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**Commission Opinion**  
**on Lithuania's Application**  
**for Membership of the European Union**

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## **A. INTRODUCTION**

### **a) Preface**

#### **The Application for Membership**

Lithuania presented its application for membership of the European Union on 8 December 1995, and accordingly the Council of Ministers decided on 29 January 1996 to implement the procedure laid down in Article 0 of the Treaty, which provides for consultation of the Commission.

That is the framework in which the Commission submits the present Opinion, responding to the request of the European Council in Madrid in December 1995 to present the Opinion as soon as possible after the conclusion of the Intergovernmental Conference, which commenced in March 1996 and concluded in June 1997.

#### **The Context of the Opinion**

The Lithuanian application for membership is being examined at the same time as applications from nine other associated countries. Lithuania's accession is to be seen as part of an historic process, in which the countries of Central and Eastern Europe overcome the division of the continent which has lasted for more than 40 years, and join the area of peace, stability and prosperity created by the Union.

The European Council in Copenhagen in June 1993 concluded that:

“The associated countries in Central and Eastern Europe that so desire shall become members of the Union. Accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions. Membership requires:

- that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries”.

This declaration spelled out the political and economic criteria for examining the accession requests of the associated countries of Central and Eastern Europe.

The European Council in Madrid in December 1995 referred to the need, in the context of the pre-accession strategy, “to create the conditions for the gradual, harmonious integration of the applicant countries, particularly through:

- the development of the market economy,
- the adjustment of their administrative structure,
- the creation of a stable economic and monetary environment”.

In its Opinion, the Commission analyses the Lithuanian application on its merits, but according to the same criteria as the other applications, on which it is delivering Opinions at the same time. This way of proceeding respects the wish, expressed by the European Council in Madrid, to ensure that the applicant countries are treated on an equal basis.

In addition to the individual Opinions the Commission is presenting separately to the Council, in the framework of its communication “Agenda 2000”, a general assessment of the accession requests, and its recommendations concerning the strategy for successful enlargement of the Union. At the same time, it is presenting an evaluation of the impact of enlargement on the Union’s policies.

### **The Contents of the Opinion**

The structure of the Opinion takes account of the conclusions of the European Council in Copenhagen. It:

- describes the relations up to now between Lithuania and the Union, particularly in the framework of the association agreement;
- analyses the situation in respect of the political conditions mentioned by the European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Lithuania’s situation and prospects in respect of the economic conditions mentioned by the European Council (market economy, capacity to cope with competitive pressure);
- addresses the question of Lithuania’s capacity to adopt the obligations of membership, that is the *acquis* of the Union as expressed in the Treaty, the secondary legislation, and the policies of the Union;
- makes finally a general evaluation of Lithuania’s situation and prospects in respect of the conditions for membership of the Union, and a recommendation concerning accession negotiations.

In assessing Lithuania in respect of the economic criteria and its capacity to assume the *acquis*, the Commission has included a prospective assessment; it has attempted to evaluate the progress which can reasonably be expected on the part of Lithuania in the coming years, before accession, taking account of the fact that the *acquis* itself will continue to develop. For this purpose, and without prejudging the actual date of accession, the Opinion is based on a medium-term time horizon of approximately five years.

During the preparation of the Opinion, the Commission has obtained a wealth of information on Lithuania's situation from the Lithuanian authorities, and has utilised many other sources of information, including the member states and numerous international organisations.

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

### **Historical and Geopolitical Context**

Lithuania, a small nation on the Baltic Sea, is about the size of Ireland in terms of both population and area (3.7 million; 65,200km<sup>2</sup>). It shares borders with Russia (Kaliningrad), Poland, Belarus and Latvia.

Lithuania's existence as a state dates back to 1009. The kingdom of Lithuania was founded in 1251. In the Middle Ages trading links between North German, Prussian and Livonian cities around the Baltic coasts promoted the development of the Lithuanian economy and strengthened Lithuania's ties with the rest of Europe. The Lithuanian-Polish Commonwealth was established in 1569 but dissolved in 1795 when Russia occupied all of Lithuanian territory. Russia dominated Lithuania for over a century. Lithuania declared its independence on 16 February 1918, and fought both German and Soviet forces to establish it. Between the Wars Lithuania was an independent state and highly integrated into the world economy.

Lithuania was forcibly annexed by the Soviet Union in 1940, then occupied by Germany from 1941 to 1944. The Soviet Union re-established its rule in 1944, although it was not recognised by most Western states. In the Soviet period, because of Lithuania's comparatively good infrastructure and skilled labour force, large industries were established there. Despite a lack of natural resources, the energy sector was developed, particularly in the nuclear field. Other important sectors were agriculture and food processing.

In 1989, public pressure forced the Communist party to agree to multiparty elections, which were won by the Sajudis nationalist movement. The Supreme Council declared the restoration of independence on 11 March. After violent clashes with Soviet troops throughout 1990, more than 90% of the population voted for independence in a referendum in February 1991. The Soviet Union recognised Lithuania's independence in September 1991, and the last Russian troops left Lithuania in 1992.

## **Lithuania's Position Concerning the European Union**

Since restoring its independence in 1990 Lithuania has actively pursued a policy of strengthening political, economic and social ties with the European Union and anchoring its security and stability in the transatlantic security structures. Lithuania applied for EU membership on 8 December 1995. In June 1996 the Lithuanian Parliament ratified an amendment to Article 47 of the Constitution, thus enabling foreigners to own land for commercial purposes.

The determination of Lithuania to move towards European integration was underlined by President Algirdas Brazauskas in his address to the EU Diplomatic Corps on 19 April 1997: "Those who inspired the Treaty of Rome had surmounted the consequences of the Second World War just in the western part of Europe. Today we have a chance to overcome the consequences of the Cold War on a much vaster territory. Lithuania strives for democracy, peace and prosperity - the values we were unlawfully deprived of for long decades in the past. Lithuania sees its future in the family of united, secure and thriving states of Europe. Full and indivisible membership of the European Union constitutes one of our most important foreign policy goals. We believe that the admittance of new members would be the first step towards the elimination of a major consequence of the Second World War and the Cold War which divided Europe. It may be said that it would be a litmus test of the actual progress made by Europe towards unification and of the prevalence of thinking based on the values of truly Western civilisation rather than pure pragmatism.

"We are fully aware that the creation of the Europe of the 21st century is neither a question of charity nor of altruism. It is very good that the Copenhagen European Council established clear-cut criteria on which each state will be evaluated. Even if we would separate ourselves from the problems related to EU accession, those requirements are important in that they enable us to judge ourselves in terms of future prospects."

## **Contractual Relations**

Diplomatic relations between the European Communities and Lithuania were established on 27 August 1991. A Trade and Cooperation Agreement was signed on 11 May 1992 and entered into force in 1993. The present contractual relationship is regulated by a Free Trade Agreement which was signed on 18 July 1994 and entered into force on 1 January 1995. This agreement aims at establishing free trade between the EU and Lithuania within a transitional period of up to six years, on a basis of asymmetry. Some sectors (mainly textiles, agricultural products and fisheries) are regulated by specific rules. The agreement also contains provisions covering payments, competition and approximation of legislation.

A Europe Agreement was negotiated with Lithuania in the first half of 1995 and signed on 12 June 1995. Lithuania ratified the Agreement on 5 August 1996. It will enter into force on completion of ratification by all Member States. The Europe Agreement will then supersede the Trade and Cooperation Agreement and the Free Trade Agreement.

Once it enters into force, the Europe Agreement will be the basis of the relations between Lithuania and the Union. Its aim is to provide a framework for political dialogue, promote the

expansion of trade and economic relations between the parties, provide a basis for Community technical and financial assistance, and an appropriate framework to support Lithuania's gradual integration into the Union. The institutional framework of the Agreement provides the necessary mechanism for implementation, management and monitoring of all areas of relations. Subcommittees examine questions at a technical level. The Association Committee, at senior official level, provides for in-depth discussion of and often finds solutions to issues arising under the Agreement. The Association Council, at Ministerial level, examines the overall status of relations and provides the opportunity to review Lithuania's progress in preparing for accession.

To manage and implement its policy on European integration, the Government established in 1996 a Governmental Commission on European Integration, chaired by the Prime Minister. Coordination of all activities linked with integration falls to the Department of European Integration within the Foreign Ministry. In 1997 a new Ministry for European Affairs was set up to monitor and control compatibility of draft bills with EC laws. In early 1997 an Interministerial Delegation for Negotiations and Integration into the European Union was established, which is currently finalising a National Strategy for European Integration, including objectives and timetables.

### **The Pre-Accession Strategy**

#### *Implementation of the Free Trade Agreement and the White Paper*

The Free Trade Agreement is fully functioning according to the agreed timetable. Pending adoption of an additional protocol (under preparation), autonomous measures have been adopted for agricultural products, processed agricultural products, textiles and fisheries in order to adapt the Agreement to the enlargement of the Union and the conclusion of the Uruguay Round. Rules on undertakings and state aid are under preparation. A new Protocol on rules of origin entered into force on 1 April 1997 allowing for pan-European cumulation of rules of origin. Discussions are under way about extending Protocol 1 on trade in textiles beyond the expiry date of 31 December 1997. Agreement on determination of the agricultural component applicable to basic agricultural products originating in the Community, in accordance with Protocol 2, was reached in March 1997.

Other main issues being discussed in the framework of the Agreement are: approximation of legislation and pre-accession strategy, macro-economic progress, Lithuania's relations with its neighbours, opening up of Community programmes, customs cooperation, certification and standardisation issues, third pillar cooperation and trade issues. The Joint Committees, Interparliamentary Committee and technical working groups have all met regularly.

The Commission's White Paper of 1995 on the Internal Market set out the legislation which the candidate countries would need to transpose and implement in order to apply the acquis, and identified elements essential to the implementation of the single market (known as Stage I measures) which would need priority attention. Lithuania has attached considerable progress to this work. Ten working groups have been set up in the Ministries concerned to work on implementing the recommendations of the White Paper. In September 1996 the Parliament ratified a National Law Harmonisation Programme, which lays down timetables for

harmonisation with EU law. This fits into an overall strategy for legislative approximation whose target is the entry into effect by the year 2000 of EC internal market legislation. Progress has already been achieved in a number of areas including banking, insurance, customs, taxation, transport, environment and consumer protection.

The EC/Lithuania Free Trade Agreement is functioning well. It has been possible to resolve any problems smoothly and constructively. Cooperation has already advanced further in some sectors than the Agreement requires. This provides a good basis for the enhanced level of cooperation and implementation which will be required under the Europe Agreement.

### Structured Dialogue

Lithuania has participated in the Structured Dialogue since the Cannes European Council in 1995. Lithuania has been an active participant in the political dialogue as well as in the other areas covered by it.

### Phare

EU technical and financial assistance to Lithuania started under the 1991 TACIS programme and has been extended under PHARE since 1992. During the period 1992-1996 the PHARE programme provided 1794 MECU to Lithuania; The allocation for 1997 was 46 MECU. Principal sectors of activity have been: reform of the legal and institutional framework; infrastructure; restructuring and privatisation and third pillar issues. PHARE has had a particular impact on SME development and reform of taxation and customs.

Under the Cross-Border Cooperation programme over 15 MECU have been allocated since 1994 for infrastructure investment and EU-Belarus Eastern Border Management. In terms of contracting and disbursement, Lithuania has shown a high absorptive capacity.

### Participation in Community Programmes

Lithuania will become eligible to participate in Community programmes from the entry into force of the Europe Agreement. It has already applied to participate in: Socrates, Leonardo, Media, Youth for Europe, SAVE II, Raphael, Kaleidoscope, LIFE and Ariane. It has earmarked funds in its 1998 budget to meet the financial obligations which participation would imply.

### Trade Relations

EU-Lithuania trade has developed rapidly. Between 1992 and 1994 the Union's exports more than tripled, to 724 MECU. Over the same period Lithuania's exports to the EU rose by 30%, to 750 MECU. The main EU exports are machinery and electrical equipment, agricultural products and textiles. Lithuania's main exports are minerals and base products and chemicals. Roughly equal shares of Lithuania's external trade now go to the former Soviet Union and the EU.

Since the Free Trade Agreement between Lithuania, Latvia and Estonia entered into force for industrial products in January 1996 and for agricultural products in 1997, trade between the three countries is expected to grow substantially. Trade with Poland has increased sharply since the signature of the Lithuanian-Polish Friendship and Cooperation Treaty and a Free Trade Agreement in 1996. Lithuania also expects to join CEFTA in 1997.

### **General Evaluation**

Relations with the EU have developed well since Lithuania regained its independence. No delays are foreseen to establishing free trade by the year 2000, as foreseen in the Free Trade Agreement. The various issues dealt with under the Free Trade Agreement have been solved effectively. Cooperation will be further enhanced when the Europe Agreement with Lithuania enters into force.



## **B. CRITERIA FOR MEMBERSHIP**

### **1. Political Criteria**

The European Council in Copenhagen decided on a number of “political” criteria for accession to be met by the candidate countries in Central and Eastern Europe. These countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities”.

In carrying out the assessment required in this connection, the European Commission has drawn on a number of sources of information: answers given by the Lithuanian authorities to the questionnaire sent to them by Commission staff in April 1996, bilateral follow-up meetings, reports from Member States’ embassies and the Commission’s delegation, assessments by international organisations (including the Council of Europe and the OSCE), reports produced by non-governmental organisations, etc.

The following assessment involves a systematic examination of the main ways in which the public authorities are organised and operate, and the steps they have taken to protect fundamental rights. It does not confine itself to a formal description but seeks to assess the extent to which democracy and the rule of law actually operate.

This assessment relates to the situation in June 1997. It does not examine in detail any changes which have taken place since the fall of the Communist regime or which may come about in the future, though it generally takes account of any stated intention to reform a particular sector. The situation of the government is mentioned here only in passing: it will be examined in greater depth in chapter 4.

### **1.1 Democracy And The Rule Of Law**

In October 1992, Lithuania adopted by referendum a new Constitution, establishing a parliamentary democracy. The Lithuanian institutions work smoothly, the various authorities being mindful of the limits of their powers and of the need for cooperation.

#### **Parliamentary and Legislative Powers: Structure**

Parliament consists of a single house - the Seimas. Its 141 members are elected for four years by a mixed voting system: 71 are elected by the uninominal method of voting in a double ballot; the other 70 are elected by proportional representation on a national basis, and a list must receive at least 5% of the votes cast (4% before 1996) if it is to be represented. There are no longer any rules specifically ensuring the representation of minorities. (Before 1996, a list representing a minority required only 2% of the votes cast).

The Seimas, on a 2/3 majority vote of its members, can decide to hold early elections. The President of the Republic can also dissolve Parliament if it refuses to appoint a new government or, at the latter’s request, if the Seimas brings it down. He cannot, however, use this power during the last six months of his term of office, or if an early election has taken place during the previous six months.

Members of Parliament enjoy a traditional array of immunities. The involvement of the Opposition in the workings of the institutions is recognised. It has a voice, for example, in the setting up of cross-party parliamentary select committees.

The existence of numerous political groupings (24 parties put forward candidates for the last General Election in November 1996) shows that there is a genuine multi-party system in Lithuania. Political parties receive no State aid, but a bill on this subject is currently before Parliament.

Legislative power lies with the Seimas, which shares its right of initiative with the President of the Republic, the Government and 50 000 members of the electorate, who can put forward a proposal for a law which the Seimas is obliged to consider. The Government has regulatory power only for the purposes of ensuring that the laws are applied. The President of the Republic has the power to take the necessary steps to deal with external aggression or an emergency, but is obliged to put them before the Seimas at its next meeting.

A referendum can be held at the request of Parliament or of 300 000 members of the electorate "on the subjects of greatest importance for the life of the State and the People" (Article 9 of the Constitution). To date, this procedure has been used seven times.

### **Functioning of Parliament**

The elections of 1992 and 1996 were free and fair, and in both cases they resulted in a political change of government (bringing to power first the Democratic Labour Party, then a conservative coalition).

Parliament operates satisfactorily. Its powers are respected and the Opposition plays a full part in its activities.

### **The Executive: Structure**

The President of the Republic is elected by direct universal suffrage for a five-year term, renewable once only. If the Seimas is dissolved by the President, the newly-elected Parliament may, by a 2/3 majority vote of its members, call an early presidential election. The President exercises the traditional prerogatives of a Head of State.

The Government, which is accountable to the Seimas, consists of a Prime Minister and ministers appointed by the President of the Republic after receiving the confidence of Parliament. The President of the Republic may also dismiss a minister, at the request of the Prime Minister.

The ministers are individually answerable to Parliament. Criminal proceedings cannot be brought against them without the consent of the Seimas or, if the Seimas is not sitting, the President of the Republic.

The administrative organisation of the country depends on the decentralised regional arms of the central government at the level of the ten counties, whose officials are responsible for implementing the decisions taken and policies adopted by the central government. Each

county has a regional Governor appointed by the government. The Governor is assisted by an assembly of the mayors and deputy mayors from the town councils under his jurisdiction. Lithuania has only one type of local authority, the municipality, of which there are 56. Of these, 44 are districts and 12 are towns or cities. They are managed by municipal councils, elected by universal suffrage for a three-year term, and by a Mayor appointed by the Council. Their deliberations and decisions are monitored by a representative of the Governor, appointed by him at county level but not placed under the Governor's authority.

The Lithuanian local authorities enjoy a large measure of autonomy and financial independence.

There is a Civil Service Act, adopted in 1995, which distinguishes officials appointed by the government in office (who have no employment guarantees) from permanently-recruited civil servants. Lithuania has laws on administrative transparency.

The army, the secret services and the police are under the control of the civil authorities. The police has been reorganised to enable it to tackle more effectively the tasks it has to perform (in particular the fight against organised crime).

### **Functioning of the Executive**

The executive functions in a satisfactory manner.

The local authorities enjoy a certain degree of autonomy, though the decentralised State authorities at county level seem to have considerable powers in respect of local administration. Although civil servants' rights and obligations are defined in law, there is at present an imbalance between their rights, which have been extended, and their obligations, which are still largely formal. In particular, there is no suitable mechanism whereby public servants can be held accountable - and this makes it hard to combat corruption effectively. However, a Civil Service Code of Good Practice is currently before the Seimas, and the government has announced its intention of setting up an inspectorate to deal with complaints against the administration.

Since early 1997, the police has been involved in a process of reform intended to improve its readiness to perform its traditional duties and to tackle new tasks (the fight against organised crime, ensuring that taxes are collected). Mechanisms are now in place for assessing its performance and calling police officers to account.

### **The Judiciary: Structure**

The situation of the Lithuanian judiciary is such that its institutions can claim to be independent. It is true that the executive and legislative authorities have a considerable say in the appointment of judges: Appeal Court judges are appointed by the President of the Republic with the approval of Parliament; District and Local Court magistrates are appointed by the President alone; Supreme Court judges are appointed by Parliament on a recommendation from the President. However, a special Committee of judges makes recommendations to the President on all matters concerning the management of the judiciary

(appointments, promotions, transfers or dismissals). Judges are not allowed to take part in the activities of political parties or other political organisations.

The Procurator's Office is under the authority of the Procurator General, who is appointed and dismissed by Parliament and is answerable to Parliament. The procurators are answerable to the courts for their actions during judicial proceedings.

In respect of administrative measures, the Constitutional Court has the power, at the request of one-fifth of the Members of Parliament, to verify the constitutionality of acts of the President of the Republic and of the Government. The Lithuanian authorities are also currently drafting a "Code on violations of the law by the Administration and on administrative procedure", which will enable acts of the Administration to be challenged in court. Under the Constitution, special tribunals can also be set up for hearing such disputes (Article 111).

In March 1994, Lithuania set up parliamentary Ombudsmen (five "controllers" were appointed for a four-year term by the Seimas in December 1994). They have the power to consider complaints against the Civil service, the army and the local authorities and may, on the basis of their investigations, initiate legal proceedings to have the offending public servant removed from his post. They cannot, however, investigate complaints against the President of the Republic, the Government or the judiciary.

The Constitutional Court, set up in 1993, consists of nine judges appointed for a nine-year term, not renewable. Parliament appoints the judges on a proposal from the President of the Republic, the President of the Seimas and the President of the Supreme Court. (Each of these authorities proposes one third of the members of the Constitutional Court). The Constitutional Court ensures the constitutionality of laws and treaties. It may be asked to do so by the President of the Republic, the Government, one-fifth of the MPs or the courts. It also judges presidential and parliamentary elections, decides whether the President of the Republic has become incapable of carrying out his duties and judges impeachment proceedings against members of the Seimas or other public figures. The decisions of the Constitutional Court are final, except in respect of the constitutionality of international treaties, in which respect the Seimas can overrule the "conclusions" of the Court (Article 107(3) of the Constitution).

### **Functioning of the Judiciary**

The main problem affecting the process of justice in Lithuania is the fact that the courts take a long time to deliver their judgments. This is largely due to a shortage of qualified judges and to the 1995 reform of the judiciary, which created a four-tier judicial system. Commercial cases are particularly seriously affected, as the bottleneck obstructs the application of the law on bankruptcy.

The Procurator's Office also seems overloaded with work at present, since its powers have not been clearly defined. This, in turn, delays legal proceedings and in particular lengthens the procedure for preventive detention (see below).

## **1.2 Human Rights and the Protection Of Minorities**

Lithuania has introduced various internal rules designed to ensure respect for human rights and minorities' rights. Such respect may also be guaranteed by the application of certain international conventions, most notably the European Convention for the Protection of Human Rights and its main additional protocols. Under Article F of the EU Treaty, this set of provisions forms part of the *acquis*: any State wishing to join the European Union must first have ratified the said texts.

Lithuania, which has been a member of the Council of Europe since May 1993, ratified the European Convention for the Protection of Human Rights and most of its additional protocols in June 1995 (with the exception of Protocol No.6 on the death penalty). It also grants private individuals the right to appeal to the European Court if they consider that their rights under that Convention have been violated.

Among the other main conventions on human rights and minorities' rights, Lithuania has signed, but not ratified, the European convention for the prevention of torture and the Framework Convention for the Protection of National Minorities. Nor has it signed the European Social Charter. It has, however, ratified the main human rights conventions concluded under the aegis of the United Nations.

Under Article 138 of the Constitution, any international treaty ratified by the Seimas forms an integral part of Lithuanian law.

### **Civil and Political Rights**

The Lithuanian Constitution recognises the right of any individual to have recourse to the law. However, the actual exercise of this right is severely impeded by the slowness of legal proceedings and the lack, until now, of any procedure for calling public servants or police officers to account. Moreover, the shortage of lawyers impedes the right of any individual to obtain the services of a lawyer (Article 31 of the Constitution).

The death penalty has not been abolished in Lithuania, and was last imposed in 1995. Since then, the President of the Republic has decreed a moratorium, and a new draft Penal Code not including the death penalty was recently put before the Seimas. Nevertheless, there is strong public opposition to the proposed abolition of this penalty.

The right not to be arrested arbitrarily is protected by the law which limits the period of detention to 72 hours. After that time the detainee must be charged or released. This period may be extended to two months if the detainee is suspected of having committed a "serious offence", in which case the individual in question must appear in court within 48 hours of his arrest, so that the judge can decide on the period of detention. The Lithuanian authorities recognise that this legislation is exceptional in nature: it is a temporary measure and should cease to be applicable after 30 June 1997.

All citizens over 18 years of age enjoy electoral rights.

Freedom of association and peaceful assembly is also guaranteed by the Constitution and is exercised without difficulty. More than 300 associations are active in Lithuania. Since they are non-profit-making organisations, they are exempt from corporation tax.

There is genuine freedom of expression in Lithuania, as evidenced by great pluralism in the press and other media: there is one national public television network and four privately-owned networks, as well as several regional networks. The Law of July 1996 guarantees the independence of the media and of journalists vis-à-vis the public authorities. Thus the three regulatory bodies set up under that Law are made up primarily of representatives of the profession. An Ombudsman has also been set up to investigate libel accusations and other complaints against the media. The Law also authorises the dissemination of information about the private life of public figures if it is liable to affect the general public.

The right of ownership is now assured, and expropriation may take place only in the public interest and with fair compensation paid in advance. Similarly, in June 1996, Parliament amended Article 47 of the Constitution so as to allow nationals of Member States of the European Union and of the G24 to own land in Lithuania. Parliament has recently adopted a law providing for arrangements for compensating persons who were deprived of their property by the Nazis during the last war or by the Communist regime. The President of the Republic has asked the Seimas to reconsider this law, in particular so as to guarantee the rights of the present occupants of certain property which is to be restored. Finally, the land register is still incomplete and this creates uncertainty regarding the ownership of land in some areas.

Respect for private life is, in principle, guaranteed since searches and the monitoring of correspondence and communications cannot be undertaken without prior authorisation from the Procurator's Office or a judge. However, measures of this sort are increasingly being taken without a warrant as part of the fight against organised crime. An appropriate legal basis for such actions should be laid down, so that they can be carried out legally and efficiently.

With regard to asylum-seekers, in January 1997 Lithuania ratified the 1951 Geneva Convention on refugees, thus bringing into force the 1995 Law laying down the arrangements and procedure applicable to such persons. The first applications for asylum under this new system were considered in May 1997. Accommodation and assistance for asylum-seekers are now of a satisfactory standard.

The situation in prisons gives greater cause for concern. The present state of affairs prevents Lithuania from ratifying the European convention for the prevention of torture and inhuman and degrading treatment. However, the prison system is to be reformed in 1997, chiefly by adopting a Code on the imposition of sentences and a law on prisons and by opening new penitentiary establishments (two are to be built this year).

Lithuania has no appropriate legislation against pornography and child prostitution or against the sexual abuse of children. However, NGOs working in this field have, with government assistance, taken positive steps to protect abused children.

Finally, attention should be drawn to the criticisms levelled against the Lithuanian authorities for their attitude toward Lithuanian Nazi war criminals living in Lithuania (cf. the case of

Alexandras Lileikis). Nor have the authorities in Vilnius kept their promise to annul the measures, illegally taken by the Soviet regime, to rehabilitate persons suspected of crimes against humanity. However, the Procurator General has referred to the Supreme Court the case of twenty persons alleged to have benefited from these measures.

### **Economic, Social and Cultural Rights**

The right to the minimum income required for survival and to social security is enshrined in the Constitution.

Trade union freedoms are recognised. Trade union pluralism is also guaranteed, and there are some 80 such organisations in existence. However, relatively few workers are members of a trade union.

The right to strike is guaranteed, except for public officials providing essential public services. However, the statutory procedure for exercising this right is so complex that only a small number of strikes have taken place legally.

Freedom of education and religion are guaranteed in Lithuania. However, police protection is needed for Jewish places of worship, in view of the sporadic acts of vandalism committed against the Jewish cemeteries at Kaunas, Vilnius and Klaipeda.

### **Minority Rights and the Protection of Minorities**

Minorities represent nearly 20% of the population of Lithuania, the two largest being Poles (9%) and Russians (8%).

International standards provide a first line of defence for minorities. Lithuania has not ratified the Council of Europe's framework convention on minorities, and Council of Europe Recommendation 1201 is not legally binding.

The Lithuanian Constitution recognises the individual rights of persons belonging to minorities (in terms of language, culture and traditions), but has taken no steps to enshrine collective rights which would enable minorities to be recognised as politically organised communities. There are, for example, no particular rules governing the representation of minorities in Parliament: a party representing the Polish minority obtained one seat in the November 1996 general election, having succeeded in getting over the 5% threshold of votes cast, and five MPs of minority origins were elected on the lists of the national parties (three for the Conservatives, one for Labour and one for the Social Democrats). However, minorities have the right to manage their cultural and educational affairs, and at Government level the Department for national minorities and regional issues is responsible for dealing with these matters.

The situation of minorities in Lithuania is, in general, satisfactory. The 1991 Law on nationality has made a major contribution here by granting citizenship to all persons resident in Lithuania, regardless of their national origins, previous periods of residence or ability to speak the language. Consequently, some 90% of persons belonging to minorities now have Lithuanian nationality.

Minorities are allowed to use their own language for official communications in areas where the minority in question accounts for a large proportion of the population. In such areas, road signs are in both languages. It is, however, not permitted to express oneself in a minority language in court, except via an interpreter.

Minority languages and cultures are supported by the public authorities. The government gives grants to minority schools and has introduced a programme of long-term assistance for such schools. Thus, 14.6% of all schoolchildren are being educated in establishments where teaching is given in a minority language. There is also a quota system for pupils from minority communities who wish to go on to higher education. A large number of minority language media serve these communities, and the national radio and TV networks also broadcast programmes for the various nationalities.

Almost all the complaints made by minorities have come from the Poles, who complain of insufficient access to public service employment, especially at high level, of obstacles to the use of the Polish language and of boundary changes to the administrative districts within the Vilnius region which they say, have reduced the influence of the Polish minority. These are nevertheless isolated problems and do not alter the fact that the overall situation is favourable.

### **1.3 General Evaluation**

Lithuania's political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Elections in 1992 and 1996 were free and fair, and in each case permitted an alternation of power in proper conditions. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.

There are no major problems over respect for fundamental rights.

Lithuania demonstrates the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities.

## **2. Economic Criteria**

In examining the economic situation and prospects of Lithuania, the Commission's approach is guided in particular 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, as well as the capacity to cope with competitive pressure and market forces within the Union".

This part of the Opinion therefore gives a concise survey of the economic situation and background, followed by a review of Lithuania's progress in key areas of economic transformation (liberalisation of the price and trade system, stabilisation of the economy,



structural change, reform of the financial sector) as well as its economic and social development. It concludes with a general evaluation of Lithuania in relation to the criteria mentioned by the European Council and a review of prospects and priorities for further reform.

## **2.1 The Economic Situation**

### **Background**

Lithuania, with a population of 3.7 million, has a gross domestic product (GDP) of 14 billion ECU (expressed in purchasing power parity); its population is about 1 percent of that of the Union, while its economy is only about 0.2 percent of that of the Union. GDP per head is about 24 percent of the Union average. The average monthly wage is about 140 ECU. Lithuania has applied for WTO membership.

