

# Lithuania 2000

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## A. Introduction

### a) Preface

In Agenda 2000, the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership, and that it would submit its first report at the end of 1998.

The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of regular reports in October 1998, in view of the Vienna European Council; a second series was adopted in October 1999, in view of the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Lithuania is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing Lithuania’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Lithuania’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Lithuania in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Lithuania and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Lithuania’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of Lithuania's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Lithuania in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Lithuania's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Lithuania's economic performance.

The report contains also a separate section examining the extent to which Lithuania has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional sources. Council deliberations and European Parliament reports and

resolutions<sup>1</sup> have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

## **b) Relations between the European Union and Lithuania**

### *Recent developments under the Association Agreement (including bilateral trade)*

Lithuania has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The Association Council met on 15 February 2000 and the Association Committee meeting took place on 15 June 1999. The system of sub-committees continues to function as a forum for technical discussions.

Since the issuing of the last Regular Report the Joint Parliamentary Committee comprising representatives of the Lithuanian and European Parliament met in December 1999 and June 2000.

Lithuania's trade with the EC has continued to increase. EC exports to Lithuania stood at € 1.6 billion and imports at € 2.1 billion during 1999. Looking at trade by sectors machinery and electrical goods represent the largest sector for EC exports to Lithuania. The textile sector is the largest sector for EC imports from Lithuania. During 1999 Lithuanian exports to the EC increased and accounted for 50.1% of total exports. The share of imports from the EC declined slightly from 47.2% to 46.5% of total imports.

In March 1999 the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions for agricultural products. The negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim to lead to a fair equilibrium between the interests of the European Community, the EU Member States and those of Lithuania. The negotiations have been based on the principle of neutrality with respect to the functioning of the CAP.

The negotiations with Lithuania were concluded between negotiators in June 2000. As a consequence of the new agreement approximately three quarters of the bilateral trade of agricultural products will benefit from preferences. The regime is due to enter into force on 1 January 2001 on an autonomous basis, pending the conclusion of an additional protocol to the Europe Agreement.

The negotiations with Lithuania as regards processed agricultural products are still ongoing.

In July 2000, the Council mandated the Commission to open negotiations with the Associated Countries in view of new reciprocal concessions in the field of fish and fishery products.

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<sup>1</sup> For the European Parliament the *rapporteur* is Mrs Magdalene Hoff.

As regards anti-dumping proceedings concerning products originating, inter alia, in Lithuania, it was decided, during the reporting period, not to impose provisional anti-dumping duties on imports of certain cathode-ray colour television picture tubes and on imports of ammonium nitrate, because the dumping margins found were de minimis. Definitive anti-dumping duties were imposed on imports of urea ammonium nitrate.

As regards the end of the transitional period foreseen for a number of the provisions of the Europe Agreement, Lithuania has substantially fulfilled the obligations resulting from the expiry of this transitional period (31 December 1999). The Europe Agreement foresees that provisions concerning the right of establishment shall be applied to the Lithuanian fixed telephony sector by the end of the transitional period. Since this period expired on 31 December 1999, on the basis of Article 44.4 of the Europe Agreement, Lithuania has requested the Association Council to extend it until the 31 December 2002. This request is under consideration.

Current discussions in the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership priorities (see below), and seek to achieve progress in areas like protection of intellectual property rights, the restructuring of the agricultural sector, the restructuring of the energy sector and on setting up of appropriate administrative structures in the field of financial control and regional policy. There are no major trade problems in the relations between Lithuania and the EC.

#### *Accession Partnership / National Programme for the Adoption of the Acquis*

A new Accession Partnership was adopted in December 1999. Its implementation is reviewed in chapter D of this Report.

In May 2000, Lithuania submitted a revised National Programme for the Adoption of the *Acquis* (NPAA), also called Lithuania's EU Integration Programme, in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnerships (see further chapter D).

#### *Community aid*

Since January 2000, there are three **pre-accession instruments** financed by the European Community to assist the applicant countries of central Europe in their pre-accession preparations: the **Phare** programme; **ISPA**, which finances infrastructure projects in the fields of environment and transport; and **SAPARD**, which provides aid for agricultural and rural development. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total financial assistance to Lithuania will amount annually to € 126 million from Phare, € 90 million from SAPARD, and between € 120 and 180 million from ISPA.

The **Phare** programme has been providing support to the countries of central Europe since 1989, helping them through a period of massive economic restructuring and

political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

Phare provides the applicant countries of Central Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and accompanying investment support projects, to help them in their efforts to adopt the *acquis* and strengthen or create institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investments or grant schemes) with a regional or thematic focus.

Around 30% of the Phare allocation is used for “institution building”, while the remaining 70% is used for financing investments.

During the period 1992 – 1999, the Phare programme allocated € 328 million to Lithuania. The **2000 Phare Programme** for Lithuania consists of a national allocation of € 38.3 million, concentrated on the following priorities:

- Promotion of competitiveness/enforcement of financial discipline for enterprises (€ 2 million);
- Strengthening the institutional and administrative capacity to adopt and enforce the internal market *acquis* including support in the field of free movement of goods, customs, communications and statistics(€ 10.05 million);
- Strengthening the capacity to manage and administer the *acquis* in the field of agriculture (CAP), phyto-sanitary and fisheries (€ 6.5 million);
- Implementation of the *acquis* in the maritime safety sector (€ 1 million);
- Preparation for participation in the European Employment Strategy (€ 2.15 million);
- Adoption of the *acquis* related to the fight against drug trafficking (€ 1 million);
- Reinforcement of institutional and administrative capacity in the field of budget management, financial control and price statistics (€ 1.5 million);
- Economic and social cohesion, including business and human resources development (€14 million).

An additional € 1 million under the Phare National 2000 Programme has been allocated for Cross-Border Cooperation (CBC) whose allocation for 2000 amounts to € 3 million (the additional € 2 million coming from a horizontal budget line). CBC includes a small project facility supporting co-operation activities in the Baltic region.

At the international Donors' Conference held in Vilnius on 20/21 June 2000 on the decommissioning of Unit 1 of the Ignalina Nuclear Power Plant, the Commission, on behalf of the European Communities, pledged financial assistance amounting to a total of € 165 million within the current Financial Perspective (i.e., until 2006). The bulk of this contribution will be delivered via the Ignalina International Decommissioning Support

Fund, established on 12 June 2000, and managed by the EBRD. On the basis of a special national PHARE programme to support decommissioning and consequential measures in the Lithuanian energy sector, a Financing Memorandum over an initial amount of € 10 million from the 1999 budget was signed with the Lithuanian Government in December 1999. A further amount of € 35 million was programmed under the 2000 special national programme.

Lithuania also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprises Facility. Furthermore, Lithuania participates in Leonardo da Vinci, Socrates, Youth for Europe, Raphael, SAVE II, Health and Social Policy, AIDS Prevention, Drug Dependence, Equal Opportunities and the Fifth Framework Programme for Research, Technological Development and Demonstration. In the context of Lithuania's participation (since March 2000) in the 3<sup>rd</sup> Multi-Annual Programme for SMEs, two Euro Info Centres are in the process of being selected. Lithuania has expressed its interest in participating in the EC Culture 2000 programmes.

Following the opening of negotiations regarding Lithuania's participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, Lithuania will become a member of the Agency.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and investment has taken place in a number of important fields such as industrial restructuring and privatisation, SME development, trade and investment promotion, environment, energy, and land registration. Phare support to agriculture and SME development has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms servicing enterprises in these sectors.

In Lithuania, Phare played for example a particularly important role in:

- Upgrading of the Pabrade Alien Registration Centre (€ 649,000). This project has successfully contributed to the design and construction of a new three-storey building (with a capacity of 200 persons) and facilities in the existing building have been upgraded. The project started in April 1999 and the new building was inaugurated on 31 January 2000. PHARE assistance has succeeded in improving the living conditions for illegal immigrants and asylum seekers housed in the Centre and (along with the general decrease of illegal immigrants entering Lithuania) considerably reduced the risk of overcrowding.
- Twinning assistance to Lithuanian border police services (€250,000). The main objectives of this twinning project consisted of developing a modern and effective planning and follow-up system for the Border Police, familiarising the Border Police with EU and Schengen requirements, improving the basis for revising respective laws and regulations and improving the Border Police's expertise at border checks. Through extensive training and expert assistance, the objectives of the project have yielded very positive results and a significant transfer of knowledge has taken place. The capacity of the Lithuanian Border Police to carry out effective border supervision and control of border crossings has been enhanced accordingly.
- Upgrading of Food Control Laboratory (€2,000,000). This project successfully contributed towards strengthening the analytical capacity of the National Veterinary

Laboratory of the State Veterinary Service, and in procuring equipment necessary to strengthen the existing infrastructure of food control in Lithuania. In addition, staff was trained and food legislation was developed in line with EC food law application and enforcement. Moreover, regional and central laboratories were linked with border inspection points.

A reform of the **Phare management system** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare's activities. The recent Phare Review Communication in 2000 continues to refine these basic management structures so as to further bridge towards accession and the structural funds. First, management can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare's programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis of management on raising the impact of Phare's projects in institution building, investment in compliance with the *acquis*, and economic and social cohesion.

The implementation of the Phare programme in Lithuania continues to proceed smoothly. However, the budgetary constraints during the reporting period have made it more difficult for Lithuania to comply with some conditionalities, notably the increase of staff number and co-financing of projects.

Regarding **SAPARD**, the Lithuanian Rural Development Plan got a favourable opinion in the STAR Committee (EC Management Committee on agricultural structures and rural development) in October 2000. The plan is in the process of being approved by the Commission before the end of the year. The plan foresees the following priority measures for agriculture and rural development

- Investments in agricultural holdings (47% of the EC funds).
- Improving processing and marketing of agricultural and fisheries products (21%).
- Development and diversification of economic activities, providing for multiple activities and alternative income (8%)
- Improvement of rural infrastructures (15%)
- Afforestation of agricultural land and improvement of forestry infrastructure (4%)
- Environmentally friendly agricultural methods (1%)
- Vocational training (2%)
- Technical assistance (2%).

The average annual expenditure will amount to € 76.8 million during the period 2000-2006, of which € 29.8 million Community contribution (at 1999 prices).

The National Paying Agency under the Ministry of Agriculture was established in November 1999 and preparations for its accreditation as the SAPARD Agency are underway.

For the programme and financial management of SAPARD, a different system will apply which reflects the EAGGF (European Agriculture Guidance and Guarantee Fund) rules

and is based on a fully decentralised approach through an accredited paying and implementing agency.

As concerns **ISPA**, national strategies for transport and environment were completed respectively in February and July 2000. The priorities for environment have been identified as wastewater and drinking water and waste management. As concerns transport, the Lithuanians shall focus on two sectors under ISPA, namely road and railways. The mid-range allocation for Lithuania for 2000 is € 51.94 million (at 2000 prices). It is anticipated that the whole allocation will be committed by the end of 2000 (35% for environment and 65% for transport).

With regard to project applications, a total of 7 official applications have been submitted to the European Commission by the National ISPA Co-ordinator (Ministry of Foreign Affairs), 3 in the environmental sector (including 1 technical assistance project) and 4 in the transport sector, one of which will be financed under the 2001 budget. The first projects which have been adopted by the Commission concern the upgrading of the road Corridor IXB (Vilnius-Klaipeda) and the improvement of the Via Baltica (Corridor 1).

The Ministry of Foreign Affairs has the overall responsibility for ISPA co-ordination, while the Ministry of Finance has the overall responsibility for financial management and control. The two line ministries (Ministry of Transport and Communication and Ministry of Environment) are responsible for technical programming, project implementation, evaluation and monitoring. Implementing agencies have been designated within the line ministries. Financial controllers will have to be designated within each implementing agency.

### *Twinning*

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States' expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 98 and involving all candidate countries and almost all Member States are operational. Under Phare 99 a further 107 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. It now covers all sectors pursuant to the *acquis*.

For Lithuania, there are currently twelve projects being implemented by twinning, five from the 1998 programme and seven from the 1999 programme. From the 1999 programme Denmark is working with Lithuanian partners in three projects in the energy sector, and in one project on the modernisation of the rural administration system (along with Germany). Germany is also providing assistance towards strengthening the enforcement of occupational health and safety policy in Lithuania. Sweden and Italy are assisting their Lithuanian counterparts in strengthening the enforcement of procurement

policy and finally Finland is providing assistance in the area of internal financial control and audit.

Further projects for twinning financed under the 1999 programme are being prepared. They include: strengthening of environment monitoring capacities with partners from Germany, Sweden and Denmark, strengthening of the Lithuanian public administration with assistance from Denmark and Finland, assistance from France on audio-visual policy, from Germany in the area of competition policy, and from Finland on the implementation of the Schengen *acquis*. In addition, the United Kingdom is providing assistance in the social sector under the Consensus Programme and in the area of Justice and Home Affairs under the Pre-Ins Facility.

A number of areas have been pinpointed for twinning assistance under the PHARE 2000, including:

- Strengthening administrative and technical capacity to promote the free market of goods
- Budget management and financial control
- Support for the establishment of the Communication Regulatory Authority in Lithuania
- Strengthening the capacity of the Ministry of Agriculture and related institutions to manage and administer the EC *acquis* for agriculture (CAP) and rural development
- Strengthening of veterinary and phytosanitary controls and strengthening of food control system in Lithuania
- Strengthening Lithuania's capacity to manage and administer the common fishery policy
- Maritime safety
- Preparation for participation in the European Employment Strategy
- Strengthening illicit drug demand and supply reduction capabilities

#### *Negotiations / screening*

The analytical examination of the *acquis* (screening) has been concluded for Lithuania with meetings for agriculture held in late 1999 and early 2000. During the first half of 2000, the results of the screening were updated for twenty-three chapters.

Negotiations were officially opened at the bilateral intergovernmental conference held in February 2000. In March 2000, substantial negotiations started on eight chapters of the *acquis*: competition, statistics, small and medium-sized enterprises, science and research, education and training, culture and audiovisual policy, external relations and common foreign and security policy. The accession conference held in June 2000 decided to provisionally close all the above chapters, with the exception of competition policy, culture and audiovisual policy, and external relations.

As recommended by the Commission, the Presidency's proposal is to open negotiations for eight further chapters (free movement of services, free movement of capital, company law, transport, social policy, industrial policy, telecommunications and environment) during the second half of 2000.

## **B. Criteria for membership**

### **1. Political criteria**

#### *Introduction*

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Lithuania’s progress towards accession, the Commission concluded that:

“Lithuania fulfils the Copenhagen political criteria. Areas which still need attention are the fight against corruption and the continued reform of the judiciary.”

The section below aims to provide an assessment of developments in Lithuania since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Lithuania’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Lithuania’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1.* of this report.

#### *Recent developments*

The Government, which had taken office in May 1999, resigned at the end of October 1999. A new Government took office in November 1999 after receiving the confidence of the Lithuanian Parliament (Seimas). The Government confirmed Lithuania’s commitment towards accession to the EU.

Municipal elections took place on 19 March 2000. Parliamentary elections took place on 8 October 2000 on the basis of a new electoral law which abolished the second round in the uninominal constituencies.

#### **1.1. Democracy and the rule of law**

As mentioned in the previous regular reports, Lithuania has achieved stability of institutions guaranteeing democracy and the rule of law. This section focuses on the most significant developments of the past year.

#### *The parliament*

The parliament continues to operate smoothly. The new Statute of the Seimas referred to in the 1999 regular report has contributed to streamlining the legislative process.

### *The executive*

Lithuania has made further progress in the reform of the public administration.

The implementation of the law on Public Administration and the law on Civil Service has started through the adoption of several secondary legal acts concerning, *inter alia*, the register of Civil Servants, their status (movement to other functions, dismissal, re-establishment), and the list of functions to be occupied by politically appointed officials as opposed to career officials. These are initial steps: the government envisages the full set of implementing legislation to be in place only by 2004. Further progress is required in this regard.

The Government has taken measures to rationalise the structure of the public administration, in order to avoid duplication of work among institutions. In October 2000, the Parliament took the decision to merge the Ministry of Public Administration Reforms and Local Administration into the Ministry of Interior. To improve the efficiency of public administration, inter-departmental co-ordination needs to be reinforced.

As regards the training of civil servants, the Government has proceeded with the implementation of the National Strategy of Training of Civil Servants in Preparation for EU Membership, notably through the Lithuanian Institute of Public Administration (LIPA). Continued implementation of the National Training Strategy is a short-term priority under the 1999 Accession Partnership for Lithuania.

As far as the development of European Integration structures is concerned, the Government has continued to improve the administrative capacity of the European Committee. In view of improving the overall process of law approximation, the Government, in May 2000, established 17 Law Harmonisation Commissions.

With the progress made in implementing the Law on Public Administration and the Law on the Civil Service, including the distinction between politically appointed officials and career officials, Lithuania's civil service has achieved, in principle, a good level of independence. However, in order to maintain a modern, independent, professional and efficient civil service, further issues need to be addressed. These include the level of remuneration of civil servants, extra training possibilities, and greater inter-departmental co-ordination.

### *The judicial system*

The reform of the judicial system is ongoing and Lithuania has attempted to address such issues as the excessive length of the proceedings and the ensuing backlog of unresolved cases, the lack of qualified judges and the proper enforcement of court decisions. There has, however, been limited concrete progress since the last Regular Report, partly due to budgetary constraints, which were especially stringent this year.

In December 1999, the Constitutional Court ruled that certain powers of the Ministry of Justice in the administering of justice contradicted the principle of the independence of

judges as inscribed in the Constitution. The Law on Courts will thus need to be amended accordingly.

In the framework of the reform of the legal system, a significant achievement has been the adoption, in July 2000, of the Civil Code, which is due to enter into force as of July 2001. A new Criminal Code was adopted in September 2000. It will enter into force simultaneously with the Code of Criminal Procedure, which is still under preparation. With a view to better enforcement of court decisions, in December 1999 the Government took a decision on the institutional reform of the court bailiffs' office. This reform aims to grant the court bailiffs the status of professional court assistants, leaving to the Minister of Justice the oversight of their activities.

In order to improve the transparency of the judicial process, and in accordance with legislation adopted by the Seimas in February 2000, the Ministry of Justice now publishes on the internet all county and appeal court decisions and judgements of public interest.

Lithuania has made efforts to fill vacant posts for judges. From July 1999 to September 2000, there were no new posts for judges created. Over the reporting period, 77 new judges were appointed. As of July 2000, 398 judges work at the district courts, 130 judges work at the regional courts, 28 judges work at the Court of Appeals, and 37 judges work at the Supreme Court. The administrative courts have 32 judges. As of July 2000, there is a total of 67 vacant posts.

An intensive training programme for judges was commenced in January 2000, covering various aspects of the EC law and *acquis* enforcement. The Judicial Training Centre has, during the reporting period, acquired an important role in the provision of training courses.

As regards court cases, in 1999, out of 17,477 criminal cases, 5,878 remained unsolved and, out of 123,966 civil cases, 20,468 remained unsolved. In the first half of 2000, a total of 58,745 new civil cases and 8,105 new criminal cases were filed. In the same period, 61,277 civil cases and 9,078 criminal cases were solved. As concerns the administrative courts, there was a *de facto* increase in the number of unresolved cases. Given the increased responsibilities of the administrative courts (e.g. in the handling of asylum appeal and bankruptcy cases), this is a source of concern. Specialist training in the highly technical areas covered by the administrative courts is urgently required for the judges concerned as well as for bailiffs.

Overall, efforts concerning the implementation of the judicial reform need to be stepped up. The court system reorganisation, which started in 1998, is gradually being implemented. However further efforts have to be made with regard to the improvement of qualification of specialised judges and prosecutors by training in EC law. Skilled judges have to be appointed to fill vacant positions in district and administrative courts. An adequate level of remuneration for judges needs to be provided in order to attract properly qualified personnel; this will in turn contribute to improving the overall functioning of the judiciary. Additional staff needs to be recruited in the Organised Crime and Corruption division of the General Prosecutor's Office and county prosecutor's offices. The lack of modern working methods and equipment remains a serious problem to be urgently tackled. The reform of the legal system needs to be completed by way of the adoption and implementation of new Codes of Civil and Criminal Procedure, which

*inter alia* should contribute to the speeding up of court proceedings. The poor functioning of the administrative courts remains a serious concern.

### *Anti-corruption measures*

Since the last Regular Report, Lithuania has adopted a number of important measures in the fight against corruption, a matter which remains a source of concern. However, limited progress has been achieved as regards the adoption of an overall National Anti-Corruption Strategy, which remains to be finalised. In January 2000, the Seimas abolished the immunity from prosecution for all top-ranking officials (with the exception of the President of the Republic).

In May 2000, the Law on the Special Investigation Service was adopted. Its purpose is to turn the Service into an independent institution accountable to the Seimas and the President, to help avoid duplication of activities of law enforcement institutions in the fight against corruption, and to reinforce the anti-corruption procedures used by the Service. In the course of 2000, 48 of its employees have received training abroad.

In June 2000, the Law on Lobbying Activities was adopted with the aim of regulating the influence exerted by interest groups on the legislative and administrative process.

With a view to reducing the potential for improper practices, including corruption, by improving the overall efficiency and effectiveness of the administration, the Government has set about progressively removing a number of administrative barriers, notably in the context of the ongoing rationalisation of the public administration structures.

With a view to implementing the law on the Compatibility of Public and Private interests in the Public Service, the High Commission of Ethics in Office adopted, in March and April 2000, rules concerning the public declaration of private interests of civil servants, including candidates to local government councils and other institutions of local government. All civil servants, as a result, were required to submit detailed declarations by 15 May 2000.

As regards the activities of the Special Investigation Service, from July 1999 to April 2000, 132 lawsuits were filed (74 from July 1998 to April 1999), 70 crimes against the civil service were detected (144 from July 1998 to April 1999), and 83 civil servants and public officials were charged with offences against the civil service (101 from July 1998 to April 1999). In February 2000, the Special Investigation Service reported to the Seimas that municipal institutions and law enforcement bodies are among the most corrupt in Lithuania. According to this report, corruption occurs mainly in the context of public procurement bids and the award of government contracts.

The measures which have already been undertaken to tackle corruption should now be completed in the framework of the National Anti-Corruption Strategy, which has yet to be adopted. Implementation and enforcement of existing anticorruption measures need to be further addressed. In particular, the capacity of the Special Investigation Service needs to be strengthened through staff training, and its ability to ensure co-ordination needs to be proved effectively.

Lithuania ratified the Council of Europe Criminal Law Convention on Corruption in January 2000. In contrast, Lithuania has not yet signed either the Council of Europe Civil Law Convention on Corruption or the OECD Convention on Combating Bribery of

Foreign Public Officials in International Business Transactions . Further progress is required in this regard.

## **1.2. Human rights and the protection of minorities**

As mentioned in the previous Regular Reports, Lithuania continues to respect human rights and freedoms. The following section focuses on subsequent major developments.

Over the past year, Lithuania has made further progress in acceding to the major human rights conventions [see Annex]. In March 2000, Lithuania ratified the Council of Europe Framework Convention on the Protection of National Minorities. In addition, over the past year Lithuania has signed, but not yet ratified, the revised European Social Charter. The original European Social Charter remains to be signed.

There is a well established Ombudsman system in Lithuania, which continues to function satisfactorily.

### *Civil and political rights*

Lithuania has addressed the issues in this area identified in the 1999 Regular Report; however, some problems persist.

As regards *legal aid*, in March 2000, the Seimas adopted the Law on State Guaranteed Legal Aid aimed at ensuring the provision of state-guaranteed legal aid in civil, administrative and criminal cases, for citizens of the Republic of Lithuania as well as foreign nationals and stateless persons residing in Lithuania, who cannot afford legal fees. The Law will enter into force on 1 January 2001.

As far as *prison conditions* are concerned, a positive development is the adoption by the Seimas of the Law on the Statute of Service at the Department of Prisons. This Law, which entered into force in September 2000, completes the transfer of the Penitentiary department from the Ministry of the Interior to the Ministry of Justice. As a result, the Prison Department under the Ministry of Justice has become a civil institution, and its officials as well as those of the imprisonment institution system are now demilitarised public servants.

In November 1999, new hygiene standards were introduced; they establish the required space for each convict and assure health and safety conditions. This notwithstanding, prison conditions in Lithuania remain poor, and due to limited resources, most prisons are overcrowded and poorly maintained. As of September 2000, there were 8,667 prisoners in penitentiary facilities in Lithuania and 1,587 persons held in pre-trial detention. Cases of prolonged pre-trial detention were reported. The very limited number of visits persons in pre-trial detention can receive, is a source of concern.

Further efforts to improve prison conditions are still required, including structural solutions which will need to be found within the judicial process itself. The new Criminal Code, which provides for milder penal sanctions and a reduction of pre-trial detention time, will contribute to this, once it has entered into force.

In this context, a welcome development is the adoption of amendments to the Code of Administrative Infringements (passed by the Seimas in February 2000), which provide

for softer and more rational penalties for administrative offences, as well as for postponing arrest and penalties.

Cases of *degrading treatment* by the police have been reported. In the reporting period, 23 police officers were charged with abuse of power.

In February 2000 the Seimas passed a law allowing, under certain specified conditions, for the trial *in absentia* of persons charged with genocide or war crimes.

As regards *asylum* legislation, in July 2000 the legislation on refugees was brought further in line with the *acquis*. The conditions of the reception centre in Pabrade are reported to be now acceptable.

*Religious freedom* continues to be respected in Lithuania. Religious communities declared “traditional” by the law are eligible for public funds. In 1999 the Hasidic Chabad Lubavich community was added to the list of traditional religious groups.

### *Economic, social and cultural rights*

As regards *equal opportunities*, the Ombudsman of Equal Opportunities (appointed in April 1999) has proved effective in improving the implementation of legislation in this field. In particular, the Ombudsman has taken important action to ensure equal treatment as regards entrance to Lithuanian universities (namely the Lithuanian Military Academy), parental benefits in bringing up children, and job advertisements. The Ombudsman also took an important initiative to specify the sex of the victims of violent crimes in the statistical databases of the Ministry of the Interior. In March 2000, the Government set up the Commission of Equal Opportunities to co-ordinate the implementation of the principle of equal opportunities in the activities of the governmental institutions. Also, Lithuania has signed the Optional Protocol to the Convention on the Elimination of all Forms of Discrimination against Women.

With regard to *children's rights*, in January 2000, the Government approved the National Programme Against Commercial Sexual Abuse and Sexual Violence against Children. However, there are no specific criminal provisions for sex tourism. In May 2000, the Seimas adopted legislation on protection of children's rights which provides for the appointment of an Ombudsman for children by the Chairman of the Parliament.

As regards the treatment of *disabled* people, the preparation of a National Programme for Social Insertion of Persons with Disability has been launched in 2000. The decentralisation of care facilities is under way, so as to increase the number of disabled people who can receive services at home. A programme adapting accommodation to the needs of disabled people is being gradually implemented.

As regards *trade unions*, while the mechanisms for participation in collective bargaining exist, the level of unionisation of the workers (6-10%) remains low (*see Chapter 13 - Social policy and employment*).

Ratification of the revised *European Social Charter* should be speeded up. The signature and ratification of the original European Social Charter needs to be addressed.

### *Minority rights and the protection of minorities*

As indicated, in March 2000 Lithuania ratified the Council of Europe Framework Convention on the Protection of National Minorities, which it had already signed in 1995.

The situation concerning the protection of minorities in Lithuania continues to be satisfactory. The Government continues to support the economic, social and cultural development of Lithuania's ethnic communities, notably through the Programme for Social and Cultural Integration of National Minorities and the Programme on the Use and Promotion of the State Language, which is used to assist minorities in learning, or improving their knowledge of, Lithuanian. However, the funds available for the implementation of this integration programme should be increased, and the administrative capacity of the Department of National Minorities and Emigration would need to be strengthened.

