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LITHUANIAN ACADEMY OF SCIENCES

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UNIVERSITY OF WROCLAW

# INTELLECTUAL ECONOMICS

Research Papers

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### From the Editorial Board

The quality of life is the main aim of sustainable development which cannot be measured by the growth of Gross Domestic Product. When speaking about the main drivers of the quality of life, it is necessary to mention environment, housing, living and working conditions, income, health, consumer rights and many important psychological issues having an impact on the quality of life. These important issues of people's lives are usually being dealt at European Union level and often are included in the agenda of the European Parliament and policies of EU member states. The content of this issue of *Intellectual Economics* consists of papers dealing with important issues of the quality of life and present the primary results of the project "Creation of system of measurement indicators and evolution model of the quality of life of Lithuanian population" conducted at Mykolas Romeris University and financed by Lithuanian Science Council. In addition, other important studies of economic growth and its drivers are dealt with in this issue, also having a direct impact on the quality of life.

The first issue of *Intellectual Economics* starts with papers of Lithuanian scholars dealing with important issues related to the quality of life and assessment of the quality of life. Algirdas Monkevičius in his paper analyses the systematic structure of the quality of life in work environment and defines the main measurements and empirical indicators for assessment of the quality of life in work place. Dalia Štreimikienė analyses housing indicators related to the quality of life and deals with problems of indicators development. Stasys Puškorius in his paper presents the methods of evaluation of the quality of life integrated index and the main steps of its realization. Tatjana Bilevičienė analyses the active labour market policies impacts on employment and the quality of life. Ona Gražina Rakauskienė and Olga Ranceva in their paper deal with youth unemployment and emigration trends having a direct impact on the quality of life in Lithuania.

A quite large block of papers is allocated for solution of important economic questions and assessments of effectiveness of state policies. Turkish scholar Özkan Leblebici presents the importance of marketing problems in agriculture, having in mind current global market conditions. Daniel Butyter analyses results of foreign trade between the EU and East Partnership block countries based on the case study of Poland and Ukraine. Lithuanian scholar Adolfas Kaziliūnas in his paper analyses the impact of implementation of quality management systems on enterprise activity results, and Alvydas Jablonskis in theoretical paper provides analysis of logistic activities, having an important impact on the increase of competitiveness of enterprises. The problems of economic growth under conditions of knowledge economy are analysed in the paper prepared by a group of Ukrainian scholars (Igor Vinnychuk, Olena Vinnychuk and Larysa Skrashchuk). Other big group of Ukrainian scholars (Andrii Verstiak, Oksana Verstiak; Serhii Ziukov, Svyatoslav Ishchenko; Vasyl Grygorkiv, Mariia Grygorkiv) presents results of Ukrainian economic growth convergence with the EU and comparative analysis of countries economic growth by applying input-output models and stochasting pricing and optimisation models for investigations of interactions between economic and environment systems.

The Editorial Board hopes that the presented actual papers dealing with the quality of life and other important economic issues will be interesting and useful for readers of *Intellectual Economics*.

*Ona Gražina Rakauskienė*

## CUSTOMS CODE OF THE EURASIAN ECONOMIC UNION: THE BASIS OF CUSTOMS RELATIONS

**Pavel BOLTOCHKO**

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**Abstract:** *A brief overview of the changes in customs regulations in the Eurasian Economic Union is provided in this article. The author makes the attempt of analysing of the Customs Code of the Eurasian Economic Union in comparison with the Customs Code of the Customs Union. The proposal on the modification of the Customs Code is made.*

**Keywords:** *customs regulations, customs policy, integration, customs union, eur asian economic union*

### Introduction

The Customs Code is one of the fundamental legal acts in the sphere of customs relations and international logistics of each of the states or integration associations. The analysis of the provisions of this document allows determining the level of development of customs and international logistics of these states or integration associations. It should be noted that there aren't a lot of publications which are connected to the present day customs regulation of the Eurasian Economic Union.

The Treaty on the Customs Code of the Eurasian Economic Union (hereinafter - the Treaty on the CC EAEU) of April 11, 2017 was developed within the framework of the provisions of Article 32 of the Treaty on the Eurasian Economic Union of May 29, 2014 and is applied in the territory of the EAEU from January 1, 2018. [2]

It should be noted that the Treaty on the CC EAEU belongs to the category of international treaties and, accordingly, has the highest legal force in relation to other acts of the legislation of the Republic of Belarus and other countries of the EAEU.

The purpose of the development of the Treaty on the CC EAEU was to ensure uniform customs regulation in the EAEU.

Unlike the Agreement on the Customs Code of the Customs Union, the Treaty on the CC EAEU contains a direct indication that this agreement is part of the EAEU law and takes precedence over other international agreements that are part of the EAEU law regulating customs legal relations, with the exception of the EAEU Treaty of May 29, 2014. [1]

## Structure of the customs code

The Treaty on the CC EAEU has three annexes. In addition to the CC EAEU there are separate annexes:

- (1) The list of international treaties entering into the EAEU law terminating in connection with the entry into force of the Treaty on the CC EAEU;
- (2) The list of provisions of international treaties included in the law of the EAEU, which are recognized as invalid in connection with the entry into force of the Treaty on the CC EAEU.

The inclusion in the main Treaty of references to documents and their provisions that expire in connection with the entry into force of this Treaty is the established normative practice of the Eurasian Economic Commission (EEC).

It should be noted that in the above lists there is an additional division according to the criteria:

- the effective date of the Treaty on the CC EAEU;
- the effective date of the relevant EEC decision.

These criteria indicate that the CC EAEU includes the provisions of a number of international treaties that are part of the EAEU law, and is not entirely an act of direct action, and has reference rules on certain provisions, including those of EEC decisions.

Unlike the Customs Code of the Customs Union (CC CU), the CC EAEU is not divided into a general and a special part. We believe the absence of this division is positive from a practical point of view, since usually the division of the document into a general and a special part is exclusively doctrinal.

It should also be noted that quantitatively, the CC EAEU has one more section than the CC CU (9 sections versus 8). At the same time, there are two new sections in the CC EAEU:

- Section VII “Customs authorities”;
- Section VIII “Activities in the field of customs. Authorized Economic Operator”.

In this case, we believe that the legislators have identified separate sections for the subjects of customs legal relations, since the issues of organization of work and interaction of customs authorities within the framework of the EAEU are, of course, strategic, and issues of the activities of economic entities in the sphere of customs ensure the receipt of customs payments and the development of economies of states participants of the EAEU.

It should be noted that in comparison with the CC CU in the CC EAEU, the questions of consultation matters; mutual relations of customs bodies with participants of foreign economic activity and persons; carrying out activities in the field of customs; information systems and information technologies; customs statistics are included in Section VII “Customs Authorities” as separate articles.

## Innovations of the customs code

One of the innovations of the CC EAEU is the normative consolidation of the fact that the common customs regulation is carried out in the EAEU, which implies the

absence of any exemptions or restrictions for any member state of the EAEU in the field of customs regulation. At the same time, legislators have identified a closed list of legal relations that constitute a common customs regulation:

- establishment of order and conditions:
  - (1) the movement of goods across the customs border of the Union,
  - (2) their location and
  - (3) use in the customs territory of the Union or outside it;
- establishment of the procedure for performing customs operations related to:
  - (1) the arrival of goods in the customs territory of the Union,
  - (2) their departure from the customs territory of the Union,
  - (3) temporary storage of goods,
  - (4) their customs declaration and release,
  - (5) other customs operations;
- establishment of the payment procedure:
  - (1) customs payments,
  - (2) special, anti-dumping, countervailing duties;
- establishment of the procedure for conducting customs control,
- as well as the regulation of power relationships between customs authorities and persons exercising the rights to own, use and (or) dispose of goods on the customs territory of the EAEU or outside it.

The above list is broader than the provisions of the CC CU.

Also, special attention should be paid to the acts, in accordance with which the customs regulation is carried out in the EAEU. The list of these acts is more extensive in comparison with the CC CU.

These acts include:

- international agreements, including the CC EAEU;
- acts forming the law of the EAEU (hereinafter, it is specified that these acts are from the sphere of customs regulation);
- The Treaty on the EAEU dated May 29, 2014.

In this list, the reference rule of law "acts that make the EAEU law" attracts attention.

In accordance with the provisions of Article 6 of the EAEU Treaty, the law of the EAEU is:

- The Treaty on the EAEU;
- international treaties within the Union;
- international agreements of the Union with a third party;
- decisions and orders of the Supreme Eurasian Economic Council, the Eurasian Intergovernmental Council and the Eurasian Economic Commission, adopted within the framework of their powers stipulated by the Treaty on the EAEU and international treaties within the framework of the EAEU.

Proceeding from these provisions, we believe that in order to avoid duplication of information and complicate perceptions, it was sufficient to mention in the CC of the EAEU a reference to the acts that make the EAEU law with the corresponding specification of their scope - customs regulation.

It should also be noted that the decisions of the Supreme Eurasian Economic



Council and the Eurasian Intergovernmental Council are subject to execution by Member States in the manner prescribed by their national legislation. That is, in cases when these decisions are made in the sphere of customs regulation and their further execution, if there are differences in the procedures for their implementation in the EAEU member states, the principle of the unity of customs regulation may be violated. In our opinion, this may be one of the gaps in the legislation in the CC EAEU and adversely affect law enforcement practice.

One of the innovations of the EAEU CC is also the normative consolidation of the principles on which customs regulation is based:

- equality of parties for the movement of goods across the customs border of the EAEU,
- legibility, clarity and consistency of customs operations,
- publicity in the development and application of international treaties and instruments in the field of customs regulation and their harmonization with the rules of international law,
- application of modern methods of customs control,
- maximum use of information technology in the activities of customs authorities.

The availability of these principles, in our opinion, indicates the fundamental nature of the EAEU CC and its correlation with the provisions of the Kyoto Convention (On Simplification and Harmonization of Customs Procedures), and will also have a beneficial effect on both law enforcement and judicial practice.

Also, legislators retained the possibility of regulating customs legal relations by the legislation of the EAEU member states on customs regulation in cases where these legal relations are not regulated by international treaties and acts in the field of customs regulation.

Regarding the terminology, new terms appeared in the EAEU CC, for example, such as:

“information resources of customs authorities” means organised set of documented information (databases, other data arrays) contained in the information systems of customs authorities;

“international treaties of the Member States with a third party” means a treaty concluded by one of the Member States with a third party or an international treaty with a third party where any or all Member States act as Parties;

“trade remedies” means safeguard, anti-dumping, countervailing measures and other measures for the protection of internal market established in accordance with the Union Treaty, that may be imposed in respect of goods originating in third countries and imported into the customs territory of the Union;

“customs tariff regulatory measures” means the measures which are adopted in accordance with the EAEU Treaty in respect of the goods that are being (have been) imported into the customs territory of the Union and which include the application of the rates of import customs duties, tariff quotas, tariff preferences, tariff exemptions;

“preliminary information” means information in an electronic form on goods to be moved across the customs border of the EAEU, vehicles for international transportation carrying such goods, time and point of entry of goods in the customs territory of the

EAEU, passengers arriving in the customs territory of the EAEU.

We believe that one of the reasons for the presence of new definitions, as well as changes in the definitions used earlier, is the fact that a number of provisions that were previously defined by separate agreements within the framework of the EAEU were included in the EAEU CC.

In addition, in our opinion, the specification of a number of terms and the availability of new definitions will have a positive impact on the enforcement of the EAEU CC.

Noteworthy are the provisions on informing about international treaties and acts in the sphere of customs regulation. The innovation is the emphasis on the use of Internet segments. In particular, information is provided through the posting of the above regulatory documents, respectively, on the official website of the EAEU (recall that the official site of the EAEU is the site: <http://www.eaeunion.org/>) and official websites of customs authorities on the Internet (for example, at the official site of the State Customs Committee of the Republic of Belarus: <http://www.customs.gov.by/ru>). Thus, priority is given to the electronic form of information placement, in contrast to the printed form used in the CC CU.

It goes without saying, that the absence of a specific reference in the provisions of the EAEU CC for the printed form of information placement does not indicate the impossibility of using such a form. Moreover, the provisions of the EAEU CC provide for the use of “other publicly available ways of disseminating information”.

At the same time, in our opinion, the priority of the electronic form of information placement imposes certain obligations on the EEC and customs authorities in terms of ensuring the security of the Internet segments declared in the EAEU CC. This security should be in the absence of the possibility of unauthorized changes to the legal acts placed on these sites.

The application of measures of the customs and tariff regulation, prohibitions and restrictions, measures to protect the domestic market, international treaties and acts in the field of customs regulation, legislative acts of the Member States in the field of taxation retained the linkage to the date of registration of the customs declaration or other customs documents.

At the same time, due to the possible establishment of customs declaration features at the national level that are different from those established by the EAEU CC, if two or more declarations are required for the goods, the above measures are applied as of the date of registration of the first declaration for goods.

The legislators paid special attention to the issue of compliance with prohibitions and restrictions. Directly the definition of the term “prohibitions and restrictions” is given in Article 2 of the EAEU CC: measures of non-tariff regulation applied in relation to goods transported across the customs border of the EAEU, including those introduced unilaterally in accordance with the EAEU Treaty, technical regulation measures, veterinary sanitary and quarantine phytosanitary measures, export control measures, including measures for military products, and radiation requirements established in accordance with the Treaty on the EAEU and (or) the legislation of the Member States. [2]

It should be noted that compliance with non-tariff regulatory measures, including

those introduced unilaterally, and technical regulation measures is confirmed in the cases and in the order determined by the EEC or the legislation of the Member States in accordance with the EAEU Treaty. The provisions of the decision of the Board of the EEC of April 21, 2015 No. 30 “On measures of non-tariff regulation” (hereinafter - the EEC Decision No. 30) are applied.

At the same time, compliance with export control measures, including measures for military products, is confirmed in cases and according to the procedure established in accordance with the laws of the Member States, by submitting documents and / or information confirming compliance with such measures. In the Republic of Belarus, the above cases and the procedure are established by the Law of the Republic of Belarus of May 11, 2016 No. 363-3 “On Export Control”, as well as the Decree of the President of the Republic of Belarus No. 49 dated February 28, 2017 “On State Regulation in the Field of Export Control”.

Compliance with sanitary, veterinary-sanitary and quarantine phytosanitary measures and radiation requirements is confirmed within the framework of the appropriate type of control (for example, radiation) in the manner prescribed by the EAEU Treaty and the EEC acts adopted in accordance with it, and (or) in the manner established by the legislation of members states. In the Agreement on the EAEU, the indicated types of measures are allocated in Section XI “Sanitary, veterinary-sanitary and quarantine phytosanitary measures” and Annex No. 12. The EEC acts include, for example, the decision of the EEC Board of June 30, 2017 No. 80 (effective from June 1, 2019) “On certificates of state registration of products”. The acts of the legislation of the Member States include, for example, the Law of the Republic of Belarus No. 77-3 of December 25, 2005 “On Quarantine and Plant Protection”.

The innovation of the EAEU CC is the emphasis of the legislators on the issues of providing preliminary information to the customs authorities.

Previously, these issues were regulated by the provisions of the Agreement on the provision and exchange of preliminary information on goods and vehicles transported across the customs border of the Customs Union (from May 21, 2010) (hereinafter referred to as the Agreement). A number of provisions of this Agreement are reflected in the provisions of the EAEU CC. Accordingly, upon the entry into force of the EAEU CC, this Agreement has become invalid.

It should be noted that the EAEU CC describes the objectives for which preliminary information is required:

- to assess risks and make preliminary decisions on the selection of objects, forms of customs control and measures to ensure the conduct of customs control, prior to the arrival of goods in the customs territory of the EAEU;
- to accelerate the commitment of customs operations and optimize the conduct of customs control. [2]

Based on these goals, the legislator identified two parts of the preliminary information:

- the composition of the preliminary information used by the customs authorities to assess risks and make preliminary decisions on the selection of objects, forms of customs control and measures to ensure the conduct of customs control;

- the composition of the preliminary information used by customs authorities to accelerate the commitment of customs operations and optimize the conduct of customs control.

It should be noted that the content of these formulations is determined by the EEC depending on the mode of transport by which the goods are transported. Also, the EEC determines the structure and format of such information, the procedure and timeframes for the provision of preliminary information, including preliminary information submitted in the form of an electronic document, the procedure for the formation and use of preliminary information in the form of an electronic document, persons who are either obliged to provide preliminary information to customs authorities.

In order to implement the above provisions, as of May 31, 2018, the EEC draft decisions have been developed within the framework of the Board of EEC:

- “On approval of the procedure for the provision of preliminary information when goods are imported into the customs territory of the Eurasian Economic Union by air transport”;
- “On approval of the procedure for providing preliminary information when importing goods to the customs territory of the Eurasian Economic Union by road transport” (hereinafter - the Auto Project);
- “On approval of the procedure for the provision of preliminary information when goods are imported into the customs territory of the Eurasian Economic Union by rail”;
- “On approval of the procedure for the provision of preliminary information when importing goods into the customs territory of the Eurasian Economic Union by water transport”;
- “On approval of the procedure for registration of preliminary information when importing goods into the customs territory of the Eurasian Economic Union”.