### **Progress in Economic Transformation**

In the inter-war period, Lithuania was an independent state, and highly integrated in the world economy. In 1940, the country was forcibly annexed to the Soviet Union and subsequently central planning was introduced. Because of its comparatively good infrastructure and skilled labour force, relatively large and sophisticated industries were established in Lithuania. Despite a lack of natural resources, development of the energy sector was particularly emphasised; it achieved sufficient capacity to satisfy the energy demand of most of the Baltic region of the Soviet Union. Other traditionally important sectors were agriculture and, especially, food processing. Lithuania's large enterprises were heavily dependent on the rest of the Soviet Union, both for acquiring raw materials and energy, and for selling finished products. The industry was the beneficiary of substantial implicit subsidies during this period, because the system of centrally determined prices allowed it to import its inputs far below world prices - an advantage that was lost after independence.

Although Lithuania started economic change during the *perestroika* era under Soviet rule, the fact that it regained independence only in 1991 has delayed the start of fully-fledged reforms. The need to establish from scratch the institutions and the legal framework of an independent state has added considerably to the complications of transition to a market economy. Nevertheless, immediately after independence, extensive liberalisation and privatisation programmes were initiated although the latter took much more time than originally planned. The reorientation of the economy initially induced the most severe decline in output registered in central and eastern Europe, while at the same time inflation surged. Only after the introduction of the new national currency and the currency board in 1993-94 was the economic downturn halted.

Before independence, the private sector practically did not exist. The industry sector consisted of large state enterprises, and agriculture was entirely collectivised. A programme of voucher privatisation began in 1991, and succeeded in privatising both the important agricultural sector and all small and medium-sized enterprises relatively rapidly. However, in the larger industrial enterprises, the state kept important stakes, while in key enterprises (e.g. electricity, railways, telecommunications, oil refinery) no private influence was allowed at all. The authorities report the share of the non-state sector in GDP to be around 65 percent, but this figure contains

many companies with large state participations. A second stage of privatisation started in 1996, and is based on several schemes, including cash payments. Although, it is still too early to assess the results, privatisation is one of the policy priorities of the new government which has initiated divestment procedures for several of the aforementioned key enterprises.

### Foreign Direct Investment

Foreign direct investment (FDI) inflows have been low, with an average annual inflow of approximately 1% of GDP (SOURCE: EBRD). This has been due to several factors, including macroeconomic instability and the slow pace of cash privatisation and other structural reforms. Recent policy changes (cf. below) could clearly improve the situation in the future.

### Economic Structure

In Lithuania, agriculture has always been a key sector. However, in recent years output fell steeply: from 27.7 percent of gross value added in 1990 to roughly 9 percent in 1995. A rapid privatisation coupled with the restitution of property rights on land has led to a strongly aggregated ownership structure, resulting in low productivity. The authorities are protecting the profitability of the sector with important subsidies. Consequently, the fall in output has not been reflected in a similar employment decline, and the agricultural sector still employs more than 20 percent of the workforce. To be able to expose the sector to international competition, a substantial restructuring effort still has to be made, with most probably significant effects on employment. The new government has introduced reform measures: production subsidies are being reduced and replaced by income support.

Industry is still an important economic sector, although its share in gross value added fell from 32.8 percent in 1990 to 29 percent in 1995. Employment represents over one fifth of the total workforce. The most important sub-sectors are food processing (30 percent) and petroleum refining (19.4 percent), although the latter lost importance because Russia is no longer using the Lithuanian refinery. The large energy-intensive manufacturing enterprises have been confronted with a sharp price increase of their inputs, as Russia started to charge world prices for raw materials and energy, while they simultaneously lost most of their traditional export markets. The transformation of the sector from energy-intensive production for Soviet markets, to higher-quality production, more in line with natural endowments, for western markets, is still unfinished.

Under the Soviet regime, the services sector was typically underdeveloped. Consequently, output in the services sector declined less than in agriculture and industry, and its share of gross value added nearly doubled in five years to 55 percent in 1995.

The reform of the tax system and the rapid expansion of the number of small private enterprises have created considerable difficulties for the statistical office to record all economic activity, and for the tax administration to impose taxes. Consequently, the informal sector has become very important.

Main indicators of economic structure (all data for 1996 unless otherwise indicated)		
Population	<i>million</i>	3.7
GDP per head	<i>PPS-ECU (1995)</i>	4100
	<i>per cent (1995)</i>	24
Share of agriculture in:	<i>per cent (1995)</i>	9
	<i>per cent (1995)</i>	23.7
Gross foreign debt/GDP	<i>per cent</i>	15.6
Exports of goods & services/GDP	<i>per cent</i>	52.4
Stock of foreign direct investment	<i>billion ECU</i>	0.23
	<i>ECU per head</i>	65
FDI stock converted at end-1996 exchange rate of 1 ECU = \$ 1.2		
<i>Source: Commission services, national sources, EBRD, IMF</i>		

## **Liberalisation**

### Price Regime

Prices were almost fully liberalised during 1991-92. Restrictions remain on prices for energy, housing and some prices for public transport and utilities. Goods and services with administered prices represent approximately 10 percent in the basket of the consumer price index.

### Trade Regime

Lithuania's trade regime is relatively liberal, as all non-tariff restrictions were removed during 1991-92. The trade-weighted average tariff is very moderate at only 4.3 percent (1995) with a large majority of products zero-rated. However, there has been some reversal in trade policies under pressure from influential interest groups. In the last two years, import tariffs on some agricultural products have been reduced more slowly than previously announced. On the other hand, the Community has accepted a Lithuanian request for further trade liberalisation in textiles.

Lithuania also has free trade agreements in place with the EFTA, with Latvia and Estonia, and with most of the individual member states of CEFTA. Once it will have joined the WTO -for which it has applied-, Lithuania will fulfil all formal conditions to become a member of CEFTA.

### Foreign Exchange Regime

The introduction of the new national currency, the litas, was done in several steps. First, the Russian rouble was replaced by the talonas in October 1992, which was allowed to float freely. The talonas initially continued to depreciate, but stabilised after a tightening of monetary policy. Consequently, the litas was introduced in June 1993, and was pegged to the US dollar, at an exchange rate of 4 litas per dollar, on 1 April 1994. Simultaneously, a currency board mechanism was set up to increase the credibility of the exchange rate peg (cf. below, section 6.3). The Bank of Lithuania (BoL) has the power to change the peg when necessary. The Lit is fully convertible for current-account transactions, and there are virtually no restrictions on capital transactions. Residents and non-residents may open accounts in foreign currencies.

The BoL has recently announced that the monetary policy framework and the exchange rate regime will be changed over the coming years. The currency board system would be gradually abolished, while the exchange rate peg would initially remain unchanged. Only in the final phase of the change of policy, which would not start before 1999, the exchange rate link to the dollar would be progressively shifted towards a link to the euro.

### Stabilisation of the Economy

#### Domestic

The transition from a command to a market economy, and, even more importantly, the break-up of the close input and output relations with the Soviet Union, provoked a steep output decline in industry and agriculture during the first years of independence, leading to a contraction of real GDP by almost 60 percent between 1990 and the end of 1993. Starting in 1994, the economic downturn was brought to an end, and economic growth accelerated to 3 percent in 1995. Preliminary and partial figures indicate that the pace of economic growth continued to increase in 1996, despite the consequences of the serious banking crisis of December 1995. If structural reforms of the economy are continued, it should be possible to maintain similar or even higher growth rates in the coming years.

Inflation surged in 1992, not only as a result of rapid price liberalisation and the terms-of-trade shock, but also because of the fact that the currency remained pegged for too long to the sharply depreciating Russian rouble. In mid-1993, a first substantial attempt was made to reduce inflation by leaving the rouble zone and introducing a new currency, the litas. These effects were reinforced by the adoption of a currency board in April 1994, which severely limits the BoL's room for manoeuvre. As a result, hyperinflation was halted. End-of-period inflation fell drastically to less than 50 percent at the end of 1994, and declined gradually afterwards to reach 13 percent at the end of 1996. The fall of the inflation rate continued into the first months of 1997. This downward trend can be expected to continue. The moderate wage developments and the real appreciation of the currency, which restrain import prices, have probably played a major part in the sharp reduction of the inflation rate. However, the expected adjustments in the relative price of energy products will continue to exert some inflationary pressure.

Through the currency board system, the litas is pegged to the dollar and base money needs to be backed for at least 100 percent by gold and foreign reserves. Monetary financing of the budget deficit is not possible, and credit to the banking sector by the central bank - in its role as lender of last resort - is limited to the amount of foreign reserves in excess of those needed to provide full backing for base money. The Bank of Lithuania used this last possibility to inject additional liquidity into the economy after the December 1995 banking crisis, which can explain why the negative effect of the crisis on economic growth remained limited, despite the fact that one quarter of the economy's deposits was frozen in the suspended banks.

Main economic trends		1994	1995	1996
Real GDP growth rate	<i>per cent</i>	1.0	3.0	3.6
Consumer price inflation				
	<i>per cent</i>	72.2	39.6	24.6
December-on-December	<i>per cent</i>	45.1	35.7	13.1
Unemployment rate, end-year	<i>per cent</i> <i>ILO definition</i>	4.5	7.3	6.2
General government balance	<sup>b</sup> <i>per cent of GDP</i>	-1.7	-1.8	-2.5
Current account balance	<i>per cent of GDP</i>	-2.1	-10.3	-8.2
Debt/export ratio	<i>per cent</i>	20.7	25.9	29.8
Foreign direct investment inflo	<i>per cent of GDP</i>	1.4	0.9	1.0

*Source: Commission services, national sources, EBRD*

Recently, the BoL has announced changes to the monetary policy framework. In a first stage, the central bank would start to influence liquidity by intervening more actively on the treasury bill market, while maintaining the general principles of the currency board and the fixed exchange rate. The currency board mechanism would only be removed in a second phase, while the exchange rate peg would remain unchanged until the third phase, which would not begin before 1999.

Despite sharply reduced tax revenues, Lithuania has managed to keep public deficits moderate. Given that the currency board mechanism does not allow for monetary financing of government deficits, the weak revenue performance had to be offset on several occasions by additional expenditure cuts. Due to the recapitalisation of the state banks and lower-than-expected tax receipts, the deficit came out higher than planned in 1996 at 2.5 percent. Therefore, the authorities are presently trying to extend the tax base, and to make the appropriate improvements in tax collection and administration, in order to reduce the government deficit ratio significantly in 1997.

## External

As a consequence of its secession from the Soviet Union, which accounted for 95 percent of its exports, Lithuania lost almost 70 percent of its exports in the first two years of independence, resulting in a rapid increase of the trade deficit to 6 percent of GDP in 1993. The external balances started to improve gradually afterwards, thanks to the undervaluation of the real exchange rate at the time of the introduction of the currency board as well as to economic restructuring. The recent evolution of the trade balance is hard to assess because of important changes in statistical methods, which make comparisons with observations from before 1995 impossible. Available figures show sharp increases in both imports and exports, resulting in a slight improvement of the 1996 trade balance as a proportion of GDP.

Lithuania has rapidly built up foreign exchange reserves, mainly as the result of official external borrowing and, to a much lesser extent, foreign direct investment. The fall in reserves after the banking crisis, which amounted to 20 percent in March 1996, was already completely offset in August. The litas is now backed by reserves of about 2.5 months of imports.

Lithuania's external debt has increased substantially since 1993 but remains modest, at roughly 15 percent of GDP at the end of 1996. A large part (about 40 percent) of the credits received so far went to finance the purchase of oil and gas, while only about one quarter of the loans was used to finance investment projects.

## **Structural Change**

### Foreign Trade

Lithuania is a small open economy with exports of goods accounting for above 40 percent of GDP in 1996. Lithuania has been relatively successful in shifting its trade towards Western Europe. Roughly equal shares of the country's external trade now go to the former Soviet Union and to the European Union. However, Lithuania remains heavily dependent on Russian oil imports because of technical and logistical constraints.

The geographical redirection of trade has been accompanied by a significant change in the composition of exports and imports. While the share of agricultural goods, machinery and textiles decreased significantly, exports of chemicals, wood and metals have gained in importance. Redirecting exports has been successful in the latter areas and in textiles. These shifts clearly illustrate the difficulties formerly important industrial sectors have to penetrate western markets.

The Lithuanian authorities are currently establishing a set of measures and institutions to promote exports, comprising an export development agency, an export insurance and guarantee system, and the creation of trade missions in the main trading partner countries.

### Labour Market

Initially, the sharp contraction of the economy did not generate a rapid increase of registered unemployment. To compensate for the lower output, employers relied on unpaid leave and shorter working hours, instead of layoffs, which were legally limited until October 1992. Only

in the second half of 1994, registered unemployment started to increase, to reach a peak of 8.3 percent of the active population in early 1996. Recently, registered unemployment declined again to 6.2 percent at the end of 1996. However, some rural areas are disproportionately hit, with jobless rates of over 20 percent. Total unemployment remained relatively low compared to many central European countries in transition, as a consequence of the important fall of labour market participation from about 90 percent in 1991 to 83 percent in 1995.

The minimum wage is now about 86 ECU per month, approximately half the average wage.

### Public Finances

The reform of the Lithuanian tax system from the Soviet government revenue system, which mainly consisted of levies on enterprise turnover, to a tax system suited for a market economy, has led to a major erosion of government receipts: while general government revenue represented almost 44 percent of GDP in 1990, it fell to only 25 percent of GDP in 1995. Nevertheless, the fiscal reform in Lithuania has put in place most of the necessary instruments. VAT was introduced at an early stage, and the rate was increased to 18 percent in 1994. However, VAT, personal income tax, and corporate profits tax, are all eroded by many exemptions. The tax administration also lacks experience to trace tax obligations of the rapidly developing private sector. Therefore, the authorities are presently removing a number of exemptions on VAT, and increasing rates on some food products and fuel. Furthermore, the government intends to fight tax evasion and smuggling more vigorously, in order to reverse the downward trend in public receipts.

Notwithstanding this substantial decline of government revenues, deficits remained limited because of strict cash management, reducing expenditures whenever revenues were insufficient. The fact that the currency board system precludes monetary financing of government deficits, also forces the government to conduct a credible fiscal policy, by keeping the budget close to balance. Consequently, government expenditures decreased from around 40 percent of GDP in 1990, to almost 28 percent in 1995. The structure of government expenditure has changed considerably. Subsidies to enterprises were reduced significantly from 14 percent of GDP in 1990 to only 1.3 percent in 1995 (mainly directed to agriculture and the energy industry). However, the latter number underestimates the actual government support, because of the enterprises' build-up of tax and energy payments arrears. Also, part of the banking system's non-performing loans to enterprises are likely to become a liability for the state, through future bank recapitalisation, or compensation of depositors in case of bank failure. Public expenditures are now dominated by wages and transfer payments to households, mainly pensions. Together these two categories represent almost two thirds of total government expenditures. Despite the continued downward pressure on expenditures, public investment has been maintained at around 3 percent of GDP. Nevertheless, the modernisation of public infrastructure may require an increase in public capital expenditures. A social security system has been created, based on payroll taxes. Employers contribute 30 percent of wages and salaries, and employees contribute 1 percent. The main expenditure category of the social security system is pensions. Despite the current equilibrium of the system, there is a risk that it will become unsustainable in the medium term. Although the pension age is being gradually increased, the ageing of the population and a relatively generous benefit calculation method will make it difficult to maintain the present system.

### *Enterprise Sector: Privatisation and Enterprise Restructuring*

The first stage of Lithuania's voucher privatisation came to an end in 1995, almost four years after its initiation. During this period, 85 percent of eligible objects were privatised. This rate was characteristic for most sectors of the economy. According to official estimates, the private sector's share in GDP was 68 percent in 1996. However, this number includes a large number of enterprises that are still partly state-owned.

The voucher privatisation programme has not been very conducive to enterprise restructuring, partly because of some structural features of the Lithuanian economy. Attracting the financial means needed for restructuring is a particularly challenging problem when distributing enterprises free of charge to the population. However, the availability of long-term funds for restructuring has also been limited by the weakness of the banking sector, and the lack of important inflows of foreign direct investment, which have remained close to only 1% of GDP in the last few years. Moreover, privatised companies are now owned, to a large extent, by worker co-operatives, which tend to favour short-term job security over restructuring. Although the tight fiscal and monetary policy has put major pressure on the enterprises to restructure, the continued direct and indirect support to important sectors, such as energy and agriculture, slowed down restructuring in these sectors. Finally, the lack of an efficient bankruptcy legislation has so far reduced the incentives for restructuring.

Because voucher privatisation did not generate sufficient enterprise restructuring, the authorities approached the second stage of privatisation differently, selling the assets for cash. In this way, the country also wants to attract more foreign investment. Although the initial list of enterprises to be privatised was rather limited, the authorities have recently added a number of key enterprises from the financial, energy, telecommunications, and transport sectors, including the national air carrier Lithuanian Airlines, major state banks and the telecommunications operator Lietuvos Telekomas.

### **Financial Sector**

In 1992, a two-tier banking system was created, whereby the commercial banking operations of the Bank of Lithuania were separated from its central bank functions. In the initial stage of financial sector reform, Lithuania witnessed an important increase in the number of financial institutions, as capital requirements and other prudential regulations were fairly weak. Nevertheless, the sector remained very concentrated, with the four biggest banks representing about two-thirds of all deposits, while the three biggest banks were still state-owned. Most of the banks were undercapitalised and had an important portfolio of, often politically directed, non-performing loans. Initially, the real value of these loans was quickly eroded by high inflation, but when inflation was gradually reduced, banks were faced with liquidity problems. Tighter controls by the BoL, which was given extensive powers to supervise the banking system and enforce prudential regulations by the 1994 Commercial Bank Law, forced a large number of smaller banks to enter bankruptcy procedures, and the government had to support some medium-sized banks with additional liquidity. At present 28 banks are registered with the central bank although only 12 banks are actually active on the market. The state holds a majority stake in three banks, the Agricultural Bank, the State Commercial bank and the Savings Bank. The state participates also in the capital of 16 commercial banks. Foreign investors account for about 16 per cent of the capital of the banking sector. There are



favourable conditions for the founding of foreign subsidiaries, and amendments to the legislation introduced in 1996 provide for the possibility of foreign banks opening branches in Lithuania.

A banking crisis erupted in December 1995, when one large and two medium-sized commercial banks, representing about 25 percent of the value of total deposits, were found to be insolvent. Moreover, auditing reports revealed that two of the state-owned major banks would also need to be recapitalised in order to meet capital adequacy requirements. The authorities in the first months of 1996 hesitated between liquidating and bailing out the insolvent banks, but finally decided to renationalise the biggest suspended bank, to recapitalise the banks in state hands, which now represent almost three quarters of all deposits, and to establish a special asset management company to take over the bad loans from troubled banks. Recently, it has been announced that two of the state-owned banks will be restructured and privatised in 1997. The insolvent Innovation Bank is being liquidated (and depositors compensated). Additionally, a new law on deposit insurance was approved, according to which small deposits in the suspended banks would be reimbursed. Other banks will be eligible for the new insurance scheme only if they comply with Central Bank prudential rules. The budgetary cost of the bank restructuring programme will partly be financed by World Bank support.

The banking system remains fragile and the performance of banks weak as their results are adversely affected by the need to make provisions for non-performing loans and to cope with increasing competition. Regulatory and supervisory rules have been tightened following the banking crisis, and measures have been taken to improve banks' flow of information about credit risks. The maturity transformation in the banking system is still limited as two thirds of bank loans have maturity of less than one year. However the number of loans extended for the financing of investment projects is rising.

The National Stock Exchange of Lithuania began operations in 1993, as a result of the privatisation of state enterprises and state property. The capitalisation is very limited (about 2 percent of GDP) and the turnover remains low. The role of the stock market as an alternative source of finance for the corporate sector is quite modest. There was recently some interest from companies to raise capital by issuing short-term bonds. The secondary market for government securities is not significant, although efforts are being made to encourage it. A new law on insurance should bolster Lithuania's insurance market. Companies and individuals are allowed to deduct insurance payments from their taxes. The law has a protectionist side: when foreign insurance companies wish to enter the market, they can only do this through a tender and must prove that no local company is able to take on the work.

## **Economic and Social Development**

### *Social Indicators*

Lithuania is a small country with 3.7 million inhabitants. Although the population is still young - 60 percent are below the age of 40 - birth rates started to fall steeply in recent years. Life expectancy at birth in 1994 was 62.8 years.

The labour force is skilled and enrolment rates are comparable to those in most of the Member States. About one third of the workforce has completed tertiary education (including

vocational training). However, teachers are paid low salaries and can find better-paid jobs in other industries. Over time, this could lead to a weakening of the education system.

### Sectoral Differences

Differences between urban and rural areas are getting more important. Employment in rural areas is being affected by the not yet completed restructuring of the agricultural sector. Although urban areas have to overcome the consequences of enterprise restructuring, this is partially offset by the growth of the services sector in the cities. As a result, some rural areas are disproportionately hit by unemployment, with jobless rates of over 20 percent.

## **2.2 The Economy in the Perspective of Membership**

### **Introduction**

The European Council in Copenhagen in 1993 defined the conditions that the associated countries in central and eastern Europe need to satisfy for accession. The economic criteria are:

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

These criteria are linked. Firstly, a functioning market economy will be better able to cope with competitive pressure. Secondly, in the context of membership of the Union, the functioning market is the internal market. Without integration into the internal market, EU membership would lose its economic meaning, both for Lithuania and for its partners.

The adoption of the *acquis*, and in particular the internal market *acquis*, is therefore essential for a candidate country, which must commit itself permanently to the economic obligations of membership. This irreversible commitment is needed to provide the certainty that every part of the enlarged EU market will continue to operate by common rules.

The capacity to take on the *acquis* has several dimensions. On the one hand, Lithuania needs to be capable of taking on the economic obligations of membership, in such a way that the single market functions smoothly and fairly. On the other hand, Lithuania's capacity to benefit fully from the competitive pressures of the internal market requires that the underlying economic environment be favourable, and that the Lithuanian economy have flexibility and a sufficient level of human and physical capital, especially infrastructure. In their absence, competitive pressures are likely to be considered too intense by some sections of society, and there will be a call for protective measures, which, if implemented, would undermine the single market.

The capacity and determination of a candidate country to adopt and implement the *acquis* will be crucial, since the costs and benefits of doing so may be unevenly spread across time, industries and social groups. The existence of a broad based consensus about the nature of the changes to economic policy which membership of the Union requires, and a sustained record of implementation of economic reforms in the face of interest group pressure reduce the risk

that a country will be unable to maintain its commitment to the economic obligations of membership.

At the level of the public authorities, Membership of the Union requires the administrative and legal capacity to transpose and implement the wide range of technical legislation needed to remove obstacles to freedom of movement within the Union and so ensure the working of the single market. These aspects are examined in later chapters. At the level of individual firms, the impact on their competitiveness of adopting the *acquis* depends on their capacity to adapt to the new economic environment.

### **The Existence of a Functioning Market Economy**

The existence of a market economy requires that equilibrium between supply and demand is established by the free interplay of market forces. A market economy is functioning when the legal system, including the regulation of property rights, is in place and can be enforced. The performance of a market economy is facilitated and improved by macroeconomic stability and a degree of consensus about the essentials of economic policy. A well-developed financial sector and an absence of significant barriers to market entry and exit help to improve the efficiency with which an economy works. Good progress in the implementation of the Europe Agreement should also help to complete the functioning of the market economy.

In its transition to a market economy, Lithuania has advanced considerably in liberalising and stabilising the economy. The introduction of a currency board, the liberalisation of financial markets, the freeing of foreign transactions, and the reduction of fiscal deficits had substantial stabilising effects. Price liberalisation, voucher and cash privatisation, trade opening, legal reform, institutional development, and social safety net enhancement have also been implemented or are under way. The investment regime is relatively liberal.

However, the more fundamental restructuring of the economy and the shift to a higher growth path have been delayed. Genuine “hard budget constraints” are not yet in place (in essence, this would require that loss-making enterprises know they will not, as in the past, be bailed out by the authorities). Tax collection is weak; there are mounting payment arrears, especially in the energy sector; bankruptcy proceedings have been ineffective and cash-based privatisation designed to bring in strategic investors has only recently become a matter of priority.

Administrative controls remain in place for energy and housing. Some prices for transport and utilities fall short of production costs (when capital replacement is included in the cost calculation). A newly established Agency for competition has been established, but it has no effective power to break up monopoly enterprises. Competitive pressures coming from the liberal trade regime are insufficient to reduce the very high profit margins in retail distribution networks substantially.

Property restitution has been impeded by administrative and legal difficulties as well as cuts in the budgetary allocation for compensation to former land owners. A cadaster is being set up but the process is inherently lengthy. Uncertainty surrounding legal ownership of properties, which may yet be returned to the original owners, continues to complicate a number of privatisation cases. However, in view of its preparation for EU membership, in August 1996,

Lithuania amended Article 47 of its Constitution so as to enable foreigners to purchase land for business purposes.

Lithuania's banking system remains fragile: the majority of banks are undercapitalised and still hold a large amount of non-performing loans. Recently, the government announced a banking sector restructuring plan that envisages privatisation, recapitalisation, and liquidation of insolvent banks. Only when this restructuring phase will be completed, confidence in the financial system might be restored, and the sector might start to fulfil its role as an intermediary between savings and investment.

Public administration had to be established after independence. Moreover, transition to a market economy poses formidable challenges in adapting government institutions and the legal framework. Some progress has been made, but many areas need to be addressed further in the period ahead: bankruptcy and competition legislation, property registers, a simplification of business regulations, including licensing requirements, etc.

### **The Capacity to Cope with Competitive Pressure and Market Forces**

It is difficult, some years ahead of prospective membership, and before Lithuania has adopted and implemented the larger part of Community law, to form a definitive judgement of the country's ability to fulfil this criterion. Nevertheless, it is possible to identify a number of features of Lithuania's development which provide some indication of its probable capacity to cope with competitive pressure and market forces within the Union.

This requires a stable macroeconomic framework within which individual economic agents can make decisions in a climate of a reasonable degree of predictability. There must be a sufficient amount of human and physical capital including infrastructure to provide the background so that individual firms have the ability to adapt to face increased competitive pressures in the single market. Firms need to invest to improve their efficiency, so that they can both compete at home and take advantage of economies of scale which flow from access to the single market. This capacity to adapt will be greater, the more firms have access to investment finance, the better the quality of their workforce, and the more successful they are at innovation.

Moreover, 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 ahead of accession. The more integrated a country already is with the Union, the less the further restructuring implied by membership. The level of economic integration is related to both the range and volume of goods traded with member states. Direct benefits from access to the single market may also be greater in sectors where there are a sizeable proportion of small firms, since these are relatively more affected by impediments to trade.

Lithuania has made substantial progress in stabilising its economy in recent years. The introduction of the currency board regime and the reduction of fiscal imbalances has created the conditions for a more stable economic environment. The way in which the economy has been able to absorb the negative effects of a relatively serious banking crisis without a significant relapse in the stabilisation process, shows the durability of the progress. This

durability is also illustrated by the apparent acceptance by the financial markets of the authorities' plans to gradually abolish the currency board regime.

In general, enterprise restructuring, which is essential to make the economy competitive in the single market, has not made sufficient progress, mainly as a consequence of a lack of capital, resulting from the relatively low level of foreign direct investment and the weakness of the banking sector. The lack of a hard budget constraint, voucher privatisation to insiders, and the absence of a credible bankruptcy threat, were also not conducive to enterprise restructuring. Consequently, substantial adjustments still have to be made, which would probably result more in higher unemployment than in further important output reductions. Lithuania has been caught in a vicious circle, where an old capital stock implies obsolete and costly products, loss of market share, loss of profitability and therefore little possibility of financing restructuring investments. Nevertheless, there is a chance that this vicious circle might be broken by the new government's policy to accelerate the completion of the privatisation process, which might attract important amounts of foreign direct investment. This would not only bring in the necessary financial means for restructuring, but would also contribute to product innovation and improved management skills. Higher foreign involvement in the economy would also improve the knowledge by enterprises on the requirements of the *acquis* in the area of the single market, which should make access to the single market easier.

Lithuania's legacy from the Soviet era consisted mainly of a large-scale manufacturing sector, including an important energy industry, and a collectivised agricultural sector. The profitability of manufacturing has been hampered seriously by the adjustment of the price of its imported inputs to world levels, and the loss of most of its output markets. The ability of these enterprises to reorient their sales towards western markets is limited by outdated technology and by insufficient quality standards. The undercapitalised privatised agricultural sector also needs substantial restructuring.

The competitiveness of the sectors that have been able to compete on external markets (mainly textiles, chemicals, refined oil, and food products) is predominantly based on low wage costs. In the case of food, the high protection level of the agricultural sector also plays a role. Lithuania may also still be benefiting from a somewhat undervalued currency, despite its uninterrupted real appreciation. To offset the expected gradual erosion of these competitive advantages, there is an urgent need to increase productivity, and to diversify production towards sectors that are more in line with Lithuania's natural endowments. Provided the right economic incentives were in place, such a process would be facilitated by the relatively good level of Lithuania's human capital and R&D activities.

### **Prospects and Priorities**

Over the past few years, policy has often been guided to a substantial degree by the need to obtain support from the International Monetary Fund and to focus on short-term stabilisation issues. The new government is developing a more articulated medium-term economic strategy. A "1997-2000 Action Plan" has been announced, envisaging strict fiscal policy, incentives to business and investment activity, accelerated privatisation, stabilisation of the banking sector and improvements in living standards. A new Ministry for European Affairs has been instituted with responsibilities for FDI and export promotion, large-scale privatisation and law approximation.

The plan designed to solve the problems in the banking sector, resulting from the December 1995 crisis, has worked well to date. The combination of privatisation, liquidation, and recapitalisation, should be able to promote the further consolidation of the sector. Nevertheless, as long as the precarious situation is not entirely solved, additional budgetary pressures could emerge, as the whole sector remains afflicted by liquidity problems and bad loans. The expected consolidation of the banking sector, as prudential ratios are being adjusted towards international standards, will require that the authorities stick firmly to their announced strategies.

The second stage of privatisation is designed to attract buyers with the necessary skills and means, seeking to increase the enterprises' profitability, rationalise the management, introduce product innovation, and develop the future strategy of business. To attract sufficient interest from suitable investors, authorities have to respect their commitment to surrender effective control of the enterprises to be divested.