In June 2000, the Government adopted the National Programme for the Integration of the Roma Minority. Successful implementation of this programme would benefit from increased consultation with the Roma community. Approximately 3,000 Roma are currently living in Lithuania.

### **1.3. General evaluation**

Lithuania continues to fulfil the Copenhagen political criteria.

As regards public administration reform, in line with the relevant medium-term priority of the Accession Partnership, Lithuania has made progress in implementing the legislation on public administration and civil service. In continuing this reform, further issues need to be addressed, namely, the level of remuneration, additional training and improved inter-ministerial co-ordination.

The reform of the legal system has significantly progressed with the adoption of the Civil Code and the Criminal Code. This reform needs to be completed through the adoption and implementation of new Codes of Civil and Criminal Procedure, which *inter alia* should contribute to the speeding up of court proceedings. Efforts on judicial reform need to be stepped up, in particular with regard to training of judges and prosecutors, filling all vacant positions, and improving the functioning of the courts, especially the administrative courts.

As regards the fight against corruption, the important measures which have already been taken need to be completed through the adoption of a National Anti-corruption Strategy. Enforcement needs to be significantly strengthened by further reinforcing the relevant agencies and effectively ensuring their co-ordination.

## **2. Economic criteria**

### **2.1. Introduction**

In its 1997 Opinion on Lithuania's application for EU membership, the Commission concluded:

*“Lithuania has made considerable progress in the creation of a market economy”; it “would face serious difficulties in coping with competitive pressure and market forces within the Union in the medium term”.*

This finding was confirmed in the 1998 and 1999 regular reports. In its 1999 regular report the Commission found that

*“Lithuania has continued to make progress in establishing a functioning market economy and is on the way to being able to cope with competitive pressure and market forces within the Union in the medium term, provided it completes the remaining reform agenda.”*

In its annual assessment of the economic developments in Lithuania since the Opinion, the Commission's approach is guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with the competitive pressures and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion and the 1998 and 1999 regular reports.

### **2.2. Economic developments**

Lithuania's economic situation has improved since the last regular report and output growth has been positive in the first half of 2000. The main factor behind this recovery is improved external demand. Nevertheless, unemployment has continued to rise, partly as a result of economic restructuring. Consumer price inflation remained particularly low, reflecting weak domestic demand and the import price dampening effect of the appreciation of the litas. The consolidation programme adopted in November 1999 led to a significant tightening of the fiscal stance, which together with the upsurge in external demand has had a positive effect on the current account.

<b>Lithuania</b>		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	4.7	7.3	5.1	-4.1	2.0 Jan-June
Inflation rate (CPI)						
- annual average	per cent	24.6	8.9	5.1	0.8	0.8 Jan-June
- December-on-December	per cent	13.1	8.3	2.4	0.3	1.3 June
Unemployment rate, end-year						
- ILO definition	per cent	16.4	14.1	13.3	14.1	14.7 May
General government budget balance						
	per cent of GDP	-4.5	-1.8	-5.8	-8.6	:
Current account balance						
	per cent of GDP	-9.2	-10.2	-12.1	-11.2	-4.3 Jan-June
	million €	-569	-865	-1,158	-1,120	-234
Foreign debt						
- debt export ratio	per cent	26.7	27.6	37.6	64.1 E	:
- gross foreign debt	million €	886	1,271	1,698	2,549 E	:
Foreign direct investment in flow						
- balance of payments data	per cent of GDP	1.9	3.7	8.6	4.6	2.6 Jan-June
	million €	120	313	826	456	144

E = Estimates

*Important structural reforms have been initiated since the last report.* With a view to ensuring the medium-term sustainability of public finances, the reform of public sector administration has been set in motion and a three-pillar concept of the pension system has been approved. A new legal framework has been adopted for the energy sector, and progress has been made in preparing the privatisation of public gas and electricity enterprises. The sale of one of the two last remaining state banks to an international consortium is close to completion, but the privatisation of the other bank is still in a preparatory stage. Important amendments to the legislation on bankruptcy and restructuring procedures are being prepared. In the area of trade, protective measures taken in response to the Russian crisis have been abandoned.

<b>Main indicators of Economic Structure in 1999</b>		
Population (average)	thousand	3,700
GDP per head <sup>2</sup>	PPS-€	6,169
	Per cent of EU average	29
Share of agriculture <sup>3</sup> in:		
- gross value added	per cent	8.8
- employment	per cent	20.2
Investment-to-GDP ratio <sup>4</sup>	per cent	22.5
Gross foreign debt/GDP <sup>5</sup>	per cent	25.5
Exports of goods & services/GDP	per cent	39.8
Stock of foreign direct investment	million €	2,054
End of 1999 data (Eurostat)	€ per head	555

### **2.3. Assessment in terms of the Copenhagen criteria**

#### *The existence of a functioning market economy*

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

*The political consensus on the need for structural reforms has strengthened in response to the impact of the Russian crisis on the Lithuanian economy.* In November 1999, the new Lithuanian government announced an anti-crisis package, addressing the striking short-term imbalances that had become apparent in the wake of the Russian crisis. The intended path of economic reforms is firmly enshrined in medium-term commitments. In March 2000 the government signed a 15-month pre-cautionary IMF stand-by arrangement, foreseeing a significant consolidation of public finances

<sup>2</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>3</sup> Agriculture, hunting, forestry and fishing.

<sup>4</sup> Data refer to Gross fixed capital formation as % of GDP.

<sup>5</sup> The 1999 data for foreign debt are estimates.

and also agreed on a structural adjustment programme with the World Bank. In May 2000, the Lithuanian Government and the European Commission services signed a Joint Assessment of Economic Policy Priorities. This document outlines the medium term structural reform commitments of the government to a number of significant initiatives in the areas of privatisation in the banking and energy sector, fiscal consolidation, the reduction of state interference in the economy, and social security reform. Due to the October general elections, some of the momentum in adopting and implementing reform measures has been lost, but the commitment remains. The co-ordination between line ministries still leaves something to be desired, but the successful conclusion of the Joint Assessment can be taken as a sign of improvement.

*Real GDP fell by 4.1% in 1999, but it has risen by 2% in the first half of 2000.* Declining exports due to the Russian crisis and unstable supply for the economy's central oil refinery industry had led to a decrease in real GDP in 1999. The negative impact of the Russian crisis started to abate at the end of 1999 and industrial output rose by 4.5% in the first half of 2000. The pick up in growth has mainly been the result of stronger external demand. Domestic demand remains subdued, reflecting moderate wage growth, rising unemployment and a restrictive fiscal stance.

*Unemployment rose sharply during the past year.* The rise of unemployment accelerated during 1999, as the economic recession increasingly affected the labour market. According to ILO statistics unemployment rose from 13% in May 1999 to 15.3% in November 1999. This trend continued during the first half of this year. In particular, the rise in youth and long-term unemployment is alarming. The main labour shedding sectors have been agriculture, industry and construction, whilst employment increased in the services sector. The regional differences in unemployment have been relatively low, and they even declined during 1999, as the recession increasingly affected all regions.

*Inflation has fallen drastically, reflecting weak domestic demand and the appreciation of the litas.* The surplus supply of agricultural goods on the domestic market and the appreciation of the litas dampened inflationary pressures emanating from increasing oil prices and administrated prices. Annual average CPI inflation in 1999 was only 0.8%, compared to 5.1% in 1998, while core inflation was 3.3% in 1999; administered prices were raised by nearly 10%. In the first six months of 2000, year-on-year inflation was 0.8% on average, compared with 1.2% and 6.6% in the first halves of 1999 and 1998, respectively. The most important single factor contributing to low inflation was the 1.4% decline in the prices of food, which accounts for some 40% of the consumer basket.

*The currency board arrangement continues to function as nominal anchor for the Lithuanian economy, after surviving the Russian crisis without much difficulty.* The real effective exchange rate continued to appreciate (by nearly 10% in 1999), partly because of the litas' peg to the US dollar. In mid-October 1999, the Bank of Lithuania announced that it would shift the peg of the litas to the euro in the second half of 2001, maintaining the exchange rate of the day. The announcement had positive effects on the financial markets.

*The general government deficit has improved significantly since the last report.* In 1999 the deficit was 7½ % of GDP, excluding privatisation receipts (accounting for

about 1% of GDP). In early November 1999, the new government presented an “anti-crisis” programme, including a two-year postponement of the last two tranches of the savings restitution, which together amount to about 4¾ % of GDP, and various structural reforms in the social security sector. The budget for 2000 targets a sharp reduction in the deficit to 2¾ % of GDP. This should be achieved by reductions in current government expenditures and public investment. The package includes a freeze of wages and employment in the public sector and a cut-back in subsidies to enterprises and the agricultural sector. In order to improve the sustainability of the social security system, the maximum income subject to payroll taxation has been raised and the rate of the payroll-tax has been increased by 3%. As a result of the measures, the situation on public finance has already improved significantly. The latest deficit forecasts point to general government deficit of about 3¼ % of GDP. The high deficits in recent years resulted in a sharp rise of the public sector debt, which reached a level of 28.1% of GDP in December 1999.

*The full effects of the initiated structural reforms in the public and social security sector still need time to materialise.* The government started to prepare a reform of the pension system, envisaging a three-pillar system. The law allowing for the establishment of private pension funds has been in force since January 2000. Parts of the privatisation revenues are planned to be used for the build-up of the second pillar funding. In order to separate privatisation revenues from recurrent revenues, a unified account at the Bank of Lithuania has been established. This account is the base for the establishment of a Fiscal Reserve Fund. The Law on Budget Composition of July 2000 reduced the number of extra budgetary funds from 22 to 4, which should help to limit the impact of such funds on the state budget.

*The current account is improving after having deteriorated significantly in 1998 and 1999.* The deterioration reflected a sharp decline of external demand and relatively stable domestic demand. More recently, the current account deficit has been improving on the back of stronger growth in the EU and the CIS countries. The growth in imports declined as a result of low wage growth, increasing unemployment and the stricter fiscal stance. This resulted in a reduction of the current account deficit from 11% of GDP in 1999 to about 4.3% in the first half of this year. The trade deficit remained constant in 1999, but dropped from 12.5% of GDP in the first half of 1999 to 7.8 % of GDP in the first half of 2000. The value of exports increased by 37%, while imports rose by 19%. More than 95% of the total trade turnover is covered by free trade agreements. In March 2000 the average weighted tariff was as low as 2.5%. Total FDI inflows covered about 40% of the financing of the current account deficit. The financing of the high current account deficit required increased external borrowing on international financial markets, leading to a sharp rise in the foreign debt. Official reserves continue to cover about 3 months of imports of goods and services.

*The Lithuanian government has progressively abandoned the protective and market distorting measures that were introduced in the wake of the Russian crisis.* State subsidies to affected enterprises have been cancelled and the savings restitution has been postponed. In addition, the privatisation of the banking sector and that of infrastructure enterprises have been moved forward.

*The share of administered prices in the CPI basket has further declined from 16% in 1998 to 10.6% in 1999. Administrated prices have been increased since the last report, as part of the administration's strategy to improve the cost coverage of public utilities and to reduce price distortions. In particular, prices for heating, gas and electricity were raised significantly. The share of the private sector is about 70% of GDP, both in terms of value added and employment.*

*The process of privatisation is approaching its completion, although the book value of the few large companies which remain to be privatised is sizeable as a percentage of GDP. Out of the list of 14 strategic large-scale companies, which was drawn up in 1997, only three companies are still state owned. In all three cases, the privatisation is in preparation. In one case, the privatisation of one of the two remaining state banks, the sale is close to completion. The most significant privatisation project during the first half of 2000 has been the sale of 81% of the shares of the oil exploring and production company Geonafta, generating revenues equivalent to 1¼% of GDP. In June 2000, a 25% stake of the Lithuanian Telekom company was sold with gross privatisation proceeds of about 1½ % of GDP. The sale of the remaining 10% stake has been postponed due to lower than expected share prices. The privatisation of smaller publicly dominated companies is proceeding. So far, during the first 8 months of this year, 589 objects have been privatised, generating revenues of more than 3% of GDP. About 25 000 jobs have been affected by the privatisation since 1998, which is about 1.5% of employment. The total list of privatisation entities still contains about 2 800 entries. Of these, the most significant are 103 state-owned enterprises, representing a value of about 4% of GDP.*

*There are still some rigidities concerning market entry and exit. Largely due to the Russian crisis and declining state support, the number of bankruptcy procedures increased from 98 newly initiated procedures in 1998 to 249 procedures in 1999. For this year, about 400 new procedures are expected. These 400 bankruptcies account for about a quarter of one percent of all registered enterprises. The share of completed cases has varied between 16% and 34% since 1998, while the share of liquidated companies among the completed cases has been relatively stable at about 80%. The main reasons for the increasing backlog are administrative bottlenecks in dealing with the rapidly rising number of bankruptcy cases and unsettled disputes about the settling of debts. In order to address this deficiency the government has started to improve the education of judges in the field of economic crime and has prepared amendments to the bankruptcy law and the law for restructuring, which would allow the process to be speeded up. These two laws are scheduled to be adopted before the end of this year.*

*Property rights are well established, and land restitution is close to completion. By September 2000, about 78% of the land area claimed in citizens' applications had been restituted. This process is supposed to be completed in 2001. The sale of agricultural land to foreigners is still restricted. Legal certainty has advanced, but the efficiency of the implementation of the laws could be improved. Although frequent amendments to existing legislation have been necessary to improve poorly designed laws, they have resulted in legal uncertainty and low predictability for economic decision-making. Nevertheless, the general business climate has improved. The government's commitment to medium-term programmes has reduced some of the uncertainties surrounding the future stance on economic policy. The legal framework*

for the reorganisation and liberalisation of the energy market in line with EC standards has been adopted in July 2000 and will be in force by 1 January 2001.

*The Lithuanian banking sector is small, but operates satisfactorily.* At present, it consists of 10 commercial banks, 1 special purpose bank and 3 foreign bank branches. The number of commercial banks increased recently, when the Bank of Lithuania expanded the limited banking licence of one specialised Bank, the *Development Bank*, to a full commercial licence. The share of the public sector in the capital of commercial banks continued to decline from 36.6% in 1998 to 32.6% in 1999. At the same time, the share of domestic privately owned assets rose from 25.8% in 1998 to 28.2% in 1999. The role of foreign private owners increased only slightly. The capital adequacy ratio stood at 16% in July 2000, well above the 10% requirement of the Bank of Lithuania and the 8% required by international standards. Despite some second round effects of the Russian crisis, the Lithuanian banking sector withstood the recession in 1999 without significant difficulties, as the direct exposure of the Lithuanian Banks in the CIS area has been rather low. The share of non-performing loans in total loans shrank from 12.5% in 1998 to 11.9% in 1999. However, this improvement is partly due to the transfer of some non-performing loans to the workout unit *Turto Bankas*. Net profits of the banking sector as a whole increased in 1999, mainly due to the good performance of the larger banks.

*Banks are increasingly starting to channel savings towards the private sector, but financial intermediation remains low.* Domestic private credit accounts for only about 12% of GDP. Private banks have been rather reluctant to lend to the private sector, reflecting strict prudential rules after the banking crisis in 1995 and a rather high financing need of the public sector. From mid-1999 to mid-2000, the direct domestic lending of the public sector has been declining. The high interest rate level largely reflects higher risk and economic volatility in a narrow and underdeveloped domestic capital market. The rather large difference of about 8¾ percentage points between lending and deposit rates reflects low efficiency and poor competition. However, there is a clear declining trend since the beginning of the recovery. The non-banking financial sector continues to be underdeveloped and the nascent stock market suffered from the Russian crisis and will benefit from the increased funding from the pension reform.

*The privatisation of one of the two remaining state banks, the Agricultural Bank, is close to completion and the preparations for the privatisation of the Savings Bank, the largest Lithuanian bank, has started.* Together, these two state banks collect about 46% of total deposits and provide about 40% of the banking sector's loans. Banking supervision has been further improved and amendments to the Law on Commercial Banks have been prepared, approximating the Lithuanian legal framework to the EC legislation. Since 1 June 2000, stricter precautionary rules are in force, lowering the limit of the overall exposure of banks in foreign currencies and precious metals.

Lithuania can be regarded as a functioning market economy. Decisive action has been undertaken in order to correct the fiscal and external imbalances, and to reduce state interference. Most of the protective measures introduced after the Russian crisis have been removed. However, continued efforts are needed to maintain fiscal discipline and to keep the current-account deficit under control. Additional steps, including the

planned pension reform, should be taken to ensure the medium term sustainability of public finance. With respect to structural reforms, significant progress has been made in the privatisation of the banking sector. This is an important step towards improving the low level of financial intermediation in the economy. Progress has also been achieved with the adoption of important laws to restructure and liberalise the energy market. Land restitution is close to completion. Bankruptcy procedures are still not working properly, and amendments to the bankruptcy and restructuring laws are needed to ensure effective implementation.

*The capacity to cope with competitive pressure and market forces within the Union*

As set out in Agenda 2000, Lithuania's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

*Lithuania's economy has progressively become market based.* It has abandoned the protective stance adopted during the Russian crisis, which proved to be too costly and only postponed the necessary adjustment. State interference has been reduced significantly. However, given that the Lithuanian economy is still recovering from the last sharp recession, stability and predictability have not yet been firmly established.

*Lithuania's labour force is well qualified and wage setting is sufficiently flexible; however the functioning of the labour market is not very satisfactory.* Structural unemployment increased sharply during the restructuring process, indicating serious labour market deficiencies in redirecting labour from shrinking sectors to expanding ones, and limited opportunities. The Lithuanian government has undertaken various measures in order to improve the qualification of the unemployed and to re-integrate them into the labour market. However, with the scarce resources for active and passive labour market policy, the results have been limited in the light of insufficient economic growth. The moderate wage agreements of the past year demonstrate the flexibility of wages on the Lithuanian labour market.

*The capital stock is in the process of modernisation. Investment as a share of GDP was in the range of 24-27% in recent years, sufficiently high to allow for progressive modernisation of the economy's capital stock.* However, in 1999, the investment ratio dropped to 22.5%. Faced with an urgent need to reduce the deficit, government cut public investment significantly. To a large extent, the decline in investment has also reflected the impact of the Russian crisis. According to available data, investment has not picked up in the first quarter of 2000, except in the retail sector. If this trend continues, the modernisation of the Lithuanian capital stock might take longer than

expected. Foreign Direct Investments increased by 17% in 1999, excluding receipts from the privatisation of the telecommunications company. FDI thus accounted for about 5% of GDP. Main investors are from the EU, in particular the Scandinavian neighbours. FDI flows primarily went into telecommunications, oil refinery and food processing, the last two being among the country's key sectors. As in previous years, FDI is largely driven by privatisation, while the share of greenfield investment remains low. The first source of FDI is likely to dry up since the privatisation process is close to completion. More attention needs to be given to attracting foreign investment in new and existing private companies.

*Enterprise restructuring is proceeding.* The utilities and transport companies will be split up. On 26 April the government approved a plan to branch off six independent entities from *Lithuanian Railways*. The implementation of this plan has been held back by a lack of agreement between ministries. A solution will need to be found by the new Government. The public Energy Company *Lithuanian Energy* is being prepared for privatisation next year. Based on a strategy of an international consultant, several distribution networks will be set up and generation, transmission and distribution should be separated. The privatisation of the *Gas Company* is also under preparation. Relevant laws on the Energy Company and the Gas Company were adopted in October 2000. When the privatisation of these infrastructure enterprises is completed, the bulk of state companies will be in private hands. Still on the list are companies such as *Lithuanian Airlines*, *Klaipeda Transport* and *LISCO*, the Sea Shipping Company. With respect to other enterprises, the government has significantly reduced financial support to non-performing companies, which will speed up the restructuring and, if necessary, liquidation process. Instead, increasing emphasis is put on the promotion of small and medium sized enterprises by initiatives to improve the legal and economic environment. Further restructuring will be necessary, in particular in the agricultural sector and in those enterprises that specialised in exports to the CIS countries.

*The general policy stance taken since last year is characterised by measures to reduce the role of the state in the economy.* State subsidies have been substantially reduced and import restrictions have been lifted. Tariff barriers have been reduced, but non-tariff barriers remain in place. Lithuania is a member of the Baltic Free Trade Zone and intends to join the WTO before the end of this year. State aid has been reduced. The industrial policies, competition policy, export promotion and SME policies have been reformulated since the last regular report in order to comply with EC standards.

*Lithuania's trade integration with the EU is increasing.* Because of the small size of the local market, most industries are highly export oriented. Exports are recovering, after droppingsharply due toby the Russian crisis. Nominal exports declined by 19.3% in 1999, compared with 1998. The fall in exports to the CIS countries alone would have led to a decline in total exports of about 21%, but was dampened by a rise in exports to the EC of 6.5%. As a result, the share of exports to the EC in total exports increased from 38% in 1998 to slightly over 50% in 1999, and the export share to the CIS countries halved to 18%. The increase in the value of exports to the EC is also remarkable. Despite the appreciation of the litas, exports to the EC rose from €1.3 billion in 1998 to €1.4 billion in 1999, while total exports declined from €3.3 billion to €2.8 billion in the same period. Due to the output decline, nominal imports shrank

by 17.3% in 1999, compared with 1998, while the share of imports from the EC declined from 50.2% to 49.7% of total imports.

*The commodity composition of exports to the EC is improving.* The share of industrial products in total exports to the EC market rose from 62% in 1998 to 67% in 1999, while the share of agricultural commodities shrank from 8% to 6%. In trade with CIS countries, industrial commodities account for only 43%, while agricultural commodities account for 21%. This pattern indicates that some parts of Lithuanian industry can be competitive on EC markets, while other sectors, such as agriculture, are more vulnerable to external shocks and more likely to encounter difficulties in trying to redirect their exports.

*Small and medium sized enterprises constitute the backbone of the Lithuanian economy.* Their share in the economy's value-added is about 47%, compared with only 16% in 1991. More than 80% of Lithuanian enterprises employ 10 persons or less, while less than 1% has more than 250 employees. About half of all enterprises with less than 50 persons are operating in the trade sector. There are still some relatively large enterprises which need to be restructured in order to be competitive in the EC market. The ratio of start-ups to incumbent enterprises is about 10%, which illustrates that the enterprise sector is sufficiently dynamic. On the other hand, the ratio of enterprises that fail within three years after having started is close to 50%. This indicates that there is the readiness to take the risk of starting a new business, but also that it is difficult to keep the business going. Small and medium sized enterprises continue to experience difficulties in access to finance (*see also chapter 16 – Small and medium-sized enterprises*).

Lithuania should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues with the implementation of the current structural reform programme and undertakes further necessary reforms. Lithuania has preserved macroeconomic stability, but continued fiscal discipline is needed. Further progress has to be made on the modernisation of production capacity and the reorientation and diversification of trade. The country's human and physical capital needs to be further developed. In particular, the attractiveness for foreign direct investment has to be maintained, once privatisation is completed. In view of the sharp increase in unemployment, the labour market needs to be made more flexible. Particular attention has to be paid to implementing the necessary structural reforms swiftly in order to improve the economy's flexibility and achieve sustainable growth

## **2.4. General evaluation**

Lithuania can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues with the implementation of the current structural reform programme and undertakes further necessary reforms.

Lithuania has preserved macroeconomic stability and managed to reduce the fiscal and external imbalances and state interference. The protective measures introduced after the Russian crisis have been largely removed. Significant progress has been made in the privatisation of the banking sector. Progress has also been achieved with the

adoption of important laws to restructure and liberalise the energy market. Land restitution is close to completion.

However, there is a need to maintain fiscal discipline and to keep the current-account deficit under control. The medium-term sustainability of public finances is not yet ensured. Bankruptcy procedures are still not working properly. The physical and human capital has to be further developed and the financial sector remains weak. There is room for further trade integration with the EU.

The authorities need to pass the amendments to the bankruptcy and restructuring laws and must subsequently ensure their effective implementation. Fiscal discipline must continue and the sustainability of public finances in the medium-term must be ensured. The planned pension reform must now move into the implementation phase. The reforms to enhance the financial sector need to be completed to foster the modernisation of productive capacity. The labour market needs to be made more flexible.

### 3. Ability to assume the obligations of membership

#### *Introduction*

This section aims to update the Commission's 1999 regular report on Lithuania's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*<sup>6</sup>, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Lithuania's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Lithuania's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Lithuania in translating the *acquis* into its official language.

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Lithuania's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that :

“Lithuania has made progress in most areas of the internal market, in particular in public procurement, intellectual and industrial property, conformity assessment, free movement of capital and services, as well as in anti-trust legislation. However, enforcement capacity should be strengthened, in particular as regards the fight against piracy. State aids control continues to be a matter of concern and further alignment of legislation and stricter control procedures are needed. Further efforts are also needed in the area of the free movement of goods (standardisation and market surveillance).

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<sup>6</sup> A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Lithuania's application for EU membership.

No progress has been made in the audiovisual sector and major efforts are required to bring taxation into line with the *acquis*.

While progress can be noted in agriculture these efforts should be sustained. Much remains to be done on fisheries. While progress is good in transport, efforts should now concentrate on fiscal harmonisation in road transport, maritime safety and aviation *acquis*. Significant progress has been made in the field of environment, although the level of compliance is uneven in environment. The efforts made in the social sector should be sustained, in particular with regard to the enforcement capacity of the *acquis*. Particular attention should be paid to regional policy where much remains to be done. There has been impressive progress in justice and home affairs, but little in customs where the capacity of the administration is a matter of concern. Little progress has been made on financial control.

Lithuania has made determined efforts in the field of energy policy and taken a welcome decision on the closure of the Ignalina nuclear power plant, which represents a significant sign of its commitment towards European integration.

Continued attention is needed to ensure that the significant progress made in transposing the *acquis* and in meeting most of the short-term Accession Partnership priorities, is matched by similar progress in strengthening implementation and enforcement capacity. Particular attention should be paid to state aid control, environment, customs, regional policy, financial control and social policy. The new public administration law and the continued reform of the judiciary are positive developments in this respect.”

### **3.1. The chapters of the *acquis***

As indicated, the review of Lithuania’s ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

#### ***Chapter 1: Free movement of goods***

Since the last Regular Report, Lithuania has made steady progress in the area of free movement of goods.

In the context of **horizontal and procedural measures**, the Law on Product safety entered into force in January 2000 and the Law on Standardisation was adopted by the Seimas in April 2000. Limited progress has been made in adopting European harmonised standards. According to latest data of October 2000, a total of 1506 standards have been adopted. With regard to accreditation, Lithuania has been a full member of the European Accreditation Association since June 1999 and has, in February 2000, applied to sign the relevant Multilateral Recognition Agreements.

Good progress has been made in meeting the 1999 Accession Partnership short term priority of developing the appropriate conformity assessment infrastructure.

Lithuania has made steady progress in the adoption of **sector specific legislation** (in accordance with the relevant 1999 Accession Partnership short term priorities), particularly with regard to a number of areas covered by the *New Approach Directives*. Further transposition, in line with the *acquis*, was achieved in the following areas: safety of machinery, personal protective equipment, electrical safety and electrical equipment, construction products, gas appliances, pressure vessels, lifts, explosives for civil uses, toys, non-automatic weighing equipment and recreational craft.

In the field of *Old Approach Directives* some progress was also made as concerns the implementation of the *acquis* in the areas of pharmaceuticals (including pharmaceuticals for veterinary use), aerosol dispensers, detergents, crystal glass, textiles and footwear. In the area of chemicals, the Law on Chemical Substances and Preparations was adopted in April 2000, establishing the framework provisions for dangerous substances and preparations. A Law on Food was also adopted in April 2000 and entered into force in July 2000. Efforts have been made to modernise the food control laboratories. (*see also Chapter 23 Consumers and Health Protection*).