Also, an expert group within the EEC began work on a draft decision “On approval of the procedure for the use of preliminary information submitted as an electronic document when importing goods into the customs territory of the Eurasian Economic Union”.

These draft decisions are planned for entry into force from October 1, 2018.

In accordance with the provisions of Article 445 of the EAEU CC, prior to the adoption of the above decisions, with prior information, guidance should be given to:

- motor transport - by the Decision of the Commission of the Customs Union (hereinafter - EEC) of December 9, 2011 No. 899;
- railway transport - By the decision of the Board of the EEC of September 17, 2013 No. 196;
- Air Transport - Decision of the Board of the EEC of December 1, 2015 No. 158.

In addition, EEC is recommended for use:

- the structure and format of preliminary information on goods imported into the customs territory of the EAEU by rail, in accordance with the Recommendation of the Board of EEC of November 10, 2015 No. 27;
- the structure and format of preliminary information on goods imported into the EAEU customs territory by air, in accordance with the Recommendation of the Board of the EEC of April 12, 2016 No. 5.

The EAEU CC also provides the possibility for submitting preliminary information in the form of an electronic document. For the purposes of defining the term “electronic document”, it is necessary to be guided by the provisions of the Law of the Republic of Belarus of December 28, 2009 No. 113-3 “On an electronic document and electronic digital signature”. In particular, an electronic document must meet the following requirements:

- to be created, processed, stored, transmitted and received with the help of technical, software and firmware;
- to have an appropriate structure (to consist of two integral parts - general and special);
- to be represented in a form that is accessible and understandable for human perception.

It should be noted that the preliminary information provided in the form of an electronic document can be used in the performance of customs operations related to:

- notification of the arrival of goods to the customs territory of the EAEU;
- placing goods for temporary storage;
- customs declaration;
- other customs operations defined by the EEC (for example, the Draft Auto provides for the possibility of using preliminary information when placing goods under the customs procedure for customs transit). [12]

In addition, preliminary information should be submitted to the customs authority on whose territory the planned place of movement of goods across the customs border of the EAEU is located.

It should be noted that in the EAEU CC, in addition to the previously used methods of transmitting preliminary information (through the interaction of the information system of the customs authorities of the Customs Union member states and the information systems of interested parties or through the web portals of the customs authorities of the Customs Union member states), which are determined by the EEC. Currently, other methods are not defined.

Special attention is paid to the language of the legislators, which provides preliminary information. Unlike the normative legal provisions of the Agreement previously used in the EAEC TC, the emphasis is, first of all, on the use of the Russian language. In addition, the innovation is an opportunity for a member state of the EAEU at the national level, by issuing an appropriate regulatory legal act, establishing the provision of preliminary information in English. In the Republic of Belarus is not currently established.

It should be noted that the provisions of the EAEU CC have expanded the list of cases where preliminary information on goods is not required. In addition to

- (1) goods for personal use, transported across the customs border of the EAEU by individuals;
- (2) goods sent in international mail;
- (3) goods transported to certain categories of foreign persons (defined in clause 1 of Article 296 of the EAEU CC);
- (4) goods moved for the liquidation of the consequences of natural disasters, accidents and disasters;
- (5) military cargo (the status of which is confirmed by a pass (military pass) issued

in accordance with the legislation of the Member State) the list is supplemented:

- (6) goods placed under a special customs procedure at the place of arrival;
- (7) goods of the Union transported through the territories of states that are not members of the Union;
- (8) goods transported across the customs border of the Union and imported into the territory of the FEZ, the limits of which fully or partially coincide with the sections of the customs border of the Union, if this is provided for by the legislation of the Member State in whose territory such FEZ was established;
- (9) other goods in cases defined by the EEC.

Also expanded the list of cases when imported goods cease to be under customs control.

In particular, the list is supplemented by cases:

- when goods are launched into outer space (with the exception of the returned space vehicle and goods in it);
- upon completion of the customs procedure of customs transit in relation to the goods of the Union transported through the territories of states that are not members of the Union;
- at the conclusion of the customs procedure of the free customs zone (hereinafter - FCZ) in the case of consumption of goods placed under the customs procedure of the FCZ and goods manufactured (received) from goods placed under the customs procedure of the FCZ, other than the expenditure of goods in the performance of transactions related to processing of goods (cases will be set by EEC);
- when paying and (or) collecting customs duties and taxes in respect of goods for personal use, imported with exemption from payment of customs duties and taxes, in the event of committing actions in violation of the conditions for importation into the customs territory established in accordance with paragraph 8 of Article 266 of the Customs Code of the EAEU of goods for personal use with exemption from payment of customs duties, taxes and (or) restrictions on the use and (or) disposal of these goods;
- with the release of vehicles of international transportation temporarily exported from the customs territory of the Union, with the exception of the vehicles of international transport considered to be conditionally released goods and vehicles of international carriage specified in the fourth paragraph of paragraphs 2 and 3 of subparagraph 2 of clause 2 of Article 272 of the EAEU CC, subparagraph 2 of clause 2 of Article 272 of the EAEU CC, with their return import to the customs territory of the Union;
- when paying and (or) collecting customs duties, taxes, special, anti-dumping, countervailing duties in respect of temporarily imported vehicles of international transportation in the event of circumstances specified in clause 8 of Article 279 of the EAEU CC;
- in other circumstances determined by the EEC and (or) established by the legislation of the Member States on customs regulation.

The expansion of the above list, in our opinion, is primarily due to the established law enforcement practice within the CU CC.

## Conclusion

1. the analysis shows that the Customs Code of the EAEU is sufficiently progressive document and complies with international norms and standards in the field of customs regulation and international logistics.
2. From our point of view, one of the main innovations of the EAEU CC is the normative consolidation of the principles on which customs regulation is based.
3. Moreover, the priority of the electronic form of information should be mentioned. But we think that such form placement imposes certain obligations on the EEC and customs authorities in terms of ensuring the security of the Internet segments declared in the EAEU CC. This security should be in the absence of the possibility of unauthorized changes to the legal acts placed on these sites.
4. We believe that one of the reasons for the presence of new definitions, as well as changes in the definitions used earlier, is the fact that a number of provisions that were previously defined by separate agreements within the framework of the EAEU were included in the EAEU CC.
5. Also the key innovation of the EAEU CC is the emphasis of the legislators on the issues of providing preliminary information to the customs authorities.
6. Nevertheless in our opinion the Customs Code of the EAEU will be modified because of a lot of references to the national legislation.

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## INSIGHTS INTO THE DEFINITION OF CUSTOMS LOGISTICS

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**Abstract.** *The article deals with the concept of a relatively new social phenomenon, namely, customs logistics. The authors seek to draw the attention of the scientific community to the changes in logistics determined by globalisation and integration processes and new functions of customs in exercising supervision of international trade, regulating and controlling it. It is pointed out that the goals and objectives of the entities carrying out these activities (states, organisations, companies) do not necessarily coincide, hence scientific research into this phenomenon should involve an international integrated team of researchers and scientific partnership.*

**Keywords:** *customs logistics, customs supervision, flow, logistic activity, operation, resources, supply chain.*

### Introduction

Some of the traditional elements of logistics have been important for enterprises as well as in the activities of merchants and traders since ancient times; however it is only relatively recently that logistics has been recognised as being of vital importance for management, effective implementation of functions and pursuit of profit. In recent decades, businesses and other organisations have recognised and appreciated logistics as one of the decisive factors to gain competitive advantage. Scientific literature quite extensively explores different concepts of logistics and discusses the issues of business logistics, marketing logistics, logistics of specific areas of activity or of individual entities.

It is a broad enough field of scientific research, and the author of this article has set a specific task from both theoretical and practical points of view: to explicate a new phenomenon, namely, customs logistics, in the international supply chain and to encourage scientific discussion on this topic.

Presently, all agree that the relationship between business and the state has fundamentally changed. The state seeks to create favourable conditions for business development and to support legitimate business interests. In this area, the main authority representing the interests of the state is customs, which plays an important role in the international supply chain. Modern customs authorities, in implementing the functions delegated to them, ensuring the security of flows of goods and seeking to facilitate international trade conditions, not only carry out the logistic activity characteristic of them, but also significantly affect the performance of logistic activity of economic entities. Moreover, a new, autonomous and specific area of logistics – customs logistics – is rapidly emerging.

Logistics can be understood as a science, art, type of activity, management methodology or its instrument, competition strategy, process, concept or approach. In this article, logistics and, at the same time, its specific area (customs logistics) are understood primarily as a certain activity.

The article pursues the aim of defining the concept of customs logistics, reviewing the role of customs logistics in the international supply chain, its changes driven by changing relationships between customs and business, its features and other factors affecting this research issue.

## **1. Characteristics of customs logistics**

For centuries and even millennia, in the area of warfare logistics has been understood more or less in the meaning assigned to it today, however in the areas of production, trade, business and many other areas of activity logistics has long been associated only with calculation, thinking, cost control, rather than with flows, resources and their management.

Since times immemorial, material assets have been accumulated, managed, distributed or otherwise used in different areas of activity (warfare, mining, transport nodes, construction, etc.), but it is only in the second half of the past century that benefits and often also the need to manage the flows of material assets and resources in seeking to attain goals were clearly perceived.

Modern logistics pursues diverse objectives. They include not only cost minimisation or profit maximisation in managing flows of goods, but also gaining of competitive advantage<sup>1</sup>, optimal flow and resource management and a number of other pragmatic goals. The availability of goods to the consumer, their placing on the market at the right time, the ability to identify non-saturated markets and to saturate them with desired products constitute significant distinguishing features of the present-day competitive activity.

The term 'logistic activity' is widely used in logistics and is often taken for granted, and only a small number of logistics professionals explore it in greater detail or even

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1 Gargasas A. Logistikos reikšmė įmonės konkurencingumui [Importance of logistics for the competitiveness of an enterprise] // *Ekonomika ir vadyba-2000: Conference material*. Kaunas: Technologija, p. 131-133.

define. D. M. Lambert and J. R. Stock attribute over fifteen areas of activity (consumer service, demand forecasting, cargo processing, order processing, packing, carriage of cargoes, etc.) to logistic activity and at the same time note that logistic activity must be examined in an integrated way as a certain network of inter-related activities basically intended for the management of material and personnel flows both within a company and in the supply chain<sup>2</sup>.

Even more areas of activities suitable for logistic activity are perceived by D. Waters, who points out that logistic activity can cover also other areas of activities; however all of these activities must be considered as a whole in order to ensure the efficiency of material flows<sup>3</sup>.

In their analysis of logistic activity, D. Bauersoks and D. Kloss identify some of its functional areas: transportation, warehousing, packaging, supervision of materials (control of quality standards), taking of orders, forecasting, production planning, purchasing and location selection<sup>4</sup>.

R. Palšaitis<sup>5</sup> and R. Minalga<sup>6</sup> divide logistic activity into main and auxiliary. According to the first author, the main areas of logistic activity cover customer service policies and standards, order management, stock management, transportation and warehousing. Auxiliary areas of activity include the processing and management of information, forecasting of demand, selection of the location of production sites and warehouses, material handling, sourcing (procurement), supply of spare parts and post-transaction customer service, packaging, production waste management and handling of returned goods.

It is appropriate to consider logistic activity just as other (e.g., economic, commercial, voluntary, financial) activities and to perceive it as individuals' work, occupation, activity in a certain area; as organised actions of individuals, their performance, work, and/or other effort of the individuals in seeking to attain their goals, to address arising issues and tasks<sup>7</sup>.

Despite the diversity of approaches to logistic activity and its interpretations, it is possible to identify several characteristic features of this activity.

Logistic activity is all about the logistic duo "flow & resources". It includes their planning, organisation, control, motivation, servicing, administration and/or other impact on the flow and its resources. Flows are quite often considered in the context

2 Сток Дж. Р., Ламберт, Д. М. Стратегическое управление логистикой. Москва: ИНФРА-М, 2005, с. 18, 23.

3 Уотерс Д. Логистика. Управление цепью поставок. Москва: ЮНИТИ-ДАТА, 2003, с. 26.

4 Бауэрсокс Д. Д., Клосс Д. Дж. Логистика: интегрированная цепь поставок. Москва: ЗАО "Олимп-бизнес", 2008, с. 49-50.

5 Palšaitis R. Šiuolaikinė logistika [Contemporary logistics] (textbook). Vilnius: Vilnius Gediminas Technical University Press "Technika", 2010, p. 15.

6 Minalga R. Tarptautinė logistika [International logistics]. Vilnius: Homo liber, 2004, p. 50-51.

7 Jablonskis A. Materialieji srantai tarptautinės prekybos logistinėje grandinėje [Material flows in the logistics chain of international trade] // Muitinė tarptautinės prekybos logistinėje grandinėje [Customs in the logistics chain of international trade]. Research study (editorial board: Prof. Dr. A. Laurinavičius, Assoc. Prof. Dr. J. J. Gurevičienė, Dr. A. Jablonskis). Vilnius: Mykolas Romeris University, 2014, p. 247.

of the supply chain, distribution channels, addressing supply chain management issues, and this is done by focusing on entities and their interactions, customers and provision of services to them, while the flow and resources are, in this case, merely a tool and precondition for tackling business, marketing, management or other (to some extent also logistic) issues.

Logistics focuses on a flow and its resources, the actions undertaken with them, which, in turn, affect the output of production, distribution, marketing and other activities. The persons generating flows, forming resources and carrying out actions with the flows and resources are not eliminated from the scope of study of logistics, but the focus is on the flows and resources rather than on entities or their activities in which the flows and resources are merely a means of achieving the objectives of such activity. A logistics professional seeks to ensure an effective, rational, cost-saving, reliable, safe and otherwise optimal movement of a flow (e.g., household appliances), its servicing and is usually not interested in the amount of profit to be earned by a company selling or supplying such household appliances, the level of satisfaction with the appliances by the customer who has purchased them and many other processes of the supply chain (the level of demand and competitiveness of these household appliances in the country of sale, the cost and efficiency of the appliances' after-sales service), unless the mentioned processes of the supply chain are considered to be an important component of the logistics service of the household appliance flow.

Logistics deals with controlled, pre-determined and laminar flows, which in turn can be discrete or continuous, rhythmic and non-rhythmic, etc. According to the nature of their constituent elements, the flows are divided into material, transport, people, money, energy, information and other types of flows, according to the manner of packaging of objects of a flow – into flows in bulk, flows in containers and flows in vehicles.

Measurability is yet another feature of the flows considered by logistics. In respect of logistic activity, only the flows which are measurable in absolute units (tonnes, litres, pairs, meters, etc.) over a given time period are analysed.

A flow is a dynamic category, while a resource is a static category. Both the flow and resources consist of elements of the same nature (computers, furniture, documents). The resources are described in terms of structures (tonnes, meters, litres, pairs), while the flow – in dynamic units (tonnes/day, litres/hour, containers/year).

A flow is a totality of material objects, or elements of a flow, moving or being carried simultaneously from one place to another (cargoes, goods, luggage, consignments, vehicles, messages, information media, etc.). Below, the term 'flow' will be understood as a 'flow and its elements', unless the flow and/or its elements are considered or discussed separately.

The second feature of logistic activity is its complexity and integrity. Logistic activity is understood as a integrally and continuously (as opposed to fragmentarily) considered and researched combination of certain more or less autonomous activities (e.g., transportation, warehousing, loading, etc.), while emphasizing the necessity to analyse this totality of activities in a comprehensive and exhaustive way.

The development of trade, production and other areas of activity has shaped the need to coordinate and consolidate separate stages of the physical movement of raw

materials, consumables, finished products and other objects: sourcing of raw materials, energy sources, stockpiling and stock management, processing of raw materials, packaging of products, transportation, warehousing, waste disposal and other areas of activity. The main purpose of such coordination is to obtain benefits which are often equated with profit, cost reduction, increase of volumes or other pragmatic goals.

Emerging challenges, such as pollution of the natural environment, ecological requirements, increasing competition, combating terrorism, growing customer needs and tightening requirements for meeting them, make logistic activity even more complicated and confusing. The importance and impact of logistics become evident in international and global processes that focus on a comprehensive and integrated analysis of various aspects of different areas of activity or of a specific activity in one, several countries or even globally.

The second half of the last century witnessed the rapid development of interaction between senders and recipients of flows and those providing services to them, which empowered to achieve and implement competitive advantage, created added value and increasingly often demonstrated an international character. It was perceived and felt that intermediaries are necessary and inevitable<sup>8</sup>, primarily in the course of disposal and distribution of products<sup>9</sup>. While in the first stage of logistics development (the first half of the 20th century) few were interested in the services provided by customs, insurance, finance, trade or other intermediaries, today it is difficult to find any areas of activity in which intermediaries would be absent.

Interaction among senders, recipients and intermediaries, which covers cooperation, competition, convergence, social partnership, networking and other forms of interaction, affects an increasingly wider circle of individuals around the world. Such interaction among the individuals in aiming at additional benefits, which is developing, taking new forms and likely to become increasingly inevitable, is the third feature of logistic activity.