In the energy sector, outdated technology, excess capacity, inefficient pricing, weak payment enforcement, and political intervention, drive public energy companies into chronic deficits and provide little incentive for profit-driven management or energy conservation. To date, the sector has always represented an important drain on public finances. The decision to include some enterprises from the energy sector on the privatisation list is an important step towards solving the sector's problems. Nevertheless, given the magnitude of the problems, the restructuring process in the energy sector could take considerable time, and could have widespread effects on other sectors if the payment of energy bills is better enforced.

As long as Lithuania's competitiveness remains intact, and an acceptable trade balance is maintained, the currency board can continue its role as a stabilising factor. However, when capital inflows no longer finance the current account gap, which also happened in early 1996 after the banking crisis, reserves fall and the money stock shrinks through the currency board system, thus causing contractionary effects on the whole economy. Therefore, industrial restructuring and productivity increases need to proceed rapidly and continuously, if macroeconomic balance is to be maintained. This will even be more the case when the currency board is gradually removed and will no longer be able to play its stabilising role.

Removal of the currency board will greatly increase the discretionary power of the central bank and allow it to smooth fluctuations in monetary conditions. The corollary is that economic agents need to be convinced that these greater powers will be used wisely and prudently, so as to guarantee continued macroeconomic stability.

### **2.3 General Evaluation**

Lithuania has made considerable progress in the creation of a market economy. Trade and prices have been largely liberalized, and considerable progress has been achieved in the area of macroeconomic stabilization. However, further progress is needed, particularly in the areas of relative price adjustment, large-scale privatization, and bankruptcy proceedings. The main element that is still missing is the enforcement of financial discipline for enterprises.

Lithuania would face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term. The marked recent improvement in policy would, if

sustained, accelerate the establishment of a market economy and strengthen competitiveness. However, substantial enterprise restructuring is still required. Agriculture needs to be modernized, and the banking sector is still weak.

### **3. Ability to Assume the Obligations of Membership**

The European Council in Copenhagen included among the criteria for accession “the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union”.

In applying for membership on the basis of the Treaty, Lithuania has accepted without reserve the basic aims of the Union, including its policies and instruments. This chapter examines Lithuania’s capacity to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

With the development of the Union, the *acquis* has become progressively more onerous, and presents a greater challenge for future accessions than was the case in the past. The ability of Lithuania to implement the *acquis* will be central to its capacity to function successfully within the Union.

The following sections examine, for each main field of the Union’s activity, the current and prospective situation of Lithuania. The starting-point of the description and analysis is a brief summary of the *acquis*, with a mention of the provisions of the Europe Agreement and the White Paper, where they are relevant. Finally, for each field of activity there is a brief assessment of Lithuania’s ability to assume the obligations of membership on a medium-term horizon.

#### **3.1 Internal Market Without Frontiers**

Article 7a of the Treaty defines the Union’s internal market as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation of the liberties enshrined in the Treaty requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national regulations - as clarified by Court of Justice rulings - but also concomitant, effective application of a series of common specific provisions. These are designed, in particular, to provide safety, public health, environmental and consumer protection, public confidence in the services sector, appropriately qualified persons to practise certain specialist occupations and, where necessary, introduction or coordination of regulatory and monitoring mechanisms; all systematic checks and inspections necessary to ensure correct application of the rules are carried out on the market, not at frontier crossings.

It is important to incorporate Community legislation into national legislation effectively, but even more important to implement it properly in the field, via the appropriate administrative and judicial structures set up in the Member States and respected by companies. This is an essential precondition for creating the mutual trust indispensable for smooth operation of the internal market.

This chapter must be read in conjunction with, inter alia, the chapters on social policy, the environment, consumer protection and sectoral policies.

### **The Four Freedoms**

A step-by-step approach is being taken to absorption of the *acquis* by the candidate countries:

- The Association Agreement between the Community, its Member-States and Lithuania was signed in 1995 and is being ratified. With regard to the four freedoms and approximation of legislation, the Agreement provides, in particular, for immediate or gradual application of a number of obligations, some of them reciprocal, covering, in particular, freedom of establishment, national treatment, free trade, intellectual property and public procurement.
- The Commission's 1995 White Paper (COM (95) 163 final), guidelines intended to help the candidate countries prepare for integration into the internal market, gives a closer definition of the legislation concerned. It identifies the "key measures" with a direct effect on the free movement of goods, services, capital and persons and outlines the conditions necessary in order to operate the legislation, including the legal and organizational structures. Twenty-three areas of Community activity are examined, dividing the measures into two stages, in order of priority, to provide a work programme for the pre-accession phase. The Technical Assistance and Information Exchange Office (TAIEX) was set up with the objective of providing complementary and focused technical assistance in the areas of legislation covered in the White Paper. A legislative database has recently been established by the Office.
- The candidate countries will have to implement all the *acquis*. The "Action plan for the single market" submitted to the Amsterdam European Council gives details of the priority measures necessary to make the single market work better between the Fifteen in preparation for introduction of the single currency. This will inevitably entail changes to the *acquis*.

### **- General Framework**

Whatever their field of activity, undertakings must be able to operate on the basis of common rules. These are important since they shape the general framework within which economies operate and, hence, the general conditions of competition. They include the rules on competition (on undertakings and State aid) and tax measures discussed elsewhere in this opinion, the opening-up of public works, supply and service contracts, harmonisation of the rules on intellectual property (including the European patent), harmonisation of the rules on company law and accountancy, protection of personal data, transfer of proceedings and recognition of judgments (Article 220 EC conventions).



## **Descriptive Summary**

A new law on Public Procurement was adopted by the Lithuanian Parliament in 1996. This new law is intended to cover all types of procurement and governs the procedure for the award of contracts in all sectors, provided that public funds are used. A Public Procurement Office has been established to be in charge of managing the various aspects of public procurement policy and supervising enforcement of legislation.

In the area of industrial property, new Laws on patents, trade marks and designs have been adopted in 1992 and 1993. The Civil Code regulates intellectual property. A new draft Law, in compliance with the *acquis*, is expected during 1997. The trade related aspects of intellectual property rights (TRIPs) will be applicable to Lithuania upon its accession to WTO (World Trade Organisation).

Company law is governed by a number of statutes. Several different types of enterprises are provided for, including public and private limited companies and investment companies. As of 3 June 1996 there were approximately 32,000 companies registered. Public companies may issue shares and stock financing of companies is common. Shareholders are protected by law. Minimum capital requirements are laid down by law, and there are safeguards to protect a company's authorised capital. There are particular obligations relating to the protection of creditors. Companies are obliged to publish information regarding important developments and a central register is kept with details of each company. The public is entitled to consult the register on payment of a basic fee.

A *Law of Principles of Accounting* (1992), different decrees and notes provide the basic framework for the annual accounts of companies. Professional requirements for auditors are issued by the Ministry of Finance. An Institute of Audit and Accounting was created in 1996. The Institute will assist in preparing national accounting rules and it will be responsible for the training of auditors and professional examinations.

Lithuania adopted a law on the protection of personal data on 11 June 1996. This sets up an authority empowered to check that personal data are handled properly but contains no provisions on its statutes, organisation or powers.

## **Current and Prospective Assessment**

The Lithuanian legislation contains the essential features of EC public procurement rules. However, this legislation does not apply to entities operating in the sectors of telecommunications, transport, energy and water. Moreover, the new Law still maintains a national preference system. The review procedures established seem to be in line with most of the requirements of the EC rules. The Lithuanian authorities intend to adopt new measures to ensure that their rules are fully compatible with the Directives by the end of 1998. It appears in general that Lithuania is heading in the right direction, although the process of approximation has not been completed.

Lithuania must make a big effort on adopting and implementing intellectual and industrial property legislation to bring its laws into line with the *acquis*. This legislation is expected in

1998. A management organisation has started to collect fees. A smaller, but nonetheless significant, effort must also be made on industrial property. The inexperience of the Patent Office staff raises doubts about effective implementation of these laws in the medium term. On the basis of information on company law provided by Lithuania, its legislation appears to be largely consistent with the First and Second Directives, and legislation to bring the remainder in line is intended to be adopted in 1997. The provisions of the Third, Eleventh and Twelfth Directives are also for the most part already reflected in Lithuanian law. It is understood that additional legislation to align Lithuania's laws fully with the *acquis* is intended to be adopted in 1998.

The 1992 accounting law meets most of the requirements of the 4th Directive, but some revisions are needed to bring it fully into line. Rules for consolidated accounts implementing the 7th Directive are under preparation and are scheduled to be adopted before the end of 1997. It is also intended to modify the existing law and decrees to make the regulatory framework more easily accessible. The present professional requirements for auditors need to be adapted in order to comply with the 8th Directive, but no draft to this effect is yet available. Certain transitional problems are in evidence relating to the practical implementation of the new rules, including a shortage of qualified accountants and auditors which requires major efforts in the medium term.

The 1996 law on data protection is clearly based on the Community framework Directive. However, improvements will have to be made to bring it fully into line with the Directive. The Commission has no information on implementation of the law, particularly on the establishment of a monitoring authority, nor on the secondary legislation provided for by the 1996 law. There are no immediate plans to accede to Council of Europe Convention No 108 for the protection of personal data.

Although Lithuania has not been invited to accede to the Lugano Convention on jurisdiction and the enforcement of judgments in civil and commercial matters, it intends to modernise its civil code and civil law procedures.

## **Conclusion**

The process of approximation in the field of public procurement needs to be strengthened. Further amendments will be needed to meet all the requirements of the public procurement directives.

Lithuania must make a big effort on adopting and implementing intellectual and industrial property legislation to bring its laws into line with the *acquis*. A smaller, but nonetheless significant, effort must also be made on industrial property.

As far as company law is concerned, no major problem is envisaged with Lithuania's implementation of the *acquis* and there is no reason at present to question its ability to meet the timetable set for bringing its legislation fully in line. For accounting, legislation alignment in the medium term is not expected to present a problem, but implementation could pose more persistent difficulties. In auditing, the information provided does not represent a sufficient basis on which to make a detailed assessment of conformity with the *acquis* or Lithuania's prospects of achieving this in the medium term.

Lithuania has made progress on data protection. Nevertheless further efforts are still needed to bring the legislation into line with the framework Directive.

### **- Free Movement of Goods**

Free movement of goods can be achieved only by removing measures which restrict trade – not only customs duties and quantitative restrictions but all measures with equivalent, i.e. protectionist, effect, irrespective of whether or not they are specifically aimed at domestic or imported products. Where technical standards are not harmonised, the free movement of goods must be ensured by applying the principle of mutual recognition of national rules and accepting the rule that national specifications should be no more stringent than is required to achieve their legitimate objectives. This rule was established in the *Cassis de Dijon* judgment.

For the purpose of harmonisation, the European Community has developed the “New Approach” which introduces an approach carefully balanced between government and private autonomous bodies and in which European Community legislation and European standards play a distinct complementary role. Thus, instead of imposing technical solutions, European Community legislation is limited to establishing the essential requirements which products must meet. Products manufactured in accordance with European standards are presumed to meet such essential requirements, but European standards are not the only way to prove such conformity. The “New Approach” works in conjunction with the “Global Approach” on product certification which governs the apposition of the “CE Mark” on the product. For other products such as pharmaceuticals, chemicals, motor vehicles, and food products, European Community directives follow the traditional regulatory pattern of providing fully detailed rules.

The free movement of goods also dictates that a number of Community harmonisation measures be transposed into national law. Implementation of health and safety harmonisation rules is particularly important and requires the establishment of appropriate mechanisms and organisations, both for businesses and the authorities.

Two of the “horizontal” directives essential to smooth running of the single market are the Directive on general product safety and the Directive on liability for defective products. The regulations concerning general product safety are covered in the section on consumer protection.

The rules on agricultural products (compliance with veterinary and plant-health standards) are explained in detail in the section on agriculture.

### **Descriptive Summary**

Lithuania has made good progress towards establishing the conditions for the free movement of goods which requires abolishing all quantitative restrictions and eliminating discriminatory measures. It has already liberalised most of its price, trade as well as foreign exchange regimes. Except for some energy, housing, public transport and utilities price restrictions, most prices are freely determined by the market. The principle of mutual recognition of goods is accepted.

Regarding technical barriers to trade, the process of alignment is progressing. Licenses are needed for importation of alcohol/spirits, tobacco, cars, pharmaceuticals, arms, and metals. The principal objective of this system is the protection of public health. For alcohol, tobacco and pharmaceutical products, the procedures for obtaining import licenses is not entirely transparent and may be favouring local producers.

According to the Lithuanian national approximation plan a first set of New Approach directives should be adopted as early as 1997, although no evidence exists of substantial progress in this field. Similarly, no information is available on alignment with the rest of the New Approach directives. Some measures have been recently adopted on pharmaceuticals products and building materials, and progress seems underway in the foodstuffs sector. In the chemical and automotive sectors the bulk of work remains to be done.

In the field of standardisation a draft law in preparation should improve compatibility with the EC system, in particular as to the voluntary application of standards. The Lithuanian Standards Board (LST), which is an affiliate member of both the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC), is currently a government-linked body and is planned to perform also accreditation functions. This is at variance with EU principles. A draft law also exists in the field of conformity assessment which seems to have a good degree of compatibility with the EC Global Approach.

Concerning conformity assessment infrastructure, no quality system certification body exists at the moment for lack of qualified personnel and financial resources. This human resources and funding issue needs being addressed as it affects management and upgrading of laboratories and certification bodies.

### **Current and Prospective Assessment**

The implementation of free trade in goods between Lithuania and the EU is well advanced and will be monitored within the framework of the Europe Agreement, including the full abdication of any quantitative restrictions or discriminatory measures. The price system in the energy sector must be liberalised before the time of accession. The licensing system will need to be reviewed and, as necessary, adjusted.

Moreover, while the establishment of a general regulatory framework towards EC compatibility is under way, the process of approximation of technical legislation to the EC *acquis* needs to be further strengthened.

In the areas subject to national rules and not covered by Community harmonisation, there is too little information available to assess whether Community legal principles on the free movement of goods are properly applied in Lithuania. The reporting procedures which form part of the internal-market machinery are not yet operational and so cannot be used in the pre-accession period. The most important instruments in this connection are: Directive 83/189, requiring governments to report draft national technical standards and regulations; Decision 3052/95 on measures derogating from the principle of the free movement of goods; procedures by which complaints can be submitted to the Commission; and Article 177 of the

Treaty, enabling Member States to ask for preliminary rulings from the Court of Justice. It is also hard to assess whether Lithuania complies with the principle of mutual recognition; more information is required on its national rules, and on administrative practices, which can have an effect on product sales.

## **Conclusion**

Significant progress has been made in a number of fields. Nevertheless, efforts are still required, particularly on the alignment of technical legislation and with respect to standardisation and conformity assessment as well as on price liberalisation and licensing requirements. However, provided current efforts are continued and technical expertise is upgraded, free circulation of goods should be achieved in the medium term.

The Lithuanian authorities should also ensure that, in areas not covered by Community harmonisation, their own national laws do not hamper trade. In particular, they should check that measures are proportionate to their objectives.

## **- Free Movement of Capital**

The Europe Agreement establishes the principle of the free movement of capital between Lithuania and the EU. This, as far as the obligations of Lithuania are concerned, applies from the entry into force of the Europe Agreement as regards direct and portfolio investment, commercial credits and financial loans made by companies already established in Lithuania and, as regards branches and agencies of Community companies (as well as the self-employed), gradually during the transitional period. According to the Agreement the parties shall create the necessary conditions for the further gradual application of Community rules on the free movement of capital.

The White Paper highlights the link between the free movement of capital and the free movement of financial services. It describes and suggests a sequence for the adoption of the legislation in this field, and recalls the growing significance of free international capital flows.

## **Descriptive Summary**

Partly due to the slow pace of cash privatisation, foreign direct investment (FDI) inflows have been disappointingly low, averaging an annual flow of approximately 1 percent of GDP. By 1996, the stock of foreign direct investment in Lithuania reached 230 MECU. However, the flow of foreign direct investment in Lithuania has picked up, reaching 1 % of GDP and is expected to continue increasing in the years ahead. The new government has introduced tax incentives to promote investment (new corporate income tax). The improved macro economic results of 1996 are also likely to encourage foreign direct investment to pick up over the medium term.

The investment regime is relatively liberal. Companies may be wholly owned and managed by foreigners. Profits may be expatriated freely. Since 1996, an amendment to the Constitution (article 47) has allowed foreigners to own land for business purposes.

Moreover, among the main priority areas in the Action Programme of the new government for the 1997-2000 period is the establishment of a more favourable legal and economic framework for long foreign investment. One of the first steps towards this objective was the

establishment in 1997 of a Ministry for European Affairs, which is responsible for foreign investment promotion, large scale privatisation and export promotion.

### **Current and Prospective Assessment**

In its transition to a market economy, Lithuania has advanced considerably in liberalising and stabilising its economy. The liberalisation of financial markets and the freeing of capital transactions had stabilising effects. The investment regime is relatively liberal and the new government's policy to accelerate the completion of the privatisation process, is likely to attract important amounts of foreign direct investment inflows. Higher foreign involvement in the economy would also improve the knowledge by banks and investment firms on the requirements of the *acquis communautaire*, which should facilitate access to the single market.

### **Conclusion**

The Lithuanian government's efforts to liberalise its capital markets have met with success in some areas. The recommendations of both the White Paper and the Europe Agreement have largely been implemented.

Further efforts are required in order to complete the liberalisation of Lithuania's capital markets, especially concerning cross border restrictions on investment companies but, given sufficient political will, this should not be a significant difficulty.

The degree of capital liberalisation introduced by Lithuania is in line with the obligations undertaken under the Europe Agreement. Lithuania should have no difficulties in removing residual restrictions and assume the Community *acquis* in the area of capital movement in the medium term.

### **- Free Movement of Services**

The basis of the free movement of services is the prohibition of discrimination, in particular on grounds of nationality, and rules on the alignment of divergent national legislation. These rules often concern both the right of establishment, which comes under the heading of the free movement of persons, and the freedom to provide services. Their implementation implies the establishment of administrative structures (banking control boards, audio-visual control authorities, regulatory bodies) and greater cooperation between Member States in the area of enforcement (mutual recognition arrangements).

A substantial amount of the legislation applicable to the free movement of services relates to financial services. It also concerns the problems relating to the opening-up of national markets in the sectors traditionally dominated by monopolies, e.g. telecommunications and, to a certain extent, energy and transport. These subjects will be dealt with in the sections of the Opinion specifically referring to them.

### **Descriptive Summary**

The Banking sector was threatened by a crisis in December 1995 when several banks, including the largest private bank in the country were declared insolvent. The banking sector

remains fragile although evident signs of recovery have followed the Lithuanian government's swift reaction.

At the start of 1997 3 banks in which the majority shareholding was owned by the state occupied a dominant position in the banking system of the country (65% of the assets of the operating banks and 66% of the deposits were concentrated in them). Recently the share of the state owned capital has greatly increased in them, after the new program of the recapitalisation of banks has been started in order to meet the required capital adequacy.

When the state is not the majority shareholder, the share of capital is decreasing. Private banks have a lower market share but their situation is improving.

The Government is now preparing the program of privatisation of the state banks. The priority task is to privatise the State Commercial Bank of Lithuania, and the decision relative to another bank must be adopted. In addition, the Government in the near future will decide whether some banks should be left under state control for the implementation of some state programs.

As far as market access to the banking sector is concerned, foreign banks are not allowed to set up subsidiaries in Lithuania. As regards foreign branches only one has been authorised so far. Banks provide deposit guarantees only to residents in Lithuania. Banking sector supervisory functions are carried out by the Bank of Lithuania. Its powers are similar than in Member States.

As far as the Securities sector is concerned, a licence is required for membership to the National Stock Exchange, granted by the Lithuanian Securities Commission, a body which supervises the compliance with the Law on Public Trading in Securities.

According to the Law on Insurance, insurance issues are co-ordinated and supervised by the State Insurance Supervisory Authority under the Ministry of Finance. Pursuant to the new law on Insurance of 1996 (Art. 25 & 27), EC insurance companies have the right to establish insurance companies in Lithuania, after registration.

### **Current and Prospective Assessment**

As regards Banking many aspects of the First Banking Directive, Own Funds and Solvency Directives have been incorporated into Lithuanian banking law. However, legislation on both deposit guarantee scheme and prevention of money laundering compatible with the relevant EU Directives has not yet been adopted.

While some key elements of the Second Banking Directive (notably, recognition of a licence issued in the EU and the principle of home country supervision) have been implemented and the Annual Accounts and Consolidated Accounts Directive have already been partially implemented, large exposures legislation is not yet in full conformity with EU requirements. In addition provisions concerning capital adequacy for market risks and supervision on consolidated basis are missing.

Since June 1996 the legal situation in principle permits foreign banks to open branch offices in Lithuania, provided there is an agreement between the Bank of Lithuania and the home

country's supervising authority. Although measures foreseen in the White Paper on banking legislation should be in place by 1999, profound structural reforms must take place. These include privatisation of remaining state owned banks, introduction of capital adequacy ratios for market risks and sound banking principles, which are essential for a participation in the Single Market.

In the Securities sector, the current legal system is not yet in line with relevant EC Directives. However, the general framework is well structured, with particular regard to the supervisory authority's powers, mainly the Securities Commission.

In the Insurance sector, as well, the situation as of today must be described as unsatisfactory. But the new insurance law adopted in 1996, which is not fully in force yet, should improve the situation. Some of the Stage I directives should be implemented within 1997 and the other ones and those of Stage II within 1998.

Lithuania is on the right path towards creating an insurance supervision system responding to free market requirements, both in terms of consumer protection, financial supervision and foreign EC access. The remaining obstacles are practical (more actuaries, more experience) and financial (higher capitalisation of companies needed) and could be overcome in the medium term if the necessary legal framework will be completed as scheduled in the Government's plans.

## **Conclusion**

Full free establishment in the areas of banking, securities and insurance still has to be adequately introduced in the sectors' legislative frameworks and duly implemented. However, provided harmonisation proceeds as planned and banking restructuring is carried out, no major difficulties are foreseen in achieving full approximation to the *acquis communautaire* concerning financial services.

But some doubt may be cast on the capacity of the Lithuanian authorities to implement quickly the large legislative programme they have committed themselves to achieve. The example of the "Insurance Law" adopted in 1996, but not yet fully in operation is a warning sign in this respect. Efforts will be needed, as far as the whole financial sector is concerned, to comply with the *acquis* in the medium term.

## **- Freedom of Movement of Persons**

The free movement of persons encompasses two concepts with different logical implications in the Treaty. On the one hand, Article 7a in Part One of the Treaty on 'Principles' mentions the concept in connection with the establishment of the internal market and implies that persons are not to be subject to controls when crossing the internal frontiers between the Member States.

On the other hand, Article 8a in Part Two of the Treaty on 'Citizenship of the Union' gives every citizen of the Union the individual right to move and reside freely within the territory of the Member States, subject to certain conditions. The abolition of frontier checks must apply



to all persons, whatever their nationality, if Article 7a is not to be meaningless. While the rights deriving from Article 8a apply in all Member States, those stemming from Article 7a have not yet been fully applied throughout the Union.

a) Free Movement of Union Citizens. Freedom of Establishment and Mutual Recognition of Diplomas and Qualifications

The Europe Agreement provides for the non-discriminatory treatment of workers that are legally employed (as well as their families). It covers the possibility of cumulating or transferring social security rights, and encourages member states to conclude bilateral agreements with Lithuania on access to labour markets. From 1999, the Association Council will examine further ways of improving the movement of workers.

The White Paper considers the legislative requirements in order to achieve a harmonious development of the labour market, whilst simultaneously preventing distortions of competition.

The free movement of workers is one of the fundamental freedoms enshrined in the Treaty; freedom to practise certain professions (e.g. in the legal and health fields) may, however, be subject to certain conditions, such as qualifications. Depending on the case, these may be dealt with through coordination or by applying the principle of mutual recognition. Freedom of establishment is also guaranteed under the Treaty and covers the economic activity of self-employed natural persons and companies.

The free choice of place of residence may thus be subject to minimum conditions as to resources and health insurance where the person does not exercise a profession in the country concerned.

### **Descriptive Summary**

The legal status of foreigners in the Republic of Lithuania is determined by the Law on Temporary Employment of Foreigners as well as the Law on Immigration which establishes the conditions for entry for foreigners for permanent residence.

Foreigners can reside in Lithuania if they are issued a visa for a period of up to 90 days. Foreigners with special working visas can reside in Lithuania for a period up to two years, renewable. Permits for permanent residence in Lithuania can be granted to those holding Lithuanian citizenship before 1990 and are currently residents and to those who were permanent residents before 1990 and are currently still residing.

Regarding mutual recognition of Diplomas and Qualifications the timetable provided by Lithuania foresees implementation of stage 1 of the White Paper by 1997, stage 2 by 1998 and stage 3 by the end of 1998. The formal transposition of the *acquis* has been completed but the question of implementation and enforcement needs to be further strengthened. It will be necessary to establish supplementary structures (bodies) to issue, attest and receive diplomas and certificates.

Concerning training (where coordinated by Directives), for doctors, dentists, midwives, architects, veterinary surgeons and nurses, the basic training period seems to be in

conformity. Concerning enforcement structures, ministries, a few bodies and some professional associations (mainly trade unions) exist.

### **Current and Prospective Assessment**

Lithuanian legislation will need to be prepared for the equal treatment of EU citizens with nationals working in Lithuania. Such measures are foreseen in Article 37 of the Europe Agreement.

Transposition of legislation is needed on the protection of data, among others, in regard of the definition of personal data and the access to databases. Although some progress has been made, significant efforts will be necessary to establish the required border control system. This should be possible in the medium term.

As regards mutual recognition of professional qualifications, the setting up or strengthening of the necessary enforcement structures will need to be intensified if they are to be in place in the mid-term perspective.

### **Conclusion**

The necessary structures in this area are in place, but it is hard to assess their real effect and enforcement. From a technical point of view, adaptations of regulations with regard to the free movement of persons are feasible in the medium term.

#### **(b) *Abolition of Checks on Persons at Internal Frontiers***

The free movement of persons within the meaning of Article 7a of the EC Treaty, i.e. the abolition of checks on all persons, whatever their nationality, at the internal frontiers has not yet been fully implemented in the Union. Doing away with checks on persons is conditional on the introduction of a large number of accompanying measures, some of which have yet to be approved and implemented by the Member States (see separate section on Justice and Home Affairs).

However, that objective has been achieved by a limited number of Member States in accordance with the Schengen Convention (seven Member States already apply it and another six are working towards implementation).

The draft Treaty aims to make that objective easier to achieve within the Union by including a new chapter on "an area of Freedom, Security and Justice" and incorporating the Schengen *acquis* into the EU.

Lithuania has stated its desire and readiness to fulfil the provisions of the Schengen Agreement to become party to the Schengen *acquis*. It has begun preparations to this end and has sought assistance in this connection from Member States, notably in regard to the strengthening of border controls.

### **General Evaluation**

1. Lithuania's progress in the implementation of legislation relating to the White Paper is summarised in the annex. According to the table, Lithuania considers that by 30 June 1997 it will have adopted national implementing legislation for 316 of the 899 directives and regulations in the White Paper. That figure covers provisions for which Lithuania considers it will have adopted implementing legislation or which it will have checked for compatibility with Community rules and does not prejudge actual compatibility as such, on which the Commission is not able at this stage to state an opinion.

2. Lithuania has made some progress towards compliance with Internal Market legislation. It has in particular achieved a substantial degree of alignment with Community rules in the areas of company law, accounting law, data protection and, to a certain extent, in the area of Free Movement of Goods. Most of the measures have been partly implemented according to the Lithuanian authorities, although at this stage the Commission is unable to judge whether they are fully compatible with Community law. By contrast, serious problems remain in such important fields as public procurement, intellectual property and financial services.

3. A severe problem for further progress may be the weakness of the Lithuanian public administration, which affects not only the pace of approximation of legislation but also the quality of its enforcement. Similar doubts must be raised about the capacity of the various structures necessary to implement internal market legislation, but since the legislation is mostly of such recent date, and the structures themselves have in some cases not yet been set up, there is insufficient evidence at this stage on which to base a definitive judgement.

As things currently stand, the Commission cannot yet express an opinion on the capacity of companies, particularly small and medium-sized businesses, to implement the *acquis*.

4. Leaving aside certain specific aspects relating to agriculture, checks at the internal frontiers of the Union can only be abolished once sufficient legislative harmonisation has been achieved.

This calls for mutual confidence, based in particular on sound administration (e.g. the importance of safety checks on some products at the place of departure). As far as goods are concerned, the completion of the internal market on 1 January 1993 was only achieved by doing away with all the formalities and checks performed by the Member States at the internal borders of the Union. In particular these checks covered technical points (product safety), veterinary, animal-health and plant-health matters, economic and commercial matters (e.g. prevention of counterfeiting of goods), security (weapons, etc.) and environmental aspects (waste, etc.). In most cases, the abolition of checks was only made possible by the adoption and application of Community measures harmonising the rules on movement and placement on the market (particularly as regards product safety) and, where applicable, by shifting the place where controls and formalities are conducted within the Member States or their markets (in particular as regards VAT and excise duties, veterinary and plant-health checks, and the collection of statistics). A section of Lithuania's present borders will become the Union's external frontier and this means border checks will need to be stepped up (see separate section on Customs).

In view of the overall assessment that can be made of progress achieved to date and the rate at which work is advancing in the various areas concerned, it is difficult at present to put a time-scale on Lithuania's ability to take over and implement all the instruments required to abolish internal border checks and to transfer those checks to the Union's external frontier.

5. Lithuania has already adopted significant elements of the *acquis* relating to the Single Market. However, the Commission is not yet able to take a position on every measure whose transposition has been reported by Lithuania. Further progress will be needed with regard notably to public procurement, financial services and intellectual property. In most areas, enforcement needs to be strengthened. Strong efforts will be necessary with regard to the strengthening of the administration. In the medium term, provided considerable efforts are undertaken, Lithuania should have adopted and implemented most of the Single Market legislation and made the necessary progress on the mechanisms of enforcement, in order to be able to participate fully in the Internal Market.

