



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.11.2001
SEC(2001) 1750

2001

REGULAR REPORT

ON

LITHUANIA'S

PROGRESS TOWARDS ACCESSION

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Table of contents

A. Introduction.....	6
a) Preface	6
b) Relations between the European Union and Lithuania.....	8
Recent developments under the Association Agreement (including bilateral trade).....	8
Accession Partnership / National Programme for the Adoption of the Acquis	9
Community aid	9
Twinning	13
Negotiations / screening.....	14
B. Criteria for membership.....	16
1. Political criteria	16
Introduction.....	16
Recent developments.....	17
1.1. Democracy and the rule of law	17
The parliament.....	17
The executive	17
The judicial system.....	18
Anti-corruption measures.....	19
1.2. Human rights and the protection of minorities	21
Civil and political rights	21
Economic, social and cultural rights	22
Minority rights and protection of minorities	23
1.3. General evaluation	24
2. Economic criteria	25
2.1. Introduction	25
2.2. Economic developments	25
2.3. Assessment in terms of the Copenhagen criteria.....	28
The existence of a functioning market economy	28
The capacity to cope with competitive pressure and market forces within the Union	32
2.4. General evaluation	34
3. Ability to assume the obligations of membership.....	36
Introduction.....	36
3.1. The chapters of the <i>acquis</i>.....	38
<i>Chapter 1: Free movement of goods</i>.....	38
Overall assessment	40
<i>Chapter 2: Free movement of persons</i>	41

Overall assessment	42
Chapter 3: Freedom to provide services.....	43
Overall assessment	45
Chapter 4: Free movement of capital	45
Overall assessment	46
Chapter 5: Company law.....	46
Overall assessment	48
Chapter 6: Competition policy.....	49
Overall assessment	50
Chapter 7: Agriculture.....	51
Overall assessment	56
Chapter 8: Fisheries.....	58
Overall assessment	59
Chapter 9: Transport policy.....	60
Overall assessment	62
Chapter 10: Taxation	63
Overall assessment	64
Chapter 11: Economic and monetary union.....	65
Overall assessment	65
Chapter 12: Statistics	66
Overall assessment	67
Chapter 13: Social policy and employment.....	67
Overall assessment	69
Chapter 14: Energy.....	70
Overall assessment	73
Chapter 15: Industrial policy.....	75
Overall assessment	76
Chapter 16: Small and medium-sized enterprises.....	76
Overall assessment	77
Chapter 17: Science and research.....	78
Overall assessment	79
Chapter 18: Education and training.....	79
Overall assessment	79
Chapter 19: Telecommunications and information technologies.....	79
Overall assessment	80
Chapter 20: Culture and audio-visual policy.....	80
Overall assessment	81
Chapter 21: Regional policy and co-ordination of structural instruments... 	81
Overall assessment	83

Chapter 22: Environment	84
Overall assessment	86
Chapter 23: Consumers and health protection	88
Overall assessment	89
Chapter 24: Co-operation in the field of justice and home affairs	89
Overall assessment	93
Chapter 25: Customs union	96
Overall assessment	98
Chapter 26: External relations	98
Overall assessment	99
Chapter 27: Common foreign and security policy	100
Overall assessment	100
Chapter 28: Financial control	101
Overall assessment	102
Chapter 29: Financial and budgetary provisions	103
Overall assessment	103
3.2. Translation of the <i>acquis</i> into the national languages	104
3.3. General evaluation	105
C. Conclusion	108
D. Accession Partnership and National Programmes for the Adoption of the <i>Acquis</i>: Global assessment	112
1. Accession Partnership	112
Short-term priorities	112
Medium-term priorities	115
2. National Programme for the Adoption of the <i>Acquis</i>	118
Annexes	120
<i>Human Rights Conventions ratified by the Candidate Countries, 30 September 2001</i>	121
<i>Statistical data</i>	122

A. Introduction

a) Preface

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

The European Council in Luxembourg decided that

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

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second series in October 1999, and a third in November 2000. The Commission has prepared this fourth series of Regular Reports with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is the same as that used for the 2000 Regular Report. In line with previous Regular Reports, the present Report:

- describes the relations between Lithuania and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Lithuania’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Lithuania’s capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety standards, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Gothenburg European Council emphasised the vital importance of the

candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 2000 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Lithuania in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Lithuania's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last Regular Report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, provides, besides an assessment of progress made over the reference period, also a dynamic, forward-looking evaluation of Lithuania's economic performance.

The Report contains a separate section examining the extent to which Lithuania has addressed the Accession Partnership priorities.

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

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations¹, have served as additional sources. Council deliberations and European Parliament reports and resolutions² have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

¹ As in previous years, the Report does not mention any commitments undertaken or requests made in the context of the accession negotiations.

² For the European Parliament the *rapporteur* is Mr Ioannis Souladakis.

b) Relations between the European Union and Lithuania

Recent developments under the Association Agreement (including bilateral trade)

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

The Association Council met in February 2001 and the Association Committee meeting took place in June 2001. The system of sub-committees continues to function as a forum for technical discussions.

Since the issuing of the last Regular Report, the Joint Parliamentary Committee comprising representatives of the Lithuanian and European Parliament met in November 2000 and June 2001.

Lithuania's trade with the EC has continued to increase in 2000 (exports by 21% and imports by 5%), although at a slower speed than with other countries. In the year 2000, Lithuanian exports to the EC accounted for 48 % of total exports. The share of imports from the EC represented 46.5% of total imports. EC exports to Lithuania stood at €2.7588 billion and imports at €1.9805 billion during 2000. Looking at trade by sectors, machinery and electrical goods represent the largest sector for EC exports to Lithuania. The textile sector is the largest sector for EC imports from Lithuania.

Regarding agricultural products, a new agreement on reciprocal concessions with Lithuania has been implemented from 1 January 2001 on an autonomous basis, pending the conclusion of an additional protocol to the Europe Agreement. A second round of bilateral negotiations for trade liberalisation is presently being prepared and would cover more sensitive sectors, in which current trade is low in particular due to a high degree of tariff protection.

As regards the negotiations with Lithuania on processed agricultural products, an agreement was reached at technical level between the two parties. The new agreement shall be extended to trade in all processed agricultural goods and will envisage the elimination of import duties for products under quotas, increases in the amount of quotas, and concessions for new products. The preparatory work for the adoption of an Association Council decision is ongoing.

As regards the negotiations in view of new reciprocal concessions in the field of fish and fishery products, an agreement was reached at technical level between two parties. The preparatory work the conclusion of an additional Protocol to the Europe Agreement is ongoing.

As regards anti-dumping proceedings, in January, 2001 an investigation concerning imports of ammonium nitrate originating in Lithuania was terminated and, in July 2001 provisional measures were imposed on imports of urea originating, inter alia, in Lithuania.

The Protocol to the Europe Agreement on Conformity assessment and Acceptance of industrial products (PECA) was initialled with Lithuania in July 2001. The PECAs are mutual recognition agreements based on the implementation of the *acquis*.

Current discussions in the institutional framework of the Europe Agreement seek to achieve progress in areas like protection of intellectual property rights, the restructuring of the

agricultural sector, the restructuring of the energy sector and on setting up of appropriate administrative structures in the field of financial control and regional policy. There are no major trade problems in the relations between Lithuania and the EC.

Accession Partnership / National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999 - its implementation is reviewed in Part D. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.

In July 2001, Lithuania presented a revised National Programme for the Adoption of the *acquis* (NPAA), in which it outlines the strategy for accession, including how to achieve the priorities of the Accession Partnership (see Part D).

Community aid

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

For the years 2000-2002 total financial assistance to Lithuania amounts to around €126 million from Phare, €90 million from SAPARD, and around €155 million from ISPA.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition and political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

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

The Phare programme allocated to Lithuania commitments of €328 million during the period 1992-1999 and €37 million in 2000³. The **2001 Phare Programme** for Lithuania consists of an allocation of €45.5 million for the National Programme, concentrated on the following priorities:

³ This includes an allocation of €3 million to Cross-Border Co-operation (CBC) Programmes, and €35 million for nuclear decommissioning.

- Continuation of social security financing reform (€3 million)
- Further alignment with the transport acquis and strengthening administrative capacity to manage the implementation of transport policy (€2.4 million)
- Strengthening the energy market regulator (€1.95 million)
- Development of animal tracing and epidemiological surveillance system and modernisation of phyto-sanitary research and administration (€3 million)
- Strengthening the capacities to manage public health system in compliance with EC Regulations (€1 million)
- In the field of environment two projects were selected a) Strengthening the institutional capacity to implement EC requirements on management of chemicals, genetically modified organisms, IPCC and climate change and b) Creation of radiation protection infrastructure and development of supporting services (€4.15 million)
- In the field of Justice and Home Affairs an amount of €4.8 million would be provided to: a) Strengthening the fight against crime through establishing the national Europol Bureau and upgrading the Forensic Science Service's Central Laboratory b) Strengthening the capacity of Lithuania's judiciary
- In the field of Administrative Capacity three projects were chosen amounting to € 5.16 million: Public external audit, special preparatory program for structural funds and a twinning light reserve.
- A Phare contribution of € 4.43 million was provided for Lithuanian participation in the community programmes and the 5th framework programme
- As regards economic and social cohesion, an amount of €5.57 million is allocated to support productive sector, human resources development and improvement of business related infrastructure. Two of the projects aim at building up structures and facilities for developing and promoting innovation and SME related projects. Such activities are contributing to the development of projects to be financed under the Structural Funds upon accession.

An additional €3 million of the overall Phare national programme was allocated for Lithuania's participation in the Baltic Cross Border Cooperation programme. CBC includes a small project facility supporting co-operation activities in the Baltic region.

At the international Donors' Conference held in Vilnius in June 2000 on the decommissioning of Unit 1 of the Ignalina Nuclear Power Plant, the Commission, on behalf of the European Communities, pledged financial assistance amounting to a total of €165 million with the current Financial Perspectives (i.e. until 2006). This pledge is subject to the annual budgetary allocations by the budgetary authority. The bulk of this contribution is delivered via the Ignalina International Decommissioning Support Fund managed by the EBRD. On the basis of a special national Phare programme to support decommissioning and consequential measures in the Lithuanian energy sector, the following amounts have been allocated so far: €10 million in 1999, €35 million in 2000 and €5 million in 2001.

Lithuania also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprises Facility.

Furthermore, Lithuania participates in Leonardo da Vinci, Socrates, Youth, Raphael, SAVE II, Health and Social Policy, AIDS Prevention, Drug Dependence, Equal Opportunities, as well as the Fifth Framework Programme for Research, Technological Development and Demonstration. Lithuania participated in the third multi-annual programme for SMEs (1997-2000) from 1 March 2000 until the end of the programme (31 December 2000). Following the ratification and entry into force of the agreement, the formal participation of Lithuania in the European Environment Agency will start in January 2002.

In order to streamline Community legal procedures and thereby facilitate future participation of Lithuania in Community programmes, a decision is in the process of being adopted by the EU-Lithuania Association Council establishing the general principles of such participation.

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

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

- Strengthening veterinary and phytosanitary control. A project on technical assistance to veterinary and phytosanitary control (€95 000) was completed in August 2001. This project provided training for veterinary and phytosanitary border inspectors on control procedures applied to the products of the animal and plant origin. In addition, the project contributed to the development of designs for veterinary and phytosanitary border inspection posts.
- Developing an integrated farm register. A project on an integrated farm register and an agricultural information system (€700 000) helped Lithuania to decide on the methodology of a land parcel identification system. Two pilot projects were implemented in the districts of Panevezys and Kaisiadorys.
- Developing wastewater systems. A project of €750.000 is aimed at the development of the Wastewater System in the town of Varena.

The Phare Review of 2000 confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The Review foresees the possibility that management of the Phare funds can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis on raising the verifiable and quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The implementation of the Phare programme has recently experienced some difficulties. Contracting occurs very late, putting projects at risk and reducing implementation periods.

From September 2001, the functions of National Aid Co-ordinators have been transferred from the Ministry of Foreign Affairs to the Ministry of Finance.

The **SAPARD** programme prepared by the Lithuanian authorities was approved by the Commission in November 2000. The Community contribution to SAPARD in Lithuania for 2001 is €30.4 Mio.

The plan foresees a number of priority measures for agriculture and rural development, including (1) investments in agricultural holdings, (2) improving processing and marketing of agricultural and fisheries products, (3) improvement of rural infrastructures and (4) development and diversification of economic activities, providing for multiple activities and alternative income.

The *Multi-annual Financing Agreement*, which sets out the rules for implementing SAPARD, and the *Annual Financing Agreement*, which sets out the Community financial commitment for the year 2000 to Lithuania, were both signed in March 2001. The Lithuanian Parliament ratified both agreements in June 2001. These agreements entered into force at the end of August 2001 when their ratification was notified to the Commission.

The following structure will be used for the implementation of SAPARD:

- The National Fund, located within the Ministry of Finance administers SAPARD funds allocated under the responsibility of the National Authorising Officer (NAO) and is responsible for the national accreditation of SAPARD Agency.
- The Managing Authority is the Ministry of Agriculture.
- The National Paying Agency, under the Ministry of Agriculture has been designated as SAPARD agency responsible for the implementation and financial management of the programme. The agency is proposed to operate from its seat in Vilnius with 10 regional offices throughout Lithuania.

The Lithuanian authorities have concluded the accreditation of their national implementing structures and have notified the Commission on their National Act of Accreditation in July 2001. At the same time a complete package of information was also submitted (procedures' manuals, policy statements on fraud, rotation of sensitive posts, legal acts and agreements, etc). The Commission has been examining, also on the spot, the basis for the national accreditation and the operational capacity to manage the programme. This review work is about to be successfully completed and a Commission Decision conferring the management of aid to Lithuania is expected to be taken very soon.

As concerns the **ISPA** programme, the 2001 allocation will be €3 million +/- 20% depending on the quality and balance of projects submitted.

With regard to project applications, a total of 17 official applications have been submitted to the European Commission by the National ISPA Co-ordinator , 10 in the environmental sector and 7 in the transport sector. The projects which have been adopted by the Commission include:

- Rehabilitation and extension of the water supply and sewage collection systems in Vilnius
- Upgrading and extension of the wastewater treatment system in Druskininkai
- Upgrading of the Corridor IXB (Vilnius-Klaipeda)
- Improvement of the Via Baltica
- Modernisation of telecommunication, signalling and power supply concerning the railway component of Corridor IXB.

From September 2001, the functions of National ISPA Co-ordinator have been transferred from the Ministry of Foreign Affairs to the Ministry of Finance. The two line ministries (Ministry of Transport and Communication and Ministry of Environment) are responsible for technical programming, project implementation, evaluation and monitoring. Implementing agencies have been designated within the line ministries. Financial controllers will have to be designated within each implementing agency.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States' expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

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

A total of 372 twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the Community between 1998-2000. These represent the principal priority sectors that have been identified in the Accession Partnerships. But also other important sectors of the *acquis* have been addressed through twinning, for example, social policy, fight against drugs, transport, and telecommunications regulation.

Thanks to the strong support and response from EU Member States 103 twinning partnerships, funded by Phare 1998 and involving all candidate countries and almost all Member States are coming to an end or have been concluded. Under Phare 1999 a further 124 projects are being implemented and the programming exercise for Phare 2000 includes a further 145 twinning projects. The 2001 programming exercise foresees 131 twinning projects in all Phare beneficiary countries as well as Cyprus and Malta. Furthermore, the candidate countries are being offered the possibility of drawing on Member States' expertise through Twinning light (projects of up to 6 months' duration), to address well-circumscribed subjects of limited scope, which emerge during the negotiation process as requiring adaptation. It is estimated that around 250 twinning projects are operational throughout the candidate countries at any one time.

For Lithuania, the total number of projects implemented by twinning over the period 1998-2000 is 27. Out of these projects, 16 are ongoing (13 from the 1999 programme and 3 from the 2000 programme). Among the ongoing projects, for instance Germany is providing assistance towards strengthening the enforcement of border control in the veterinary and phytosanitary sectors, notably by training the phytosanitary inspectors. Among the twinning projects financed under the 2000 programme and which are currently being prepared, Lithuania is going to be assisted in preparing itself for the participation in the European Employment Strategy and the implementation of the European Social Fund.

A number of areas have been pinpointed for twinning assistance under the Phare 2001 programme, including:

- Social security financing reform
- Further alignment with the transport *acquis* and strengthening of the administrative capacity in the transport policy area
- Strengthening the energy market regulator
- Development of animal tracing and epidemiological surveillance system and modernisation of phytosanitary research and administration
- Strengthening of the institutional capacity to implement EC requirements on management of chemicals, genetically modified organisms, IPCC and climate change
- Creation of the radiation protection infrastructure
- Strengthening the fight against crime through establishing the national Europol Bureau and upgrading the Forensic Science's Services Central Laboratory
- Strengthening the capacity of the judiciary
- Strengthening the capacity to manage the public health system in compliance with the *acquis*
- Public external audit.

Negotiations / screening

The analytical examination of the *acquis* (screening) has taken place in the context of meetings of the Association Committee and the sub-committees.

Since the opening of the accession negotiations, substantial discussions on the individual chapters of the *acquis* started, and by June 2001, negotiations on all chapters (with the exception of chapter 30 - Institutions and chapter 31 – Other) have been opened.

By the end of September 2001, the following 18 chapters were provisionally closed: Free Movement of goods; Free movement of services; Free movement of capital; Company law; Fisheries; EMU; Statistics; Social Policy; Industrial policy; Small and medium-sized undertakings; Science and research; Education and training; Telecommunication and Information technology; Culture and audio-visual policy; Environment; Consumers and health protection; External relations; Common foreign and security policy.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”⁴

In its 2000 Regular Report on Lithuania’s progress towards accession, the Commission concluded that:

“Lithuania continues to fulfil the Copenhagen political criteria.

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

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

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

The section below aims to provide an assessment of developments in Lithuania since the 2000 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Lithuania’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Lithuania’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this report.

⁴ These principles have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council.

Recent developments

Following the parliamentary elections of October 2000, the new Government took office in November 2000. Due to a change in the ruling coalition, the Government resigned in June 2001. A new government took office in July 2001. While the first change entailed a protracted period when important vice-ministerial posts were not filled, the second change in government was swift, without any major disruption to the functioning of the civil service. In both cases, the Government confirmed Lithuania's commitment to accession to the EU.

1.1. Democracy and the rule of law

The parliament

The parliament continues to operate smoothly. In January 2001, the Seimas adopted, with the support of all the political groupings, a resolution stating that Lithuania's rapid accession to the EU is the country's strategic goal and giving priority to the adoption of EU accession-related legislation.

The executive

During the reference period, Lithuania made some limited progress in the implementation of the Law on Public Administration and the Law on Civil Service.

In October 2000, a regulation concerning the procedure for imposing disciplinary sanctions upon civil servants for misconduct in office was adopted. In April 2001, the Seimas amended the Law on Civil Service in order to simplify the procedures of recruitment and dismissal and increase their transparency.

A new ranking and remuneration system for civil servants was adopted to meet common criteria. However, the level of remuneration remains unattractive.

The implementation of the National Strategy of Training of Civil Servants in Preparation for EU Membership through the Lithuanian Institute of Public Administration continued. The institute currently runs five international projects and during the period January 2000 – September 2001 organised about 140 training seminars, in which some 2 400 public servants from 70 institutions took part. While these training efforts are to be welcomed, it is important to give them a more systematic character.

The reorganisation of the Public Administration continued. In January 2001, the Ministry of Public Administration Reforms and Local Administration was abolished. Its functions were transferred to the Ministry of the Interior and the Ministry of Finance. The significantly expanded responsibilities of the Ministry of Finance require an urgent increase in administrative capacity in this ministry.

Overall, sustained efforts are required to further advance the process of reforming and reorganising the public administration, so as to fully ensure its independence, accountability and transparency, as well as its capacity to implement and enforce the *acquis*. The adoption of the outstanding secondary legislation should be accelerated and adequate financial resources should be secured. Inter-departmental co-ordination must be further reinforced. Finally, the reform

process should cover all the different sectors of the administration while creating the conditions for the necessary continuity and stability of the administration.

The judicial system

Over the last year, some progress was made in reforming the Lithuanian legal system, and improving the functioning of the judiciary. However, the continued legal vacuum, resulting from delays in the adoption of the new Law on Courts, remains a matter of serious concern. The envisaged new Law should address the issues raised in a 1999 ruling of the Lithuanian Constitutional Court, to the effect that certain powers of the Ministry of Justice in administering the courts contradicted the principle of the independence of the judiciary laid down in the Constitution. Pending the adoption of the new Law on Courts, the Department of Courts, under the Ministry of Justice, performs *de facto* some administrative tasks regarding the management of the Courts.

As indicated, the independence of judges is firmly laid down in the Lithuanian constitution, and protected by the Lithuanian Constitutional Court. In 2001, the Constitutional Court ruled that a decision taken by the Seimas in September 2000 to significantly reduce judges' salaries was unconstitutional, given that this could be a threat to the financial independence of the judges.

Following the adoption of a new Civil Code as reported in the previous Regular Report, in June 2001 the Seimas passed the relevant amendments to the existing Code of Civil Procedure, so as to allow for the entry into force of the new Civil Code as of July 2001. A new Code of Civil Procedure is in preparation, but has still to be adopted.

In January 2001, the new Law on Administrative Courts Proceedings came into force. In accordance with the new Law, the Higher Administrative Court and the Administrative Division of the Court of Appeals were merged into the General Administrative Court. As a result, there is now a two-tier administrative court system that consists of the County Administrative Courts, which serve as courts of first instance, and the General Administrative Court, which has an appeals and judicial review function, and is in charge of the formulation of uniform judicial practice.

Since September 2000, asylum appeal cases are now dealt with by the Vilnius administrative court. As of June 2001, this court had handled 53 asylum appeal cases. Bankruptcy cases are dealt with by the Regional Courts.

As regards the number of judges, from July 2000 to September 2001, the number of positions was increased by 20 to a total of 712. In the same period, 19 judges were appointed. The number of vacancies is now 68. There is an action plan to fill all the vacancies by the end of 2003. Before being appointed, candidates are undergoing an extensive training and apprenticeship programme.

As regards the capacities of the Prosecutor's Office, in the first half of 2001 the county prosecutor's offices in five major towns were reorganised, with the aim of reducing the number of internal units and reallocating staff to operational work.

The number of court cases dealt with slightly increased: in 2000, 17 048 criminal cases and 124 011 civil cases were completed, compared to 16 755 criminal cases and 119 843 civil cases in 1999.

Despite this increase, the backlog has not substantially grown. At the end of 2000, the number of criminal cases which had been under consideration for more than 6 months in the district courts was 6 421 compared to 5 878 at the end of 1999. The number of civil cases under consideration for more than 6 months in the district courts was 20 467 at end of 2000, which compares to 20 468 at the end of 1999. At the end of 2000 there were 4 088 administrative cases unresolved.