Logistic activity is a complex and integrated compound of specific areas of activity, and the logistic activity needs of businesses and other persons are adequately met when all areas of logistic activity and functional areas of this activity are linked into a single system, an integrated whole, while logistic competence is achieved through the coordinated management of these areas<sup>10</sup>.

The complexity of the study is determined by the fact that we have to deal with a large variety of this activity's actions and phenomena, its objects and entities as well as interactions among them.

Phenomena (queues at the border, icy roads, traffic jams) and actions (cargo transportation, warehousing of goods, luggage delivery, vehicle insurance) are a part of logistic activity and its components. A phenomenon is more coherent, unstructured part of the activity often not dependent directly on the actor, and an action is always

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8 Gelderman C. Henry Ford: The Wayward Capitalist. New York: St. Martin's Press, 1981, p. 226-240.

9 Herndon B. Ford. New York: Weybright and Talley, 1969, p. 171-172.

10 Бауэрсокс Д. Д., Клосс Д. Дж. Логистика: интегрированная цепь поставок. Москва: ЗАО Олимп-Бизнес, 2005, с. 48.

directed towards a specific object (their group) and involves specific persons. Actions are an active, dominant component of logistic activity which is influenced by persons, while phenomena are a more passive, relatively small part of logistic activity which is usually difficult to link with a specific object. A phenomenon can be understood as a specific action with an empty set of persons.

It is objects of logistic activity towards which logistic activity is directed, for which it is intended, with which the actions attributed to logistic activity are carried out and which are influenced by phenomena of this activity. They include goods, cargoes, postal items, vehicles, containers, packages, tourists, information media, money and other objects of logistic activity (warehouses, terminals, loading equipment, roads, logistic services, activities of operators of logistic activity, interactions among the persons servicing flows and resources, etc.).

Entities of logistic activity are the persons who initiate, carry out, are engaged in actions with objects of logistic activity and/or are otherwise related to these actions, as well as the persons who initiate, are engaged in, control, regulate and/or otherwise affect the phenomena influencing these objects and/or related to them. In other words, entities are the persons engaged in actions involving the objects of logistic activity.

In logistic activity, as a certain totality of actions, persons act and affect the objects with which the actions attributed to logistic activity are performed in order to make specific changes to them. Changes of the objects of logistic activity are ongoing: the objects change in time, may change in space, their consumer properties change. A change is the consequence of an action carried out with an object of logistic activity, the result of this action that results in changes in the features of the object.

Objects of logistic activity have different properties. There exist countless properties of an object. Some of them are important for transportation, others – for warehousing, third – for sale. Some properties of the object are taken into account, others are not, and the assessment of the importance of all these properties is usually subjective: what is important for one, may not be important for another, and vice versa.

We will refer to the properties of an object of logistic activity which are evaluated, analysed, monitored, controlled or otherwise influenced in logistic activity and are considered important as the characteristics of the object.

The effect of actions of an activity, including logistic activity and the result of their influence on objects of this activity is called a change, processing, reformation, conversion, transformation or other rather generalised terms, reflecting the possible results of the effect on an object of the activity.

In order to describe the result of the effect of an action and its influence on an object of logistic activity, we will use the term 'transformation', which includes all possible cases of conversion, turning into, alteration, (self-) reformation, (self-) reshaping and/or other changes to objects, results of the influence on them. Repackaging of goods at a terminal, placing of a postal parcel under customs procedure, rerouting of cargoes and reselling of goods at a customs warehouse are just some examples of the transformation of objects of logistic activity during which transformations of the objects occur.

Operation is an action intended to achieve a goal or a totality of such actions. An operation in logistics means the actions undertaken to achieve the goals of logistic

activity and considered as a certain totality of such actions. Sometimes an operation is equivalent to a particular action, but usually it means a certain totality of actions.

In logistics, an operation is understood as a totality of the actions attributed to logistic activity and carried out by persons during transformations. Both a transformation and an operation are understood as a certain totality of actions. In the case of the transformation, the actions under consideration are combined into a whole taking into account the influence of these actions on the objects of logistic activity, changes in their characteristics, whereas the actions not leading to transformations are eliminated from the field of research. In the case of the operation, only the transformation-related actions affecting the characteristics of the objects of logistic activity are considered and are combined into the whole according to the objective of logistic activity to achieve which they are used. The operation can be understood as a transformation 'filtered' through a certain objective of logistic activity and serving it. When discussing logistic activity and its actions, we will use the term 'operation', because it is precisely this term that, in our opinion, is one of the main and primary terms of logistics (international logistics, customs logistics), which can be used to analyse and explore this activity in more detail and in depth.

The increasing number of authors study logistic activity through the perspective of the term 'operation', offering various groupings and classifications of operations<sup>11,12,13,14,15</sup>.

Main operations from the point of view of logistic activity (target) are the actions carried out by flow generators (senders, recipients, exporters, importers, sellers, buyers), resource managers (goods owners, distributors, warehouses, terminals), intermediaries servicing flows and resources (carriers, freight forwarders, warehouses, loading companies, etc.) and bringing about changes in the characteristics of these flows and/or resources (formation of a consignment, cargo reloading to another vehicle, cargo insurance, transportation, clearance procedure, etc.). These are the necessary steps whose non-fulfilment will lead to a failure to achieve the intended target of logistic activity; they are planned, carried out or commissioned by the flow generators and/or the resource managers, and this constitutes the key part of operations of logistic activity (referred to as logistic operations).

Expert examination, sampling, vehicle repair and many other actions of logistic activity also constitute operations. If these actions are considered relevant to the achievement of the objectives of logistic activity, they will be classified as logistic operations. Otherwise, these actions will not be main and pre-scheduled operations, but they may also be actions which influence flow/resource characteristics: it may be

- 11 Шатт Дж. Г. Управление товарным потоком. Руководство по оптимизации логистических цепочек. Минск: Гревцов Паблишер, 2008, с. 23.
- 12 Бауэрсокс Д. Д., Клоос Д. Дж. Логистика: интегрированная цепь поставок. Москва: ЗАО Олимп-Бизнес, 2005, с. 64.
- 13 Židonis Ž. Verslo logistika [Business logistics]. Synopsis of lectures. Vilnius: Vilnius Management College, 2002, p. 12.
- 14 Urbonas J. A. Tarptautinė logistika. Teorija ir praktika [International logistics. Theory and practice]. Kaunas: Technologija, 2005, p. 11.
- 15 Garalis A. Logistika (bendrieji pagrindai) [Logistics (Basic principles)]. Šiauliai: Šiauliai University Press, 2003, p. 67, 82.

necessary to carry out an expert examination of goods, although it has not been planned to do so, it may be necessary to sample the goods if customs authorities require it, it may be necessary to perform repairs if a vehicle is damaged. It is inappropriate to attribute these actions to logistic operations, but they can neither be ignored, so they are considered as auxiliary operations.

There is yet another specific group of actions distinguished in logistics. These are the actions of authorities and/or other persons which are carried out in the course of the supervision and control of flows, vehicles, persons and other objects of logistic activity and regulation of processes of logistic activity. Such actions include the actions of border authorities carried out with the persons and/or vehicles crossing the border, actions of customs officers in the course of customs supervision, actions of representatives of the transport inspectorate in the course of control of the use of vehicles, actions of representatives of the State Tax Inspectorate in the course of regulation of the carriage and warehousing of the goods subject to excise duties. These operations (referred to as supervision operations) should be considered in the context of logistic activity as they have a significant impact on flows, resources and other objects of logistic activity. Similar control, regulation, inspection or other operations involving objects of logistic activity which are performed not by authorities or other persons authorised by legal acts, but by the entities generating and servicing flows or resources (cargo movement control, protection of goods, convoying, inspection of consignments of goods) are classified as logistic or auxiliary, but not as supervision operations.

Logistic activity is understood more broadly or more narrowly and so far almost always subjectively, because we still do not have a generally acknowledged definition of logistic activity and there is no legal or any other acceptable regulation of such activity. Several cases of the interpretation of logistic activity may be conditionally distinguished:

- logistic activity in the global sense: all possible operations with objects of logistic activity, activities of the entities involved in these operations and interaction of persons;
- logistic activity in the broad sense: certain operations with objects of logistic activity and interaction of the entities involved in these operations;
- logistic activity in the strict sense: some operations with objects of logistic activity, specific aspects of activities of the entities involved in these operations and interaction between such entities and persons.

Logistic activity in its broad sense is the increasingly widespread and diverse manifestation of the interaction of persons in today's and probably tomorrow's everyday life as far as the organisation, administration, coordination and control of activities of entities of logistic activity are concerned. Today, in pursuing set goals logistic activity is often undertaken by a number of persons in different countries and covers an increasingly diverse and wide range of areas of activity. Therefore, we will focus on this interpretation of logistic activity.

A flow is one of the main concepts of logistics and a dominant object of logistic activity in the international supply chain, since the main transformations taking place in logistic activity are directed specifically towards the flow and its resources.

A logistic activity carried out in one country or within one customs territory is



subject to supervision (goods may only be transported on certain roads, dangerous goods must be marked in accordance with the established procedure, cargoes are taken on board airplanes only through designated terminals), but in respect of the logistic activity carried out in several or more countries, there is much more of such supervision, it is more diverse, regulated by laws of different countries and is exercised by various authorities.

Supervision operations are an important factor influencing the movement of flows in the international supply chain. Inappropriate performance of these operations or a failure to perform them may lead to a significant disturbance in the movement of the flow, and everyone is interested in minimizing such disturbances.

The part of the objects of logistic activities involved in international trade, international exchanges, international business and other areas of activity, in particular as regards flows, is subject to control and regulation as specified by customs legislation, a wide range of specific auxiliary operations is performed with these objects, and an increasingly wide and active use in the interaction of entities of these operations is being made of the forms of interaction generating synergistic effect that have already been tested and proven, as well as newly emerging interactions. This is becoming increasingly evident in the current stage of development of international trade, business and exchange, when long-prevailing foreign trade regulatory measures are gradually giving way to non-tariff tools of foreign trade regulation, with a growing focus on business-to-customs, public-private partnerships, innovations of logistic activity.

The movement of the flow is planned, controlled, administered and/or otherwise affected by a number of persons. The impact on flows and other objects of logistic activity is multidimensional. Nevertheless, certain processes of logistic activity (specific requirements for packaging and labelling of cargo, prohibition of performance of certain handling operations in a customs warehouse or of transshipment of goods without an additional authorisation) take place only in specific cases (when carrying dangerous goods, handling goods under customs supervision). In such specific cases of performance of logistic activity, the objects are subject to special supervision (including customs supervision), which otherwise does not apply or even cannot be applied.

Customs supervision is an integral part of customs policy and trade policy. As it is reflected by its name it is closely related to customs, that is, it is one of the means that regulates economic relations with foreign countries<sup>16</sup>. Customs supervision means the actions taken usually by customs authorities with a view to ensuring that customs legislation and, where appropriate, other provisions applicable to goods subject to such action are observed<sup>17</sup>, this is a specific case of special supervision applicable to flows and resources. Customs control processes are analysed by academicians from different point

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16 Arnold, M. Customs control in the 21st century. // *Customs Scientific Journal Customs* № 1, 2012, p. 66.

17 Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code (OJ L 269).

of views e.g. customs control and risk management<sup>18,19</sup>, simplifying control processes<sup>20</sup>. According to Sawhney and Sumukadas<sup>21</sup>, the government acts as a supplier of key regulatory services, many of which are not optional. The uncertainty that the government introduces is a critical factor that must be considered in customs analysis.

Customs supervision is governed by legal acts drafted, as a rule, according to the standards set out in the Kyoto Convention, which provide that it is limited to the measures necessary to ensure compliance with customs legislation through the adoption of risk management techniques, audit-based controls and other legal means of inspection<sup>22,23</sup>.

Customs legislation and other international and national legal acts<sup>24,25,26</sup> apply to the majority of objects and entities involved in international trade, international exchanges and other areas of international activity: goods, vehicles, containers, persons, activity of the entities and other objects of logistic activity.

From the point of view of scientific analysis, it is appropriate to distinguish the flows and resources which *are under customs supervision* and those which *are not under customs supervision*. Unsupervised flows (carriage of goods in free circulation within the customs territory, carriage and warehousing of goods within the territory of a distribution warehouse) are not under customs supervision and customs inspections, the operations performed with them, the functions performed by them and the processes taking place in relation to them are not affected by customs and other authorities exercising customs supervision. Flows under customs supervision are the flows imported into the customs territory and exported from it as well as some flows carried within it (goods carried from one customs warehouse to another). The transportation, at the same time and by the same vehicle, of objects under customs supervision and those not under customs supervision leads to a case of mixed flow. The mixed flow (at least a part of it) is subject to

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- 18 Elmane-Helmane, K., Ketners, K. Integrated Customs Control Management in Latvia: Lessons Learned. // Economics and Management 17(2), 2012, p. 528-533.
  - 19 Komarov, O. Customs control and risk management system on the example of the Ukrainian customs. // Customs Scientific Journal Customs, № 6(2), 2016, p. 85-97.
  - 20 Czermińska, M. Management of the EU Customs Union-Challenges and Activities// Przedsiębiorczość i Zarządzanie 17.8, cz. 2 Mechanizmy i procesy zarządcze w procesie gospodarowania, 2016, p. 173-186.
  - 21 Sawhney, R., Sumukadas, N. Coping with customs clearance uncertainties in global sourcing. // International Journal of Physical Distribution and Logistics Management, 35(4), 2005, p. 278-295.
  - 22 International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention, 1973) [In Lithuanian]. Official Gazette. No 126-5736; No 77-2664, 2002, Chapter 6.
  - 23 Lyons, T. EU Customs Law. Oxford University Press, 2018.
  - 24 Commission Delegated Regulation (EU) 2015/2446 of 28 July 2015 supplementing Regulation (EU) No 952/2013 of the European Parliament and of the Council as regards detailed rules concerning certain provisions of the Union Customs Code (OJ L 343/11).
  - 25 Commission Implementing Regulation (EU) 2015/2447 of 24 November 2015 laying down detailed rules for implementing certain provisions of Regulation (EU) No 952/2013 of the European Parliament and of the Council laying down the Union Customs Code (OJ L 343/558).
  - 26 New version of Republic of Lithuania Law No IX-2183 on Customs (Law No XII-2694 of 3 November 2016).

customs supervision, hence it can also be attributed to flows under customs supervision.

When moving within the international supply chain, flows under customs supervision cross customs and national borders in accordance with the established procedure, they undergo customs procedures and other procedures related to international cargo movement, logistic activity is carried out and regulated in compliance with provisions of international and national law, the activities of entities of logistic activity are characterised by cross-border cooperation, competition and other interaction, they are subject to foreign trade regulatory measures and other legal sanctions applicable by authorities, and the entire logistic activity related to flows and resources is attributed in scientific literature to a specific area of logistics, namely, customs logistics.

In order to explicate the term of customs logistics and to understand the role of this area of logistics in the international supply chain, it is necessary to disclose the influence of authorities exercising supervision, in particular customs authorities, on flows, resources and the logistic activity associated with them.

## **2. Debate on the concept of customs logistics**

The flows moving within the international supply chain are created, managed, serviced and otherwise handled by entities of logistic activity. In order to protect the financial interests of countries, the domestic market and its participants against unfair and illegal trade and in ensuring the safety and security of the country and its population as well as implementing their other goals, customs authorities exercise a considerable and sometimes decisive influence on these flows.

In many countries, it is customs authorities, in particular customs administrations and other authorities exercising customs supervision, that has been conferred exclusive special powers to inspect the cargoes and goods imported into, carried through and exported from the country<sup>27</sup> and is responsible for supervision of international trade, ensuring of security of the supply chain and implementation of customs and trade policy and other measures assigned to it.

The shift of Western democracies away from the over-rigorous regulation of business and the rapid development of information and communication technologies have resulted in the emergence of a completely new social environment which requires a change in attitude towards interaction between the state and business, the role of non-profit organisations and communities of interest. The Western economies and the community have resolved to pool their efforts in developing welfare through the implementation of the idea of freedom (free movement of goods, services, capital and persons) as a value of the new coexistence. Following the new philosophy, customs aims at making the movement of goods simpler, faster, cheaper and safer. The importance of the increasingly extensive and efficient integration of supervision exercised by customs and other public authorities into the management of international flows and the impact

<sup>27</sup> WCO 1999, Revised Kyoto Convention: International Convention on the Simplification and Harmonization of Customs Procedures, WCO, Brussels; WCO 2005, Framework of standards to secure and facilitate global trade, WCO, Brussels.

of such integration on the performance of not only public authorities, but also businesses are becoming prominent.

Particular attention is paid to new functions of customs, including ensuring of the safety and security of flows<sup>28</sup>, with a special focus on risk management. By applying reliable risk management, customs authorities are able to determine where, when and how to best carry out inspections and effectively respond to emerging threats<sup>29</sup>, without interfering with or causing minimal effect on less risky flows of goods. In assuming obligations to ensure security, the customs authorities must apply to all economic entities uniform control standards, while safety and security must be ensured in such a manner that actions of the authorities would minimise obstacles to legitimate business. Innovative logistics technologies and modern supply chain management techniques are introduced and partnership of international business and the state is developed with the aim of ensuring effective economic development and attaining other common goals.