### **Competition**

European Community competition policy derives from Art. 3 (g) of the Treaty providing that the Community shall have *a system ensuring that competition in the internal market is not distorted*. The main areas of application are anti-trust and state aid.

The Europe Agreement provides for a competition regime to be applied in trade relations between the Community and Lithuania based on the criteria of Articles 85 and 86 of the EC Treaty (agreements between undertakings/abuses of dominant positions) and in Article 92 (State aid) and for implementing rules in these fields to be adopted within three years of the entry into force of the Agreement. Furthermore, it provides that Lithuania will make its legislation compatible with that of the Community in the field of competition.

The White Paper refers to the progressive application of the above provisions and those of the Merger Regulation (4064/89) and of Art. 37 and 90 (Monopolies and Special Rights).

### **Descriptive Summary**

Competition rules applicable to undertakings, where a new *Law on Competition* has been drafted in 1996, are broadly in line with EC Law, mainly in terms of procedural aspects. The investigative powers of the Competition Committee are, to some extent, similar to those of the Commission.

The Competition Authority of Lithuania, (*State Competition and Consumer Protection Office*) was established in 1995 under the supervision of the government. It covers two main activities: promotion and protection of competition/consumer rights protection.

Important steps towards the liberalisation of previously *regulated sectors* have been taken recently. Thus, the telecommunication sector has been liberalised as regards terminal equipment, voice telephony, closed user groups and the construction and operation of mobile telephony systems and satellite. Railway transport is in the process of being liberalised and the energy sector seems in principle open to competition subject, however, to a license system.

In some sectors, such as the oil sector and the sector for beverages, further clarifications are needed in order to assess whether the state regulation is compatible with the Community *acquis*.

In 1997 the Government has adopted a Government Resolution for the monitoring of *state aid* which gives the power to control the granting of state aid to the State Competition and Consumer Protection Office. The Resolution is based on the Community state aid rules. It provides, in particular, that all aid needs to be notified and approved by the State Competition and Consumer Protection Office prior to its granting, that the Office has the power to collect all information necessary to examine the compatibility of the aid and that the Office has the power to adopt a negative decision on the aid and the possibility to go to Court if its decision is not complied with.

In respect of the establishment of a state aid inventory further work still needs to be done.

### **Current and Prospective Assessment**

Overall, the substantive provisions of the Lithuanian draft *law on Competition* (1996) reflect the relevant EC rules to a reasonable degree, and is oriented towards EC competition rules. The approximation of competition legislation process is well underway.

Substantial training and other kinds of assistance will be needed in the future for the Monitoring Authority to carry out a credible control of *state aid* in Lithuania. The important progress made in terms of approximation of legislation in this field with the adoption of the Government Resolution on the monitoring of state aid is welcomed. However, transparency is still lacking. An immediate priority will be the establishment of an aid inventory based on the methodology applied by the Commission in its own aid surveys.

Certain aid measures seem to be contingent upon export performance which is clearly not compatible with the Europe Agreement. Moreover, an important part of state aid seems to be granted through indirect forms of state aid, such as tax reliefs, debt write-offs and tax arrears. These aid measures constitute operating aid which are only allowed under very strict conditions. Due to the lack of transparency it is as yet unclear whether the conditions for granting operating aid are complied with.

In Lithuania *state monopolies of commercial character* are in place for Alcoholic Beverages, Tobacco Products, Sugar and Metals and Scrap Metal sectors. Licensing requirements for the production, distribution and import of all of these state monopolies will have to be reviewed, as they raise concerns over conformity with the competition *acquis*, within the meaning of Article 37 of the Treaty.

Licences for the purchase and sale of copper and other non-ferrous metals may only be granted to enterprises registered in Lithuania. The existence of exclusive rights to purchase specified types of non-ferrous metals and scrap metals raises concerns under Articles 37 and 90 (1) of the Treaty and Article 66 and the free movement of goods provisions of the Europe Agreement.

In addition to the adoption of legislation sufficiently approximate to that of the EU, *credible enforcement* of competition law requires the establishment of well functioning anti-trust and state aid monitoring authorities. It requires moreover that the judicial system, the public

administration and the relevant economic operators have a sufficient understanding of competition law and policy.

### **Conclusion**

In the field of *anti-trust*, significant progress has been made towards satisfying the requirements as regards approximation of legislation. The competition authority needs further support to carry out its activities and to ensure a wide information of the concerned operators in the market place.

As regards *state aid*, the required transparency is still lacking and an aid inventory covering all measures granted by the State, regional or local authorities or through state resources, should be established as a matter of priority. A considerable effort will be necessary to fulfil the requirements as regards transparency over the medium term. Close cooperation with the Commission in this field will be necessary.

It appears, moreover, that in certain *sectors exclusive or special rights* exist which are not compatible with the Community *acquis*. These problems should be addressed in the near future.

## **3.2 Innovation**

### **Information Society**

#### **Present Situation**

The economic and social effects made possible by the combination of information technology and telecommunications are great. In Lithuania these possibilities were neglected before 1990 although education generally was not and awareness of their importance was high. One result was the creation of a Ministry for Communications and Informatics, the only one in Europe. Trade data for the information technology sector (IT) are lacking but there are said to be three Pcs per 100 inhabitants of which 20% are connected to communications networks. Nevertheless, the apparent number of host computers on the Internet (only 0.5 per 1000 inhabitants), as a relative measure of development towards the IS, suggests that Lithuanians have yet to discover the Internet in large numbers. The underdeveloped state of the telephone network is likely to act as a brake on information society (IS) developments for several years more.

#### **Conclusion**

The underdeveloped state of the telephone network is likely to act as a continuing brake on Information Society developments unless the growth in the economy and investments in telecommunications greatly increase.

### **Education, Training and Youth**

Articles 126 and 127 of the EC Treaty provide that the Community shall contribute to the development of quality education and implement a vocational training policy aimed at promoting the European dimension in education and at enhancing industrial adaptation and the responsiveness of the labour market through vocational training policies.

The Europe Agreement provides for co-operation in raising the level of education and professional qualifications. The White Paper includes no measures in this field.

#### **Descriptive Summary**

Lithuania's spending on education amounts to 5.5% of GDP. It takes 22.8% of the state budget.

There are 2,380 schools in Lithuania with 537,000 pupils and 47,000 teachers. At university level, there are 15 higher education institutions and 54,000 students.

The Lithuanian government attaches high priority to reform of the educational system, with legislation in 1991 and 1993. The reforms published are still being implemented; they include priority for teacher's training, new teaching materials and quality control and for higher education the introduction of teaching methods comparable with other European systems.

Vocational training is in a transition phase. A draft law on vocational training and a draft of the fundamental scheme for adult vocational training and counselling are being developed.

The Tempus programme has contributed to the achievement of the goals of higher education reform and created the basis for cooperation with the EU higher education institutions.

About 16.2 % of the total population of Lithuania is aged between 15 and 25 (age group eligible to the Youth for Europe programme). Some Lithuanian youth organisations have been participating in European youth activities since 1995, in the framework of the Youth for Europe programme, as a first step towards participation of Lithuania to this programme.

### **Current and Prospective Assessment**

One of the most important elements of Lithuania's accession process is the provision of a solid background in education and training. The institutional reforms and the development of curricula should support education in those professional areas which contribute directly to accession. The development of European Studies, the introduction of new courses and study programmes in the field of regulated professions, the application of modern technologies and the establishment of quality assurance systems are the immediate challenges of the Lithuanian education system.

Significant attempts have been made to reform the vocational training system. There is a great need to develop a system to ensure quality in terms of pedagogic standards, as well as management and administration to the vocational training system itself. A further problem is the lack of legal base for vocational training policy. There is a strong need for final approval of the-outstanding draft vocational training law.

The participation of Lithuania in Community Programmes in the field of education, training and youth (Socrates, Leonardo da Vinci, Youth for Europe programmes) will have positive effects on the people concerned and represent a good preparation for integration.

### **Conclusion**

In the perspective of accession, no major problems should be expected in these fields.

### **Research and Technological Development**

Research and Technological Development activities at Community level, as provided for by the Treaty and in the Framework Programme, aim at improving the competitiveness of European industry, the quality of life, as well as supporting sustainable development, environmental protection, and other common policies.

The Europe Agreement will provide for co-operation in these areas, notably through participation in the Framework Programme. The White Paper includes no direct measures in this field.

### **Descriptive Summary**

Presently the Ministry of Education and Science has the complete responsibility for scientific activities in Lithuania. The funds are allocated directly to the research institutes by the

Government upon the recommendation of the Ministry of Education and Science and the Science Council of Lithuania.

After the restitution of independence the main changes in the organisation of this sector have been the transfer of the large institutes from the Lithuanian Academy of Sciences to the Ministry of Education and Science and the creation of Science Council of Lithuania. Neither the nature of the institutes nor their method of financing has changed in a fundamental sense.

The current science expenditure represents about 0.5 % of GDP.

Until now the stated objective of science policy is to preserve the operation potential of Lithuanian science and to fulfill the needs of the economy and culture of the country. The government has still to reach consensus on a strategy. In the beginning of 1997 a commission for the restructuring of the sector has been installed.

National priorities are fundamental and applied research in the fields of Lithuanian language, culture, history and nature; research of high international level, and research involved in international research programmes; applied research which is necessary to carry out the state programmes of the development of Lithuanian economy, culture, social sphere, care of public health, environmental protection.

Regular cooperation with the European Community started in 1992 with the 3rd Research and Technology Development Framework Programme. So far, cooperation was mainly concentrated on COPERNICUS (Specific Programme for Cooperation with CECs and NIS) and remains low for participation in the 4th Framework Programme.

Since 1997, the statistics on RTD are compatible with OECD standards.

### **Current and Prospective Assessment**

Lithuania has a number of good, even excellent research institutions and individual researchers, also by international standards. Nevertheless there is a need for further changes aiming at the reorganisation of institutions and replacement of central funding by the competitive merit-driven funding system.

Lithuania has recently stated its interest in some form of association with the 5th Framework Programme.

### **Conclusion**

In the perspective of accession, no major problems are expected in this field. Accession would be of mutual benefit.

### **Telecommunications**

The objectives of EC telecommunications policy are the elimination of obstacles to the effective operation of the Single Market in telecommunications equipment, services and networks, the opening of foreign markets to EU companies and the achievement of universally



available modern services for EU residents and businesses. These are achieved through harmonisation of the standards and conditions for service offerings the liberalisation of the markets for terminals, services and networks and the adoption of necessary regulatory instruments. The Directives and policies needed to achieve this have now been established, but the liberalisation of public voice telephony and operation of related infrastructure will be deferred for a year or two after 1998 in certain member states.

The Europe Agreement provides for co-operation aimed at enhancing standards and practices towards EC levels in telecommunication and postal policies, standardisation, regulatory approaches and the modernisation of infrastructure. The White Paper focuses on the approximation of regulation, networks and services, followed by further steps ensuring gradual sector liberalisation.

### **Descriptive Summary**

A new telecommunications law was enacted in 1991 which created the operating companies subordinate to the Ministry of Communications and Informatics. In 1995 a new law removed the monopoly enjoyed by the national operator, Lietuvos Telekomas (LT) by permitting the government to licence other companies. There are at least two mobile telephone companies operating networks using the pan-European digital standard (GSM).

The Ministry is the formal regulatory body but, in practice, it controls LT and manages most of the sector through its shareholders rights.

LT had expanded the telephone penetration rate to 25.4 per 100 by the end of 1996. The Government's plan (amended in 1996) describes its aim as eliminating the waiting list by the year 2000 and having 32.2 lines per 100 at that time. Digital access using the pan-European ISDN standard is not planned before the year 2000. The national postal operator has the exclusive rights for the delivery of letters and payment of pensions. The sector is regulated by the Communications Law of 1995. The Government is subsidising Lithuanian Post to cover the deficit of the letter and parcel services. The restructuring of the sector is not yet very advanced.

### **Current and Prospective Assessment**

#### *Degree of Liberalisation*

Although Lithuania has created a liberal telecommunications regime where the monopoly has been removed from the government controlled public operator (Lithuania Telecom- LT) and in which many companies are providing a variety of services there is still no effective competition for the public operator. Apart from the public network, the markets for infrastructure have been liberalised. For example, CATV networks and alternative infrastructure can provide telecommunications services. The markets for services have also been liberalised. with three competing mobile service operators (one of them GSM), 50 private CATV operators, and 32 paging operators. Data and satellite communications markets are open to competition. Although operators of telecommunications services are permitted by law to connect to the to the public network, the conditions set by LT present an effective barrier to interconnection in practice. The government plans to privatise LT by the year 2000.

#### *Approximation to EC Law*

In 1991, general legislation for the telecommunications sector was passed and the new Ministry of Communications and Informatics was created. Further telecommunications legislation was passed in December 1995, providing for the liberalisation of some telecommunications services and requiring all companies wishing to operate such services on Lithuanian territory to be granted a licence.

In preparation for the privatisation of LT by the year 2000 the Ministry of Communications and Informatics is planning new legislation for 1998. The new telecommunications law planned for 1998 will establish the legal framework in which LT will be obliged to operate. Its content, currently unknown, and the degree of enforcement will dictate how quickly Lithuania conforms to the *acquis*. In order to approximate to EU law, the new law would need to ensure that the regulatory entities are effectively separated from operating entities, and that effective provisions are made for interconnection and universal service. Although there has been good progress to date, it is doubtful if there is sufficient administrative capacity to implement and enforce the remaining legislation needed to comply with the *acquis*.

### Infrastructure

LT had expanded the telephone penetration rate from 22.0 per 100 inhabitants in 1992 to 26.8 per 100 by the end of 1996 but the waiting time for a new connection is still about 2 years. About 80% of the local switches are electro-mechanical equipment of Russian design and these will need either expensive modifications or replacement when tariff rebalancing will be addressed.

The Government's plan (amended in 1996) aims at eliminating the waiting list by the year 2000 and having 32.2 lines per 100 at that time. About 5% of the network had been digitised in 1995 (compared to a current average of 62.4% for Portugal, Greece and Ireland). By the end of 1997, fibre optic cable connections will enable fast communication with all its neighbours. LT has been purchasing small digital switches designed and manufactured locally by the Sigma company in addition to other small amounts of digital equipment from the EU. Digital access using the pan-European ISDN standard is not planned before the year 2000.

Securing this level of investment will be difficult, even taking into account the privatisation of LT, given the low competitiveness of the public operator.

### Competitiveness of the Sector

Based on the GDP per capita level expressed as a purchasing power, the revenue per telephone line (about 86 ecu in 1995) cannot be increased enough to support a network undergoing modernisation of LT's present size. Performance as judged by the number of employees/1000 lines (10.6) is low relative to an average of 6.2 for Portugal, Greece and Ireland. Tariffs remain extremely distorted in order to keep local service affordable. Lithuania may have inherited more lines from the past than the country can afford to modernise. Without substantial economic growth, and substantial further investment, it will be well after 2000 before a modern telephone service could be universally available on demand, and many more years before the penetration approaches present EU levels.

In its Master Plan for the year 2005, LT foresees the full digitisation of the network and a penetration rate of 40 main telephone lines per 100 inhabitants. Implementing this Master Plan is estimated to cost about ECU 400 million (about 1% of GDP for the period).

### **Conclusion**

Subject to maintaining the current efforts, there are prospects for telecommunications in Lithuania to comply with EC law. Greater competitiveness of the public operator must be achieved to attract the investment needed to modernise and face up to competition.

### Audio-visual

The audio-visual *acquis* aims, in the context of the Internal Market, for the provision and free movement of audio-visual services within the EU as well as the promotion of the European programme industry. The Television Without Frontiers Directive, which is applicable to all broadcasters regardless of the modes of transmission (terrestrial, satellite, cable) or their private or public nature, contains this *acquis*, setting down basic rules concerning transfrontier broadcasting. The main points are: to ensure the free movement of television broadcasts throughout member states; to promote the production and distribution of European audio-visual works (by laying down a minimum proportion of broadcasting time for European works and those by independent producers); to set basic standards in the field of television advertising; to provide for the protection of minors and to allow for the right of reply.

The Europe Agreement provides for co-operation in the promotion and modernisation of the audio-visual industry, and the harmonisation of regulatory aspects of audio-visual policy.

The Television Without Frontiers Directives is a Stage I measure in the White Paper.

### **Descriptive Summary**

Only limited information is available concerning the situation in this field in Lithuania.

The legal framework for the audio-visual sector is determined by the 1990 Law on Press and Mass Media, the 1995 Law on Communications, and the Law on Licensing of Postal and Telecommunications activities.

The main television broadcaster is the Lithuanian State Radio and Television Company (LRT), although many private channels operate.

State subsidies are granted to the Lithuanian State Radio and Television Company to encourage national film production and distribution.

### **Current and Prospective Assessment**

The audio-visual sector in Lithuania is attempting to reestablish itself after major upheavals in recent years, and is characterised by rapid growth and constant change. Its ability properly to adhere to the *acquis* presupposes an upgrading of the capacity of the programme-making industry to meet the important challenges of an adapted regulatory framework.

Although full information on Lithuanian audio-visual legislation is lacking, the analysis of available legislation to date reveals a considerable number of deficiencies, including questions of freedom of reception, jurisdiction, the promotion of European works, advertising and sponsorship rules, protection of minors, and the right of reply.

Draft laws on multimedia and broadcasting are currently under discussion in the Lithuanian Parliament. The effect of these Laws remains to be determined. Prospects for alignment to the *acquis* are consequently uncertain.

### **Conclusion**

More complete information is required on the evolving legislative situation. However, provided that the necessary legislative measures are pursued with sufficient urgency and that they are accompanied by the necessary structural adaptations of the industry, it is reasonable to expect that Lithuania should be able to meet EC requirements in the audio-visual sector in the medium term.

### **3.3. Economic and Fiscal Affairs**

#### **Economic and Monetary Union**

By the time of Lithuania's accession, the third stage of EMU will have commenced. This will mark important changes for all Member states, including those that do not participate in the euro area. All Member states, including the new ones, will participate fully in the economic and monetary union. Their economic policies will be a matter of common concern and they will be involved in the coordination of economic policies (national convergence programmes, broad economic guidelines, multilateral surveillance, excessive deficit procedure). They will be required to respect the stability and growth pact, to renounce any direct central bank financing of the public sector deficit and privileged access of public authorities to financial institutions, and to have completed the liberalisation of capital movements.

Accession means closer monetary and exchange rate co-operation with the European Union. This will require strengthening structural reforms in the area of monetary and exchange rate policies. Member states not participating in the euro area will be able to conduct an autonomous monetary policy and participate in the European System of Central Banks (ESCB) on a restricted basis. Their central banks have to be independent and have price stability as their primary objective. Monetary policy has to be conducted with market-based instruments and has to be "efficient" in transmitting its impulses to the real economy. Therefore, reforms need to be pursued to tackle factors that hinder the efficiency of monetary policy, such as the lack of competition in the banking sector, the lack of development of financial markets and the problem of "bad loans" in the banking sector. Finally all Member states shall treat their exchange rate policy as a matter of common interest and be in a position to stabilise their exchange rates in a mechanism yet to be decided.

As membership of the European Union implies acceptance of the goal of EMU, the convergence criteria will have to be fulfilled by Lithuania, although not necessarily on accession. While the fulfilment of the convergence criteria is not a precondition for EU membership, they remain key points of reference for stability oriented macroeconomic policies, and must in time be fulfilled by new member states on a permanent basis. Hence the successful conclusion of systematic transformation and market oriented structural reforms is essential. Lithuania's economic situation and progress has already been analysed in preceding chapters of this Opinion.

#### **Current and Prospective Assessment**

The Lithuanian Central Bank is largely independent from the government in terms of the appointment procedure of the governor and the conduct of monetary policy. Its formal

objective is the stability of the currency. The Law on the Central Bank does not explicitly prohibit the financing of the budget deficit. Lithuania has adopted a currency board since April 1994 and the monetary policy conduct is severely limited by the amount of foreign reserves in the central bank balance sheet. Within the currency board arrangements there is very limited scope for discretionary monetary policy or for central bank budget deficit financing.

Lithuania has always adopted the "hard" version of the currency board, where domestic liabilities were more than fully covered by foreign assets in the Bank's portfolio. This strategy has left the Bank enough room for manoeuvre which it used on the occasion of the banking crisis of December 1995. The recovery from the crisis has started: most banks recorded good results in 1996 and managed to improve the quality of their loan portfolio. The government is actively pursuing its three-pronged policy based upon a strengthening of the regulatory framework, a rapid clean-up of the troubled banks' balance-sheets and eventual privatisation. The privatisation of two main state banks out of three is envisaged by end-September, and the loan restrictions imposed on the third one have been lifted. A definitive solution for the two private banks whose insolvency triggered the December 1995 crisis may be approaching. However, a full recovery of the financial system still has to be achieved. The effective implementation of the new regulations remains to be tested and no divestiture has been carried out as yet. As the fall of deposits and loans in real terms during 1996 shows, investor confidence has not yet been recovered.

The exchange rate is fixed (against the USD) as the currency board arrangement requires. There has been no significant turmoil on the foreign exchange market and the central bank was able to react to the 1995 banking crisis by raising domestic interest rates and preserving the credibility of the peg.

Gradually, over the next two years, Lithuania has planned to abandon the currency board and to peg to the US Dollar before possibly switching to a more flexible exchange rate regime. Hence, the Central Bank will gradually assume the classic functions of a modern central bank. At that moment, the issue of the central bank's independence, of the efficiency of monetary policy in stabilising price and the ability to maintain a stable exchange rate will become relevant.

## **Conclusion**

It is premature to judge whether Lithuania will be in a position, by the time of its accession, to participate in the euro area; that will depend on the success of its structural transformation permitting to attain and to adhere permanently to the convergence criteria, which are not however a condition of accession.

Lithuania's participation in the third stage of EMU as a non-participant in the euro area still poses problems in the medium term. It will be necessary that in the transition from the currency board to the establishment of a modern central bank, the legislation regarding monetary and fiscal policy made fully compatible with EC rules. In particular it is important that the full recovery of the financial system is achieved. This will have a major impact on the future ability of the central bank to efficiently conduct monetary policy actions, based on indirect instruments.

## **Taxation**

The *acquis* in the area of direct taxation mainly concerns some aspects of corporation taxes and capital duty., The four freedoms of the EC Treaty have a wider impact on national tax systems.

The indirect taxation *acquis* consists primarily of harmonised legislation in the field of Value Added Tax and excise duties. This includes the application of a non-cumulative general tax on consumption (VAT) which is levied on all stages of production and distribution of goods and services. This implies an equal tax treatment of domestic and non-domestic (import) transactions. The VAT *acquis* also contains transitional arrangements for the taxation of transactions within the European Union between taxable persons. In the field of excise duties the *acquis* contains harmonised tax structures and minimum rates of duty together with common rules on the holding and movement of harmonised excisable goods (including the use of fiscal warehouses). As a result of the introduction of the Single Market, all fiscal controls at the Community's internal frontiers were abolished in January 1993.

The mutual assistance between Member State tax authorities is an important feature of administrative cooperation in the Internal Market; the respective Directive covers both direct and indirect taxation.

The Europe Agreement contains provisions on approximation of legislation in the area of indirect taxation.

The White Paper contains as Stage I measures those which make up the main requirements of the indirect taxation *acquis* (essentially, those measures applied in the Community up to 1993), and as Stage II measures those which are in addition necessary to implement the full indirect taxation *acquis*.

### **Descriptive Summary**

#### **Direct Taxation**

The two company Directives and the Arbitration Convention provide for a mechanism which applies on the basis of reciprocity. Respective provisions can therefore by definition not be expected to exist before accession.

#### **Indirect Taxation**

The overall contribution of VAT and excise duty revenue to the Lithuanian state budget was about 34% for VAT in 1995 and about 14% for excise in 1996. More recent statistics indicating trends in these figures are not currently available.

#### **Value Added Tax**

The current Lithuanian VAT system was introduced in May 1994. Lithuania applies a single VAT rate of 18% which is applicable to all taxable transactions, including imports.

Certain activities are exempt from VAT without the right to claim the input credit on such supplies. These exemptions relate mainly to activities in the public interest, financial and insurance services. Taxable persons are entitled to deduct VAT incurred on their purchases for business purposes of goods and services. However, the Lithuanian VAT Act does not contain any provisions enabling tax to be refunded to taxable persons not established within the country.

Lithuania applies special VAT schemes to small farmers and supplies of second-hand goods.

#### Excise

Since April 1997, a new range of excise rates is in application in Lithuania, designed to be in line with EC requirements. Excises were increased for tobacco, alcohol and oil products. Equal excise tariffs are applied to imported as well as to domestic products.

#### Mutual Assistance

The tax administration has not yet had to develop its capacity for mutual assistance with the tax authorities of Member States, since mutual assistance is a feature which would only become applicable on accession.

### **Current and Prospective Assessment**

#### Value Added Tax

The current VAT system in Lithuania has been based on the main principles of the VAT legislation of the Community. However, it is characterised by being very general and inconsistent in its application.

The Lithuanian approach regarding exempt transactions deviates to a large extent from that of the Community legislation both in terms of scope and substance. Since Lithuania does not operate any arrangements for the refund of VAT to non-registered foreign taxable persons, VAT represents an increased cost to such traders.

Lithuania's membership of the European Union would require substantial additional adjustments to bring the VAT legislation into line with the requirements of the Community *acquis*, both in respect to the general provisions of the Community VAT legislation and as regards the system of taxation necessary in a Community with no internal frontier controls.

The Lithuanian national strategy plan for implementing the recommendations of the White Paper regarding VAT is limited to implementing measures for refund schemes for tourists and taxable persons not established within Lithuania.

#### Excise

There remain discrepancies between the Lithuanian excise regime and EC requirements.

There exists no excise suspension system where goods can move between authorised tax warehouses without payment of duty. In addition, the registration of traders for excise purposes needs to be reviewed.

In the event of accession, any excise duties remaining on products not belonging to the harmonised excise duties within the Community could continue to apply provided, however, that they would not give rise to border-crossing formalities in trade between member states and that they complied with the principles of non-discrimination between national products and products originating from other member states.

In order to ensure a correct application of the Community excise legislation it is essential that Lithuania sets up a warehousing system based on the Community model as soon as possible, strengthens control procedures and adapts the structure and level of its excise rates in such a way that they comply with the Community principle of non-discrimination between national products and those originating from other member states.

The Lithuanian national strategy plan for implementing the provisions of the White Paper does not provide a clear and detailed timetable for future adjustments of Lithuanian excise legislation. A short term objective consists of the gradual approximation of excise rates to the EC minimum levels. However no full harmonisation of legislation is planned.

#### Mutual Assistance

There would also be a need, on accession, to implement the appropriate arrangements for administrative cooperation and mutual assistance between Member States. These requirements are essential for the functioning of the Internal Market.

#### **Conclusion**

The *acquis* in respect of direct taxation should present no significant difficulties.

As regards indirect taxation, although some progress has been made a considerable effort will continue to be required if Lithuania is to comply with the *acquis* concerning VAT and excise duties in the medium term.

It should be possible to start participating in mutual assistance as the tax administration develops its expertise in this respect.

#### Statistics

The main principles of the Community *acquis* relate to the impartiality, reliability, transparency, confidentiality (of individual information) and dissemination of official statistics. In addition there exists an important body of principles and practices concerning the use of European and international classifications, systems of national accounts, business registers, and various categories of statistics.

The Europe Agreement provides for co-operation to develop effective and reliable statistics, in harmony with international standards and classifications.



The White Paper includes no provisions in this field.

### **Descriptive Summary**

The Department of Statistics (LDOS) is the central body charged with producing and disseminating official statistics in Lithuania.

The legal basis for Lithuanian official statistics consists of the 1993 Law on Statistics.

### **Current and Prospective Assessment**

The Lithuanian legislation made available for assessment to date is vague; further information is required. Issues concerning respect of the main principles of statistics need clarification.

There are deficiencies in sectors such as business statistics, capital and financial accounts, and regional data.

### **Conclusion**

On the basis of information received to date, Lithuania will require a sustained effort if it is to comply with EU requirements for official statistics in the medium term.

## **3.4 Sectoral Policies**

### **Industry**

EC industrial policy seeks to enhance competitiveness, thus achieving rising living standards and high rates of employment. It aims at speeding up adjustment to structural change, encouraging an environment favourable to initiative, to the development of undertakings throughout the Community, and to industrial co-operation, and fostering better exploitation of the industrial potential of policies of innovation, research and technological development. EU industrial policy is horizontal by nature. Sectoral communications aim at transposing horizontal concepts into specific sectors. EC industrial policy results from an articulation of instruments from a number of Community policies; it includes both instruments related to the operation of markets (product specification and market access, trade policy, state aids and competitions policy) and measures related to industry's capacity to adapt to change (stable macro-economic environment, technology, training etc.).

In order to cope with competitive pressure and market forces within the Union, the industry of applicant countries needs to have achieved a certain level of competitiveness by the time of accession. The applicant countries need to be seen as pursuing policies aimed at open and competitive markets along the lines set out in Article 130 ("Industry") of the Treaty. Co-operation between the EU and the candidate countries in the fields of industrial co-operation, investment, industrial standardisation and conformity assessment as provided for in the Europe Agreement is also an important indicator of development in the right direction.

## Descriptive Summary

Industrial output of Lithuania stood at around 1.2 bn Ecu in 1995, equivalent to one-third of the industrial production of Luxembourg. The transition process entailed a marked decline in industrial production and in the period 1990-1995 the share in GDP dropped from 43% to 36%. Industrial production reached its bottom in 1994, but production has been growing slightly since then.

Industry accounts for 245,000 jobs (21% of total employment). Textiles/clothing, food and wood processing industries are the main employers. The total number of enterprises in industry is estimated at around 2,000 of which 88% have less than 250 employees.

Industrial development in Lithuania began on a large scale following the country's annexation by the USSR after World War II (before the war 75% of the population worked in agriculture). During the Soviet era, Lithuania was specialised in a combination of heavy and light industries, i.e. machine-tools, electric motors, shipbuilding, machinery for agriculture, fertilisers, bicycles and TV sets. After independence and the loss of its main outlets in the countries of the former Soviet Union, industrial output plummeted. Some productions such as electric motors, TV sets and fertilisers are holding relatively steady partly thanks to continuing exports to the CIS or/and FDI inflows. However industrial growth tends to concentrate on "new" light industrial sectors, namely food processing, textiles and clothing, wood processing and construction, which are relatively successful in attracting FDI.