Over the past year, efforts to improve the training of judges have continued, notably in specialised areas and in *acquis*-related matters. The Judicial Training Centre conducted over sixty courses on various legal subjects in 2000 and 38 seminars in the first half of 2001. In particular, during the reporting period it provided a training course on the application of the new Civil Code. Some training is being developed also for the Prosecutor's Office by its own Training Centre. These efforts must be sustained. In particular, training should become systematic, and appropriate attention should be paid not only to Community legislation, but also to such subjects as good judicial practice, and human rights law. Also, specialised courses in bankruptcy and asylum matters for judges in regional Civil Courts and Administrative Courts, respectively, are required. Adequate resources and a stable institutional status should be secured for the Judicial Training Centre. More incentives should be provided for judges to participate in the training courses, and the possibilities for traineeships abroad should be further developed.

Overall, Lithuania is still in the process of reforming its judicial system. The reorganisation of the court system is gradually being implemented, however, much remains to be done. First and foremost, the New Law on Courts needs urgently to be adopted. Adequate budgetary resources and the managerial competencies which are necessary for the administration of the court system need to be secured. Furthermore, the functioning of Courts, and chiefly of the Administrative and Regional Courts, requires further improvement, in particular as concerns working conditions of their staff. Additional training efforts have to be made to improve the qualifications of specialised judges and prosecutors. Recruitment of skilled judges should be encouraged so as to fill all vacant posts in district and administrative courts, as well as in the Regional Civil Courts. Additional staff needs to be recruited for the Organised Crime and Corruption division of the General Prosecutor's Office, and county prosecutors' offices should be further reinforced. Since the entry into force of the Criminal Code will take place at the same time as the entry into force of the Code of Criminal Procedure which is still in preparation, Lithuania needs to take urgent action to ensure that the Code of Criminal Procedure is adopted as soon as possible. Also the Code of Civil Procedure needs to be adopted.

Anti-corruption measures

Progress has been made in the fight against corruption. Although there are still problems, there is evidence that Lithuania has improved its capacity in this domain. Administrative corruption, however, remains an area of concern. Quick adoption by the Seimas of the National Anticorruption Strategy and its Implementation Plan is a pre-requisite for effective sectoral actions in the various institutions concerned.

Over the past year, the Special Investigation Service (SIS) consolidated its role as the co-ordinating anti-corruption agency. The organisational structure of the Special Investigation Service was improved, and 63 SIS officers received specialised training, including abroad. A Code of Honour of the SIS officers was adopted.

In terms of its activities, SIS achieved considerable results in fighting corruption in budgetary, municipal, credit and financial institutions, as well as among civil servants in public tendering, privatisation, local authorities, foreign investment, customs and law enforcement. In 2000, 108 criminal cases were initiated (as compared to 125 in 1999), 56 crimes against the civil service were detected (as compared to 98 in 1999), and 98 civil servants and public officials were charged with offences against the civil service (as compared to 168 in 1999). In the first half of 2001, the SIS uncovered 124 crimes, and 98 persons, including 58 civil servants, were charged.

In its annual report for 2000, SIS reported that corruption occurs mainly in the field of public procurement and customs. The most frequent type of corruption (in terms of number of incidents) is administrative corruption.

In February 2001, SIS, the Police Department, the Tax Police Department, the Border Guard Service (former Border Police Department), the State Security Department, the Ministry of Defence, the Customs Department and the Prosecutor General's Office signed an inter-institutional Co-operation Agreement on Anti-Corruption Operations. Under this agreement, these agencies will implement common actions and exchange information. In addition, the SIS actively co-operates with international agencies through the National Bureau of Interpol.

SIS has been involved in the preparation of a National Anti-Corruption Strategy which was approved by the Government in September 2001. The Strategy, along with its Implementation Plan, still needs to be adopted by the Parliament.

In May 2001, the Seimas adopted a Resolution on the Fight against Corruption, which put forward a number of anti-corruption measures to be implemented by the relevant Seimas committees, the Government, and SIS.

In July 2001, a new Division for Investigations in Office, investigating violations made by customs officials, was established in the Customs Department.

Lithuania has ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of proceeds from crime and has signed the Council of Europe Criminal Law Convention on Corruption in December 2000. It has not yet signed the Council of Europe Civil Law Convention on Corruption. Lithuania participates in the Council of Europe Group of States against Corruption (GRECO), and is, jointly with Estonia and Latvia, developing the Baltic Anti-Corruption Initiative with the support of the OECD Secretariat. This initiative focuses on legislative improvements, capacity building and community involvement in order to tackle corruption.

The welcome efforts made over the past year should be sustained and reinforced. Progress should be made with the adoption of the National Anti-Corruption Strategy and its Implementation Plan by the Parliament, and with the adoption of a new Law on Corruption Prevention. As regards the continued problem of administrative corruption, further progress in strengthening the public administration and ensuring the transparency of administrative

procedures is required. The finalisation and adoption of the envisaged Code of Ethics for Public Servants would be an important step in this regard. The administrative capacity of SIS, together with other key players, in combating corruption needs to be further strengthened in terms of staff training. Qualified staff has to be recruited to fill in remaining vacancies. Inter-agency co-ordination should be further strengthened in order to avoid overlap of operations and ensure efficient exchange of information. Finally, greater involvement of civil society in the fight against corruption should be encouraged.

1.2. Human rights and the protection of minorities

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

Over the past year, Lithuania has made further progress in acceding to the major human rights conventions (*see Annex*).

The principle of non-discrimination, which is enshrined in the Constitution, is at the basis of various laws. The new Criminal Code, which has not yet entered into force, contains provisions prohibiting discrimination on a wide range of grounds. No other new developments are to be reported with regard to the transposition of the EC anti-discrimination *acquis* (*see Chapter 13 - Social policy and employment*).

The Ombudsman system continues to function satisfactorily.

Civil and political rights

Lithuania has addressed the issues identified in this area in the 2000 Regular Report, and positive developments can be reported in several domains. However, some problems persist.

Isolated cases of *degrading treatment* by law enforcement officials continue to be reported. One investigation is being carried out by the Prosecutor's Office.

Lithuania remains a country of origin with regard to *trafficking of human beings*. Trafficking of women continues to be a problem and greater efforts to prevent it and vigorous measures to combat the criminal organisations involved are required. Adequate protection and support for the victims need to be ensured. Greater involvement of NGOs against trafficking in women should be encouraged. The implementation of the Programme on Control and Prevention of Prostitution and Trafficking is ongoing.

Concerns remain about *pre-trial detention*. While pre-trial detention period is on average five months, in accordance with the law it may reach 18 months, and can in practice last longer. Recent rulings by the European Court of Human Rights underline the need for Lithuania to change its detention practices. In October 2000, the European Court of Human Rights delivered two judgements relating to events that occurred in the 1990s, establishing in both cases a violation by Lithuania of Art. 5 of the European Convention on Human Rights. In the meantime, measures to prevent these violations from reoccurring had already been taken. The new Criminal Code, which has not yet entered into force, provides for a reduction of pre-trial detention time.

As far as the institutional structure of the Penitentiary System is concerned, in January 2001, the Department of Prisons was transferred from the Ministry of Interior to the Ministry of Justice. As regards *prison conditions*, in 2001 the Seimas passed a law amending the Code of Correctional Labour, expanding the rights of sentenced persons. In particular, the possibilities for long-term family visits were expanded, and the restriction of phone calls to family members and other relatives was repealed. Following the amnesty of mid-2000, the total prison population decreased from 14 412 in January 2000 to 10 750 (of whom 1 766 are pre-trial detainees) in September 2001. However, overcrowding remains a problem. Lack of medical care is also a concern. Considerable investment is needed to bring prisons up to acceptable standards.

As regards legal aid, the Law on State Guaranteed Legal Aid, aimed at ensuring the provision of state-guaranteed *legal aid* in civil, administrative and criminal cases, for citizens of Lithuania, as well as foreign nationals and stateless persons residing in Lithuania, who cannot afford legal fees, entered into force on 1 January 2001. In 2000, the Government disbursed €763 000 and €694 000 in the first half of 2001 in remuneration for attorneys providing legal assistance in criminal cases on the assignment of the investigator, prosecutor or the courts.

While Lithuania has achieved a good level of alignment with the European and international standards on *asylum*, a number of issues remain to be addressed, including the definitions for determination of safe third countries and safe countries of origin. Co-operation and co-ordination among the various institutions involved in refugee matters need to be improved, in particular through the establishment of a comprehensive registration system.

As regards *crimes against humanity*, a Lithuanian court found guilty a person charged with genocide committed during World War II.

During the reporting period, as concerns the fight against *racism*, xenophobia, anti-Semitism and ethnic intolerance, actions were taken by the General Prosecutor and the courts against the chief editor of a newspaper for publication of articles of anti-Semitic character and against the publisher of a calendar inciting ethnic intolerance.

The new Criminal Code, which has not yet entered into force, eliminates the difference in age as regards consent depending on *sexual orientation*, and includes provisions banning discrimination on that basis.

Freedom of expression and *freedom of religion* are enshrined in the Lithuanian constitution, and continue to be respected.

Economic, social and cultural rights

Further progress was made in this area since the last Regular Report.

In June 2001, Lithuania ratified the *revised Council of Europe Social Charter*.

As regards *equal opportunities*, the Ombudsman of Equal Opportunities has continued to take decisive action. As a result, public awareness on equal rights, particularly at work, has increased. Upon the Ombudsman's recommendation, in January 2001, the Seimas amended the legislation on parental benefits in order to ensure equal treatment as regards the bringing-up of children. The Ombudsman handled 25 complaints, which is the same number as in 1999. Out

of these, 6 related to sexual harassment and sexual abuse; the others concerned gender discrimination at work or in seeking employment, or related to discrimination in education. About half of all the complaints were judged by the Ombudsman to be grounded and infringements of equal opportunities were established.

The work of the inter-departmental Commission for Equal Opportunities continued in order to ensure that the state authorities implement effectively the provisions of the law concerning equal opportunities. In the meantime, the number of women in the Lithuanian parliament decreased, and stands now at 14, compared to 24 in the previous legislature.

The *Children's rights* Ombudsman, established in November 2000, has been particularly active. In April 2001, the Ombudsman submitted her first report to the Seimas. In 2001, the Office received 75 written and 230 oral complaints. Most complaints refer to violations by children's care institutions, litigation over alimony and parental custody of a child. The report notes growing minor delinquency and spreading drug addiction as the two main problems and recommends streamlining the children's rights protection system. In addition, the report highlights the inactivity of local government institutions.

In order to guarantee the rights of *disabled persons*, in February 2001, the Government adopted the Policy Paper on Reform of Diagnosis of Disability and Social Security Measures for Persons with Disability.

As regards *trade unions*, the unionisation level has slightly increased: in September 2001, it had reached 13 per cent of the working force. Trade union rights are generally respected. There are certain restrictions on the right to join trade unions for limited categories of civil servants.

Minority rights and protection of minorities

Since the 2000 Regular Report, the overall situation with regards to protection of minorities continues to be satisfactory, and some progress was made in implementing integration programmes.

The Government continues to support programmes promoting economic, social and cultural development of Lithuania's minority communities. The Government allocated € 131 000 for implementation of the Programme for Social and Cultural Integration of National Minorities in 2001. The Programme on State Language Use and Promotion for 1996-2005, which serves to assist minorities in learning or improving their knowledge of Lithuanian, continues to be adequately financed.

The Roma community counts around 3 000 people, who live in difficult conditions. In 2001, the Government started the implementation of the new Roma Integration Programme allocating €244 000 from the state budget, of which €152 000 is earmarked for the construction of the Roma Public Centre (started in 2000), and €91 000 for education, health care, and cultural needs of the Roma minority. Ongoing efforts to increase the integration of Roma in Lithuanian society need to be sustained. Much more attention should be paid to the issue of housing.

To ensure the effective implementation of these welcome integration programmes, funding will need to be increased, and the capacity of the Department of National Minorities and Emigration should be upgraded.

1.3. General evaluation⁵

In its 1997 Opinion, the Commission concluded that Lithuania fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Lithuania continues to fulfil the political criteria.

Lithuania has made some progress in reforming the public administration and the judiciary, where the administrative court system has been re-organised. The legal system has improved with the entry into force of the new Civil Code. The capacity to fight corruption has been strengthened. The active role of the ombudsman in the field of equal opportunities and, more recently, children's right is noteworthy.

Sustained efforts are required to further advance the process of reform of the public administration, covering all different sectors of the administration, while creating the conditions for the necessary continuity and stability of the administration. Adequate financial resources should be secured, inter-departmental co-ordination must be further reinforced and training should become more systematic. As regards the judicial system, the new Law on Courts urgently needs to be adopted. Adequate budgetary resources and the managerial competencies which are necessary for the administration of the court system need to be secured. The adoption of the Code of Criminal Procedure must be speeded up in order to allow for the implementation of the new Criminal Code.

In the field of the fight against corruption, the efforts made over the past year should be sustained and reinforced, through the adoption of the National Anti-Corruption Strategy and its Implementation Programme by the Parliament, and with the adoption of a new Law on Corruption Prevention. As regards the continued concern over administrative corruption, further progress in ensuring the transparent application of administrative procedures is required, and the co-ordination among the agencies combating corruption should be further strengthened.

Lithuania has made progress towards meeting the accession priorities related to the political criteria. It has made limited progress in implementing the public administration law and the civil service law. The Government has approved the National Anti-Corruption Strategy which now needs to be adopted by the Parliament and implemented. A training programme for judges, covering various aspects of EC law and *acquis* enforcement, has started and needs to be continued.

⁵ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

2. Economic criteria

2.1. Introduction

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

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

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

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

In its 2000 Regular Report the Commission found that:

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

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous annual Regular Reports.

2.2. Economic developments

Lithuania's economic situation has further improved since the Regular Report 2000. The economy has been experiencing an export driven recovery, which is starting to spill over into the domestic economy. However, private and public investments are still relatively sluggish. As a result of strong export growth and low imports supported by fiscal restraint, the external balance has significantly improved. Inflationary pressures remained particularly low, reflecting weak domestic demand and the strength of the Litas. The currency board arrangement with its peg to the USD has provided a credible external nominal anchor, supported by economic consolidation. Fiscal discipline has been maintained and the sustainability of public finances has improved.

Main economic trends							
Lithuania		1996	1997	1998	1999	2000	2001 latest
Real GDP growth rate	per cent	4.7	7.3	5.1	-3.9	3.9	5.1 H1
Inflation rate ⁶							
- annual average	per cent	24.7	8.8	5.0	0.7	0.9	1.1 ⁷ (Sept)
- December-on-December	per cent	13.1	8.2	2.4	0.3	1.3	2.1 (Sept) ⁸
Unemployment rate, end-year							
- ILO definition	per cent	16.4	14.1	13.3	14.1	16.0	16.6 P Q2
General government budget balance	per cent of GDP	-2.8	-1.1	-3.1	-5.7	-3.3	:
Current account balance	per cent of GDP	-9.2	-10.2	-12.1	-11.2	-6.0	:
	million ECU/euro	-569	-865	-1,158	-1,120	-725	- 315 ⁹ Jan-July
Foreign debt							
- debt export ratio	per cent	25.9	27.6	37.1	66.7	62.7	:
- gross foreign debt	million ECU/euro	860	1,273	1,677	2,651	3,470	:
Foreign direct investment in flow	per cent of GDP						
- balance of payments data		2.0	3.8	8.3	4.8	3.4	:
	million ECU/euro	123	321	793	484	410	355 ¹⁰ Jan- July

Structural reforms have proceeded along the lines set out in the last Regular Report. The privatisation of the financial sector is close to completion. The legal framework for market entry and exit has been improved. Labour market regulations have been liberalised. The role of the state has been further reduced and trade liberalisation has been increased. The restructuring and privatisation of the electricity and gas sector is under way. Measures to improve the human and physical capital have been hampered by budgetary constraints. The pension reform has been discussed in the parliament, but no decision has been taken.

⁶ PROXY HICP since 1996 (see methodological notes)

⁷ Moving 12 month average rate of change, national CPI

⁸ National CPI

⁹ National CPI

¹⁰ Source: Website of National Bank

Main Indicators of Economic Structure in 2000		
Population (average)	thousand	3,696
GDP per head ¹¹	PPS	6,600
	Per cent of EU average	29
Share of agriculture ¹² in:		
- gross value added	per cent	7.6
- employment	per cent	19.6
Investment-to-GDP ratio ¹³	per cent	18.8
Gross foreign debt/GDP ¹⁴	per cent	28.5
Exports of goods & services/GDP	per cent	45.5
Stock of foreign direct investment	Million Euro	2,524
	Euro per head ¹⁵	683

P: provisional data

Lithuania has been catching up with the EU, although from low levels. GDP per capita in terms of purchasing power standards reached 29.3% of the EU average in 2000, slightly up from about 27% in 1995, but down from levels enjoyed in 1998. Regional differences in income levels are moderate. 1998 data show relative regional income levels ranging from 32.4% in % of the EU in the capital, Vilnius, to around 20% in other regions of the country. The economic activity rate (at around 60% in 2000) and the employment rate (at 60.1%) have shown a slight decline over the past years, reflecting the rising unemployment, driven by enterprise restructuring and the economic slump in 1999. Also last year, despite strong economic growth in that period, the situation on the labour market deteriorated: the unemployment rate rose from 14.1 % to 16.0 % (18.4% among men and 13.4% among women), including 53.0% long-term unemployed.

¹¹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹² Agriculture, hunting, forestry and fishing.

¹³ Data refer to Gross fixed capital formation as % of GDP.

¹⁴ Estimated.

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

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

There is broad consensus about the main direction of economic policy. Despite changing coalition governments, the Lithuanian authorities maintained the policy approach adopted in the anti-crisis programme of December 1999 and enshrined in medium-term plans, such as the Joint Assessment of Economic Policy Priorities signed in May 2000 or the renewed pre-cautionary IMF agreement of April 2001. In line with the commitments in the Accession Partnership, Lithuania is participating in the Fiscal Surveillance Exercise and submitted its first Fiscal Notification in April and the Pre-accession Economic Programme (PEP) in October 2001. Drawing up the PEP involved most of the ministries and some other institutions, and the programme was approved by the government. The new government, appointed in July, has declared that it will maintain the policy orientation of its predecessor, aiming at EU membership. It has also pledged to fulfil the IMF stand-by arrangement drawn up by the former government. The arrangement, signed in August, commits Lithuania to continue with structural reforms, utilities privatisation, and fiscal discipline.

In 2000, Lithuania returned to growth from a decline in GDP. On average, real GDP grew by 3.3 % in 2000 and even by 5.1 % year-on-year in the first half 2001. Growth was mainly driven by exports, but private consumption contributed significantly. Exports and private consumption increased by 12.9 % and 3.8 %, respectively, in 2000, and by 18.4 % and 4.6 % in the first half 2001. Except for private consumption, domestic demand was very weak in 2000. Public consumption and total fixed investments both decreased for the second year in a row. However, the decreases were smaller in 2000 than in 1999, amounting to 0.8 % and 3.8 % for public consumption and investments respectively. In the first half of 2001, investments increased by 5.1 %. As a result of several years of low investment growth, the share of investment in GDP has been declining recently, reaching 20.7 % of GDP in 2000.

The labour market situation continued to deteriorate, despite the economic growth of last year. Employment fell from the second quarter 2000 to the second quarter 2001 by almost 7%, and thus even faster than the year before with a decline by 5.5%. As a result of economic restructuring, but also increased unemployment registration, the already high unemployment rate increased by 1.9 percentage points to 16.0 % between 1999 and 2000, according to ILO definitions. While the registered average unemployment rate was 11.5 % in 2000, in some regions it reached significantly higher, values of between 20 and 30 %. The economic activity rate fell from last year's 61.9 % to 60.4 % in 2000.

Inflationary pressures remained particularly low in Lithuania. The main factors contributing to the low inflation have been weak domestic demand and the appreciation of the Litas against the Euro in 2000. Furthermore, wage settlements have remained moderate. The average CPI increase was only 1.0 % according to the national definition. The harmonised CPI (HCPI) increase was even lower, 0.9 %. Although general inflation was low with prices falling for

several items, prices for housing, water, electricity, gas and other fuels, and communication rose considerably. This was a necessary consequence of the stronger cost recovery achieved by those providers. In contrast to the development of consumer prices, producer prices rose sharply by 18.0 % on average in 2000, partly reflecting increasing energy prices. During 2001, inflation has risen slightly, but still remained low at 2.1 % in September. The upturn in inflation was mainly induced by price rises for food and beverages, and communications.

The currency board arrangement remains, although the currency peg will switch from the US dollar to the Euro. The Litas has been pegged to the US dollar, and the main goal for the central bank has been to maintain this exchange rate. After some unsuccessful attempts, the central bank announced 6 months in advance, in a way that was both transparent and timely, that on 2 February 2002 it would change the peg of the Litas from the USD to the Euro, maintaining the external value of the currency at the switchover. The change in the peg is intended to reflect changes in trade orientation and to prepare for post-accession EMU participation. This measure will further accelerate and deepen Lithuania's integration with the EU economy by eliminating the exchange rate risk for investment and trade with the EU, as long as the currency board arrangement remains credible. The Lithuanian Central Bank reduced the reserve requirements from 10% to 8% with little apparent impact on credit expansion.

Public finances were characterised by fiscal discipline, and the sustainability of public finances has been improved. In 2000, the budget deficit fell from 7.8 % of GDP to 2.8 %. Using harmonised EU accounting standards (ESA 95), the budget deficit decreased from 5.7 % of GDP in 1999 to 3.3 % in 2000¹⁶. The stand-by arrangement with the IMF foresees a further reduction of the deficit to 1.4 % of GDP in 2001, and 1.3 % of GDP in 2002 (GFS accounting). However, in order to achieve fiscal targets, public expenditures, and in particular public investment, have had to be reduced drastically. In order to restore the level of investment, the government plans to increase investments this year. One burden on public finances is the accumulation of tax arrears. Improvements have been made at central level, but the municipalities have still to tackle this issue. A new pension reform, including a mandatory funded pillar, is in preparation. The introduction of the new pension system is expected to generate an annual deficit in the State Social Insurance Fund equivalent to 0.9 % of GDP. It has not yet been decided how the deficit will be financed. The government approved guidelines for a tax reform in May 2001. Its main goal is to streamline the tax system functioning and to stimulate the supply side of the economy. The reform includes a gradual reduction of both company income tax and personal income tax, as well as raising the minimum untaxed income level.

The current account deficit is still high, but has improved. In the year 2000, the deficit decreased to 6% of GDP, compared to 11.2 % in 1999. In the first half of 2001, the current account deficit decreased by 0.9 percentage points to 5.0, compared to the first half of 2000. The improvement in 2000 was mostly the result of a rapid increase in merchandise exports. In 2000, exports increased by approximately 29% in current prices, and in the first half of 2001 by 25%. The main contribution to this improvement came from machinery, electrical equipment and vehicles and prepared foodstuffs. The strong increase in the export of mineral products was more than offset by increased imports of mineral products, in particular oil. The pattern was the

¹⁶ Two figures are given for the government balance. One is based on the most commonly used national concept, and the other is calculated according to the European System of Accounts (ESA 95), which was reported by the candidate countries for the first time this year.

same in the first half of 2001, with the exception that total imports began to increase more rapidly. The balance of services recorded a somewhat increased surplus in 2000. The financial accounts showed a surplus, and foreign direct investments covered about 56 % of the current account deficit.