Globalisation and trade liberalisation, the increased volume of international trade, modernisation of logistic activity and the growth of e-commerce pose new challenges to customs administrations. Customs is increasingly focused not on the physical control of flows and resources, but on audit-based controls and issue of specific authorisations.

One of the main functions of the customs of the 21st century is customs supervision of international trade, the flows of goods, resources involved in it and other elements of logistic activity. This is the administrative customs activity which pursues the objective of protecting the public, the market, the environment and financial interests against damage caused by illegal international trade by facilitating conditions for legitimate business. Customs seeks, by employing the powers conferred to it, to create favourable conditions for legitimate business and to provide administrative services<sup>30</sup> while increasing the interest of business in providing assistance to customs in the performance of its functions.

Explication of the term of customs logistics can proceed in at least two different ways. The first way is the identification, in the activities of customs and other authorities exercising customs supervision, of the processes related to logistic activity and focus on such processes (inspection, regulation, controls, public administration, etc.). In this case, customs logistics stands for the customs activity 'filtered' through the filter of 'logistics', the totality of certain specific segments and areas of such activity; it is an integral part of

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28 The European Commission on 21 August 2014 adopted a Communication on EU Strategy and Action Plan for customs risk management: Tackling risks, strengthening supply chain security and facilitating trade (COM/2014/527).

29 Press release by Algirdas Šemeta, Member of the European Commission: Customs. The Commission has adopted EU Strategy and Action Plan for customs risk management [In Lithuanian]. Brussels, 21 August 2014.

30 Administrative service shall mean activities of an entity of public administration comprising the issuing of authorisations, licences or documents confirming particular legal facts, the acceptance and processing of persons' declarations, the provision of consultations to persons on issues regarding the competences of the entity of public administration, the provision to persons of information of the entity of public administration as defined by the law, the performing of administrative procedure (Article 2 of Law of the Republic of Lithuania on Public Administration No XI-1259 (Official Gazette, No 4-125, 2011).

customs and other authorities exercising customs supervision, but not of logistic activity.

The second way opts for the 'supplementation' of areas of logistic activity (transportation, warehousing, loading, surety, insurance, etc.) with the segments of activities of customs and other authorities exercising customs supervision in which supervision operations (inspection, regulation, controls, public administration, etc.) are carried out. In this case, customs logistics is a specific area of logistics in which the processes characteristic of national logistics are eliminated, or rather 'transferred' to the background and which includes as its integral part the specific segments of activities of customs and other authorities exercising supervision that are related to logistic activity.

M. Taranov, I. Smirnov, V. Yukevich and other logistics professionals may be regarded as proponents of the second way, just as the author of this article<sup>31,32,33</sup>. M. Taranov perceives customs logistics as an area of the application of logistics which covers two distinct though interrelated areas, namely, logistic and customs activities, and as a separate type of international logistics<sup>34</sup>. I. Smirnov also links customs logistics to logistic and customs activities<sup>35</sup>.

V. Yukevich defines customs logistics as the common activity of different entities in integrating all processes related to the movement of goods across the customs border through unconditional addressing of specific tasks of general cost reduction<sup>36</sup>.

The concept of the term of customs logistics is complicated not only by the different perception and evaluation of links between logistic and customs activities, but also by some disagreements over the terms used in the area of customs activity. Malevich<sup>37</sup> argues that logistization of customs procedures covers the wide scope of issues – managing material export and import flows; financial aspects of logistics in pricing regulations; information support and maintenance of customs operations; customs and related operations.

E. Martsiusheuskaya links customs activities with the economic security of the member states of the Eurasian Economic Union (EEU) and the preservation of their sovereignty in developing the customs union. When examining the concepts of customs activity, the author draws attention to the fact that the disagreements over the definition of functions of customs activity often arise due to the different use of the key concepts, such

31 Альбеков А. У., Гамидуллаев С. Н., Парфенов А. В. Таможенная логистика. Санкт Петербург: Троицкий мост, 2013.

32 Стаханов В. Н. Таможенная логистика. Москва: Приор, 2001.

33 Самолаев Ю. Н. Основы таможенной логистики: учебное пособие. Москва: Альфа-М, Инфра-м, 2008.

34 Таранов М. В. Таможенная логистика. Учебно-методическое пособие. Минск: БГУ, 2011, с. 8, 3.

35 Смирнов И. Г. Таможенная логистика как фактор экономической безопасности Украины в условиях глобализации. // Логистика: проблемы и решения. 2010, N. 6, с. 76.

36 Юкевич В. А. Совершенствование таможенной деятельности как фактор развития логистической системы Республики Беларусь. // Беларусь в современном мире (Материалы VIII Международной научной конференции, посвященной 88-летию образования БГУ). Минск: издательство ООО "Тесей", 2009, с. 254.

37 Malevich, I., Berezkina, N.N. Conceptual aspects of the development of logistics management as part of the customs authority. // Review of European studies 7.9, 2015, p. 32.

as таможенное дело [customs affairs], таможенное администрирование [customs administration], таможенная деятельность [customs activity], таможенная политика [customs policy]<sup>38,39,40</sup>. In her works, the author notes that lawmakers of the EEU do not have a clear position as regards these and other concepts related to customs activity, and legal acts assign (delegate) the definition of the concepts to national legislation<sup>41</sup>. It needs to be noted that the above-mentioned article by E. Martsiusheuskaya also considers many other concepts which are of importance for the scientific analysis of customs activity and are difficult to translate into English, hence in examining customs logistics as a specific area of logistics, scientific debate would be of considerable significance that helps to reveal their contents.

The identification of customs logistics as an object of scientific research is methodologically justified also by the fact that it is characterised as an independent and specific area of logistics whose activity (actions, operations, functions, processes) is regulated by international and national legislation government customs, international trade, international business and international cooperation, and the objects and entities of this activity are subject to customs supervision, customs inspections and other actions of the authorities involved in supervision. This determines the autonomy of customs logistics, because only in this area of logistics and not in others (transport, warehousing, sports, war, etc.) that activity with flows and resources under customs supervision is carried out and may be carried out.

The specificity of customs logistics as an area of logistics is manifested in the form of operations characteristic exclusively of customs logistics (customs status of goods, customs value of goods, determination of the origin of goods, verification of guarantee), the functions performed in the course of supervision (determination and recovery of customs debt, risk management in the international supply chain, control of the activities carried out by customs warehouses and customs agents), participation of special entities of logistic activity (customs authorities, border guard services and other authorities exercising supervision, agents providing customs surety, customs warehouses, customs carriers, etc.) in the activity attributed to customs logistics, as well as specific interaction of the entities influencing this activity and its outcome (partnership of the public and private sectors, international networking, etc.).

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- 38 Мартюшевская Е. Н. Анализ понятия «таможенного дела» и иных базовых категорий в области управления таможенным делом. // Управление в области таможенного дела. Сборник материалов 1 Международной конференции. Минск: БГУ, 2014, с. 86-95.
- 39 Pavlenko, O., Chentsov V., Triakina, O. The Principles of public administration mechanisms modernization in the field of Customs affairs. // Customs Scientific Journal CUSTOMS 6 (2), 2016, p. 47-63.
- 40 Heaver, T. D. The role of customs administration in the structure and efficiency of international logistics: An international comparison. // The international journal of Logistics Management, 3(1), 1992, p. 63-72.
- 41 Martsiusheuskaya E. Legal Status of Customs of the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation // Muitinė tarptautinės prekybos logistinėje grandinėje [Customs in the logistics chain of international trade]. Research study (editorial board: Prof. Dr. A. Laurinavičius, Assoc. Prof. Dr. J. J. Gurevičienė, Dr. A. Jablonskis). Vilnius: Mykolas Romeris University, 2014, p. 249-250.

The primary and key object of customs supervision is goods and flows of goods moving within the international supply chain. In exercising customs supervision of the flows, customs examines not only goods, but also vehicles, luggage, documents, the information provided, the registers used, premises, activities of entities and other objects of logistic activity. Border guard, veterinary and other services as well as other businesses having a relevant mandate (customs warehouses, authorised economic operators, etc.) can participate in customs supervision.

Flows under customs supervision, resources and other objects of customs logistics, the specific auxiliary operations performed with them, functions, activities of entities of such operations and their regulation by international and national legislation, interaction of the entities and the public-private partnership being developed reflect the essence, autonomy, exclusivity of customs logistics as a specific area of logistics and its features.

## Conclusions

1. In order to ensure an effective, rational and value-adding flow management in the international supply chain, cooperation of economic entities and public authorities is necessary at various levels. For interference and obstacles in the movement of flows to be minimised and for the authorities exercising customs supervision to promptly receive the relevant information, it is necessary to coordinate, to the fullest extent possible, the cooperation of the authorities in charge of cross-border customs inspections<sup>42</sup>.
2. Customs logistics allows for the implementation of objectives of different entities and realisation of interests of the public and private sectors. The objectives of the entities exercising customs supervision do not necessarily coincide and sometimes are even opposite to those pursued by international businesses and other participants in logistic activity. Nevertheless, all of these entities also seek common goals by performing operations jointly with entities of logistic activity.
3. There is a general agreement that customs logistics is a new social and economic phenomenon which has actually come into existence and requires a detailed theoretical analysis and cooperation of researchers and practitioners in assessing its prospective role and dealing with the issues of development of its application in practice. To conclude this brief examination of the issues of customs logistics, we would like to ask a rhetorical question: who if not the international community of scientists, experts and researchers of the International Business and Customs Logistics Centre of Mykolas Romeris University should take the initiative to foster customs logistics?

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42 Adomavičiūtė D. *Muitinės audito modelis verslo įmonių veiklos vertinimui* [Model of customs audit for the purposes of assessment of business performance]. Doctoral dissertation. Vilnius: Vilnius University, 2011, p. 18-21.

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## ADMINISTRATIVE DISCRETION ASSUMPTIONS IN DEVELOPING CUSTOMS LOGISTICS

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**Abstract.** *In recent years, increasing attention has been paid to the security of international flows, with a focus on a specific area of logistics, namely, customs logistics, understandably both as a new branch of science and as an integral, complex and multifaceted area of activity. Customs logistics includes the processes, functions and challenges of transportation, warehousing, forwarding, inventory management, management of flows/resources and other areas of activity, insofar as they are related to the legal acts implemented by customs, customs supervision, interaction between customs and business in developing secure international trade. This is an area of research and practice which is rapidly developing, is open to innovations and new ideas, is introducing smart technologies and is consolidating intellectual capital and which is closely linked to economics, management, law and other areas of research activity. The distinctive feature of logistics, including customs logistics, is the management of flows and resources in the international supply chain, regulation of logistic operations, functions and processes at the international, regional and national levels, wide geography of activities, increasingly complex interactions between entities of logistic activity, optimal use of resources, creation of added value using instruments of logistic activity, rational and effective risk management, ensuring of safety and security.*

*The outcome of activity in customs logistics (the length of delivery of a consignment, safety and security, speedy and inexpensive completion of formalities, prompt and efficient performance of logistic operations) is determined not only by the logistic operations performed, but also, and sometimes primarily, by the nature of interaction between entities of this activity and controlling institutions (customs authorities, border guard, etc.), possibilities of cooperation and its consequences, the compatibility of information, computer and communications technologies, the efficient use of available information resources, the validity, objectivity and rationality of decisions and discretions. Changes in the activity of customs as the state institution implementing customs and international trade policy directly and significantly influence the security of the EU's economic area.*

*The article presents one of the possible concepts of customs logistics as a new area of logistic activity, discusses guidelines for customs and business cooperation and tendencies of the implementation of the discretionary powers granted to customs officials in enhancing the security of international trade.*

**Keywords:** *security of international flows, customs logistics, administrative discretion, logistic activity, customs and business.*

**JEL Classifications:** *K19; K22; M16; P45 affects the security of the EU's economic area*

## **Introduction**

Since ancient times, logistic activity has been significant in developing international economic relations and carrying out the activities of merchants and traders. In our time, logistics is considered to be crucial for the effective development of the economy and the management of international flows of goods and cargo. Thus, in recent decades business and other organisations have recognised logistics as one of the decisive factors in managing various flows to gain competitive advantage.

In scientific literature, various approaches to logistics are widely discussed, with a focus on the issues of business logistics, marketing logistics, and logistics of specific areas of activity or specific entities. The recent challenge of the science and practice of logistics is related to the logistic activity of public authorities in performing the functions assigned to them or profile functions. Along with the abandonment of over-rigorous business regulation and the rapid development of information technologies in Western democracies, a completely new social environment has emerged and the attitude towards the relationship between the State and business and the role of various non-profit organisations and interest communities has changed.

In line with the new philosophy, customs authorities are seeking to make the movement of goods simpler, faster, cheaper and safer. The aim pursued by the implementation of the Union Customs Code, Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 (Regulation (EU) No 952/2013), other European Union and national legal acts and the introduction of management and administrative innovations is to achieve a deeper and more effective integration of the supervision exercised by customs and other public authorities into the management of international flows. The integration processes have an impact on the performance of both public authorities and business entities. Our research looks at the trends of customs and business cooperation in developing customs logistics in the area of ensuring the security of economic area through the effective exercise of the discretionary powers legally defined for customs authorities and officials.

The main tasks of this research are as follows: to reveal what logistic activities and changes in such activities are expected by international businesses from customs authorities and customs officials, what legally defined discretionary powers have been assigned to the authorities and the officials for the carrying out of these activities in order to meet the needs of business security and facilitation. The methods of systemic analysis and generalisation of legal acts, statistical data and other sources are employed with the aim of assessing the trends of the exercise of the discretionary powers in the areas of interest for the authors.

### **Logistic activity of public authorities in performing profile functions**

The distinctive feature of our time is the partnership between the state and business in addressing the challenges of a country's economy. The new philosophy of public relations perceives socio-economic development as the "process and result of the rational activity" of entities (actors). Therefore, the parties to the relationship are in favour of

creating favourable assumptions for cooperation by developing partnership strategies, improving mutual trust and respect without compromising the underlying interests of the parties to the relationship, namely, the legally protected specific values of civil service and business and their hierarchy.

Philosophical thinking is changing the concept of “activity”. Algirdas Degutis, relying on the theory developed by Ludwig Mises and other researchers, describes an activity as a continued drive expressing dissatisfaction of an entity (actor) with the current situation and its (his) desire to replace it with a better situation. An action is always an effort “to replace a less desirable situation with a more desirable situation” (Degutis, Mises, 2014). From the point of view of the topic under consideration, this means that under the present-day conditions, business entities and public authorities and officials constantly face in their activities new challenges and the requirement to improve business conditions, while being aware of the trends of ensuring of public interest and improvement of the quality of public life.

It should be noted that the science of logistics is open and allows exploring objects of various nature. The basic idea of logistics is the management and transformations of the various flows that result in the interaction of objects of a single system (Grigorjev, 2017). On the other hand, targeted activities (e.g., research, drafting of strategic documents, implementation of different areas of activity) highlight the specific issues which define the clear outlines of logistic activity. Customs is an institution exercising continuous supervision and control of international trade flows. The increasingly intensive flows of goods and cargoes encourage cooperation between the state and business, international trade and logistics enterprises, customs authorities and other border control organisations in addressing the security of goods, cargo flows and the market and other issues of importance for businesses and the national economy. The researchers and experts examining customs issues point out that customs activity includes administrative and logistic activities. The Lithuanian researchers and experts D. Adomavičiūtė, J. J. Gurevičienė (2011, 2014)<sup>12</sup>, R. Klevečka (2007), A. Raišutis (2005), J. Radžiukynas (2003, 2011), the foreign authors D. Widdowson (2007), L. de Wulf (2005), Jan-Erland Jansson (2009) and other researchers analysing the development tendencies of customs of the 21st century agree that, in addition to traditional functions of customs, such as collection of fiscal revenues and customs control, the functions of ensuring of security of the international trade chain and other functions assigned to customs need to be developed:

- collection of trade data for statistical and control purposes;
- effective border management by facilitating the movement of goods and services while maintaining the competitiveness of international business;
- implementation of requirements of the legal acts regulating the control of free movement and ensuring of national security.

Andrew Grainger (Nottingham University Business School), based on data of research into cooperation between entities of international trade and state institutions,

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- 1 Adomavičiūtė, D. Role of Customs Audit in the Trade Facilitation Process. Upravleniye v oblasti tamozhennogo dela. Minsk: Izdatelskiy centr BGU, 2014.
  - 2 Adomavičiūtė, D., Gurevičienė, J. J. Models of International Business Relations Analysis and Assessment Usable in Customs Activities. Business Systems and Economics, No. 1 (1), 2011.

also agrees that “the accounts given by the key informants suggest that the function of a customs manager is broad. When describing what they do, three interdependent areas of activity were highlighted: (1) logistics support; (2) supply chain management; and (3) regulatory compliance” (Grainger, 2016).