### Lithuanian Industry: Main Production Sectors in 1996

Sector	%-share industrial production (value added)	%-share industrial employment
Food processing / Tobacco	36	20
Refined petroleum products	17	n.a.
Textiles / Clothing / Leather	14	24
Chemicals	9	4
Non-metallic mineral products	4	6
Electronic engineering	3	5
Machinery & equipment	3	9
Transport equipment	2	3
Electrical machinery and apparatus	2	2
Wood processing	2	6
Pulp / Paper / Printing / Publishing	2	4
Furniture	2	4
Total of the above	96	87
Other sectors	4	13
Total Industry	100	100
<i>Industrial production as % GDP/ % employment</i>	<i>28</i>	<i>21</i>

**Food processing** industry (meat and dairy products) is the leading sector. During the last 3 years it has been stabilising, which is also reflected by the stabilisation of imports from the West. However deep restructuring is necessary to sustain competitive pressures from EU

companies. Currently the average utilisation of capacity is estimated at 45% and the share of private capital at 40%. Medium-sized enterprises have been more successful in modernising both management and equipment. The development of the food processing industry also depends on the increase in standards of living.

**Oil processing** industry has been developing again since 1996. Prospects of further development should arise from the privatisation of the oil sector in the Russian Federation. There is a market for low quality oil products in both the Baltics and the CIS.

The flagship of Lithuania is **textiles/clothing**. Despite a further need for modernisation, this sector has been steadily growing. FDI have largely contributed to this growth. Lithuanian companies already compete with the EU. The biggest privatised companies in clothing depend on 90 to 100% on outward processing trade. New technologies have already been introduced, notably through Joint-Ventures. The same applies to **furniture**.

**Chemicals** has been recovering since 1994, notably the production of fertilisers. 80% of the production is exported.

**Construction** is developing fast essentially in medium-sized enterprises. Cement is exported to Germany, Belgium and the Netherlands.

Following Turkish investment, the production of tubes for **TV sets** has picked up. More than 80 % of this production is exported.

**Machinery** is still declining (the lowest figures were registered in 1996) and face difficulties in restructuring. Like the defence industry (left without markets), a qualified work force remains.

In spite of the government's intentions to promote **pharmaceuticals** via reduced corporation taxes and VAT exemptions, the sector remains small and under-developed. Only 10% of pharmaceuticals consumed in the country are produced locally, but 35% of the production (low-quality generics) are exported to CIS countries.

The privatisation performance is slower than originally envisaged. In June 1995 after the first round of "voucher privatisation", only 30% of all state assets in industry were sold. The second round of privatisation (sales for cash through open tenders) is behind schedule, due to the difficulties in attracting private investment. Yet in some sectors such as machinery and electrical apparatus, motor vehicles, leather products, paper industry, furniture, chemicals and pharmaceuticals, privatisation is already advanced.

The sector with the most significant shares of foreign capital include plastics, wood processing, textiles, food processing, leather products, electrical equipment, and clothing.

### **Current and Prospective Assessment**

Several indicators support the assessment that Lithuania is not yet very advanced in the transformation process. While considerable progress has been made in macroeconomic

liberalisation, privatisation of large enterprises has been limited, energy pricing is still a problem and Lithuania's trade has less shifted to western markets than other applicant countries.

The underpricing of energy is probably behind the fact that the Lithuanian economy has the highest energy intensity of all applicant countries. It appears that Lithuania has so far preserved a larger part of the energy intensive industries inherited from the Soviet regime than the other Baltics. Since growth prospects for these sectors are limited, a restructuring towards less energy and more labour intensive sectors (Lithuania has the lowest wages of all applicants) and food processing appears overdue.

The domestic financial system cannot yet provide medium to long term capital, since stabilisation is recent and the restructuring of the banking system has only started recently. Growth prospects are also hampered by a still inadequate framework and administrative system for FDI.

Industrial production should continue to grow in the coming years, even if the recovery of domestic demand remains modest. However, it is expected that, by the year 2000, industrial output will still only be 40% of its 1990 level.

As regards privatisation, the government intends to speed up the process and start the privatisation of 14 state-owned "strategic" enterprises of the telecommunications, transport (including shipyards) and energy sectors, by the end of 1997, through international public tender. The privatisation of the national telecoms enterprise was already launched in March 1997.

The main difficulty faced by the Lithuanian industry is the lack of long-term finance to continue progress towards full privatisation and restructuring. Attracting foreign direct investment will in fact be one of the main responsibilities of the Minister for European Affairs in the newly appointed government (December 1996). The government estimates that six years will be required to complete industrial restructuring.

### **Conclusion for Industrial Competitiveness**

Provided that current positive trends in restructuring and privatisation continue, in the medium term most of Lithuanian industry should be able to cope with the problems of integration within the European single market.

An evaluation of the acquis specific to the free circulation of industrial goods is to be found in the separate section on the internal market.

### **Agriculture**

The Common Agricultural Policy aims to maintain and develop a modern agricultural system ensuring a fair standard of living for the agricultural community and the supply of food at a reasonable price for consumers, and ensuring the free movement of goods within the EC. Special attention is given to the environment and rural development. Common market organisations exist to administer the CAP. These are complemented by regulations on veterinary health, plant health and animal nutrition and by regulations concerning food

hygiene. Legislation also exists in the area of structural policy, originally developed primarily to modernise and enlarge agriculture, but more recently with an increasing emphasis on the environment, and the regional differentiation of the policy. Since reforms in 1992, increasing contributions to farm support have come from direct aid payments compensating cuts in supports prices.

The Europe Agreement provides the basis for agricultural trade between Lithuania and the Community and aims to promote co-operation on the modernisation, restructuring and privatisation of Lithuania's agriculture sector as well as the agro-industrial sector and phytosanitary standards. The White Paper covers the fields of veterinary, plant health and animal nutrition controls, as well as marketing requirements for individual commodities. The purpose of such legislation is to protect consumers, public health and the health of animals and plants.

## **Descriptive Summary**

### *Agricultural Situation*

The value of the agricultural production in 1995 was approximately 0.12% of that of the Union.

After a sharp fall in the beginning of, the transition period, the contribution of agriculture to total GDP has stabilised and accounted for 9.4% of GDP in 1995. In 1996 the share of agriculture in GDP increased to 11.4%, mainly because of good grain harvests. Agriculture maintains a very important place in the country's economy, with a share in national employment increasing from 18% in 1990 to 24% in 1995 reflecting the lack of alternative employment. Of the 6.53 million ha of total land, the agricultural areas equals 3.5 Million ha. Arable land represents 84% of total agricultural area.

The restitution of ownership rights or the payment of compensation in cash or kind formed the cornerstone of land reform in Lithuania. At the end of 1996, land ownership titles had been restored to only 250,000 farmers but the documentation was well advanced for many others. The process of privatisation resulted in the establishment of almost 400,000 private "household" plots with an average size of 2.1 hectares and 135,000 individual farms, which averaged 8.4 hectares. The individual farms account for 34% of agricultural land. This has led to fragmentation not only of ownership but also of operation since many small-scale private farms were created that were unlikely to provide sufficient income for full-time farmers.

Almost one-third of the agricultural land (1.2 Mio ha) in Lithuania is farmed by agricultural companies (Bendrove). These entities have the legal status of private limited liability companies, but under current legislation cannot acquire ownership titles to the land they work.

Agricultural companies are not only involved in agricultural production, but are also often engaged in processing activities and retailing through a network of retail shops. The development of this closely related chain involving production, processing and retailing has resulted in increased competition for the remaining monopolies in the food processing and distribution sectors.

There were 2,000 agricultural companies in existence at the beginning of 1997, but that number is likely to decline in the near future.

The loss of markets in the former Soviet Union, the fall in domestic consumption and the gradual adjustment to the new economic environment, all combined to bring about a sharp fall in Lithuania's agricultural production, which shrank by 50% during the transition period. The worst hit activity was livestock production, which declined by over 50%, while crop production fell by more than 40%.

Agricultural partnerships account for 45% of grain production, half of sugar beet production and possess 60% of cattle and 54% of pigs. Household plots on the other hand produce two-thirds of potatoes, 60% of vegetables and have 51% of dairy cows. Private farms produce some 30% of arable crops but have a very low share of the livestock sector.

Lithuania is self sufficient (1995) in many products (milk; 1.8 Miot; 163%; beef meat 87,000t; 106%; vegetable: 121%, but not for cereals (2.5 Miot; 83%) and pigmeat (93,000t; 93%).

The processing industry has been privatised to a certain extent, but 30% of most sectors remain in state hands. While part of the downstream food processing sector continues to function under monopolistic arrangements, a more competitive environment has developed as a result of food imports and the activities of the new processing and distribution plants established by the agricultural companies. In 1995, the financial situation in the food processing sector remained weak, with a high level of debts in the food industry.

With regards to trade, Lithuania is dependant on export revenues, since its domestic market is small. Agricultural and food products continue to account for a large share of Lithuania's total trade (1995: 18%). In 1995, EU accounted for 61% of Lithuania's imports and 30.5% of its exports for this sector. However, Russia remains a significant trading partner, taking almost half of its food exports in 1995. Trade with other Newly Independent States of the former Soviet Union, which had been negligible in the early transition years, has increased in recent years.

### *Agricultural Policy*

The PSE (Producer Subsidy Equivalent) calculated by the OECD was 3% in 1995 compared to 49% in the EU.

As part of its agricultural policy, the "National agricultural development program" was established by the Government in 1994 in order to co-ordinate government support and to stabilise farm income. It intends to provide low interest credits and to support the agricultural sector in research, education and training.

Under the provisions of the 1994 Law on the State Regulation of Economic Relations in Agriculture, minimum purchase prices, purchase quotas, input subsidies, direct payments for less favoured areas, export subsidies, and subsidies for storage have been introduced in 1995

for the main agricultural products. Minimum support prices were set so as to provide a “floor price” for producers.

However, the Government has no institutional mechanisms for enforcing minimum purchase prices and totally relies on competition among processors to ensure that producers receive these minimum prices. The subsidies are then paid directly to the processing industry to keep consumer prices lower than they would otherwise be.

The change in government of December 1996 has resulted in a reorientation of the agricultural policies. The objective of the policies is to support the development of a competitive farm sector. The main trend is to gradually abolish consumer price subsidies currently applied through subsidies to the processing industry and to support farm incomes through application of support prices for main agricultural products, direct payments and investment support.

In 1995, about 10% of the national budget was spent on agriculture. About 50% (ECU 23 million in 1995) of the agricultural budget was spent on price support measures for commodities, such as milk, grain and beef/pig meat. Direct payments and soft credits are administered through funds such as the “Farmers Support Fund”, which invests in rural infrastructure projects. 27 million Litas (ECU 5.16 million) were spent on export subsidies mainly for the dairy and pig sectors and 13.8 million Litas (ECU 2 million) on aid to farming in less favoured areas. Since the beginning of 1997, funding for agricultural support has been concentrated in a single fund through the Rural Support Fund.

In terms of price support measures, agricultural prices are significantly lower than EC prices. Milk and beef prices were 30-35% of EC average, while wheat and pig meat prices are relatively high, about 70-80% of EC prices in 1995.

With the reorientation of agricultural policies, increasing attention is given to rural and structural development policies. 56% of the Lithuanian population live in rural areas. From 1992 to 1995, it allocated ECU 16 million for infrastructure assistance, 2 MECU were used for covering part of farmers interest payments on equipment and to cover running production costs. Support in less favoured areas is allocated according to soil quality (must be one quarter below average productivity).

It aims to compensate for income losses due to natural handicaps. In 1995, 2 MECU were spent on the programme.

The Free Trade Agreement between Lithuania and the European Community entered into force on 1 January 1995. Reciprocal agricultural concessions are included. Community concessions were improved in 1996.

Since April 1995, Lithuania’s border protection policy is based entirely on a differential system of tariffs which distinguishes between conventional, preferential and autonomous tariffs. Protection ranged from 5% for olive oil (no domestic production) to 87% for grain and 35% for refined sugar. Higher tariffs are applied on processed products like sugar and butter in order to protect the domestic processing industry.

Lithuania is also a member of the Baltic Free Trade Agreement; since January 1997 this includes agricultural products - Lithuania is now negotiating membership of the WTO.

Lithuania is beginning to introduce the legislation identified in the White Paper.

In December 1996, the Ministry of Forestry has been merged with the Ministry of Agriculture and an overall restructuring of the services has taken place with the aim to concentrate responsibility while at the same time favouring the decentralisation of the implementation aspects of agricultural policy. The "organisational infrastructure" of agriculture is not well developed in Lithuania, and there are several agricultural producers associations, such as the Chambers of Agriculture, the Association of Agricultural Companies, the Union for Family Farmers, and the Association for Landowners. The food industry has also become organised into sectional lobby groups.

### **Current and Prospective Assessment**

One of the major problems which Lithuania will face over the next few years is the issue of completing land registration. At the present rate, the establishment of full ownership titles is likely to take up to ten years to complete. Indeed, the unresolved issues of restitution claims and ownership patterns are blocking the development of a functioning "land market". As a consequence, farm investment, which is essential for modernising agriculture, is not taking place either due to the unavailability of mortgage credit.

The industries suffer from overcapacity, outdated equipment and high indebtedness. Moreover, most plants do not meet EC quality and hygiene standards and are consequently not able to export to the EC market. However 2-3 poultry farms are expected to obtain EC hygiene certification soon. This sector faces problems of increasing competition due to liberalisation of trade policies and growing imports. Overall, while part of the agro food processing sector continue to function under monopolistic arrangements, a more competitive environment has developed as a result of food imports and the activities of new processing and distribution plants established by agricultural companies.

There are a number of impediments to agricultural policy-making in Lithuania, at least as regards medium-term policy goals. For example, alternative markets for agricultural products are limited because of quality requirements, and strong competition from other CEECs. Despite the liberalisation of domestic retail prices, most commodity prices in Lithuania remain substantially below world market prices.

Over the next few years, Lithuania will not have sufficient public funds to support agriculture in any significant way and foreign currency constraints will continue to limit imports of feed grains and other essential inputs.

It appears to be in the process of establishing a more structured agricultural policy, including price support mechanisms, structural and rural development measure. While some elements of the current policies have some resemblance with EC policies, the main market policy instruments applied in the EC are not applied in Lithuania. This includes key instruments such as dairy quotas, key features of the arable crop schemes (base area, set-aside,



compensatory payments and premia in the livestock sector), as well as certain rural and structural development programmes.

Management and control of these measures would require relatively sophisticated administrative systems, including an appropriate land register and cattle identification/registration systems. As a general observation, it is clear that the administrative capacity would need to be further developed in these areas if these measures were to be applied in Lithuania.

It is difficult to foresee, at this stage, what will be the development of agricultural support prices in Lithuania in the period before accession; this will depend on a number of factors including the domestic economy, the situation on export markets and the development of price supports levels in the Union.

Although progress has been made in adapting rural and structural policies, a number of policies and input subsidies appear to be inconsistent with EC policies. A detailed analysis of eligibility criteria is needed to fully assess compatibility with EC measures.

Lithuania is introducing the legislation identified in the White Paper.

In the veterinary field adaptation of Lithuanian legislation is in an early stage of preparation. Although legislation appears to be adequate for the purposes of assuring public and animal health in Lithuania, important differences exist between their legislation and the acquis. The testing and diagnostic facilities are still inadequate for Community veterinary control. The system of registration of holdings and identification of animals will need to be adjusted to the EC systems. Substantial legislation in the field of animal nutrition also needs to be adopted.

Moreover, harmonisation of legislation is needed in areas of plant protection products, pesticide residues, organic farming, seeds and propagation material as well as plant health. The control and inspection arrangements for plant health need to be strengthened to ensure appropriate levels of protection.

## **Conclusion**

Substantial sustained efforts of alignment to the acquis are still necessary, although progress has been made in adopting the measures mentioned in the White Paper.

Particular efforts are needed in relation to :

- the implementation and enforcement of veterinary and phytosanitary requirements and upgrading of establishments to meet EC standards; this is particularly important with regard to the inspection and control arrangements for protecting the EU external border;
- strengthening of the administrative structures to ensure the necessary capacity to implement and enforce the policy instruments of the CAP;
- further restructuring of the agro-food sector to improve its competitive capacity.

Since only a limited number of the mechanisms of the common agricultural policy presently exist, a fundamental reform of the agricultural policy will be needed, and a substantial effort will be necessary to prepare for accession in the medium term.

### **Fisheries**

The Common Fisheries Policy includes common market organisations, structural policy, agreements with third countries, management and conservation of fish resources, and scientific research in support of these activities.

The Europe Agreement includes measures concerning trade in fisheries products with the Community and provides for co-operation. The White Paper includes no measures in this field.

### **Descriptive Summary**

Total employment in the fishery sector in Lithuania reached 3,510 in 1996 as opposed to 10,261 in 1992. In 1995, the total catch was about 54,000t and its value about 48 million ECU. Klaipeda State Sea Port (main port), Nida and Sventoji are regions that mostly depend on fishing.

The ocean fleet was comprised of 57 vessels in 1996 which caught 33,000t (down from 109,000t in 1993) valued at 32 million ECU. About 40% of the ocean and Baltic fleets are over 20 years old. The Baltic fleet consisted in 1996 of 70 vessels and 150 smaller boats which caught 20,000t (up from 7 000t in 1993).

In 1996, 54 processing companies employed an average total of 2050 people. Total production has decreased between 1993-1996, owing to a drastic drop in frozen products.

As a trading partner of the Community, Lithuania represents 0.09% of EC total imports (independently of origin) of fisheries products and 3.6% of EC imports of fisheries products from the candidate countries alone (in terms of value). As regards EC exports, Lithuania imports 0.34% of EC total exports of fisheries products and 4.1% of our exports of these products to CECs candidate countries (in terms of value).

Management of the fishing resources in the Baltic is currently accomplished between EC and Lithuania in the framework of a common body - the International Baltic Sea Fishery Commission (IBSFC). Lithuania has concluded fisheries agreements with Faeroe Islands, USA and Canada. The latter texts do not provide for the exchange of quotas.

### **Current and Prospective Assessment**

Lithuania's fisheries production and foreign trade data, when compared to the corresponding EC figures, are quite low and therefore they should not have a significant impact upon the Community as a whole, in the medium term.

The changeover from state to private ownership of structures has already made some progress. However, although the adaptation period is far from over, it can be seen that the break-up of the ocean fleet has had a profound effect on all branches of the sector. Whether the sector can check its decline before accession is uncertain but it is clear that assistance will be required to deal with the aftermath of this decline and the modernisation of the whole industry.

According to the data available as regards fisheries agreements concluded and Lithuania's membership to international or regional fisheries organisations, no major problems should be expected.

The reduction of the fleet capacity and the modernisation of the whole sector will become the main issues.

It will be necessary for Lithuania to establish a fisheries administration which corresponds to the Community requirements of managing fishing stocks, fishing, fish processing and fish trade, and which is capable of collecting data and co-ordinating the necessary restructuring.

## **Conclusion**

Significant efforts are needed to adapt the sector for accession. The integration of the Lithuanian fisheries sector into the Common Fisheries policy will not cause major problems.

## **Energy**

Main EU energy policy objectives, as reflected in the Commission White Paper "An energy policy for the EU" include enhancement of competitiveness, security of energy supplies and protection of the environment. Key elements of the energy *acquis* comprise of Treaty provisions and secondary legislation particularly concerning competition and state aids, internal energy market (including directives on electricity, price transparency, gas and electricity transit, hydrocarbons licensing, emergency response including security stock obligations, etc.), nuclear energy, as well as energy efficiency and environmental rules. Development of Trans-European Energy Networks and support for energy R&D are other important elements of energy policy. Ongoing developments include liberalisation of the gas sector, energy efficiency *acquis* and the Auto-oil programme.

In the field of nuclear energy, the Community *acquis* has evolved substantially from the original EAEC Treaty to a framework of legal and political instruments, including international agreements. At present, it addresses issues of health and safety, including radiation protection, safety of nuclear installations, management of radioactive waste, investment including EURATOM financial instruments, promotion of research, nuclear common market, supplies, safeguards, and international relations.

The Europe Agreement provides for co-operation to develop the progressive integration of the energy markets in Europe and includes provisions on assistance within the related policy areas. The White Paper preparing CEECs for the internal energy market underlines the need for full application of key internal market directives in combination with EC competition law. As to the nuclear sector, the White Paper refers to nuclear supply safeguards and shipments of nuclear waste.

## **Descriptive Summary**

Lithuania has only limited indigenous energy resources (oil, wood, peat, hydro and geothermal). It relies for 60% on imports (oil, gas, nuclear fuel and also coal) mainly from Russia, but has excess capacity of electricity generation and oil refining (the Maizeikai refinery is the only one in the Baltic region) which allow export earnings.

The energy sector is three to four times less efficient than the EU average due to the heritage of low prices, inadequate policies and obsolete technologies.

Lithuania wishes to link energy networks increasingly to the European Union. A possible future Baltic electricity ring could contribute to such connections but in the short/medium term the country will most likely remain essentially linked to the Russian power system. Its present and future oil terminals play, also for the country's refinery, a regional role. Lithuania is a strategic transit country for oil, gas and electricity supplies to Kaliningrad.

Lithuania operates two large RBMK nuclear reactors (Chernobyl type) at Ignalina, producing 85% of the country's electricity in 1995 and exporting electricity to neighbouring countries. Improvements are ongoing at the plants mainly through the assistance of the Nuclear Safety Account of the ERBD. The assistance is linked to an extensive Safety Report made with support of Western experts. This report provides many recommendations to be implemented by the plant to get the safety Authority license for further operation. The intention is to operate the plant until the limit for channel re-tubing is reached. Re-tubing is precluded by the Nuclear Safety Account Agreement, but the position of the government needs clarification.. A review of the safety report by independent experts insists on the implementation of all urgent recommendations before restart after their present annual shutdown for maintenance. Comprehensive and realistic programmes including closure as necessary have to be agreed upon and implemented in due course. After closure of the reactors, an important decommissioning programme will have to be implemented.

## **Current and Prospective Assessment**

Lithuania's 1994 National Energy Strategy, which is in line with EU-principles, aims at addressing the key issues of the energy sector: security of energy supplies; introducing more competition; protection of the environment and increasing energy efficiency; rehabilitation of the energy infrastructure; and increased co-operation with the other Baltic countries and with the EU. Particularly in the energy sector regional Baltic co-operation is beneficial due to complementarities of the countries concerned.

The competition framework in the energy sector does not yet fulfil the directives of the internal energy market in combination with the application of EC competition law. The law on competition is only partly applicable to the energy sector and the Energy Act, laying down global principles, does not ensure compliance with EC rules. The enactment and implementation of the necessary complementary legislation, which should ensure regulation of the sector, should therefore be stepped up.

The sector is characterised by State dominated monopolies. Oil exploration and production licenses have however been issued to foreign EU-based companies, bringing in the necessary investments, whereas foreign operators are also active in the Lithuanian oil products retail market or gas import.

Energy price increases have been applied, but particularly those for household energy consumption (gas, electricity, heating) do not recover costs.. Accumulation of arrears between the state owned energy company Lietuvos Energija and municipalities had been an impediment to restructuring of the energy sector. However, recent energy sector price liberalisation and decentralisation increase prospects for restructuring of the sector including the privatisation of energy companies.

Lithuania does not fulfil the EC *acquis* on emergency preparedness including the obligation to hold ninety days of oil stocks although work for compliance has started. Both considerable legislative and financial efforts are to be made.

The country will have to make considerable efforts to comply with EC energy efficiency (e.g. labelling appliances, minimum efficiency norms) and environmental (e.g. fuel quality) legislation. In this context, it is not yet clear how the country's refinery, in which major investments are to be made, would function on the saturated European market.

The safety measures recommended in the recently issued safety report, the capability of the Lithuanian regulatory body for nuclear energy (VATESI) to implement the western-style licensing regime need to be strengthened as a priority.

Nuclear fuel is directly imported in manufactured form from Russia, partly in exchange for the electricity exported to Russia. These arrangements seem potentially uncertain and since accession by Lithuania would increase an enlarged EU's dependence on Russia, there could be security of supply concerns. Attempts to diversify nuclear fuel supplies have so far not been successful for technical and economic reasons. The common nuclear materials supply policy of security through diversification of sources will apply to supply contracts concluded after accession. Spent fuel is stored in ponds at the plant site. Future intermediate dry storage is under development. Provision for spent fuel handling and decommissioning is in the process of being included in the electricity tariff structure.

Upon accession, Lithuania needs to comply with the provisions of the Euratom Treaty, in particular with those related to supply of nuclear material, the nuclear common market, safeguards, health and safety and international agreements. Lithuania is not yet party to all international regimes in these fields (notably the Nuclear Suppliers Group and the IAEA scheme for extended reporting on certain nuclear material transfers) or has not yet implemented them fully in its legal order, but draft legislation is under preparation. Lithuania also has a full-scope safeguards agreement with the IAEA. Hence in these areas, no major difficulties in applying Community legislation are expected. The development towards an independent safety authority should be further supported.

## **Conclusion**

Provided that current efforts are intensified, no major problems are foreseen to approximate progressively to the EC *acquis* in the medium term. Of specific importance in the pre-accession period will be the adjustment of monopolies including import and export issues, access to networks, energy pricing, emergency preparedness including the building up of mandatory oil stocks, energy efficiency and environmental norms.

No major difficulties are foreseen for compliance with Euratom provisions. Lithuania has to implement certain international nuclear regimes or implement them in its legal order. The safety of the Ignalina nuclear power plant requires continued particular attention and rapid implementation of the programmed closure of the nuclear power plant and longer term solutions for waste need to be found.

## **Transport**

Community transport policy consists of policies and initiatives in three fundamental areas:

- Improving quality by developing integrated and competitive transport systems based on advanced technologies which also contribute to environmental and safety objectives.
- Improving the functioning of the single market in order to promote efficiency, choice and user-friendly provision of transport services while safeguarding social standards;
- Broadening the external dimension by improving transport links with third countries and fostering the access of EU operators to other transport markets( The Common Transport Policy Action programme, 1995-2000).

The Europe Agreement provides for approximation of the legislation with Community law and co-operation aiming to restructure and modernise transport, the improvement of access to the transport market, the facilitation of transit and the achievement of operating standards comparable to those in the Community. The White Paper focuses on measures for the accomplishment of Internal Market conditions in the transport sector, including such aspects as competition, legislative harmonisation and standards.

## **Descriptive Summary**

Lithuania's ice-free Baltic port meant that it was a significant transit route for trade between the former Soviet Union and the West. As a result, its port developed capacities for particular trades which are no longer fully exploited. The country's role as a transit corridor between Western Europe and Russia, Belarus, the Ukraine and the Central Asian States is however dependent on the state of relations with Russia; these have not always facilitated this traffic, although the current situation is relatively easy and transit traffic started to increase. The establishment of new frontiers with Belarus, Russia (Kaliningrad) and Latvia has also affected the competitiveness of Lithuania as a transit route. Lithuania is therefore investing in improvements to its East-West transport network and to improve border crossing infrastructures at all the new borders, as well as in its ports. The Lithuanian territory is issued by two Pan-European Corridors, as identified at the Pan-European Transport Conference in Crete.

The changes in the Lithuanian economy have led to a sharp decrease in the transport demand since the opening of the country, although transport is taking an increasing share of GDP. At the same time there is an accelerating change in the modal split, with road transport of goods

increasing its share, and railways declining, losing two-thirds of their traffic between 1990 and 1995. Use of private cars has grown very rapidly and it is now dominant in passenger transport, resulting in an increase in congestion in the cities and around them, as well as at certain border crossings.

Although the modal split is not very different from that in some Member States, the competitiveness of railways is handicapped by the poor situation of the track and by the fact that most of the rail network is at Russian track gauge, different from the European one, except one line from Poland to Kaunis.

### **Current and Prospective Assessment**

As regards completion of the internal market, Lithuania has made great efforts to implement the existing Community legislation. To a large extent, the international transport sector in Lithuania already applies rules similar to the Union rules. However, further progress must still be made, particularly on safety and passenger transport by road. Road freight transport will also have to be made compatible with the Community rules, particularly on admission to the profession, driving licences, weights and dimensions and road taxation. In the case of the railways, over the next few years effective application of the existing Community legislation on public service obligations and harmonisation of accounts will have to be monitored. As regards air transport, the rules in force are compatible with the general principles of the Community legislation, although more specific measures must still be adopted.

The Lithuanian authorities have taken account of the objective of developing an integrated and competitive transport system. The two principal constraints in this area will probably be to achieve acceptable safety standards and optimum use of the transport system. Lithuania has made encouraging progress on safety. On the other hand, the objective of a coherent transport system seems harder to achieve. Lithuania will probably have to face a steady increase in road use and to concentrate its efforts on use of rail, despite the handicap of having a different gauge from its Western neighbours.

To improve links with the Union Member States and its neighbours, between 1995 and 1999 Lithuania plans to invest ECU 0.5 billion from its own budget in transport infrastructure used by international traffic, principally the pan-European corridors. This is equivalent to around 1.2% of GDP and should be sufficient.

### **Conclusion**

Lithuania is likely to be able to comply with most of the Community transport *acquis* (air, rail, road, maritime) in the medium term.

Accession appears unlikely to pose significant problems for Lithuania in the transport sector, on condition that adequate attention is given in the pre-accession period to safety improvements (notably in maritime safety), harmonisation of environmental standards in transport (air pollution, noise) and *acquis* implementation for road transport of goods and for railways.

It will also be necessary to make sure that the resources necessary to lay the foundation for extension of the future trans-European transport network to the acceding countries are provided. It would also be prudent rapidly to reinforce Lithuania's administrative structures, including the supervisory bodies, for example for safety.