The macroeconomic policy mix has been broadly appropriate. The currency board arrangement has maintained both currency and price stability, and at the same time allowed interest rates on loans to fall slowly. The conduct of fiscal policy has succeeded cutting both the current account deficit and the budget deficit. However, the reduction of the budget deficit was largely dependent on a reduction in public investment.

The share of the private sector has increased. The private sector contribution to GDP increased in 2000, from 70 % to 72 %. The share of employees in the private sector was 68 % in 1999, and rose to 69 % in 2000. Restitution of land is close to completion, and the land market has started to function. However, the restitution process has slowed down. By 1 September 2001, ownership rights had been established for 79 % of the rural land area claimed in citizens' applications, just 1 percentage point more than a year earlier. This should, however, not hide the fact that the amount of decisions taken increased by 10% during the period September 2000 – September 2001. Nevertheless, in August 2001, the parliament adopted amendments to the law on restitution, with a view to speeding up the process. Regulated prices account for about 20.5 % in the CPI. Last year they accounted for 18 %. However, this increase in the share of administered prices only reflects price increases for these goods and services, and not an increase in the amount of goods and services whose prices are regulated. A real increase in the amount of regulated prices, however, represents the minimum prices for grains, which were introduced in August 2001.

Privatisation is approaching completion. In 2000 privatisation slowed down, but at the end of the year the Lithuanian Development Bank was sold, and in early 2001 both the Lithuanian Shipping Company and the Lithuanian Savings Bank were sold. The only remaining state-owned bank, the Agricultural Bank, is being prepared for sale later this year. This will be the third attempt to sell the bank. Several other companies are also prepared for future privatisation: the Lithuanian Gas Company, the Klaipeda Transport Fleet, the Lithuanian Electricity Company, and the Lithuanian Airlines. However, no firm dates have yet been announced. Besides these large holdings, the state also holds minority stakes in a number of enterprises. A new regulation is being prepared so as to speed up the sale of these minority stakes.

Conditions for market exit have been improved, although the implementation of the existing legislation needs to be strengthened. In July 2001 a new bankruptcy law and an enterprise restructuring law came into force. Following the Russian crisis, the amount of bankruptcy procedures launched rose rapidly in 1999 and 2000. In 2000, 415 bankruptcy cases were initiated, but only 7 of them were completed. In total, 102 cases were completed last year. The new laws are expected to simplify and speed up the liquidation process as well as the restructuring process. The implementation of the laws may be hampered by the lack of competent judges – however, this problem is recognised by the authorities and the training of judges is ongoing. Thus, although the laws represent a crucial step forward, setting up properly functioning bankruptcy and restructuring procedures is still a key challenge. Market entry is still hampered by too much bureaucracy in connection with company registration and licensing. In 2000, 10392 new enterprises were registered, and 9362 were unregistered, resulting in a total of 112442 enterprises on 1 January 2001.

Property rights are well established, and land restitution is close to completion. By 1 May 2001, 81 % of privately-owned agricultural land had been legally registered and was ready to enter the market. However, foreigners still face restrictions as regards acquisition of land (see chapter 4, free movement of capital).

Privatisation of banks is nearly finished. Since the last Regular Report, two of the three remaining state banks have been privatised and there are plans to sell the third, the Agricultural Bank, representing 13.6 % of total assets in the banking sector, at the end of 2001. All in all, 10 commercial banks and 3 foreign bank branches are currently operating in Lithuania. On 1 January 2001 the share of foreign investment in bank capital amounted to 57.7 %.

The financial sector has slowly continued to stabilise. Profitability in the banking sector grew last year. Pre-tax profits increased from 0.21% of total bank assets in 1999 to 0.46% in 2000. The proportion of non-performing loans continued to decline, from 11.9% in 1999 to 10.8 % in 2000. At the end of 2000 the capital adequacy ratio of the banking system was 16.3 %, well above the 10 % requirement of the Bank of Lithuania.

Efficiency has increased, but the interest rate spread is still wide. The average long- and short-term spread between interest rates on loans and deposits declined during 2000, from 10.4 percentage points in the first quarter of 2000, to 8.6 in the fourth quarter, and 7.5 in the second quarter of 2001. However, despite the decline, the level is still very high.

The financial sector has not been very active in channelling funds to the private sector. Between the end of 1999 and the end of 2000, lending to the private sector stagnated - on average it accounted for 12.8 % of GDP in 1999 and for 11.7 % in 2000. However, a small upturn in lending occurred in the first half of 2001. The securities market is still underdeveloped. It is very difficult for companies to raise funds through securities issues. On 1 January 2001 shares of only 6 companies were listed on the Official List and 48 on the Current List of the National Stock Exchange. This is a decline from 1 January 1999 when 6 companies were represented on the Official list and 56 on the Current List. On 1 January 2001, a united Baltic list comprising stocks of the largest companies listed on the Riga Stock Exchange, the Tallinn Stock Exchange, and the Lithuanian National Stock Exchange was established. The capitalisation of the stock market represented 28 % of GDP in 1999, and 27 % in 2000; bond market capitalisation (incl. T-bills) was 4 % in 1999, and 3 % in 2000. The intended establishment of a funded pension system should in the long run have a positive impact on the deepening of the capital market.

Financial market supervision has further strengthened. The Law on Commercial Banks has been amended in several stages so as to bring the legislation closer to the standards in the EU. The parliament has, inter alia, adopted amendments that will improve the bankruptcy procedures and speed up the liquidation process. The Bank of Lithuania, the Securities Commission, and the State Insurance Supervisory Authority have signed a trilateral agreement on co-operation. The Bank of Lithuania has also signed several agreements on international co-operation.

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

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

Macroeconomic stability has been maintained, including price stability and sound public finances, allowing economic agents to take decisions in a climate of stability and credibility. After the economic decline caused by the Russian crisis and the delayed but successful redirection of economic policy towards sustainability, the principles of a market economy are more firmly established in the Lithuanian economy.

Lithuania's human capital stock provides a good base for growth. The qualifications of Lithuania's labour force have been comparatively high, in particular with respect to technical know-how. In some specialised fields, such as semiconductor, biotechnology, electromagnetic and laser technology, the amount of R&D has been very high. However, while a decline in young peoples' participation in education has been partially reversed in recent years, a significant proportion of children continues to leave school without basic qualifications. Compulsory schooling lasts for 10 years in Lithuania, and enrolment ratios are very high. The ratio between pupils and teachers is relatively favourable with 9 pupils per teacher. During recent years, this rate has even improved. However, the major issue is to adjust the educational system to the new challenges of a rapidly changing market economy. The content of education, training and research is sometimes outdated and not sufficiently suited to these new requirements.

Labour market policy is increasingly focused on liberalising labour market regulations and on active labour market measures. In order to increase the flexibility of Lithuania's labour markets, lay-off benefits have been reduced and the potential for part-time employment and service contracts has been improved. In addition, the recently amended bankruptcy and restructuring procedures foresee improved possibilities for reducing excess labour. Furthermore, a programme to promote employment has been adopted by Parliament. It contains measures to support job creation and labour mobility. The programme puts special emphasis on regions with high unemployment. For the first time in several years, in 2000 wage settlements have been fairly low, despite high productivity gains. This was mainly due to the drastic rise in unemployment since 1999, relatively low growth and subdued inflationary pressures.

Investment was relatively low last year, reflecting low growth and fiscal adjustment. Gross fixed capital investment amounted to 21% of GDP in 2000. This was relatively low compared to the years before the Russian crisis, when the investment share was in the range of 24-27% of GDP. The main reason for this drop was the sharp decline in public sector investment, reflecting Lithuania's attempts to reduce the deficit through cuts in public sector

expenditures. Despite this curb on public sector investment, maintaining infrastructure investment has been declared as a priority. According to first quarter data, investment is picking up in Lithuania, in particular private sector investment. Public investment is supposed to be significantly higher in 2001. Nevertheless, given Lithuania's need to accelerate its economic dynamics and to improve its attractiveness for foreign direct investment, the present level of public sector investment is rather low. Infrastructure is in general sufficiently developed. However, the railway network would need additional investment, in particular given Lithuania's role as transit country between the CIS and the Baltic Sea.

Foreign direct investment inflows are still at a relatively low level. In 2000, net FDI inflows accounted for 2.5% of GDP, compared with 4.5% of GDP in 1999. Danish and Swedish enterprises are still the main investors in Lithuania, accounting for about one third of FDI inflows. The third biggest source of FDI inflows are US companies, accounting for about 10% of FDI. About 30% of FDI goes to the manufacturing sector, while the trading sector accounts for about 23%. This indicates that Lithuania is not so much seen as an export market, but as a favourable place for production. A relatively large part of FDI inflows is still related to privatisation. However, since the 2000 Regular Report, the significance of green-field investment has improved. The most prominent examples are related to the food processing industry, telecommunication and biotechnology, accounting for about 16% of total FDI inflows.

The restructuring of the economy has gained additional momentum. While Lithuania's initial response to the Russian crisis had been to dampen the negative impact and to postpone structural adjustment, in November 1999 Lithuania adopted a liberal approach and has since kept to this course. As a result, economic restructuring has accelerated in 2000. The amendments to the bankruptcy and restructuring legislation facilitate the closing down of non-viable companies and the re-orientation and reorganisation of troubled but in principle viable companies. Labour market regulations have become more flexible. State aid to troubled enterprises has been significantly reduced and general support for enterprise start-ups and in particular SME's has increased, both at state and municipal level. Special commissions consisting of the social partners (the Sunset and Sunrise commissions) are advising the government on ways to improve the business environment and simplify administrative procedures. Trade protection has been removed. The ongoing structural change is documented by labour market developments. The biggest job losses in 2000 took place in agriculture and construction, while trade, education and tourism have been the most important employment-generating sectors. A similar pattern appears from output statistics of the different sectors. Given the high share of employment in agriculture, this sector will surely face further pressure to restructure.

State interference has been declining further. Lithuania has further reduced state aid to enterprises from 1.3% of GDP in 1996 to 0.2% of GDP in 2000. Furthermore, the privatisation of state enterprises is close to completion. In the banking sector, only one bank remains under state control so far. Financial support to private enterprises has declined sharply. Market regulations have been liberalised and regulatory barriers reduced. On 31 May 2001, Lithuania became a member of the WTO and of the Baltic Free Trade Zone. Furthermore it has concluded Free Trade Agreements with Bulgaria and is in the final stage of signing a Free Trade Agreement with Romania.

Lithuania has proceeded with privatising its state enterprises. All banks but one are now privatised and the state shipping company *LISCO* has been sold. Preparations for the

privatisation of most remaining state enterprises, like the *Lithuanian Airlines*, the *Klaipeda Transport Fleet* and the Lithuanian Electricity company *Lietuvos Energija* and *Lithuanian Gas*, are under way.

The share of SMEs accounts for around 96% of all registered companies. The government supports the creation of SMEs through various programmes, like business incubators and through simplified administrative procedures. Municipalities too are supporting the establishment of new companies. However, according to independent research institutes, small enterprises still face difficulties with unclear regulations and red tape. In addition, private enterprises face difficulties getting access to credit financing, as banks are rather cautious and interest rates are relatively high.

Trade integration with the EU has increased further. Trade openness is fairly high and increased from 89.8% of GDP in 1999 to 97.4% in 2000. This increase reflects the export-driven recovery, which took place in that year. The volume of trade with the EU further increased in 2000 (exports by 21%, imports by 5%), although at a slower speed than with other countries. Thus, the EU's share in total merchandise exports declined from 50% in 1999 to 48% in 2000. The second most important trading partners are the other members of the CEC10-group, accounting for 22% of exports. Given the substantial trade links between the CEC10-group and the EU, Lithuania's direct and indirect exposure to EU trade dynamics is therefore quite high. The share of exports to the CIS has declined from 46% before the Russian crisis to 16% in 2000. Lithuania's export performance on EU markets was very favourable, in particular when taking into account the continued appreciation of the Litas against the Euro by around 11% on average in 2000. The real effective exchange rate also appreciated by about 7% during this period.

Energy products are an important element in the commodity structure of Lithuania's exports. Industrial commodities in total (SITC 5-9) account for about two thirds of Lithuania's exports. The three most important commodity groups for export are mineral products, in particular oil, accounting for about 20% of total exports; textiles, accounting for 18%, and electrical machinery, accounting for about 10%. Exports of mineral products are rather volatile, while the shares of textiles and electrical machinery have been steadily increasing. Exports to the EU are dominated by textiles and clothing, accounting for about one third of total exports to the EU, and electrical machinery and chemical commodities, each accounting for about 10%.

2.4. General evaluation¹⁷

Lithuania is a functioning market economy. Provided that it makes further substantial efforts to continue with the vigorous implementation of its structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Lithuania has preserved macroeconomic stability, improved the fiscal and external imbalances and reduced state interference. The privatisation of banking, other sectors and land is nearing completion. New bankruptcy and enterprise restructuring laws finally came into force.

¹⁷ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

However, unemployment remains high and the structural problems on the labour markets will have to be addressed. While important laws to restructure and liberalise the energy market were adopted, further acts need to be adopted and effective implementation needs to be ensured. Financial intermediation continues to be low and inefficient. Domestic and foreign investment remains at relatively low levels. The authorities need to properly implement the new legal framework for business, specifically the bankruptcy laws. The planned pension reform must be advanced and implemented. Fiscal discipline must continue and the sustainability of public finances in the medium-term must be ensured, also to keep the current account deficit under control in the context of currency board.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 2000 Regular Report on Lithuania's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2000 Regular Report, this section seeks to provide an overall assessment of Lithuania's ability to assume the obligations of membership, and of what remains to be done. This section is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of Lithuania's administrative capacity to implement the *acquis* in its various aspects. Lithuania's progress in translating the *acquis* into its official language is assessed in a separate section.

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

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of Lithuania's administrative capacity provided in the 2000 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 2000 Regular Report, the Commission concluded that :

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

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

area of *taxation*, very limited progress can be reported on alignment. Lithuania has made progress in the field of *customs*, however further efforts are needed as regards implementation and administrative capacity.

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

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

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

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

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

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

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

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

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

3.1. The chapters of the *acquis*

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

Chapter 1: Free movement of goods

Since the last Regular Report, Lithuania has made good progress in aligning its legislation with the *acquis* and in strengthening its administrative capacities.

As concerns **horizontal and procedural measures**, progress has continued in upgrading the general framework for the *New and Global Approach Principles*. In February 2001, the Lithuanian Government approved the Programme on Conformity Assessment Infrastructure Development. The Programme evaluates the need for testing laboratories and certification bodies in Lithuania which can provide testing and certification as laid down in New Approach Directives as well as that required by Old Approach Directives. An amount of approximately €1.7 million was allocated for 2001 to cover expenses for equipment and accreditation. In the field of standardisation, Lithuania has accelerated the adoption of standards. As of October 2001, 45% of all European standards have been adopted as Lithuanian standards. In the area of market surveillance, the National Consumer Protection Council was established during the reporting period and its statute approved by a Government Resolution of January 2001. (*See also Chapter 23 - Consumers and health protection*).

Progress can also be reported regarding the adoption of **sector specific legislation**. During the reporting period, Lithuania achieved further alignment with the *New Approach Directives* as regards machine safety, personal protective equipment, lifts, safety of electrical equipment, electromagnetic compatibility, pressure vessels (gas cylinders, pressure equipment), and medical devices. A technical regulation on design, construction and placing on the market and putting into service of recreational crafts entered into force in January 2001, and in June 2001

provisions transposing the *acquis* on legal metrology regarding non-automatic weighting equipment entered into force.

As regards sectors covered by the *Old Approach Directives*, further progress has been made in aligning the *acquis* in the areas of cosmetics, chemical substances (testing methods of chemicals, classification and labelling of dangerous chemicals), pharmaceuticals, and motor vehicles (road vehicles and their part type approval). As concerns the latter, in January 2001, Lithuania ratified the UN/ECE Agreement. The State Road Transport Inspectorate under the Ministry of Transport and Communications has been charged with the task of implementing provisions of the above mentioned Agreement.

In the field of food safety (*see also Chapter 7 – Agriculture*), Lithuania made progress in the transposition and implementation of the *acquis* by way of the adoption of provisions on chicory extracts and entry into force of provisions on frozen convenience food and food additives. Lithuania also reformed its control institutions and established a single State Food and Veterinary Service, responsible for the control of the whole food chain (from animal feed to food for the final consumer) and started the accreditation process of control laboratories.

No significant developments are to be reported as regards the transposition of the *acquis* on the control of weapons and the return of cultural goods.

As concerns the development of Lithuania's administrative capacity for the implementation of horizontal and procedural measures and sector specific legislation, progress has been made in strengthening the framework institutions.

Since January 2001 the Lithuanian Accreditation Bureau (LA), which is the key institution for implementation conformity assessment legislation, has been operating as an independent institution, in accordance with a Governmental Resolution of December 2000. The Lithuanian Accreditation Bureau was evaluated by European Accreditation in February 2001. The evaluation covered LA's assessment regarding accreditation of testing and calibration laboratories and product certification bodies. As of January 2001, 37 accredited testing laboratories and certification systems for homogenous product groups are operating in Lithuania. They cover household electrical equipment, household electronic equipment, telecommunications equipment and IT products, agricultural machinery, construction materials and products, medical devices and furniture.

The Lithuanian Standards Board has, in preparation for membership of CEN/CENELEC, established two standardisation divisions that reflect the CEN, CENELEC and ETSI sectors.

Since the overhaul of the market surveillance systems in 2000, the State Non-Food Product Inspectorate has conducted 4107 checks of non-food products. Out of this number, 1091 checks were performed at service rendering entities, and 452 checks were performed following public requests. In order to effectively perform market surveillance the State Non-Food Product Inspectorate co-operates and exchanges the information on unsafe products with all relevant institutions. The Inspectorate is also involved in the system of the transitional Rapid Exchange of Information (TRAPEX) and is its network contact point.

As regards the free movement of goods in the **non-harmonised sector**, Lithuania adopted an Action Programme in June 2001. The Action Programme provides for the elimination of import

licensing obligations for alcohol, tobacco and oil products by the second quarter of 2003; and the transposition of the principle of mutual recognition by the fourth quarter of 2003.

In the field of **public procurement**, there are no legislative developments to report since the last Regular Report. As regards administrative capacity, increased funding has been allocated to the Public Procurement Office and the list of approved specialists for the purposes of the Independent Dispute Settlement Commission was extended. There also has been increased participation of foreign contractors (13.6 % of contract value in 2000 compared to 7.6% in 1999) and increasing number of open tenders (80.6% of contract value in 2000 compared to 70.4% in 1999) has been reported.

Overall assessment

Lithuania has already transposed a substantial part of the *acquis* in the area of free movement of goods. In order to ensure full alignment, however and more effective enforcement of the *acquis*, these efforts need to continue. Considerable progress has been made regarding transposition of horizontal and procedural measures. Further progress has also been made in strengthening the necessary framework institutions in particular for standardisation and accreditation with a view to ensuring their independence and the quality of their functioning.

However, progress towards full membership of the European standardisation bodies (CEN/CENELEC) is dependent upon the establishment of a non-governmental standards organisation, which is foreseen for 2003. In order for the Lithuanian Standard Association to be fully operational by 2003, the Lithuanian Standards Board will have to speed up the drafting of its future statutes and secure more involvement by industry in the standards preparation process. The co-operation with economic operators should be one of the key activities of the Lithuanian Standards Board.

The raising of economic operators' awareness of the Lithuanian Standards Board, as the National Standard Organisation, is also linked to the need for an increase in funding. The Lithuanian Standards Board needs to establish tools which will allow the Lithuanian Standards Association to raise its own financial resources by providing services, selling standards, and promoting the adoption of standards on a voluntary basis.

Finally, the momentum for adoption of new standards should be maintained, and the ambitious timetable for adoption of European standards should be closely adhered to.

In the field of metrology some progress has been made in improving calibration equipment and in strengthening operational capacities and know-how. Much more progress is needed to improve the administrative and operational capacities of the accredited calibration laboratories.

Lithuania has advanced well with alignment in the area of market surveillance although there is need to further strengthen administrative capacities, including drawing up plans and determining priorities, staff training, development of inter-institutional and international co-operation and exchange of information, replacing pre-marketing registration with market surveillance, and dialogue with market players.

The transposition of the New Approach Directives has progressed well and for the remaining sectors the transposition is under development. A number of the legal provisions that were adopted have not yet entered into force. The infrastructure has reached a reasonable level.

As regards the sectors covered by the *Old Approach Directives*, the legal and administrative frameworks on fertilisers, drug precursors, glass, textiles and footwear were already in place and the transposition and implementation of remaining Old Approach Directives is progressing steadily. The Lithuanian authorities should also concentrate their efforts on gradually replacing old market authorisations for medicinal products with new ones complying with the transposed legislation.

As regards food safety legislation, transposition work is quite advanced and efforts are being devoted to preparing both the administration and the food operators. However, considerable progress still needs to be achieved to complete the co-ordination of the control activities, and ensure full implementation and full compatibility with the *acquis*. The pre-marketing authorisation of foodstuffs, in particular, will need to be abolished before accession, so as to prepare in a timely manner both the administration and the food operators for the principles underlying the EC food safety system and particularly those concerning the EC general hygiene rules.

As regards safety checks on products at external borders, Lithuania still needs to establish appropriate customs and market surveillance infrastructure as well as effective administrative cooperation between competent authorities.

Much remains to be done as regards the non-harmonised sector. Lithuania has adopted an Action Programme in this area, however it is not clear whether this will be sufficient to ensure full alignment. Concrete action to ensure the implementation of mutual recognition has not yet been undertaken. The Lithuanian authorities also need to screen their national legislation in respect of other barriers to trade as well as licensing.

Current public procurement legislation presents a number of important shortcomings which will need to be amended, to ensure full alignment with the *acquis*. These include, *inter alia*, provisions on thresholds, contract value, technical specifications, registration requirements for joint ventures and a number of other procedural issues. Changes are also necessary in the utilities sector in order to make the relevant provisions of the legislation compatible with the *acquis*. As far as the remedies system is concerned, conciliation and attestation procedures must be introduced. There has nonetheless been progress in the implementation of existing legislation and further improvement of administrative structures. As concerns administrative capacity, the Public Procurement Office needs to be further strengthened and further specialist training should be foreseen.