Changes in customs activity materialise through the application of innovative working methods, as a result of which customs, traditionally known as the ‘gate-keeper’, relies in its activities in the 21st century on the management of risk in the supply chain. Therefore, on International Customs Day Mr Kunio Mikuriya, Secretary General of the WCO, announced the WCO slogan ‘Digital Customs: Progressive Engagement’ (WCO, 2016), which was to be used during 2016. Moreover, the significance of ICT in customs activity was cited in a letter to Directors General in which the Secretary General referred to “enhanced detection of irregularities and illicit consignments through effective collection and analysis of data” (WCO, 2015). Risk management is based on the management of reliable data. These issues are discussed in the context of customs risk management by W. Czyżowicz and M. Rybaczyk. In analysing the databases of the Regional Intelligence Liaison Office (RILO) and the Customs Enforcement Network (CEN), which have operated for nearly 30 years, the researchers and experts note that “the exchange of intelligence at national, regional and international level must be improved in order to render enforcement action by Customs services more effective and to secure the optimum use of available resources” (Czyżowicz, Rybaczyk, 2017). Thus, given the challenges of the present day, particular attention is paid to new functions of customs, including the ensuring of the safety and security of flows through the application of risk management methods (COM/2014/527).

The impact of customs on logistics and changes in this activity reveal the essential characteristic features of the newly emerging and rapidly expanding phenomenon of customs logistics and distinguish (define) it as a specific area of logistics, international logistics.

The strategic approach in economics is oriented not only towards minimisation of costs or maximisation of profits in managing flows of goods, but also gaining of competitive advantage, optimisation of flow and resource management, and a number of other pragmatic goals (Gargasas, 2000). “Through a sound management of risk, customs is capable of determining where, when and how to conduct inspections and respond effectively to emerging threats” (Šemeta, 2014), while implementing legally regulated procedures – ensuring the security of flows – without interfering with or by minimally affecting less risky flows of goods, cargoes, consignments and other flows.

Customs has a legal status, therefore, in carrying out legally regulated administrative activities and assuming the obligations of ensuring of business security, it must apply uniform control standards to all economic operators, while safety and security must be ensured in such a way that official actions would present the smallest possible obstacle to legitimate business. Article 9(2) and (3) of the Law of the Republic of Lithuania on Public Administration stipulates as follows:

*2. Supervision and control of the implementation of administrative acts shall be exercised only in compliance with the powers granted in accordance with the procedure*

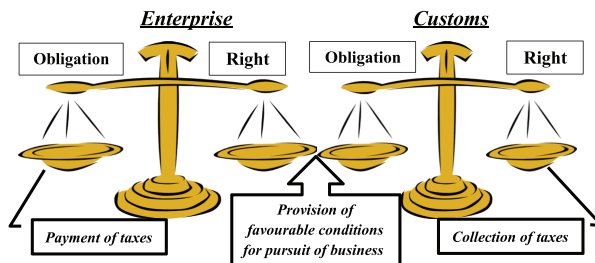
*laid down by this Law to entities of public administration exercising the supervision and control, pursuant to this Law and other laws regulating the supervision and control as well as legal acts implementing them, requirements of legal acts of the European Union and international agreements of the Republic of Lithuania.*

*3. If an entity and form of supervision or control are not defined in laws and legal acts implementing them, legal acts of the European Union or international agreements of the Republic of Lithuania, an entity and form of supervision or control shall be defined by an entity of public administration that has passed an administrative act or any other entity of public administration authorised by and accountable to it (Law No XI-934 of 22 06 2010).*

As is known, the customs supervision of the present day is regulated by the legal acts drawn up in accordance with the principles and the standards, as set out in the Kyoto Convention, which provide that customs control is to be limited to the means necessary to ensure compliance with the customs law, using risk management methods, audit-based and other legitimate means of examination ((Kyoto Convention, 1973). Council Regulation (EEC) No 2913/92 of 12 October 1992 which established the first Community Customs Code (EEC No 2913/92), clearly defines the customs authorities as the authorities responsible for applying customs rules. In present-day practices, the customs authorities of the EU Member States follow the Customs Code, other customs legislation, that is, a set of legal acts consisting of the following acts:

- a) the Customs Code and the provisions supplementing or implementing it, as adopted at Union level (Regulation (EU) No 952/2013);
- b) the Common Customs Tariff;
- c) the legal acts establishing a Union exemption scheme;
- d) the international agreements containing provisions related to the customs law to the extent that they apply in the EU;
- e) the national legal acts which are directly applicable (Law No XII-2694 amending Law No IX-2183) or are related to provisions of customs legislation;
- f) the administrative acts adopted by the director general of the Customs Department or by the entities of public administration authorised by him.

The administrative and legal supervision of customs is a specific case of the special supervision applicable to flows and other objects of logistic activity. These are administrative measures normally employed by customs authorities in order to ensure compliance with customs legislation and, where appropriate, with other provisions applicable to the goods in respect of which such action is taken (Regulation (EU) No 952/2013). In short, the administrative activities of customs are aimed at maintaining a balance between the rights and duties of customs and business (Mažeikienė, 2012) (see Graph 1).



**Graph 1.** Balance of rights and obligations of customs and business

*Source:* Pagal Mažeikienė. *Muitų teisė praktikams*, November 2012, No. 1, p. 3

Apart from control, another aspect of activity being of no less importance is ensuring of the safety and security of flows in line with the “powers conferred by the law”, while adjusting state and business interests. In our opinion, this is based on the concept of customs logistics. The material flow in the management of the international supply chain is one of the main concepts of logistics and the dominant object of logistic activity, since the key transformations taking place in the logistic activity are directed towards the flow. Customs is the main institution whose aim is to create favourable conditions for the development of business, namely, foreign trade, to create favourable conditions for trusting reliable foreign traders and to ensure the safety and security of the relevant objects, to simplify and speed up the legally regulated customs formalities. At the same time, customs is particularly responsible for the economic protection of national borders. Customs logistics is oriented towards reconciliation of the interests of the state and business in order to improve the effectiveness of international trade procedures and operations – optimisation of flow transformations. Customs is increasingly shifting its focus from the physical control of flows of imported cargoes to their verification, i.e., on the issue of specific authorisations, the controls based on audit, risk management and other innovative methods allowing for optimisation of flow control with the least possible impact on the intensity of the flows.

Thus, customs logistics is described as a specific area of logistics in which the objects of logistic activity are or may be subject to customs supervision. The specificity of customs logistics as an area of logistics is manifested by the special logistics-specific transformations of the objects of logistic activity that take place at the time of the customs supervision of such objects, participation of special entities of logistic activity (customs, border authorities and other institutions performing supervision, customs brokers, customs warehouses, customs carriers, etc.) in the logistic activity attributed to customs logistics, as well as specific interaction of these entities affecting the logistic activity and its outcome (partnership of the public and private sectors, international networking, etc.).



## **Discretionary rights of customs officials and trends of customs logistics Targeted development of discretion aiming at greater security of international business**

Along with the abandonment of over-rigorous business regulation and the rapid development of information technologies in Western democracies, a completely new socio-economic environment has emerged and the attitude towards the relationship between the state and business and the role of various non-profit organisations and interest communities has changed. Presently, “the main purpose of state institutions and the civil servants working in these institutions is to help citizens to live well and to exercise their rights and freedoms” (Pranevičienė, Urmonas, 2008). One of the key features of the EU is the determination to develop well-being through a joint effort by implementing the idea of free movement (free movement of goods, services, capital and persons) as a value of the new form of communal living. In line with the new philosophy, customs authorities seek to make the movement of goods easier, faster, cheaper and safer. “Apart from its task of revenue collection, customs has to demonstrate its ability to manage and control external borders effectively and efficiently, in the interest of both the wider population and, of course, trade operators” (Kovacs, 2008). A major breakthrough should lie in the reform of the organisational structure of customs, “in which managerial effectiveness is recognised as a key factor in delivering effective business results, and in which a significant investment is made in developing the skills and abilities of managers and staff at all levels” (Customs Blueprint, 2008). The importance of enhanced and more effective integration of the supervision exercised by the custom authorities and other state institutions into the management of international flows has been highlighted. This has led to a change in the approach towards the performance of the professional functions of the customs authorities and officials. The Customs Blueprints: pathways to modern customs contain the following provisions:

- give the customs administration the authority to take decisions on customs administrative matters;
- provide effective powers for customs officers to administer and enforce customs legislation in line with international best practice and standards (Customs Blueprint, 2008).

Thus, the Blueprints promote the taking over of best practices through a more flexible legal regulation of customs activities driven towards the challenges of our time. In our opinion and also according to other researchers (for example, B. Pranevičienė (2008), A. Urmonas (2008), S. Katuoka (2017), etc.), these provisions are of particular importance in changing the attitude towards recognition of the professionalism of customs authorities and other state institutions and officials (civil servants) by improving confidence in their competence. In Lithuania, just as in other Western countries, it is possible to observe the development of the powers of officials, which allows “for a fairly loose choice between options of the implementation of the law, because the adopted laws are declarative”. Pursuant to Article 8 of the Law on Customs, as regards the performance by customs officials of their duties based on the right of discretion, in addition to the

general principles indicated in Article 3 of the Law of the Republic of Lithuania on Public Administration (New version, 2017), the following specific principles are of major importance:

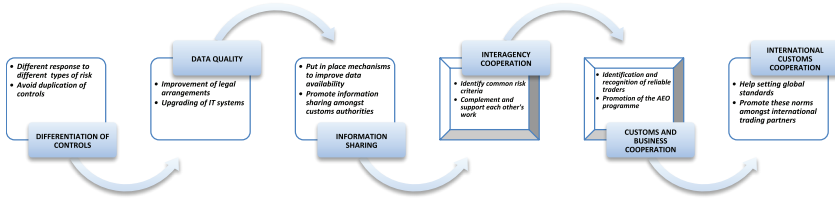
- professionalism and personal initiative,
- responsibility and official discipline,
- adjustment of single-person and collegial decision-making (New version Law No XII-2694).

In other words, assumptions are provided for broadening the limits of the legislative discretion of administrations, which, in turn, means that standards and requirements are set for institutions and officials, based on best practices, expert opinions, etc., that must be complied with in the process of performance of constantly changing and expanding official duties. These legal acts are often formulated not very specifically or are declarative; therefore public administrations are likely to fill the emerging procedural and material gaps by taking action within the limits defined for them by the law. Such a freedom of action means the administrative discretion of an institution (Pranevičienė, Urmonas, 2008).

### **Challenges and trends of customs logistic activity**

As already mentioned, risk management in the area of customs and ensuring of a secure international supply chain is a new function of customs in the 21st century, which has changed the relationship between customs as a public authority with entities of international trade. Risk management is a multidimensional approach aimed at developing customs logistics and covering legal, procedural, IT and other aspects. The most recent 2014 Communication from the Commission – a strategic document – on the EU Strategy and Action Plan for customs risk management (hereinafter the ‘Strategy’) sets out the outlines for risk management in the international supply chain and defines prospects for the development of customs logistics (COM (2014) 527). This is the key strategic document for enhancing supply chain security. It identifies the relevant risk mitigation and control measures that need to be employed at the most appropriate times and in the most appropriate part of the supply chain. It also highlights the international context of risk and the importance of international cooperation in risk management. In addition, the Strategy draws attention to the importance of facilitating and accelerating trade in the EU, enhancing the role of economic operators and the necessity to avoid undue disruption of logistics and supply chain processes through unconstructive and legally unjustified customs procedures and operations (COM/2014/0527). Strategic documents provide the principal guidelines for risk management in the area of customs, which are to be considered as a methodological basis for analysing customs modernisation trends and assessing cooperation between customs authorities and entities of international trade (see Graph 2).

*Source: Based on Communication from Commission COM(2014) 527; Press release of 21 August 2014 “Customs: Commission adopts strategy and action plan for better customs risk management”*



**Graph 2.** Guidelines for risk management in the supply chain

It should be noted that the Customs Department under the Ministry of Finance of the Republic of Lithuania (hereinafter the 'Customs Department') aims at implementing strategic provisions by using the legally defined powers of legislative discretion of the administration. For example, commissions and working groups have been set up by orders of the Director General of the Customs Department with a view to implementing the specific objectives of the Strategy, such as:

- Customs authorisation design group: Order No 1B-115 of the Director General of the Customs Department of 2 February 2017.
- Working group on the implementation of reduction of administrative burden at the Lithuanian Customs: Order No 1B-76 of the Director General of the Customs Department of 24 January 2017.
- Working group on the creation of a united consulting and information network at the Lithuanian Customs for clients of the Lithuanian Customs: Order No 1B-55 of the Director General of the Customs Department of 20 January 2017, etc.

The 2016 Report from the Commission to the Council and the European Parliament COM(2016) 476 (2016) presents a general qualitative assessment of the implementation of the Strategy. According to the Report, the reform of customs risk management being in line with the current situation has enhanced the volume, speed and resources of international trade. A large number of actions have been launched. It is noted that progress has been uneven. The emerging insufficient financing to develop the required IT systems is one of the major issues. In addition, a topical issue is increased cooperation between customs and other authorities, as it is stated that progress in this area has been too slow.

It should be noted that special empirical research on customs logistics, such as the implementation of the Strategy, has not been undertaken yet either at EU level or in Lithuania. One of the reasons is the fact that, although in practice and in scientific literature this term is being used increasingly widely, it has so far not been clearly and unambiguously defined as a subject of scientific research. Therefore, the analysis of the interaction between law and logistics in the activities of the customs authorities and officials is most often based on the method of standardised systemic monitoring in order to assess the practical implementation of EU and national legal and strategic documents and trends in the development of specific customs activities in the short and long term. This method is often used in the preparation of reports of EU and national customs authorities, thus these annual performance analysis documents can serve as a significant source of scientific research on customs logistics.

The Lithuanian Customs periodically conducts general surveys concerning customs and business cooperation, in which a part of the issues deal with customs logistics. For example, the purpose of the surveys conducted in 2008 and 2012 was to identify the needs of economic entities related to the services provided by the Lithuanian Customs; on the basis of the collected information, to improve the provision of electronic services (while respecting the interests of business entities). A survey conducted by TNS Gallup during April-May 2008 involved 1,004 enterprises. A survey conducted by the Customs Department during February-March 2012 involved 140 enterprises. The surveys focused mainly on the management of information flows in the supply chain. An analysis of the data of the both surveys suggests that entities of international trade evaluate customs and business cooperation in managing the international supply chain only as mediocre (Banelis, 2013). Another no less significant indicator is the absence of major progress in the development of cooperation over the four-year period under consideration. The average score of both surveys on a 10-point scale remains approximately 7.4 points.

Much attention to the issues of customs logistics is devoted by students of the Master's degree study programmes *International Trade* and *Logistics Management* at Mykolas Romeris University in their theses. Notably, their pilot studies (interviews of 20 to 50 international trade and logistics enterprises) allow for claiming that in the supervision process undertaken by customs authorities, business entities are not able to identify the logistic activities of customs, that is, to distinguish the specific logistic services provided by the customs authorities from the functions of public administration performed by legal means. In other words, customs is increasingly often perceived as the 'gate-keeper', rather than as a partner in ensuring the safety and security of the supply chain, goods and cargoes in the process of the management of flows of goods, cargoes, consignments and other flows.

## Conclusions

1. The distinguishing feature of the customs of the 21st century is cooperation between customs, which represents the interests of the state, and the entities of international trade with a view to achieving a common goal, namely, optimisation of the management of flows and resources in the international supply chain, along with ensuring security in international trade logistics.
2. Cooperation is based on the criteria of rationality: the process of joint activities is oriented towards achievement of clearly defined socio-economic results; the key principles of the partnership model include the flexibility of legal relations between customs and entities of international trade, which allows customs authorities to provide specific logistic services and businesses – to develop and manage their flows in a socially responsible manner.
3. Pragmatic objectives lead to development of the legal regulation of activities of customs authorities and officials. The development of discretionary rights and the development of customs logistics are mutually interlinked processes, therefore, the challenge faced by researchers and practitioners is, while respecting the interests of entities

of international trade, to expand and to improve customs logistics, and as regards the administrations of public administration institutions and officials holding the powers of legislative discretion – to develop the right of official discretion providing assumptions for the performance of the functions of customs logistics which are relevant to business – to facilitate business conditions for international trade, to enhance the security of international flows, along with the security of the EU's economic area.

4. The analysis of the topic has revealed that the vagueness of customs logistics as a new area of logistics is one of the obstacles to the development of cooperation between customs administrations and entities of international trade as well as entities of logistics.

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## THE COMPLEXITY EFFECT OF FREIGHT FORWARDING TRADE INSTRUMENTS IN PROJECT LOGISTICS

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***Abstract.** Nowadays when the complexity of services provided by freight forwarders is increasing, especially when dealing with multimodal transport or project logistics, unified freight forwarders' documents are one of the main instruments in cross border trade facilitation.*

*While discussing the role of freight forwarder in multimodal transport, the author presents an analysis of several key documents that are commonly used in trade logistics herewith revealing the impact of indeterminacy of freight forwarding responsibilities.*

*The purpose of this article is to introduce the reader to freight forwarders' documents and forms with a focus on the models of usage of FIATA Bill of Lading and FIATA Forwarders Certificate of Receipt.*

*Two scenarios of primary concern, respecting possible schemes of fraudulent usage of FIATA Bill of Lading are revealed in the article together with possible solutions for reducing the risk.*

**Keywords:** Freight forwarder, FIATA, Bill of lading, fraud, trade logistics, Certificate of receipt

### Introduction

Freight forwarders existed for a long time and long before the world discovered the modern use of the word logistics. The history of freight forwarding dates back centuries. As of 1800, the earliest freight forwarders were known to be innkeepers who helped hotel guests hold and re-forward their goods<sup>1</sup>. This system progressed and evolved into

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1 One of the earliest freight forwarders was Thomas Meadows and Company Limited of London, England, established in 1836 (<https://shenfielddepot.smugmug.com/FreightForwarding/Thomas-Meadows-and-Co-Ltd/>)



business to business contracts over the years.