### **Small and Medium Enterprises**

EU enterprise policy aims at encouraging a favourable environment for the development of SMEs throughout the EU, at improving their competitiveness and encouraging their Europeanisation and internationalisation. It is characterised by a high degree of subsidiarity. The complementary role of the Community is defined and implemented through a Multiannual Programme for SMEs in the EU. This programme provides the legal and budgetary basis for the Community's specific SME policy actions. The *acquis* has so far been limited to recommendations on specific areas, although legislation in other sectors also affects SMEs (e.g. competition, environment, company law).

The Europe Agreement provides for co-operation to develop and strengthen SMEs, in particular in the private sector, inter alia through provision of information and assistance on legal, administrative and tax conditions. The White Paper contains no specific measures.

### **Descriptive Summary**

In Lithuania, 65% of joint stock companies are small and medium-sized enterprises (SMEs) with have less than 50 employees, while only about 12% have more than 250 employees. SMEs are concentrated in the wood industry, the food industry, the clothing and fur industry, the publishing and printing industry, and in non-metallic mineral products. Since 1995, small scale privatisation has been comprehensive.

In its policy document, the SME Development Programme, (1995), the government provides for a wide range of services directed at SMEs, such as export promotion, training, and incentives for foreign capital. The Law on Small Enterprises of 1991, amended in 1995, grants a tax reduction of 70% for the first two years of operation of a company to firms employing up to 50 persons.

Amongst the structures for SME support, six Business Advisory Services Centres provide counselling and training to start-ups and to self-employed entrepreneurs.

### **Current and Prospective Assessment**

There is a specific programme aimed at SME development in Lithuania and the basic support structures for SMEs are in place. There is however, a need for further strengthening of the support structures as well as further measures aimed at simplifying the legal and administrative environment in order to make it more "SME friendly". Efforts should also be directed towards the improvement of SME's access to financing.

The on-going efforts to strengthen the SMEs during the pre-accession period will therefore need to be continued.



## Conclusion

There are no problems regarding Lithuania's integration specific to SMEs.

## 3.5 Economic and Social Cohesion

### Employment and Social Affairs

Community social policy has been developed through a variety of instruments such as legal provisions, the European Social Fund and actions focused on specific issues, including public health, poverty and the disabled. The legal *acquis* covers health and safety at work, labour law and working conditions, equal opportunities for men and women, social security co-ordination for migrant workers and tobacco products. Social legislation in the Union has been characterised by laying down minimum standards. In addition, the social dialogue at European level is enshrined in the Treaty (Article 118B), and the Protocol on social policy refers to consultation of the social partners and measures to facilitate the social dialogue.

The Europe Agreement provides for approximation of the legislation with Community law and co-operation on improving standards of health and safety at work, labour market policies and the modernisation of the social security system. It also provides for Community workers legally employed in Lithuania to be treated without discrimination on grounds of nationality as regards their working conditions. The White Paper provides for measures for approximation in all the areas of the *acquis*.

### Descriptive Summary

The social dialogue takes place between four major trade unions with regular contacts to the European Trade Union Confederation (ETUC) and several employers' organisations which are not members of the Union of Industrial and Employers' Conference of Europe (UNICE). There are close to 80 trade unions in Lithuania which complicates the question of representation. The tripartite social dialogue appear to work well, while bipartite negotiations need to be developed further.

The level of unemployment was about 6,2 % in 1996 according to ILO methodology. However, this figure is likely to conceal considerable hidden unemployment. Regional and structural disparities are substantial. The already high proportion of agricultural unemployment has grown over recent years to 25%.

Lithuania has developed a regionalised employment service to conduct labour market policies. Lithuania should be encouraged to further develop labour market institutions appropriate for integration into the European single market.

Lithuania's social security system underwent considerable changes in 1990 and 1991, but further reform is needed to strengthen the administrative structures and to develop, for instance, social insurance. Although social security is public, various private security schemes exist alongside. A pension reform introducing a pension fund is presently on the

table. Expenditure on social security was about 10% of GDP in 1995 and has increased considerably over the last few years. It is mainly financed by social tax which is largely paid by employers. Continued efforts are required to ensure that measures of social protection are developed.

The health system in Lithuania has to be significantly improved.

### **Current and Prospective Assessment.**

In 1993, Lithuania adopted a new Labour Protection Act which lays down the principles for the protection of health and safety at work and which has been modelled on the EC framework directive. Many of the specific measures have still not been introduced. They are in the course of being taken or readapted to the new strategy. The Lithuanian Labour Inspection Services are in the starting phase now as regards the implementation of the new inspection structure. Appropriate independence in compliance with ILO convention 81 has to be granted to existing inspection structures.

On labour law, Lithuania is developing a system which is generally in compliance with EU requirements. A draft law to protect employees interests in the event of insolvency of the employer is under preparation. Some amendments might be needed to bring provisions on work contracts and the protection of workers in case of a transfer of the undertaking in line with EC rules. The information and consultation of workers on company level as requested by a number of EC Directives should be strengthened. An Act to reinforce the information and consultation right is under preparation.

On equal opportunity, the basic provisions of EC non discrimination law between women and men are covered by Lithuanian legislation. The non discrimination principle is not always respected, particularly in the field of equal pay for equal work and in gender based advertising. The difference in pay between women and men is considerable.

Concerning the right to the free movement of workers, there would appear to be no obstacles to prevent Lithuania from being able to implement the provisions of the *acquis* in this area. The introduction of the right to free movement will however require changes in the national law, particularly as regards access to employment and a treatment free from discrimination on grounds of nationality.

In the field of social security of migrant workers, accession does not, in principle, pose any major problems, although some technical adaptations will be necessary. More important is the administrative capacity to apply the detailed co-ordination rules in co-operation with other countries. It is not clear whether Lithuania has the administrative structures required to integrate into the co-ordination system. A great deal of further planning, preparation and training will be necessary in order to prepare their administration for the tasks of co-ordination.

The Directives on tobacco, respectively on the warning labelling of cigarette packages and the maximum tar content have been transposed to the Lithuanian legislation.

## **Conclusion**

Social reform should be pursued, and the public health system to be significantly improved. In addition, the social dialogue needs to be further developed. Lithuania will need to make substantive efforts to ensure the realignment of its legislation with EC requirements in areas such as health and safety, labour law and equal opportunities and to continue to develop the structures needed to ensure the effective implementation of legislation. Provided Lithuania pursues its efforts, it should be possible to take on the obligations of EU membership in the social area in the medium term.

## **Regional Policy and Cohesion**

In accordance with Title XIV of the Treaty, the Community supports the strengthening of cohesion, mainly through the Structural Funds. Lithuania will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

The Europe Agreement provides for co-operation on regional development and spatial planning, notably through the exchange of information between local, regional and national authorities and the exchange of civil servants and experts. The White Paper contains no specific provisions.

## **Descriptive Summary**

In 1995, Lithuania's national GDP per capita was at some 24 % of the EC average. The main income disparities exist between the cities and the country side which cannot be quantified due to the lack of regionalised information for GDP.

National unemployment levels have increased, since independence, up to 8% in 1996. Regional disparities of registered unemployment range from 1.7% in Kaunas to 10.3% in Silales and recent estimates have stressed they are growing.

For the time being, Lithuania has a rather complete range of problems of regional development :

- low quality of infrastructures, (they were only satisfactory "by Soviet standards") their condition is now considered as critical, particularly in rural areas;
- pockets of industrial decline or urban crisis;
- conversion of the activities of defence;
- general decrease of incomes in rural areas (where the population is still numerous).

Lithuania has a less concentrated urban structure than its two Baltic neighbours. The urban functions are shared between Vilnius, Kaunas and Klaipeda. The previous planning systems tried to develop this multipolarity by promoting other secondary cities.

There is no structure of independent regional government in Lithuania. The 10 counties (average population: 371000 inhabitants) are the newly formed higher territorial administrative units. As part of the State administration, they are led by an appointed

governor, who implements the state policy. However it is still highly centralised and there is no self governing body at county level.

Under the law on the territorial administrative units of the Republic of Lithuania, 56 self governing municipalities (average population: 66300 inhabitants) have been established, coming from a grouping of around 500 villages in rural areas into 44 new units and 12 urban municipalities.

There is currently no regional development policy in Lithuania. A National Strategy Plan is under preparation. Yet it deals foremost with spatial planning.

Regional policy instruments in the strict sense do not exist in Lithuania. The share of Lithuania's total development related expenditure which could constitute counterpart funds to the EC structural policy cannot be determined. Therefore, Lithuania's co-financement capacity cannot presently be evaluated with sufficient reliability.

### **Current and Prospective Assessment**

According to available information, the Lithuanian authorities do not appear to have considered the issue of implementing community regional policy on their territory and do not intend to create a regional policy in the short term.

Consequently, Lithuania's progress in establishing the administrative and budgetary procedures necessary to channel the EC structural funds is clearly limited. Indeed, most of the necessary administrative structures and instruments still need to be created if Lithuania is to be ready to implement EC structural programmes within its territory.

### **Conclusion**

Lithuania's progress in establishing a differentiated development policy addressing rising regional disparities is clearly limited. A general framework for an integrated development strategy which, given its size, could constitute an integrated part of a national development strategy, should be introduced. Moreover, Lithuania's administrative capacity to manage integrated regional development programmes clearly needs to be improved. Significant reforms thus need to be implemented before Lithuania can apply the Community rules and to channel effectively the funds of the EC structural policies.

## **3.6 Quality of Life and Environment**

### **Environment**

The Community's environmental policy, derived from the Treaty, aims towards sustainability based on the integration of environmental protection into EU sectoral policies, preventive action, the polluter pays principle, fighting environmental damage at the source, and shared responsibility. The *acquis* comprises approximately 200 legal acts covering a wide range of matters, including water and air pollution, management of waste and chemicals, biotechnology, radiation protection, and nature protection. Member states are required to

ensure that an environmental impact assessment is carried out before development consent is granted for certain public and private projects.

The Europe Agreement stipulates that Lithuanian development policies shall be guided by the principle of sustainable development and should fully incorporate environmental considerations. It also identifies environment as an area for bilateral co-operation, as well as for approximation of legislation to that of the Community.

The White Paper covers only a small part of the environmental *acquis*, namely product-related legislation, which is directly related to the free circulation of goods.

### **Descriptive Summary**

The environmental situation in Lithuania is less severe than elsewhere in the region. Decline in industrial and agricultural activity has led to a reduction in pollution levels. Water pollution remains the most acute environmental problem, but other problem areas include waste management and disposal.

River, ground and coastal water pollution from urban wastes and agriculture is particularly important. However, the significant investments in sewage treatment plants in all the major cities should radically reduce polluting discharges to water by the year 2000. In the area of waste management, particular concern is caused by hazardous wastes which are currently dumped in inadequate municipal landfills or burnt in incinerators that do not meet EU emission standards. Air pollution, mainly originating from industrial and other stationary sources has been declining, but emissions from mobile sources have been increasing. Overall the situation with respect to air pollution is relatively good. Lithuania possesses areas of great natural value, which would represent an asset to the environment of an enlarged Union.

The Environmental Protection Act of 1992 is Lithuania's main environmental framework Act, and a National Environment Strategy was adopted in 1996. The polluter-pays-principle is also embodied in two tax laws and the prevention principle is set out in the draft Law on Environmental Impact Assessment. A Law on Charges for the Contamination of the Environment (air pollution), including charges on pollution from mobile sources into the atmosphere was adopted in 1991. In the area of nature conservation, various types of protected areas are governed by the Law of Protected Territories. An important part of sectoral environmental legislation including standards and lower level regulations is inherited from the Soviet era, although this should change over 1997. Economic instruments are being introduced, with tax differentials for unleaded petrol, and the development of a revolving environmental fund, based on pollution fees and fines.

Lithuania has ratified both the 1974 and the 1992 Helsinki Conventions on the protection of the Baltic sea, and has shown commitment to cleaning up Baltic Sea "hot spots".

### **Current and Prospective Assessment**

Lithuania has made considerable progress in adapting its environmental legislation to EU standards and also by way of implementing secondary legislation and strengthening the

necessary institutions. However, the country still has much to do to achieve either formal or effective compliance.

In the water quality sector, standards for pollutants have been prepared on the basis of comparable EC Directives for water management. Lithuania has recently established new air pollution standards for power generation combustion plants and new air quality standards are under elaboration. In the waste sector, new legislation is being introduced in accordance with the *acquis* and an action plan on hazardous waste is under preparation. In the area of nature conservation, a number of draft laws under discussion are adapted to the provisions of the Community Birds and Habitats Directives. While Lithuania has adopted a framework act on nuclear safety, this needs to be supplemented by legislation on radiation protection and radioactive waste management, and emergency planning. In this area there is at present generally a lack of safety culture. Particular attention should be given to the quick transposition of framework directives dealing with air, waste, water and the Integrated Pollution Prevention and Control (IPPC) directive, as well as the establishment of financing strategies for legislation in the water, air and waste sectors requiring major investments.

Lithuania aims at completing transposition of the White Paper legislation by the year 2000. As regards remaining environmental legislation, the country is fairly advanced in preparing a detailed accession strategy, which should be ready during 1997.

In order to achieve effective compliance to the EC *acquis*, Lithuania will have to greatly increase environmental investment, and strengthen implementation and enforcement structures and instruments, as well as public awareness and participation. An important bottleneck which needs to be addressed is the lack of human resources with expertise to conduct the approximation process. The country's environmental accession strategy should include implementation timetables for meeting the EC environmental *acquis*, starting amongst others with implementation of the framework and IPPC directives mentioned above.

## **Conclusion**

With current trends and the recent acceleration in legislative and policy reforms, transposition of the environmental *acquis* in Lithuania could be achieved in the medium term. However, effective compliance with a number of pieces of legislation (e.g. drinking water, aspects of waste management and air pollution legislation) could only be expected in the long term, and will require a significant increase in environmental investment, as well as a major effort to reinforce administrative capacity.

## **Consumer Protection**

The Community *acquis* covers protection of economic interests of consumers (including control of misleading advertising, indication of prices, consumer credit, unfair contract terms, distance selling, package travel, sales away from business premises and timeshare property) as well as general safety of goods and the specific sectors of cosmetics, textile names and toys.

The Europe Agreements provides for approximation of the legislation with Community law and co-operation with a view to achieving full compatibility between the systems of consumer protection in Lithuania and the Community. Stage I measures of the White Paper focus on

improving product safety, including cosmetics, textiles and toys, and on the protection of the economic interests of consumers, notably measures on misleading advertising, consumer credit, unfair contract terms and indication of prices. Stage II measures relate to package travel, sales away from business premises and time-share property. New EU legislation which has been adopted recently (distance selling) or will be adopted soon (comparative advertising, price indication) will also need to be taken into account.

### **Descriptive Summary**

The Consumer Protection Act was adopted by the Lithuanian Parliament in 1994. Although it provides a basis for protecting consumer rights, it is not adequate to implement EC legislation. The draft of a new Consumer Protection Act is now under discussion. It introduces new provisions and amendments to ensure that Lithuania can meet EC requirements for consumer affairs.

Overall responsibility for consumer policy and affairs resides with the State Competition and Consumer Protection Office. The role of the Office is to co-ordinate the activities of state and public institutions in the field of consumer protection. In 1989, Lithuania established an independent consumers' association which brings together a number of consumer groups.

### **Current and Prospective Assessment**

Consumer protection policy has been a priority for the Lithuanian government in recent years. The new draft version of the Consumer Protection Act aims at implementing different EC directives, such as unfair terms, package travel, sales away from business premises and consumer credit. In addition, there are separate drafts under preparation concerning the indication of prices, package travel, and general safety of goods and services. There appears to be no planned initiatives for timeshare property.

Although the Consumer Act contains some provisions relating to product safety, the subject is not covered fully according to EC legislation. A draft on a separate General Product Safety Act is under preparation which will help alignment with EC standards. For sectors such as the safety of toys, textile names and cosmetics, there are occasional piecemeal provisions but no specific measures to protect the consumer.

The development of a strong and independent consumer movement, sustained by public authorities, will need to accompany the introduction of the *acquis*.

### **Conclusion**

There are important gaps in Lithuanian consumer protection legislation compared to EC Directives, particularly on general products safety. Although Lithuania has created the institutional structures to implement legislation on consumer protection, enforcement of existing legislation appears to be a pressing problem. But provided that the harmonisation efforts are continued, Lithuania should be ready to take on the EC *acquis* on consumer protection in the medium term.

## 3.7 Justice and Home Affairs

### The Present Provisions

The Justice and Home Affairs (JHA) *acquis* principally derives from the framework for co-operation set out in Title VI (Article K) of the Treaty on European Union (TEU), "the third pillar", although certain "first pillar" (EC Treaty) provisions and legislative measures are also closely linked.

The EU JHA framework primarily covers: asylum; control of external borders and immigration; customs co-operation and police co-operation against serious crime, including drug trafficking; and judicial co-operation on criminal and civil matters. The TEU stipulates key principles upon which such co-operation is based, notably the European Convention on Human Rights and the 1951 Geneva Convention on the Status of Refugees. It is also based implicitly on a range of international conventions concerning its fields of interest, notably those of the Council of Europe, the United Nations and the Hague Conference. The legislative content of third pillar *acquis* is different from the first pillar; it consists of conventions, joint actions, joint positions and resolutions, (including the agreed elements of draft instruments which are in negotiation). A number of EU conventions (including the 1990 Dublin Convention, and conventions relating to extradition, fraud and EUROPOL) have been agreed by the Council and are now in the process of ratification by national Parliaments; several other conventions, including one on external frontiers are in various stages of negotiation in the Council. The JHA *acquis* involves a high degree of practical co-operation, as well as legislation and its effective implementation.

### The New Treaty

For many of the above matters, the entry into force of the Treaty resulting from the Amsterdam Inter-Governmental Conference will mark the end of the current cooperation framework.

Reiterating the objective of developing the Union into an "area of freedom, security and justice", the new Treaty brings these matters, including the free movement of persons, asylum and immigration, into the Community's sphere of competence.

On the free movement of persons in particular, the new Treaty provides for the incorporation of the Schengen *acquis* into the framework of the European Union and binds any candidate for EU membership to accept that *acquis* in full.

With regard to matters remaining within the cooperation framework, i.e. policing and criminal justice, the new Treaty provides for the reinforcement of the cooperation system.

### The Europe Agreement and the White Paper

The Europe Agreement includes provision for co-operation in the fight against drug abuse and money laundering.



The White Paper does not deal directly with third pillar subjects, but reference is made to first pillar matters such as money laundering and freedom of movement of persons which are closely related to Justice and Home Affairs considerations. Reference is also made to the Brussels and Rome conventions.

## **Descriptive Summary**

### General Preconditions for JHA Co-operation

Lithuania joined the Council of Europe in 1993 and has ratified the most important instruments concerning human rights. The Constitution provides for an independent judiciary according to the rule of law.

Institutional reform of JHA institutions is underway, although there are still important human resource and management systems constraints. Progress has been made in all areas of the third pillar. Lithuania has not yet signed the 1990 data protection convention, but parliament adopted a data protection law in July 1996 designed to meet the requirements of the convention and the EC Directive. (See also separate section on Single Market).

### Asylum

Lithuania ratified the Geneva Convention and the 1967 Protocol in January 1997. This ratification brings into force the law on refugees, adopted by the Parliament in 1995. The processing of asylum applications began in May 1997. This law has been designed to be generally in line with EU provisions and includes for example the safe third country provision. A key feature of the Lithuanian practice is the screening procedure for migrants (at the Foreigner Registration Centre in Pabrade) before potential refugees are admitted to the refugee centre at Rukla. Facilities for refugee reception and support are now being built up, with support from EU countries (notably Denmark) and UNHCR and IOM.

### Immigration/Border Control

There is a growing problem of illegal migrants, mostly from Asia, aiming to transit Lithuania to the west. Organised gangs are involved in attempts to traffic illegal immigrants through Lithuania to Poland. In early 1997 some 600 such migrants and potential refugees were being held at the Registration Centre pending resolution of their status. Lithuania has visa-free agreements with the UK, Ireland, Denmark, Norway, Sweden, Finland, several central European countries, and third countries, as well as Estonia and Latvia, with which it operates a visa free space. It is adopting the EU third country list for which visas are required. Lithuania's citizenship and aliens legislation generally respects democratic norms. Lithuania has readmission agreements Estonia, Latvia, Denmark, Sweden, Finland, Switzerland, Norway and the Ukraine. Lithuania is seeking to conclude, but has not yet reached, readmission agreements with Belarus and Russia. Border management with Belarus and Russia is still inadequate, with the border not being effectively demarcated. The border guard suffers from institutional and human resource deficiencies and a shortage of surveillance equipment.

### Police Co-operation

Organised crime is active in Lithuania in particular in the fields of smuggling of human beings, weapons, alcohol and tobacco, money laundering and financial fraud; violence and extortion are used, notably against companies operating in the "grey market" (evading taxes). The police service and other law enforcement bodies have been given extraordinary powers of detention when dealing with organised crime. The Government has recently adopted a programme on crime prevention, including plans to amend the criminal and criminal procedure codes, the code of conduct of civil servants, and to strengthen the law on money laundering. Reorganisation of the key institutions is also underway. Lithuania has ratified the 1990 Money Laundering Convention. (See also separate section on Single Market). Lithuania experiences no internal terrorist threat. It has signed the key international terrorist conventions and has adopted appropriate legal and administrative measures against terrorism.

### Drugs

Opiates, cannabis and cocaine are occasionally found.

Domestic demand and production are a growing concern although drug abuse is still limited. Lithuania is party to most of the main international drugs conventions and plans to ratify the others soon. A State Drugs Control Commission has been established to develop strategy and prevention policy for drugs abuse and a Drug Control Unit is part of the police force.

### Judicial Co-operation

Reform of the judiciary and preparation for EU accession are still at an early stage, but increasingly progressing. Lithuania has ratified the main criminal conventions and is revising its criminal and civil code to allow for judicial co-operation. Lithuania has not ratified any of the Hague Conventions, but legislation is in preparation for the key ones. It is planned to apply for accession to the Lugano Convention and legislation ensuring compatibility with the Rome and Brussels Conventions is under preparation.

### **Current and Prospective Assessment**

Lithuania has made progress in putting a legislative and implementation framework in place, in line with the EU *acquis*. The Government's priorities for the near future are focusing on illegal immigration, developing effective border control systems, and tackling organised crime.

The main institutional problems lie in the field of resource constraints and the impact of organised crime and institutional corruption. The new Government is committed to take action in these areas and is currently reviewing its policy and institutions in the JHA sector. Some officials have experience of co-operation with EU counterparts; the Government is concerned to promote the development of such expertise.

## **Conclusion**

Lithuania has made some progress in important areas such as asylum. Nevertheless, given the scale of the problems facing Lithuania in the JHA field, a significant, sustained effort will be needed if it is to meet the justice and home affairs *acquis* (present and future) in the medium term.

## **3.8 External Policies**

### **Trade and International Economic Relations**

The *acquis* in this field is made up principally of the Community's multilateral and bilateral commercial policy commitments, and its autonomous commercial defence instruments.

The Europe Agreement includes provisions in several areas requiring parties to act in accordance with WTO/ GATT principles, or other relevant international obligations.

The White Paper includes no provisions in this field.

### **Descriptive Summary**

Lithuania has developed an open, trading economy and is expected to become a member of the World Trade Organisation (WTO) in 1998. Lithuania has observer status in the Government Procurement Agreement and, upon accession would have to comply with the obligations of the plurilateral WTO agreements to which the Community is a party.

At present Lithuania does not maintain quantitative restrictions on any textile or clothing products. On accession the Community textiles policy would be extended to Lithuania; any Community restrictions still maintained at the date of accession would require adjustment by an appropriate amount to take account of Lithuanian accession.

### **Current and Prospective Assessment**

On accession Lithuania would have to apply the Community's Common Customs Tariff, and the external trade provisions of the Common Agricultural Policy. The post Uruguay Round weighted average level of most favoured nation duties for industrial products will be 27.5% for Lithuania and 3.6% for the Community.

In its relations with international organisations Lithuania should ensure that its actions and commitments respect the Europe Agreement and ensure a harmonious adoption of its future obligations as a member of the Community.

On accession Lithuania would become party to the Community's various preferential agreements. Preferential agreements between Lithuania and third countries would, in general, have to be terminated on accession.

In the area of trade in services and establishment, Lithuania has sought to keep its multilateral commitments under GATS as consistent with those of the Community as possible during its negotiations to join the WTO. It should be possible to resolve any remaining, significant inconsistencies.

On accession Lithuania would have to repeal national legislation in the field of commercial defence instruments, and EC legislation would become applicable there.

Experience from previous accessions has shown that the automatic extension of existing anti-dumping measures to new member states prompts third countries to raise problems in terms of the compatibility of this approach with relevant WTO provisions. It has also shown that accession creates a potential for circumventing measures adopted by the Community under the commercial defence instruments. This happens when, prior to accession, substantial quantities of the products subject to measures are exported to the territory of the future member state and, on accession, are automatically released for free circulation in the enlarged customs territory. These two problems would have to be addressed during Lithuania's pre-accession phase.

Lithuania is not a member of any non-proliferation regime, although it has expressed interest in membership. The Lithuanian control list of dual-use items is a direct translation of the Community control list. Arms export is also controlled. There appears to be no obstacle in principle to Lithuania applying EC legislation in this field.

## **Conclusion**

Lithuania should be able to meet Community requirements in this field in the medium term.

## **Development**

The *acquis* in the development sector is made up principally of the Lomé Convention, which runs until early 2000.

Neither the Europe Agreement or the White Paper include provisions in this field.

## **Descriptive Summary**

Lithuania has no preferential trade agreements with ACP countries, and no GSP schemes apply. No duty free access is granted by Lithuania.

Lithuania has no budget for development aid.

## **Current and Prospective Assessment**

On accession, Lithuania should apply its preferential trade regime to the ACP States and participate, together with the other member states, in financing the European Development Fund (EDF), which provides financial aid under the Lomé Convention.

Lithuania could confront some difficulties in applying the present Lomé trade regime integrally from the date of accession.

Normally, new member states accede to the Lomé Convention by means of a protocol on the date of their accession to the EU.

### **Conclusion**

Lithuania will need to make significant progress if it is to meet EU requirements in this field within the next few years.

### **Customs**

The *acquis* in this sector is the Community Customs Code and its implementing provisions; the EC's Combined Nomenclature; the Common Customs Tariff including trade preferences, tariff quotas and tariff suspensions; and other customs-related legislation outside the scope of the customs code.

The Europe Agreement covers the establishment of a free trade area with the Community and the progressive removal of customs duties on a wide range of products, according to clear timetables starting from the date of entry into force of the agreement.

The White Paper includes in Stage I, measures to consolidate and streamline the free trade established under the Europe Agreement, including legislation compatible with the Customs Code, Combined Nomenclature, etc. Stage II concerns the adoption of the full Community legislation, with a view to joining the customs union upon accession.

### **Descriptive Summary**

On accession the Lithuanian customs authorities would be required to assume all the responsibilities necessary for the protection and control of their part of the EU's external border. Besides the provisions on indirect taxation, they would be responsible for the implementation and enforcement at the external border of the Community's common commercial policy, the common agricultural policy, the common fisheries policy etc.

Lithuania's capacity fully to apply the *acquis* presupposes the possibility to adopt and implement the Community legislation; and the existence of an adequate level of infrastructure and equipment, in particular in terms of computerisation and investigation means and the establishment of an efficient customs organisation with a sufficient number of qualified and motivated staff showing a high degree of integrity. Lithuania has experienced severe problems with corruption in the customs administration; it instituted important measures, in March 1997, to combat this.

With the support of the technical assistance provided by customs programmes, Lithuania has drafted a Customs code harmonised with the Community's customs code which will enter into force on 1 January 1998. At present, the legislation in force as well as the customs-related legislation outside the scope of the customs code is not EC compatible

Lithuania has almost aligned its national goods nomenclature to the Community's Combined Nomenclature. However, at this stage the Lithuanian administration does not have an integrated tariff which will make the comparison of the Lithuanian tariff rates with the Common Customs Tariff rates difficult. However, Lithuania operates a Binding Tariff Information system similar to the one applied in the Community.

Lithuania adopted on 1 April 1997 the new system of cumulation of origin between European countries.

Lithuania has applied to become a contracting party to the EC/EFTA Common Transit Convention and the Single Administrative Document Convention. A Community Task Force is assisting Lithuania in this field. Accession to the Transit Convention will require a period of considerable further preparation.

### **Current and Prospective Assessment**

Lithuania would need to adapt its national procedures to the Community legislation regarding suspensive arrangements and customs procedures with economic impact. At the moment of accession, some technical transitional arrangements would be needed, notably for operations beginning before the date of accession but which are concluded after that date.

It will be important that the Lithuanian customs authorities can participate appropriately in the various computerised systems necessary for the management, in the customs union/internal market, of the customs and indirect tax provisions, as well as the computerised systems for mutual administrative assistance in customs, agricultural and indirect tax matters. Computerisation is at a very preliminary stage of development in Lithuania.

Lithuania would need on accession to dismantle customs controls at the borders with EU member states and with other acceding countries. The resources needed for the reinforcement of the border posts along its frontiers with non-EU member states should be taken into account in its strategic planning.

### **Conclusion**

Lithuania will need to continue major efforts to align its organisation and staff to the duties that have to be carried out by a modern customs administration. If it does so it may be able to meet EC requirements in the medium term.

### **Common Foreign and Security Policy**

Since regaining its independence in 1991, Lithuania has orientated its foreign and security policy towards the EU and NATO. Lithuania has a constitutional act of non-alignment to post-Soviet Eastern alliances of 8 June 1992. This act forbids the government from joining any alliance "formed on the basis of the former USSR" and also forbids the stationing of any forces from the former USSR on Lithuanian territory. Lithuania has been an active participant

in the arrangements provided for under the Union's Common Foreign and Security Policy and when invited has supported EU actions within that framework.

Lithuania is a member of the UN, OSCE, Council of Europe and many other international organisations. It is an associate partner of WEU, participates in the NACC, the PfP and has made clear its desire to become a member of the WEU and NATO as soon as possible. It has sent troops to participate in IFOR/SFOR. It also participates in a number of regional organisations including the Council of Baltic Sea States, the Baltic Council and intends joining CEFTA.

