHT: LITHUANIA

...with extra focus on measuring effectiveness

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Implemented over last 3 years</th>
<th>Plan to implement over next 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve compliance with existing policies and procedures</td>
<td>31%</td>
<td>43%</td>
</tr>
<tr>
<td>Increase random searches at new locations</td>
<td>31%</td>
<td>49%</td>
</tr>
<tr>
<td>Launch anti-corruption initiatives</td>
<td>31%</td>
<td>46%</td>
</tr>
<tr>
<td>Measure effectiveness of enforcement initiatives</td>
<td>20%</td>
<td>66%</td>
</tr>
<tr>
<td>Monitor &amp; track shipments</td>
<td>46%</td>
<td>37%</td>
</tr>
<tr>
<td>Product authentication using processes or tech</td>
<td>43%</td>
<td>43%</td>
</tr>
<tr>
<td>Train law enforcement officers about latest developments</td>
<td>40%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics stakeholder survey, Lithuanian law enforcement respondents, n=35
Note: Findings are indicative because of low sample size.
How do we define consumer segments?

<table>
<thead>
<tr>
<th>Critics 32%</th>
<th>Activists 14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critics buy goods illicitly because of societal factors such as believing there is nothing wrong with illicit sources, no chance of being caught, and that others do it. They have experienced faulty and inferior illicit products more than any other group, perhaps explaining why they don't actively seek to purchase through illicit channels.</td>
<td>Activists are strongly opinionated about social factors. They perceive illicit trade is a victimless crime, so decisively choose to purchase illegitimately. The low chance of detection and view that lots of people engage with illicit across society may embolden Activists to pursue illicit avenues.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunists 40%</th>
<th>Bargain Hunters 14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunists are motivated to purchase illicit by product factors such as price, quality and accessibility. They may buy illicit goods as opportunities present themselves, rather than actively seeking them out. This group, more than any other, finds that illicit goods are available at lower prices than legitimate alternatives.</td>
<td>Bargain Hunters prioritise pursuing better deals, resulting in their engagement with illicit products. Quality, availability and price are their main drivers, which Bargain Hunters state are just as accessible in illegitimate markets. In fact, more than any other group, they insist that illicit markets offer identical products and significantly lower costs.</td>
</tr>
</tbody>
</table>

What is the matrix?
The consumer matrix analyses total illicit purchases across the five product categories. A consumer may appear in the matrix more than once, as they can buy multiple products.

What do we mean by illicit trade?
By “illicit trade” we mean products or services that are not authentic and/or not bought through official distribution channels. Consumers’ “total illicit” purchases include both known “illicit” and “possibly illicit” purchases.

What will most influence consumers to change their behaviour?

<table>
<thead>
<tr>
<th>Strategies to modify behaviour</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assure quality</strong></td>
<td>Providing quality assurance, warranty, reward schemes and after-sales service of legitimate goods</td>
</tr>
<tr>
<td><strong>Reduce cost</strong></td>
<td>Reducing the cost of the legitimate good (e.g., reducing the tax)</td>
</tr>
<tr>
<td><strong>Increase availability</strong></td>
<td>Increasing the availability of legitimate products (e.g., quicker, better distribution)</td>
</tr>
<tr>
<td><strong>Clarify goods are legit</strong></td>
<td>Clarifying that goods are legitimate (e.g., supplier, website, and product authentication or certification)</td>
</tr>
<tr>
<td><strong>Track illicit goods</strong></td>
<td>Knowing that retailers and/or law enforcement can track and identify illicit products</td>
</tr>
<tr>
<td><strong>Raise fines and penalties</strong></td>
<td>Raising fines and penalties for buying illicit products</td>
</tr>
<tr>
<td><strong>Communicate wider implications</strong></td>
<td>Understanding consequences of buying illicit goods (e.g., health risks, funding organised crime/terrorism)</td>
</tr>
<tr>
<td><strong>Increase chance of prosecution</strong></td>
<td>Increasing the likelihood of being punished for buying illicit goods</td>
</tr>
<tr>
<td><strong>Publish names involved in illicit</strong></td>
<td>Publishing the names of those caught distributing and purchasing illicit goods in local media</td>
</tr>
<tr>
<td><strong>Remind illicit harms legit firms</strong></td>
<td>Making clear how buying illicit goods hurts law-abiding companies and their workers</td>
</tr>
</tbody>
</table>