As concerns the development of Lithuania's administrative capacity for the implementation of horizontal and procedural measures and sector-specific legislation, progress has been made in establishing and strengthening the necessary framework institutions in standardisation, accreditation and metrology. The aforementioned Law on Standardisation foresees the establishment of an independent standardisation institution, the Lithuanian Standardisation Association, responsible for the development of standards.

At present, the Lithuanian Standardisation Board carries out all standardisation related activities. 58 Technical Committees work under its supervision and a further 7 are under establishment. The main function of the Technical Committees is the drafting of Lithuanian standards. The Lithuanian Standardisation Board has 56 employees, which is an increase compared to 1999. During the past year, specialist training further strengthened the administrative capacity of the Lithuanian Standardisation Board. In November 1999, a Quality Systems Certification Division at the Lithuanian Standardisation Board was established to enhance the infrastructure of conformity assessment.

In the area of accreditation, the National Accreditation Bureau (8 persons) has significantly increased its activities since 1999. At present, 33 testing laboratories, 17 calibration laboratories and 6 product certification bodies have been granted accreditation in Lithuania.

The certification institution issued its first certificate (LST-Sert) of conformity with the ISO 9002 standard. So far, the Dutch TNO Certification body has guaranteed the recognition of LST-Sert certificate. The issuing of a first domestic conformity certificate will help Lithuanian firms to introduce modern quality control systems, which faced some difficulties due to high prices of foreign certification firms and the language barrier. The Technical Division of the State Road Transport Inspectorate

commenced activities in September 1999, and is presently responsible for all issues relating to conformity assessment of motor vehicles and their parts.

The State Metrology Service employs 10 persons, which is an increase compared to 1999 (8 people). It is responsible for the transposition and implementation of 26 EC Directives. It co-ordinates traceability of measurements and organises and carries out scientific, legal and administrative activities on metrology issues. The State Metrology Service is a corresponding member of the International Organisation for Legal Metrology, a member of the Central and Eastern Europe Metrology Organisation, and an associate member of the European Co-operation in Legal Metrology. In November 1999, it became an associate member of the European Co-operation of National Metrology Institutes. Metrology Centres and state companies carry out verification and calibration of working measuring instruments.

In May 2000, the Lithuanian Government adopted a Resolution on the re-organisation of market surveillance institutions. The market surveillance institutions in Lithuania were reorganised, on the basis of which the new Veterinary and Food Service and Non-food Inspectorate are operating as of July 2000. This has helped towards developing a coherent strategy on market surveillance. The new Veterinary and Food Service took over functions of the State Veterinary Service and subordinate veterinary institutions. The Non-Food Inspectorate took over functions of the State Hygiene Inspectorate under the Ministry of Health, and of the State Quality Inspectorate under the State Consumer Rights Protection Service. (*See Chapter 23 – Consumers and Health Protection*).

Since the last Regular Report, no new developments have taken place as regards **non-harmonised areas**.

New legislation on **public procurement** entered into force in October 1999 and January 2000 and has been further supplemented by a number of secondary legal acts. As concerns the strengthening of administrative capacity in the area of public procurement, the Independent Commission for Dispute Settlement in Public Procurement was established in January 2000 and is in charge of dealing with complaints of suppliers/contractors against public procurement procedures. Decisions of the Commission are binding on the supplier/contractor and the contracting authority. Specialist training of the members of the Independent Commission has already commenced.

The existing Public Procurement Office has been competent in its conduct of activities since the last Regular Report. In 1999, the Office handled 251 complaints, which is a significant increase compared to 1998. In January - March 2000, 18 complaints were handled by the Office. Out of a total of 269 complaints, received from January 1999 to March 2000, in 30 cases tender results were cancelled by the Office, in 82 cases procurement agents were asked to further discuss tender results and in 94 cases complaints were dismissed.

The total value of 6,898 public procurement contracts awarded in 1999 amounted to € 600,000 million, of which 53.5% entailed the procurement of works, 37.4% - products, and finally 9.1% - services. The majority of procurement contracts (97.4%) were awarded by way of open tender.

### *Overall assessment*

Lithuania has achieved a reasonable level of alignment with the *acquis* as regards free movement of goods. However, further efforts are needed in some specific sectors in order to complete the alignment in this area.

The establishment of the general framework in the New Approach area regarding both the legislation as well as the institutional framework has progressed well in the past few years. Whilst legislation in many of the New Approach sectors has been introduced, the number of adopted standards remains very low. As concerns the remaining New Approach sectors, efforts should be concentrated on further transposing the *acquis* in the areas of construction, medical devices, electromagnetic compatibility, telecommunications and pre-packaging. Some progress has also been made as regards the transposition of Old Approach Directives. Nonetheless, further efforts are needed, for instance, in the areas of foodstuffs, pharmaceuticals, motor vehicles, notification of dangerous substances, wood and cosmetics. It should be noted that a large number of the legal acts which have been adopted (such as regulations and ministerial orders), relating to both New and Old Approach sectors, have not yet entered into force. Enforcement, thus, must be closely monitored.

In order to strengthen its autonomy, the status of the Lithuanian Standardisation Board will be changed in the process of the implementation of the Law on Standardisation and it will be reorganised from a state institution into a non-profit association by the end of 2001. However, as the Standardisation Board will become a self-sustainable organisation gaining revenues from training and distribution of standards, it should establish a sustainable financial framework for its future activities. It is expected that the forthcoming reorganisation of the Standardisation Board will ensure better involvement of the industry.

Progress has taken place in the area of accreditation; however, the Accreditation Bureau needs to be further strengthened in terms of specialised staff.

Although testing and certification facilities have been upgraded in the beginning of 2000, there is still a need for further strengthening in terms of technical and operational capacities and know-how. Lithuania should improve co-operation with neighbouring candidate countries in order to enable the sharing of testing and certification facilities.

The new institutional set-up for market surveillance in Lithuania should lead to improved results as, currently, different methods are used for surveying foodstuffs and non-food products. Taking into account the recent re-organisation of the sector, operational capacities of the staff should be strengthened in order to enable the institutions to be fully operational under new conditions and increased responsibility. A state institution responsible for the overall co-ordination of the entire mechanism of the market surveillance has not been established yet. Therefore, co-ordination for market surveillance remains a priority.

As concerns the non-harmonised sector, more emphasis needs to be given to a full internal screening of the legislation in force which affects the implementation of the relevant *acquis*.

As regards safety checks on products at external borders, Lithuania needs to complete the establishment of appropriate infrastructure as well as ensuring effective administrative co-operation between competent authorities.

The Lithuanian legislation in the area of public procurement is largely in line with the *acquis*, although effective implementation and the adoption of the necessary secondary legislation will have to be closely monitored. In order to ensure successful enforcement of the Law on Public Procurement, which is a short-term priority of the 1999 Accession Partnership, administrative capacities should be further strengthened, particularly in the area of international tendering procedures. In order to reinforce operational capacities of the Public Procurement Office, standard documents for different types of procurement should be available and put into practice. The Public Procurement Office should develop an information system for the monitoring of procurement and dissemination of information, in line with best practices of EU Member States. Furthermore, the independence of the Public Procurement Office must be strengthened.

## ***Chapter 2: Free movement of persons***

Since last year's Regular Report, Lithuania has made a reasonable degree of progress in the field of free movement of persons.

In the area of **mutual recognition of professional qualifications**, further progress was made through the adoption, in December 1999, of a Government Resolution, which establishes the general procedures for recognition of qualifications (both professional and academic) acquired abroad. A further Government Resolution (on regulations covering the assessment and recognition of qualifications and the approval of a list of competent authorities and regulated professions) was adopted in June 2000. Recognition of professional qualifications is carried out by relevant ministries and institutions as determined by the new law on Higher Education which was adopted in March 2000. An Appeals Commission was established by the Ministry of Education and Science in February 2000 and will act as an arbiter in the settlement of appeals filed against the decisions of institutions authorised to validate qualifications acquired abroad.

With regard to **citizens' rights**, Lithuania has made progress in aligning its national legislation on rights of residence with that of the *acquis*. A new format for foreigners' residence permits was adopted in January 2000. A Government resolution covering, *inter alia*, residence of aliens in Lithuania was adopted in February 2000. The law on the legal status of aliens was amended in October 1999 and January 2000 regarding provisions on health insurance and also in order to specify those bodies and persons in Lithuania responsible for issuing residence permits.

Lithuania has prepared an action plan of legislative and administrative measures to be implemented in the area of **free movement of workers** during the pre-accession period. Some of the organisational and technical conditions necessary to ensure the free movement of workers in Lithuania are already in place. A network of the State Employment Service (Labour Exchanges of Lithuania) covering the whole country has been established to implement labour market policy. It is also responsible for the

practical implementation of employment of foreigners. There is also an International Relations Department within the National Labour Exchange Office.

With a view to the future **co-ordination of social security** systems, in December 1999, Lithuania ratified a bilateral agreement on Social Security between Lithuania and Czech Republic. The Department of Foreign Pensions, established under the State Social Insurance Board on 1 July 1999, is responsible for the implementation of bilateral agreements.

### *Overall assessment*

Lithuania has undertaken a number of preparatory measures in the area of free movement of persons, however these need to be built upon to ensure that, by accession, there are no provisions in national legislation that contradict Community rules, in particular with respect to nationality, residence or language requirements.

In the area of professional qualifications and mutual recognition, framework legislation is largely in place, however, a considerable amount of supplementary specific legislation still needs to be adopted. Another concern in this area is the tendency to apply academic recognition procedures to the case of professional qualification, in particular in the case of sectoral Directives that foresee automatic recognition. With regard to the institutional framework in this context, a certain overlapping between the responsible authorities for academic and professional recognition appears to remain. Lithuania has made progress in aligning its legislation with the *acquis* as concerns rights of residence and some of the key institutions and legislation necessary for guaranteeing free movement of labour are already in place.

As concerns preparations to participate in the EURES network, continued efforts are required to strengthen public employment services, notably regarding linguistic training of staff.

With a view to the future co-ordination of social security systems, further development of sufficient administrative structures, including training of staff, is required.

### *Chapter 3: Freedom to provide services*

Since last year's Regular Report, Lithuania has achieved a moderate degree of progress in furthering the legislative alignment as concerns the freedom to provide services, namely in the insurance and banking sectors and personal data protection. In terms of administrative capacity most relevant bodies have been strengthened, however this process is far from complete.

In the area of **freedom of establishment and freedom to provide services** the Lithuanian Parliament adopted amendments to the Law on Enterprises in December 1999, which enables companies registered abroad to establish branches in Lithuania.

As concerns **financial services**, in the *banking sector*, the Board of the Bank of Lithuania has, during the course of 1999 and the first half of 2000, proceeded to adopt

a number of resolutions concerning, *inter alia*: commercial bank operations, consolidation of financial statements and consolidated supervision, calculation of foreign exchange and precious metal exposure, annual financial statements of banks, procedures for risk evaluation and a methodology for the calculation of the requirements on the maximum exposure to a single borrower and on the overall amount of large exposures. These resolutions have brought Lithuanian legislation more in line with the *acquis*.

The Law on Commercial Banks was amended in March 2000, in line with the *acquis*, allowing branches of foreign banks to set up their business in places other than their registered offices in Lithuania.

In May 2000, the Lithuanian Parliament adopted a Law on the Central Credit Union, in order to ensure proper co-ordination of activities of all credit unions. Amendments were also made to the Law on Credit Unions, which expands the list of members of credit unions by including natural persons and a limited number of legal persons. As of May 2000, 36 credit unions are operational in the Republic of Lithuania, with assets amounting to €3.4 million, which amounts to less than 0.1 per cent of the total assets of credit institutions.

Regulations on capital adequacy were modified in March 2000, with a view to tightening the assessment of the country risk.

In March 2000 the Law on *Insurance* was amended, laying down certain provisions regulating the protection of the policyholders' rights in accordance with the Second Life Assurance Directive as well as revoking the requirement of reciprocity between Lithuania and WTO countries. The abolition of the reciprocity requirement should facilitate the establishment of subsidiaries of insurance companies of WTO countries in Lithuania.

With regard to insurance supervision, secondary legislation providing requirements for the operation of insurance companies was further developed and fine-tuned. The Board of the Lithuanian State Insurance Supervisory Authority approved modifications to the method of solvency margin calculation whereby defining the rules more accurately. In February 2000 legislation on the approval of the form of economic activity background (business plan) of an insurance company was amended, specifying the information that should be provided in the business plan of a new insurance company.

As regards *investment services and securities*, the Law on Investment Companies was amended in November 1999, in line with the *acquis* in the field of collective investment undertakings.

In October 1999, the Lithuanian Parliament adopted the Law on Payments. The Law establishes payment instruments, which are used for funds transfers, specifies rights and duties of institutions offering domestic funds transfer services and obligations regarding execution of transfers.

In the area of **protection of personal data and the free movement of such data**, Lithuania signed the Convention for the protection of individuals with regard to the

processing of personal data in February 2000, and in the following month the Government established a computerised register of personal data managers. A new Law on Legal Protection of Personal Data was adopted in July 2000, aiming at bringing Lithuanian legislation in this field closer in line with the *acquis*.

In the year 2000 to date, the State Data Protection Inspectorate has registered 508 personal data managers. A total number of 668 data managers has been registered overall. From January to March 2000, the Inspectorate carried out 9 inspections on the processing of personal data in both public and private sectors and investigated two complaints. It also provided over 100 consultations on processing of personal data.

In the area of **information society regulations**, a Law on Electronic Signatures was adopted in July 2000.

### *Overall assessment*

Progress has been made in the area of freedom of establishment and freedom to provide services, by way of the adoption of amendments to the Law on Enterprises which are largely in line with the *acquis*. Concerning, however, the distinction between establishment and provision of services, there is a tendency to apply establishment procedures for the provision of services, for which a simple and speedy procedure should be applied.

In the area of financial services, some progress has been achieved since the last Regular Report. Legislation should be further improved in the securities and insurance sectors. Although progress has been noted, considerable work is still needed as concerns insurance supervision services.

Progress has been made in the area of protection of personal data, by way of the adoption of a new law in July 2000. In terms of administrative capacity, however, the State Data Protection Inspectorate remains understaffed and specialist training is required. The independence of the Inspectorate needs to be strengthened. In general, the scope of data protection is not yet fully appreciated in the judiciary and amongst other institutions dealing with state security.

As concerns information society regulations, Lithuania has made some progress with the adoption of the Law on Electronic Signatures. Lithuania still needs to align its legislation, however, with regard to the Transparency, Conditional Access and Electronic Commerce Directives.

### *Chapter 4: Free movement of capital*

Since the last Regular Report, Lithuania has made further progress towards complete alignment in the area of free movement of capital.

As regards **national treatment**, in December 1999, the Seimas amended the Law on Enterprises to provide, in accordance with the Accession Partnership, the possibility for enterprises (including insurance companies) registered abroad to establish their branches in Lithuania.

As regards **inward direct investment**, in February 2000, the Law on Investments was amended in order to further align this area with the EC *acquis* and to meet the relevant short-term priority of the Accession Partnership. Restrictions for inward investment in activities related to the circulation of narcotic, psychotropic and toxic substances, as well as substances of strong effect, have been abolished (adequate controls of such activities have been ensured, irrespective of the origin of the business).

Concerning **the asset allocation of institutional investors**, in January 2000, the Rules on Investment Funds Asset Allocation were amended, establishing the freedom for investment funds to invest in the EEA markets on the same basis as in the domestic market. For prudential reasons, investment in non-EEA markets is limited to a list of countries approved by the Lithuanian Securities Commission.

In November 1999, the Seimas amended the Law on the Prevention of **Money Laundering** in order to further align it with the *acquis*. In 2000, a new Unit on Economic Crime has been established at the State Security Department. Although the Unit is not yet fully operational, activities have started.

In the field of **payment systems**, the Law on Payments (adopted in October 1999) has improved the legal framework for inter-bank transfers. Progress has also been made toward the implementation of a real time gross settlement (RTGS) system.

#### *Overall assessment*

Lithuania has reached a high degree of liberalisation of capital movements. There are no restrictions on the inflow and expatriation of capital by investment companies.

The remaining restrictions concern mainly inward direct investments in the lotteries sector and in the activities related to national security, national defence and the security services sector; the acquisition of non-agricultural land by foreigners (authorisation procedures); provisions in company law permitting special rights for the State in privatised companies and the application of those rights in several companies; cross-border operations of EU insurance companies; investment in foreign assets by Lithuanian pension funds and insurance companies; capital adequacy provisions for financial brokers concerning investments in EU markets and the physical cross-border transfer of currency. In addition, the acquisition of agricultural land by foreigners and legal persons is prohibited by Article 47 of the Lithuanian Constitution.

As regards administrative capacity, the new approach to the balance of payments statistics will require additional staff and equipment in the Bank of Lithuania. In payment systems, Lithuania is achieving some overall progress.

As regards the prevention of money laundering, Lithuania has made important progress with the adoption of new legislation. However, it is still too early to evaluate its effective implementation. Efforts should now concentrate on increasing the enforcement capacity, mainly in terms of inter-agency co-operation, of the Tax Police and the State Security Department.

## *Chapter 5: Company law*

Since the last Regular Report, Lithuania has achieved a moderate degree of progress concerning the alignment with the *acquis* in the area of company law and has improved the legal protection of the intellectual and industrial property rights as regards criminal liability.

In the area of **company law**, in December 1999, the Seimas amended the Law on Enterprises to provide, in line with the *acquis*, the possibility for companies registered abroad to establish their branches in Lithuania. Secondary legislation ensuring the implementation of this provision was adopted in July 2000. In July 2000, the Seimas amended the Law on Companies to bring it further in line with the *acquis*, notably with regard to access to information, mergers and divisions, and the protection of creditors' and shareholders' rights.

As of 31 August 2000, a total number of 135,219 companies have been registered with the central Register of Enterprises. As regards *audit*, the Lithuanian Chamber of Auditors was established. Presently, Lithuania counts about 540 statutory auditors and 160 audit firms. The Chamber approved in June 2000 the Code of Ethics for Professional Auditors. In addition, the Auditors' Court of Honour was established, comprising 5 members to serve for a term of two years.

In the field of *accounting*, there was no legislative development in the reporting period.

As regards **protection of intellectual and industrial property rights**, the Seimas amended the Criminal Code and the Code of Criminal Procedure in April 2000 to provide for a criminal liability for violation of intellectual and industrial property rights.

The 1999 Accession Partnership identified, as short term priorities, the need to reinforce administrative capacity and to strengthen border control. Limited concrete developments, however, have taken place as regards improving the effective enforcement of the protection of intellectual and industrial property rights. In September 2000, the Government did, nonetheless, adopt a Strategy on the Enforcement of Copyright and Related Rights, including an action plan until 2003.

According to a Government Resolution of November 1999 the main co-ordinating and implementing institution in the area of intellectual property rights is the Ministry of Culture. However, the Unit for Copyrights under the Ministry of Culture is largely understaffed. While there should be a staff of 6 employees, as of now only 2 have been recruited. In January 2000, the Board of Copyright and Related Rights of Lithuania was established, consisting of representatives of associations of owners and of users of copyright and related rights. The Board shall be responsible for the investigation of issues related to the implementation of provisions of the Law on Copyright and Related Rights and international obligations of Lithuania in the field of copyright and related rights, and shall submit its conclusions and proposals to the Ministry of Culture.

In the field of collective administration of copyright, in 1999 the Agency of Related Rights Association was established. This Agency should complement the activities of the Lithuanian Agency of Copyright Protection working since 1991.

In 1999, the Unit for the Protection of Intellectual Property Rights, which was established at the Tax Police Department (under the Ministry of the Interior), made 44 investigations and filed 24 administrative cases against violators of intellectual property rights. During January – June 2000, on the basis of the Tax Police investigations in the areas of pirated CDs and videos, 2 criminal cases have been initiated.

In March 2000, a register of computer software was established in line with the *acquis* on the legal protection of software.

As regards industrial property, the Lithuanian State Patent Bureau approved the Industrial Property Information Strategy of Lithuania in October 1999. In May 2000, the Seimas amended the Law on Industrial Designs, in order to further align it with the *acquis*.

As concerns administrative capacity for industrial property rights protection, in January 2000 the new regulations and the new administrative structure of State Patent Bureau were approved. A Division of International Trademarks was established, which is responsible for examination of the international registrations under the Madrid Protocol. From January – May 2000, 1,656 foreign trademarks were registered in Lithuania. (In 1999, 3,694 foreign trademarks were registered.) Employees have undergone training in foreign patent agencies. In May 2000, the Patent Bureau employed staff and 48 patent agents are registered in the private sector.

### *Overall assessment*

Whilst Lithuania has, by and large, made progress in most areas, particularly in terms of legislative alignment, effective enforcement is still seen as the major weakness.

In the field of company law, Lithuanian legislation is largely in line with the *acquis*. The legislation concerning the Register of Enterprises should be improved in order to ensure the preventive control of documents submitted to the Register's manager, the submission of annual financial statements by enterprises and the establishment of a specialised official publication for company information.

As regards accounting, while the legislation is in line with the basic principles of the *acquis*, Lithuania should define the requirements for becoming an auditor and the cases where consolidated accounts are obligatory. In addition, the necessary institutional structures should be established and the qualification of specialists should be further improved.

As regards intellectual property rights, Lithuanian legislation is largely in line with the *acquis*. However, considerable efforts are still necessary for reinforcing the administrative capacities of the Copyright Unit in the Ministry of Culture and the collective administration associations especially seeking to improve the fight against piracy. The area where major progress is needed is in the enforcement of copyright

legislation. This also includes urgent training and adequate initiatives for copyright enforcement agencies such as the Tax Police, administrative and criminal courts as well as the Prosecutors Office. In the administrative field, higher fines are necessary and procedures for allowing police or the Prosecutor's Office to confiscate pirated goods should be improved. In order to enforce copyrights at the border, Lithuania needs to upgrade the Customs Department, which now has new investigative and operational enforcement powers in relation to goods smuggled across the border. Currently Customs authorities lack expertise to implement border measures effectively.

In the area of industrial property rights, Lithuanian legislation is largely in line with the *acquis*. However, further alignment is still required concerning patent law (including the introduction of Supplementary Protection Certificates), trademark law and design law. As concerns administrative capacity, however, specific reinforcement of skills in the area of supplementary protection certificates for medical products, plant varieties and biotechnological inventions is necessary.

### ***Chapter 6: Competition policy***

Since last year's Regular Report, Lithuania has made good progress both in the field of anti-trust and state aid.

In the field of **anti-trust** the Lithuanian Competition Council in December 1999 adopted secondary legislation in the form of block exemptions for a number of different categories of restrictive agreements (franchising agreements, exclusive distribution, exclusive purchasing). The Competition Council also adopted Resolutions on the definition of relevant markets and on merger notifications in February and April 2000, respectively. These represent a further step forward (in accordance with the relevant 1999 Accession Partnership short term priority) in bringing the competition legislation into full conformity with the *acquis*.

The organisational framework for the activities of the Competition Council was established in October 1999, in accordance with the relevant 1999 Accession Partnership short term priority. The five permanent members of the Competition Council have been nominated and the Council's Administration has been set up serving as the secretariat for the Council. The Administration consists of different functional divisions and is responsible for the preparatory work, e.g. submitting proposals to the Council. This sets out the procedural framework for the implementation of Competition Law. The anti-trust field now employs 22 experts and it can be noted that staff reinforcement and training has taken place.

In the field of **state aid**, the 1999 Accession Partnership short term priority identified the need to align Lithuanian State aid legislation. In this respect, the Law on the Control of State aid entered into force in June 2000. This law contains the basic principles of EC State aid control and appears to largely follow the principles of the EC state aid *acquis* providing a basis for the control of aid proposals. In September 2000, the Seimas amended the Law on Free Economic Zones to ensure that any aid measures granted through the zones will have to be subject to the provisions of the Law on the Control of State aid and also scrutinised individually by the Competition

Council. In order to ensure a differentiation of maximum aid intensities in assisted areas, Lithuania has commenced the preparation of the regional aid map in consultation with the Commission.

As regards transparency of aid, Lithuania has submitted a State aid report for the year 1998 and the quality has improved so that it largely follows the methodology and the presentation of the Community's Survey on State aid and provides for a reasonable level of comparability. In accordance with the relevant Accession Partnership short term priority, a State aid inventory has also been prepared, albeit with an incomplete coverage.

### *Overall assessment*

Lithuania is, overall, making steady progress in the area of competition policy.

Lithuania's anti-trust legislation is now largely compatible with the *acquis*. The Lithuanian Competition Law contains the main principles of Community anti-trust rules, as regards restrictive agreements and abuse of dominant position. Merger control is also provided for under the Competition Law and follows closely the practice of EC merger control. As regards secondary legislation, further alignment is still necessary, in particular in view of the Community's new policies on vertical restraints.

With regard to enforcement practice, it can be noted that many cases so far, and under the old legislation, tend to relate to less important breaches of competition law. The main challenge now is to ensure that the application and enforcement of the anti-trust rules are effective and that priority is given to such cases that concern the most serious distortions of competition (e.g. cartels). It now appears that the Competition Council has started making active use of its reinforced powers under the Competition Law and has launched fresh investigations.

The granting of State aid in Lithuania has so far not been systematically controlled in line with the *acquis* requirements and the State aid award provisions have only been partially aligned with the *acquis*. Once the recently introduced framework legislation on State aid is implemented, the situation would be expected to improve and the granting of State aid in Lithuania aligned with the basic principles of the *acquis*. The limited scope, however, of the State Aid Law, gives rise for concern, as it would appear that State aid proposed directly by the Government under legislative acts and Government decisions could escape control under the Law. The consultation mechanism that has been established, whereby the Competition Council advises the Government, must ensure that the decisions taken are in conformity with the *acquis*. The adoption of the necessary remaining secondary legislation should be accelerated, in particular, with regard to procedural rules for aid monitoring, forms of notification and the preparation of annual reports. The main priority now is to achieve effective application and enforcement of the State aid rules, including the alignment of existing aid schemes and legislation under which authorities at various levels grant aid. Further resources may need to be accorded to the Competition Council in this regard. The State Aid Division of the Competition Council consists of 5 employees. The State Aid Inventory, which has been prepared, seems to be functioning. Particular attention must

be paid to the full coverage of the inventory, including all relevant legislation on taxation.

### ***Chapter 7: Agriculture***

In 1999, agriculture in Lithuania accounted for 8.8% of GDP, while in 1998 it accounted for 10.3% of GDP. The agriculture and food sectors combined represented 14.6% of GDP.<sup>7</sup> Employment in agriculture accounted for 20.2% of total employment in 1999, as opposed to 21% in 1998.<sup>8</sup>

The situation for the agricultural sector in 1999 was characterised by an increase in agricultural output of 3.7%. While the livestock sector saw an increase of 2%, crop production declined by 2.7%.<sup>9</sup> One of the consequences of the reduction of traditional outlets for the Lithuanian agricultural sector, due to the Russian financial crisis, has been an increasing differentiation between enterprises able to look for outlets in solvent markets, and those which do not have such a capacity.

As regards the *agro-food* sector, the developments have been rather mixed. Therefore, Lithuania has only partly met the relevant short term priorities. The restructuring has continued in the dairy sector, where investments focussed on the improvement of hygienic status and technologies.

In 1999, EC imports of agricultural products originating in Lithuania amounted to €99.8 million, whilst EC exports to Lithuania amounted to €250 million. The trade balance in favour of the EC amounted to €150 million compared to 208 million in 1998.<sup>10</sup> In this context, the new reciprocal concessions on agricultural products negotiated under the Europe Agreement cover a substantial part of Lithuania's agricultural exports (*see section A.b. – Relations between the European Union and Lithuania*).