There are no territorial disputes between Lithuania and any member state of the Union, although a formal delineation of the maritime border with Sweden remains to be agreed. Neither does Lithuania have any major disputes with neighbouring associated countries. Relations with Poland have improved significantly in recent years and are based on the 1994 Treaty on Friendly Relations and Good Neighbourliness which forms part of the Stability Pact. Both countries are in the process of establishing a joint peacekeeping unit. Negotiations concerning the delineation of the maritime border with Latvia are continuing and have reached an advanced stage.

Although more than 30 treaties and agreements have been signed between Lithuania and Russia, there remain disagreements concerning the demarcation of the sea and land borders: the Russian territory bordering Lithuania is the Kaliningrad oblast. The question of military transit by rail between Russia and Kaliningrad through Lithuania is regulated by an agreement renewable on an annual basis.

Relations with Belarus are based on the Agreement on Good Neighbourly Relations and Cooperation and the Agreement on the State Border. Both Agreements entered into force on 26 April 1996. The precise delineation of the border remains to be agreed.

Lithuania has a new and small diplomatic service with limited experience and resources. In due course, it should nevertheless be able to play a full role as a member of the Union. It maintains 38 representations abroad and employs some 325 diplomatic staff.

Lithuania supports non-proliferation of nuclear, biological and chemical weapons and is a signatory to all relevant international arms control agreements. The small Lithuanian armed forces, which are being brought under democratic control, are being reorganised to meet NATO requirements. Lithuania is a member of the Baltic peacekeeping battalion (BALTBAT) and participated in a major PfP exercise (Baltic Challenge) in 1996. Lithuania has no defence industrial base.

In the statement accompanying its application for membership of the Union on 8 December 1995 and in its replies to the Commission in July 1996, the Lithuanian government confirmed that it was ready and able to participate fully and actively in the CFSP of the Union.

The assessment of Lithuanian foreign and security policy to date leads to the expectation that as a member it could fulfil its obligations arising under the CFSP.

### **3.9. Financial Questions**

#### **Financial Control**

The implementation of Community policies, especially for agriculture and the Structural Funds, requires efficient management and control systems for public expenditure, with provisions to fight fraud. Approximation of legislation is moreover needed to allow the system of "own resources" to be introduced, with satisfactory provision for accounting.

The Europe Agreement provides for cooperation in audit and financial control, including technical assistance from the Community as appropriate. The White Paper includes no measures in this field.

#### **Descriptive Summary**

The State Control (SC) of the Republic of Lithuania, directly accountable to the Parliament, is the supreme (external) audit institution similar in status to the Court of Auditors. The activities of the SC are regulated by the 1995 Law on State Control. The SC takes an active part in international bodies of supreme audit institutions.

The SC supervises, by a posteriori control, the legality of holding and use of State property and the application and use of the State Budget. The Controller General presents to Parliament a report and opinion on the annual account of the State Budget. The Parliament may also request the SC to carry out special investigations.

Presently there is no central internal control body. Each minister is responsible for financial control within his ministry. Internal control units exist within 12 of the 18 Ministries, however, they do not entirely meet internationally accepted standards. In the absence of a single central authority established especially for fighting fraud, the Ministry of Finance fulfils this responsibility.

Internal control within the Ministry of Finance and the customs organisation is ensured by the State Tax Inspection and the Customs Department. The customs administration is responsible for the collection of import duties. Within this administration the import duties are administrated by the tax divisions. They are responsible for accounting for import duties, securing recovery of unpaid import duties and dealing with investigations and appeal procedures.

By the time that internal and external control measures will function in accordance with international standards, it is envisaged that both national and Community funds will be controlled and protected against fraud in the same way.

#### **Current and Prospective Assessment**

There seems to exist a weakness of internal control institutions (insufficient number of qualified auditors). However the external control system appears to respond to generally accepted standards.



The required instruments for a successful implementation of EU policies will need to be established. Special attention must be given to the development of efficient internal control mechanisms.

The new Customs Code, which will come into force on 1 January 1998, seems to have identical provisions on the customs debt as Regulation 2913/92. Further cooperation with the Commission will be needed on the accounting procedure.

## **Conclusion**

The field does not appear to present major obstacles for accession in the medium term, although considerable preparations will still be necessary to establish the necessary management and control mechanisms.

## **Budgetary Implications**

The communication entitled "Agenda 2000" sets out the overall financial framework which should accommodate the budget impact of any future enlargements in the medium term. This is to ensure that any enlargement is compatible with proposed Community policy guidelines within reasonable budget limits.

As things stand, it would be difficult, not to say premature, to attempt precise country-by-country evaluations of the budgetary implications of each of the applicants joining the Union. Exactly what the impact would be may vary considerably depending on a whole series of factors:

- the date on which the applicant country joins;
- developments in Community policies between now and then, in particular the decisions to be taken on further reform of the common agricultural policy and new guidelines for structural measures;
- the progress made by the applicant countries in terms of growth, increasing their competitiveness and productivity and their ability to absorb the *acquis*;
- the transitional measures that will come out of the negotiations.

Only a few orders of magnitude for certain budget categories and an overall estimate can be given purely as a guide.

## **Expenditure**

If the common agricultural policy were to be reformed along the lines suggested by the Commission, once the reforms were fully up and running and in terms only of market intervention measures, Lithuania's accession would give rise to additional expenditure in the order of 1 to 2% in relation to likely expenditure on the present fifteen Member States.

After a phasing-in period, the allocations for structural measures in Lithuania should total not more than around 4% of Lithuania's GNP.

Application of the other internal Community policies in the new member countries would be likely to involve additional expenditure probably in excess of their relative proportion of

Union GNP, since for certain policies the additional implementing costs also depend on the target population, the geographical area covered or the number of Member States involved in the coordination and harmonisation measures. The GNP of Lithuania is currently approximately 0.1% of total Union GNP.

By contrast, Lithuania's accession should not involve significant additional expenditure as far as Union external action is concerned.

It should not be forgotten that when an applicant country joins, the Community budget will no longer have to bear the costs of grants the country was eligible for under the various pre-accession programmes, such as PHARE.

In light of the above, the estimated costs in the three areas mentioned arising from Lithuania's accession should fall within the range of, annually, ECU 0.7 to 0.9 billion in 2005-06 (at constant 1997 prices).

### **Revenue**

Assuming full application of the own resources system, the new members' contributions to the Community budget should, in terms of total GNP and VAT resources (taking account of the capping rules applying to VAT), be close to the proportion of the Union's GNP they account for, which in Lithuania's case is around 0.1%. Lithuania's portion of traditional own resources will depend on the structure of its trade flows at the time of accession.

To ensure that the own resources are established, monitored and made available in line with Community regulations, Lithuania will have to overhaul its current customs system. In addition, for the purposes of accurately calculating the GNP resource considerable improvements will have to be made to the national accounts to ensure that they are reliable, homogeneous and complete. Improving the statistics will also be essential for drawing up the VAT own resources base, which will mean bringing Lithuania's VAT system fully into line with the Community directives.

## **4 Administrative Capacity to Apply the *Acquis***

The European Council in Madrid in December 1995 concluded that the harmonious integration into the EU of the central and eastern European applicant states would, in particular, require the adjustment of their administrative structures. This chapter examines the current state of the public administration in Lithuania, including relevant aspects of the judicial system, and assesses the current and prospective ability to carry out the functions required of it in a modern, democratic state, with a particular focus on the need to administer matters related to the *acquis*.

### **4.1 Administrative Structures**

A description of Lithuanian constitutional structures, their powers and responsibilities, including those of regional and local government, is given in Chapter 1.

At the central level there are 17 ministries and a Prime Minister's Office. A European Integration Department is part of the Ministry of Foreign Affairs.

A Civil Service Law was approved by the Seimas in 1995. It creates a two-tier civil service: Category A, for political civil servants appointed by the current government, and Category B for permanent civil servants. The new Government has introduced in 1997 high level "experts" in each ministry, thus creating a parallel civil service structure. However, in order to stabilise the system, an amended civil service law is currently under preparation by the government.

The principle of political independence of the civil service is recognised in Lithuania, although senior positions are not always free of party political influence.

18,000 civil servants are employed by central government. Pay and conditions are well below those in the private sector, leading to low morale and motivation.

The reform of the central administration has been a central policy of the current government with comprehensive changes made to the organisation of ministerial responsibilities. The amended civil service law will draw on the conclusions of a policy document prepared in 1996 by the Ministry of Public Administration, a "Concept of Public Administration Reform in Lithuania" which develops a reform strategy, indicating projects, timetable and resources while also proposing organisational structures. The Government of Lithuania set up a Ministry of Public Administration and Local Government Reform in June 1994. It submits proposals to the government in form of State programmes or draft laws on administration reforms. It is in the process of elaborating the training criteria and the state system of civil service training and certification.

Concerning EU matters, an inter-ministerial coordinating committee for European Integration affairs under the Prime Minister's responsibility has been set up, alongside the creation of European Integration units in every line ministry. The Lithuanian Public Administration centre, which trains civil servants mainly on implementation of EU accession related matters, was established in 1993. (See also the section of the Introduction concerning relations between the European Union and Lithuania).

## **4.2 Administrative and Judicial Capacity**

Lithuania was part of the Soviet Union until 1991 and administered under central planning until then. The communist system rejected the primacy of the rule of law and subjugated the law and the administration to the implementation of Party policy. Against this background, both the administration and the rule of law itself increasingly came to be seen by the public as instruments of political control.

The administrative structures are appropriate for an effective administration. The framework for a permanent civil service exists. Despite the important progress which has been made, however, further development of the system will be necessary.

The Lithuanian public administration is constrained by a lack of experience and resources and, at the lower levels, a legacy from the past which tends to hinder the Government's strong efforts at reform. Despite this, the State Control Department and the Prosecutor General are able to function adequately. An important strength in the system, particularly in the context of enlargement, is the Government's commitment to achieving standards compatible with EU membership.

The legal basis for the civil service is adequate. However, it will take sometime for a politically independent civil service fully to develop.

The civil service is over-staffed. The present government has plans to reduce its size. One effect of this should be to release funds for higher civil service salaries. This in turn should help to prevent high staff turnover caused by a "brain drain" to the private sector. As in any public administration, some staff are of a high quality. It is difficult to assess the overall standard, but there are clearly significant deficiencies in many parts of the administration.

Public confidence in the civil service is not assured. Most public contact is with the more junior civil servants in routine administrative jobs; this is not widely considered to provide an attractive advertisement for the Lithuanian public administration. Eradicating corruption in the public administration is a high priority of the present government. There have been dismissals and prosecutions for improper conduct involving the Customs Department and the Public Prosecutors Office.

The present government's intentions in the field of civil service reform are positive. As regards local government reform, Lithuania has achieved good progress. The third wave of reform is on the drawing board, moving one step further along the road to decentralisation at municipality level. It remains unclear, however, at the level of legislation how the local governments should manage their responsibilities. In the local government area, the question of legislation and policy with regard to the divisions between levels of government is the most difficult. Recently, there has been progress in formulating and enforcing appropriate legislation for further decentralisation, with special regard to the issues of municipal property and land ownership as well as to clarify the respective spheres of fiscal control at local level and of the balance between fiscal incomes and state grants.

The administrative structures set up since 1996 for European Integration have already achieved some good results.

#### *Key Areas for the Implementation of the Acquis*

The uniform application of EC law: The effective application of the *acquis* presupposes that the judicial authorities of member states are able to apply the provisions of the Treaty dealing with ensuring the unity and application of the *acquis*, and are able to ensure the proper functioning of the Single Market and Community policies in general. A high quality and well trained and resourced judiciary is necessary for the application

by the courts of EC law, including cases of direct effect, and cases of referral to the European Court of Justice under the terms of Article 177 EC.

The judicial system in Lithuania has important weaknesses, particularly concerning resources, and relevant expertise. Given this situation, the Commission has significant doubts about the ability of the system to assure the effective application of the *acquis*.

Single market: The ability of Lithuania to ensure the correct application of Community requirements in the Single Market, particularly concerning the free movement of goods and services presupposes the existence of highly developed and effective regulatory, standardisation, certification and supervisory authorities, able to act fully in accordance with EC rules. An analysis of these points is made in Chapter 3.1 (under "The Four Freedoms"). Concerning the administrative capacity in respect of free movement of goods the situation in Lithuania is not yet satisfactory. In the field of standardisation, proposed legislation should improve compatibility with the EC system. The Standards Department is however still not an independent body, at variance with EC principles. As regards conformity assessment infrastructure, no quality system certification body exists yet. Concerning free movement of services the situation remains somewhat unsatisfactory as it is not clear that the Lithuanian authorities have the administrative resources to implement quickly the large legislative programme to which they have committed themselves. The Bank of Lithuania has 62 staff; the State Insurance Supervision Authority has 5 staff.

In order to meet EU requirements in this area it will be necessary to improve the overall quality of staff.

Competition: As explained in Chapter 3.1 (under "Competition") enforcement of competition law requires the establishment of anti-trust and state aid monitoring authorities, and that the judicial system, the public administration and the relevant economic operators have a sufficient understanding of competition law and policy.

In Lithuania the central authority is the State Competition and Consumer Protection Office which has 37 staff in all; this is probably adequate. The level of expertise is not high. The ability effectively to implement EC requirements in this field will require further investment in technical and human resources.

Telecommunications: In order to formulate and implement the many liberalisation regulations contained in the *acquis* in this field it is necessary to have a regulatory and policy making body that is effectively separated from any operating company.

The Commission has limited information on the administrative situation in this field in Lithuania, however it is to be doubted whether sufficient administrative capacity exists.

Indirect taxation: The effective administration of the indirect taxation *acquis* presupposes structures capable of implementing the EC legislation concerning the harmonisation of Valued Added Tax and excise duties in an environment in which fiscal controls at internal EU frontiers have been abolished; and the excise system is based on the tax warehouses, duty being payable at the local rate in the member state at the time the goods are consumed. This

requires a highly developed and well trained and resourced service, with a high degree of integrity.

In Lithuania the relevant authority is the Ministry of Finance (a central ministry and 56 regional offices) with a total of 31,000 staff (3,000 on indirect taxation). Due to a large turnover of staff, resulting partly from trained staff being recruited by the private sector, it is difficult to estimate the capacity of existing staff. In order to ensure the effective administration of the *acquis* in this area it will be necessary to consolidate and improve overall the professional standards of the staff, including training measures and improvements in pay.

Agriculture: The administrative requirements in the agricultural area primarily concern veterinary and phytosanitary control, to protect public health and ensure the free movement of agricultural goods; and the ability to administer the mechanisms and requirements of the CAP, including high standards of financial control and official statistics. These points are dealt with in Chapter 3.4 (under "Agriculture"); general standards in the statistical field are examined in Chapter 3.3 (under "Statistics").

Concerning the administrative capacity in respect of veterinary and phytosanitary controls in Lithuania, testing and diagnostic facilities remain inadequate. The veterinary and food inspectorate functions would benefit from reinforcement. Concerning the administration of general CAP requirements, substantial adaptation of the current administrative structure will be required.

In order to meet EC requirements in this area considerable improvements will be required.

Transport: The application of the EC Internal Market and competition requirements to the transport sector, the development of relevant infrastructure products, and other aspects of the transport *acquis* will present administrative challenges to new member states.

The responsible government authority in Lithuania is the Ministry of Transport (86 staff).. There is a shortage of qualified staff. This raises particular concerns with regard to the enforcement of safety controls.

Employment and social policy: A central administrative requirement in respect of the *acquis* in this area is adequate inspection capacity, particularly concerning health and safety at work.

In Lithuania the State Labour Inspectorate (50 inspectors) requires considerable reinforcement of staff resources and expertise.

Regional policy and cohesion: The main administrative requirements in this area are the existence of appropriate and effective administrative bodies, and in particular a high degree of competence and integrity in the administration of Community funds.

In Lithuania, there is no nationally established, regional policy. The situation concerning financial control is not yet satisfactory (see the section, below, on "Financial control"). The effective administration of the *acquis* in this area will require the creation of administrative and budgetary control frameworks.

Environment: Because EC environmental policy involves the integration of environmental protection into EC sectoral policies the administrative requirement is potentially very wide, affecting many bodies not normally associated with environmental protection. However, the main responsibility lies with environment ministries and various subsidiary bodies.

In Lithuania the Environment Ministry employs 130 staff. Monitoring is carried out by the Joint Research Centre, enforcement by the Ministries and 44 District Agencies. These arrangements are not yet adequate and enforcement structures need to be reinforced. The effective administration of the *acquis* in this area will require a greater human resources, especially as legislation is progressively approximated.

Consumer protection: In this area, the effective administration of the *acquis* requires the allocation of overall responsibility to a specific State body through which the formulation, implementation and enforcement of consumer policy and consumer protection legislation can be undertaken.

In Lithuania the main responsibility lies with the State Competition and Consumer Protection Office (7 staff working on consumer protection), a competition authority which has extended its scope to cover consumer issues. As regards non-governmental consumer bodies these remain far too weak. There remains confusion about the exact scope and objectives of consumer policy. This in part explains difficulties in the effective enforcement of consumer laws; however, other factors which need to be addressed include a lack of expert staff, organisational deficits, and a lack of sensitivity to consumer questions among the judiciary.

Justice and home affairs: Oversight of justice and home affairs questions falls to justice and interior ministries. The administrative structures need to be able to deal effectively with asylum and migration questions, border management, police cooperation and judicial cooperation. There is an overriding need for sufficient and properly trained staff with a high degree of integrity.

In Lithuania the justice and interior ministries are adequately staffed. The capacity to handle asylum and migration questions is not yet assured since the processing of asylum applications began in May '97, and facilities for refugee reception are being built up. Border management is inadequate, with a shortage of staff and equipment. The police service is being restructured to help tackle organised crime. Regarding the judiciary, reforms are being implemented, though currently there is little practical cooperation with the EU. The effective administration of the *acquis* in this area will require greater human and technical resources, and steps to combat corruption.

Customs: Applying the *acquis* in this area requires an adequate level of infrastructure and equipment, including computerisation and investigation resources, and the establishment of an efficient customs organisation with a sufficient number of qualified and motivated staff showing a high degree of integrity.

In Lithuania the customs service employs 3,295 staff. Due to a high turnover of staff, it is difficult to estimate their efficiency, and therefore the adequacy of staffing levels. The effective administration of the *acquis* in this area will require the retention of experienced and

qualified staff, and computerisation of the customs administration. In particular, the problem of corruption will have to be seen to have been adequately tackled.

**Financial control:** The protection of the Community's financial interests requires the development of anti-fraud services, training of specialised staff (investigators, magistrates) and the reinforcement of systems of specific cooperation. The implementation of Community policies, especially for agriculture and the Structural Funds, requires efficient management and control systems for public expenditure, with provisions to fight fraud. Administratively it is essential to have a clear separation between external and internal control. Police and judicial authorities need to be able effectively to handle complex transnational financial crime (including fraud, corruption and money laundering) which could affect the Community's financial interests.

In Lithuania the main external control body is the State Control (295 staff). The effective administration of the *acquis* in this area will require considerable preparations to establish the necessary management and control systems.

### **4.3 General Evaluation**

Lithuania's administrative structures will require a major, reinforced effort of reform if there is to be an adequate capacity in the medium term effectively to administer the *acquis*.

Concerning the judicial capacity effectively to apply Community law, a definite evaluation at this stage is difficult.



## C. SUMMARY AND CONCLUSION

Lithuania submitted its application for membership of the European Union on 8 December 1995. Its request is part of a historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Lithuania's request for membership.

Lithuania's preparation for membership is going forward notably on the basis of the **Free Trade Agreement** which entered into force on 1 January 1995. The European Union and Lithuania signed a **Europe Agreement** on 12 June 1995. Once the ratification procedures are complete and it enters into force, it will supersede the Free Trade Agreement.- Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a National Legislation Harmonisation Programme adopted in September 1996. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;

- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;

- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

## **1. Political Criteria**

Lithuania's political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Elections in 1992 and 1996 were free and fair, and in each case permitted an alternation of power in proper conditions. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.

There are no major problems over respect for fundamental rights.

Lithuania demonstrates the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities.

## **2. Economic Criteria**

In the first three years after independence there was a very serious decline in output. It was halted only by the introduction of a new currency and the establishment of a currency board in 1993/94. Since then there have been increasing rates of positive growth every year (3.6% in 1996), despite the banking crisis in 1995. Despite reduced tax revenues, Lithuania has maintained a reasonably tight fiscal stance. Foreign debt is at modest levels, and the trade deficit is under control. Inflation is down from very high levels in 1992/93 to 24.6% in 1996. GDP per head is about 24% of the EU average, for a population of 3.7 million. The agricultural sector employs 24% of the labour force, and accounts for 9% of Gross Value Added. The EU is Lithuania's largest trading partner, taking 37% of total trade.

On the basis of its analysis, the Commission's judgment as to **Lithuania's ability to meet the economic criteria** established at Copenhagen is as follows:

Lithuania has made considerable progress in the creation of a **market economy**. Trade and prices have been largely liberalised, and considerable progress has been achieved in the area of macroeconomic stabilisation. However, further progress is needed, particularly in the areas of relative price adjustments, large-scale privatisation and bankruptcy proceedings. The main element still missing is the enforcement of financial discipline for enterprises.

Lithuania would face serious difficulties to cope with **competitive pressure and market forces** within the Union in the medium term. The marked recent improvement in policy would, if sustained, accelerate the establishment of a market economy and strengthen competitiveness. But substantial enterprise restructuring is still required. Agriculture needs to be modernised, and the banking sector is still weak.

## **3. Capacity to take on the obligations of membership**

Lithuania's ability to take on the *acquis* has been judged according to several indicators:

- the obligations set out in the Europe Agreement (even though this has not yet entered into force for Lithuania), particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;

- implementation of the measures set out in the White Paper as essential for establishing the single market;

- progressive transposition of the other parts of the *acquis*.

Even before the Europe Agreement has entered into force, Lithuania has made significant efforts to comply with some of the obligations which will come into effect with it. It is meeting its obligations under the Free Trade Agreement, and according to the timetable for implementation set out in it. No serious bilateral problems have arisen. Lithuania has also made some progress towards compliance with the essential **single market** legislation. It has made progress in the areas of company law, data protection and accounting. But further work needs to be done on intellectual property rights, public markets, liberalisation of capital markets, financial services, taxation, competition and other areas.

A problem for further progress may be the weakness of the Lithuanian public administration, which affects not only the pace of approximation of legislation but also the quality of its implementation and enforcement.

As for **the other parts of the *acquis***, Lithuania should not have significant difficulty in applying it from the date of accession in the following fields: education, training and youth; research and technological development; audio-visual; small and medium enterprises; trade and international economic relations; and development.

By contrast, substantial efforts will be needed in the fields of telecommunications; statistics; fisheries; and customs.

Provided that currently positive trends towards industrial restructuring and privatisation continue, most of Lithuanian **industry** should be able to cope with integration within the single market in the medium term.

For the **environment**, very substantial efforts will be needed, including massive investment and strengthening of administrative capacity to enforce legislation. Full compliance with the *acquis* could only be expected in the long term and would require increased levels of public expenditure.

Lithuania should not have major problems in applying the **transport *acquis***, provided that attention is given to maritime safety and environmental standards. Investment will be needed to extend the European transport network so as to ensure that the single market functions well.

It should be possible for Lithuania to achieve the **employment and social affairs** *acquis* in the medium term, provided that it makes substantial efforts to adapt its legislation to EU requirements in fields such as health and safety and labour law.

On **regional policy**, Lithuania will need to make the necessary administrative reforms, and establish effective systems of financial control, in order to become able to use the Union's regional and structural funds for its development effectively.

The **agriculture** sector needs restructuring, and only a limited number of the mechanisms of the common agricultural policy currently exist. A substantial and sustained effort will be required to prepare for accession in the medium term.

In the **energy** field, Lithuania is heavily dependent on nuclear power generation. It has committed itself to closing the nuclear plant at Ignalina, and must maintain the agreed timetable for this. In the meantime it must make the necessary short-term adjustments to bring safety procedures to internationally accepted standards. No other major problems are foreseen for Lithuanian accession in this sector, though there is a need for further work on monopolies, access to networks and energy pricing.

On the basis of the analysis of Lithuania's capacity to apply the *acquis*, it is not yet possible to be sure when it could become able to take and implement the measures necessary to remove the controls at **borders** between Lithuania and member states of the Union.

Lithuania's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, still poses problems in the medium term. It is premature to judge whether Lithuania will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

In **justice and home affairs**, Lithuania has made some progress, eg in the field of asylum. But a significant sustained effort will be needed if it is to be ready to meet the *acquis* in the medium term.

Lithuania should be able to fulfil its obligations in respect of the **common foreign and security policy**.

In addition, Lithuania has no major territorial disputes with any Member State or candidate country. It has attached high priority to improving its relations with Poland.

#### **4. Administrative and legal capacity**

For Lithuania to have in the medium term the administrative structures necessary for the essential work of applying and enforcing the *acquis* effectively, there will need to be a major, reinforced effort of reform.

It is not yet possible to judge when Lithuania's judicial system, which has an equally important role to play, will acquire the capacity to play it effectively.

## CONCLUSION

In the light of these considerations, the Commission concludes that:

- Lithuania presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities;

- Lithuania has made considerable progress in the creation of a market economy, but it would face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term;

- Lithuania has made some progress in transposing and implementing the *acquis* relating particularly to the single market. With considerable further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the *acquis* fully in sectors such as agriculture, energy and environment. Strengthening of the administrative structure is indispensable if Lithuania is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission considers that negotiations for accession to the European Union should be opened with Lithuania as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Lithuania to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in this Opinion. The Commission will present a report no later than the end of 1998 on the progress Lithuania has achieved.

## ANNEXES

### Composition Of Parliament

Results of the most recent Parliamentary elections (1996)

Political Party	Number of Seats
Homeland Union	70
Christian Democratic Party	16
Centre Union	13
Democratic Labour Party	12
Social Democratic Party	12
Democratic Party	2
Christian Democratic Union	1
Women's Party	1
Liberal Union	1
Union of Political Prisoners and Deportees	1
Poles' Electoral Action	1
National Union	1
Young Lithuania	1
Farmers' Party	1
Independents	4
TOTAL	137*

\* 4 seats could not be filled because the turnout in the constituencies concerned was too low.

<b>Single Market: White Paper measures</b>
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This table is based on information provided by the Lithuanian authorities and confirmed by them as correct as at the end of June 1997. It does not indicate the Commission's agreement with their analysis. The table includes directives and regulations cited in the White Paper which total 899. These have been listed in accordance with the categorization used in the White Paper and in relation to the policy areas covered. The table shows the number of measures for which the Lithuanian authorities have notified the existence of adopted legislation having some degree of compatibility with the corresponding White Paper measures.

White Paper chapters		Directives		Regulations		Total
		Stage I	Stage II/III	Stage I	Stage II/III	
<b>1.Free Movement of Capital</b>	Lithuania	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>
	Number of White Paper measures	3	1	0	0	4
<b>2.FM and Safety of Industrial Products</b>	Lithuania	<b>25</b>	<b>59</b>	<b>3</b>	<b>0</b>	<b>87</b>
	Number of White Paper measures	56	104	4	1	165
<b>3.Competition</b>	Lithuania	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>2</b>
	Number of White Paper measures	3	0	1	0	4
<b>4.Social policy and action</b>	Lithuania	<b>10</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>14</b>
	Number of White Paper measures	12	15	0	2	29
<b>5.Agriculture</b>	Lithuania	<b>47</b>	<b>15</b>	<b>7</b>	<b>0</b>	<b>69</b>
	Number of White Paper measures	93	46	62	2	203
<b>6.Transport</b>	Lithuania	<b>16</b>	<b>11</b>	<b>6</b>	<b>4</b>	<b>37</b>
	Number of White Paper measures	19	15	8	13	55
<b>7.Audiovisual</b>	Lithuania	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
	Number of White Paper measures	1	0	0	0	1
<b>8.Environment</b>	Lithuania	<b>17</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>20</b>
	Number of White Paper measures	31	7	7	0	45
<b>9.Telecommunication</b>	Lithuania	<b>7</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>10</b>
	Number of White Paper measures	9	7	0	0	16
<b>10.Direct Taxation</b>	Lithuania	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Number of White Paper measures	2	2	0	0	4
<b>11.Free movement of goods</b>	Lithuania	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Number of White Paper measures	0	0	0	0	0
<b>12.Public Procurement</b>	Lithuania	<b>5</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>6</b>
	Number of White Paper measures	5	1	0	0	6
<b>13.Financial services</b>	Lithuania	<b>11</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>17</b>
	Number of White Paper measures	13	8	0	0	21
<b>14.Protection of personal data</b>	Lithuania	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Number of White Paper measures	0	2	0	0	2
<b>15.Company Law</b>	Lithuania	<b>2</b>	<b>3</b>	<b>0</b>	<b>1</b>	<b>6</b>
	Number of White Paper measures	2	3	0	1	6
<b>16.Accountancy</b>	Lithuania	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Number of White Paper measures	3	2	0	0	5
<b>17.Civil law</b>	Lithuania	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Number of White Paper measures	1	1	0	0	2
<b>18.Mutual rec. of prof. Qual.</b>	Lithuania	<b>1</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>9</b>
	Number of White Paper measures	2	16	0	0	18
<b>19.Intellectual property</b>	Lithuania	<b>4</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>6</b>
	Number of White Paper measures	5	3	0	3	11
<b>20.Energy</b>	Lithuania	<b>6</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>10</b>
	Number of White Paper measures	10	2	3	0	15
<b>21.Customs law</b>	Lithuania	<b>0</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>4</b>
	Number of White Paper measures	2	1	14	184	201
<b>22.Indirect Taxation</b>	Lithuania	<b>10</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>16</b>
	Number of White Paper measures	15	54	0	6	75
<b>23.Consumer Protection</b>	Lithuania	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Number of White Paper measures	8	3	0	0	11
<b>Total</b>	Lithuania	<b>164</b>	<b>119</b>	<b>24</b>	<b>9</b>	<b>316</b>
	Number of White Paper measures	295	293	99	212	899

## Statistical Data

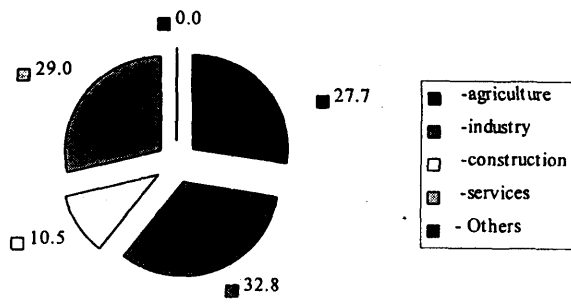
If not explicitly stated otherwise, data contained in this annex are collected from „Lithuanian Department of Statistics (STATISTIKOS DEPARTAMENTAS)“ with whom Eurostat and Member States' statistical offices are co-operating since several years in the framework of the Phare programme. Regular data collection and dissemination are part of this co-operation process with the aim to enable the application of EU laws and practices in statistics. The data presented below have been compiled as far as possible using EU definitions and standards which in some cases differ from national practices. This may occasionally give rise to differences between the data presented here and those shown elsewhere in the opinion, which are generally based on the individual applicant countries' updated replies to the questionnaire sent to them in April 1996. The exact compatibility with EU standards on statistics and thus the comparability with EU figures can still not be guaranteed, particularly those statistics that have not been supplied through Eurostat, but have been delivered directly by the countries concerned. Wherever available, methodological notes are given describing content and particularities of statistical data presented in this annex. . Data correspond to the information available as of May 1997.