Chapter 2: Free movement of persons

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

As concerns **mutual recognition of professional qualifications**, from October 2000 to June 2001, several regulations were adopted in the area of health care specialists, bringing Lithuanian legislation further in line with the *acquis*. In particular, legislation was adopted regarding the

professional qualifications of doctors, dental practitioners, general practice nurses, midwives, and pharmacists. Rules were also adopted in June 2001 regulating professional qualifications and mutual recognition for veterinary surgeons. Lithuania has continued to develop its administrative structures with the establishment, in February 2001, of a Co-ordinating Commission in the Field of Professional Qualification Assessment and Recognition, and the approval of the structure of the Appeals Commission.

In the areas of **citizen's rights** and **free movement of workers**, legislation on the status of foreign nationals was amended in June 2001. The amendments grant EU citizens the right to temporarily reside in Lithuania, to undertake economic and business activities, to provide services and to study. Detailed provisions required for obtaining a temporary residence permit in Lithuania are laid down in the law.

As regards **co-ordination of social security systems**, a bilateral agreement with Finland on social protection was ratified in May 2001.

Overall assessment

In the area of free movement of persons, Lithuania has achieved a reasonable level of legislative alignment. Efforts will need to be maintained to ensure complete alignment and the necessary administrative capacity to implement the *acquis*.

In the area of mutual recognition of professional qualifications, primary legislation is largely in place, and the process of adopting secondary legislation has started. Further measures will need to be taken to ensure that all professionals can meet the requirements set out in the sectoral Directives. Outstanding issues relate in particular to legislation on lawyers and architects. Further efforts are needed to introduce all the necessary administrative structures as well as sufficient education and training programmes. Existing administrative structures also need to be reinforced. It will need to be ensured that, by accession, there are no provisions in Lithuanian legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements. Legislation will need to include simpler procedures to allow the provision of services.

In respect of professional qualifications obtained before harmonisation, Lithuania should introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives.

As concerns citizens' rights, legislation is largely in line with the *acquis*, but some further efforts will be needed to ensure full alignment by accession.

In the area of free movement of workers, key institutions in this sector are in place and performing relatively well, and preparatory measures for future participation in the European Employment Service (EURES) should continue, especially with regard to language training. However further legislation on the employment and residence of migrant workers will be required to ensure full alignment with the *acquis*.

With a view to the future co-ordination of social security systems, Lithuania is encouraged to intensify its contacts with present and future EU Member States, which will facilitate Lithuania's

compliance with the *acquis* upon accession. Close attention should be paid to ensuring that sufficient administrative structures are in place.

Chapter 3: Freedom to provide services

Since last year's Regular Report, Lithuania has made steady progress in the area of freedom to provide services.

As concerns **freedom of establishment and freedom to provide non-financial services**, some progress has been made in terms of alignment. The legislation on the legal status of foreigners was amended in June 2001 ensuring the freedom to provide services in Lithuania, including for self-employed persons.

Considerable progress has been made in the field of financial services, and especially with regard to the *banking sector*. In December 2000, the Board of the Bank of Lithuania adopted a resolution on capital adequacy calculation rules. The resolution lays down the procedures for the measurement of assumed market risks (interest rates, equity, foreign exchange, counterpart and commodity risks) and the additional capital requirements to cover such risks. Additional rules on consolidation of financial statements and on consolidated supervision were adopted by the Bank of Lithuania in March 2001.

In January 2001, the Law on Commercial Banks was further amended providing the possibility for foreign natural and legal persons other than existing foreign credit institutions to set up new banks in Lithuania without any restrictions. The changes in the law are additional to existing requirements regarding large exposures and annual financial statements; they specifically make the owner of credit institutions responsible for internal controls and aim at guaranteeing the independence of internal auditing.

In February 2001, the Deposits Insurance Law was amended, providing for the insurance and compensation of deposits kept in Lithuanian commercial banks, in branches of foreign banks, in the Central Credit Union and in credit unions.

In March 2001, a new law setting out the supervisory role of the Bank of Lithuania was adopted. The law provides, *inter alia*, for the independence of the Bank of Lithuania (*see chapter 11 – Economic and monetary union*).

During the reporting period, the Bank of Lithuania concluded co-operation agreements in the field of prudential supervision with the Commission for Banking Supervision of Poland and the Bank of Estonia.

The Credit Institutions Supervision Department of the Central Bank performed on-site inspections of all licensed banks in 2000. Provisioning against substandard and doubtful loans of 20% and 40% respectively has been set, while such loans have decreased as a proportion of the banks' portfolios. An early warning system has also been set up.

Concerning the *Insurance sector*, the Lithuanian Government adopted, in November 2000, a Resolution on Annual Financial Accounts of Insurance Companies. This Resolution brings the accounting requirements for insurance companies further in line with the *acquis*.

In May 2001, the Insurance Act was further amended, liberalising the investment of insurance assets abroad, regulating the acquisition of qualifying holdings in insurance companies as provided for by the “third generation” Directives and opening up, for WTO countries, the freedom of services in certain classes of transport insurance.

In June 2001, Lithuania adopted legislation on compulsory third-party liability motor insurance, which is due to enter into force as of April 2002. According to the law, the provisions shall be phased in gradually with the objective of implementing all the requirements of the *acquis* by January 2004.

The Supervisory Authority (SISA) issued 4 new insurance licenses between January 2000 and June 2001, while 2 licenses were revoked and 2 bankruptcy procedures opened (the Authority has also given out 99 permits for new products and 112 permits for changes in product terms; such supervisory measures concerning product standards will have to be abandoned on accession). In 2000 and the first quarter of 2001, 21 on-site inspections were carried out and 10 administrative sanctions imposed. The Authority also licensed and inspected a number of insurance brokerage companies. SISA is a member of the International Association of Insurance Supervisors (IAIS).

In the field of *investment services and securities markets*, there have been no significant legislative developments. In 2000, the Lithuanian Securities Commission carried out over 60 on-site inspections. 24 full-scope and 37 targeted examinations of financial brokers were carried out. In 2000, licences were suspended in 3 cases and withdrawn in 9 cases. Financial sanctions were applied in 17 cases, mainly for failure to provide information in a timely manner and for violations of securities accounting management.

In the area of **protection of personal data and the free movement of such data**, some progress can be noted, in particular as regards entry into force of legislation. The revised law on the Legal Protection of Personal Data came into force in January 2001.

In February 2001, the Convention of the Council of Europe for the Protection of Individuals with regard to Automatic Processing of Personal Data was ratified by the Lithuanian Parliament.

In 2000 the State Data Protection Inspectorate carried out 4 inspections on the processing of personal data in the public sector and 1 inspection in the private sector. During 2000, the Inspectorate registered 5 complaints on the processing of personal data but no violations were identified. In 1999 two complaints were investigated. In 2000 the number of consultations increased up to 600 compared to 100 consultations on the processing of personal data carried out in 1999.

The number of data controllers has increased significantly during the reporting period. In 2001, to date, the State Data Protection Inspectorate has recorded 702 registered data controllers (534 data controllers were registered in 2000, and 112 in 1999).

In the field of **information society services**, some progress has been made. The Civil Code and the amendments to the Code of Civil Procedure which entered into force in July 2001 are intended to cover some basic elements of the *acquis* concerning electronic commerce. In December 2000 a Government Resolution was adopted which partly transposes the *acquis* on the provision of information in the field of technical standards and regulations concerning information society services.

Overall assessment

Lithuania is advanced in this area, especially with regard to legislative alignment. Concerted efforts have been made to strengthen administrative capacity, particularly in the financial services sector.

In the area of freedom of establishment and freedom to provide non-financial services, a number of obstacles still need to be abolished. Lithuania has identified the remaining nationality restrictions and plans to abolish these by accession.

In the field of financial services, Lithuanian legislation is now largely in line with the *acquis* as regards banking. In the field of insurance, a positive development has been the adoption of legislation on compulsory third-party liability motor insurance with the aim of implementing in full the requirements of the *acquis* by January 2004. Due attention should be paid to ensuring timely implementation of this legislation. Further efforts are required to ensure legislative alignment in the areas of tourist assistance and legal expenses, as well as the Third Generation Directives. Legislation in the investment service and securities sector needs to be brought further into line with the *acquis*.

Administrative capacity has been strengthened in all the institutions (Bank of Lithuania, Securities Commission, State Insurance Supervisory Authority), which have also benefited from specialised training. Moreover, an inter-institutional co-operation agreement of December 2000 between the aforementioned bodies on financial supervision has contributed to increased co-ordination, strengthening of supervision and quality improvement.

More work still needs to be done to improve the supervision of insurance services.

As regards data protection, legislation still needs some fine-tuning, the Data Protection Inspectorate needs to be strengthened and further training on the enforcement of data protection legislation is necessary. The insufficient degree of independence of the Data Protection Inspectorate continues to be a major shortcoming. Further efforts are needed to ensure that the scope and relevance of data protection is fully understood by the judiciary and the Lithuanian administration.

In the area of information society services, further efforts are needed in order to complete alignment with the *acquis* and establish the requisite administrative bodies. Domestic Lithuanian legislation is still not fully in line with the *acquis* on transparency, conditional access and electronic commerce.

Chapter 4: Free movement of capital

Lithuania has continued making progress in terms of alignment with the *acquis* in this area since the last Regular Report. Some progress has also been made with strengthening and modernising the relevant institutions.

As regards **capital movement and payments**, in May 2001 the Seimas amended the Law on Insurance. The Law abolishes the authorisation procedure for insurance companies investing authorised capital funds and technical reserve funds abroad. It also allows foreign companies (established in the Member States of the WTO) to provide insurance relating to aircraft and ships (and goods transported by these means) without being established in Lithuania.

In April 2001, the Securities Commission adopted a resolution which further harmonises the provisions relating to investments made by pension funds with the *acquis*.

With the entry into force of the new Company Law in July 2001, no new special rights are allowed to be granted to the shares owed by the state or municipalities.

As regards payment systems, no progress has been made in terms of transposition of the *acquis*, while some progress has been made in the design of the payment infrastructure.

Overall assessment

Overall, Lithuania has achieved a high degree of liberalisation of capital movements and there are no restrictions on the inflow and expatriation of capital by investment companies. Legislation on direct investment and on the operation of foreign insurance companies has been substantially aligned. However, as regards payment systems, the level of alignment with the *acquis* achieved to date is very limited.

There is still a need to abolish the constitutional restrictions in the acquisition of agricultural land by foreigners and foreign legal persons and the authorisation procedures restricting the acquisition of non-agricultural land by foreigners. The other remaining restrictions are in the opening of accounts abroad and physical cross-border transfer of currency, investment in the banking and lotteries sector, the application of special rights for the State in three privatised companies, cross-border operations of EU insurance companies, investment in foreign assets by Lithuanian pension funds and insurance companies and capital adequacy provisions for financial brokers concerning investments in EU markets.

Restrictions on inward direct investment in national security and defence appear to be compatible with the *acquis*. Security companies with foreign capital are operating freely in Lithuania.

Substantial efforts are required to transpose and implement the *acquis* on payment systems (including the introduction of adequate and effective redress procedures) and to improve the payment infrastructure.

In the field of **money laundering**, the implementation of anti-money laundering measures should be improved and the independence of the Financial Intelligence Unit in the Tax Police should be ensured. The institutions responsible for the enforcement of the prevention of money laundering and the co-ordination of their activities require strengthening.

Compliance with the Recommendations of the Financial Action Task Force should be ensured.

Chapter 5: Company law

Since last year's Regular Report, Lithuania has made good progress as regards company law and protection of intellectual and industrial property rights.

In the field of **company law** progress can be reported in terms of legislative alignment. The new version of the Law on Companies entered into force in July 2001. The new law puts greater emphasis on the rights of shareholders, especially concerning access to information. It also

contains more extensive provisions in respect of mergers and divisions, the change of the legal form of companies, and the protection of creditors' rights.

The new Civil Code also entered into force in July 2001, providing detailed but simplified rules for the registration of legal persons, including companies. In June 2001 the Law on Establishment of Register of Legal Entities was adopted under which the task of managing the Register shall be assigned to the Ministry of Justice. As a result, annual financial statements of legal entities will be accessible in future.

There were no legislative particular developments in the area of *accounting law*.

As regards **protection of intellectual and industrial property rights**, progress can be reported since the last Regular Report. In January 2001, new legislation on trademarks (adopted in October 2000) entered into force. These changes bring legal provisions in Lithuania further in line with the *acquis*, and with the requirements of the TRIPs Agreement (Trade-Related Aspects of Intellectual Property Rights), the Madrid Protocol, the Trademark Law Treaty and the recommendations of WIPO concerning well-known marks and license agreements. The legislation also provides for a dispute settlement mechanism.

In December 2000, the State Patent Bureau signed a Memorandum of Understanding with the Office for Harmonisation of the Internal Market (OHIM), with the objective of assisting the State Patent Bureau in the preparation and introduction of the Community Trademarks system in Lithuania (by way of training, seminars etc.). In June 2001, Lithuania was invited to become a member of the European Patent Organisation (EPO) as of July 2002.

In January 2001, legislation on the protection of intellectual property rights in the sphere of import and export of goods took effect. This law aims at transposing the *acquis* on the application of measures to prohibit import, export and re-export of counterfeit and pirated goods and the requirements of the TRIPs Agreement. For the implementation of this Law, 11 officers responsible for the protection of intellectual property rights in the field of import and export of goods have been appointed to various customs posts, and one co-ordinating officer has been appointed in the Customs Department.

Lithuania ratified the WIPO Copyright Treaty (Geneva, 1996) in April 2001. Lithuania has also ratified the WIPO Performances and Phonograms Treaty.

A total of 24 prosecutors, specialising in the field of intellectual property rights, have been appointed at the Prosecutor General's Office, and at county and district prosecutors offices. Currently, the Prosecutor Office in Lithuania is conducting preliminary investigations in 11 criminal cases.

In 2000, 126 patent applications were filed with the State Patent Bureau (compared to 157 in 1999) and 148 patents were granted (compared to 160 in 1999). In 2000, 3666 European patent applications were extended into Lithuania (compared to 2882 in 1999). In 2000, 2583 trademarks applications were filed in Lithuania and 4780 trademarks were registered, whilst, in the same period, 4304 international trademark registrations were extended into Lithuania, in accordance with the Madrid Protocol. As concerns industrial design, 106 applications were filed in 2000 and 112 industrial designs registered (compared to 145 and 160, respectively, in 1999).

Disputes regarding the registration and use of industrial property items, arising before the documents of legal protection are issued, are settled by the Division of Appeals of the State Patent Bureau. In 2000 the Division of Appeals received 343 objections and appeals out of which 117 were settled. All subsequent appeals are settled by the Vilnius District Court.

In line with the Government Strategy for the protection of copyright and related rights and the Action Plan for 2000-2003, a number of training courses have been carried out for judges, customs officials and police officers.

Overall assessment

Lithuania has made further improvements as concerns legislative alignment, however effective enforcement needs to be strengthened.

As regards Company law, the new Law on Companies is largely in line with *acquis* requirements. Legal provisions governing the Enterprise Register would need to be further revised in order to guarantee the effective management of information. Further improvements are needed in developing a modern IT system and ensuring the availability of trained personnel in local and central registration offices. Further specialised training shall be required in view of the establishment of the new Central Register of Legal Entities.

Current legislation on *auditing* will have to be revised in order to ensure conformity with the provisions of the new Civil Code. Legislation on *accounting* and consolidated annual accountability also needs to be amended. The institutional set up in the field of accounting needs to be strengthened and the existing supervision mechanism for auditors and audit firms is not adequate. Lithuania needs to clarify which institution shall exercise the formal power of setting accounting standards.

At present company registration in Lithuania is the responsibility of 56 municipalities, each of which maintains a local register. The Ministry of Economy registers enterprises with foreign capital and the Bank of Lithuania administers the register of commercial banks. The Department of Statistics is responsible for the database of registered enterprises. The new Civil Code envisages 15-18 locations for company registration at court mortgage offices and a Central Register giving methodological advice and co-ordinating the general database.

As regards industrial property rights, Lithuanian law is in principle largely in line with the *acquis* on trademarks and only minor adjustments will be necessary to reach full compliance. Some adjustments will also be required prior to accession to the Community trademark system. Legislation on patents, including protection for biotechnological inventions, and industrial designs, should be amended to bring it in line with the *acquis* and the European Patent Convention and to ensure full compliance with the TRIPs Agreement. Further efforts are required with ensuring proper coordination and cooperation among the various enforcement bodies (police, customs, and judiciary) in order to improve the fight against piracy and counterfeiting.

Serious efforts have been made to modernise the State Patent Bureau. Efforts to strengthen administrative capacity should continue, with emphasis on the enforcement of rights. Staff should receive additional training in the field of trademark protection that would ensure adequate enforcement of the Law on Trademarks.

With respect to the Rome Convention on the law applicable to contractual obligations, the main provisions are contained in the Civil Code, which entered into force in July 2001. Lithuania has started the preparatory work, which needs to be completed to ensure a swift implementation of the Regulation replacing the Brussels Convention on jurisdiction and enforcement of judgements in civil and commercial matters

In the field of intellectual property rights, the main legal acts in this sector have already been adopted and are largely in line with the *acquis*, however secondary legislation still needs to be adopted, notably in order to align with the *acquis* on information society and resale rights. The Strategy on Enforcement of Copyright and Related Rights (adopted by the Government in September 2000) is a positive development and its implementation should be speeded up.

Despite the efforts that have been made, enforcement remains a source of concern. The institution responsible for the horizontal enforcement of copyright and related rights, the Copyright Division of the Ministry of Culture, lacks resources to cope with numerous obligations on international and national levels. Administrative capacity of collective administration associations must be further developed in order to prevent infringements of copyright and related rights.

Practical skills of the Division of Copyright and Related Rights and of collective administration associations should also be improved as regards the implementation of international conventions. Protection of intellectual property in a digital environment and the fight against counterfeiting must be strengthened.

Particular attention should be paid in the future to improving enforcement of criminal law and strengthening the Customs authorities, in view of their role in fighting piracy (*see also Chapter 25 – Customs Union*). Moreover, appropriate enforcement of border control legislation must be ensured. Also the Intellectual Property Unit in the Tax Police Department needs more training although some progress in enforcement of legislation by Tax Police can be noted (mainly in relation to pirated CDs and videos).

Chapter 6: Competition policy

Since last year's report, Lithuania has made considerable progress as regards competition policy.

In the field of **anti-trust**, Lithuania has made good progress during the reporting period. The Lithuanian Competition Council adopted three Resolutions dealing with procedural issues as well as with substantive rules in the transport sector.

In the year 2000, the Competition Council issued 63 decisions (6 on horizontal agreements, 7 on abuse cases and 50 on mergers), some of which carried serious fines. Figures for the first months of 2001 indicate a similar level of activity.

In the **state aid** field, substantial progress has been made. The Competition Council has complemented the basic Law on the Control of State Aid with several pieces of secondary legislation, namely on procedure as well as on regional aid. In May 2001 the Competition Council also adopted rules on aid for the rescuing and restructuring of enterprises. In addition,

the legislation of March 2001 on enterprise restructuring and bankruptcy requires the Competition Council to approve aid measures foreseen in the course of such proceedings.

The scope of state aid monitoring has been widened to cover aid granted under new laws. Further to an Instruction of the Prime Minister of April 2001, the Competition Council shall vet all draft laws that may lead to the granting of state aids. It is expected that this mandatory consultation mechanism will also soon be integrated into the Government's Working Regulations.

Lithuania also provided, during the reporting period, a proposal for a regional aid map, for joint adoption in the Association Committee.

As regards administrative capacity, the enforcement practice of the state aid division of the Competition Council is developing. It issued 3 decisions during the first 6 months of its operation in 2000 (the amount of aid granted in Lithuania in 2000 was very low). The number of assessed cases has risen significantly during the first months of 2001.

Overall assessment

Overall, Lithuania has set out the main conditions necessary for a competition policy which is largely compatible with *acquis* requirements.

Lithuania's legislation in the anti-trust field contains the main principles of Community anti-trust rules, as regards restrictive agreements, abuse of dominant position and merger control. As regards secondary legislation, Lithuania has already started to introduce the Community block exemptions. Further alignment with the modernisation of the Community's competition policy is required, in particular relating to vertical restraints and to horizontal cooperation agreements.

As concerns administrative capacity, the Competition Council may need further strengthening and specialised training in the medium term in order to ensure a full and effective enforcement of the rules. The Competition Council has 26 staff engaged in anti-trust enforcement activities. In addition, the capacity of the judiciary to deal with competition issues should be improved through specialised training.

The enforcement record of the Lithuanian Competition Council has so far been reasonably successful. The increasing number of fines which were imposed during the reporting period may be viewed as further evidence of the development of a solid enforcement practice. Continuous strengthening of the enforcement is needed, however, as well as a more deterrent sanctioning policy. Priority should continue to be given to such cases that concern the most serious distortions of competition. The investigation procedures of the Competition Council should be simplified and the rules for attributing fines should be revised.

In the area of state aid control, Lithuania's primary legislation contains the basic principles of the *acquis*. A systematic *ex ante* control of all new legislation and aid proposals is ensured. As regards secondary legislation, Lithuania has already implemented most of the key substantive rules of the state aid *acquis*. Legislation on the free economic zones has also been brought in line with the *acquis*.

As regards transparency, state aid reports have been submitted for the years up until 2000 and the quality is satisfactory. A state aid inventory is being prepared and constantly updated.

The State aid Division of the Competition Council currently has 6 staff members. Further staff increases are necessary, especially as the new legislation on enterprise restructuring, as well as on bankruptcy procedures, is expected to lead to a significant increase in such cases. Further training especially in the judiciary field is necessary.

The State aid Division of the Competition Council has a reasonable enforcement record. However, more attention will have to be devoted in the future to the monitoring of the privatisation process. It is essential that all bodies involved in state aid matters cooperate closely with the Competition Council.

Chapter 7: Agriculture

Agriculture in Lithuania accounted for 7.6 % of the gross value added in 2000, as opposed to 8.4% in 1999¹⁸. Employment in agriculture has declined over recent years, accounting for 18 % of total employment in 2000¹⁹ as opposed to 20.2 % in 1999.

While the live animal sector saw a decrease of 5.7% crop production increased by 26.6%. Total production of milk decreased by 13.3 %. This was the result of low productivity and a decline in the number of cows. In meat production, beef is the most important product. Prices of pigmeat in the first half of 2001 were, on average, 20 % higher than compared to the same period in 2000.

In 2000, EC imports²⁰ of agricultural products originating in Lithuania increased by 32 % to €32.2 million. EC exports to Lithuania increased by 4 % to €63.1 million. The trade balance in favour of the Community amounted to €30.9 million compared to €51.8 million in 1999. The most important product groups in terms of EC imports from Lithuania are prepared feed (39 %) with an increase of 101 %, dairy products (14 %) with an increase of 15 % and vegetables (7 %) with an increase of 17 %. As far as EC exports to Lithuania are concerned, the most important sectors are miscellaneous preparations (13 %) with an increase of 15 %, fruit (8 %) with an increase of 25 %, coffee, tea and spices (8 %) with an increase of 11 %, cereals (5 %) with a strong increase as a consequence of bad climatic conditions, and meat (5 %) with an increase of 64 %.