Today, freight forwarder is an active member of transportation process. The main object of forwarder's activity is cargo. The aim of this activity is the organization and control of cargo movement. It is important to understand that a freight forwarder's activity is not only the shipment of cargo itself but, more importantly, the management and arrangement of a whole supply chain process.

The freight forwarders contract may include:

- carriage of goods, agency services and intermediary services;
- logistics services, supply chain services and advisory services;
- storage of goods and warehousing services;
- stevedoring services and ship brokering;
- services, such as customs clearance and other. [1]

When analysing general conditions of freight forwarders in different countries<sup>2</sup> it becomes clear that freight forwarder is a partner for shippers and carriers, who consolidate different interests and needs in the supply chain, deploys expertise and market competency and facilitates traders by providing value added services.

The importance of the freight forwarder's role in the transportation process grows when there is a necessity for multimodal transport. In the international market the product or service is created in one country and sold in another, for this reason a freight forwarder, in general, must deal with different modes, different standards and different habits while at the same time manage to "keep cargo moving" despite the challenges created by evolving trade patterns. [10]

Having considered all the above-mentioned aspects, one can conclude that international freight forwarding is a complicated playground in the field of global trade. In this regard the idea that freight forwarders are "architects of transport", as declared by FIATA<sup>3</sup>, illustrates the commercial position of the forwarder relative to its client. [2]

The objective of FIATA is to help freight forwarders to extent their business worldwide. Freight forwarders are faced with multiple challenges, and one of them is that their services are subject to different jurisdictions. The common process of multimodal transport include three main parts: transporting cargo to the loading port, shipping cargo by sea transport to destination port and delivering it to the final destination. During this process different legal systems vary and, therefore, add to the uncertainty of freight forwarders' liabilities. FIATA has created several documents and forms to establish a uniform standard for freight forwarders worldwide.

The purpose of this article is to introduce the reader to FIATA documents and forms with a focus on the models of usage of FIATA Forwarders Certificate of Receipt (FCR) and FIATA Bill of Lading (FBL) and at the same time to identify the role of these

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2 The author bears in mind NSAB 2015 (Scandinavian countries), ADSp 2017 (Germany), LEBES 2015 (Lithuania)

3 FIATA is a non-governmental organization founded in 1926 which represents an industry covering approximately 40,000 forwarding and logistics firms employing approximately 8-10 million people in 150 countries an international Association with members including National Association Members and Individual Members. FIATA serves as the watchful eye of all participants in the freight forwarding industry.

documents in international trade logistics, while describing cases and possible schemes of fraudulent usage of FBL, which arise during multimodal transportation of goods.

### **Freight forwarders' documents and forms**

For freight forwarders that conduct all or part of the transport themselves, they are principal to customers. Also, if the forwarder does not transport the cargo but issues transport documents like a bill of lading, he will be the contractual carrier to the customer. In these cases, forwarders are liable to customers as real carriers are. [10]

Freight Forwarders mostly design and print their own forwarding instruction forms, which must be filled in by their clients. However, the instruction forms of the various freight forwarders are non-uniform.

Nowadays when the complexity of services provided by freight forwarders are increasing, for instance in multimodal transport or project logistics, the FIATA documents are one of the main uniform instruments in cross border trade facilitation. [8]

In the interest of uniformity and a common layout, FIATA has drafted numerous documents including the FIATA model for forwarding instructions. FIATA forms are aligned to the UN layout key for trade documents, which aim to provide an international basis for the standardization of documents used in international trade.

Since 1955, as part of a membership deal, FIATA has allowed its National Associations to distribute FIATA documents to their Individual Members. Such FIATA documents include:

- FIATA Forwarders Certificate (FCR)
- FIATA Forwarders Certificate of Transport (FCT)
- FIATA Negotiable Multimodal Transport Bill of Lading (FBL)
- FIATA Warehouse Receipt (FWR)
- FIATA Shippers Declaration for the Transport of Dangerous Goods (SDT)
- FIATA Non-Negotiable Multimodal Transport Waybill (FWB)
- FIATA Shippers Intermodal Weight Certification (SIC)

In today's industry, freight forwarders which are individual members can approach their National Associations and request to purchase FIATA documents. Once purchased, freight forwarders fill out the hard copy of the FIATA document and send it to their clients, agents or other relevant counterparts, such as banks, insurers, authorities and other stakeholders of the supply chain.

Only national freight forwarders associations (general members of FIATA) can issue FIATA documents. The documents should have continuous serial numbers. The national freight forwarders shall stamp its seal on FBL before it dispatches the documents to freight forwarders. FIATA requires the issuer of its document to acquire direct insurance that covers the issuer's liability.

An analysis that FIATA conducted in June 2011 revealed the importance of several key documents. This analysis discovered that the FIATA Bill of Lading was the most commonly used document amongst FIATA members. Other popular documents included the FIATA Non-Negotiable Multimodal Transport Way Bill (FWB) and the

FIATA Freight Forwarders Certificate (FCR). [8]

The FIATA Multimodal Transport B/L or FBL is a document designed to be used as a multimodal or combined transport document with negotiable status. By issuance of this FBL, the freight forwarder (a) undertakes to perform and/or in his own name to procure the performance of the entire transport, from the place at which the goods are taken in charge (place of receipt evidenced in the FBL) to the place of delivery designated in the FBL and; (b) assumes the liability based upon FIATA Standard Conditions. These conditions are based upon the UNCTAD/ICC Model Rules for Multimodal Transport, according to which the information in the multimodal transport document is prima facie evidence of the taking in charge by the Multimodal Transport Operator of the goods as described in the Multimodal Transport Contract (unless a contrary indication, e.g. "shipper's weight, load and count", "shipper packed container", or a similar expression, has been made in the printed text or superimposed on the document). [17]

The non-negotiable version of this document is the FIATA Multimodal Transport Waybill or FWB - a document through the issuance of which the freight forwarder (a) undertakes to perform and/or in his own name to procure the performance of the transport, from the place at which the goods are taken in charge (place of receipt evidenced in the FWB) to the place of delivery designated in the FWB.[17]

In general, The FIATA Multimodal Transport Waybill (FWB) is a carrier-type transport document set up by FIATA for the use by freight forwarders acting as Multimodal Transport Operators (MTO). The FWB can also be used as a sea waybill. This document is non-negotiable. A freight forwarding acting as MTO or marine carrier issuing the FWB is responsible for the performance of transport. The freight forwarder does not only assume responsibility for the delivery of the goods at destination, but also for all carriers and third parties engaged by him for the performance of the entire transport. Contrary to the FIATA Multimodal Transport Bill Of Lading (FBL), the FWB must not be presented by the consignee for the delivery of goods at destination.

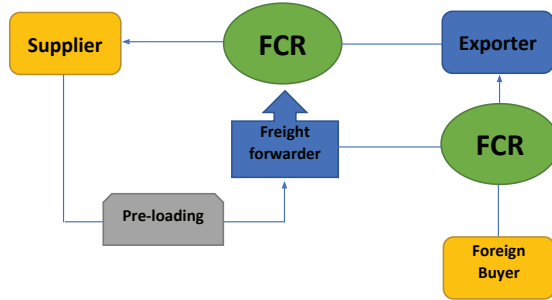
Under FWB, the shipper has rights in goods. But if the shipper fails to exercise his right in goods before the cargo arrives at destination, freight forwarder has the right to deliver the goods without original documents submitted by the consignee. FWB is not a certificate of ownership. Unlike FBL, FWB cannot lead to the transfer of ownership by endorsement and delivery of original documents. [16]

However, FBL and FWB share two similarities. Both are certificates for cargo receipt and include terms and conditions to which freight forwarders commit themselves. The freight forwarder shall assume the obligation of a carrier and deliver the goods to the destination assigned in the documents.

The FIATA Freight Forwarders Certificate (FCR) enables the freight forwarder to provide consignor with a special document as an official acknowledgement that he has assumed responsibility of the goods. The FIATA FCR can be handed to the consignor immediately after the consignment has been received by the forwarder. FCR is non-negotiable. By completing the FIATA FCR the freight forwarder certifies that he is in possession of a specific consignment with irrevocable instructions for dispatch to the consignee shown in the document or to keep it at his disposal.

The forwarder should not issue an FCR unless:

The consignment has been handed over with right to dispatch the goods.  
 The goods appear to be in good order and condition  
 The FCR details match the forwarder's instructions and there is no conflict between the forwarder's obligations under the FCR and the terms of any transport documents issued. [14]

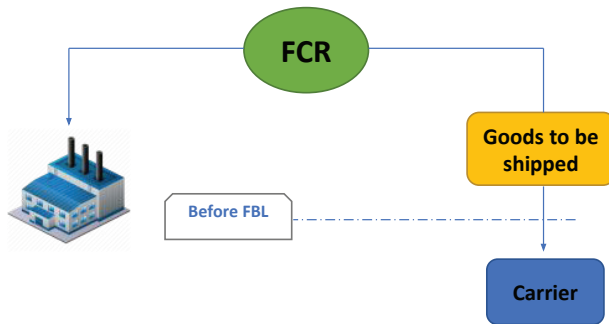


**Figure 1:** Bulk good transaction

*Source: compiled by the author with reference to (Mr. Lin Zhong, 2011)*

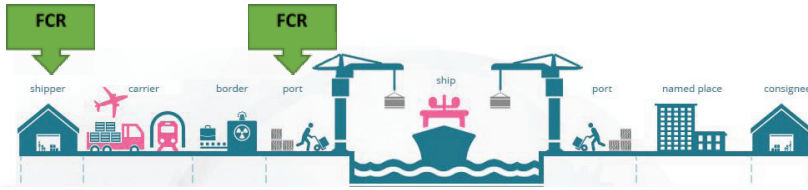
The visual description of usage of FIATA FCR shows the transaction of bulk goods. By issuing FCR a freight forwarder confirms that he has received the goods as stated in FCR with external status, in good condition from Supplier and he has been keeping them to make an irrevocable shipment to Consignee (Foreign buyer) or hold that shipment at Consignee's disposal. FCR is not a transport document because it does not determine the actual delivery; it is just the receipt of goods by the forwarder. [4]

FCR is originally used when the supplier sells the goods under Ex Works (EXW) terms and must prove that they have fulfilled the obligations to the buyer by presentation of FCR. The freight forwarder will issue FBL only when the goods are in his custody and does not have any other claims against such shipments.



**Figure 2:** EXW (Plant delivery)

*Source: compiled by the author with reference to (Mr. Lin Zhong, 2011)*



**Figure 3:** Ex Works and PCR interaction

*Source: compiled by the author with reference to (Mr. Danny DiepTo, 2015)*

It is not mandatory for freight forwarders to issue an FCR only when the goods are stored in bonded warehouses. The FIATA FCR can be given to the consignor immediately after the freight forwarder has received the consignment. By completing the FIATA FCR the freight forwarder certifies that he is in possession of a specific consignment with irrevocable instructions for despatch to the consignee shown in the document or for keeping at his disposal. These instructions may only be cancelled if the original FIATA FCR document is provided to the issuing freight forwarder, and only if he is in a position to comply with such a cancellation or alteration. [14]

### FIATA Multimodal Transport Bill of Lading

Most widely used FIATA document is negotiable FIATA Multimodal Transport Bill of Lading. Originally, the FBL was designed by FIATA for multimodal transport, so that instead of having individual waybills for each of the different modes of transportation, there would be one all-inclusive, standardized document that could be sent from the seller to the buyer, allowing him to acquire the goods. It corresponds to the guidelines set out by UNCTAD (United Nations Conference on Trade and Development) and is recognized by the ICC (International Chamber of Commerce). Designed by FIATA and based on UNCTAD/ICC rules, the FIATA Multimodal Transport Bill of Lading (FBL) is designated as a negotiable status document for use in multimodal transport or as a single transport document for port-to-port shipments. [8]

The FIATA Bill of Lading (FBL) is the most popular document circulating throughout transport industry. In simple terms, the FBL is a document issued by a freight forwarder acting as a contractual carrier to a shipper, acknowledging that specified goods have been received as cargo for conveyance to a named place for delivery to the consignee who is usually identified. It must be noted that the FBL can be issued to order and is in principle a negotiable document.

So, the main reason to use a FBL would be using a freight forwarder instead of working with the carrier direct. FBL issued by the freight forwarders in the capacity of carriers. They usually sign FBL transport document “as carrier”.

The FBL can be used as a traded object and evidences a contract outlining the carriage of goods. Such objectives of the FBL include:

1. A valid contract of carriage that may incorporate the full terms between the consignor and the carrier by reference (Two forms exist: The first, short form, refers to the main contract as an existing document, whereas the second, long form of a bill of lading sets out all the terms of the contract of carriage.)
2. It is a receipt signed by the freight forwarder acting as a contractual carrier confirming whether goods matching the contract description have been received in good condition.
3. It is also a document of title, being freely transferable by endorsement and in such case it is a negotiable instrument in the legal sense. It describes the legal aspects of carriage, and, like a cheque or other negotiable instruments, it may be endorsed to transfer the goods described on the face of the document. It binds the carrier to its terms, irrespectively of who the actual holder of the FBL and/or owner of the goods may be at a specific moment. [14],[15].

The FIATA bill of lading identifies the individual who is warranted possession of the goods at the time of delivery. In paper format Bills of Lading are normally issued in sets of three originals and X copies. The carrier delivers the cargo against presentation of the Bill of Lading and it is not necessary for the holder of the Bill of Lading to present the entire set of Bill of Ladings (the first being accomplished the others stand void). The carrier's duty is to deliver goods to the first person who presents any one of the original Bills of Lading.

The practical application of FIATA FBL can be described like this. Suppose a Lithuanian company wants to sell furniture in China. To settle the transaction, a shipping or freight forwarding agent must be appointed, who, as a FIATA member, may issue the required FBL. The forwarding agent now enters the name of his customer (i.e. the seller), the list of goods, as well as the name of the recipient into the document, and then sends it to his customer. The customer, in turn, sends it on to the buyer of the furniture at the contractually agreed upon time, so that the buyer may pick up the order of goods at the target destination. Delivery of the goods to that destination is the responsibility of the freight forwarder that has issued the FBL. In order not to risk situations where merchandise is delivered, but payment fails, or merchandise is paid for, yet the delivery fails, a bank letter of credit is frequently issued for security during which time the money is managed in trust by the recipient bank (issuing bank) and the sender's bank (advising bank) until the deal is closed. [18]

What this means in terms of the FBL is that in the space marked "Consigned to the order of" the bank of the buyer of the furniture is registered as the authorized recipient. This bank assigns entitlement to the machine to the buyer via endorsement (transfer of rights) on the FBL only after payment of the purchasing price of the furniture is made.

This practical situation illustrates that the FIATA Bill of Lading is prone to switching hands between parties. The last party who is holding the FBL is guaranteed possession of the goods at the time of delivery.

Because of the number of original Bill of Ladings used, the Bill of Lading presents some opportunities for fraudsters to manipulate the commodity traded.

## Fraudulent Use of FIATA documents

Most people would agree that fraud has become somewhat pervasive in today's society. While it is a problem that is likely as old as humanity itself, the increasingly technological world in which we live has, in many ways, changed the nature and scope of fraudulent schemes.

Though, FIATA Documents, as mention before, have an excellent reputation and are recognized as documents of tradition and trust in the world trade, as FBL has gained universal acceptance, cases of fraudulent usage of document has surfaced.

There have been numerous instances of fraudulent FIATA bills of lading being issued in order for criminal parties to obtain payment of funds for cargo that never shipped, obtain improper release of cargo, etc. This activity harms the shipping public and potentially exposes NVOs, national associations, and FIATA itself to liability.[6]

Bill of lading fraud can take many forms, the author has listed only the most common ones [7]:

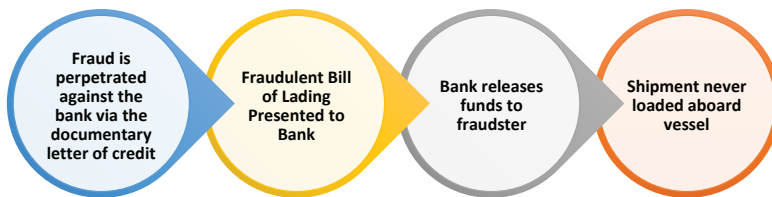
**Pre – dating or post - dating:** confirming loading on a date prior to, or after, the date on which the cargo was loaded. For example, pre-dating a bill of lading only two or three days earlier than the cargo was actually loaded on the ship is fraudulent;

**Misdescription of cargo:** bearing an incorrect description of the quality, quantity or condition of the cargo. The most frequent misdescription of cargo is "clean on board" in respect of cargo which is known to have been damaged in some way;

**Selling same shipment twice:** with a fraudulent Bill of Lading selling the same shipment to two or more consignees.

**Moving cargo intended to be carried under deck "on deck":** claused "shipped under deck" (or bearing no reference to shipment on deck) for cargo which is known to have been loaded on deck;

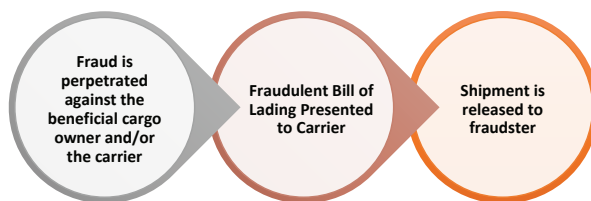
As respects FIATA FBL, there are two scenarios of primary concern.