The support to the agricultural sector under the 2000 budget amounts to €105 million, out of which €41 million are intended as direct support to farmers.

Evolution of the farm structure during 1999 has been characterised by a twofold tendency: an increase in the number of very small farms up to 3 hectares, as well as an increase in the largest farms over 30 hectares. Overall, the average farm size has slightly increased to 12.1 hectares.

Land reform has continued. Restitution of ownership rights to land has been accelerated: as of 1 September 2000, ownership rights have been rehabilitated for 78% of the total area for which applications have been submitted. This compares to 59%

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<sup>7</sup> The source for all agricultural statistics is EUROSTAT unless otherwise specified.

<sup>8</sup> In order to improve consistency and comparability, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Fuller information can be found in the Eurostat publication "Central European Countries' Employment and Labour Market Review" available free of charge through the Eurostat Data Shops.

<sup>9</sup> Source: FAO.

<sup>10</sup> Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMTEXT (*see Agriculture in the European Union – statistical and economic information 1999*, p. 36 for definition of the products).

reported in the 1999 Regular Report. Legal titles have been issued so far for 2.1 million hectares, which have thereby been registered in the land cadastre. This compares to 1.5 million hectares reported in the 1999 Regular Report. Private land transactions have increased. In the period of July 1999 to June 2000, the total land transactions (including lease) in Lithuania reached 88,000 hectares, representing around 4% of registered land.

In June and July 2000, with a view to speeding up land reform, as well as the development of the land market and the improvement of the land administration system, the Seimas amended the Law on Restitution of the Rights of Ownership of Citizens, as well as the Law on Land Reform, the Law on Land, and the Law on Land Lease. The amended provisions of the latter two laws will enter into force in 2001. In addition, in June 2000 the Seimas passed the Law on the Real Property Cadastre, which will enter into force in 2001. Progress was made in developing the land administration system, notably through starting the computerisation of the State Land Cadastre and Register.

Since the last Regular Report, Lithuania has taken further steps to elaborate its agriculture and rural development policy with a view to accession. In June 2000, the Seimas adopted the agricultural and rural development strategy, which establishes the main goals and measures of the Lithuanian agricultural and rural development policy for the period 2000-2006. This strategy focuses mainly on the development of a competitive market oriented agriculture, expansion of exports, State support to farmers' incomes, protection of the environment and diversification of economic activities in rural areas.. In terms of administrative capacity, the staff of the European Integration Department at the Ministry of Agriculture has received extensive training.

### **Horizontal issues**

Lithuania has made progress since the last Regular Report in preparing for the implementation of measures related to *the European Agricultural Guidance and Guarantee Fund (EAGGF)*.

The legal basis for the implementation of the SAPARD Rural Development plan was laid down by amending the Law on the State Regulation of Economic Relations in Agriculture in March 2000.

The Lithuanian SAPARD plan was declared admissible by the European Commission in April 2000. The process of programme approval is ongoing. The programme foresees priority measures for agriculture and rural development, including investments in agricultural holdings, improving processing and marketing of agricultural and fisheries products, development and diversification of economic activities, providing for multiple activities and alternative income, improvement of rural infrastructures, afforestation of agricultural land and improvement of forestry infrastructure, environmentally friendly agricultural methods, and vocational training.

For the programme and financial management of SAPARD, a system will apply which reflects the EAGGF rules and is based on a fully decentralised approach through an accredited paying and implementing agency (*see section A.b. – Relations between the European Union and Lithuania*).

The National Paying Agency under the Ministry of Agriculture was established by the Government in November 1999. This Agency, which as of May 2000 had 14 staff, is entrusted with this implementing and paying function, and pursues its efforts to fulfil the respective requirements.

The Integrated Administration and Control System (IACS) started to be developed in 1999. Animal identification and registration for bovines was started in October 1999. The Rural Business Development and Information Centre is responsible for implementation. The total number of staff of this Centre increased from 23 to 50.

Starting in 1999, a Farm Accountancy Data Network (FADN) survey is being carried out by the Lithuanian Institute of Agrarian Economics and the Lithuanian Agricultural Advisory Service.

No progress can be reported as regards *quality policy*.

### **Common Market Organisations**

Since the last Regular Report, Lithuania has progressed as regards the legal framework and administrative structure for the establishment of Common Market Organisations. In March 2000, by amending the Law on State Regulations of Economic Relations in Agriculture, the Seimas laid down the bases for the development of market intervention mechanisms in line with the EC intervention systems. The functions of the Market Regulation Agency for Agriculture and Food Products have thereby been expanded (licensing of import and export of agricultural products, payments of export subsidies, monitoring and control functions). In the second half of 1999, the Agency was mostly active in purchasing grain and meat products at a regulated price. The total volume of operations amounted up to about € 115 million in 1999. The operations have been financed through bank loans secured with state guarantees.

As regards *animal products*, in April 2000 the Government decided to liberalise the price for all quality categories of raw milk. Stricter quality requirements have been set for the standard of raw milk quality assessment from January 2000. In May 2000, a technical regulation on the protection of designation of milk and milk products was adopted by the Ministry of Agriculture. Implementation of the majority of legal acts regulating quality is closely linked with the accreditation of testing laboratories and their technical capacity to conduct quality analysis. In the sector of meat and meat products, in January 2000, livestock prices were completely liberalised. The mandatory quality standards and requirements for carcasses of bovine animals and pigs adopted last year have not yet been fully introduced by meat processing enterprises.

As regards *arable crops*, the quality requirements of cereals sold to the Market Agency were aligned with the *acquis* in December 1999. As regards *fruit and vegetables*, some quality mandatory requirements were adopted, in particular for apricots, lettuces and endives.

Concerning *specialised crops*, in May 2000, the Seimas amended the Law on Sugar. In line with EC requirements, this law replaces quotas for cultivation of sugar beets with quotas for production of white sugar.

As regards *processed agricultural products*, the basic legislation was laid down by the adoption of the Law on Food in April 2000. The mandatory requirements for some processed products (cocoa and chocolate products, frozen foodstuffs, fruit juices and jams) have been approved but have not yet entered into force.

### **Rural development and forestry**

As regards agro-environment, in December 1999 Lithuania transposed some requirements of the Nitrate Directive (*see also Chapter 22 – Environment*). In September 2000, the Ministries of Environment and Agriculture adopted the Code of good agricultural practices.

No particular development can be reported as regards forestry.

### **Veterinary and phytosanitary issues**

Since the last Regular Report, progress has been made towards the alignment with the core *acquis* in the veterinary and phytosanitary sectors. As regards administrative capacity, some progress has been made, albeit with some delay, concerning veterinary and phytosanitary border posts along the border with Kaliningrad Oblast and Belarus. Therefore, Lithuania has gone some way towards meeting the relevant short term priorities of the Accession Partnership. Extensive training has been provided to the staff of veterinary and phytosanitary institutions. Some progress has been made in strengthening administrative structures for veterinary control, and financial resources have been made available to improve veterinary laboratories. However, limited progress has taken place as regards the reinforcement of administrative structures in the phytosanitary field.

In the meat and meat products sector, no positive development can be recorded: meat-processing establishments are still characterised by under-utilisation of their capacity and inability to improve their hygiene status.

As regards *phytosanitary* matters, in December 1999, the Seimas adopted the Law on Phytosanitary issues, which has brought Lithuanian legislation further in line with the relevant *acquis*. The Law regulates mandatory control requirements for plant growers and importers of plant products, as well as the application of phytosanitary measures upon identification of contamination of products of plant origin. In November 1999, Lithuania ratified the Convention of the International Union for the Protection of New Varieties of Plants.

As regards *seeds*, in June 2000, the Ministry of Agriculture adopted the mandatory requirements for seed potatoes.

The State Plant Protection Service under the Ministry of Agriculture implements the national phytosanitary and plant protection policy, including export-import control. As of 1 January 2000, the State Plant Protection Service (regional quarantine and plant

protection posts and phytosanitary border posts) had 202 staff members. The Phytosanitary Research Laboratory in the State Plant Protection Service is undergoing modernisation. In addition to detection and identification of relevant harmful organisms, the laboratory carries out training for inspectors from regional and border posts. From January 2000, training courses are being held for plant protection and quarantine inspectors.

In May 2000, the State Seed Inspection and the State Grain Inspection were reorganised into the State Seed and Grain Inspection.

As regards *veterinary* matters, in October 1999, the Seimas amended the Law on Veterinary to align it with the *acquis* concerning measures of control and eradication of contagious animal diseases, the rendering of dead animals and animal waste, the registration, recording and identification of animals at their place of keeping, and the financing of veterinary measures. Lithuania has adopted legal acts in line with the EC *acquis* concerning animal health requirements for live bovine animals, pigs, sheep, goats and the procedure for veterinary certification. The *identification* of animals in line with EC standards has been partially implemented. Also, the list of compulsory diseases for registration, common control measures and specific measures in case of outbreak of such diseases was approved in April 2000. Furthermore, the National Veterinary Laboratory implements the Monitoring Programme of Hazardous Residues, which was adopted in March 2000.

In April 2000, the Seimas adopted the basic legislation regulating *feeding stuffs* and their additives. In June 2000, the Ministry of Agriculture approved secondary legislation concerning in particular the classification, energetic valuation, methods of sampling and analysis, and rules on marketing of feeding stuffs, as well as the mandatory requirements for compound feeding stuffs.

The law on *animal breeding* was passed in November 1999 to regulate the protection of the Lithuanian genetic fund of animal species (bovine animals, pigs, sheep, goats and horses).

While there have been some delays due to the belated adoption of the food law, progress has taken place in the implementation of the strategy for the reinforcement of veterinary *border* posts. This strategy includes a plan to rationalise the number of border posts in line with a wider plan for veterinary control along the border with Kaliningrad Oblast and Belarus. Preparatory works are under way to start construction of the Medininkai Veterinary Border Post. The modernisation of Veterinary Border Control Posts at Lavoriskes, Kybartai, Klaipeda and Salcininkai is underway. Requirements for the veterinary border inspection posts and procedures for border checks on live animals and products of animal origin were brought further in line with the *acquis* in October 1999.

In December 1999, the State Scientific Laboratory of Veterinary Preparations was reorganised into the State Inspectorate of Veterinary Preparations. The structure and regulations of this body were changed to accelerate implementation of the *acquis*, with particular regard to registration of veterinary medicine.

During the reporting period, the European Commission granted the right to export products to the EC market to 3 more dairy plants (in addition to the 14 plants already having this right), 7 fish processing plants, 1 wild-game meat processing plant, and 1 casing selection plant.

In July 2000, the State Veterinary Service has been reorganised, along with the State Quality Inspection and State Hygiene Inspection, into the State Veterinary and Food Service and State Non-food products Inspection. During the reporting period, staff involved received extensive training.

In April 2000, the National Veterinary Laboratory was accredited to carry out physical, chemical and microbiological checks of foodstuffs of animal origin, and certain checks of foodstuffs and fodder of other than animal origin, in line with EC standards.

### *Overall assessment*

Overall, Lithuania is still in the process of reforming the structures of its agriculture so as to prepare it for implementing the *acquis* in the agricultural sector.

As regards land reform, the restitution of land ownership rights has been almost completed. However, the issuing of legal titles of land ownership needs to be speeded up. The land consolidation process would benefit from the further development of the land market. In this regard, the access of legal persons and foreigners to farmland ownership is an important issue.

As regards the agro-food sector, the restructuring process has achieved mixed results. There is therefore the need for speeding up this process notably in the meat sector.

As regards the preparation for participation in the CAP, Lithuania has laid down some legal and administrative bases. However, much progress is still needed as regards both the adoption of the *acquis* and the development of the administrative capacity. Particular attention should be paid to developing systems, procedures, control and audit measures in accordance with EC rules. Also, additional staff resources and adequate training (for both administration staff and farmers) are necessary.

As regards **horizontal issues**, the Paying Agency needs to be strengthened to be fully operational. In order to have a proper Integrated Administration and Control System, while the progress concerning the identification and registration of all bovines is welcome, the land identification component still needs to be developed. In particular, the fact that the farm register does not cover agricultural holdings of the country needs to be remedied, and the overall integration of the registers needs to be ensured. A precise date and adequate resources for the agricultural census to be held in 2002 need to be determined. Lithuania needs to develop a quality policy in line with EC requirements (including the necessary definitions concerning products of specific origin and geographic indication). The rules on organic farming should be aligned with the *acquis*.

As regards **Common Market Organisations**, while the bases of the legal and administrative framework have been laid down, considerable progress is still

necessary, in particular to establish the market intervention mechanisms. In addition, quality requirements need to be further adopted and implemented. Existing market protection measures need to be aligned with the *acquis*. Concerning the administration of general CAP requirements, training is needed for the Market Regulation Agency.

As regards **rural development**, agro-environmental policy should be promoted.

Concerning the **Phytosanitary sector**, while the core legislation has been transposed, Lithuania needs to make additional efforts especially as regards alignment with the *acquis* on control of imports, and the control of domestic production. In particular, a Phytosanitary Register must be put in place in order to issue plant passports to be used for the movement of plants and plant products within the EC. More efforts are also needed to align legislation on animal nutrition, hygiene of plants and quality of seeds and propagating material. Adequate resources are required to establish appropriate laboratory infrastructures in line with EC requirements.

On **Veterinary matters**, while the core legislation has been transposed the re-organisation of veterinary structures (establishment of food and non-food inspections) should be fully implemented while continuing staff training programmes. A single authority responsible for administration and control over animal feeding stuffs should be established.

### ***Chapter 8: Fisheries***

Since the last Regular Report, some developments have taken place as regards the legislation on resource management and inspection as well as the rationalisation of the administrative set-up.

In the field of **market policy**, there has been no development concerning the introduction of market regulation mechanisms.

In April 2000, the Government decided to attribute responsibility for the fisheries market policy to the Ministry of Agriculture and to merge the Fishery Department existing under the Ministry of Environment with the Fisheries Department of the Ministry of Agriculture. The reorganisation of the Fisheries Department under the Ministry of Agriculture is ongoing.

As regards **resource management, inspection and control**, in June 2000, the Seimas adopted the Law on Fisheries, which transposes the EC legal acts establishing a Community system for fisheries and aquaculture and a control system applicable to the common fisheries policy. In addition, since the last Regular Report, a number of secondary legal acts have been adopted notably on total allowable catches in the Baltic Sea, on commercial fishery, on establishment of the quantity of fishery quotas and on control of foreign vessels fishing in the Lithuanian Economic Zone.

As regards the control of fishing vessels, in December 1999, the Ministry of Agriculture adopted the order on implementation of a satellite monitoring system for fishing vessels in line with the *acquis*.

As decided by the Government in April 2000, the Ministry of Environment is in charge of protection and control of fisheries resource utilisation in the Baltic Sea and in inland waters. However, the Ministry of Agriculture remains responsible for satellite monitoring of vessels and for controls at the level of first sales.

The main part of their inspection system is based in Klaipeda – the only important port of the country. As regards inspection operations, 5643 infringements of fishing rules were ascertained in the period from the 2<sup>nd</sup> half of 1999 to the 2<sup>nd</sup> half of 2000. As regards **structural actions**, Agricultural and Rural Support Strategy approved by the Government in September 1999 includes a Strategy on Integration into the EU in aquaculture, fish handling and processing in the fisheries sector. The administration responsible for structural actions in the sector will be the Fisheries Department of the Ministry of Agriculture. Regarding the administrative capacity to manage structural funds, the SAPARD paying Agency in the Ministry of Agriculture is still being established.

Fishing vessels are registered in the general Shipping Register. In contrast with the *acquis*, there is not yet in place a separate register of all vessels involved in fisheries activities. However, in March 2000, fishing vessel registration rules in accordance with the *acquis* were adopted. The Ministry of Agriculture is in charge of the establishment and future administration of the Register.

No **State aid to the fisheries sector** has been reported since the last Regular Report. State aid in this area is subject to the general rules on State aid control.

As regards **international fisheries agreements**, in addition to existing agreements, in February 2000 an Agreement on Cooperation in Fisheries with the Russian Federation entered into force.

### *Overall assessment*

The restructuring of the Lithuanian fishing fleet is taking place. Lithuania is at an early stage of alignment with the *acquis*. With a view to participating in the Common Fisheries Policy, Lithuania needs to develop the necessary legal framework as well as to rationalise and upgrade its administration.

The Lithuanian fishing fleet consists of approximately 65 vessels which are operating off-coast in the Baltic Sea and of a deep-sea fleet which amounts to about 10 vessels. A number of smaller boats are active in coastal waters.

Lithuania has recently started aligning its legislation with the *acquis* in the area of fishing resource management and vessel registration. However, there is no market regulation mechanism. Lithuania also needs to align its legislation with the *acquis* on structural assistance to the fisheries sector. The institutional set-up has been partly streamlined, though some key administrative responsibilities (designation of a lead ministry, in particular for resource management and monitoring) still need to be clarified. Major efforts are needed to strengthen the Fisheries department under the Ministry of Agriculture with a view to implementing the Common Fisheries Policy. The conservation functions of the Ministry of Environment also require strengthening.

There is also a need to reinforce the technical means for inspection and control, particularly to take steps for ensuring satellite-based vessel monitoring.

### ***Chapter 9: Transport policy***

During the last year, Lithuania continued to align its legislation with the *acquis* and achieved significant progress in particular in the fields of road transport safety, air transport and maritime safety.

As regards **horizontal issues**, further emphasis has been given to the modernisation of the main transport infrastructure corridors with investments of about €50 million during the last 12 months, of which about 35% came from the national budget. Lithuania has approved the final report on Transport Infrastructure Needs Assessment (TINA) of October 1999 that should form the basis for extending the Trans-European Networks to Lithuania

In the **land transport** sector, most progress was achieved in the field of *road* transport of dangerous goods, market access, social legislation and safety. Implementing Ministerial orders have been adopted concerning the minimum level of training for drivers in the transport sector, training procedures for drivers transporting dangerous goods, technical requirements for road transport vehicles (tread depth of tyres) and the use of tachographs. Furthermore the Government approved executive rules on the carriage of dangerous goods by road, following the international ADR Agreement and corresponding *acquis*, and on the description of forms and examples of motor-vehicle user certificates and drivers' licences. The European Agreement on International Occasional Carriage of Passengers by Bus (INTERBUS) was signed by the Lithuanian Transport Minister in September 2000. Its implementation will result in partial harmonisation with the road passenger transport *acquis*. There is no progress yet in the field of vehicle taxation and road user charges, a central element of fiscal harmonisation in this sector. Concerning the administrative structures and capacity in road transport, no particular measures were taken in this period.

On **railways**, no new legislation related to the *acquis* has been approved yet, pending the completion of the restructuring and liberalisation process of Lithuanian Railways. However, this is an ongoing process, and the Government adopted in April 2000 Regulations for Reorganisation of Lietuvos Gelezinkeliai (Lithuanian Railways), which is to be completed in 2002.

In the **inland waterways** sector, the Seimas adopted in August 2000 an Amendment and Supplement to the Code on Inland Water Transport regulating the access of foreign vessels to Lithuanian inland waterways. Secondary legislation was adopted on minimum technical requirements and technical operation of inland waterways vessels. The administrative authority which regulates the Lithuanian inland waterways consists of two bodies: the State Inspectorate of Inland Waterway Navigation (25 staff positions), which is responsible for the organisation of state monitoring of inland waterway vessels, other sailing objects and stationary equipment, and for the adherence to the requirements of safe navigation in Lithuanian and international inland waterways; and the Inland Waterway Administration (193 members of staff), which maintains and supervises inland waterways infrastructure and operations. The

State Inspectorate seems to be adequately staffed, taking into account the limited economic importance of inland waterway transport in Lithuania.

In July 2000 the Seimas passed the new Law on Civil **Aviation**, which forms the basis for a major reorganisation and strengthening of the civil aviation authorities. The Law provides for the establishment of a Civil Aviation Administration and a Civil Aviation Inspectorate with around 50 specialists under the Ministry of Transport and Communications. The new CAA will concentrate on key management functions previously discharged by the MOTC-Civil Aviation Department and the Civil Aviation Directorate. Air traffic services, up to now integrated in the Civil Aviation Directorate, will be strengthened in the future state enterprise "Air Traffic Service" (staff 328). Furthermore an independent Civil Aviation Accident Investigation Commission will be created under the new Law. On the technical level, Ministerial Orders have been adopted regarding Rules on Licensing of Specialists in Civil Aviation and on Registration and Marking of Civil Aircraft. Negotiations between the EC and Lithuania on the multilateral Agreement to establish a European Common Aviation Area (ECAA), which will result in a significant progressive alignment with the *acquis* prior to accession, have been concluded at the end of 1999 and a bilateral protocol has been signed.

As regards **maritime transport**, Lithuania has made substantial progress, notably in terms of safety in accordance with the relevant short-term priority of the Accession Partnership. In August 2000 the Seimas adopted the Law on *Maritime* Safety, which provides for the establishment of the Lithuanian Safe Shipping Administration, as well as relevant amendments to the Law on Commercial Navigation and the Customs Code. Another important measure was the adoption of the Law on Klaipeda Seaport, which aims at ensuring free competition and equal business conditions to all economic entities in the territory of the national seaport. Considerable progress was also achieved at the level of secondary legislation, such as Ministerial Orders on the National Oil Spill Contingency Plan, Maintenance of Technical Facilities and Settings on Maritime Vessels, Transportation of Passengers and Baggage by Sea and Rules on the Issuing of Diplomas of Marine Grade and Qualification Certificates. Lithuania ratified during this period the International Conventions on Facilitation of Maritime Traffic and on Civil Liability as well as the Establishment of an International Fund for Compensation of Oil Pollution Damage. The latter are of considerable importance with a view to the increasing tanker traffic to and from the new Lithuanian oil terminal at Butinge. The safety performance of Lithuanian registered ships has improved since last year. In this respect, it has to be noted that the detention rate for inspected ships decreased from 10.81% in 1998 to 9.76% 1999.

### *Overall assessment*

The Lithuanian legislation in the transport sector already complies to a certain extent with the EC *acquis*, although there is still a considerable number of technical details which are to be implemented over the next few years on the basis of the ministerial *Strategic Plan and Objectives for Transport and Communications Sectors until 2010*.

On horizontal issues, Lithuania rightly gives the main emphasis to the further modernisation and development of the priority transport infrastructure along Corridors I and IX, which is of particular importance for a transit country like Lithuania.

The regulatory efforts on land transport legislation will have to concentrate more and more on the transposition of the technical provisions of the EC *acquis* and its implementation, with technical, safety and in particular fiscal harmonisation as key issues. In general the Lithuanian Government follows here a realistic implementation schedule, but certain delays e.g. on fiscal harmonisation and railway restructuring indicate that efforts should be made to maintain the ambitious rhythm of implementation measures. The administrative capacity of existing institutions in the road sector should be improved by increasing the staff working in the area, in particular the State Road Transport Inspectorates. On railways, the independence of the management of railway undertakings and an appropriate separation of the infrastructure management from the transport operations should be ensured in the framework of the necessary restructuring of railways as well as reorganisation and strengthening of the railway administration.

On aviation, efforts need to be concentrated now on the necessary administrative restructuring under the new revised Civil Aviation Law. The envisaged implementation of the ECAA agreement should stimulate, already before accession, the transposition of a significant part of the EC *acquis*. As regards maritime safety, according to statistics of the Paris MoU Port State Control system, the safety performance of Lithuanian registered ships has improved since last year. Lithuania has taken some relevant legislative measures towards the implementation of international and European regulations. Despite this fact, the number of ships detained by members of the Paris MoU is still high in comparison with the EU's ship detention average (3.6% in 1999). In conclusion, Lithuania needs to strengthen its maritime administration in order to further align with the *acquis* and to further improve the trend regarding the detention rate concerning its own fleet. Care should be taken that there is a sufficient number of trained inspectors to apply the *acquis*.

### ***Chapter 10: Taxation***

Since the 1999 Regular Report progress has been made in strengthening the administrative capacity, in particular regarding the State Tax Inspectorate. However further legislation remains to be adopted in the areas of VAT and excise duties.

In the area of **indirect taxation**, progress in the alignment of the VAT and Excise legislation was limited and legislative reform has not been finalised in accordance with the relevant 1999 Accession Partnership short term priorities. The current Law on VAT was amended in April 2000 in order to eliminate tax exemption for public transportation services. A reduced rate of 5% was introduced for these services. No new legislation has been adopted in the area of excise duties.

With regard to **direct taxation**, the Law on Profit Tax was amended in December 1999 in order to reduce the tariff of profit tax and unified taxation of dividends.

In the area of **administrative co-operation and mutual assistance**, Conventions for the Avoidance of Double Taxation of Income and Capital Gains, and the Prevention of Fiscal Evasion between Lithuania and Iceland, Italy and USA came into force in January 2000. Lithuania has also signed (but not yet ratified) Conventions on the same with Russia, the Netherlands, Croatia and Slovenia.

The tax administration system is constituted of the State Tax Inspectorate (STI) under the Ministry of Finance and ten subordinate County Tax Inspectorates. The State Tax Inspectorate is responsible for tax management and administration. The city and region departments operate under subordination of the county tax inspectorates. Over 3500 people are employed within the tax administration system, of which approximately 6% work at the central level. With a view to strengthening and improving the tax administration, the Inspectorate has devised (in March 2000) a Strategic Plan for the years 2000-2004. The local networks of all regional bodies of the State Tax Inspectorate were connected to the central network in April 2000. In order to develop an integrated tax information system, a system of registration and declaration of taxes was introduced in all main departments of the Inspectorate.

### *Overall assessment*

Despite efforts made since last year's Regular Report, further legislation remains to be adopted in the area of VAT and excise duties.

The list of VAT exemptions in Lithuania is broader than the list in the Sixth directive, no refund scheme for taxable persons not registered within the country is provided, and no 'reverse charge' provisions exist. As to excise duties, beer must be taxed taking into consideration the alcoholic strength and wine by reference to hectolitre, cigarettes are to be charged not only with a specific excise duty but with a combination of the specific rate and the ad valorem rate. Thus further improvements are required in both VAT and excise duty legislation.

Regarding administrative capacity, some progress has been made in terms of strengthening and modernising of the State Tax Inspectorate by means of a systematic review of internal procedures. This work will have now translated into concrete results, notably by a reduction in tax arrears and an increase in tax revenue. Further training of staff and improved exchange of information are also needed.

### ***Chapter 11: Economic and monetary union***

A detailed assessment of Lithuania's economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis*--as defined by title VII of the EC treaty and the other relevant texts--which candidate countries should implement by accession at the latest, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Since the last Regular Report, Lithuania has made no further progress in the adoption of the EMU related *acquis*.

### *Overall assessment*

Lithuania will participate in EMU upon accession with the status of a country with a derogation as per Article 122 of the EC Treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, Lithuania has adopted substantial parts of the EMU related *acquis*. Further progress is necessary with respect to the independence of the Bank and of the Board members and the prohibition of direct public sector financing by the central bank.

As regards the prohibition of **privileged access of the public sector to financial institutions**, the Lithuanian legislation is already fully in line with the *acquis*. Concerning the **independence of the central bank**, the current law already satisfies the main financial independence requirements. However, there is still the need to grant personal independence to the Central Bank Board members and to modify the procedure of accountability to Parliament to strengthen the institutional independence of the Bank. While Lithuania's Central Bank has been following the practice of not financing the public sector directly, Lithuania needs to adopt legislation ensuring the **prohibition of direct public sector financing by the central bank**.

### *Chapter 12: Statistics*

In the past year, Lithuania has made further improvements in the field of statistics.