In 2001, the state budget for agriculture, forestry and veterinary amounts to approximately €80 million. Out of the total agriculture budget, €22 million will finance direct support schemes for farmers, €7.6 million input support, €6 million investment support and €109 million general and other support measures. State support for agriculture, including rural development, and fisheries represents 7.7% of the 2001 state budget.

Direct payments were introduced in 2001 for flax and rapeseed. Rye and buckwheat have already benefited from direct payment (in LFA areas) since last year. Compensatory payments for storage of cereals were set for the 2001 yield.

¹⁸ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹⁹ Eurostat Labour Force Survey (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

²⁰ Source of trade figures: Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see U.E. 12/15: Commerce des Produits Agricoles 1988-2000, 1 Partie D.G. AGRI/A.2 Analyses quantitatives, préventions, statistiques, études, 2001, p. 10-57 et 86-89)

Lithuanian agricultural and food product trade policy is implemented by way of application of such regulatory measures as the system of autonomous, conventional and preferential customs duties, tariff quotas, export refunds, and licensing for imports. Agricultural and food products in Lithuania are mostly subject to *ad valorem* customs tariffs, while some goods (alcohol, sugar, and cigarettes) are subject to compound customs tariffs.

With regard to land reform, progress has been slow since last year. The number of claims filed by the citizens increased over the reporting period. Therefore, while the amount of decisions taken increased by 10% during the period September 2000 – September 2001, restitution figures amount to 79 % of ownership rights, just 1 percentage point more than a year earlier. As concerns the remaining part, the necessary supporting documents are missing for about 16 % of land indicated in the applications. In order to speed up the restitution process, amendments to the law on procedures and preconditions for the restitution of citizens' rights were adopted by the Seimas in August 2001. The deadline for applications for restitution has been set at 31 December 2001 and the deadline for submitting all the necessary documentation proving the right to land ownership was set at 1 July 2002. The average farm size has slightly increased to 12.6 hectares. Legal titles have so far been issued for 2.46 million hectares, which have thus been registered in the land cadastre. This compares to 2.1 million hectares reported in the 2000 Regular Report. Private land transactions have increased. In the period of July 2000 to June 2001, total land transactions (including leases) reached 264 700 hectares, representing around 10,8% of registered land.

Horizontal issues

As regards implementation of measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)* Lithuania has made some progress since last year's Regular Report.

The National Paying Agency, under the Ministry of Agriculture has been designated as the SAPARD agency responsible for the implementation and financial management of the programme. Lithuania has expanded its administrative capacities both at the national and regional levels. At the regional level 10 Rural Development Programme Departments have been established. As of May 2001 there were 45 staff at headquarters and 60 employees in the regional units. The process of accreditation is close to finalisation (*see section A.b - Relations between the European Union and Lithuania*).

There has been some progress in implementing the *Integrated Administration and Control System (IACS)* over the past year. Animal identification and registration is operational for bovine animals. In parallel with the identification of animals, the development of a system for the identification and registration of land parcels has been initiated but has suffered from delays. Based on results from two pilot areas a final decision was taken by the Ministry of Agriculture to use a "block" system to implement the Land Parcel Register. On the basis of the existing registers (animal registers), the Rural Business Development and Information Centre has developed a prototype agricultural producers' register which is intended to cover all agricultural producers in the country. The existing farm register does not cover all agricultural holdings in the country.

Concerning the *Farm Accountancy Data Network*, a Government Resolution on the Surveys of Results of Agricultural Producers' Activities and the establishment of the Farm Accountancy

Data Network (FADN) was adopted in April 2001. The National FADN Committee was established at the beginning of 2001 and is composed of representatives from the Ministry of Agriculture, Department of Statistics, relevant institutions and interest groups.

The development of the market information system and further collection and processing of data is being carried out by the Lithuanian Agriculture and Food Product Market Regulation Agency, the Lithuanian Chamber of Agriculture and the Lithuanian Institute of Agrarian Economics.

Rules for *Organic Agriculture* were reviewed and adopted in December 2000 and entered into force in January 2001. These rules define requirements for a national certification system for production, processing, transportation, storage and marketing of organic agricultural products. There are currently 230 certified organic farms in Lithuania. The total area certified is 4 700 hectares. A support programme for organic farmers has been launched. The Organic Agriculture Financial Order has been reviewed and adopted.

Common market organisations

Since last year's Regular Report, Lithuania has made progress by introducing quality requirements for certain products and by adopting a new Sugar Regime.

In January 2001 the Ministry of Agriculture approved the work plan for 2001-2004 for the *Market Regulation Agency*. The Market Regulation Agency merged with the Lithuanian Agricultural International Trade Agency in August 2001 to become the Agriculture and Food Product Market Regulation Agency. Its functions will also include price reporting.

The programme for a *cereals* quality assessment network has been improved during the reporting period. Direct payments were introduced for some cereals (buckwheat and rye). Compensatory payments for storage of cereals were set for the 2001 yield.

As regards *milk and dairy products* mandatory requirements for milk quality, methods for quality analysis of milk and nine reference analysis methods for raw milk were adopted in March 2001 and are in force. The new rules for purchase of milk were approved in May 2001. One of the provisions of the new rules is that in order to motivate production of extra quality raw milk the difference in price between extra and first grade raw milk should be at least 10 per cent.

In the field of *Meat and Meat Products*, identification and registration of cattle was completed in 2000 and the mandatory quality requirements for the carcasses of bovine and pigs are now partly implemented. Rules for the classification and value-based payment system (according to the weight and quality of carcasses) for bovine animals were adopted in June 2001 with entry into force in May 2002. At the end of 2000, measurement and evaluation units for assessing the quantity of lean meat in pig carcasses were installed in three meat-processing enterprises. A special institution for training of carcass classifiers was established in the Veterinary Academy in November 2000. The prospective classifiers have received executive training abroad.

With regard to *fruit and vegetables*, the State Plant Protection Service was authorised to inspect imported production of fresh fruit, vegetables, other plants and plant crop production by rules adopted in April 2001. In order to further improve the quality and competitiveness of fruit and vegetables a number of mandatory quality requirements were approved in June 2001. In

addition, a methodology for inspection for certain categories of fruit and vegetables was adopted at the end of 2000.

A new *Sugar Regime* in line with the EC requirements was approved by the Government at the beginning of March 2001. It regulates sugar beet production, importation and processing of sugar raw materials, control of production and stocks, as well as statistical data supply and balance making system, foreign trade, and relations with beet growers.

As regards *processed agricultural products*, legal acts establishing quality requirements (methods of analyses of wines and ethyl alcohol) were adopted and are in force as of June 2001. A technical regulation on the terms, definitions and description of processes in the sector of alcoholic beverages was adopted at the end of June 2001 and will be in force as of January 2002.

Secondary legislation was approved on the mandatory quality and technical production requirements for *dried fodder*.

Rural development and forestry

Some progress can be noted both in the legislative field and in strengthening administrative capacity.

The *Agri-environmental measures* are included in the National Agriculture and Rural Development Programme covering two pilot areas. In January 2001 the Rural Support Fund was reorganised into a Special Rural Support Programme. For the year 2001 the Special Rural Support Programme allocated 48 per cent of the budget for the financing of rural development measures (to co-finance priority investment programmes, to finance agricultural research, training and consulting programmes as well as for the operation of Agricultural Credit Guarantee Fund).

In April 2001 the Seimas adopted the Law on Forests. This law sets management and economic regulation in forestry and ensures fair competition in the forestry sector. The State Forest Inventory and Management Institute is responsible for state and private forest inventory and national accounting for forests.

Veterinary and phytosanitary issues, including food safety

Lithuania has continued to make progress as regards the veterinary and phytosanitary sectors, notably by continuing alignment. The framework legislation in the veterinary sector is in place and transposition of the implementing rules has started. Limited progress can be noted as regards upgrading inspection arrangements at external borders.

The State Food and Veterinary Service (SFVS) has taken over all functions of the former State Veterinary Service and subordinate veterinary institutions. Compared to its predecessor the new institution has an extended scope of responsibility and covers the whole food production chain, including quality control of feedingstuffs. The SFVS and its subordinate institutions have 1360 employees. The central office has 67 employees and the Food Control Inspectorate of the Food and Veterinary Service has established territorial divisions in all 10 counties. The Staff has undergone training on different food safety and veterinary issues in many EC laboratories and institutions. During the first quarter of 2001 the State Food and Veterinary Service has

conducted 1917 checks. After these inspections 8 establishments were closed, 276 warnings were issued and activities of 290 entities were temporarily stopped.

The National Veterinary Laboratory accredited in April 2000 carries out physical, chemical and microbiological checks on foodstuffs of animal origin, and certain checks on foodstuffs and fodder of non-animal origin. It also implements the Monitoring Programme for Hazardous Residues which was adopted in 2001. As regards *border inspection posts (BIPs)*, progress has been slow in the implementation of the Strategy for Reinforcement of Veterinary Border Posts. Lithuania has selected 9 border posts for upgrading. Construction has been carried out only in Medininkai at the border post with Belarus. Technical specifications for four BIPs: Salcininkai, Lavoriskes, Kybartai and Klaipeda seaport have been prepared.

As for *animal breeding*, secondary legislation was adopted in May 2001 on the organisation of productivity control of dairy cattle and obligations for the keeping and maintenance of herd books.

The *identification and registration* of cattle was completed in 2000. The identification and registration of pigs, sheep and goats remains to be completed.

In the context of the Geographical BSE Risk Assessment, Lithuania has been classified in group III.

In the **phytosanitary** area Lithuania has made further progress in the legislative field. New lists of harmful organisms came into force on 1 January 2001. Control measures against potato wart disease were adopted in March 2001 and uniform principles for the evaluation of plant protection products were issued. A number of laboratory specialists from the Phytosanitary Research Laboratory has acquired training in Member States in performing tests in accordance with EC requirements.

Several mandatory requirements on the quality of *seeds and propagating material* have been approved since the last Regular Report.

A Resolution was adopted in April 2001 to establish the *phytosanitary register*. The register includes plant growers, as well as producers and importers of plants and plant products, which are subject to on-the-spot phytosanitary checks or import inspections. The State Plant Protection Service is responsible for keeping it up-dated.

At the end of 2000 secondary legislation was adopted concerning regulation of the production, use and market organisation of compound *feedingstuffs* as well as on the calculation of energy value. This legislation will enter into force in January 2002. Legislation was also adopted on rules on storage conditions, veterinary and hygiene requirements for premises producing and storing feedingstuffs. In June 2001 safety requirements for the marketing of feedingstuff were adopted.

The State Plant Protection Service under the Ministry of Agriculture implements national phytosanitary and plant protection policy, performs phytosanitary control of imported plants and products of plant origin, and phytosanitary certification of exported plants and products of plant origin. The Service also performs control tests to determine the spread of non-quarantine plant diseases, pests and weeds in the country. In 2000, the State Commission for the Registration of

Plant Protection Products registered 19 new plant protection products and renewed registration for 24. The list now contains 172 products.

The State Seed and Grain Inspectorate implements quality control and certification of agricultural plant propagating material. The central office of the institution employs 37 employees, 19 of whom are in charge of the administration of propagating material certification.

Phytosanitary control of *imported plants and plant products* is carried out in accordance with the rules adopted in November 2000.

In April 2001 the **Food Safety** Strategy was adopted. Its main objective is to accelerate the transposition of EC legal requirements into Lithuanian law and ensure effective implementation. This Strategy outlines the systems for co-ordination between the various official bodies involved, their competencies, organisation and staffing. Reorganisation of food control institutions is currently under way to reduce the costs and increase the efficiency of the activities of such institutions.

The analysis of risk factors and system of *Hazard Analysis and Critical Control Points* have been further introduced in food processing enterprises. At present, 18 milk processing enterprises, 3 meat processing enterprises, 8 fish processing enterprises and 11 fishing vessels have been granted a veterinary approval number which allows export of their production to EU countries.

In order to implement the food quality and safety assurance systems, a Good Manufacture Practice manual for cheese, fresh dairy products and laboratories (microbiological) has been issued by the Lithuanian Food Institute and submitted to dairy companies and laboratories for implementation. As regards accreditation, at the end of 2000 the Central Raw Milk Quality Analysis Laboratory was approved and the Accreditation Certificate was granted in January 2001 confirming that the laboratory meets the requirements.

Lithuania has recently adopted most of the EC measures to prevent and control BSE. The main problem remains the rendering of animal waste, where legislation has been fully approximated with EC requirements but implementation will require major investments.

Overall assessment

Overall, Lithuania has continued reforming its structures in the agriculture field in order to be able to implement the *acquis*. However, important measures remain to be taken.

As regards land reform, further progress is needed to complete the restitution process. Lithuania needs to adopt the necessary constitutional amendment, currently under discussion in the Seimas, to abolish the restriction on the sale of agricultural land to foreigners.

With regard to **horizontal issues** the paying agency needs further strengthening. As regards the development of the Integrated Administration and Control System, some progress can be noted. The identification and registration system for bovine animals has been completed and a decision has been taken to use a block basis for the land parcel register. However, further work is necessary. Considerable efforts are necessary to implement the land parcel identification system, especially as regards digitalisation of land parcels according to EC requirements. The quality of the farm register should be improved and it should be made operational. Training of

staff in order to improve administrative capacity remains an important task. A precise date for the agriculture census planned for 2002 remains to be set.

As regards **Common Market Organisations** a Market Regulation Agency for Agriculture and Food Products has been set up with the objective of preparing CAP administrative structures. Concerning the administration of general CAP requirements, training is still needed for the Market Regulation Agency. The current national support schemes differ considerably from the CAP mechanisms. New administrative structures will therefore need to be established for the CAP measures. So far little attention has been paid to, and few actions taken, to develop these structures.

Steps have been taken to develop the Farm Accountancy Data Network, but further efforts are needed to improve data quality.

In the area of organic farming, the rules recently adopted now need to be implemented.

As far as **rural development and forestry** are concerned, Lithuania needs to make further efforts to introduce agri-environmental measures.

Further advancement has been made in establishing the necessary administrative structures for the design and implementation of rural development programmes. Additional budgetary and staff resources allocated to the operations have enabled further institutional development. Considerable attention has been paid to the training of staff, as well as development of systems, procedures, control and audit measures in accordance with EC rules. Despite the progress achieved, further efforts are required for the establishment of proper monitoring procedures to ensure suitable functioning of a certifying body. As in the previous period, training of staff should be carried out.

The institutional framework for forestry is in place to implement the Community *acquis*.

The framework legislation in the **veterinary** sector is in place and advancement can be noted in transposing implementation rules. However, in most areas these have not yet been implemented. Positive steps have been taken in the transposition of EC requirements in the **phytosanitary** area. A resolution for the establishment of a phytosanitary register and several mandatory requirements for quality of seeds and propagating material have been adopted. Limited advancement can be noted in strengthening the administrative structures for border control.

The identification and registration of animals (pigs, sheep, goats) needs to be completed.

Although progress has been made with regard to upgrading laboratories, further efforts both in terms of financial and human resources, need to be pursued for the development of suitable laboratory infrastructure to ensure accreditation in order to implement HACCP requirements.

In the field of control of *animal diseases and animal health*, Lithuania still needs to establish contingency plans and to create a reserve fund covering expenses for compensation in the case of an outbreak of an infectious disease. Lithuania should align itself with the requirements concerning notification and continue preparations for participating in the animal disease notification system.

Lithuania has adopted most of the EC legislation concerning *animal welfare*, but further progress is needed with regard to the restructuring of the animal production sector.

Implementation of *inspection arrangements and upgrading of facilities*, particularly at the future external borders needs to be stepped up for both veterinary and phytosanitary inspections.

Further legislative alignment has taken place as regards plant health, animal nutrition and quality of seeds and propagating material. The decision to set up a phytosanitary register is an important step towards alignment with the *acquis* in this area. Adequate attention should be paid to completing the establishment of the register and to start issuing plant passports to be used to check the movement of plants and plant products within the EC. The system of import permits will have to be abolished as part of the process of approximation of Lithuanian legislation with the *acquis*.

While the progress in the legislative field is welcome, substantial efforts are needed in the phytosanitary area both in the transposition process and in the strengthening of the implementation and control structures. Adequate resources are required to establish an appropriate laboratory infrastructure in line with EC requirements.

Lithuania has adopted a **Food Safety** Strategy and streamlined its administration with regard to food safety, and the veterinary services appear to be well structured. Particular attention is still needed to enhance the capacity to enforce legislation.

As regards the agri-food industry, meeting EC quality standards remains a major challenge. In particular, many small establishments do not fulfil EC requirements. More efforts should be put into the restructuring process for food processing establishments including those for meat, canned fruit and vegetables and upgrading them so that they are in a position to comply with EC food safety standards. An initial strategy has been introduced to tackle the problem but a detailed action plan for upgrading remains to be drawn up.

Lithuania has recently adopted most of the EC measures to prevent and control BSE (total feed ban, removal of Specified Risk Material, routine testing of cattle). The main problem related to the prevention and control of TSE legislation concerns rendering. Plans have been introduced to upgrade one of the existing rendering plants to meet the EC requirements. In this context it is important to pay particular attention to the collection, storage and recovery of dead animals and animal waste, in particular Specified Risk Material.

Chapter 8: Fisheries

Since the last Regular Report, some progress can be noted on the legislative side, and restructuring of the Fisheries Department in the Ministry of Agriculture has been completed.

The Department of Fish Resources of the Ministry of Environment was abolished in January 2001. The Ministry of Agriculture is responsible for fisheries policy preparation and implementation. The Fisheries Department employs 25 civil servants.

As regards **resource management, inspection and control**, some progress has been achieved in setting up a Vessel Monitoring System in line with the requirements of the *acquis*. Satellite tracking devices were purchased in December 2000 and installed in 59 fishing vessels

of a length of 24 meters and above which are operating in the open Baltic Sea. The Sea Fishing Division of the Department of Fisheries and the Marine Environment Protection Agency cooperate in the field of satellite-based fishing vessels monitoring, collection and transmitting of data. However, there is still no Integrated Information System. The Ministry of Agriculture adopted the regulations on first sale in June 2001.

In the field of **structural actions**, in August 2001 the Government adopted a resolution providing for the establishment of the Fishing Vessels Register.

Concerning **market policy**, the Ministry of Agriculture adopted the regulations on producer organisations in September 2001.

As concerns State aid to the fisheries sector, no development can be reported.

Concerning **international fisheries agreements**, the bilateral agreement with the Faeroe Islands (Denmark) ceased to apply in April.

Overall assessment

Lithuania's fisheries policy is partly aligned to the *acquis* in this area. Significant further work will be necessary, especially in terms of implementation and enforcement.

Lithuania has completed the restructuring of the Fisheries Department in the Ministry of Agriculture responsible for policy formation and assigned the resource management and inspection and control functions to an institution under the Ministry of Environment. It remains important to improve co-ordination between the central and regional levels and between the Ministries of Environment and Agriculture. The restructuring of the administration has to be accompanied by training or recruitment of qualified staff.

Generally, the process of adoption of legislation should be speeded up. In the field of resources management, inspection and control, the legislation needs to be expanded so as to allow for comprehensive data collection, and to provide for appropriate penalties in case of infringements. The functions related to resources management, inspection and control are mainly based on the controls carried out by the Marine Environment Protection Agency of the Klaipeda Regional Environment Protection Department of the Ministry of Environment. The Agency has 20 employees, of whom seven are inspectors. Lithuania's inspection capacity still needs to be strengthened, in particular by upgrading and intensifying inspections and controls and improving capacity for controls on the high seas. At present, the inspectors also carry out a number of additional tasks. A refocusing of their activities in favour of fisheries activities would be desirable, as well as better guidance from the central level.

There is also a need to reinforce the technical means for inspection and control, particularly by taking further steps to provide satellite-based vessel monitoring. Lithuania needs to implement first sales notes and introduce in practice the computerised retrieval of data, otherwise there is no possibility of performing cross-checks on the information received from logbooks. For a full-scale satellite monitoring in line with the requirements of the *acquis*, substantial further work is needed for the establishment of a fisheries monitoring centre and for completion of the equipment of all vessels. The allocation of funds for the new facilities in Klaipeda is a good step towards expanding capacity and improving infrastructure in the field of control and inspection.

Lithuania should continue its efforts to implement inspections at the 14 landing places and for the fishing industry as a whole.

As regards structural actions, these are currently based on the 1999 Agricultural and Rural Support Strategy approved by the Government, which includes a Strategy on Integration with the EU in aquaculture, fish handling and processing in the fisheries sector. Regarding the administrative capacity in the area of structural funds, the SAPARD Paying Agency in the Ministry of Agriculture is meant to become the platform for financial management of the Financial Instrument for Fisheries Guidance (FIFG). The establishment of the institutional set-up required for programming, implementation, financial control, monitoring and evaluation of structural funds measures should be accelerated. Early establishment of the said division would facilitate the smooth implementation of the SAPARD program, as far as fisheries actions are concerned, and subsequently that of FIFG. Further attention should also be paid to the restructuring of the processing industry.

On vessel registration, Lithuania still needs to commence the re-measurement of fishing vessels and then finalise the separate and exhaustive fishing vessel register required by the *acquis*. Lithuania's decision not to proceed with the re-measurement of vessels before the Fishing Vessels Register is in place may further delay the process in the short term. These actions are a pre-condition for the future management of the fleet capacity and related EC structural aid. It is equally important for Lithuania to define fleet capacity objectives that aim at achieving a sustainable balance between resources and their exploitation. The plans to set up a Division of the Department of Fisheries in Klaipeda to take charge of the maintenance of the Vessels Monitoring System, the Fishing Vessels Register, the re-measuring of vessels and the system of fisheries data and information should not be delayed any further.

As regards market policy, no market intervention mechanism for fish products has been established. Effectively controlling the common marketing standards in ports and on wholesale markets, and collecting and transmitting data concerning the price reference regime and data on markets, also require efforts.

State aid to the fisheries sector is limited to the financing of the fisheries research programmes and restocking of natural lakes.

Lithuania is a member of several regional fisheries organisations, in particular, the International Baltic Sea Fisheries Commission and the North Eastern Atlantic Fisheries Commission, and has bilateral fisheries agreements with Russia, the United States, and Canada.

Chapter 9: Transport policy

During the last year, Lithuania continued to align its legislation with the *acquis* and achieved good progress in particular in the fields of road transport safety, railway restructuring and civil aviation, including strengthening the relevant administrative capacity.

As regards **Trans-European Transport Networks**, further emphasis has been given to the modernisation of the main transport infrastructure of Corridors I and IX with investments of more than €3 million since July 2000.