**Scenario 1:** Phantom Shipment

*Source: compiled by the author with reference to (Mr. M.Brown (2017)*

Whilst banks have only limited access which means that they can only recall upon FIATA document number to view its date of issuance, port of loading & destination and details of the issuing member.



### Scenario 2: Cargo Released to Criminal Party

*Source: compiled by the author with reference to (Mr. M.Brown (2017))*

While not frequent, fraud events can be very costly when they do occur. For this reason, a mechanism of cooperation with various parties of transportation process would have to be developed in order to reduce the risk. Firstly, freight forwarders need to carefully verify the identity of partners they are working with (shippers, brokers, carriers etc.), Secondly, it is necessary to verify partners insurance certificate. Thirdly, and most importantly, a freight forwarder should be certain that they have added coverage to their transportation insurance policies to protect them from acts of dishonest third parties such as carriers, drivers and those impersonating them.

Herewith, FIATA developed a system offering FIATA members and their customers an electronic version of the FIATA Bill of Lading (eFBL). The system can be accessed with a registered user ID/password and a bank-grade security token, with no software installation required.

This should eliminate the risk of fraudulent Bills of Lading being presented at destination for collection of goods and ensure that the industry is protected from a new type of fraud, such as hacking and/or online replication of original FBLs or illicit trading and forgery.

### The importance of standardized documents and procedures in practice of Belarus

Experience of customs administration in the transport policy of Belarus shows that one of the most important postulates of international trade development is the solution of the question of the state's maximum loyalty when moving vehicles and transported goods across the border and with internal customs clearance.

As a result of the activities of international organizations, initiatives of regional trade blocs, national authorities, there are sufficient mechanisms that help to remove organizational obstacles on the way of international goods and cargo flows. However, success is possible only with the integrated application at all stages of the process of trade facilitation and international traffic, namely:

- information gathering, analysis of procedures, cancellation of unnecessary formalities;



- simplification, harmonization and standardization of formalities;
- creation of conditions for the implementation of procedures and formalities.

Simplification means the process of eliminating unnecessary and duplicating elements in formalities and procedures. The following tools are used for this:

- unification of a number of administrative documents in a single document;
- overlapped processing: the principles of "single window" and "single stop";
- computerization of customs clearance.

Simplification of the administration of customs and border procedures is a prerequisite for effective cooperation with foreign countries organizations. For Belarus, the issue of trade facilitation is of fundamental importance since it helps to integrate with the European Union market and is a sufficiently strong argument in the negotiations on WTO accession.

## Conclusions

1. The role of a freight forwarding evolved over the years making the freight forwarder the architect of the whole supply chain. The freight forwarder has a strong commercial position compared to carriers, especially when dealing with multimodal transport.
2. FIATA documents are a uniform standard for freight forwarders worldwide when the services they provide is a subject of different jurisdictions.
3. FIATA Forwarders Certificate of Receipt is not a transport document because it does not determine the actual delivery. FCR is considered to be just a receipt of goods of Freight forwarder only. The FIATA Multimodal Transport Waybill is a carrier-type transport document, although unlike FBL it is not a certificate of ownership.
4. FIATA Multimodal Transport Bill of Lading is the mostly commonly used and well-known paper document, endorsed by the ICC. It has gained international significance throughout the supply chain industry and greatly benefits trade in millions of examples. However, the FIATA Bill of Lading is prone to switching hands between parties thus enabling criminals for using fraudulent schemes. For this reason, a mechanism of cooperation based on trust with various parties in transportation process would have to be developed in order to reduce the risk.

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## THE DIVERSITY OF MATERIAL LIVING CONDITIONS (HOUSING INEQUALITY): LITHUANIAN CASE

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**Abstract.** *Economic inequality stops economic growth as well as reduces social and economic welfare. Basically, the standard means to measure economic inequality include such aspects as income inequality and consumption inequality, however, to find out the actual level of economic inequality the diversity of material living conditions and wealth distribution should be analyzed as well. The aspects of unequal distribution of material living conditions and housing inequality were not the main objects of sufficient scientific research. Due to this fact, the main aspects to be analyzed in this article are the diversity of material living conditions and housing inequality in Lithuania with the special focus on the extent and volatility of the problem.*

**Keywords:** *economic inequality, wealth inequality, housing inequality, diversity of material living conditions.*

**JEL classification:**

**D63** - *Equity, Justice, Inequality, and Other Normative Criteria and Measurement*

**E21** - *Consumption, Saving, Wealth*

**P46** - *Consumer Economics, Health, Education and Training, Welfare, Income, Wealth, and Poverty*

**D31** - *Personal Income, Wealth, and Their Distributions*

### Introduction

Economic inequality stops economic growth as well as reduces social and economic welfare. Uneven income distribution, diversity of material living conditions and wealth inequality not only deny the principles of social equity, but also limit people's accessibility and opportunity to acquire education, proper upbringing, cultural background, a high-quality dwelling-place and a positive environment.

The problem of economic inequality is specific and multidimensional. Income and consumption inequality are usually the objects of all inequality related research. However, money and its consumption peculiarities only account for one part of this problem. Material living conditions (housing), accumulated wealth and its distribution are equally important indicators. Conventionally, economic inequality is measured using such methods as differentiation of income and consumption of the population, however,

in order to find out the real level of inequality, the diversity of material living conditions (housing inequality) and differentiation of wealth should be studied as well.

The economic growth of a country does not guarantee the increase of social welfare, as the redistribution of gross national income causes income, consumption and wealth inequality due to the different understanding of social equity and social-economic policy implemented in a particular country. Due to the increase of inequality, distrust, competition, capitalization of human relations as well as lack of confidence and empathy among people, the quality of social life correspondingly deteriorates. Inequality that results from the repartition of limited material and immaterial resources causes the emergence, increase and renewal of such phenomena as social disjunction and poverty. In terms of income, consumption, wealth inequality and poverty might determine the disjunction of people in relation to income, wealth and social life, thus preventing people from feeling content about their life and its quality.

### **Methodology: data for assessing diversity of material living conditions (housing inequality)**

In 2016, scientists of the *Mykolas Romeris University* (MRU) Life Quality Laboratory in cooperation with market and opinion research centre *Vilmorus* conducted a research and completed a survey of the Lithuanian population in order to analyze unequal distribution of material living conditions (housing inequality) as well as to determine the actual level of wealth differentiation, which was expressed by the value of a private dwelling-place. The mentioned research is considered as representative because 1 001 respondents were interviewed. The results reflect the opinions and distribution of the entire Lithuanian population by age, gender, housing place, education, purchasing power. The received research results were compared with previously known information as well as *Eurostat* data.

As a result, economic inequality was analyzed not only on the grounds of income, but also on the grounds of diversity of material living standards that are related to individuals' disposal of wealth and their living conditions. For the mentioned reason it was decided to choose own created method, i.e. wealth diversity was defined by the market value of a household.

The main purpose of this article is to identify and emphasize diversity of material living conditions (housing inequality) as well as wealth diversity as an inseparable part of economic inequality in Lithuania and, as a result, the poor quality of life and obstacles in the way of economic progress.

### **The role of material living conditions in contemporary society**

The society's quality of life is the main aspect that causes socio-economic growth. It has been influenced mostly by the change in the economic paradigm, as the universal monetary methods, based on the monetary aspects and fiscal policies, have been

replaced by the nonorthodox conceptions of economic development, which emphasize the importance of society's interests and good living conditions. The prioritizing of these aspects has led to the economic growth and society's satisfaction in such EU countries as Germany, France, Italy, Switzerland, Austria, Scandinavian countries, etc. In the meantime, other countries underestimate the importance of human resources and still live in a belief that the radical and liberal doctrine of Washington Consensus, which happens to be criticized more and more often by the representatives of economics science, will improve the life quality in society, increase competitive ability and ensure economic progress. Unfortunately, it might encourage a disappointment in political systems that exist in various countries as well as the disappointment in the polarization of society members, caused by the uneven distribution of income and resources, and the disappointment in high inequality rates and a respective rate of poverty. Thus, it might be stated that economic inequality has become one of the most relevant problems in world economy. The studies that have been concluded in the past ten years (J. Stiglitz, A. Sen, J.P. Fitoussi, R. Reich, The World Bank, etc.) revealed that a high level of inequality stops economic growth. R. Reich (2010) stated that the reasons of global crisis are not the increase of national debts or the people's inability to live within their means, the main reason is high economic inequality when the growth of GDP is based on the unjustified income increase of the rich (Rakauskienė, 2015).

The concept of economic inequality is rather broad and complex by nature. However, two different approaches may be distinguished. The first, or liberal, approach states that economic inequality is a result of a society's modernisation and economic development. Economic inequality includes the inequalities of wealth and income distribution and it is considered to be justifiable as a result of market economy. In this case, inequality is justified by the marginal productivity theory, which states that increasing income might be associated with increasing productivity and, accordingly, increasing input into the welfare of society. It is little wonder that the richest individuals are the main supporters of this theory (Stiglitz, 2015). The second approach does not justify economic inequality and considers it to be a concern of the economic system, especially if it develops into excessive inequality that stops economic development.

A certain degree of inequality might be justifiable if inequality encourages individuals to improve, compete, save and invest money in development (for example, better education or wage differences can lead to human capital accumulation or economic development, despite income inequality). However, the increasing level of inequality becomes a concern when it reduces a person's chances to acquire a better education or profession, when individuals are made to limit themselves to being submissive and self-secure, which ultimately leads to inadequate distribution of resources, corruption and nepotism. Excessive inequality does not necessarily mean a high level of inequality (high inequality is not necessarily excessive). Excessive inequality is a process which stops economic progress instead of encouraging it and leads to socially and economically-related negative consequences. It has a negative impact on economic development, welfare and various human resource processes.

Economic inequality is not only the result of social, demographic and economic processes, it is also a consequence of the economic policy that is being implemented.

Inequality is not inevitable – it is a cumulative result of unjust policies (Stiglitz, 2015). Wealth and income inequality is not only the result of economics – it is the result of politics (Piketty, 2014).

The concept of economic inequality is rather wide. Economic inequality includes the distribution of income, consumption, savings, material living conditions and wealth as well as unequal possibilities to acquire public good (education, health care, various services relating to culture, social services), depending on economic, social, demographic, psychological factors and capabilities on macro (state) and micro (social groups and individuals) levels.

Income differentiation is the key economic variable and one of the most important problems of economic inequality, which is also the main object of inequality related studies. However, cash flow only accounts for one part of this problem. Material living conditions, accumulated wealth and its distribution are far more telling aspects. In relation to the unequal distribution of income and wealth, poverty might determine the disjunction among people in terms of income, wealth and social life (Salverda, Nolan, Smeeding, 2013), thus preventing people from feeling content about their life and its quality.

Economic growth does not guarantee the improvement of social welfare, as the redistribution of gross national income determines the emergence of income, consumption and wealth inequality due to the different understanding of social equity and economic policy implemented in a country. The consequences of highly unequal income and resource distribution include the polarization of a population, high rate of differentiation and high level of poverty. The quality of social life rapidly deteriorates due to the increase of inequality, distrust, competition, capitalization of human relations, lack of confidence and empathy among people. These factors should become a focus of attention in every country. Moreover, all countries around the world should establish such political systems that could reduce economic inequality, income and wealth differentiation, and tension between people that could ensure equitable living conditions and a high quality of life for their members as well as sustainable economic growth.

In conclusion, economic inequality is one of the most relevant problems of globalization that has a negative impact on economic development and social-economic progress. Material living conditions are an integral part of economic inequality and they might be recognised as the essential needs. These needs and the ability to own them or have the disposition of them determine a person's material and moral security, self-confidence, self-esteem and corresponding quality of life. Thus, as a part of economic inequality, material living conditions in some cases might encourage, while in other cases – suppress a person's self-realization and creative potential, as well as increase or decrease a country's economic development and the quality of life of its society.

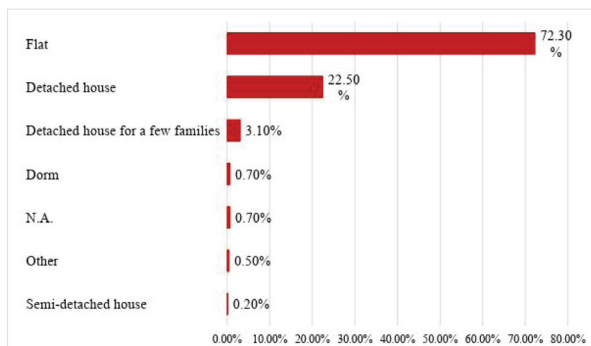
### **Research results: evaluation of inequality of material living conditions (housing inequality), expressed by the value of a private dwelling-place**

The ability to obtain wealth and have it in one's disposition ensures material and moral feeling of security, self-confidence, self-esteem and respectively influences the

quality of life. In a historical perspective, real estate is considered to be the most valuable type of wealth. Housing is a significant part of human well-being and guarantee of stability in a society, however, this subject still has not been appropriately thoroughly covered in a scientific literature, i.e., the distribution of wealth has not been measured, also, the influence of wealth inequality, with the special focus on the importance of dwelling, in relation to human life quality, has not been analyzed.

The distribution of population by the type of accommodation. According to the analysis of data (2016), most Lithuanian residents have been living in flats (72.30 %), whereas 22.50 % of people have been living in detached houses and only 5.2 % have been living in other types of accommodation. These recent Lithuanian tendencies differ from other EU countries, where, according to the analysis of Eurostat (2015), only 42 % of EU-28 citizens have been living in flats and 57.4 % have been living in detached houses.

According to the analysis (2016), blocks of flats are usually occupied by senior people – 65-70 years old (83.9 %), 70 years and older (76 %) or very young people that are 18-24 years old (79.3 %). It is very important to emphasize that more women than men live in flats (73 % and 71.6 %, respectively), whereas more men than women live in detached houses (23.3 % and 21.7 %, respectively). 96.6 % of Vilnius city dwellers and 92.7 % of other cities dwellers live in flats, meanwhile, only 1.1 % of Vilnius city dwellers and 4.3 % of other city dwellers live in detached houses. Most of the people who live in detached houses live in towns and villages.



**Fig. 1.** The distribution of population in Lithuania by the type of accommodation

**Source:** MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

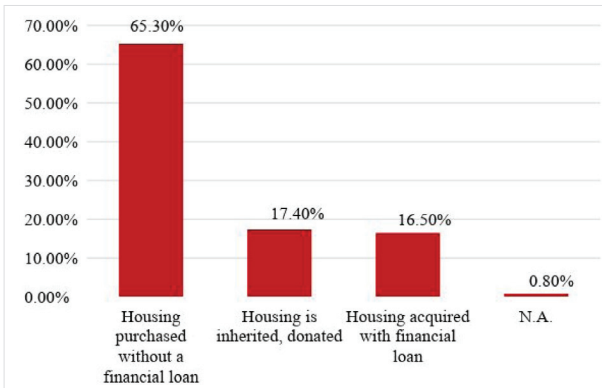
The distribution of accommodation by the type of property. It must be noted that most of the dwellers in Lithuania are the owners or co-owners of the dwelling that they are living in. This tendency is similar to the EU situation, where 69.50 % of dwellers own their dwelling places. However, based on the data given in the analysis by Eurostat (2015), more than a quarter (26.9%) of the 72.2 % of EU-28 dwellers live in places that were purchased with home loans and only 42.6 % of dwellers live in places that were purchased without a home loan or it has already been paid for.

According to the performed research, most of the dwellings (65.3 %) in Lithuania



have been acquired without financial aid (mortgage), 17.40 % of dwellers live in a place that was inherited or donated and only 16.5 % of dwellers purchased their dwellings with loans (see Fig. 2). The latter tendency might be explained by various economic criteria: insufficient household income to acquire a dwelling or insufficient accumulated funds to pay for the down payment. Psychological criteria such as the unwillingness to commit to creditors for a long period of time or the uncertainty about one's future are also very important.