Concerning **statistical infrastructure**, the Department of Statistics under the Government is the central statistical institution. It employs 270 staff in its central administration and 280 staff in the territorial branches. A major positive development since the last report is the reform of the legal basis adopted in December 1999. Progress has also been made in the concrete handling and application of international classifications in their national versions, some social and regional statistics, external trade, price and other macro-economic statistics as well as some business statistics.

As regards **regional statistics**, NUTS level III is now defined. GDP calculations for 10 counties are available. During the 1st quarter of 2000, the regional statistics have been improved by including some additional sectors (communications, transport and energy facilities) in the survey.

### *Overall assessment*

Lithuania has achieved a good level of legal alignment in the field of statistics, but without sustained effort these achievements could, however, be lost quickly. For some areas like agricultural statistics, shared responsibilities require careful and continuous co-ordination. Co-operation between the Department of Statistics and the Ministry of Agriculture must be improved. Overall, the administrative capacity of the Department of Statistics is very high, with a staff which is highly qualified and well trained. However, in order to keep up progress, adequate financial resources should be secured

particularly for the preparation and conduct of the censuses of population and agriculture (to be held in 2001 and 2002). As regards **demographic and social statistics**, the reduction of frequency for the Labour Force Survey is a matter of concern.

Nearly complete national accounts, including the capital account and also quarterly accounts are produced regularly. In the area of **macro-economic statistics**, the focus should be put on quality improvement and the refinement of methodology, a process requiring sustained effort. The following areas deserve attention: investment statistics, consumption of fixed capital, developments for Input and Output tables, improvement of GDP coverage (hidden economy) and Government finance statistics. Apart from their quality, macro-economic statistics need appropriate communication and transparency around them in order to increase and maintain the confidence of users.

For a series of statistical domains improvement is still required, but work is already underway. In this category the methodology for labour force statistics, labour cost statistics, social protection, price statistics, internal trade, construction, transport and tourism statistics should be mentioned. Regular structure of earnings surveys also need to be introduced and will consume substantial resources.

Despite the very positive efforts, a number of areas still need substantial development. Above all the **business statistics** system in general should be mentioned. The business register, in particular the reliability and timeliness of the information it contains, needs improvement. Also the extension of statistical observation units to local units and kind of activity units, and the extension of short-term industry and production statistics will greatly benefit a number of other areas too. Progress must also be achieved in regional statistics, mainly through developments in other areas resulting in statistics available at regional level. **Agricultural statistics** need extension and constant improvement in order to meet the demand in this policy area.

Impartiality and confidentiality of statistics must continue to be ensured by the Department of Statistics. The maintenance of the very good status and reputation of LDS within the Government is required, also with respect to its capacity to recruit, retain and adequately remunerate the skilled staff needed.

### ***Chapter 13: Social policy and employment***

Since the last Regular Report, there has been some progress in transposition and implementation of the social *acquis*, notably in the field of health and safety at the workplace. As regards administrative capacity, the active role played by the Ombudsman for equal opportunities has to be noted.

In the area of **labour law**, a law establishing a wage guarantee fund was adopted in September 2000. According to this law, all employers must pay an amount equal to 0.2% of employees' salaries into the fund. This fund should provide a support to unpaid workers of insolvent companies.

In the field of **equality of treatment for women and men**, the Ombudsman, who may carry out inspections to see how employers implement the law on Equal Opportunities, hear cases of administrative offences and impose administrative sanctions, has been very active over the reporting period. Also the State Labour

Inspectorate is authorised to carry out inspections in order to see how employers comply with labour legislation that forbids sex discrimination at work or in seeking employment. In order to avoid duplication, a cooperation agreement was signed between the State Labour Inspectorate and the Office of Equal Opportunities Ombudsman in May 2000. An Inter-Institutional Commission of Equal Opportunities was established in March 2000 with the main task of co-ordinating activities of state institutions in the field of equal opportunities.

In the field of **health and safety**, four new pieces of legislation were adopted over the reporting period, transposing the directives on work equipment, safety and health signs, fishing vessels and noise; however this legislation has not yet entered into force. Four pieces of legislation adopted in previous years came into force (display screen equipment, lead, asbestos, and mineral-extracting industries). The control and supervision of compliance with occupational health and safety legislation is the competence of the State Labour Inspectorate, with the exception of controls at sea. The number of inspectors has been slightly increased up to 152 as of September 2000. Some training seminars for labour inspectors have been organised during the reporting period. From July 1999 to July 2000 the State Labour Inspectorate inspected 3065 enterprises. During these inspections, it detected 81331 infringements of safety and health and labour law in enterprises and imposed fines for the sum of about € 400 000.

In the field of **public health**, the legislation on maximum tar yield of cigarettes has been brought closer to the *acquis*. As regards administrative capacity, in November 1999, the Ministry of Health Care established a State Public Health Care Office which is charged with the monitoring of public health, drafting of the Public Health Care Strategy, and co-ordination of activities of public health care institutions.

As regards **social dialogue**, a Law on the Regulation of Individual Labour Disputes was adopted in February 2000, aimed at enhancing bilateral dialogue in enterprises and improve information and consultation. Training of social partners on collective bargaining and on negotiation skills has taken place.

Concerning **employment**, Lithuania has experienced in the reporting period the highest level of registered unemployment since independence. In September 1999, the Youth Labour Centre was founded in Vilnius aiming at helping young people to get acquainted with the labour market situation, training possibilities, and future employment prospects. In accordance with the Accession Partnership, the Employment and Social Affairs Directorate General is carrying out an employment policy review with Lithuania.

In the area of social protection, at the end of the reporting period, people of pension age accounted for 20.1 per cent of the total Lithuanian population of 3.7 million. The major part of pensioners are women.

In April 2000, the Government approved the concept of the Pension System Reform, setting out the objectives of the reform, based on the introduction of a three-tier system: pay-as-you-go pension schemes, compulsory accumulative pensions, and voluntary accumulative pensions. On the basis of this decision, the economic feasibility of the reform has been worked out.

In January 2000 two laws came into force, namely the Law on Pension Funds which provides for the establishment of private pension funds and the Law on the Social Insurance of Labour Accidents and Occupational Diseases, which provides that the burden of paying benefits to the employee will be moved from the employers to the State Social Insurance Fund.

### *Overall assessment*

The level of Lithuania's alignment with the *acquis* in the field of social policy and employment varies across sectors. In particular, while this level is good in the area of equality of treatment, current efforts need to be kept up as regards labour law and social dialogue. Implementation and enforcement continue to represent a cause for concern. Lithuania's effective capacity to transpose and implement several health and safety directives will require substantial financial efforts. Concerning administrative capacity, while most of the institutions are in place, they need to be strengthened to enforce legislation.

As regards labour law, provisions still to be introduced include procedures for information and consultation of the workers representatives and completely new legislation on posted workers. The planned adoption of a new Labour Code should result in full alignment with the labour *acquis*.

In the field of equal treatment for women and men, Lithuanian legislation is substantially in line with the *acquis*. The main provisions still to be introduced regard the shift in the burden of proof in cases of discrimination based on sex and the introduction of a definition of indirect discrimination. The Ombudsman Office has proved to be effective in enhancing the implementation of equal treatment.

As regards public health, the Law on Public Health Care needs to be adopted and the legislation on communicable disease surveillance and control improved. As regards administrative capacity, the key institution in the field of public health care is the Ministry of Health. The State Health Fund was created in 1999 to finance health programmes and public organisations engaged in public health activities. The State Patient Fund implements the compulsory health insurance fund budget, supervises the volume and quality of services provided by the health care or pharmaceutical undertakings and supervises the activities of the Territorial Patient Funds. It also analyses the impact on the population's health of the commercial or industrial activities of undertakings, establishments and institutions.

In 1999, the Ministry of Health prepared a public health reform programme which is under implementation. Institutional set-up should be reinforced by delegating clear responsibilities in the public health area. Training should be provided for public health specialists.

Social dialogue is still in an early stage, particularly on the employers' side, where considerable efforts are still needed to set up appropriate structures and organisations. In the field of social dialogue, there is a predominance of tripartite structures, where the government still plays a rather large role. Bipartite social dialogue is a lot less developed, one of the problems being the low unionisation of workers (6 to 10%) and

the fact that trade unions are not always recognised by new privatised companies. Collective bargaining on issues of labour relations at sectoral level is not widespread, while it is more common at the lower (company) level. The Government administrative capacity on social dialogue should be reinforced to better motivate and follow autonomous social dialogue, for instance through the encouragement of appropriate structures at sectoral level, and through regular registering, analysis and monitoring of collective agreements and their contents, both at sectoral and enterprise levels.

As regards the labour market, the National employment strategy, (with a view to later participation in the European Employment strategy) and a joint employment review need to be finalised. This should lead to the signature of the joint assessment paper at the end of 2000 or beginning of 2001. Labour policy is implemented by the following institutions: the Lithuanian Labour Exchange, the Labour Market Training Office, and the State Labour Inspectorate.

The Lithuanian Labour Market Training Office is a system of vocational training and counselling of adults which covers the whole territory of the country. The Office has six regional branches to provide vocational training for the unemployed.

As regards preparation for the ESF, training of staff and development of management systems will be of particular importance in order to meet EC requirements.

Lithuania needs to continue aligning its legal framework with the *acquis* in the field of occupational health and safety at work, notably as concerns the protection of workers from chemical agents and their preparations. Information on health and safety provisions, notably risk evaluation, is available to all concerned actors via the State Health and Safety at the Workplace Information Centre. There is a need to train the staff of institutions and to pursue efforts aimed at strengthening enforcement bodies in particular the State Labour Inspectorate.

As regards social security, Lithuania has set up the legal and institutional framework for reforming its social security system. Concerning administrative capacity, all institutions are already in place. Lithuania's social insurance system is administered by the State Social Insurance Fund Board (SODRA's Board). The Board operates a network of 52 territorial subdivisions that register insured persons, collect social insurance contributions, supervise their payment and pay out basic social insurance benefits. SODRA is experiencing a difficult financial situation. Therefore, the pension reform needs to be pursued.

Legislation transposing the EC Directive based on Art. 13 of the Treaty relative to **discrimination** on the grounds of race or ethnic origin will have to be introduced and implemented.

### ***Chapter 14: Energy***

Since the last Regular Report, apart from some measures taken to further align legislation to the *acquis*, overdue political and operational decisions to modernise the energy sector constituted the main progress. On the basis of the National Energy Strategy adopted on 5 October 1999, the Government pursued the reform of the

energy sector and the preparation of the decommissioning of Unit 1 of the Ignalina Nuclear Power Plant (INPP). The Commission and the Lithuanian authorities maintained a dialogue on these matters, particularly through a number of meetings of a bilateral Energy Working Group.

Concerning **security of supply**, Lithuania has not yet aligned its legislation to maintain minimum oil stocks. For fossil fuels, Lithuania remains dependent on Russian oil and gas deliveries. The opening of the Butinge oil terminal on the Baltic Sea in November 1999 will allow Lithuania to diversify its supply of crude oil by sea. The supply of nuclear fuel remains assured through long-term delivery contracts with Russia.

As regards **competitiveness and the internal energy market**, Lithuania, Estonia and Latvia decided in February 2000 to create a Common Baltic Electricity Market as well as to establish transmission links between the three countries. This project is to be concluded by 2002.

Electricity is exported to Latvia, Estonia, Poland, and – after settlement of a € 80 million debt – again to Belarus.

To join the internal energy market, the Lithuanian grid needs to be linked to the UCTE distribution network. In September 1999, Lithuania and Poland established a joint working group to prepare such a link. In May 2000, it submitted its first report to the Prime Ministers of both countries. The project will cost an estimated € 380 to 410 million. Lithuania considers this interconnection an essential priority. Given the size of the cost, its feasibility and financial design still need to be carefully evaluated.

In October 1999, the Mazeikiai Oil company, as one of the largest single enterprises in Lithuania with the Mazeikiai oil refinery, the Butinge oil terminal and an oil pipeline enterprise, was partly sold to a private foreign investor. An ambitious modernisation plan aims at the expansion of production by 2004. A fierce domestic political debate over the large public cost incurred under this deal brought down the Government of the time. The new management signed contracts with various Russian companies on the processing of crude oil and entered into a long-term agreement on the distribution of its refined products overseas with BP Amoco.

The Electricity Law was adopted by Parliament in July 2000. It creates a preliminary basis for alignment. Eligible customers will, as from 1 January 2001, be those consuming more than 20 GWh. This amounts to 24% of the market. Full market opening is foreseen for the end of the decade. The Electricity Law will also strengthen the surveillance powers of the National Control Commission for Prices and Energy. The reform and privatisation of the main Lithuanian electricity utility Lietuvos Energija (Lithuanian Energy, LE) was started. Its unsound financial and managerial shape had become particularly evident in late 1999. In May 2000, a law on the restructuring of LE was passed to separate its production, transmission and distribution functions. The large Elektriniai thermal power plant and various heat and distribution enterprises are being split off as separate companies. LE will retain the transmission network. In March the Government selected a Western consortium as advisor for the privatisation of LE.

A Law on Natural Gas was adopted by Parliament in October 2000. It is the base for full legal transposition and enforcement by 2002. Detailed market opening plans remain to be defined by Government decree. In December 1999, the National Control Commission for Prices and Energy approved new prices for natural gas that came into effect in January 2000. The new prices are calculated according to a methodology approved by the Commission in October. In February 2000, the Government approved the plan for the restructuring and privatisation of Lietuvos Dujos (Lithuanian Gas, LD). This process will include the splitting off of its liquid gas and gas equipment businesses. In March, a consortium was appointed as privatisation advisor for LD.

Lithuania has not yet transposed EC legislation on energy efficiency. Within the SAVE II programme, the Lithuanian Energy Institute and Energy Agency are co-operating with Swedish and British partners to identify the obstacles to improved energy efficiency in housing and industry.

With regard to administrative capacity, the Ministry of Economy has the overall policy responsibility in the energy sector. The Division of State Reserves is responsible for the regulation of oil supplies and crisis management. It has a staff of four. It faced particular situations in 1999 and 2000 due to the transitional stoppage of oil and gas supplies from Russia and the provisional closure of both units of INPP. Within the Ministry, an Energy Conservation Department was established in 1993. With eight staff members, it aims to implement the 1996-2000 current National Energy Efficiency Programme. The State Energy Inspectorate, operational since 1995, supervises the State-owned utility companies with a staff of 100. The State Price and Energy Control Commission has been working since 1997. As an independent public institution, it reports directly to the President and submits an annual report to the Seimas. It engages a staff of 42. It was attributed additional tasks in mid-2000. County and municipal administrative bodies manage local and renewable energy resources. An Energy Efficiency Centre was established in 1995. It provides information on energy efficiency and trains energy auditors.

The Lithuanian nuclear safety authority VATESI submits a yearly report on nuclear safety to the Prime Minister. It checks the compliance of the INPP with licensing requirements and assumes other supervisory tasks. It has five departments (licensing, safety assessment, radioactive waste, nuclear material control being the operational ones) and a staff of 34. According to an April 2000 plan, it is to be increased to 48, and later 60 employees. A quality assurance system is being introduced. In December 1999, the Government authorised the Ministry of Economy to establish the Radioactive Waste Agency by 1 January 2001. It will base its work on the Law on Nuclear Energy (January 1997), the Law on Radiation Safety (January 1999) and the Law on the Management of Radioactive Waste (May 1999).

In the **nuclear energy** field, Lithuania operates the Ignalina Nuclear Power Plant (INPP) with two RBMK-type reactors with a nominal capacity of 1500 MW each. Against a still sensitive domestic political background, the Lithuanian Government set out to implement the Lithuanian commitment of October 1999 to close the Ignalina NPP, beginning with the closure of Unit 1 by 2005. At the end of 1999, the Government appointed a special Vice-Minister of Economy to manage this task. In

February 2000, an inter-ministerial commission was charged to implement the National Energy Strategy with regard to the closure of the INPP. It comprises representatives of Ministries as well as industrial and local interest groups. The managerial capacity and independence of the INPP are being strengthened. In March 2000, LE started re-paying € 80 million of arrears to the INPP. At the INPP, a special decommissioning unit started its work in April 2000. In May 2000, the Seimas approved a Decommissioning Law for Unit 1 of the INPP.

In June 2000, the Lithuanian Government held a donors' conference with major industrialised countries and international financing institutions. It sought an initial € 200 million for projects to prepare decommissioning by 2005. Pledges amounted to more than € 215 million. About EUR 195 million will be delivered through the Ignalina International Decommissioning Support Fund, established in June 2000 and managed by the EBRD. The European Communities will be the major contributor. The conference was co-hosted by the European Commission.

With regard to nuclear safety, the Lithuanian nuclear safety authority VATESI approved a licensing plan for Unit 2. The licensing procedure is scheduled to last until 2002. The Government guaranteed a € 10 million modernisation project at the INPP. Between July 1999 and June 2000, the INPP implemented 127 of a total of 160 improvement measures planned under the nuclear safety improvement plan SIP-2. In March 2000, the Government adopted a new plan for the protection of the population in the case of a radioactive accident at the INPP. The plan defines new radiation safety criteria as well as provisions to inform foreign countries and international organisations in emergency cases.

### *Overall assessment*

Since the last Regular Report, Lithuania has undertaken crucial steps to reform the energy sector that still bears the hallmarks of the previous system from which Lithuania gained its independence a decade ago. The restructuring of the electricity and gas sectors was initiated as well as the process of closing and decommissioning the INPP. This is a formidable challenge in terms of regulatory and investment needs. An ambitious programme of privatisation of hitherto State-owned electricity, oil and gas utilities was started. The large size of loan and equity funding required to modernise existing conventional capacities to improve efficiency and environmental compatibility can only be met by attracting strategic investments. The Lithuanian Government used the donors' conference on the closure of Unit 1 of the INPP, held in Vilnius in June 2000, also to introduce the reform process and estimated investment needs to foreign governments and enterprises, seeking mainly long-term loans and equity investment. Further steps are in the hands of the new Government elected in October 2000.

By taking these steps, Lithuania addressed the short-term priorities of the 1999 Accession Partnership. However, given the increased workload on nuclear safety matters, Lithuania will need to make further efforts to achieve the demanded continued strengthening of the independence and technical capability of the nuclear safety authority. The Action Plan to implement the National Energy Strategy still needs to be formally adopted.

A calculation of the amount of current oil stocks, according to the *acquis* methodology, has yet to be carried out. Presumably, the required 90 days of stocks will need to be built up over a period of time. An administrative structure to manage these stocks needs to be established.

In terms of actual transposition of the *acquis*, Lithuania adopted two pieces of major legislation, the Electricity and Gas Laws. Genuine understanding of the potential of energy savings by the general public and energy consumers still has to be generated. Sufficient funding and staffing will need to be ensured for the administrative and regulatory institutions required for a flawless functioning of a liberalised energy market. Such funding has to be secured against the background of an austerity budget. Methodologies for energy price settings will need to undergo considerable changes in the next few years.

As regards the issue of nuclear energy, the EU has repeatedly emphasised, most lately at the European Council in Helsinki, the importance of a high level of nuclear safety in the candidate countries, in the context of the Union's enlargement. The Union has also asked for the earliest practicable closure of the candidate countries' nuclear power plants which are deemed non-upgradeable to international safety standards at a reasonable cost. The Ignalina NPP is such a case. During the reporting period, the law on decommissioning Unit 1 laid some important operational decisions into the hands of the Government. Thus, actual closure will still depend on the political will of the Government. Under this law, the Decommissioning Programme was due for adoption on 1 November 2000. As for Unit 2, the closure date will be decided at the 2004 revision of the National Energy Strategy. At the meeting of the Association Council in February 2000, the EU expressed its expectation that the definitive closure of Unit 2 will take place before 2009, at the latest. The Safety Improvement Programme (SIP-2) at the INPP and the project to install a diverse second shutdown system (DSS) need to be pursued. A comprehensive safety analysis report for Unit 2 (SAR-2) is due by 2002. Nuclear safety has to be ensured during the difficult transition from operation to decommissioning by maintaining a high level of technical and staff quality. Safety culture has to remain a key element of attention. Human resources at the nuclear safety authority (VATESI) need to be significantly increased in the short term to overcome the obvious mismatch between the limited size of technical staff and an increased workload resulting from the implementation of safety improvement programmes and the preparation of the decommissioning of Unit 1. Sufficient funding needs to be allocated to the State Agency for Radioactive Waste Management that is to be established on 1 January 2001. Finally, due attention should be given to preparing the implementation of Euratom safeguards.

### ***Chapter 15: Industrial policy***<sup>11</sup>

Since the 1999 Regular Report, the Government, in line with its 1999 commitments, has developed further the political and legal framework necessary for the in-depth restructuring of Lithuania's industry. Efforts have, however, focused on conceptual aspects and little has been done in terms of implementation.

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<sup>11</sup> Developments in Industrial policy should be seen in relation to developments in the context of SME policy (see chapter 16 – *Small and medium-sized enterprises*).

After a wide consultation process the Government approved the 'Medium-term Industrial Development Policy and **Strategy** for its Implementation' in July 2000. The document formalises the Government's new approach to industrial restructuring and development, which moves away from direct support to under-performing companies and national champions. It spells out all the challenges to be met by Lithuanian industry for competing in the internal market as well as the principles and priorities that will guide Government support. On the latter aspect, the enforcement of the State aid law adopted in May 2000 should help ensure that undue subsidies to enterprises will stop definitively.

Other developments in terms of policy-making were the approval in May 2000 of the Business Innovation Programme and the amendment in September 2000 of the 1998 Export Development Strategy. The Business Innovation Programme identifies a series of actions to be undertaken for removing obstacles to and stimulating the development of an innovative enterprise sector in Lithuania, including networking between research institutes and enterprises. The ambitious Export Development and Promotion Strategy and its action plan for 2000-2002 put under the same umbrella all measures needed to boost the performance of Lithuanian enterprises on world markets.

In terms of **privatisation and restructuring**, some further, but slow, progress has been made since last year (*see Section 2.Economic criteria*).

The privatisation process is close to completion in the industrial sector (the private sector accounted for 89% of industrial output in 1999). However, the state still has minority shares in many companies, because it has been unable to sell its remaining shares after company privatisation (this is typically the case in traditional sectors such as mechanical engineering) or because the companies have made use of the possibility to pay debts to the state with equity. The acceleration that has been taking place since the beginning of 2000 in privatising large-scale enterprises in utilities, infrastructure and the banking sector should have a positive impact on industrial restructuring.

The situation has improved in area of bankruptcy procedures since the last Regular Report, but not sufficiently. In 1999, 251 new bankruptcy procedures were initiated in industry and trade against 47 in 1998. The Enterprise Bankruptcy Management Department set up at the Ministry of Economy has been strengthened, not only in numbers (22 staff in 2000 against 20 in 1999 and 6 in 1998) but also in capacity. The Department prepared proposals for the revision of the laws on bankruptcy and restructuring as well as an action plan, which details the provisions necessary for a speedy implementation of the laws. While the action plan was approved by the Government in September, the adoption of the two laws by the *Seimas* has been postponed several times. In this respect, Lithuania has made only limited progress in meeting the relevant short-term priority of the Accession Partnership.

Over the reference period the sectors most successful at restructuring continue to be branches that have managed to attract significant amounts of FDI through privatisation such as textiles and foodstuffs. Globally, FDI outside the privatisation process is disappointing. The Government considers that improving the business environment is key to fostering FDI after the completion of the privatisation process and attracting greenfield investment. Significant progress has been made as regards

the business environment since the 1999 Regular Report (*see Chapter 16 – SMEs*). As for more direct investment promotion instruments the Government has also made efforts to make the legislation on Free Economic Zones compatible with State aid rules (*see Chapter 6 – Competition policy*).

### *Overall assessment*

Lithuania's new policy towards industry constitutes an effective re-orientation of the Government's policy towards the speeding up of structural reforms.

The strong point of the industrial strategy is its global approach and integration with other policies, but it is weak on implementation arrangements and, in particular, does not contain any indication of timing and financing. The Government should now move to the implementation phase. The track record of implementation should confirm that the Medium-term Industrial Development Policy is in conformity with the concepts and principles of EC industrial policy, i.e. market-based, stable and predictable. In working out delivery mechanisms, the Government should clarify how it intends to involve business associations and support the implementation of the sectoral strategies it invited them to develop.

The fragmented ownership and the low ownership dynamics (the environment for developing the ownership and corporate governance system is still not fully adequate) put a break on industrial restructuring. Another factor that hinders in-depth restructuring is the lenient financial discipline in enterprises, which is caused by a slow enforcement of bankruptcy procedures and the existence of soft budget constraints. It is therefore regrettable that the laws on bankruptcy and restructuring have not yet been adopted. The development of the right institutional set-up and competencies for enforcing the future bankruptcy and restructuring legislation should be given the top priority. The approach to enterprise restructuring should be based on an assessment of the needs of individual companies and, in particular, of their future viability rather than on sectoral priorities.

The central body responsible for the formulation and co-ordination of industry policy is the Department of Industry and Business at the Ministry of Economy. A wide range of agencies and governmental bodies are involved in the implementation process. Several mechanisms exist for the consultation of business representatives. The necessary administrative structure is in place and generally adequate. However, Administrative Courts are understaffed and cannot address all bankruptcy claims. Hence, out of court settlement procedures need to be improved. In order to have a greater impact the Lithuanian Development Agency should be strengthened. For the effective implementation of the medium-term strategy the roles of the various players (Ministries, implementing agencies, business associations, research and academic institutions) should be clarified before setting up any co-ordinating structure such as the envisaged Industrial Competitiveness Council.

## *Chapter 16: Small and Medium-sized Enterprises<sup>12</sup>*

During the reporting period, progress has been made in eliminating the shortcomings identified in the last Regular Report. The Government has made efforts to improve the coherence of its SME policy and has undertaken several initiatives to simplify the business environment and develop the support infrastructure. However, it has postponed the adoption of legal acts establishing financial instruments.

After several months delay the Government finally approved an **SME strategy** in September 2000. The “Small and Medium-sized Business Development Strategy until 2003 and implementing measures for the years 2000-2001” is an all-embracing strategy that defines the Government priorities to promote the development of SMEs. Short-term priorities include the improvement of the legal environment, access to finance, the strengthening of the business support infrastructure as well as of business support services, the development of business self-regulation, and the preparation of projects that could be funded through pre-structural aid instruments. By taking these measures, Lithuania has made progress in meeting the relevant short-term priority of the Accession Partnership.

In early 2000 a significant action was taken with the setting up of an inter-ministerial structure to remove a major obstacle to private sector development in Lithuania, i.e. the complex and unstable **business environment**. The *Seimas* has already approved some proposals regarding e.g. taxation. The adoption of a new Company Law in July 2000 is another positive step towards the improvement of the business environment (*see Chapter 5 - Company law*).

Another area where the Government has made notable efforts is the development of the business support infrastructure with the opening of a branch of the national SME agency, two business information centres and three business incubators in the regions. This is a positive evolution, although the limited resources, both human and financial, allocated to these new institutions cast some doubts about their efficiency. In addition, two Euro Info Centres are in the process of being selected.

No progress has been made since the last Regular Report in relation to the **SME definition** applied by Lithuania, which is much more restrictive than the EC definition.