In the area of **land transport**, progress was achieved in the field of *road transport* with regard to social rules, technology and safety. The rules on Licensing of Road Transport Activities were amended by a Government Resolution at the end of 2000 with the aim of gradually increasing the financial standing requirements for access to the profession of international transport operator. Further legislative activities concerned the installation and use of speed limiting devices and, through the new law on Road Traffic Safety, rights and responsibilities of authorities and road users as well as the technical standing, control and registration of vehicles. In April 2001 the Government amended the rules on working time and rest periods. Some functions related to the enforcement of the road transport *acquis* are carried out by the Ministry of the Interior, in particular in relation to driver examination, issuing driver licences, vehicle registration, compilation of a data base on motor accidents and road traffic control. Amendments to the Road Traffic Rules are considered by an inter-ministerial Road Traffic Safety Committee before formal approval.

On *railways*, the Government has recently approved some basic legally binding guidelines on the railway sector reform, which should stimulate the legal and economic restructuring of Lithuanian Railways and ensure further alignment with the *acquis*, including the new EC legislation of 2001 to accelerate the liberalisation of railways.

On *inland waterways* transport more secondary legislation has been issued during 2001 to support the Inland Water Transport Code, in particular concerning documents for vessels and crew members, including issuing diplomas of competency.

As concerns **air transport**, the civil aviation institutions have been reorganised according to the provisions of the Law on Aviation which was adopted in October 2000. A new Civil Aviation Authority (CAA) was set up in July 2001, succeeding the former Directorate of Civil Aviation as regards commercial air navigation services and regulatory issues and the Inspectorate of Civil Aviation for flight safety oversight. The Air Navigation Services are now a separate commercial entity. A total of 50 positions are allocated to CAA. Staff has been transferred from the Civil Aviation Directorate for this purpose, with certain changes to the organisational structure. In April 2001 the Joint Aviation Authorities Board accepted the Lithuanian CAA as a Candidate Member.

As foreseen under the Law on Aviation, an independent “Civil Aviation Accidents and Incidents Investigation Commission” chaired by a Permanent Head vested with appropriate powers and resources has been established on 1 July 2001. The Chairman, who is directly accountable to the Minister of Transport and Communications, will on a case-by-case basis assemble a team of experts.

In February 2001, the Government approved the privatisation guidelines for the national carrier, Lithuanian Airlines (LAL) and subsequently started to select privatisation advisors through an international tender. The advisors will have to carry out an economic and financial analysis of the company and assist in choosing a strategic investor.

As regards **maritime transport**, following an Order of the Minister of Transport and Communications, the Safe Shipping Administration (SSA) was established in July 2001. However, although the Director is directly accountable to the Minister of Transport and Communications, from an organisational and financial resources point of view SSA remains a branch of Klaipeda State Seaport Authority pending further reorganisation in future years. Staff

(136 employees, of which more than 40% are working as crew members on board of 7 auxiliary fleet vessels) and tasks are almost identical with the preceding institutional set-up, under which parts of the Klaipeda State Seaport Authority and of the Harbour Master's Office were responsible for both Flag and Port State related functions. Inspections of Lithuanian flag vessels as well as port State control inspections are at present carried out by 5 qualified inspectors. The Klaipeda State Seaport Directorate (now 158 staff members) and the Harbour Master's Office (37 staff members) still co-ordinate the public and commercial operations and developments in the seaport.

In January 2001, the 1979 International Convention on Maritime Search and Rescue (SAR 79) was ratified by the Seimas. The Order of the Minister of Transport and Communications on Amendments to the Order on Lithuanian Safe Shipping Management Documentation was approved on 1 February 2001. Rules on Port State control and Flag State control were approved and entered into force on 2 April 2001.

According to 2000 statistics under the Paris Memorandum of Understanding, the percentage of Lithuania flag vessels detained following port state control was 8.3%, a decrease compared to 1999 (9.8%) and 1998 (18.8%). This compares to an average for EU-flagged vessels of 3.9% in 2000.

Overall assessment

Lithuania is partly aligned to the *acquis* in this area, but some issues still require particular attention.

A general concern in the Ministry of Transport and Communications is the lack of funds for specialised training and technical office equipment. The Ministry follows the Governmental Institutional Strengthening Plan of October 2000. This contains an assessment of the implications of European Integration, particularly transposition of transport *acquis*, for institutional development and analysis of human resources needs, and is intended for budget planning.

As regards Trans-European Transport Networks, the Lithuanian authorities place the main emphasis on the further modernisation and development of the priority transport infrastructure along transit corridors I (Via Baltica) and IX, which is of particular importance for a transit country like Lithuania.

As regards road transport, no further progress has yet been achieved in the area of harmonisation of vehicle taxation and road user charges. Administrative capacity should be strengthened, in particular through specialised training of staff on important supervisory and control functions in the fields of access to the profession, social rules (particularly driving times and rest periods), vehicle taxation and road user charges, as well as technical and safety standards.

In the railways sector, the government is encouraged to pursue the restructuring of Lithuanian Railways, taking into account the requirements of the new *acquis* in force since early 2001. Particular attention should be paid to ensure the independence of the management of railway undertakings, the separation of infrastructure management from transportation operations and strengthening of the railway administration. The capacity of the State Railway Inspectorate

should be further strengthened through an increase in staff numbers (at present 11) so as to be able to make progress with harmonisation of legislation and to handle upcoming regulatory tasks, such as supervising the management of railway infrastructure and traffic safety following full restructuring of the railways. Regulatory mechanisms need to be in place concerning infrastructure charging and financing, cross-subsidies, the maintenance system and infrastructure capacities. Lithuania still needs to implement the *acquis* regarding interoperability of railways.

Concerning the inland waterways sector, it should be noted that this type of transport is not developed extensively in Lithuania. Therefore, the existing State Inspectorate (30 staff) seems to be adequately staffed.

As regards air transport, the progress is tangible in the field of administrative capacity, in particular with the effective functioning of the Civil Aviation Authority. Lithuania is committed to follow closely the submitted indicative timetable for progressively incorporating the Joint Aviation Requirements (JARs) into its legal system.

As regards maritime transport, the progress made through the recent setting up of the Safe Shipping Administration must be judged to be limited. Despite a certain legal independence, its functioning depends on the budget, administrative resources and equipment of the (partially commercial) Klaipeda State Seaport Authority. This situation may possibly lead to a conflict of interests, for example in times of decreasing traffic flow through the port of Klaipeda. It is therefore of particular importance that Lithuania strengthen its efforts with regard to the envisaged further restructuring of its maritime safety authorities.

Despite a constant decrease since 1998, the Lithuania flag vessel detention rates as a result of port State control inspections under the Paris Memorandum of Understanding are still well above the average for EU-flagged vessels. Lithuania is aware that it needs to continue strengthening its flag state implementation policy and resources.

Chapter 10: Taxation

Since the last Regular Report, Lithuania has made a moderate degree of progress in the area of taxation.

In the field of **indirect taxation** a number of important legislative measures entered into force during the reporting period.

In January 2001 amendments to the Law on VAT entered into force. The amendments harmonised principles for determining the place of supply of services with the relevant provisions of the *acquis*. The amendments also clearly defined the concept of services rendered outside the territory of Lithuania and the application of the zero-rate to them. In June 2001 further amendments to the Law on VAT entered into force, introducing the special scheme for travel agents.

In March 2001 amendments to the Law on Excise Duties entered into force and expanded the range of mineral oils subject to excise duty by including liquid petroleum gas (LPG) when used as motor fuel.

Additional amendments to the Law on Excise Duties came into force in June 2001, which, in principle, harmonise the structure and rates applied to alcohol and alcoholic beverages. The

amendments divided alcohol and alcoholic beverages into groups provided for in the *acquis* and the basis of calculation was harmonised, i.e. wine, fermented beverages and intermediate products are taxed according to the number of hectolitres and beer is taxed according to the actual alcoholic strength.

There are no particular developments to report in the field of **direct taxation**.

As regards **administrative co-operation and mutual assistance**, the Lithuanian Parliament ratified the Conventions for the Avoidance of Double Taxation of Income and the Prevention of Fiscal Evasion with Russia, the Netherlands, Croatia, Slovenia and Armenia. In June 2001 the agreement between Lithuania's State Tax Inspectorate and National Tax Board of Sweden on mutual administrative assistance, in order to ensure more effective application of the double taxation agreement, came into force.

A number of measures were taken to improve the overall administrative capacity of the tax administration.

During the second half of 2000, improvements were made to the Taxpayers' Register, as a result of which, information is collected and stored on domestic and foreign legal and natural persons having liability to pay taxes or to withhold taxes for other persons. The data are stored in the State Tax Inspectorate's central register's database.

In April 2001 a new division dealing with the administration of excise duties was established.

During the past year, all local tax offices were connected to the central computer network of the State Tax Inspectorate.

The system of data exchange with the Customs Department was improved by revising the agreement with the Customs Department. Data on taxes and duties provided by the Customs Department are stored in the central database and may be accessed from the local tax offices of the State Tax Inspectorate.

Finally, in September 2001, amendments to the Law on Tax Administration entered into force. These amendments introduce a number of changes in tax administration procedures in respect of tax audit performance, application of sanctions, examination of tax disputes and enforcement and postponement of debts.

Overall assessment

Lithuania has, on the whole, achieved a reasonable degree of alignment in the area of taxation. Further efforts still have to be made to ensure full compliance of Lithuanian tax legislation with the *acquis*, and so that the tax administration is fully prepared for EU accession.

In particular, the list of VAT exemptions is too broad and the excise duty rates for alcohol and alcoholic beverages, tobacco products and mineral oils are lower than the EC minimum rates. In addition, the range of mineral oil products is still too narrow and the combined rate has to be introduced for cigarettes.

It will be important to ensure that existing and future legislation complies with the principles of the Code of Conduct for Business Taxation.

On administrative capacity, further modernisation of the IT systems of the State Tax Inspectorate is needed, in particular in relation to the interconnection with EC systems. The State Tax Inspectorate, for instance, has not yet put in place an integrated tax IT system capable of interfacing with VIES (VAT Information Exchange System) and SEED (System for Exchange of Excise Data). The process of strengthening and modernising the State Tax Inspectorate needs to be continued, including further specialised training. Further efforts should be made in conducting simultaneous audits and strengthening administrative co-operation.

Chapter 11: Economic and monetary union

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

Since the last Regular Report, Lithuania has made significant progress in the adoption of EMU-related *acquis*.

In March 2001, the Seimas amended the Law on the Bank of Lithuania with a view to aligning it with the *acquis*. This law also confirms the **prohibition of direct public sector financing by the central bank**.

As regards the prohibition of privileged access of public authorities to financial institutions, some progress has taken place with the abolition of the authorisation by the Supervision Authority to insurance companies to invest capital funds and technical reserve funds abroad.

Concerning the **independence of the central bank**, the new law ensures significant progress towards full alignment with the *acquis* in the area of financial, personal and institutional independence. The new law also ensures that the primary objective of the central bank is defined as price stability.

Overall assessment

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

Overall, Lithuania has achieved a high level of alignment with the EMU-related *acquis*.

In the area of central bank independence, further alignment is needed in order to safeguard against possible conflicts of interest relating to the duties of Members of the Board.

Lithuania also needs to further align its legislation with the provisions of the *acquis* prohibiting privileged access of public sector authorities to financial institutions, notably as regards the remaining restrictions on insurance companies and on investment of pension scheme assets.

Chapter 12: Statistics

Lithuania has made substantial progress over the past year in this area.

As regards **statistical infrastructure**, in March 2001 a government Resolution approved the new statute of the Department of Statistics and established a new composition of the Statistics Council of Lithuania. The Council's main function is to analyse organisational and methodological issues. The administrative capacity of the Department was strengthened in terms of staff, equipment and training.

Concerning **classification**, a national version of NACE classification has been applied since November 2000.

Concerning **demographic and social statistics**, the total housing and population census was carried out in April 2001. Processing of data is well underway. A labour cost survey is being introduced successfully.

As regards availability of statistics at **regional** level, a list of regional indicators including indicators of economic and social development has been drawn up and put into a central database. More sectoral statistics have become available at regional level, e.g. local units of large enterprises.

In the field of **macro-economic statistics**, in March 2001 the calculation of the Harmonised Consumer Price Index was brought in line with the *acquis*. In May 2001, the government passed a Resolution on the implementation of the European System of Accounts (ESA 95), which gives the Department of Statistics the task of coordinating all institutions involved in implementation. A development plan for national accounts is being drawn up.

For **business statistics**, the statistical register of economic actors has been updated for 2001 leading to substantial quality improvements, e.g. the registration of local kind of activity units. As of 2001 data on the production of industrial enterprises is now collected and processed using a national version of the PRODCOM classification.

No particular progress has taken place during the reporting period in the field of **transport statistics**.

Where **external trade** is concerned, statistics continued to be of good quality.

For **agricultural statistics**, preparations for the total agricultural census are under way. In March 2001, the Questionnaire and Methodology of the Total Agricultural Census were approved. Co-ordination with other bodies involved in agricultural statistics is visibly improved.

Overall assessment

Lithuania is quite well advanced in the field of statistics. The administrative capacity of the Department of Statistics is very high, with a highly qualified, motivated and well trained staff. These capacities need to be maintained.

Co-operation between the Department of Statistics and related institutions, including the Ministry of Agriculture, is already good, but needs to be further strengthened

A number of statistics, e.g. external trade statistics, are already in line with *acquis*. As regards availability of statistics at the regional level, NUTS III has been defined. The European System of Accounts (ESA 95) has to be fully implemented and quality of results must be improved. As regards demographic and social statistics, the frequency of the labour force survey needs to be increased and preparations for a structure of earnings survey need to be finalised. Business statistics have made good progress, but still need to be further improved, e.g. in the use of supplementary units for products. The requirements regarding tourism statistics need to be implemented. For transport statistics, an accounting system for expenditure on infrastructure in respect of transport by rail, road and inland waterway needs to be introduced. It is of particular importance to secure adequate resources for the preparation and conduct of the total agricultural census, to be carried out in 2002. A precise timing needs to be set.

Chapter 13: Social policy and employment

During the reporting period Lithuania has made steady progress in transposition and implementation of the social *acquis*. A new Law on Health and Safety of Workers was adopted, as well as new legislation in the fields of social protection and labour law. As regards employment, the Government has approved a programme for promotion of employment opportunities. Nevertheless, there are important legislative instruments that have still to be adopted.

In the area of **Labour Law**, the new Labour Code still needs to be adopted. In February 2001 the Law on Guarantee Fund of September 2000 was amended to bring it into line with the corresponding *acquis*, by abolishing the requirement of a minimum period of employment. In June 2001, the Government approved the regulations of the Guarantee Fund and set up the Guarantee Fund Council. In March 2001 amendments were adopted to the Law on Employment Contract, Law on Wages, Law on Holidays and Law on Trade Unions.

As regards **equal treatment for women and men**, the new Law on Health and Safety of Workers, which is intended to fully transpose the provisions of the directive concerning pregnant workers and workers who have recently given birth or are breast-feeding, was adopted in October 2000. In January 2001, the amendments to the Law on State Benefits for Families Bringing up Children were adopted. Through these amendments equal conditions for both parents when it comes to obtaining family benefits are guaranteed.

Legal approximation continued concerning **health and safety**. The new Law on Health and Safety of Workers was adopted in October and entered into force in November 2000. The Law transposes the framework directive and the main provisions concerning working time, preventive measures for health and safety for young persons, and pregnant workers (*see above*). In October 2000 the Law on the Supervision of Potentially Hazardous Equipment was

adopted. According to this law the technical control of compliance of the equipment with safety requirements must be carried out by authorised public institutions. In this respect, the Technical Supervision Service was reorganised into a public office in January 2001. In December 2000 the Regulation on Safety of Workers Potentially at Risk from Explosive Atmospheres was adopted. The number of inspectors in the State Labour Inspectorate has increased by 10 since the last reporting period. The staff has received training in various areas such as labour law, labour hygiene and investigation of accidents at work.

From July 2000 to July 2001 the State Labour Inspectorate inspected 16 877 enterprises. It detected 47 694 infringements of safety and health and labour law in enterprises and imposed fines in the sum of about €155 000.

As regards **public health**, not much progress can be reported since last year. Lithuanian authorities and institutes are participating in specific projects under the Network for the epidemiological surveillance and control of communicable diseases in the Community. The further development of measures in this area should be undertaken against the background of the principles and methodology of the Community network. With reference to the tobacco *acquis*, the Law on Tobacco Control has been amended: the maximum tar yield of 12 mg is to become applicable as from 1 January 2003.

No particular developments can be reported with regard to **social dialogue**

Concerning **employment** labour market developments were negative in the year 2000. The level of employment (Labour Force Survey basis) fell by 5% as compared with 1999, to 1.52 million, the lowest level of employment seen during the whole period since the beginning of transition. Lithuania and the Commission have launched the Employment Policy Review with a view to examining progress made by Lithuania in adapting its employment system so as to be able to implement the European Employment Strategy in line with the Employment Title. Work on a Joint Assessment of Employment Priorities started in November 2000.

In May the Government approved a programme for promotion of employment opportunities for 2001-2004. Implementation by the Lithuanian Labour Exchange began in July. The main objectives are to halt the increase in unemployment by the end of 2001 and to reduce the registered unemployment rate to 7-8 percent in the first half of 2002. The measures for implementation of the programme were adopted in February 2001 and the National Action Plan in May 2001. Through this Action Plan Lithuania intends to reform and strengthen the policy structures and delivery systems needed to implement new employment policy tasks. A Regulation on the Implementation of Local Employment Initiatives intended to promote new jobs, improve of the local economy, increase employment and reorganise local communities was also approved.

In the area of **social protection**, new rules were approved for forming the State Social Insurance Budget and its implementation stipulating that financial statements of the State Social Insurance Fund Board be drawn up in accordance with International Accounting Standards. In October 2000 the Government approved the Concept of Reform of the State Social Insurance Contributions' administration. Another legislative act, the Law of State Social Insurance Pensions, was adopted in December 2000 accelerating the rise of the retirement age by introducing an increase of 6 months annually. Certain provisions were changed concerning payments to old age and disabled pensioners. Also in December, the Law on Sickness and

Maternity Social Insurance was passed. The law determines categories of persons covered and rights to benefits as well as conditions for their granting, calculation and payment. As regards Pension Reform, its pace slowed down during the reporting period. In May 2001 the parliament ratified the European Social Charter.

In order to guarantee the rights of disabled persons, in February 2001, the Government adopted the Policy Paper on Reform of Diagnosis of Disability and Social Security Measures for Persons with Disability.

As regards Structural Funds and the **European Social Fund** (ESF), the Government took a decision in May concerning the institutional structure and various paying agencies. According to this decision the Ministry of Social Security and Labour will be the paying agency for ESF.

No particular developments are to be reported as regards the transposition of the anti-**discrimination** acquis.

Overall assessment

Overall, while Lithuania has advanced in aligning with the acquis, some key legislation such as the new Labour Code and the Public Health Law remain to be adopted, and implementation and enforcement need to be further addressed. The necessary institutional structure is in place in most areas, but it has still to be strengthened.

As regards Labour Law, good progress has been made as regards the transposition of the insolvency Directive. However, the new Labour Code and the Law on the establishment of the European Works Council remain to be adopted.

The sharp deterioration in the labour market over the last two years has heightened the challenges faced by employment policy in Lithuania. With regard to employment important steps have been taken, but the Joint Assessment Paper is to be finalised only in the near future. It will be important to ensure an effective monitoring of the phasing in of the priorities and commitments contained in the Joint Assessment Paper.

The capacity of the Public Employment Services needs to be further strengthened.

In general, the alignment with the acquis has been particularly good in the area of equal treatment for women and men, and the Ombudsman Office has proved to be effective in enhancing the implementation of equal treatment. However, a number of provisions of EC law concerning, in particular, the shift in the burden of proof in cases of discrimination based on sex and a definition of indirect discrimination are still to be transposed.

As regards health and safety, administrative capacity needs to be strengthened in order to ensure effective operation of the Labour Inspection institutions. Provisions for protection of workers from chemical agents and their preparations need to be adopted.

In the field of public health, there is a need to adopt the Law on Public Health and to improve the legislation on communicable disease surveillance and control. The further development of measures in the area of communicable diseases should be undertaken against the background of the principles and methodology of the Community network. In addition, Lithuania should continue its efforts to develop a health monitoring system in order to obtain health data and

indicators comparable with the Community health monitoring system. Work on the transposition, implementation and enforcement of the tobacco acquis should be continued.

Efforts are required to make the existing social dialogue structures more efficient. Tripartite mechanisms should lead social partners to be consulted on major economic and social areas. Efforts are also required to promote and strengthen bi-partite social dialogue structures especially at sectoral level. The Government must also assist the social partners to prepare them for the active role they will be called on to play in the EU context, and to reinforce their necessary structures and capacities for collective bargaining and social dialogue at all levels.

As regards social protection, Lithuania has set up the legal and institutional framework for reforming its social security system and the institutions are in place. However, sustained efforts are needed to implement the reforms that have been introduced. The systems to be established should be capable of co-ordinating with systems in the EU.

The fight against exclusion, as laid down in art. 136 of the Treaty establishing the European Community, is part of the objectives of EU social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed objectives at the EU level, and national action plans. The Gothenburg European Council in June 2001 invited candidate countries to translate the Union's objectives of promoting social inclusion into their national policies

The Government has recently taken important decisions concerning the distribution of responsibilities with regard to the Structural Funds and designated the paying agency for ESF. These decisions need to be translated into practice and preparations for future participation in ESF should continue, particularly as regards the development of administrative capacity in the relevant Ministries and local authorities. Further efforts are required to improve both administrative capacity and the mechanisms for co-ordination of ESF interventions in the context of the European Employment Strategy and the Inclusion Process.

Further efforts are needed to ensure alignment with the acquis on anti-discrimination based on Art. 13 of the Treaty.

Chapter 14: Energy

Since the last Regular Report, Lithuania has continued to make progress in the energy sector, although the restructuring and privatisation of the utilities are suffering delays. Progress in the sector, based on the 1999 National Energy Strategy, was enhanced through the (delayed) adoption, in May, of the Action Plan implementing the National Energy Strategy. The energy sector developments remain closely linked to the closure of the Ignalina Nuclear Power Plant (INPP).

Concerning **security of supply**, and in particular oil stocks, little progress has been made. Current emergency oil stocks are approximately at 40 days, nearly half of the required 90 days. The Ministry of Economy's State Reserves Division and Fuel Strategy Division take care of managing oil stocks matters (4 persons). Reflections are ongoing regarding strengthening the institutional set-up.

The Lithuanian energy sector (oil, gas and nuclear fuels notably) remains heavily dependent on Russian supplies, despite plans for diversification throughout the energy sector. In the oil sector, the recent deal ensuring a second (Russian) source for supplies to the Mažeikiai refinery and aiming at complementary privatisation, improves the supply situation of the refinery and is to be welcomed. The recent modernisation of the Klaipėda oil terminal aiming at a smooth transshipment of light oil products also contributes to improving the security of supply.

Lithuania has made important steps as regards **competitiveness and the internal energy market** (notably the Electricity and Gas Directives), despite delays in the restructuring and the privatisation of the Lithuanian electricity and gas companies. Electricity and gas prices increasingly cover costs, although distortions remain.