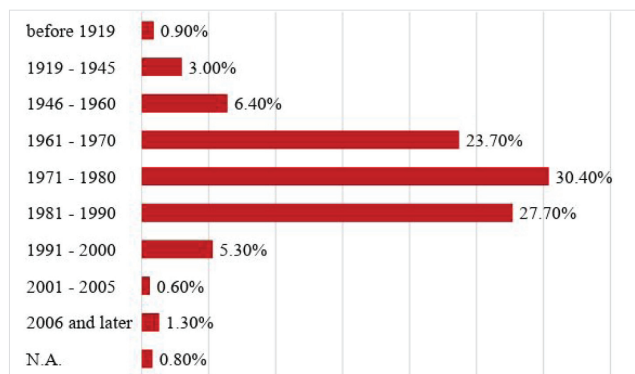
It is important to point out that women purchase dwellings without financial aid more often than men (68.5 % and 61.6 %, respectively) and vice versa men more often than women acquire a dwelling-place with financial aid (18.8 % and 14.5 %, respectively). An interesting fact – people aged 25-34 usually acquire a dwelling with financial aid (39.1 %), whereas people aged 18-24 and over 45 (56.3 % in total) usually purchase dwelling-places without housing loans.



**Fig. 2.** *The distribution of population in Lithuania by the type of dwelling*

**Source:** MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

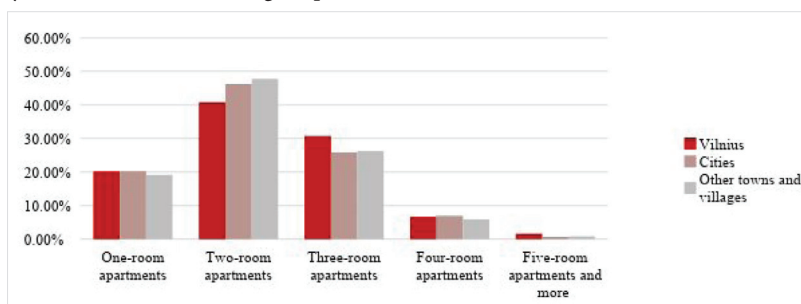
The distribution of population by the construction year of a dwelling. Based on the data analysis (2016), most Lithuanians (81.80 %) live in old housing constructed between 1961 and 1990 (see Fig. 3). Only 1.90 % of Lithuanians live in new housing that was constructed between 2001 and 2006 and later. Although new housing is highly attractive because of its energy-efficiency, economy and innovative solutions, it tends to remain too expensive.



**Fig. 3.** Housing and its construction period

**Source:** MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

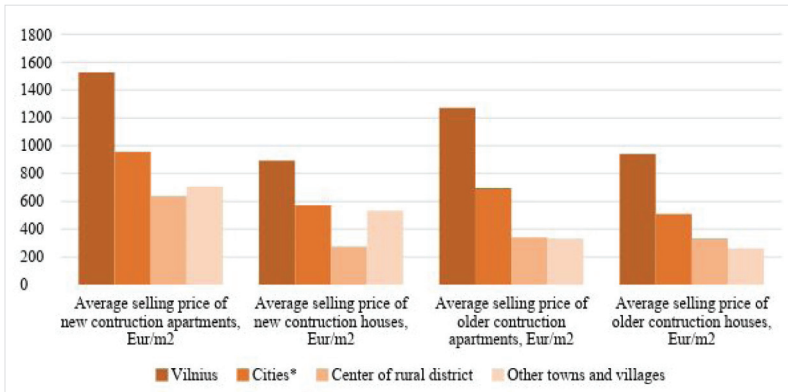
Based on the research (2016), most of the residents of big cities (47.92 %) have been living in apartments that were constructed in 1961-1970. In other cities, towns and villages, housing appeared to be newer (constructed in 1981-1990) and 42.11 % of those regions' residents have been living there. Vilnius is no exception and most of the residents of this city (77.33 %) have been living in apartments constructed between 1961 and 1990.



**Fig. 4.** The distribution of flats by their construction year and regions

**Source:** MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

There are big discrepancies in relation to prices of new and old dwellings, as well as discrepancies between housing prices in Vilnius city and other regions (see Fig. 5).



**Fig. 5.** The average sale price of a dwelling, 2016

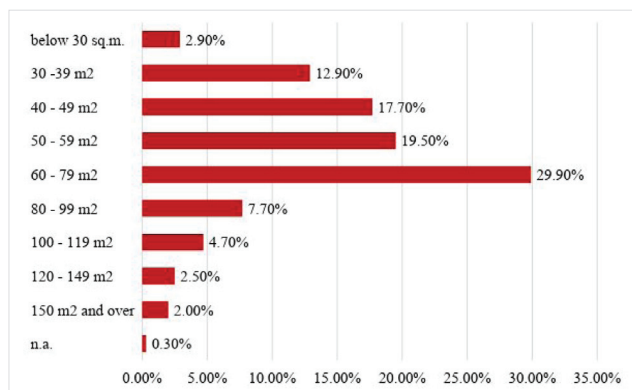
\*The data given in the figure is based on research of the 2nd quarter of 2016. The average price of new housing in urban areas due to its limited offer is provided in the data of the 3rd quarter of 2015.

**Source:** The State Enterprise Centre of Registers, BNS Plus Construction and Real Estate, 2016

For example, the difference between newer and older housing prices in Vilnius is more than 20 %, while in other big cities the difference between prices is more than 37 %, in counties – almost 87 %, and 113 % in other towns and villages. Moreover, the supply of high quality new housing in various regions is limited, as investors do not dare to risk investing in such constructions due to the existing low purchasing power, high unemployment, emigration rates, and passive regional politics on behalf of the state, especially given the fact that the construction expenses do not differ and are more or less the same in the capital cities, other cities or other regions.

In consideration of the above-mentioned tendencies, the following conclusion can be made: most Lithuanian people face the lack of high-quality housing or cannot afford it, and they also face operating difficulties due to the low income of a household; the policy of modernization of the housing market implemented by the state has not brought about the desired effect.

The distribution of population by housing size. The size of housing and the accessibility of housing space are key elements in the process of evaluating the quality of housing. The problem that Lithuanians are facing at the moment is the insufficient size of houses and apartments. According to the research (2016), almost half of Lithuanians (49.40 %) in 2016 have been living in houses or apartments that were over 50 m<sup>2</sup> and under 79 m<sup>2</sup>. However, more than one third of Lithuanians (30.60 %) live in apartments that are over 30 m<sup>2</sup> and under 49 m<sup>2</sup>. Almost 3 % of Lithuanians live in apartments under 30 m<sup>2</sup>. Less than 17 % of Lithuanians live in apartments over 80 m<sup>2</sup>.



**Fig. 6.** The distribution of population by housing size

**Source:** MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

A lack of high-quality housing, insufficient dwelling-space, exploitation and environmental issues, and insufficient income to acquire housing to meet a person's needs are among the main problems faced by Lithuanians. If this basic essential demand for satisfactory housing and a good living environment is not met, a good quality of life and other needs are not ensured. Material living conditions can be attributed to the satisfaction of essential needs such as the possession of them and the ability to have them at one's disposition, which influences an individual's material and moral safety, self-confidence, self-esteem and quality of life. On the one hand, the material living conditions as a part of social and economic inequality might encourage, or on the other hand – suppress an individual's self-realization and creative potential as well as encourage or suppress the economic development of a country and the quality of life of its society.

Diversity of material living conditions. The diversity of material living conditions as well as inequality of wealth, expressed by the value of private dwelling-place, is evaluated as follows. Only the types of accommodation that have been purchased without mortgage financing, inherited or given as a gift (i.e., the types of accommodation that have not been pledged or limited in any other way and belong to a single household by statutory rights of ownership) will be included into the researched sample in the process of evaluating the inequality of wealth, expressed by the value of private accommodation.

**Table 1.** Differentiation of accommodations based on the way they have been purchased

<b>Total of housing owners / co-owners (N = 723):</b>	<b>N</b>	<b>%</b>
Housing purchased without a financial loan	472	65.3
Housing purchased with a financial loan	119	16.5
Housing inherited, donated	126	17.4
Do not know / did not answer	6	0.8
<b>Total:</b>	<b>723</b>	<b>100,0</b>

**Source:** MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

**Table 2.** Distribution of wealth, which is expressed by the value of accommodation in decile groups

Decile	I	II	III	IV	V	VI	VII	VIII	IX	X
Average housing value in decile (EUR)	13592	18468	21793	26567	27260	33077	38143	50026	64715	97890
Inter-decile differences (times)		1.35	1.18	1.22	1,02	1.21	1.15	1.31	1.29	1.51

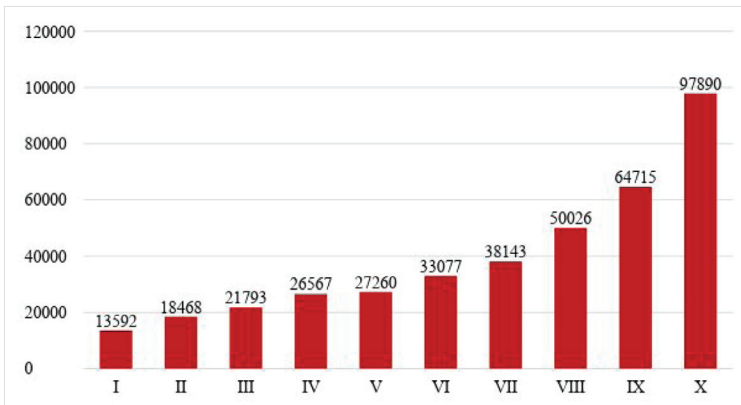
*Source:* MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

Based on the data on private accommodations provided by the respondents, it is evident that the minimum statistical value of a single dwelling-place (taking into consideration that the value of a dwelling-place is determined by the market value) ranges between EUR 9 990 in the first decile and EUR 169 200 in the tenth decile, thus differs 16.9 times. In comparison, average accommodation prices in the first and tenth deciles differ about 7.2 times, in the second and ninth deciles – 3.5 times, in the ninth and tenth deciles – 1.5 times. The differences between adjacent deciles are not that obvious, however, they become prominent when approaching the tenth decile.

**Table 3.** Decile ratios of wealth, which is expressed by the value of a specific accommodation

X / I	IX / II	X / V	X / IX
7.2	3.5	3.6	1.5

*Source:* MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016



**Fig. 10.** Average value (EUR) of accommodation in different deciles

*Source:* MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

Thus, it might be stated that the differentiation of wealth that is realised by the value of accommodation is relatively high. i.e., the difference among the first and tenth decile groups is more than 7 times. However, it is worth noting that this evaluation is not entirely accurate considering the following limitations:

- the evaluated assets include only the type of accommodation that is owned by a household, i.e., the households that do not own any property have not been included in the sample of the research;
- only the value of the main (first) dwelling-place has been evaluated;
- the calculated prices of the dwellings belonging to the interviewed respondents are only tentative, based on the accuracy of such parameters as the construction year of a building, the type of the building, its location etc., as the market value and prices are not as detailed as the attributes included in the survey.

Thus, the decile (X/I) ratio (7.2 times) reveals only the approximate difference between the individuals who own housing in provinces and metropolitan areas. However, more significant wealth-related disparities among Lithuanian residents would be revealed if the analysed sample included the respondents who do not own any kind of accommodation, also the ones who own two or three different dwelling-places, who have at their disposal other types of wealth (private land, shares, durable goods etc.).

The inequality of wealth. The Gini coefficient of wealth that is expressed by the value of housing is estimated as follows. The Gini coefficient (G) is a relation between the figure's area, which is confined by the continuous (normal) distribution curve and the Lorenz curve, and the triangular area, which is below the normal distribution curve:

$$G = 1 - 2 \sum_{i=1}^k d_{xi} d_{yi}^K + \sum_{i=1}^k d_{xi} d_{yi} \quad (1)$$

where –  $d_{xi}$  – the proportion of the  $i^{\text{th}}$  group of residents who were interviewed during this survey (i.e., in the given example – the number of residents who own 1-, 2-, etc. bedroom apartments);

$d_{yi}$  – the proportion of the total volume of a certain parameter (apartment value) of the  $i^{\text{th}}$  group relating to the given sample;

$d_{yi}^K$  – the cumulative part of the attribute (apartment value) of the  $i^{\text{th}}$  group relating to the given sample.

The Gini coefficient of the distribution of wealth, expressed in terms of wealth value, is calculated as follows (see formula No. 1):

$$G = 1 - 2 * 0.393212 + 0.100141 = 0.313717. \quad (2)$$

The estimation of the Gini coefficient of the distribution of wealth, expressed in terms of wealth value in metropolitan areas, is analogous:

$$G = 1 - 2 * 0.368103 + 0.099919 = 0.363714. \quad (3)$$

The Gini coefficient of the distribution of wealth, expressed in terms of wealth value in various cities:

$$G = 1 - 2 * 0.379817 + 0.100149 = 0.340515. \quad (4)$$

The Gini coefficient of the distribution of wealth, expressed in terms of wealth value in rural areas:

$$G = 1 - 2 * 0.388152 + 0.099469 = 0.313717. \quad (5)$$

**Table 4.** Data collected in order to estimate the distribution of wealth (expressed by the value of housing), or the Gini coefficient in Lithuania

Decile	Housing		Housing value			Product	
	Number	Share $d_{xi}$	Total housing value (Eur)	Share $d_{yi}$	Cumulative share $d_{yxi}^K$	$d_{xi} d_{yi}$	$d_{xi} d_{yxi}^K$
I	60	0,101351	815521	0,034562	0,034562	0,003503	0,003503
II	59	0,099662	1089641	0,046179	0,080741	0,004602	0,008047
III	59	0,099662	1285759	0,054491	0,135231	0,005431	0,013477
IV	59	0,099662	1951546	0,082707	0,217938	0,008243	0,02172
V	59	0,099662	1608364	0,068163	0,286101	0,006793	0,028513
VI	59	0,099662	1951546	0,082707	0,368807	0,008243	0,036756
VII	59	0,099662	2250460	0,095375	0,464182	0,009505	0,046261
VIII	59	0,099662	2951561	0,125087	0,589269	0,012466	0,058728
IX	59	0,099662	3818192	0,161815	0,751084	0,016127	0,074855
X	60	0,101351	5873413	0,248916	1	0,025228	0,101351
Total:	592	1	23596003	1		0,100141	0,393212

*Source:* MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

**Table 5.** Gini coefficient of wealth expressed in terms of wealth value

Common	Big cities	Cities	Towns, villages
0.31	0.36	0.34	0.31

*Source:* MRU, Vilmorus Ltd. Market and Opinion Research Centre, 2016

Based on the calculations of the Gini coefficient of wealth inequality in rural areas, cities and metropolitan areas in Lithuania as well as in Lithuania in general and bearing in mind that the survey included only the respondents that own their dwelling-places, without taking into account the respondents that do not own accommodation or another type of real estate, land, financial assets, durable goods, works of art or intangible assets,

it is evident that wealth inequality among different households has reached a rather high level, as the Gini coefficient exceeds the limit of 0.3, i.e., the theoretical margin of this particular coefficient. Thus, having considered the limits of this method of evaluating wealth inequality, it might be stated that the real level of wealth inequality in Lithuania already exceeds the existing levels of income and consumption inequality.

## **Conclusions**

1. It may be stated that social and economic inequality is one of the main problems caused by globalization, and negatively affects the development of economics as well as social and economic progress. Material living conditions are an integral part of social and economic inequality. Material living conditions can be attributed to essential needs as possession of them and the ability to have them at one's disposal influences an individual's material and moral safety, self-confidence, self-esteem and quality of life. On the one hand, the material living conditions as a part of social and economic inequality might encourage, while on the other hand – suppress an individual's self-realization and creative potential, as well as encourage or suppress the economic development of a country and the quality of life of its society.
2. A dwelling-place is an essential component that determines an individual's welfare. The key problems that Lithuanians have to face these days are the lack of high-quality housing, insufficient dwelling-space and the differentiation of housing by regions. This means that the main need of a person for a high-quality dwelling-place is not met, thus, other needs are also not fulfilled and the quality of life deteriorates as a result of this. The importance of having a dwelling-place and the ability to understand the changing tendencies of housing needs are essential in order to shape a country's politics, reduce social and economic inequality, guarantee a satisfactory quality of life to every member of a society, ensure a strong foundation for future generations and to maintain the welfare of every society.
3. The value of the assets owned by the representatives of these socio-economic groups differs by 16.9 times. Based on the data provided by the respondents, it is clear that the minimum statistic value of a single housing ranges between EUR 9 990 in decile I and up to EUR 169 200 in decile X. However, comparing the average prices of dwelling-places in deciles I and X, the difference amounts to 7.2 times.
4. Based on the calculations of the Gini coefficient of wealth inequality in rural areas, cities and metropolitan areas in Lithuania as well as in Lithuania in general, also bearing in mind that the survey included only the respondents that have their own dwelling-place, without taking into account the respondents that do not own accommodation or another type of real estate, land, financial assets, durable goods, works of art or intangible assets, it is evident that wealth inequality between households is rather high, as the Gini coefficient exceeds the limit of 0.3, i.e., the theoretical margin of this particular coefficient. Thus, having considered the limits of this method of evaluating wealth inequality, it might be stated that the real level of wealth inequality in Lithuania already exceeds the existing levels of income and consumption inequality.



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