### *Overall assessment*

Lithuania's policy towards SMEs generally follows the principles and objectives of EC enterprise policy. It rightly puts emphasis on the business environment, access to finance and to quality support services, human resource development, corporate governance, innovation and co-operation between SMEs and larger enterprises. However, the lack of funding hinders effective implementation and contradicts the official statements that present the creation of small business as a key priority for

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<sup>12</sup> Developments concerning SME policy should be seen in relation to developments in the context of industrial policy (*see Chapter 15 - Industrial policy*).

improving the competitiveness of Lithuania's economy and offsetting the impact on employment of the restructuring of large industrial companies. The adoption of several key policy documents in 2000 (including the Small and Medium-sized Business Development Strategy) that constitute an overall framework for improving the competitiveness of the Lithuanian economy should give momentum to the promotion of SMEs in the years to come. Furthermore, the new strategy paper indicates that amendments to the Law on Small and Medium-sized Business Development will be prepared by the end of 2000 to fully align the definition in respect of the number of employees and the independence of the enterprise.

The efforts initiated in 2000 to simplify the business environment should continue. It seems that the activities of the working groups specifically dedicated to the reduction of business regulations and bureaucracy and to SME development have so far had less impact. They have, however, a key role to play to make sure that regulators 'think small first' and avoid creating undue burdens on business.

The central body responsible for the formulation and co-ordination of enterprise and SME policy is the Ministry of the Economy. Several agencies, including SMEDA - the Small and Medium-sized Business Development Agency, are involved in implementation. All initiatives are funded by the SME Promotion Fund. As many as three consultative bodies advise the government on various SME-related issues.

While the basic administrative capacity is already in place at both national and regional levels, significant rationalisation in the functioning of the institutions will be necessary in order to prepare Lithuania's SME sector for integration into the European Union. The Ministry of the Economy should not externalise its core policy-functions to SMEDA. The resources of the agency (9 staff in 2000) should be increased, so that it can play a strong role in networking and co-ordinating the implementation of the national policy over the whole territory of Lithuania. The further strengthening of the business support infrastructure should be made on the basis of an evaluation of the existing services to enterprises and of a gap analysis and implemented through the National Development Plan.

### ***Chapter 17: Science and research***

Since the last Regular Report, a number of measures have been taken to ensure the successful implementation of the *acquis* and to strengthen capacities in the field of research and technological development.

The Lithuanian Parliament adopted a Law on Higher Education in March 2000, which *inter alia* regulates research activities of higher education institutions. (*See also Chapter 18*).

With a view to more effective implementation of the Programme on Computer Network and Internet Services for Lithuanian science and higher education (2000-2004), the Board of the Lithuanian Academic Network LITNET was established.

Since Lithuania became associated to the **Fifth Framework Programme** in October 1999, experts participating in the Programme Committees and in the relevant advisory bodies have been appointed. A National Contact Point (NCP) system was established.

### *Overall assessment*

The regulatory framework of the research system has been improved by way of the adoption of the new Law on Higher Education. However the legal basis needs to be further strengthened by the adoption of secondary legislation necessary to implement the Law.

For the further development of the sector it is essential to have an increase in the gross domestic expenditure in research and development as percentage of GDP which is relatively low (0.52 % in 1999)

Lithuania is a member of COST programme since May 1999 and EUREKA Initiative since June 1999.

Further institution building in the field of science, research and technology is also necessary (upgrade of infrastructures, new equipment, staff training etc). The links between research institutions, industry and SMEs should be promoted.

### ***Chapter 18: Education and training***

Since the last Regular Report Lithuania has made progress in the area of education and training.

In 1999 Lithuania continued to successfully participate in the **Community programmes** (*see bilateral part A*). In addition, the Association Council adopted in September 2000 a decision to allow participation in the second phase (2000-2006) of the Socrates and Leonardo da Vinci programmes.

There have been no legislative developments in the area of **education of children of migrant workers** since the last Regular Report.

As concerns **non-discrimination toward EU citizens in the field of education**, the new Law on Higher Education, adopted in March 2000 (and in force since September 2000), aims at creating conditions for the free movement of students and ensuring equal treatment for EU and Lithuanian nationals.

The new Law on Higher Education provides for the creation of the non-university higher education sector, quality control of studies and science, rules governing private and public education, and requirements for higher education programmes, doctorate studies, doctoral theses and scientific degrees.

In December 1999, implementing legislation was passed aiming at enhancing higher education. Moreover, also in December 1999, the Lithuanian White Paper on Higher Education was approved, outlining the development of higher education until 2015.

With a view to enhancing the mobility of students and lecturers between the Baltic States, an agreement on recognition within the Baltic Higher Education space between Lithuania, Latvia and Estonia was signed in February 2000.

### *Overall assessment*

Lithuania has made progress in reforming its education and training system and in introducing European standards. Lithuania should build on progress already achieved by completing the legislative alignment and fully implementing the reform of the education and training system.

The EC Socrates, Leonardo da Vinci and Youth for Europe programmes have been successfully administered in Lithuania by the national agencies. Lithuania's participation in these programmes during 1998-1999 was a good tool for its integration in Community networks and the preparation of accession. Lithuania has prepared actively for participation from 2000 in the new programmes (second phases of Socrates and Leonardo da Vinci, and Youth).

Lithuania still needs to bring its legislation fully in line with the *acquis* on the education of children of migrant workers.

National policy in the field of education is implemented by the Department of Science and Studies (30 employees) of the Ministry of Education and Science.

The Ministry of Education and Science has gained extensive experience *via* its participation in a number of international projects.

### ***Chapter 19: Telecommunications and information technologies***

Since the last Regular Report, developments have taken place as regards the regulatory regime in the telecom sector.

In the area of the **telecommunication markets**, no development can be reported as regards the liberalisation of fixed-line telephony; in this sector, the incumbent operator Lietuvos Telekomas, enjoys a *de jure* monopoly regime until 31 December 2002. In June 2000, the State Privatisation Fund sold another 25% of the shares of Lietuvos Telekomas, thereby reducing the State-owned shares to 10%.

As regards the **regulatory framework**, in May 2000, the Government decided the establishment of the Communications Regulatory Authority through the reorganisation of the State Radio Frequency Service. This reorganisation has proceeded but, as of October 2000, it was not yet completed pending the appointment of the Director of the Authority.

The Communications Regulatory Authority is responsible in particular for allocation of radio frequencies, assignment of numbers, supervision of the National Telecommunications Numbering Plan, dispute settlement between the operators, whereas the Ministry of Transport and Communications is responsible for issuing licences.

With a view to aligning the legislation on data protection with the *acquis*, in April 2000 Lithuania amended the law on legal protection of data stored electronically.

In the field of **postal services**, the rules and tariffs for the provision of universal postal services were approved at the beginning of 2000.

### *Overall assessment*

Progress towards modernising the telecommunications sector began relatively late but the process is now well in hand.

The telecommunications market in Lithuania is liberalised except for fixed-line telephony communications. The foundations laid by the 1998 telecommunications law need to be built on to resolve the remaining problems regarding the harmonisation with the *acquis* in almost all of its most important aspects.

Rapid progress is now needed with the secondary legislation that is needed for the market to be liberalised and, in the meantime, to be effectively regulated. Price rebalancing and affordability remain crucial issues.

The Regulatory Authority needs to be strengthened to be fully operational, notably by ensuring qualified staff for its new tasks and appropriate financing.

The legislation on data protection needs to be further aligned.

As regards postal services, the state enterprise *Lietuvos Paštas* is obliged to provide universal postal services, while the other services have been liberalised. The basic legislation is in place, but there is still the need to ensure further alignment as regards complaints procedures. In addition, a regulatory agency in the field of postal markets has still to be established.

### *Chapter 20: Culture and audio-visual policy*

Since the last Regular Report, Lithuania has made significant progress in aligning its legislation to the audio-visual *acquis* and has met the relevant short term priority of the Accession Partnership. In June 2000, the Law on National Radio and Television was amended. The Law on Provision of Information to the Public was amended in August and in October 2000. A number of other new laws, also related to the audio-visual *acquis* were recently adopted (on tobacco control, on alcohol control and on fundamentals of protection of the rights of the child). The Regulations for Radio and Television Activity as well as those of the Radio and Television Commission were approved.

In February 2000, the Seimas ratified the European Convention on Transfrontier Television and the Protocol amending this Convention.

The Lithuanian Radio and Television Commission evaluated applications of 41 terrestrial television and radio broadcasters. Licences for 37 broadcasters were renewed.

### *Overall assessment*

Lithuania has achieved a high degree of alignment with the audio-visual *acquis*.

The Council of the National Radio and Television is responsible for the supervision of the activities of national radio and television and consists of 15 members. The Radio and Television Commission (LRTC) which is responsible for the supervision of the activities of commercial radio and TV stations and cable networks, consists of 11 members and has an administration of 9 employees. In accordance with the new law, it can impose sanctions for violations of the law or of license conditions.

The LRTC carries out most of its work effectively, but limitations on technical, financial and human resources restrict its capacities. Self-financing of the licensing bodies has improved on the basis of license fees.

While the administrative capacity of the LRTC is being strengthened, the sanctioning procedure needs to be improved.

### ***Chapter 21: Regional policy and co-ordination of structural instruments***

Since the 1999 Regular Report, Lithuania has made some progress in this field, mainly as regards the legislative framework and the development of the National Development Programme.

As regards the **territorial organisation**, some modifications at the municipal level have taken place. On the other hand, the new law on regional development enables the Government to form regions from several counties or municipalities in order to implement certain objectives of the National Regional Development Policy.

As regards the **legislative framework**, a law on regional development was adopted in July 2000. This law aims to establish the legal basis for the formulation and implementation of regional development policy as well as for the application and administration of EC structural funds.

As regards the preparation for programming, in October 1999, the Governmental European Integration Commission approved the preliminary National Development Plan for 2000-2002 (NDP). The NDP sets out the priorities and measures for the EC pre-accession instruments in Lithuania.

**Administrative co-ordination** has continued under the responsibility of the Ministry of Public Administration Reform and Local Authorities. In October 2000, the Parliament decided to abolish this Ministry, and to transfer all its functions (including the responsibility for the preparation for Structural Funds) as of 1 January 2001 to the Ministry of the Interior.

The National Regional Development Agency became operational in November 1999. It is responsible for the preparations of the NDP and is in charge of co-ordinating the preparation of Regional Development Plans. Due to its limited human and financial resources, it has not been able so far to fully carry out its foreseen tasks.

No development has taken place as regards **financial and budgetary management**. The State Control Office acts as external financial control body, which is independent from the benefiting agency. The State Control is also responsible for auditing under specific agreement with the Ministry of Finance. This is a temporary arrangement until proper internal audit legislation and structures are adopted (*see also chapter 28 and chapter 29*).

### *Overall assessment*

Although Lithuania has made some progress in this area, a number of serious difficulties remain, and efforts to develop the administrative capacity and to establish co-ordination mechanisms need to be continued.

The recently adopted law on regional policy represents a considerable step forward in trying to establish the structures required for Structural Funds programming and implementation. It does not, however, address all aspects covered by the relevant *acquis* and it is unclear to what extent this may be done through existing or future secondary legislation. Above all, the strong element of decentralisation contained in the Law raises some concern with regard to the administrative capacity to meet the requirements of the implementation of future Structural Funds assistance.

The National Development Plan and Regional Development Plans will need to be improved further in order to serve as comprehensive multi-annual regional planning documents. Partnership with regional, local and socio-economic partners needs to be strengthened by taking into account, in particular, sustainable development and equal opportunities.

Administrative capacity as regards both programming and project preparation and implementation is very weak due to the lack of funding and of staff.

On the central level, the responsibility for the preparations for the structural funds has been allocated to the Ministry for Public Administration and Local Authorities (MOPARLA) - to be merged as of 1 January 2001 into the Ministry of the Interior. The Regional Development Department should further develop its capacity for carrying out its functions in the field of regional development planning and the programming for Economic and Social Cohesion. However, further efforts will be needed before it can guarantee strong horizontal co-operation and co-ordination at national level. Therefore, capacity for the regional development planning process at central level still needs further strengthening and the increased involvement of social and economic partners. The current system of inter-ministerial consultation on policy issues and planning documents organised through various inter-ministerial working groups is not efficient, and mainly works on an ad-hoc basis.

Progress has been slow and strong efforts will be necessary in setting up a properly functioning financial control system for management of Structural Funds. Special efforts will have to be made in order to introduce internal audit structures in line with EC requirements in all Ministries concerned with the management of Structural Funds. There is still a strong need to develop a modern monitoring, reporting and evaluation system.

Based on the structures established by the Law on Regional Development, which may need to be further developed or reviewed, the introduction of structures for monitoring and evaluation must get high priority. Due to the tight budget situation, the capacity of Lithuania to co-finance future structural funds needs to be carefully analysed.

As to statistics, most of the key indicators are available at national level, with some shortcomings in the fields of social indicators, labour statistics and structural business statistics. No regional data are available yet for GDP data, social indicators and structural business statistics.

The strengthening of regional structures should focus on the establishment of local and regional partnerships, which may contribute to planning and project design within the overall partnership structure to be established with regard to the preparation and implementation of any Structural Funds assistance. To this end, it is of the utmost importance that the necessary structures for co-ordinated programming, management, monitoring, evaluation, financial management and control of Structural Funds assistance are established at central level, before a stand is taken on whether a further decentralisation is feasible or advisable.

## ***Chapter 22: Environment***

Since the 1999 Regular Report, Lithuania has continued to make progress in the field of environment, notably as regards legal transposition.

With regard to integration of the environment into other policies, over the past year Lithuania has started to implement the action programme for sustainable development adopted by all Baltic Sea countries in the framework of 'Agenda 21 for the Baltic Sea region'.

In the field of **horizontal legislation**, the *acquis* on access to information on the environment was transposed into Lithuanian law during 1999 and in April 2000 the Seimas aligned the Lithuanian legislation with the *acquis* on environmental impact assessment. From 1 July 2000, the supplementary legal acts adopted by the Ministry of Environment are in force. The competent authorities - Ministry of Environment and the Regional Environmental Protection Departments - are implementing the environmental impact assessment requirements from June 2000 onwards.

No new legislation has been adopted in the area of **nature protection** in the reporting period.

As regards **water quality**, in September 1999, the Ministry of Environment endorsed the Programme for the harmonisation with EC requirements. In November 1999, Lithuania transposed some requirements of the *acquis* on pollution caused by certain dangerous substances discharged into the aquatic environment. In December 1999, Lithuania adopted the environmental requirements for management of wastewater and manure in farms, transposing some requirements of the directive concerning the protection of waters against pollution caused by nitrates from agricultural sources.

In the area of **industrial pollution control and risk management**, the assessment of the cost of compliance with the IPPC directive was performed in March 2000. The

Ministry of the Environment has established the criteria for some eco-labels. In November 1999, Lithuania transposed some requirements of the *acquis* on the prevention and reduction of environmental pollution by asbestos, notably by putting a ban on the production and use of certain types of asbestos.

As regards **air quality**, by adopting in November 1999 the Law on Air Protection the Seimas transposed the EC framework directive in accordance with the relevant short term priorities of the Accession Partnership. In November 1999, Lithuania transposed some requirements of the *acquis* concerning emission of pollutants in the air.

As regards **chemicals and GMOs**, in April 2000, the Law on Chemical Substances and Preparations was adopted, setting the framework provisions in line with the *acquis*.

In the field of **waste management**, in 1999, the Programme for the management of hazardous waste was elaborated. The Programme on landfills has been also prepared. It provides for closure of the 300 operational landfills and establishment of 14 new landfills. In November 1999, some requirements of the *acquis* on waste, notably as regards permits, were transposed.

In the field of **nuclear safety and radiation protection** (*see also chapter 14 – energy, including nuclear energy*), in December 1999, the requirements of the *acquis* on shipments of radioactive substances and waste were transposed into national law. In December 1999, the Government, in line with the Radioactive Waste Management Law, approved the establishment from January 2001 of the Radioactive Waste Management Agency which will be responsible for management and disposal of radioactive waste and strategic planning. Producers of radioactive waste remain responsible for safe storage until the Agency becomes fully operational. In October 1999, Lithuanian law was aligned with the *acquis* governing the maximum permitted levels of radiation in imported agricultural products. Some norms regulating medical, natural and accidental radiation exposure as well as radiation exposure at workplaces have been passed.

In the area of **institutional strengthening**, the administrative capacity of the Ministry of Environment was further strengthened in the field of specialist training. The Strategy for involvement of Local Authorities in the implementation of the EC requirements was worked out in 2000. Efforts are being made to strengthen local authorities in respect of investment planning and implementation monitoring, especially in the field of water protection and waste management. Training programmes on environmental impact assessment are foreseen, along with the implementation of the new law.

### *Overall assessment*

Lithuania has achieved a fair level of alignment, although there are still major differences across sectors. Implementation is still a major concern in particular in sectors requiring heavy investments. While there is still a need for cost assessments in several areas, it is already clear that substantial investments will be necessary, in particular for the water and waste and IPPC sectors.

As regards horizontal legislation, Lithuania is in line with the *acquis* on Environmental Impact Assessment but some implementation measures are not yet in place. As for the access to environmental information, Lithuania is in line with the main requirements of the *acquis*; however, further legislative adjustments and a reinforcement of the Public Information division of the Ministry of Environment are necessary.

As regards nature protection, Lithuania's systems for identifying protected areas do not all comply with the EC's. Additional attention should be focused on the reinforcement and better co-ordination of the institutions in this field. Lithuania will need to make particular efforts as regards management plans of protected areas. Cost assessment on implementation still needs to be performed.

The water sector is an area where a lot still remains to be done both in terms of transposition and in terms of implementation. The designation of sensitive areas under the directive on urban wastewater and vulnerable zones under the directive on nitrates from agriculture sources has yet to be made.

In the field of air quality, the air framework directive and the daughter directives were transposed. Some substantial gaps in the legislation still need to be closed. A major challenge is the implementation of the *acquis* on control of volatile compound emissions resulting from the storage of petrol and its distribution.

While the framework legislation on chemicals is in line with the *acquis*, there is still the need to adopt the framework legislation on GMOs. In order to guarantee effective control, additional institutions have to be set up. The planned establishment of an Institute for Non-food Product Control charged with the supervision on chemicals should be implemented.

As regards waste, major efforts are still necessary. While Lithuania has incorporated most of the provisions of the waste framework directive into its law, the transposition of the *acquis* is scattered in many pieces of legislation. In relation to enforcement, authorities need to be strengthened and the monitoring structures improved in particular at local level. Major challenges are expected in the implementation of the landfill directive. Additional efforts are also required for the transposition and implementation of the *acquis* on packaging and packaging waste.

As regards industrial pollution and risk management, Lithuania needs to transpose the IPPC directive. A solid basis (both in terms of legal provisions and of administrative capacity) in the field of accident prevention already exists.

As regards radiation protection and nuclear safety, Lithuania has, in general, made a considerable effort to comply with the EC *acquis*. Lithuanian authorities need to take further action to align with the *acquis* on basic safety standards and on medical exposure. A general problem is the need to update the administrative infrastructure, increase the monitoring capacity and train experts. The implementation of EC requirements in the field of radiation safety should be stepped up. In this respect, improvements in co-ordinated preparation in case of a nuclear accident are needed. The Radiation Protection Centre under the Ministry of Health Care, which acts as a focal point for coordination is severely understaffed.

Overall, the administrative capacity to meet current goals is sufficient, the environment ministry is adequately staffed. A rather high number of authorities and institutions are involved in the implementation and enforcement of environmental legislation. While the structure needs to be rationalised to avoid duplication of work, a series of new institutions needs to be established to meet the *acquis* requirements.

### ***Chapter 23: Consumers and health protection***

Since last year's Regular Report Lithuania has made progress in aligning its legislation and reorganising the institutional set-up.

The Law on Product **Safety**, which was adopted already in June 1999, entered into force in January 2000. Further secondary legislation implementing part of this law has also been adopted. The Law on Food was adopted in April 2000 and entered into force in July 2000. This Law sets out the criteria for placing food products on the market as well as the competencies of state institutions and non-governmental organisations for consumer protection in assuring food safety. In September 2000 framework legislation on consumer protection was adopted, which provides for, *inter alia*, the establishment of a National Council for Consumer Protection.

As concerns **non-safety** related measures, legislation on advertising was adopted in July 2000. Rules for categorisation of labelling and marking of package and consumer information leaflets and regulations on the financial guarantees in the tour-organising services were adopted in Autumn 1999.

Until the National Council for Consumer Protection is established, consumer protection functions are essentially shared between the Ministry for Health (health and safety questions) and the Competition Council (economic interests of consumers). Enforcement for the Competition Council is provided by the Quality Control Office and by the State Hygiene Inspectorate under the Ministry of Health. During 1999, the Competition Council has been active in informing the population on consumer rights issues. A special telephone line for advice on consumer protection issues has been established.

The number of consumer cases resolved by institutions related to the protection of consumer rights is increasing. The Unfair Competition Investigation Division of the State Competition Council Division, which has 5 staff members, received 1,523 inquiries on consumer protection issues in 1999. Most complaints were on non-food products (67.2%). The State Quality Inspection checks the complaints of consumers and undertakes quality and safety monitoring. They carried out 14,836 checks on different products during 1999 and identified 12,947 cases of infringements imposing 9,551 penalty charges. The control of the safety of goods is carried out by regional branches of the State Hygiene Inspectorate under the Ministry of Health (11 territorial public health centres and 39 branches in the regions).

As of July 2000 the **market surveillance** institutions have been re-organised into two institutions (unified food and non-food inspectorates). This reorganisation covers both the central and the regional levels, however market surveillance shall remain centralised. The approved total number of staff for the Food and Veterinary Service,

including technical personnel, is 1,360, of which 90% have already been recruited. The Non-Food Products Inspectorate contains three main sub-divisions: Commodities Control, Services Control and Methodology and Analysis. The Inspectorate has been allocated a total of 100 posts of which 80 have been filled.

### *Overall assessment*

Lithuania has recently achieved a good level of transposition of the *acquis* in the area of consumer and health protection. The alignment process needs, however, to continue, and to be supplemented by effective enforcement mechanisms.

The National Council for the Consumer Protection should be established without delay. The strengthening of the consumer protection institutional system can be expected only once the Council is in place and operational and the market surveillance institutions are adequately reorganised. The establishment of a separate independent institution for the protection of consumer rights should raise the protection of consumer rights to a level of higher quality, as the Unfair Competition Investigation Division of the State Competition Council, currently dealing with consumer protection, is lacking in suitably qualified staff and resources.

Consumer protection needs to be strengthened by developing education programmes and supporting the activities of non-governmental organisations, as consumers are lacking knowledge about their rights. Much progress is still needed in this area.

### *Chapter 24: Co-operation in the field of justice and home affairs*

Since the 1999 Regular Report, progress has been made in most areas of justice and home affairs, both in terms of legislative alignment and administrative capacity. In particular, important legislation has been passed in the areas of asylum, border control and data protection. The enforcement capacity of institutions is being addressed by the Lithuanian authorities in a more serious manner and restructuring within the police and customs has helped to strengthen administrative capacity, however there is still considerable room for improvement.

In the field of **data protection**, Lithuania signed the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data in February 2000. In March 2000, the Government established a computerised register of personal data managers. In July 2000, a new Law on Legal Protection of Personal Data was adopted aiming at bringing Lithuanian legislation in this field closer in line with the *acquis*.

As regards **visa policy**, there are no developments of note to report since the last Regular Report.

In the field of **border control**, the Law on the State Border of the Republic of Lithuania and its Control was adopted by the Lithuanian Parliament in May 2000, addressing the relevant short term 1999 Accession Partnership priority. This will facilitate preparations for police and border cooperation in view of Lithuania's implementation of the Schengen *acquis*. The Law's main provisions include general

requirements for border crossing and a simplified procedure of border crossing according to different categories of individuals. The new Law also sets out requirements for control of Lithuanian territorial sea and air space, rules for crossing of the state border by Lithuanian and foreign troops, and the imposition of a ban on transportation of nuclear or other mass destruction weapons through the state border. In addition, the Lithuanian Government has adopted a substantial amount of secondary legislation, in view of further complying with the *acquis*.

Regarding demarcation of the Lithuania/Russia (Kaliningrad) border, formal demarcation is expected to start following the ratification by the Duma of the Russian Federation of the border agreement that was signed in 1997. The Lithuanian Parliament ratified the border agreement in November 1999.

Cooperation with Lithuania's Baltic neighbours has developed on the basis of the cooperation agreement between the police, customs and border guarding authorities of Finland, Latvia, Lithuania and Estonia on cross-border crime.

The replacement of military draftees by professional border police officers, which commenced in June 1999, but which will not be completed before 2004, should contribute to the building up of a professional Border Police Service. The Border Training Centre has been reorganised into a Border Police School, a two-year professional training programme has been designed and approved, and the new training programme started in September 1999. 15 new programmes on the improvement of qualifications have been prepared and are used to train officials of various ranks. Following the new programmes a total of 499 border police officers have been trained in January-June 2000.

During 1998-2000, the number of staff (including border police officers, frontier guards and civil servants) at the future EU borders has been increased from 463 to 504 employees at the border with Russia, as well as from 1341 up to 1993 employees at the border with Belarus. 3 new Border Police District Units have been established with State budget financing.

The Lithuanian Government adopted, in 2000, a number of resolutions with the objective of regulating **migration** flows (including rules and procedures of entry and stay, crossing and transit as well as rules for expulsion). The Law on legal status of foreigners, which entered into force in July 1999, was further amended during the reporting period, with the aim of bringing Lithuanian legislation closer in line with the *acquis*.

As of December 1999, Lithuania has begun to implement a Programme for the Control of the Migration Process. Covering the years 1999-2002, the programme is intended to regulate migration flows, namely by removing barriers obstructing the free movement of persons and preventing unlawful entry into and stay on the territory of the Republic of Lithuania. Rules on illegal employment are largely in line apart from an adjustment concerning checks on unemployed residents. The 1999 Accession Partnership short-term priority in this area has been partly addressed.

In the area of **asylum**, the Lithuanian Parliament adopted a new Refugee Law in May 2000. This Law, however, was subsequently vetoed by the President on the grounds

that several provisions were not in conformity with international conventions (in particular regarding the right to bar asylum seekers from entering the country on the grounds of state security and of public order). On the basis of the President's observations, the Lithuanian Parliament adopted, in June 2000, a new law, which now largely meets international norms and EU standards. In July 2000 the Government adopted a National Action Plan in the field of Asylum outlining priority actions until 2002.

In the area of **police cooperation**, the services of the Lithuanian Police Department have, in the last year, actively participated in the preparation and implementation of a number of action programmes (both national and international), ranging from control of narcotic drugs, prevention of drug addiction, prevention of illicit trafficking in human beings to combating organised crime and vehicle theft. In March 2000, a trilateral agreement was signed between Lithuania, Latvia and Estonia on co-operation in protection of witnesses and victims.

With regard to the **fight against fraud and corruption** (*see also B.1.1 Democracy and the Rule of Law*) the European Criminal Law Convention on Corruption was ratified by Lithuania in January 2000, in line with the relevant short term Accession Partnership priority. As part of its fight against corruption, the Lithuanian Parliament adopted in June 2000 the Law on Lobby Activities, including interest groups lobbying on political parties.

With a view to implementing the Law on the Compatibility of Public and Private interests in the Public Service, the High Commission of Ethics in Office, by way of its Resolution of March 2000, requires that private interests of civil servants, including institutions of local government be declared. In May 2000, the Lithuanian Government adopted a new Statute for customs officials in order to combat corruption inside the Customs Department. This Statute supplements the Code of Ethics for the Customs Department adopted in 1999 and envisages strict disciplinary sanctions, such as dismissal of corrupt officials.

The main institution to combat fraud and corruption – the Special Investigation Service (established in February 1997) – has been reorganised in accordance with the provisions of the Law on Special Investigation Service, which was adopted by the Lithuanian Parliament in May 2000. This Law establishes the Special Investigation Service as the main anti-corruption agency in Lithuania, independent and accountable to the Parliament and the President.