Progress in the *gas* sector seems most marked with the adoption in October 2000, amendment in June and entering into force in July of the Law on Natural Gas. This Law allows a considerable market opening of approximately 80%. Part of the secondary legislation required to implement this law has been adopted recently. Despite the market opening, the origin of supplies remains Russia. The Government decided in October on the privatisation model for the gas company. As part of the restructuring process and in preparation for unbundling according to the Gas Directive, non-core activities were separated from the Lithuanian Gas Company.

In the *electricity* sector, Lithuania decided in June, through an amendment of the Electricity Law, to postpone its entry into force (and therewith the start of market opening) by six months, until 1 January 2002. In view of this situation, Lithuania developed a “Transitional Market Model” for the period until January 2002, in order to make a swift start on market opening. The steps for market opening have been defined as follows: 21% of the market as from 2002; 26% as from 2003; 33% as from 2004; and full market opening as from 2010.

Progress with the restructuring of the Lithuanian Electricity Company has been achieved through, inter alia, the unbundling of accounts for its activities (generation, transmission, distribution and non-core activities) since December 2000. In June Lithuania adopted a law amending the Law on the Reorganisation of the Lithuanian Electricity Company (entry into force in July) with the aim of, inter alia, simplifying the reorganisation process. In August the Government adopted the reorganisation plan for the company, which is to be divided by the end of 2001 into one transmission, two distribution and two generation companies.

With the aim of physically joining the internal energy market Lithuania and Poland continued preparations for an electricity link between the two countries. The National Control Commission for Prices and Energy is the regulatory authority in the electricity, gas, heat and water sectors and it is responsible, inter alia, for pricing, licensing and dispute settlement. Elements that confirm the independence of this authority are the nomination of the chairman by the President for a fixed period of five years and its reporting duty directly to the Seimas. The entry into force of the Law on Natural Gas has increased the powers and independence of the Control Commission. The Control Commission employs more than 40 persons.

Lithuania continued to improve **energy efficiency** over the past year, although no particular legislative development can be reported. In September the Government adopted an updated National Energy Efficiency Program 2001-2005. During 2001 an amount of €0.4 million was made available for the implementation of the Programme. The Energy Agency, an independent

entity but fully owned by the Ministry of Economy, is the main body in this area and deals, inter alia, with energy efficiency and the enhancement of renewable energy sources. It employs 30 persons and had a budget of €0.3 million in 2001. The State Energy Inspectorate is in charge of state supervision and control of state-owned energy entities, with the aim of ensuring safe, efficient and reliable use of energy resources and energy supply. Its budget for 2001 is €700 000 and it has 100 employees.

It is recalled, regarding **nuclear energy**, that at the Ignalina Nuclear Power Plant (INPP) Lithuania operates two RBMK-type reactors with a nominal capacity of 1500 MW each. Lithuania continued the preparations for the closure and decommissioning of Unit 1 of INPP, through the adoption in February of a Decommissioning programme for Unit 1. A list of detailed measures, timetables, competent organisations and financing sources had been laid down in the above-mentioned Action Plan implementing the National Energy Strategy. Furthermore the Minister of Economy adopted in April a List of Implementation Measures of the Decommissioning Programme for Unit-1 in which technical/environmental measures and social/economic measures are listed. The Seimas adopted in July a Law on a Decommissioning Fund for Ignalina NPP that will enter into force in 2002. The Seimas furthermore ratified in July a Framework Agreement with the EBRD, paving the way for the formal implementation of the Ignalina International Decommissioning Support Fund (IIDSF), to which the European Community is the major donor. In January, a commission to deal with problems of the INPP region was established in the Seimas, while the municipalities of Visaginas, Ignalina and Zarasai have agreed to form an INPP Regional Development Committee to deal with issues linked to the decommissioning process.

VATESI, the nuclear regulatory body in Lithuania, reports directly, on an annual basis, to the Prime Minister. After a recent restructuring, it is organised in nine departments (such as public relations, nuclear material control, licensing, decommissioning and radiation protection and safety assessment). In April the Government decided to increase staff levels by 10 persons, with the aim of reaching 48 employees by the end of the year and 58 by the end of 2002. The introduction of a quality assurance system is proceeding, while the regulatory body continues to strengthen its capacities including those related to decommissioning.

The Lithuanian Electricity Company continued the re-payment of arrears to the INPP, reaching a level of €37.5 million in May, and a schedule has been developed for the remaining amounts.

With regard to nuclear safety, INPP continued the implementation of its second nuclear safety improvement programme 1997-2005 (SIP-2). Between January and September 2001, the INPP implemented 13 measures costing €2.5 million (LTL 45 million). Since 1997, a total of 144 (out of 193) measures, with a budget of €0.3 million (LTL 334 million), have been implemented. Ignalina advanced with the preparation of a Safety Assessment Report for Unit-2 (SAR-2), in view of the further licensing of Unit-2. In mid-2001, INPP submitted revised technical specifications for the installation of a diverse second shutdown system in Unit 2 that received a favourable preliminary consideration from the regulatory authority, thus moving this difficult safety-related project forward.

As part of the implementation of the Law on the Treatment of Radioactive Waste, the Radioactive Waste Management Agency was established in May 2001. Once it is operational, it will deal with the treatment and disposal of radioactive waste. The Agency's budget allocation is approximately €0.13 million for 2001 and currently it is staffed with six persons. In February,

regulations on the 'Management of Radioactive waste' and on 'Radiation Protection at the Nuclear Power Plant' were issued.

Overall assessment

Lithuania has achieved a reasonable level of alignment with the energy acquis, but needs to maintain its efforts - notably in the area of the Internal Energy Market, oil stocks and nuclear energy - if it is to be in a position to comply with the Union's requirements in the energy sector.

Lithuania has continued to take steps to reform the energy sector. The restructuring of the electricity and gas sectors continued, despite delay in the privatisation process. The adoption of the privatisation model for the gas company is to be welcomed. Steps to prepare the closure and decommissioning of the Ignalina NPP have been taken.

Particular attention should be given to the preparation for the Internal Energy Market (electricity and gas directives). In this respect, an expedient completion of the reorganisation and privatisation of the electricity and gas sectors is needed. Furthermore, the drafting of secondary legislation, particularly in the electricity sector should be enhanced. The market opening plans in the electricity sector appear to satisfy the current requirements of the Electricity Directive. Establishment of a Common Baltic Electricity Market in 2002 will be useful with a view to preparing for the Electricity Directive. The National Control Commission for Prices and Energy should be strengthened in order to prepare it for its regulatory functions as defined in the internal energy market directives. Despite the fact that the Control Commission has a separate budget line, negotiations on budget may be a strain on its independence. Removal of price distortions in the energy sector should continue while "stranded costs" also need attention.

Also in need of particular attention is the legislative alignment as regards emergency oil stocks, the establishment of a financing plan for the required investments in this area and the strengthening of the administrative structure.

Energy efficiency and the use of renewable energy should continue to be improved, while Lithuania should continue to give due attention to alignment with the energy efficiency acquis. Full implementation of the updated National Energy Efficiency Programme 2001-2005 and a rapid adoption of the draft Law on Energy Saving will be instrumental in this respect. The Energy Agency should be strengthened.

As regards nuclear energy, the European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries, including the need to respect closure commitments and to set a precise date for the closure of INPP Unit-2. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This report contains findings on the situation and perspective of nuclear safety in each candidate country as well as recommendations for specific improvements. In July, the Commission conveyed this report to the candidate countries.

General recommendations of the Council Report call for all candidate countries with nuclear power plants to complete their plant-specific safety improvement programmes, and to ensure that their programmes include measures considered good practices within the European Union, particularly regarding various specified safety measures such as assessment practices, emergency procedures, feedback of experience, resources of the regulatory authority and other aspects.

The report recommends all candidate countries to continue their national programmes regarding the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors.

With regard to Lithuania, the Council Report recommends twelve specific measures to ensure the safe operation of the Ignalina NPP until final closure, and of other nuclear installations, including measures to ensure adequate resources for the regulatory authority, full responsibility and improvement of the financial situation of the operator of the Ignalina NPP, information agreements with Latvia and Belarus and other specified technical aspects, such as a diverse shut down system for Ignalina Unit 2.

It is recalled that the future of the Lithuanian energy sector is closely linked to the closure of the Ignalina NPP. It is also recalled that the Seimas, in the context of the adoption in 1999 of the National Energy Strategy decided, inter alia that Unit 1 of the Ignalina NPP will be closed before the year 2005 and that the precise final date for the decommissioning of Unit 2 shall be solved in the updated National Energy Strategy to be prepared in the year 2004. In this regard, the Commission underlines that the timetable for adoption of the definite decision on the date for closure of Unit 2 should be compatible with Lithuania's timetable for accession. Furthermore, the Commission recalls that the EU considers that the definitive closure of Unit 2 should take place at the latest by 2009. With this in view, Lithuania should continue to address nuclear safety issues at the Ignalina NPP and should continue to prepare its closure and decommissioning. Preparation of decommissioning should include also due attention to the regional consequences and the development of an adequate regional policy.

Lithuania should continue to address the independence, staffing levels and competence of the regulatory body that all need to be strengthened. Its human resources of VATESI should be increased in view of the tasks related to the safety improvement programme and the intensification of the decommissioning process. The safety improvement programmes (SIP-2) should be fully and timely implemented, including the installation of the Diverse Second Shutdown System at Unit 2 of Ignalina NPP as a matter of high priority. The new safety analysis report for Unit 2 of Ignalina NPP (SAR-2) has to be produced by INPP and completely reviewed by the regulatory body by the end of 2002. Adequate levels of nuclear safety have to be maintained during all phases of the operation and decommissioning of the Ignalina NPP inter alia by maintaining a high level of technical and staff quality.

Lithuania should specifically ensure adequate capacity (inter alia at Ministry of Economy and INPP level) to prepare and implement projects related to decommissioning, including those to be funded under the Ignalina International Decommissioning Support Fund.

The Radioactive Waste Management Agency should rapidly become fully operational, while sufficient funding needs to be ensured for its functioning including specific training. In general, radioactive waste and spent fuel management need continued attention. Lithuania will need to ensure compliance with Euratom requirements and procedures. In this respect, continued attention should be given to preparing the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or undertakings operating nuclear installations or storing nuclear material. It is to be noted that Lithuania has concluded a Full Scope Safeguards Agreement with the IAEA. An Additional Protocol to this Agreement is in force since July 2000.

Chapter 15: Industrial policy²¹

Since the last Regular Report, the most notable step forward has been the adoption of the legislation on enterprise restructuring and bankruptcy. Only limited progress has been made in the promotion of competitiveness.

There has been no progress in defining delivery mechanisms for implementing the medium-term **industrial strategy**, or the Business Innovation Programme adopted in 2000. The Ministry of Economic Affairs has continued to put the emphasis on quality and export promotion, through e.g. subsidising costs for ISO certification and participation in trade fairs. It should be noted that Lithuania has started implementing new procedures on state aid that are in line with the *acquis* through a systematic notification of support schemes to the Competition Council (*see Chapter 6 - Competition policy*).

The Business Development Council, the Ministry's advisory body in the area of enterprise policy, has recently been reorganised. The policy-making role of the Council, which includes representatives from public institutions and leading business associations, has been reinforced. It will be consulted on the priorities and instruments of industrial policy, as well as on any draft legislation having a bearing on enterprise development, and will monitor and evaluate the implementation of strategies. In doing so, it will be assisted by permanent committees, composed mainly of representatives of governmental agencies, large industrial firms and research institutions, and in particular, by one dealing with industrial competitiveness and one dealing with export promotion. It is too early to judge the impact of this reorganisation.

The Government still considers that the improvement of the business environment is central to its **investment promotion** policy. This strategy is proving successful, but further progress is still needed in this area (*see Chapter 16 – Small and Medium- sized Enterprises*). Over the reference period the manufacturing sector has continued to attract the highest proportion of FDI (almost 30% of all inflows in 2000), though not to the same level as in previous years. The positive trend in reinvested earnings from foreign investors has been confirmed and greenfield investment has increased.

Privatisation has progressed further. (*See Section 2 - Economic criteria*).

In terms of industrial **restructuring**, the major breakthrough was the adoption in March 2001 of new legislation on bankruptcy and enterprise restructuring. This new legislation has been developed on the basis of international good practice in the field of insolvency. The bankruptcy law defines more flexible and rapid procedures for bankruptcy initiation. The restructuring law provides for the rehabilitation of companies which have inherited debts but are still economically viable. Most of the secondary legislation needed to implement the laws has now been adopted. Only two restructuring cases have been initiated since the entry into force of the laws in July 2001. However, there has been a steady progression in the initiation and completion of bankruptcy cases. The Enterprise Bankruptcy Management Department at the Ministry of Economic Affairs continues to operate effectively, despite some difficulties in filling vacancies. As of September 2001, some 1 300 enterprises had gone through bankruptcy procedures and

²¹ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (*see Chapter 16 – Small and medium-sized enterprises*).

nearly one fourth of cases had been completed. In 2000 the majority of bankruptcy cases initiated were in the food and construction sectors.

Overall assessment

The political, legal and administrative framework for facilitating in-depth restructuring and improving the competitiveness of Lithuania's industry is now in place and is being aligned with the principles of EC industrial policy. The challenge now lies in implementation. The Ministry of Economic Affairs needs to better define its role and strengthen its capacity, including in the preparation for structural funds. There is still scope for improving co-ordination between activities of the various institutions, e.g., in the area of investment promotion, between the Ministry of Economic Affairs and the Lithuanian Development Agency. It can in this respect be noted that some key institutions, such as the Ministry of Education and Science, are not part of the consultation process of the reorganised Business Development Council.

There are several mechanisms in place to consult the business community. However, although their functioning has improved over the years, they still tend to favour particular interests groups and individual companies. The Confederation of Lithuanian Industrialists, which represents the interests of most large industrial enterprises, subsidiaries of foreign companies, and research institutions, is a key player. In order to further remove regulatory and administrative barriers to investment, more attention should be paid at the political level to the consultation of foreign investors.

Privatisation of the industrial sector is virtually complete and restructuring has progressed further, although unevenly between consumer goods industries, such as foodstuffs and textiles, and traditional sectors, such as mechanical engineering. The strengthening of the banking sector, notably through further privatisation and consolidation could help increase investment levels in the industrial sector. It is crucial to continue efforts to implement quickly the long awaited legislation on bankruptcy and restructuring, and in particular to further develop the appropriate institutional set up and competencies for enforcement. The adoption of secondary legislation needs to be completed through the adoption of a by-law enabling public creditors to transfer their rights to *Turto Bankas*, the asset management institution in charge of the sale of non-performing loans. There is still a lot to do to ensure proper implementation. The challenge is to create a new culture among public institutions and the business community. Because of the general lack of skills in the fields of risk assessment and the evaluation of enterprise restructuring plans, intensive training of administrators, as well as of key actors in the public and private sectors, is needed. The capacity of Regional Courts that are responsible for bankruptcy procedures should be further strengthened.

Chapter 16: Small and medium-sized enterprises²²

Since the last Regular Report, Lithuania has made some further progress in developing its enterprise policy. There have been positive developments in terms of an increase in the budget for SME promotion and a progressive rationalisation of business support schemes. However,

²² Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (see chapter 15 - Industrial policy).

capacity constraints at the Ministry of Economic Affairs continue to hinder a consistent implementation of measures in support of SMEs.

During the reporting period the budget for implementing SME policy has increased fourfold and is now secured through a direct allocation from the state budget. However, only limited progress can be recorded in the implementation of the measures included in the “Small and Medium-sized Business Development Strategy until 2003,” the **SME strategy** adopted at the end of 2000.

The government has adopted and has started to implement several regulations to facilitate access to finance for SMEs, aimed at improving the loan guarantee system implemented through the Lithuanian Export and Import Insurance Company as well as promoting micro-credits and venture capital.

The network of business centres has further expanded and several initiatives such as subsidised advisory and training services and a pilot supplier linkage programme were successfully implemented by the SME Development Agency (SMEDA) at the end of 2000. These latter activities were, however, discontinued at the beginning of 2001 because of uncertainties about a merger of SMEDA with the Regional Development Agency. This is now resolved, but affected negatively the credibility of state-sponsored programmes.

A new trend in Lithuanian SME policy is decentralisation. Municipalities have received specific budgetary allocations, the majority of which is provided to business in the form of preferential loans, partial or full interest-rate subsidies for commercial loans, direct financial support for small investments and subsidies for training and counselling as well as for marketing activities.

The entry into force of the New Commercial Code in January 2001 (*see Chapter 5 – Company law*) as well as an easier access to information about regulations and administrative procedures through Internet are positive steps towards the improvement of the **business environment**. The Sunrise initiative launched in 2000 to streamline the procedures dealing with business resulted in some changes in the legislation and in the administrative procedures. However, this initiative lost momentum over the reporting period. The government is currently reactivating the process.

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

Overall assessment

Lithuania’s policy towards SMEs follows the approach promoted at EC level. However, the adoption of a dedicated strategy and the increase in the budget for SME promotion has not so far created the expected momentum. This is mainly due to lack of strong co-ordination and continuity in action. As a result, despite some recent efforts to rationalise business support schemes and improve the consultation with the business community, there has been no convincing attempt to solve globally issues that are critical for raising the level of entrepreneurial activity. In particular, there is a need to define a clear line on the measures available to support start-ups and the role of government bodies in the preparation of projects that could be funded through pre-structural aid instruments.

Complex administrative procedures remain a major obstacle to SME creation and development. It is crucial that the government at the highest level steps up measures to simplify the business environment. A systematic analysis of legal and administrative barriers for SMEs should be made and an action plan to eliminate unnecessary bureaucracy should be implemented. The impact of measures should be assessed in close collaboration with business associations. The trend of increasingly involving business associations in law-making should be continued.

There is still a need to align the SME definition, in particular as regards the size and independence criteria.

While the basic administrative capacity is already in place at both national and regional levels, significant rationalisation in the functioning of the institutions is still necessary in order to prepare Lithuania's SME sector for integration into the European Union. The SME Division at the Ministry of Economic Affairs needs some strengthening. SMEDA should be enabled to fully play its role in strengthening the business support infrastructure and improving the quality of business support services. The Ministry of Economic Affairs is in the process of improving consultation mechanisms through a reform of the Business Development Council and the setting up of a committee on SME and tourism promotion.

Chapter 17: Science and research

Further progress has been made in this area since the last Regular Report.

In December 2000, the Law on Long-Term Financing of Science and Education was approved by the Seimas. The Law aims at reforming the system of research, higher education and education in 2001. In February 2001, the government approved the provisions of the Structural Reform of the Science and Higher Education system. These plan to adopt principles and methods for the State Higher Education Institutions' research and teaching activities, and prepare a Restructuring Plan for the State Research and Higher Education Institutions.

In July 2001 the White Paper on Science and Technology was approved. This White Paper will serve as a basis for the development of a strategy for science and technologies.

Some progress has been made concerning research and technological development in business enterprises and non-profit organisations. In order to enhance the effectiveness of the system of research and technological development, the new procedure for allocation of state support for research institutes for 2001-2004 was established in December 2000. Lithuania continued to be fully associated with the Fifth Framework Programme. For the first time the State Budget provided funding for state research institutes, taking into a consideration effectiveness and quality of research, competitiveness as well as participation in the Fifth Framework Programme.

The Commission for co-ordination of Lithuanian participation in the the Fifth Framework Programme, established in 1999, has been renewed, bringing into the Commission representatives of the Confederation of Industrialists, the Ministry of Economy and the Lithuanian Academy of Sciences, in order to promote links between research institutions, industry and SMEs.

As for other candidate countries associated with the Fifth Framework Programme, Lithuania has been granted observer status in CREST (*Comité pour la Recherche Scientifique et Technique*).

Overall assessment

Although the overall institutional set up that Lithuania needs to participate in Community Programmes is in place, the reinforcement of research-related administration capabilities as well as strengthening of the research infrastructure is necessary to ensure successful participation of Lithuania in the Framework Programme.

The co-operation between Research and Development institutions and SME and industry has been strengthened, but further progress is needed.

Further concrete measures are required to increase the financial support for research and development, and particularly to stimulate business enterprise expenditure on research, and favour fresh capital investment. Priority should be given to the development of a national strategy and programme for the development of science and technology policy. Funding mechanisms should be aligned with the redefined priorities. Measures are needed to promote and enhance the rate of research and development, to further encourage research that supplies relevant technology to small and medium-sized enterprises, and to increase European co-operation in this field. Legislation to facilitate the creation of high tech industries is necessary, in particular to attract foreign investment.

Chapter 18: Education and training

Some further progress has been made in this area.

In the past year Lithuania has continued to participate in the **Community programmes** (*see section A.b – Relations between the European Union and Lithuania*). National policy in the field of education and studies is implemented by the Department of Science and Studies of the Ministry of Education and Science.

As regards the **Directive concerning education of children of migrant workers**, no progress has taken place.

As regards reforming its **education and training system**, in December, 2000, the Law on Long-term Science and Education Funding was adopted.

Overall assessment

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning. Lithuania still needs to bring the legislation concerning the education of children of migrant workers fully in line with the *acquis*. Lithuania has advanced in reforming its education and training system.

Chapter 19: Telecommunications and information technologies

Some progress has been made since the last Regular Report in this area.

Concerning the **liberalisation of the telecommunications market**, no development can be reported as regards the liberalisation of fixed telephony. In this sector, the incumbent operator, Lietuvos Telekomas, enjoys a *de jure* monopoly regime until 31 December 2002. Excluding fixed telephony, competition has been strengthened by the issuing of a third GSM licence.

As regards the **regulatory framework**, a number of important items of secondary legislation have been issued, relating in particular to licensing and numbering. The rules on licensing of telecommunications activities were adopted in October 2000. The licence is issued through a tendering procedure only for those activities which require scarce resources, namely, radio frequencies and telecommunications numbering. These rules do not determine the licensing procedure for UMTS.

In February 2001, the Communication Regulatory Authority became operational, following the appointment of its director by the President of the Republic.

As regards the **postal services**, no progress has taken place.

Overall assessment

Lithuania has achieved a fair level of alignment in this area, but important efforts remain to be done as regards the alignment in particular on fixed-line telephony and postal services as well as administrative capacity.

The telecommunications market in Lithuania has been liberalised, except for fixed line telephony communications. Work has begun building on the foundations laid by the 1998 telecommunications law to resolve the remaining problems regarding alignment with the *acquis*. However, further rapid progress is now required. Properly regulated interconnection should be a priority. Price re-balancing and affordability remain crucial issues. As concerns the status of Voice Over Internet Protocol as a liberalised service, efforts are being made to regularise it.

As regards administrative capacity, the recently established Communication Regulatory Authority is understaffed (13 vacancies out of 111 available positions) and its present staff have almost no experience in non-radio areas. Moreover, the Authority lacks the appropriate equipment to be able to monitor the communication and radio spectrum, as well as assume its market surveillance functions. Therefore, strengthening the administrative capacity of this Authority is a matter of priority.