Note: Figures above reflect the European averages for all countries combined. Only consumers who said they had likely or possibly purchased goods illicitly are included in this segmentation.
Combatting Illicit Trade: Understanding perspectives and strategies is a study produced by Oxford Economics and financed by PMI IMPACT, a global grant initiative by Philip Morris International to support projects dedicated to fighting illegal trade and related crimes. Our research explores the reasons for the growth of illicit trade in the following sectors: cigarettes and tobacco; alcoholic beverages; films, music, and games; clothing, footwear and accessories; and medicines and pharmaceutical healthcare products. Importantly, the study’s key goal was to identify effective ways to reduce illicit trade, by looking at the issue from four different perspectives: the motivations of consumers, the strategies of business executives, the decisions by policy-makers and the efforts of enforcement agencies.

To explore these issues, we carried out two large-scale surveys across 37 European countries, with more than 45,000 respondents in our final data set. The survey was conducted between November 2017 and February 2018, over the telephone in the respondent’s native language or online. In addition, we conducted 15 one-on-one interviews with business executives, policy-makers, academic experts and law enforcement officials. We thank all who participated for their time and insight.

The full results of our study’s findings, including a White Paper, 37 country analysis slideshows, the final dataset (in Excel format), an interactive dashboard and the study’s methodology, can be accessed on Oxford Economics’ website by clicking the following link:

https://www.oxfordeconomics.com/thought-leadership/combating-illicit-trade

About Oxford Economics

Oxford Economics is one of the world’s foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. It employs more than 150 professional economists, industry experts and business editors—one of the largest teams of macroeconomists and thought leadership specialists.
Europe, Middle East, and Africa:

Global headquarters
Oxford Economics Ltd
Abbey House
121 St Aldates
Oxford, OX1 1HB
UK
Tel: +44 (0)1865 268900

London
Broadwall House
21 Broadwall
London, SE1 9PL
UK
Tel: +44 (0)20 7803 1418

Belfast
Lagan House
Sackville Street
Lisburn
County Down, BT27 4AB
Tel: +44 (0)2892 635400

Paarl
12 Cecilia Street
Paarl 7646
South Africa
Tel: +27(0)21 863-6200

Frankfurt
Mainzer Landstraße 41
60329 Frankfurt am Main
Germany
Tel: +49 69 95 925 280

Paris
25 rue Tiphaine
75015 Paris
France
Tel: +33 (0)1 56 53 98 52

Milan
Via Cadorna 3
20080 Albairate (MI)
Italy
Tel: +39 02 9406 1054

Americas:

New York
5 Hanover Square, 8th Floor
New York, NY 10004
USA
Tel: +1 (646) 786 1879

Philadelphia
303 West Lancaster Avenue
Suite 2e
Wayne, PA 19087
USA
Tel: +1 (610) 995 9600

Boston
51 Sawyer Rd
Building 2 - Suite 220
Waltham, MA 02453
USA
Tel: +1 (617) 206 6112

Chicago
980 N. Michigan Avenue, Suite 1412
Chicago
Illinois, IL 60611
USA
Tel: +1 (773) 372-5762

Miami
8201 Peters Road
Suite 1000,
Plantation, FL 33324
USA
Tel: +1 (954) 916 5373

San Francisco
Tel: +1 (415) 870-5744

Asia Pacific:

Singapore
Singapore Land Tower
37th Floor
50 Raffles Place
Singapore 048623
Tel: +65 6829 7198

Hong Kong
30/F, Suite 3112
Entertainment Building
30 Queen’s Road Central
Hong Kong
Tel: +852 3103 1097

Sydney
Level 4, 95 Pitt Street
Sydney, 2000
Australia
Tel: +61 (0)2 8249 8286

Email:
mailbox@oxfordeconomics.com

Website:
www.oxfordeconomics.com