In the area of **drugs**, a chemical precursors database was established in October 1999, on the basis of the Law on Drugs and Psychotropic Substances Control.

In the area of **customs cooperation** (*see also Chapter 25- Customs Union*), the organisational structure of the Customs Department was changed in April 2000 to give more powers to the Fraud Prevention Service (which includes 3 units: the fight against smuggling, intelligence analysis and investigation divisions). As anti-smuggling is seen as the main activity of the Service, there are now 25 staff employed in the division for the fight against smuggling alone. The fight against smuggling division is working in close cooperation with mobile surveillance units. In January 2000, mobile surveillance units were established in 6 regional customs offices, with a

total of 13 customs officers, in order to carry out random checks on customs posts. During January-June 2000, 28 raids have been performed by these mobile units, where illegal and undeclared goods of a value of €0.5 million have been seized. Some progress can also be noted in the area of anti-corruption inside the Customs Department, with the adoption in 2000 of new Statutes allowing for dismissal of corrupt officials.

As concerns **judicial co-operation in criminal and civil matters**, in June 2000, a supplementary protocol to the convention on extradition was signed. In April 2000, the Lithuanian Parliament ratified the 1970 Convention on the Taking of Evidence Abroad in Civil or Commercial Matters, the 1980 Convention on International Access to Justice and the European Convention on Spectator Violence and Misbehaviour at Sports Events. The 1965 Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters was ratified in May 2000. A new Criminal Code was adopted in September 2000, which, *inter alia*, aims at bringing Lithuanian legislation further in line with the relevant *acquis* and international conventions.

### *Overall assessment*

Lithuania has, overall, achieved a reasonable degree of progress in the area of Justice and Home Affairs. This progress shall need to be sustained and built upon (both in terms of legislative alignment and administrative capacity) over the coming year. A general, and serious, weakness, however, remains the inability to ensure effective coordination among relevant institutions and bodies. This is most acute as regards anti-corruption activities and the fight against organised crime.

In the area of **data protection** the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data still has to be ratified. The new Law on Legal Protection of Personal Data has brought Lithuanian legislation in this field further in line with the *acquis*.

In order to ensure an effective personal data protection system the State Data Protection Inspectorate has to be reorganised into a fully independent supervisory authority. This process is ongoing. A reliable mechanism for the evaluation of the security of information systems and software for data processing has to be implemented.

Lithuanian **visa policy** is close to being in line with the Schengen requirements. Lithuania has approved a list of countries whose citizens require visas and there is also a “white list” of countries whose citizens do not require visas, in compliance with the Schengen *acquis*. Lithuanian visa insets are properly protected and are in line with EU standards on visa protection. However, Lithuanian policy in respect of simplification of the visa regime for border residents of Belarus and Kaliningrad is not in line with the common visa policy and will need to be revised before accession. Furthermore, in accordance with the Schengen Agreements, a fully functioning National Schengen Information System has to be developed and implemented in order to ensure a secure external border and movement of persons. National and international inter-institutional cooperation on the visa policy should also be

strengthened. The current system for issuing visas is computerised with a central visa register being maintained by the Migration Department. The visa register is in use at Vilnius airport. The Border Police Department and all the diplomatic and consular missions have access to the database of undesirable persons.

Lithuania has achieved positive results in the area of **border control** with increased investments and training of the border police. The number of illegal migrants passing through Lithuania is lower than in previous years reflecting the effectiveness of the measures of detection and return operations established by the Lithuanian authorities. However, training and qualifications improvement programmes should be increased for all levels of the Police Border Department, particularly since the recent change from a military to a professional border police service, as the proportion of new officials with limited experience has increased. Further efforts need to be made in order to strengthen cooperation with border police services in neighbouring as well as EU states in order to combat smuggling and illegal immigration.

A Cooperation Agreement signed in 1998 between Customs, Tax Police and Border Police Departments, to improve cross-border transit of goods and passengers and to strengthen border surveillance has not yet been implemented as the investigative powers of Customs are still under establishment. The Border Police Department cooperates closely with the Ministry of Defence, State Security Department and the Economic and Organised Crime Units of the Ministry of Interior and, at border crossing checkpoints, with Customs. The Border Police Department has recently been working in close cooperation with border services of Latvia and Estonia.

Some progress can be noted in the area of **migration**, particularly on the implementation of re-admission and expulsion procedures. Re-admission agreements are in place with a series of countries, including Austria, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Latvia, Luxembourg, the Netherlands, Portugal, Spain, Ukraine and the United Kingdom.

In the process of completing Migration Services reform, a Police Unit for combating illegal migration is envisaged to be set up by the end of 2000. The Migration Department (77 employees) of the Ministry of Interior has close cooperation with the Migration Services in Latvia and Estonia as well as good international relations with the International Migration Organisation and Migration Committee of the Council of Europe.

However, the Migration Department is understaffed given the magnitude of its tasks, particularly in terms of monitoring implementation of the various re-admission agreements.

In the area of **asylum**, the adoption of a Refugee Law that is largely in line with international norms and EU standards, is a positive development. Under the new law, it is envisaged to abolish the Refugee Council and to leave all powers to the Administrative Courts. In order to avoid overlapping in the handling of asylum requests, the proposed abolition of the Refugee Council needs to be accompanied by appropriate specialised training in appeals cases for Administrative Court judges. As a matter of priority, a Refugees Register has to be completed and appropriate training

should be provided to the Administrative Courts on application of the appeals system under the Refugee Law.

In the field of **police cooperation and the fight against organised crime**, some progress has been made in strengthening administrative capacity. The Police Department has been reorganised, in particular relating to the increased powers of Police Commissariats at regional and county level. Police Commissariats at county level now have a greater role in coordinating the activities of local police institutions. However, as police decentralisation gets under way by increasing the powers of regional Commissariats, training tailored to the fight against specific types of crime should be designed. In addition preparations for joining Europol should be intensified. Efforts should be made to developing an integrated computer-based investigation system at the Police Department.

With regard to the administrative capacity of the Police Department, no additional staff is foreseen until 2001, due to budgetary restraints. Problems identified within individual sectors will be tackled by upgrading the police structure and reshuffling the staff among the structural units in line with priorities, and more optimal use of resources. As an ongoing part of the police reform process, job descriptions are subject to constant review and amendment. A system of assessment of officers' performance and regular work evaluations is also under preparation.

Anti-smuggling activities are gradually being transferred from the Police to the Customs Department, as indicated in the Law on Operational Activities of May 1999 for the Customs Department. The mechanisms for international police co-operation are gradually being centralised.

With a view to developing bilateral police co-operation, the Ministry of the Interior has concluded co-operation agreements with Austria, Belarus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Kazakhstan, Latvia, Moldova, Poland, Romania, the Russian Federation, Spain, Sweden, Turkey and Ukraine. Lithuania has thus far signed twelve international conventions on police cooperation.

Progress has been made in strengthening capacities to deal with money laundering at the national level, however, inter-agency cooperation does not function well. Inter-agency cooperation needs to be considerably improved if Lithuania is to seriously and successfully address at all levels the fight against organised crime in the country. An Economic Crime Unit was established within the State Security Department (SSD) in 1999. However, inter-institutional cooperation particularly with the Border Police and Tax Police department needs to be increased. Also the 1998 Law on Money Laundering needs to be strengthened on the international police cooperation side.

As concerns the **fight against corruption**, the recently adopted Law on the Status of the Special Investigation Service should improve administrative capacity to combat corruption. This will clarify the Service's coordinating role in the prevention of corruption and, by making it accountable to the President and Parliament, its independence and effectiveness should also be strengthened. The capacity of the Special Investigation Service needs to be strengthened in terms of staff training given that the Service is a fledgling institution with limited experience. Furthermore,

preparations for the National Strategy against Corruption should be finalised and coordination among all bodies responsible for the fight against corruption must be considerably improved. Lack of effective coordination is seen as a major shortcoming. The Council of Europe Civil Law Convention on Corruption has not yet been signed, nor has the OECD Conventions on Bribery of Foreign Public Officials in International Business Transactions, and on the Fight Against Corruption in International Commercial Transactions. On the fight against fraud, Lithuania should prepare for full cooperation with OLAF upon accession. Lithuania should also gradually bring legislation in line with the Convention on the Protection of Financial Interests of the European Communities.

In the area of **drugs** policy the National Programme for Control of Drugs and Prevention of Drug Addiction for 1999-2003, (which has a budget of 12M€) lacks an overall operational action plan to define priorities both in demand and supply reduction activities.

The Lithuanian Vice-Minister of Health chairs an interministerial Drugs Control Commission (established in 1995), comprising representatives from various ministries such as the Ministries of Health, Social Security and Labour, Interior, Justice Education, and Customs Department. The Commission aims to ensure, on a consultative basis, greater coordination of interministerial activities in the area of drug control. In the field of illicit trafficking in narcotic drugs, the chief body is the Board on Control of Trafficking, Narcotic Drugs and Controlled Substances within the Organised Crime Investigation Service of the Police Department. Methods of work used by officers of the board to enforce control over the illicit trafficking in drugs are broadly in line with UN requirements.

In order to improve enforcement capacities, it is important to reinforce units within the Organised Crime Investigation Services of the Police combating illicit trafficking in drugs. Co-operation with other law enforcement structures combating illicit trafficking in drugs, particularly with neighbouring Member States, should be increased. Setting up an information system, the establishment of a National Drug Information Focal Point (in line with the requirements of European Drugs Monitoring Agency) and participation in the European Information Network on drugs and drug addiction (REITOX) are also needed. Training and institutional strengthening is needed for the main department responsible for Drugs coordination in the Ministry of Health.

In the area of **customs cooperation**, to ensure efficient and effective operations of customs (especially to combat fraud and corruption), much remains to be done in strengthening the administrative and operational capacity, mainly in the numerous Customs Regional Offices. Greater coordination between the Customs Department and the Regional Department is needed to ensure that legislation and policy is properly understood and enforced. In addition, strengthening the control of the future external border of the EU has to be ensured by means of training in modern customs management techniques. Inter-agency cooperation is still insufficient. The 1998 Cooperation Agreement signed between Customs, Tax and Border Police should be fully implemented.

Overall, the administrative capacity of the Customs Department remains a concern. The ability of the Department to enforce its new investigative powers remains weak, in spite of efforts that have already been made. The recently adopted Statute of Service for Customs Officials has to be enforced, so as to provide an effective tool against corruption. With over 90% of total customs officials employed at regional level and at border posts, an appropriate training and incentive strategy has to be developed for Regional Customs Offices. This is essential in view of an integrated border management, where customs will be working with veterinary, internal market and law enforcement/visa agencies.

Lithuania has already reached a relatively advanced stage of alignment in the area of judicial cooperation. Administrative structures to allow for cooperation with Member States upon accession on the basis of international conventions, are gradually being addressed. However, regarding cooperation in criminal matters, the Code of Criminal Procedure should be amended to include a procedure on simplified extradition. Efficient structures for judicial cooperation, mainly at the central level, have to be built up. Adequate staffing has also to be ensured so as to avoid delays in the execution of international letters of request. Training of judges, prosecutors and court personnel (including the court Bailiffs) in EC Law must be pursued systematically. The functioning of the court system, in particular the administrative courts, remains a serious concern (*see Section B.1.1 Democracy and Rule of Law*).

Lithuania has concluded agreements on judicial co-operation with its neighbouring countries (Latvia, Estonia, Poland) and certain CIS members (Russia, Belarus, Moldova, Ukraine, Kazakhstan, Uzbekistan). Lithuania has also concluded an agreement with USA on judicial co-operation in criminal matters.

The supplementary protocol convention on extradition which was signed in June 2000 has to be ratified by the Lithuanian Parliament.

### ***Chapter 25: Customs union***

Since the last Regular Report Lithuania has made steady progress in the field of customs.

As regards the **EC Customs Code and its implementing provisions** Lithuania has made progress in developing compatible implementing provisions, in accordance with the relevant 1999 Accession Partnership short term priority. New valuation procedures are in force since January 2000, regulations for customs information management, use and release were adopted in October 1999 and regulations for declaration and customs control of goods entered into force in April 2000. This provides the legal framework for the simplification of customs procedures.

As concerns the **customs *acquis* outside the Code**, Lithuania has ratified a number of agreements on mutual assistance, including one with Belarus. Regarding the pan-European system of origin, Lithuania has agreed to the amendments to the system which will come into force in January 2001. For the system to be complete, it remains for Lithuania to sign and enforce the necessary Free Trade Agreements with Romania and Bulgaria.

As far as the **administrative and operational capacity** to implement the *acquis* is concerned, it is notable that Lithuania in March 2000 adopted a training strategy covering the period 2000-2002.

The Lithuanian customs authorities have endeavoured to address the need to reinforce the fight against fraud and corruption, as identified in the 1999 Accession Partnership. In May 2000 the Statute of Service for Customs Officials was approved by the Government in order to combat corruption inside the Customs Department. This Statute supplements the Code of Ethics for the Customs Department adopted in November 1999 and a mandatory ethics course has now been included in the training for all new recruits at the Customs School. The Infringement Prevention Service was reorganised in April 2000 and in June 2000, a plan was introduced for gradual transfer of functions of the fight against smuggling from the Police department to the Customs department. Procedures for methods of risk assessment and selection criteria for customs control were approved in March 2000.

The computerised Customs information and control system, ASYCUDA (computerised customs information system), has been operating since June 1999 in 3 pilot sites (Vilnius airport and Customs central administrations in Vilnius and Kaunas) and as of June 2000, Kaunas customs is using ASYCUDA as its single system to process declarations.

### *Overall assessment*

Lithuania has made important efforts to harmonise legislation and modernise the customs administration.

The customs code in force since January 1998, is to a large extent in line with the *acquis*. However further efforts are needed as regards the adoption and implementation of implementing provisions. Lithuania should extend the application of simplified procedures and the legal and technical problems relating to submission of a declaration by electronic means should be addressed.

The strengthening of the customs administration must continue. More progress is needed to enable customs to enforce its new investigative powers, appropriate training strategies should be developed for regional customs offices and the fight against fraud and corruption must remain a priority. Inter-agency cooperation is still insufficient. The 1998 Cooperation Agreement signed between Customs, Tax and Border Police should also be implemented and the cooperation should be extended to the veterinary and phytosanitary border inspectors.

### *Chapter 26: External relations*

Since the last Regular Report, Lithuania has made progress in continuing to align its trade policy with that of the EU.

As regards the **common commercial policy**, Lithuania will be required to align its tariffs with those of the EC upon accession. Lithuania's applied tariffs currently average 5.4% on all products, 15.1% on agricultural products, 4.3% on fishery

products, and 2.5% on industrial products. By comparison the EC tariffs currently stand at 5.3% on all products, 9.4% on agricultural products, 12.4 % on fishery products and 4.2 % on industrial products.

During the reporting period Lithuania has substantially aligned its legislation with the WTO requirements and in October 2000 negotiations for accession of Lithuania to the WTO were concluded.

Lithuania is already enforcing the International Technology Agreement and the Civil Aviation Agreement without any derogation.

As regards **bilateral agreements with third countries**, a free trade agreement between Lithuania and Hungary entered into force in March 2000. Negotiations on free trade agreements are ongoing with Romania and Bulgaria. Lithuania is also considering the possibility of negotiating free trade agreements with the Faeroe Islands and with Croatia.

Changes to the rules of origin and technical amendments have been made to Lithuania's free trade agreements with EFTA, the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Turkey as well as Estonia and Latvia during the past year.

### *Overall assessment*

Negotiations for the accession of Lithuania to the WTO have recently been concluded and the decision to approve the accession package should be taken by the WTO General Council in due course, opening the way for Lithuania to accede by the middle of 2001. Upon accession to the WTO and prior to accession to the EU, Lithuania will need to accede formally to the two plurilateral agreements on Government and Civil Aircraft. Lithuania is currently an observer to the plurilateral Agreement on Government Procurement.

As regards the WTO Agreement on Trade and Textiles and Clothing, Lithuania needs to align its integration programmes for stages 1, 2, and 3 on those of the EC, while notably avoiding to integrate products not yet integrated by the EC.

Where medium and long term export credits are granted, further alignment to the *acquis* is necessary.

Lithuania has progressed in aligning its international commitments to those of the EC. It currently holds Free Trade Agreements with the Czech Republic, EFTA, Estonia, Hungary Latvia, Poland, the Slovak Republic, Slovenia, Turkey and Ukraine. Lithuania should continue to keep the European Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country.

As regards administrative capacity, it is the Ministry of Foreign Affairs which is responsible for negotiations and supervision of agreements in the fields of trade and international economic relations. Development and humanitarian aid are administered by the Ministry of Foreign Affairs. The administrative infrastructure which needs to be in place as regards the customs service is addressed in the chapter on customs union.

### ***Chapter 27: Common foreign and security policy***

The regular **political dialogue** established by the Europe Agreement is proceeding smoothly and Lithuania continues to orient its foreign and security policy towards the Union. It continues to participate actively in the framework of the Common Foreign and Security Policy (CFSP), including the meetings at the level of Political Directors, European Correspondents and Working Groups.

Lithuania has shown a keen interest in the development of European Security and Defence Policy (ESDP) as part of CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Lithuania has regularly aligned its positions with those of the Union and, when requested to do so, has associated itself with the Union's **joint actions and common positions**. In the reporting period, Lithuania has aligned with all EU declarations and common positions to which it has been invited.

Lithuania has complied with the *acquis* on landmines. Lithuanian armed forces continue to take part in peace operations in Bosnia-Herzegovina and Kosovo.

Lithuania developed good and constructive relations with all the **neighbouring states** and is an active proponent of regional co-operation, notably in the framework of the Council of the Baltic Sea States. In its relations with Russia, it has continued to emphasise the development of cross border co-operation with the Kaliningrad region. In October 1999, by an absolute majority of votes, the Seimas ratified a border treaty with Russia (signed in October 1997). Also in October 1999, the Seimas ratified the agreement on the de-limitation of the territorial sea, the exclusive economic zone and the continental shelf in the Baltic Sea with Latvia (signed in July 1999).

In December 1999, a secure **communication system** became operational. This allows for effective exchange of information between Lithuania and EU members and candidate countries on CFSP related issues, as well as speedy alignment with EU declarations and common positions.

### ***Overall assessment***

The policy pursued by Lithuania is in conformity with the CFSP *acquis*. Lithuania is actively aligning itself with declarations and common positions of the EU. As the *acquis* in the field of foreign policy and security develops further, Lithuania should maintain the orientation of its foreign policy in line with that of the Union.

Lithuania is an associate partner of WEU. Following the Kosovo crisis, during 1999-2000, Lithuania has contributed to joint operations. Lithuania has good relations with its neighbours and actively promotes regional co-operation.

Concerning the administrative capacity in the field of CFSP, the structures required to participate in the formulation and implementation of the CFSP are in place, including the posts of European Correspondent and Political Director.

### ***Chapter 28: Financial control***

Important efforts have been made by the Lithuanian authorities to address the shortcomings as outlined in last year's Regular Report. Despite this however, financial control in Lithuania is not yet in line with internationally accepted practices both in terms of the legislative framework and the administrative capacity of public bodies, in particular with regard to internal audit.

With regard to public internal financial control, in February 2000, the Lithuanian Government passed a Resolution (partly addressing the relevant 1999 Accession Partnership short term priority) on the internal audit of state enterprises and institutions, defining the role and responsibilities of internal audit units. The Resolution provides for the establishment (within a strict time schedule) of internal audit units in all ministries, regional administrations, the State Tax Inspectorate, in other state bodies and in state enterprises.

The completion of the legislative framework for external audit is identified in the 1999 Accession Partnership as a short term priority. In relation to this, Lithuania has amended its Law on State Control in April 2000, whereby the use of EC funds will become subject to external audit by the State Control Office. As concerns administrative capacity, in February 2000, two regional departments were established and two divisions of the Central Office of State Control were reorganised. During the first half of 2000 a number of training courses were carried out for the staff of the State Control Office in the areas of performance audit, internal audit, accounting and financial crime.

In the area of **control measures relating to own resources**, the Lithuanian customs and tax administrations are undergoing a reform and modernisation process in view of strengthening their operational and enforcement capabilities.

As regard the areas of **structural action expenditure** and **protection of financial interests of the EC**, internal financial control of the EC funds will be managed in Lithuania by the National Fund. In January 2000, the Ministry of Finance approved an operational manual for management of the National Fund. According to the new resolution, the audit units shall audit implementation of projects and programmes financed with EC funds.

### ***Overall assessment***

Concerted efforts have been made by the Lithuanian authorities in the area of Financial Control, however many shortcomings still remain.

Whilst the Government Resolution on internal audit is significant, its provisions are not sufficient to guarantee that international standards are met by Lithuania. Efforts are under way, however, to revise the aforementioned Resolution. The creation of internal audit units is an important first step towards the establishment of appropriate internal audit necessary to meet the internationally accepted standards as well as the requirements ensuing from the management of EC funds upon accession. This process of establishment, staffing (and staff training) and accreditation of internal audit units is, however, taking longer than expected. Consideration needs to be given to the desirability of a new and comprehensive Public Financial Internal Control Act, including the issues of *ex ante* control and of internal audit, in line with internationally accepted auditing standards. It is essential that financial management and control manuals be developed for the budget spending centres, audit manuals for the internal audit services as well as audit trails, at least for EC funds.

Presently two ministries have responsibility for internal audit in Lithuania. The Ministry of Finance shall give methodological guidance to internal audit units on financial audit issues, while the Ministry of Public Administration Reforms and Local Authorities shall provide guidance on management and operational audit issues. Such a division may lead to confusion in directives relating to internal audit. The Ministry of Finance should also be responsible for the methodology of systems and performance audit, while it should have the possibility to perform compliance and substantive on-the-spot tests to ensure that its directives are followed up. It is therefore suggested that the present division of responsibilities be subject to review. As a result, the role of the Ministry of Finance, as the promoter and coordinator of methodological guidance for financial audit and the training of auditors needs to be further defined.

The functional integrity and duties of the Internal Auditor in budget spending centres should be written into legislation. The independence of the Internal Auditor from the manager of the spending centre in relation to audit planning, performing and reporting on their audit findings does not seem to be adequately safeguarded.

Finally, it will be necessary for the Lithuanian control authorities to develop an adequate system of internal financial control of the activities of the National Fund and Implementing Agencies.

With regard to external audit, the State Control Office is the Supreme Audit Institution of Lithuania. It has the authority to audit all public and statutory funds and also EC funds. The State Control does not have a mandate to audit municipalities, except for the state subsidies they receive. External audit in Lithuania however does not fully meet international standards. The State Control Office needs to further implement international standards, which shall require the preparation of audit manuals adapted to the Lithuanian context and extensive training in their application. The scope of auditing should be broadened to include a wider range of performance auditing. The State Control Office needs to increase its awareness of the implications of EC accession. The role of the Lithuanian Parliament *vis-à-vis* its treatment of audit reports of State Control Office should be addressed.

As concerns the control of future EC own resources, further efforts should be made to develop effective mechanisms to combat fraud related to VAT and customs duties.

Further efforts are also needed with regard to the protection of financial interests of the EC and putting in place a system that will meet the requirements and obligations ensuing from EC structural action expenditure.

### ***Chapter 29: Financial and budgetary provisions***

Lithuania has made progress in the reporting period as regards **the national budget and EC co-financed measures**.

In July 2000, the Seimas adopted the new law on budget composition. This legislation defines the overall budget structure and contains the basic principles and provisions for the preparation, the approval, the execution and the control of the budget. In particular, it introduces the principle of medium-term planning for the budget. The law provides for the number of extra-budgetary funds to be significantly reduced from 22 to 4 (social security fund, health fund, privatisation fund, Ignalina decommissioning fund). Furthermore, the law provides for most of the so-called special revenues, such as non-tax receipts, to be brought within the budget. With a view to creating a system of co-financing, the law on budget foresees that the activities related to the EC pre-accession programme shall be indicated separately.

#### *Overall assessment*

With the adoption of the new legislation, the modernisation of budgetary structures and management of public expenditure has started.

Further strengthening is necessary in several areas to meet the usual standards in the EC. Such improvements should be completed in the fields of financial accounting, reporting and treasury management. The procedures for multi-annual budgeting should be developed, with the view to facilitating the budgetary decisions in a medium-term perspective. The respective roles, in the preparation of the budget, of the Ministry of Finance, the Ministry of the Economy and the spending Departments could be more precisely defined. Their analytical capacity in the appraisal, monitoring and evaluation of the financial and economic effects of expenditure programmes should be increased.

The National Fund has been established under the Treasury Department at the Ministry of Finance and the structures to administer and monitor the EC pre-accession funds at central level are mostly in place.

As regards own resources, Lithuania has a Customs Code (which entered into force in January 1998) which was prepared according to the provisions of the European Community Customs Code. The process to ensure GNP and VAT calculation according to the ESA 95 has yet to be completed.

### **3.2. Translation of the *acquis* into the national language**

Applicant countries are to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. The *acquis*, consisting of primary and secondary binding legislation, represents at present a considerable

volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of central Europe.

Based on a Government resolution of February 1999, the translation of the *acquis* into Lithuanian is carried out by the Translation, Documentation and Information Centre.

As of January 2000, the number of pages of the Official Journal translated into Lithuanian was around 20,000 of which 10% had been fully revised.

Further efforts are required in this area.

### **3.3. General evaluation**

Lithuania has made significant overall progress in terms of transposition and, to a lesser extent, implementation of the *acquis*. Additional progress is required notably in areas such as taxation, agriculture, regional policy and financial control. The strengthening of administrative capacity, which has, in part, been limited by the budgetary constraints, should be continued in a sustained and more coherent manner.

In the field of the *internal market*, Lithuania has made progress in particular as regards the *free movement of goods* (standardisation and market surveillance), although the adoption of European harmonised standards should be accelerated. The implementation of *public procurement* legislation has continued but the administrative capacity and the independence of the Public Procurement Office need to be further strengthened. Significant progress has taken place in the area of *competition* with the adoption of the State aid law, while effective enforcement and strengthening of the relevant administrative structures need to be ensured. Further progress towards complete alignment in the area of *free movement of capital* has been registered but some remaining restrictions need to be abolished. Alignment concerning intellectual property rights has proceeded; however, proper enforcement remains very weak. While progress has been made as regards the strengthening of the administrative capacity in the area of *taxation*, very limited progress can be reported on alignment. Lithuania has made progress in the field of *customs*. However further efforts are needed as regards implementation and administrative capacity.

Significant progress has taken place in aligning with the *audiovisual acquis*. Developments have taken place in the *telecommunication* sector with the decision to establish an independent regulatory authority. This authority needs to become fully operational.

Lithuania has made some progress in laying the legal and administrative basis to prepare for participation in the *Common Agricultural Policy*, but much progress is still needed in terms of both alignment and administrative capacity. Alignment on veterinary and phytosanitary matters has moved forward, and the veterinary administration has been re-organised. Lithuania has started aligning its legislation with the *acquis* on *fishing* resources management, and has partly streamlined the relevant institutional set-up. The legal framework for market regulation and structural assistance should be developed.

Lithuania has continued to make progress in the field of the *environment*, and has now achieved a fair level of alignment, although there are still major differences across sectors. Implementation is still a major concern, in particular as regards water, waste and industrial pollution and risk management, due to the heavy investments required.

In the area of *transport*, Lithuania has continued to align its legislation and achieved significant progress, in particular in the fields of road transport safety, air transport and maritime safety. However, implementation will still require considerable resources. As regards the *energy* sector, Lithuania has made significant progress in implementing the national energy strategy, notably through the adoption of the law on the decommissioning of Unit 1 of Ignalina NPP and other important laws; this provides a basis for the restructuring of the sector and market liberalisation.