## BASIC DATA

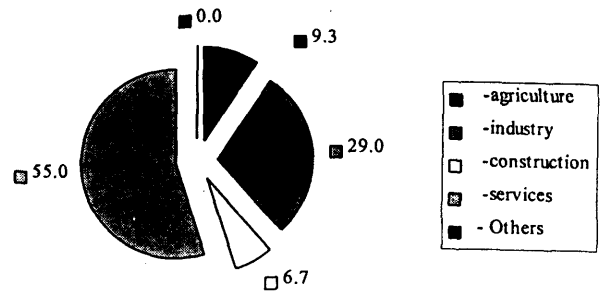
	1990	1993	1994	1995	1996
	1000 hectares				
<b>Total Area</b>		6530.	6530.1	6530.1	6530.1
	in 1000				
<b>Population ( end of the period)</b>					
- Total		3724.0	3717.7	3711.9	3707.2
- Females		1962.8	1961.1	1959.3	1952.2
- Males		1761.2	1756.6	1752.6	1749.0
	per 1 km2				
<b>Population density</b>	56.8			56.9	56.8
	in % of total population				
<b>Urban Population</b>	68.1			68.0	67.8
	per 1000 of population				
<b>Deaths rate</b>		12.3	12.5	12.2	11.6
<b>Births rate</b>		12.5	11.5	11.1	10.6
<b>Income and GDP per capita</b>	European Currency Unit				
-Average monthly wage and salary per employee				70	
-GDP per capita				932	
	in % of Total Gross Value Added				
<b>Structure of production: share of branch GVA</b>					
-agriculture	27.7			9.3	
-industry	32.8			29.0	
-construction	10.5			6.7	
-services	29.0			55.0	



share of branch GVA in 1990



share of branch GVA in 1995

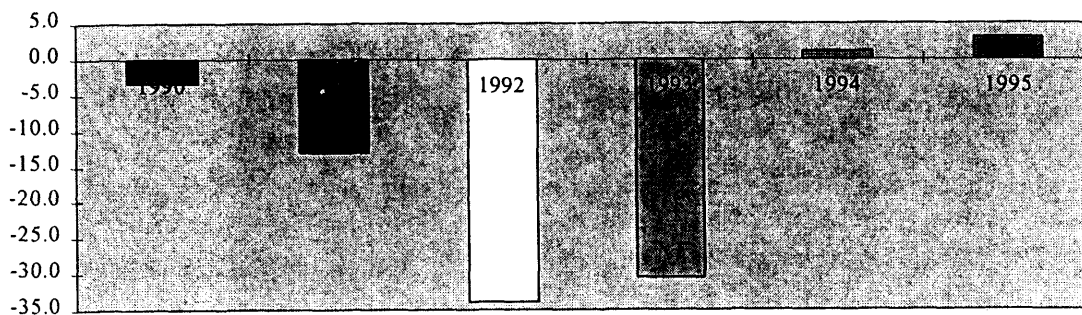


Total Area: Data presented at the end of the year.

# NATIONAL ACCOUNTS

	1990	1991	1992	1993	1994	1995
	in Millions of National Currency					
<b>Gross Domestic Product (Current Prices)</b>	12897.	42282.	3386.	11107.	16980.	23829.
	in Billions of ECU					
<b>Gross Domestic Product (Current Prices)</b>			1.2	2.0	2.9	3.5
	in Purchasing Power Standard per capita					
<b>Gross Domestic Product</b>				3411.	3592.	4128.
	% change over the previous year					
<b>Gross Domestic Product</b>	-3.3	-13.1	-34.0	-30.4	1.0	3.0
<b>Final consumption expenditure</b>						
-of households and NPISH						
-of general government						
<b>Gross fixed capital formation</b>						
<b>Exports of goods and services</b>						
<b>Imports of goods and services</b>						
	in % of Gross Domestic Product					
<b>Final consumption expenditure</b>	74.9	66.5	82.1	85.5	90.6	89.2
-of households and NPISH	54.9	55.5	69.4	69.1	72.4	69.5
-of general government	11.0	11.0	12.7	16.4	18.2	19.8
<b>Gross fixed capital formation</b>	28.8	22.0	29.2	24.2	20.6	21.4
<b>Exports of goods and services</b>	54.2	29.1	31.8	86.1	55.1	53.6
<b>Imports of goods and services</b>	63.0	20.6	22.8	94.3	61.1	65.4

GDP (% Change over the previous year)



## MAIN ECONOMIC INDICATORS

	1990	1991	1992	1993	1994	1995	1996
	percentage change over the previous year						
<b>Inflation rate</b>	9.1	216.	1020.	410.	72.2	39.6	24.6
	previous year = 100						
<b>Industrial production volume indices</b>					73.4	105.	103.
<b>Gross agricultural production volume indices</b>				92	82	110	115.
<b>Unemployment rate (ILO methodology)</b>	in % labour force						
- Total				3.5	4.5	7.3	6.2
- less than 25 years				3.5	4.3	5.9	5.1
- 25 years and more				3.5	4.5	7.7	6.4
	in Billions of USD						
<b>Gross Foreign debt</b>			0.03	0.32	0.57		
<b>Balance of payments</b>	in millions of USD						
-Exports of goods				2026	2029	2706	
-Imports of goods				-218	-223	-340	
-Trade balance				-155	-205	-698	
-Services, net				-55	-55	-13	
-Income, net				8	9	-13	
-Current account balance				-86	-94	-614	
-Capital and fin. acc.(excl. reserves)				401	321	558	
-Reserve assets				-308	-180	-231	

**Inflation rate:** Percentage change of yearly average over the previous year - all items index (data are based on national CPIs which are not strictly comparable)

**Gross agricultural production volume indices:** Indices based on evaluation of all individual products of gross agricultural production. Constant prices refer to 1989.

**Unemployment rate (by ILO methodology):** -Registered unemployment from Labour Exchange percentage of economically active population. This rate is derived from LFSS (Labor Force Survey) observing the following ILO definitions and recommendations:

*Labor force* employed and unemployed persons in the sense of 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 cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

*The unemployed* all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

**Gross foreign debt:** Debt is extracted from the OECD's External Debt Statistics.

**Balance of payments:** Data is derived from IMF database, their comparability with respective EU statistics can not be guaranteed, but balance of payments is compiled mainly in accordance to IMF standards. Balance in trade of goods in accordance with balance of payments principles. Exports and imports are both in f.o.b. values. Net income includes direct, portfolio and other investment income, compensation of employees. Current account balance by definition of IMF 5th Manual, capital transfers are excluded. Reserve assets: it means changes in reserve assets during the year; (+) signifies an increase, (-) a decrease in reserve assets.

## FOREIGN TRADE

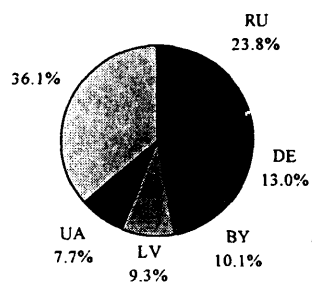
	1993	1994	1995	1996
<b>Imports and exports (current prices)</b>	in millions of USD			
- Imports	2255.	2351.7	3648.5	4404.5
- Exports	2004.	2030.4	2705	3279.8
- Balance of trade	-251.	-321.3	-943.5	-1124.8
<b>External trade volume indices</b>	previous year = 100			
- Imports				
- Exports				
<b>Structure of Import by SITC (current prices)</b>	in % of total Export			
- (0+1) food and live animals, beverage and tobacco				
- 2 crude materials, inedible				
- 3 mineral fuels and lubricants				
- 4 animal and vegetable oils etc.				
- 5 chemicals and related products				
- 6 manufactured goods classified chiefly by material				
- 7 machinery and transport equipment				
- 8 miscellaneous manufactured articles				
<b>Structure of export by SITC (current prices)</b>	in % of total Import			
- (0+1) food and live animals, beverage and tobacco				
- 2 crude materials, inedible				
- 3 mineral fuels and lubricants				
- 4 animal and vegetable oils etc.				
- 5 chemicals and related products				
- 6 manufactured goods classified chiefly by material				
- 7 machinery and transport equipment				
- 8 miscellaneous manufactured articles				
<b>External trade price indices</b>	previous year = 100			
- Imports				
- Exports				

**Imports and exports (current prices):** Trade data exclude direct re-exports, trade in services and trade with customs free zones as well as licenses, know-how and patents. The data are based upon the General trade system and are regularly updated. *Trade Classifications:* Lithuania is using the commodity classification according to the *Combined Nomenclature*. *Imports* are recorded on CIF basis. *Exports* are recorded on FOB basis.

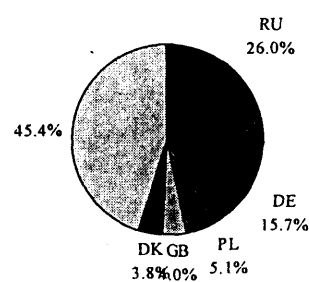
## FOREIGN TRADE

	1993		1994		1995		1996	
<b>Structure of imports by main countries (current prices)</b>								
	in % of total imports							
1st partner	R	53	R	39	R	31	R	2
2nd partner	D	9	D	13	D	14	D	15
3rd partner	U	6	U	5	P	4	P	5
4th partner	B	3	P	4	U	3	G	4
5th partner	D	2	B	3	B	3	D	3
others		24		34		4		45
<b>Structure of exports by main countries (current prices)</b>								
	in % of total exports							
1st partner	R	33	R	28	R	20	R	23
2nd partner	U	1	D	11	D	14	D	1
3rd partner	B	7	L	8	B	10	B	10
4th partner	L	7	B	6	U	7	L	9
5th partner	P	7	U	6	L	7	U	7
others		3		39		39		36

Structure of export by main partners in 1996



Structure of import by main partners in 1996



BY	Belarus	LV	Latvia
DE	Germany	PL	Poland
DK	Denmark	RU	Russian Federation
GB	United Kingdom	UA	Ukraine

## SOCIAL INDICATORS

	1991	1992	1993	1994	1995
<b>Population on 1 January</b>	thousand				
	3736.	3746.9	3736.	3723.9	3717
<b>Proportion of population by age (1 January 1995)</b>	in % of total population				
y0_14					21.9
y15_24					14.6
y25_44					29.5
y45_64					22.1
y65_max					11.8
	total number				
<b>Live births</b>	56219	53617	46727	42832	
<b>Deaths</b>	41013	41455	46107	46486	
<b>Infant deaths</b>					
- Less than 1 year	806	887	746	603	
- Still birth	408	434	370	297	
<b>Marriages</b>	34241	30112	23709	23337	
<b>Divorces</b>	15250	13981	13884	11061	
	per 1000 of population				
<b>Crude marriage rate</b>	9.2	8.02	6.36	6.3	6.0
<b>Crude divorce rate</b>	4.06	3.72	3.72	3.0	2.8
<b>Natural growth rate</b>	4.05	3.25	0.16	-1	
<b>Net migration rate</b>	-1.41	-5.91	-3.51	-0.7	
<b>Total population growth rate</b>	2.64	-2.66	-3.35	-1.7	
<b>Total fertility rate</b>	1.97	1.89	1.67	1.54	
<b>Infant mortality rate</b>	14.34	16.54	15.97	14.08	12.5
<b>Late foetal mortality rate</b>	7.21	8.03	7.86	6.89	
<b>Life expectancy</b>	at birth				
- Males					63.6
- Females					75.2
<b>Life expectancy</b>	at 65 years				
- Males					12.9
- Females					16.9

**Marriages and Divorces:** The rates were recalculated, using the resident population as denominator.

**Net Migration:** The migration totals were calculated as overall change minus the natural increase. However this data do not represent actual figures of arrivals from and departures for the Republics of the former USSR because of different methods of migration calculations.

## LABOUR MARKET

	1993	1994	1995	1996
<b>Economic Activity Rate (ILO methodology)</b>	in % of population age +15			
	65.3	61.1	61.4	62.3
<b>Average employment</b>	in thousand			
		65.3	65.3	65.3
<b>Unemployment rate (ILO methodology)</b>	in % of labour force			
- Total	3.5	4.5	7.3	6.2
- less than 25 years	3.5	4.3	5.9	5.1
- 25 years and more	3.5	4.5	7.7	6.4
<b>Registered unemployment (end of period)</b>	in % of economically active population			
	3.5	4.5	7.3	6.2

	1993	1994	1995	1996
<b>Average paid employment indices by NACE classes</b>	previous year = 100			
- Agriculture, hunting, forestry and fishing	110.2	97.7	100.1	102.2
- Mining and quarrying	66.7	100	97.5	89.7
- Manufacturing	84.1	80	90	95.3
- Production and distribution of electricity, gas and water	109.5	112.9	112.2	100
- Construction	74.9	87.5	103.4	100.8
- Transport, storage and communication	80.6	92.2	103.3	98.8
<b>Monthly wages and salaries indices</b>				
- real	61	114.2	103.2	104.0
- nominal	311.2	196.6	144	129.6

**Unemployment rate (by ILO methodology):** Registered unemployment from Labour Exchange percentage of economically active population. This rate is derived from LFSS (Labor Force Survey) observing the following ILO definitions and recommendations:

**Labor force** employed and unemployed persons in the sense of 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 cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

**The unemployed** all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

**Registered unemployment (end of period):** Registered unemployment in per cent - percentage of unemployed registered in civil economically active population, based on Labour force sample survey (LFSS). Registered unemployment covers persons as looking for a job in Local Labour Exchange in the area in which they are living.

**Monthly wages and salaries indices:** Nominal wages refer to net nominal wages.



## PUBLIC FINANCE

	1990	1991	1992	1993	1994	1995
<b>Government budget</b>						
in millions of national currency						
-Consolidated central government revenue		133.		2688.	4031.	5661.
-Grants		0.5		5.5	2.2	0
-Consolidated central government expenditure		120		2475.	4292.	6079.
-Consolidated general government expenditure		139.		3253	5660.	7860.
-Consolidated central government deficit/surplus		13.8		218.	-258	-418
-General government deficit/surplus		17.4		244	-282.	-384.
<b>Government budget</b>						
in % of Gross Domestic Product						
-Consolidated central government expenditure				22.3	25.3	27.4
-Consolidated general government expenditure				29.3	33.3	35.4
-Consolidated central government deficit/surplus				2.0	-1.5	-1.9
-General government deficit/surplus				2.2	-1.7	-1.7

**Government budget:** These data relate to central and general government

Atta  
ched are working tables showing how series on consolidated general government expenditure and deficit/surplus were calculated from data published in the IMF's *Government Finance Statistics Yearbook (1996) (GFSY)*; included also is the country's presentation in the *GFSY*.

Bec  
ause the *GFSY* does not present statistics for general government, but for individual levels of government separately, the consolidated series presented here were obtained from central and local government data and adjusted in consolidation for the identified intergovernmental transfers.

Eve  
n though the statistics cover the central and local government published in *GFSY*, the coverage may not be exhaustive if some central or local government units are not included in that coverage. A measure of the exhaustiveness of the coverage can be obtained by comparing in the *GFSY* the note on the coverage of data for individual countries with the list of central and local government units provided.

It  
should be noted that the deficit/surplus used here is equal to revenue and grants minus expenditure, and does not take lending minus repayments into account (see further below).

The  
netting of inter-government transfers carried-out in the attached tables is limited to the current and capital transfers consisting of the identified grants and current and capital subsidies between the levels of government. Other types of transactions occurring between government levels, such as the payments of taxes and employers' social security contributions, and the reciprocal purchases of goods and services are not normally classified as inter-governmental transfers. have not been eliminated in the consolidation process. Finally, whether the absence of data for current and capital transfers should be attributed to the absence of transfer or to lack of data is unclear; in all cases absence of information on transfers have been deemed to represent zero-transfers.

*Government expenditure* consists of general government cash expenditures on current and capital goods and services, interest payments and current and capital transfers but excludes non-cash transactions. <sup>a.</sup>

*Deficit/surplus* equals cash revenue and cash grants minus cash expenditure. This measure of the deficit/surplus differs from that used in GFS which equals cash revenue and cash grants, minus cash expenditure, minus net lending. This exclusion of net lending (consisting, in the *GFS* methodology, of operations in financial assets and liabilities carried out for specific policy purposes, rather than for liquidity purposes) brings the measure of the deficit/surplus presented here closer to the national accounts concept of net borrowing/net lending. Also, as a result of this exclusion, receipts from privatisation (classified as repayments in the *GFS* methodology) do not enter in the determination of the deficit/surplus presented in the attached tables (and therefore do not reduce the deficit). <sup>b.</sup>

## FINANCIAL SECTOR

	1990	1991	1992	1993	1994	1995	199
<b>Monetary aggregates</b>	Billions (10 <sup>9</sup> ) of US Dollars						
- Monetary aggregate M1				0.45	0.62	0.88	0.91
- Quasi money				0.24	0.47	0.55	0.49
<b>Total reserves ( gold excluded, end of period)</b>	Millions (10 <sup>6</sup> ) of US Dollars						
				350.3	525.4	757.0	777.2
<b>Average short term interest rates</b>	% per annum						
- lending rate				91.9	62.3	27.1	16
- deposit rate				48.7	27.4	8.4	6
<b>Official discount rate (end of period)</b>							
<b>USD exchange rates</b>	1 USD = ...LTL						
Average of period			1.773	4.344	3.978	4	4
End of period			3.79	3.9	4	4	4
<b>ECU exchange rates</b>	1 ECU = ...LTL						
Average of period			2.787	5.675	5.820	6.876	6.36
End of period			2.147	4.846	4.893	5.257	50.1

**Monetary aggregates (end of period):** *Money (M1)* Includes demand deposits and currency outside banks. *Quasi money* Include time, savings and foreign currency deposits. Time deposits of the national currency, convertible currency, or non convertible foreign currency. Eurostat has converted National Currencies to the US dollar by applying the International Monetary Fund annual end of period exchange rates.

**Average short term interest rates:** Data are extracted from the IMF's monthly International Financial Statistics (IFS). Average short-term lending and deposit rates relate to period averages. *Lending rates* generally consist of the average interest rate charged on loans granted by reporting banks. *Deposit rates* relate to average demand and time deposit rates or average time deposit rates. These rates may not be strictly comparable across countries to the extent the representative value of the reporting banks and the weighting schemes vary.

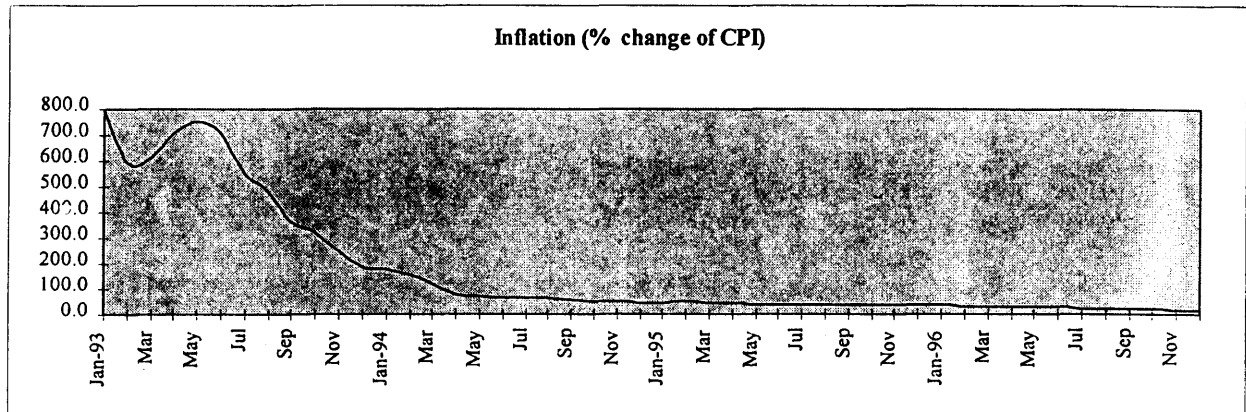
**Total reserves (gold excluded, end of period):** The statistics on official foreign reserves are extracted from the IMF's monthly International Financial Statistics (IFS). Total reserves (gold excluded) are defined as the sum of central bank holdings of foreign currencies and other (gross) claims on non-residents; this definition excludes claims on residents denominated in foreign currency. According to the definition; official foreign reserves are calculated at market exchange rates and prices in force at the end of the period under consideration. Total reserves (gold excluded) published in IFS may differ from the figures published by the national authorities. Some factors contributing to possible differences are the valuation of the reserve position in the Fund, and a different treatment of claims in non-convertible currencies.

**USD exchange rates:** International Monetary Fund exchange rates as present in the publication: "Statistiques Financieres Internationales".

## INFLATION (12 months chang

Percentage change of the CPIs with the current month compared with the corresponding month of the previous year (t/t-12)

	Ja	Fe	M	Ap	M	Ju	Ju	Au	Se	Oc	No	De
199	797	594	613	708	753	707	553	477	364	319	247	188
199	176	158	119	78.	68.	61.	60.	62.	59.	53.	48.	45.
199	46.	47.	45.	44.	39.	37.	38.	36.	35.	36.	37.	35.
199	32.	30.	31.	31.	28.	28.	24.	24.	22.	18.	15.	13.



**Inflation (12 months changes):** Inflation rates (12 months changes) are percentage changes of the CPIs with the current month compared with the corresponding month of the previous year. Inflation rates are based on national CPIs which are not strictly comparable between candidate countries or with those based on EU HICPs (different methods, concepts, practices in the calculation of CPIs).

## INDUSTRY

	1993	1994	1995	1996
<b>Structure of GDP by economic activities (NACE, current prices)</b>	in % of Gross Domestic Product			
- Mining and quarrying	24.8	23.1	25.9	25.2
- Manufacturing	5.6	2.7	3	3.1
- Production and distribution of electricity, gas and water				
<b>Industrial production volume indices by NACE classes</b>	previous year = 100			
- Total		73.4	105.3	103.7
- Mining and quarrying	65.3	70.2	100.9	101.3
- Manufacturing		88.4	121.9	110.8
- Production and distribution of electricity, gas and water				

## INFRASTRUCTURE

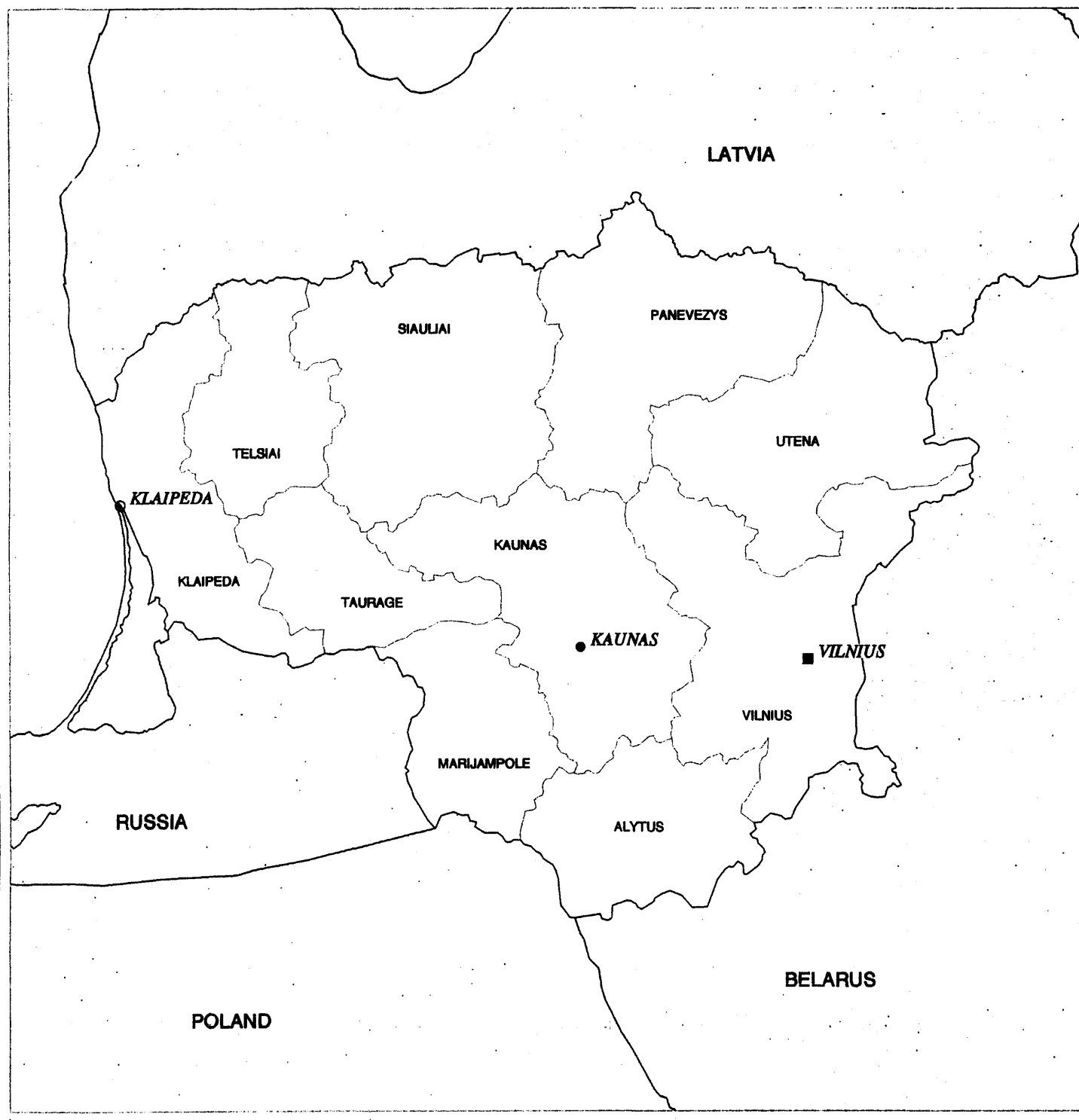
	198	199	199	199
<b>Railway network</b>	in Km per 1000 Km <sup>2</sup>			
			40.	39.
	Kilometre			
<b>Length of motorways</b>	31	42	39	40
	inhabitants			
<b>Number of inhabitants per passenger car</b>	10.	7.	5.	

## AGRICULTURE

	199	199	199	199	199
<b>Land area by land-use categories</b>	in 1000 Hectares				
- total	653	653	6530	6530	6530
- agricultural land	352	351	351	3506	350
- forest		197	1975	1990	1978
- arable land	300	297	2958	2946	2567
- permanent meadows and pastures	459	473	495	500	500
<b>Agricultural land by legal status</b>	in % of agricultural land				
- state enterprise		31.	26.	25.	24.
- Cooperatives		131	935	67	547
- others		217	255	2802	2931

	199	199	199	199	199
<b>Share of GDP</b>	in % of Gross Domestic Product				
- Agriculture, hunting, forestry and fishing (Nace A+B)		11.	7.4	9.4	11.
	Previous year = 100				
<b>Gross agricultural production volume indices</b>		92	82	11	11
<b>Main crops by area</b>	in 1000 Hectares				
- Cereals	113	126	1194	1026	108
- of which: wheat	283	375	27	260	351
- Potatoes	11	12	11	12	12
- Sugar beet	33	35	27	24	32
- Fodder beet	56	54	55	65	54
<b>Main crops by yield</b>	in 100 kg/Hectares				
- Cereals	19.	21.	17.	18.	
- of which: wheat	29.	23.	20.	24.	
- Potatoes	94.	145	94.	12	
- Sugar beet	190	246	173.	283.	
- Fodder beet	251	371	239.	338.	

	199	199	199	199	199
<b>Sales or procurement of animal for slaughter</b>	in 1000 tons of live weight				
- pigs		30.	23.	32.	45.
- cattle		195	116.	90.	103.
- poultry		13.	15.	20.	20.
<b>Livestock breeding intensity (end of period)</b>	heads per 1000 Ha of agricultural land				
- cattle		42	38	31	31
- of which: cows		20	20	17	17
- sheep		14	13	10	8
	heads per 1000 Ha of arable land				
- pigs		434	499.	452.	400.



# Lithuania





## 1995

**Legend:**

-  Country boundary
-  Region boundary

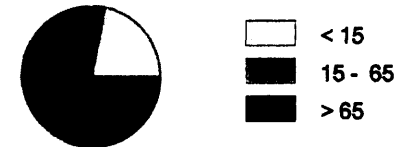
**COUNTRY NAME**  
**REGION NAME**  
**CITY NAME**

**Selected major settlements:**

- (1 000 inhabitants)
-  200 - 250
  -  250 - 500
  -  500 - 1 000
  -  > 1 000

**General information about the country:**

**Age groups (In years):**



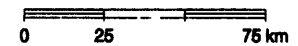
**Living standard (in 1993): ECU 585**  
 (GDP per capita)

**Area: 65 300 km<sup>2</sup>**

**Administrative regions: 10 provinces**

**Population: 3 712 500**

Source: Lithuanian Department of Statistics  
 Cartography and geographic information management: GISCO









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# DOCUMENTS

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