There has been some progress in transposition and implementation of the *social acquis*, notably in the field of health and safety at the workplace. Further efforts are required as regards labour law and social dialogue. Implementation and enforcement remain a cause for concern. The active role played by the Ombudsman for equal opportunities should be noted. In the area of *industrial policy*, Lithuania has developed further the political and legal framework for the in-depth restructuring of its industry. Efforts have, however, focused on conceptual aspects and little has been done in terms of implementation. The adoption of the new legislation on bankruptcy and enterprise restructuring is still outstanding.

In the field of *regional policy*, progress has taken place in establishing the legal framework, although administrative capacity presents serious weaknesses. Despite considerable efforts, *financial control* in Lithuania is not yet in line with internationally accepted practices, in particular with regard to internal audit. Progress has taken place as regards the reform of the *budget* system, which needs however to be further pursued.

Progress has been made in most areas of *justice and home affairs*, both in terms of legislative alignment and administrative capacity. A general, and serious weakness in most areas of justice and home affairs remains, however, the inability to ensure effective co-ordination among relevant institutions and bodies.

As Lithuania reaches a more advanced level of alignment, greater attention needs to be paid to strengthening administrative capacity, so as to ensure effective implementation and enforcement of the *acquis*. Some efforts have been made in this regard. In particular, certain existing institutions have been reformed, such as veterinary and market surveillance bodies, and the legal basis for the establishment of new institutions has been laid down, for example in the case of the Consumer Protection Council. However, the budgetary constraints Lithuania has experienced during the reporting period have limited the effective operational capacity of new institutions as well as the required reinforcement of existing structures.

Overall, Lithuania has made satisfactory progress in meeting the short-term priorities of the Accession Partnership, especially as regards economic reform. However, in some areas such as agriculture, taxation, administrative capacity (including management and control of EC funds), further progress is still required. Lithuania has already started to address a number of medium-term Accession Partnership priorities.

## C. Conclusion

Lithuania continues to fulfil the Copenhagen political criteria.

As regards public administration reform, in line with the relevant medium-term priority of the Accession Partnership, Lithuania has made progress in implementing the legislation on public administration and civil service. In continuing this reform, further issues need to be addressed, namely, the level of remuneration, additional training and improved inter-ministerial co-ordination.

The reform of the legal system has significantly progressed with the adoption of the Civil Code and the Criminal Code. This reform needs to be completed through the adoption and implementation of new Codes of Civil and Criminal Procedure, which *inter alia* should contribute to the speeding up of court proceedings. Efforts on judicial reform need to be stepped up, in particular with regard to training of judges and prosecutors, filling all vacant positions, and improving the functioning of the courts, especially the administrative courts.

As regards the fight against corruption, the important measures which have already been taken need to be completed through the adoption of a National Anti-corruption Strategy. Enforcement needs to be significantly strengthened by further reinforcing the relevant agencies and effectively ensuring their co-ordination.

Lithuania can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues with the implementation of the current structural reform programme and undertakes further necessary reforms.

Lithuania has preserved macroeconomic stability and managed to reduce the fiscal and external imbalances and state interference. The protective measures introduced after the Russian crisis have been largely removed. Significant progress has been made in the privatisation of the banking sector. Progress has also been achieved with the adoption of important laws to restructure and liberalise the energy market. Land restitution is close to completion.

However, there is a need to maintain fiscal discipline and to keep the current-account deficit under control. The medium-term sustainability of public finances is not yet ensured. Bankruptcy procedures are still not working properly. The physical and human capital has to be further developed and the financial sector remains weak. There is room for further trade integration with the EU.

The authorities need to pass the amendments to the bankruptcy and restructuring laws and must subsequently ensure their effective implementation. Fiscal discipline must continue and the sustainability of public finances in the medium-term must be ensured. The planned pension reform must now move into the implementation phase. The reforms to enhance the financial sector need to be completed to foster the modernisation of productive capacity. The labour market needs to be made more flexible.

Lithuania has made significant overall progress in terms of transposition and, to a lesser extent, implementation of the *acquis*. Additional progress is required notably in areas such as taxation, agriculture, regional policy and financial control. The strengthening of administrative capacity, which has, in part, been limited by the budgetary constraints, should be continued in a sustained and more coherent manner.

In the field of the *internal market*, Lithuania has made progress in particular as regards the *free movement of goods* (standardisation and market surveillance), although the adoption of European harmonised standards should be accelerated. The implementation of *public procurement* legislation has continued but the administrative capacity and the independence of the Public Procurement Office need to be further strengthened. Significant progress has taken place in the area of *competition* with the adoption of the State aid law, while effective enforcement and strengthening of the relevant administrative structures need to be ensured. Further progress towards complete alignment in the area of *free movement of capital* has been registered but some remaining restrictions need to be abolished. Alignment concerning intellectual property rights has proceeded; however, proper enforcement remains very weak. While progress has been made as regards the strengthening of the administrative capacity in the area of *taxation*, very limited progress can be reported on alignment. Lithuania has made progress in the field of *customs*. However, further efforts are needed as regards implementation and administrative capacity.

Significant progress has taken place in aligning with the *audiovisual acquis*. Developments have taken place in the *telecommunication* sector with the decision to establish an independent regulatory authority. This authority needs to become fully operational.

Lithuania has made some progress in laying the legal and administrative basis to prepare for participation in the *Common Agricultural Policy*, but much progress is still needed in terms of both alignment and administrative capacity. Alignment on veterinary and phytosanitary matters has moved forward, and the veterinary administration has been re-organised. Lithuania has started aligning its legislation with the *acquis* on *fishing* resources management, and has partly streamlined the relevant institutional set-up. The legal framework for market regulation and structural assistance should be developed.

Lithuania has continued to make progress in the field of the *environment*, and has now achieved a fair level of alignment, although there are still major differences across sectors. Implementation is still a major concern, in particular as regards water, waste and industrial pollution and risk management, due to the heavy investments required.

In the area of *transport*, Lithuania has continued to align its legislation and achieved significant progress in particular in the fields of road transport safety, air transport and maritime safety. However, implementation will still require considerable resources. As regards the *energy* sector, Lithuania has made significant progress in implementing the national energy strategy, notably through the adoption of the law on the decommissioning of Unit 1 of Ignalina NPP and other important laws; this provides a basis for the restructuring of the sector and market liberalisation.

There has been some progress in transposition and implementation of the *social acquis*, notably in the field of health and safety at the workplace. Further efforts are required as regards labour law and social dialogue. Implementation and enforcement remain a cause for concern. The active role played by the Ombudsman for equal opportunities should be noted. In the area of *industrial policy*, Lithuania has developed further the political and legal framework for the in-depth restructuring of its industry. Efforts have, however, focused on conceptual aspects and little has been done in terms of implementation. The adoption of the new legislation on bankruptcy and enterprise restructuring is still outstanding.

In the field of *regional policy*, progress has taken place in establishing the legal framework, although administrative capacity presents serious weaknesses. Despite considerable efforts, *financial control* in Lithuania is not yet in line with internationally accepted practices, in particular with regard to internal audit. Progress has taken place as regards the reform of the *budget* system, which needs to be pursued.

Progress has been made in most areas of *justice and home affairs*, both in terms of legislative alignment and administrative capacity. A general, and serious weakness in most areas of justice and home affairs remains, however, the inability to ensure effective co-ordination among relevant institutions and bodies.

As Lithuania reaches a more advanced level of alignment, greater attention needs to be paid to strengthening administrative capacity, so as to ensure effective implementation and enforcement of the *acquis*. Some efforts have been made in this regard. In particular, certain existing institutions have been reformed, such as veterinary and market surveillance bodies, and the legal basis for the establishment of new institutions has been laid down, for example in the case of the Consumer Protection Council. However, the budgetary constraints Lithuania has experienced during the reporting period have limited the effective operational capacity of new institutions as well as the required reinforcement of existing structures.

Overall, Lithuania has made satisfactory progress in meeting the short-term priorities of the Accession Partnership, especially as regards economic reform. However, in some areas such as agriculture, taxation, administrative capacity (including management and control of EC funds), further progress is still required. Lithuania has already started to address a number of medium-term Accession Partnership priorities.

## D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global assessment

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

### 1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.<sup>13</sup>

#### *Short-term priorities*

The short-term priorities of the 1999 Accession Partnership and an assessment of progress made in their fulfilment are set out below.

**Economic criteria.** Lithuania has taken successful measures to correct the *fiscal deficit*. The scheduled *large scale privatisations* have further advanced with few companies still to be privatised. The *banking sector* has continued to be restructured. *Land registration* is close to completion. *Bankruptcy legislation* has been implemented in a more determined way, but the legal amendments which are necessary to further streamline implementation have not yet been adopted. As regards the *promotion of competitiveness* through market-based enterprise restructuring in the industry sector with particular attention to SMEs, while the development of relevant strategies is an encouraging sign, little has been done in terms of implementation. Despite these reservations in particular with respect to the still inadequate bankruptcy legislation, the overall performance leads to the conclusion that **this priority has been largely met**.

**Internal Market:** Lithuania has made significant progress in meeting the priorities in several areas of the internal market. The legislation on *public procurement* is being

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<sup>13</sup> For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership please refer to Council Decision 1999/856/EC, OJ L 335, 28/12/1999

implemented, although the public procurement office needs further reinforcing (in particular as regards international tendering). As regards *intellectual and industrial property rights*, Lithuania has made some progress in implementing copyright legislation and strengthening the fight against “piracy”; however, the administrative capacity and the fight against counterfeiting especially in connection with border controls need to be improved.

As regards *free movement of goods*, Lithuania has accelerated alignment of the *sectoral legislation on industrial products*. It has also progressed towards developing both a coherent strategy on *market surveillance* and the appropriate *conformity assessment* infrastructure. As regards *capital movement*, while the legislation on *direct investment* and on operation of foreign *insurance companies* has been substantially aligned, there is still a need to abolish the restrictions on cross-border transfer of *means of payment* and on *investment rules for pension funds and insurance companies*.

In the area of *competition*, antitrust legislation is being implemented and the relevant institutions have been set up. The legislation on *state aid* has been substantially aligned, however the *state aid monitoring authority* has not yet been reinforced. The *state aid inventory* has been further developed but its coverage needs to be completed.

In the field of *telecommunications*, Lithuania decided to establish an independent regulatory authority which now needs to become fully operational. The alignment of the legislation on *audiovisual policy* has significantly advanced.

No concrete progress has been made as regards *taxation*, notably the finalisation of the legislative reform of the *VAT* system and the abolition of fiscal discrimination between *excise* duties on domestic and imported goods. As regards *customs*, progress has taken place concerning *legislation*, however efforts to fight *fraud* and *corruption* need to be stepped up.

Therefore, with the notable exception of taxation and with the above remarks, **this priority has been largely met.**

**Agriculture:** Lithuania has continued to make progress as regards the priorities related to *veterinary and phytosanitary* sector notably by continuing alignment. The upgrading of inspection arrangements, in particular at the future external borders, has started, but the pace of implementation needs to be stepped up. As regards the *food processing* sector, progress has been limited: while the restructuring of the *milk sector* has continued, the restructuring of the *meat sector* has not really commenced. Lithuania has fulfilled the priority concerning the reduction of *support to ailing enterprises*. **Therefore, this priority has been only partially met.**

**Transport:** Lithuania has made progress in aligning its legislation on *maritime safety* with the *acquis*, while further efforts will be necessary as regards implementation. **Therefore, this priority has been substantially met.**

**Energy:** Lithuania has started implementing a comprehensive *energy strategy* in line with the NSA agreement. In particular, it has started the legal and technical preparation for the *definitive closure and decommissioning of Ignalina Nuclear Power*

*Plant unit 1*. In addition, the reform of the *conventional power sector* is being prepared. Lithuania has steadily continued implementing the necessary *improvements in nuclear safety* resulting from the comprehensive Safety Analysis Report for the Ignalina Nuclear Power Plant. The efforts to strengthen the *nuclear safety authority* need to be sustained and even intensified, in view of the forthcoming workload for the licensing of the planned decommissioning process. Progress has been made towards the establishment of a *radioactive waste management institution*, which needs suitable funding. The reform of the energy sector in line with *acquis* is aiming at ensuring the administrative and managerial independence of the *energy utilities*. **Therefore, this priority has been largely met.**

**Employment and social affairs:** Lithuania has made some progress as regards the preparation of the national *employment strategy* through the launch of a joint employment review and as regards the *bipartite social dialogue*, which, however, still remains at an early stage of development. **Therefore, this priority has been partially met.**

**Environment:** Lithuania has completed the transposition of the *Environmental Impact Assessment Directive* and it has started to enforce it. While the transposition of the *framework legislation* has continued as regards *air* and to a lesser extent *water, waste* and *radiation protection*, there has been no development as regards *nature protection*. Increased attention has been paid to the development of plans for *financing investments* (directive specific), however there is still a need for cost assessments for a number of sectors. The *administrative capacity* at central level has been strengthened and efforts have been made at local level. These efforts need to be sustained, notably as regards the local level and the *Radiation Protection Centre*. **Therefore, this priority has been largely met.**

**Justice and home affairs:** Lithuania has adopted a new law on *National Border Control*. The *demarcation of the border with Belarus* has continued; however it has not been completed, owing in large part to delays on the Belarus side. After the Seimas' ratification of the border treaty with Russia, the start of *border demarcation with Kaliningrad* depends on ratification by the Russian Parliament. The need to upgrade *law enforcement bodies* has been addressed, notably as regards police and customs, but there is still considerable room for improvement. As regards the *judiciary*, efforts need to be stepped up. Despite some efforts, the inability to ensure *co-ordination* between law enforcement bodies remains a serious weakness. Lithuania has ratified the European *criminal law convention*, but it has not yet signed the OECD convention on *bribery*. The national *anti-corruption strategy* has still to be finalised. Further strengthening is needed as regard the capacities to deal with *money laundering*. The *border and migration legislation* is being correctly implemented to prevent illegal immigration and to enable full participation in the Schengen Information System. Lithuania has made considerable progress in aligning its *asylum* legislation, (including the improvement of the legal structure of the Appeal Council, improved access to legal aid and the elimination of the pre-screening procedure). Further efforts shall be needed to ensure full alignment. **Therefore, this priority has been partially met.**

**Reinforcement of administrative and judicial capacity, including management and control of EC funds:** Lithuania has further developed the *National Development Plan* and the *Rural Development Plan*; it has made progress towards the establishment

of a *functioning paying agency for SAPARD*. Further steps are required as regards the legal, administrative and budgetary framework (*audit manual and audit trail*) to programme and manage ISPA and SAPARD, including the introduction of *environmental impact assessments* and **EC compatible public procurement rules** for projects co-financed by Community Funds.

As regards *financial control*, some efforts have been made to improve the legislative framework, namely the Government Resolution on the internal audit of state enterprises and institutions and the amendment of the Law on State Control. However the legislative framework is not complete, nor are the necessary administrative structures in place and/or fully operational. Functional independence of national controllers/auditors still needs to be guaranteed.

The implementation of the *National Training Strategy* has continued and training has been provided in EC law for police, border guards and customs.

In view of insufficient progress, especially in the field of *financial control*, **this priority has only been partially met.**

#### *Medium-term priorities*

This section covers those medium term priorities where a degree of progress has been made.

**Fisheries:** Lithuania has started to develop its capacity in the field of *common fisheries policy*, as regards resource management. Some progress has also taken place as regards the alignment of fishing vessel *register* requirements.

**Reinforcement of administrative and judicial capacity, including management and control of EC funds :** Lithuania has started *implementing the public administration law and the civil service law*.

## **2. National Programme for the Adoption of the *Acquis***

Lithuania presented a revised version of the National Programme for the Adoption of the *Acquis* in May 2000. This document was called Lithuania's European Union Accession Programme. The revised version takes into account the recommendations made by the Commission in the 1999 Regular Report.

The programme is well structured. It includes a descriptive policy section and two action plans. For each piece of the *acquis* taken into consideration, the law approximation action plan specifies the transposition measure envisaged, the institutions responsible and the dates by which the draft legislation has to be submitted to the government, adopted and enforced. The *acquis* implementation action plan sets out measures concerning organisational matters, institution building, training and economic reforms. For each measure, the plan indicates the administrative and institutional needs, the financing needs and the sources of financing.

The programme is consistent with commitments taken on by Lithuania. However, it will need to be adjusted in order to take into account the developments in the

Accession Negotiations. The programme is becoming a tool for the co-ordination of the relevant policies, notably when deciding the budget priorities. The programme reflects the Accession Partnership priorities adequately. The coverage of the *acquis* has improved compared to last year, although in some sectors such as the environment more detail is required. As for the administrative and financial needs and timetables, the degree of precision and realism still varies from one sector to another. In particular, as regards administrative capacity, further attention should be paid to regional policy. Concerning financial needs, the methodology and the assumptions on which the estimates are based should be better explained, in particular in sectors like taxation, regional policy and the environment. The Lithuanian authorities envisage to update the financial estimates once the budget for 2000 is adopted. As regards timetables, they are based on Lithuania's technical target date for accession. The realism of the deadlines would benefit from the indication of intermediate steps.

The Lithuanian authorities have stated that the programme will be updated to take into account the Commission comments.

## **Annexes**

***Human Rights Conventions ratified by the Candidate Countries,  
September 2000***

<i>Parties to following conventions and protocols</i>	<b>BG</b>	<b>CY</b>	<b>CZ</b>	<b>EE</b>	<b>HU</b>	<b>LV</b>	<b>LT</b>	<b>MT</b>	<b>PL</b>	<b>RO</b>	<b>SK</b>	<b>SV</b>	<b>TK</b>
<b>ECHR</b> (European Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	X	X	X	X	X	O	O	X	X	X	O
<b>European Convention for the Prevention of Torture</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>European Social Charter</b>	O	X	X	O	X	O	O	X	X	O	X	O	X
<b>Revised European Social Charter</b>	X	X	O	X	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
<b>Framework Convention for National Minorities</b>	X	X	X	X	X	O	X	X	O	X	X	X	O
<b>ICCPR</b> (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	X	O	O	X	O	O	X	O	X	X	X	O
<b>ICESCR</b> (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CAT</b> (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CERD</b> (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CEDAW</b> (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CRC</b> (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; TK = Turkey

*Statistical data*

	1995	1996	1997	1998	1999
<b>Basic data</b>	<b>in 1000</b>				
Population (average)	3.715	3.710	3.706	3.702	3.700
	<b>in km<sup>2</sup></b>				
Total area	65.300	65.300	65.300	65.300	65.300
<b>National accounts</b>	<b>1000 Mio Lit</b>				
Gross domestic product at current prices	24,1	31,6	38,3	43,0	42,6
	<b>1000 Mio ECU/euro</b>				
Gross domestic product at current prices	4,6	6,2	8,5	9,6	10,0
	<b>ECU/euro</b>				
Gross domestic product per capita <sup>14</sup> at current prices	1.200	1.700	2.300	2.600	2.700
	<b>% change over the previous year</b>				
Gross domestic product at constant prices (nat. currency)	3,3	4,7	7,3	5,1	-4,1
	<b>in Purchasing Power Standards</b>				
Gross domestic product per capita <sup>15</sup> at current prices	4.856	5.297	5.899	6.259	6.169
	<b>% of Gross Value Added<sup>16</sup></b>				
Structure of production					
- Agriculture	11,7	12,2	11,7	10,3	8,8
- Industry (excluding construction)	26,1	25,8	25,2	23,9	23,3
- Construction	7,1	7,1	7,7	8,6	7,8
- Services	55,1	54,9	55,4	57,2	60,1
Structure of expenditure	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	87,1	85,4	84,1	87,5	87,4
- household and NPISH	67,4	66,5	65,1	63,1	64,9
- general government	19,7	18,9	19,0	24,4	22,5
- Gross fixed capital formation	23,0	23,0	24,4	24,3	22,5
- Stock variation <sup>17</sup>	1,7	1,4	2,1	0,1	0,4
- Exports of goods and services	53,0	53,4	54,5	47,2	39,8
- Imports of goods and services	64,8	63,2	65,1	59,1	50,1
<b>Inflation rate</b>	<b>% change over the previous year</b>				
Consumer price index	39,6	24,6	8,9	5,1	0,8

<sup>14</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>15</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>16</sup> Including FISIM.

<sup>17</sup> These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

<b>Balance of payments</b>	<b>Mio ECU/euro</b>				
-Current account	-470	-569	-865	-1.158	-1.120
-Trade balance	-534	-706	-1.012	-1.354	-1.318
<i>Exports of goods</i>	2.069	2.688	3.697	3.534	2.952
<i>Imports of goods</i>	2.602	3.394	4.709	4.888	4.270
-Net services	-10	95	119	215	287
-Net income	-10	-72	-175	-228	-242
-Net current transfers	84	113	203	210	153
<i>-of which: government transfers</i>	47	57	89	92	55
- FDI (net) inflows	55	120	313	826	456

<b>Public finance</b>	<b>in % of Gross Domestic Product</b>				
General government deficit/surplus	-1,6	-2,8	-0,7	-3,4	:

<b>Financial indicators</b>	<b>% of Gross Domestic Product</b>				
Gross foreign debt of the whole economy	12,29	14,25	15,04	17,70	25.5 E
	<b>as % of exports</b>				
Gross foreign debt of the whole economy	23,20	26,72	27,60	37,60	64.1 E
Monetary aggregates	<b>1000 Mio ECU/euro</b>				
- M1	0,7	0,7	1,2	1,2	1,3
- M2	1,1	1,1	1,6	1,8	2,2
Total credit	0,5	0,6	0,9	1,0	1,1
Average short-term interest rates	<b>% per annum</b>				
- Lending rate	18,4	12,5	15,0	12,6	13,2
- Deposit rate	20,1	13,6	8,1	6,5	7,4
ECU exchange rates	<b>(1ECU/euro=..Litas)</b>				
- Average of period	5,232	5,079	4,536	4,484	4,263
- End of period	5,257	5,012	4,417	4,667	4,018
	<b>June 1993=100</b>				
- Effective exchange rate index	251,35	260,8	287,0	327,4	354,0
Reserve assets	<b>Mio ECU/euro</b>				
-Reserve assets (including gold)	631	671	964	1.254	1.242
-Reserve assets (excluding gold)	576	616	915	1.208	1.190

<b>External trade</b>	<b>Mio ECU/euro</b>				
Trade balance	-722	-947	-1.573	-1.857	-1.718
Exports	2.068	2.643	3.404	3.310	2.818
Imports	2.789	3.590	4.977	5.167	4.537
	<b>previous year=100</b>				
Terms of trade	:	:	102,6	100,7	100,8
	<b>as % of total</b>				
Exports with EC-15	36,4	32,9	32,5	38	50,1
Imports with EC-15	37,1	42,4	46,5	50,2	49,7

<b>Demography</b>	<b>per 1000 of population</b>				
Natural growth rate	-1,1	-1,1	-0,9	-1	-1
Net migration rate (including corrections)	-0,5	-0,2	0	0,2	0,4
	<b>per 1000 of live-births</b>				
Infant mortality rate	12,4	10	10,3	9,2	8,6
Life expectancy :	<b>at birth</b>				
Males:	63,5	65	65,9	66,5	67,1
Females:	75,2	76	76,8	76,9	77,4

<b>Labour market (ILO methodology)</b>	<b>% of labour force<sup>18</sup></b>				
Economic activity rate	66,9	65,4	61,5	61,7	61,9
Unemployment rate, total	17,1	16,4	14,1	13,3	14,1
Unemployment rate of persons < 25 years	31,6	27,4	25,2	22,0	26,5
Unemployment rate of persons >= 25 years	15,1	14,8	12,2	12,0	12,4
Average employment by NACE branches	<b>in % of total</b>				
- Agriculture and forestry	21	21	20,7	21	20,2
- Industry (excluding construction)	20,9	20,7	21,5	21,3	20,7
- Construction	6,7	6,9	6,9	6,4	6,2
- Services	51,4	51,4	50,9	51,3	52,9

<b>Infrastructure</b>	<b>in km per 1000 km<sup>2</sup></b>				
Railway network	41	40	40	40	38
	<b>km</b>				
Length of motorways	394	404	410	417	417

<b>Industry and agriculture</b>	<b>previous year=100</b>				
Industrial production volume indices	105,3	105	103,3	108,2	90.1 P
Gross agricultural production volume indices	108	109	106	97	88 P

<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
Number of cars	194	212	238	265	294
Telephone subscribers	254	268	283	301	309
Number of Internet connections	:	:	:	:	:

P=provisional figures E= estimates

<sup>18</sup> In % of total population 14 and over.

## Methodological Notes

### Inflation

National Consumer Price Index is given.

### Finance

#### Note on sources:

*General government deficit / surplus:* Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

*Gross foreign debt:* the OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

*Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates:* where possible, Eurostat's reporting form for Candidate Countries is used. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

*Exchange rates:* against the ECU (euro), the European Commission data is used for ECU rates, European Central Bank data for euro rates.

#### Note on methodology:

*General government deficit / surplus:* an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

*Gross foreign debt:* of the whole economy; includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

*Monetary aggregates:* end-year stock data. M1 refers to notes and coins in circulation plus bank sight deposits. M2 refers to M1 plus savings deposits plus other short-term claims on banks. Total credit refers to domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions.

*Interest rates:* annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

*Exchange rates:* ECU exchange rates are those that were officially notified to the European Commission until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates

are reference rates of the European Central Bank, where available. The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average), in the case of Lithuania (June 1993).

*Reserve assets:* end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

### **External trade**

*Imports and exports (current prices):* data is based upon the general trade system. Trade Classification: Trade in goods are recorded using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis.

*Imports and exports with EC-15:* data declared by the Republic of Lithuania.

### **Demography**

*Net migration rate:* crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

### **Labour force**

*Economic activity rate:* percentage of labour force in the total population aged 14+. This rate is derived observing the following ILO definitions and recommendations:

- *Labour force:* employed and unemployed persons according to the ILO definitions stated below.

- *The employed:* all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of co-operatives or contributing family workers. Women on child-care leave are included. Persons in compulsory military service are excluded.

Working age begins from 16 years, with the consent of parents or guardian, young people may start working from 14 years. Therefore, residents who are 14 years and older are under LFS coverage. LFS data refer to September 1995-1997, May and November 1998 and 1999. (Due to the fact that LFS are not carried out periodically the indicator has been estimated from the number of employed which was calculated on the base of reports provided by enterprises and organisations ).

Data include all those employed in the civil sector who are 14 years of age and older. Women raising children till 3 years of age having not broken official ties with their working places, their working places being guaranteed for that period and receiving child benefits are included in the employed (such women make up 0.4% of all employed). Other women raising children till 3 years of age are not assigned to the employed.

- *Average employment:* by NACE branches.

- *The unemployed*: all persons aged 14+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

have no work,

are actively seeking a job and

are ready to take up a job within a fortnight.

Persons raising children and students of schools who are actively seeking a job are classified under the unemployed. Persons in compulsory military service are excluded.

*Unemployment rate (by ILO methodology)*: percentage of the unemployed in labour force. This rate is derived from LFS (Labour Force Survey) observing the ILO.

### **Infrastructure**

*Railway network*: all railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

*Length of motorway*: road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

### **Industry and agriculture**

*Industrial production volume indices*: industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C, D, and E).

*Gross agricultural production volume indices*: gross agricultural production volume indices are calculated in constant prices of 1993. The quarter indices are calculated on the basis of the previous quarter.

### **Standard of living**

*Number of cars*: passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

*Telephone subscribers*: only main telephone lines per 1000 inhabitants, excluding mobile phone subscriptions.

**Sources**

Total area, infrastructure, external trade, demography, labour market, industry and agriculture, standard of living (except Internet connections): National sources.

National accounts, inflation rate, balance of payment, public finance, finance : Eurostat.