As for the postal services, further alignment with the *acquis* is required. The administrative structure in charge of postal services within the Communications Regulatory Authority will need to be allocated qualified staff and appropriate financing.

Chapter 20: Culture and audio-visual policy

During the reporting period, significant progress has been made by Lithuania in terms of legislative alignment.

Concerning **audio-visual** policy, in October and December 2000 the Parliament adopted amendments to the Law on National Radio and Television which, together with the Law on Provision of Information to the Public, makes up Lithuania's legal corpus in this domain. The

amendments addressed brought Lithuania's legislation largely into line with the *acquis*, including measures on jurisdiction, public access to major events, promotion of European and independent works, the protection of minors and the duration and content of advertising.

Three institutions are now involved in the administration and implementation of the *acquis*. In December 2000 the Government designated the Ministry of Culture as the institution responsible for the implementation of the provisions of the European Convention on Transfrontier Television and the Protocol amending this Convention. The Council of National Radio and Television is responsible for the regulation of the activities of the national radio and television. The Radio and Television Commission (RTC) is responsible for the regulation of the activities of commercial radio and TV stations, cable networks and microwave multi-channel systems. The Commission can impose sanctions for violations of the law or license conditions. From May 2000 to May 2001, the RTC renewed licenses for about 70 terrestrial television and radio broadcasters. The new licenses contain obligatory provisions on programme structure and content, including rules on advertising and teleshopping, as well as on respect for human dignity and protection of minors and social interests.

No particular developments are to be reported in the field of **culture**.

Overall assessment

Lithuania's legislation concerning the audio-visual field is largely in line with the *acquis*. Therefore, efforts should now be concentrated on implementation, including the adoption of secondary legislation concerning licence renewal for cable operators and codes of conduct on programming and advertising. Public awareness should be raised on such general principles as non-discrimination, proportionality and protection of minors and public morals.

Lithuania has signed and ratified the Council of Europe Convention on Transfrontier Television and its Protocol.

It is important that the Radio and TV Commission (RTC) now start drafting and publicising codes of Ethics and involve professional organisations such as the "Ethics Commission of Journalists and Publishers" and the "Commission on the Protection of Minors". Furthermore, due to the length of judicial procedures in Lithuania as well as the specificity of media law, the RTC should set up administrative tools to impose sanctions on those breaching broadcasting legislation. The RTC also needs to improve the existing administrative licensing processes (in particular for cable licenses). Finally, monitoring instruments should be established so that the RTC is able better to manage the large volume of data it must process and can develop a database on the audio-visual market/industry. The RTC seems to require increased human resources given the range of its responsibilities.

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

Since the 2000 Regular Report, Lithuania has made some progress in preparing for the implementation of structural policies.

As regards **territorial organisation**, no changes have been made with regard to the proposed provisional NUTS classification. A Government Resolution "on implementation of the European

National Account System” was adopted in May 2001; it aims at enforcing the application of the NUTS classification.

As regards the **legislative and institutional framework**, since the last Regular Report Lithuania has adopted a number of Government decisions with the purpose of defining the responsibilities in terms of programming and managing the Structural and Cohesion Funds. These decisions provide for the designation of the future Structural Funds managing authority and paying authorities. Furthermore, regional policy has been defined as a part of the State’s economic investment policy and integrated into the budget and investment planning. Accordingly, the process of drafting the National Development Plan has been integrated into the State budget preparation. In order to ensure control of the state budget and EC funds, a Government Resolution on the Approval of the Programme of Internal Control and Internal Audit System Set Up in the Public Sector was adopted in October 2000.

With regard to the **institutional framework**, there have been substantial changes since the last reporting period. The Ministry of Public Administration and Local Authorities was abolished in January 2001 and subsequently the Department of Regional Development was established in the Ministry of Interior. The department is responsible for the co-ordination of the preparation of regional development programmes and for the implementation of the national regional development policy. The other functions have been transferred to the Ministry of Finance in its capacity of future managing authority and co-ordinating body of the programming and implementation of the EC Structural Funds and national co-financing.

Within the Ministry of Finance, the function of planning and co-ordinating the EC support and national co-financing will be given to the newly established Financial Assistance Department. Upon accession, the Financial Assistance Department will become the single managing authority for the Single Programming Document (SPD). Until accession, the main function of this department will be related to the pre-accession funds. Acting in close co-operation with the budget department the department will also co-ordinate and facilitate the preparation of the National Development Plan/Single Programming Document, and ensure inter-ministerial co-operation throughout the Government.

The following ministries have been designated as future paying authorities for the Single Programming Document: Ministry of Finance – European Regional Development Fund paying authority; Ministry of Social Security and Labour – European Social Fund paying authority; Ministry of Agriculture – European Agricultural Guidance and Guarantee Fund paying authority and Financial Instrument for Fisheries Guidance paying authority. According to the Government decisions mentioned above, line ministries will under the overall responsibility of the managing authority, be involved in the implementation of individual measures or priorities co-financed by the Structural Funds in their respective areas of competence.

In terms of **programming**, Lithuania has prepared a second preliminary National Development Plan for 2001-2003, which was used as a reference document for Phare 2001 Economic and Social Cohesion programming. The preparation and content of this programming document suffered from a series of structural weaknesses such as insufficient inter-ministerial co-ordination and involvement of local, regional, economic and social partners. The National Development Plan also lacks a financial or institutional framework that would allow the priorities and measures listed in the preliminary National Development Plan to be implemented.

In February 2001 the Government approved the “Concept Paper for the Preparation of the National Development Plan”. According to this concept paper the Ministry of Finance shall now have the overall responsibility for programming the preparation and co-ordination of the National Development Plan and draft Single Programming Document. The Ministry of Economy shall prepare the national development strategy and be in charge of co-ordinating sector strategies while the Ministry of Interior is responsible for shaping the national regional policy and for co-ordination of the regional contributions to the National Development Plan. The whole process of preparation of the National Development Plan is co-ordinated by a Working Group, the members of which were approved by the Prime Minister’s Order of 29 May 2001. Lithuania has also decided that the assistance to be provided by the Structural Funds is to take the form of a Single Programming Document.

Very little progress has been made in developing a modern **monitoring, reporting and evaluation** system in Lithuania. Initial reviews are under way for the development of indicators, monitoring databases and reporting systems.

Concerning **financial management and control**, the Lithuanian Government adopted a Resolution in May 2001 with the objective of defining the role and responsibilities of state institutions as regards the implementation of the EC Structural Funds.

Overall assessment

Overall, while Lithuania has advanced in designing the structures for programming and managing the Structural and Cohesion Funds and by integrating the process of the National Development Plan into the State budget and investment planning, substantial efforts are still required in terms of programming and in order to develop the administrative capacity required for managing the Structural and Cohesion Funds. More progress and improved capacities are needed in view of the future responsibilities of Lithuania in terms of public internal financial control of both national and EC Structural and Cohesion Funds. Furthermore, the availability of national co-financing for Community funds remains a point of concern. As regards territorial organisation, Lithuania still needs to formally agree its provisional NUTS classification with the Commission.

As a matter of priority, the administrative capacity of the future managing and paying authorities needs to be considerably strengthened in order that they will effectively be able to take on the responsibility for the efficiency and correctness of the management and implementation of Structural Funds. Furthermore, the role of the line ministries, agencies and other bodies acting under the responsibility of the future managing and paying authorities needs to be clarified.

Substantial progress is also needed at the level of the technical preparation of projects (project pipeline) to be co-financed by the Structural and Cohesion Funds.

In terms of programming, the preparation of the draft Single Programming Document should proceed without further delay, taking into account the National Development Plan which Lithuania intends to submit until the end of the year. To that end, a structure for ensuring efficient and effective inter-ministerial co-operation needs to be established without delay. In that context, the relationship between the Ministry of Finance, the Ministry of Economy and the Ministry of Interior and their respective responsibilities and tasks should be clarified with a view to ensuring the coherence and efficiency of the programming process.

Lithuania is at the moment preparing a three-year National Development Plan with the function of co-ordinating public investments directed at social and economic development.

Furthermore, a structure for ensuring a wide and effective involvement of all the relevant partners at the different stages of programming, as well as the financing, monitoring and evaluation of the assistance needs to be defined.

Significant further work on ensuring compliance with the acquis requirements for monitoring and evaluation is still necessary, in particular as regards the ex-ante evaluation of the draft Single Programming Document. The timely availability and functioning of an effective monitoring and evaluation system will be of crucial importance for the effective and efficient implementation of the Structural Funds programmes.

With regard to financial management and control, the legal basis for the system of Public Internal Financial Control has been improved but is far from being fully operational. Substantial efforts will have to be made in order to introduce internal audit structures and to strengthen capacity in line with EC requirements in order to ensure sound financial management. Furthermore, Lithuania needs to ensure that the necessary legislative and budgetary framework is in place for the co-financing of Structural and Cohesion Funds, including provisions for transfer of funds during its implementation. Appropriate systems and procedures for financial management and control need to be established, in particular in relation to the structure of the managing and paying authorities, in order to fulfil the specific requirements of the Structural Funds regulations.

As to regional statistics, further efforts are necessary to bring them up to the level required for regional policy planning and programming, in particular ex-ante evaluation. Lithuania still needs to improve the system for the collection and processing of relevant statistical information for the purpose of ex-ante evaluation.

Concerning the European Social Fund Lithuania is developing the necessary structures and operational arrangements to implement the European Social Fund effectively. Further efforts are required to improve both administrative capacity and the mechanism for co-ordination of ESF interventions in the context of the European Employment Strategy and the Inclusion Process.

Chapter 22: Environment

Since the last Regular Report, Lithuania has made further legislative progress through the adoption of a number of legislative acts related to different areas, including the Law on Genetically Modified Organisms.

With regard to the **integration of the environment into other policies**, Lithuania established a national commission for sustainable development in which a range of governmental and non-governmental organisations participate. The aim of the commission is to achieve a better integration of environmental policies into sector policies. Local Agenda 21 has been drawn up for 15 cities. Lithuania participated in various bilateral, regional and international forums on sustainable development and continues to implement the action programme for sustainable development adopted by all the Baltic Sea countries in the framework of “Agenda 21 for the Baltic Sea region”.

In the field of **horizontal legislation**, a manual for the application of the Environmental impact assessment (EIA) requirements has been developed and training carried out for the Ministry of Environment and its Regional Departments to strengthen their capacity. As for the access to environmental information, an EU Environmental documentation centre has been established at the Ministry of Environment. Furthermore, in July 2001, the Seimas ratified the Convention on the Public Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters.

As regards **air quality**, part of the requirements of the Air Framework Directive and the Directives on limit values in ambient air have been transposed. As of January 2001 the requirements for *new* installations on Volatile organic compound (VOC) emissions from storage and distribution of petrol have been transposed. A number of programmes to implement the Directives in this sector have been defined. In August 2001, the Ministers of Economy, Environment and Transport issued a joint order aligning with the *acquis* on environmental requirements for fuel quality.

In the area of **waste**, the landfill Directive was transposed in October 2000. However, some provisions may need revision. A Strategic Plan for the Recycling of Municipal Waste and a Strategic Plan for a Network of Landfills for Non-Hazardous (municipal) waste was developed and adopted in February 2001 in order to better plan the implementation of the requirements in the waste area. In September 2001, the Seimas adopted the Law on Packaging and Packaging Waste.

In the field of **water quality**, Lithuania has decided that the whole territory will be identified as a sensitive area for the purposes of urban waste water treatment. As concerns the ground water protection, partial transposition was achieved. A code of good agricultural practice was adopted in line with the nitrates Directive and the requirements for bathing water were transposed. In July 2001, the Seimas adopted the Law on Drinking Water which will enter into force in July 2003.

With regard to the institutional structure, the Ministry has established a new Water Department based on the former hydrographical service and the former fishing department.

In the field of **nature protection**, further steps were taken by the adoption of ministerial Orders on selection criteria and identification of special areas of conservation. An action plan for implementation and transposition has been drawn up. In May Lithuania ratified the CITES convention. Ministerial orders were adopted on whales in October 2000.

As regards **industrial pollution control and risk management**, Lithuania has approved a programme for the approximation of the IPPC Directive (February 2001) and adopted a number of legislative instruments. The Minister issued the programme for implementation of the IPPC requirements and an Order on permits for industrial pollution. A decision was taken to reorganise the Register of Dangerous Installations.

Furthermore, in the field of **genetically modified organisms and chemicals**, the general requirements on contained use of GMOs and on deliberate release of GMOs were transposed in June 2001 by adoption of the Law on Genetically Modified Organisms. However, secondary legislation to establish institutions for enforcement of requirements and data collection still needs

to be introduced. Import and export licensing requirements on ozone depleting substances were transposed by ministerial Order in August 2000.

Besides this, the Minister of Health Care approved a Hygiene Standard on “Pesticides and their permitted concentration values in the environment”. During the month of December 2000 the Ministers of Environment and Health Care approved the procedures on classification and labelling of dangerous chemical substances, as well as a list of classified dangerous substances and the procedures for testing properties of chemicals and preparations that may be dangerous to the public health and the environment. In May 2001 the Government established a Register of Dangerous Chemical Substances and Preparations and approved the relevant regulations. In order to manage chemical substances, a separate division has recently been established in the Non-food Products Control Inspectorate.

As regards **noise**, no progress can be reported.

In the field of **radiation protection** (*see also chapter 14 - Energy*), the Directive on basic safety standards, and its daughter Directives on medical exposure and on outside workers have been fully transposed into Lithuanian law. In May 2001 the Ministry of Economy issued the order on the establishment of the Radioactive Waste Management Agency and approved its statute. A plan for the protection of the population in the event of a radiological emergency at the Ignalina NPP in line with the requirements was approved in the year 2000.

While in 2000, environmental public investments in Lithuania were €3.5 million, in 2001 they have went down by 38% to an amount of around €3 million, corresponding to 0.22% of national GDP. This decrease has been mainly due to a reduction of loans and grants.

Overall assessment

Lithuania has achieved a good level of alignment with the EC environmental *acquis*. Implementation is a major challenge, in particular for the water and waste sectors, which require heavy investment or investment by private enterprises, such as for the IPPC, VOCs from storage and distribution of petrol and fuel quality requirements. Lithuania has done considerable work in as regards the preparation of implementation, including cost assessments.

With regard to horizontal legislation, transposition has now been completed. However, enforcement authorities need to be strengthened further and the provision of information to the public improved. As the necessary EIA legislation has been in place since July 2000, the EIA requirements are applied.

On air quality, new legislation was adopted, and some gaps in existing legislation closed. As regards volatile organic compound emissions from storage and distribution of petrol, requirements on *existing* installations still need to be transposed. Further upgrading of the monitoring system is needed. The necessary investments for the implementation of the VOCs from storage and distribution of petrol and quality of fuel requirements need to be ensured.

In the area of waste, the landfill Directive was transposed, but some of the provisions in the Lithuanian legislation may need revision to bring them into line with the *acquis*. As regards implementation in the waste sector, local administrative structures need to be strengthened and the necessary investments ensured. The recycling targets for packaging and packaging waste

are a challenge. Lithuania needs to ensure timely transposition of the Directive on waste oils and to implement measures in order to give regeneration of waste oils priority in practice.

Although some new legislation was adopted in the field of water, Lithuania needs to speed up transposition. Monitoring and implementation should be stepped up, in particular for the Directives relating to dangerous substances in surface water. Depending on the results of studies, appropriate measures may need to be taken to bring fluoride levels in drinking water in line with EC requirements.

With regard to industrial pollution control and risk management, work needs to be done to ensure that permits issued will be integrated in practice.

Progress was made in the adoption of requirements on the identification of protected areas for nature protection. The institutions dealing with nature protection need to be reinforced and their co-ordination strengthened. The necessary scientific expertise for the identification of protected areas also deserves attention.

In relation to chemicals and GMOs, the major legislation is in place. Considerable efforts are still needed to prepare the secondary legislation. Moreover, particular and urgent attention should be paid to building up the necessary institutions for enforcement of requirements and the collection of data.

Concerning noise, Lithuania needs to transpose the *acquis* in this area, as the existing legislation has so far not been aligned with the EU requirements.

As regards radiation protection and nuclear safety, Lithuania has transposed the major Directives on safety standards and medical exposure and outside workers. A plan for a radiological emergency at Ignalina NPP was developed. Specialised training and staffing levels at the Radiation Protection Centre should be increased, as should the co-ordination and preparations for a radiological emergency.

Lithuania should continue to integrate environmental protection requirements into the definition and implementation of all other sectoral policies with a view to promoting sustainable development.

As regards *administrative capacity* at central level, the Ministry of Environment employs some 180 persons and its subordinated 109 institutions have more than 10 000 employees. The Ministry is composed of five Departments: the Departments of Environmental Quality, Environmental Strategy, Nature Protection, Housing and Technical Standardisation, and Territorial Planning, along with an independent division for Environment Impact Assessment. These departments work out strategies, draft programmes and co-ordinate the drafting of relevant legal acts. An Environment Protection Agency remains to be established.

The monitoring of the implementation of the requirements in the environmental field is ensured by the State Environmental Protection Inspectorate, 8 regional departments and 54 city and district agencies. The regional departments' main responsibilities concern the permitting system, EIA, laboratory control and enforcement of environmental regulations.

Another important institution for the implementation of the requirements of environmental protection is the Joint Research Centre. This institution, together with 8 regional laboratories, is responsible for state laboratory control and monitoring.

Some environmental requirements are within the competence of other ministries. The Ministry of Health Care is responsible for drinking water quality issues and shares responsibilities for chemicals management with the Ministry of Environment. The Ministry of Economy is responsible for hazardous waste management planning and implementation of the hazardous waste treatment system.

The Law on Environmental Protection and the Law on Local Government (1995) determine the responsibility of State institutions and local authorities in environmental protection. According to the Law on Environmental Protection, local governments shall:

i) organize the implementation of laws and governmental decisions on environmental protection; and ii) prepare, approve and implement the programmes, plans and projects concerning environmental protection and use of natural resources within their jurisdictions.

Although overall administrative capacity seems relatively adequate, the administrative capacity should be maintained and where necessary strengthened to a sufficient level to ensure implementation and further transposition of environmental legislation according to EC requirements. In certain areas more staff and training is still needed. The administrative capacity for the development of EC-funded environmental projects in the Ministry of Environment and elsewhere should be strengthened. Rationalisation of structures, to avoid duplication of work, and the establishment of new institutions, are a continuing necessity if the requirements of the *acquis* are to be met.

Considerable investments need to be secured, also in the medium-term, to ensure implementation of the environmental *acquis*.

Chapter 23: Consumers and health protection

Lithuania has made a reasonable degree of progress since the last Regular Report in the area of consumers and health protection.

There are no legislative developments of note to be reported in the field of **safety related measures**.

In the area of **non-safety related measures**, amendments to the Law on Consumer Protection entered into force in January 2001. Together with the new Civil Code (which entered into force in July 2001), the new Law on Consumer Protection aims to transpose the *acquis* on doorstep contracts, consumer credit, unfair terms in consumer contracts, timeshare, distance contracts, indication of prices, injunctions and guarantees.

The Law on Advertising came into force in January 2001 and partially transposes the *acquis* on misleading and comparative advertising.

During the reporting period, the re-organised **market surveillance** institutions took up activities. The State Food and Veterinary Service is responsible for product safety in the food sector and performs all food control related functions, while the State Non-Food Product

Inspectorate under the Ministry of Economy is in charge of non-food control related functions. In October 2000 the decision was taken to create the National Consumer Rights Protection Council and its statute was established by a Government Decision of January 2001. This body, placed under the Ministry of Justice, is responsible for the overall co-ordination of market surveillance activities and, more generally, for the protection of the economic interests of consumers and the implementation of the Law on Product Safety. It will take over responsibility for the enforcement of the Law on Consumer Protection from the Unfair Competition Investigation Division of the Competition Council.

The State Non-Food Products Inspectorate has been appointed and operates as the national contact point for the Transitional Rapid Exchange of Information System (TRAPEX).

As regards consumer associations, four new non-governmental organisations have been created: the Lithuanian Consumer Union, the Lithuanian Institute of Consumers, the Center for the Protection of Consumers' Rights and the Association for the Protection of Consumers' and Human Rights. They join the already existing Lithuanian Consumer Association and Lithuanian National Consumers Federation.

Overall assessment

Lithuania has achieved a reasonable level of alignment in this area, however there are important shortcomings with regard to the transposing measures. Adjustments of existing laws are therefore needed to fully comply with EC *acquis*, both in the field of safety and non-safety related measures.

In the area of market surveillance, an important step forward has been made through the creation of the National Consumer Rights Protection Council, and the institutional re-organisation of the market surveillance bodies which is now operational. Nevertheless, it will be necessary to further strengthen the administrative capacities of the new institutions - the State Food and Veterinary Service and the State Non-Food Inspectorate - in order to enable them to carry out appropriate enforcement of the market surveillance system. The National Consumer Rights Protection Council should also be made fully operational as soon as possible and specific training should be provided to its staff.

Further efforts are also needed as regards support for activities carried out by consumer organisations and the development of a programme for the education of consumers.

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

Lithuania has made progress since last year's Regular Report in the area of justice and home affairs, with notable improvements being made in strengthening the external border, and addressing, in part, shortcomings in inter-agency co-ordination.

In the field of **data protection**, some progress has been achieved in terms of legal framework and in the area of public awareness. In February 2001, the Lithuanian Parliament ratified the European Convention for Protection of Individuals with regard to automatic processing of personal data.

In October 2000, the new Law on Police Activities was adopted. The Law requires the police to release to individuals, upon their request, unclassified information about them from the police information system and prohibits disclosure of personal information to other persons.

The new Law on the Legal Protection of Personal Data entered into force in January 2001. On the basis of this Law, the State Data Protection Inspectorate is to be reorganised into an independent government institution.

In the area of **visa policy**, there have been no legislative or administrative developments of note since last year's Regular Report.

As concerns **border control**, in November 2000, the new Law on the Border Guard Service (formerly Border Police Department) entered into force. In May 2001, in line with the new Law, the reorganisation of the former Border Police Department (Ministry of Justice) into the Border Guard Service under the Ministry of Interior was completed. The Border Guard Service is gradually reducing the number of military conscripts and replacing them with professional officers.

In October 2001, Lithuania presented its **Schengen** Action Plan with a view to the implementation of the acquis.

Border demarcation with Belarus has continued, primarily on the Lithuanian side. Lithuania has placed border markers at both regular and provisional central border posts along the whole length of the border and the construction of a number of surveillance towers has been completed.

In June 2001, the Lithuanian State Border Guard Service and the Swedish Maritime Border Protection signed a cooperation agreement on the fight against organised crime.

During the period 2000-2001, the number of staff (including border police officers, frontier guards and civil servants), along the future EU external borders, has been increased from 504 to 659 staff at the border with Russia, as well as from 1489 to 1679 staff at the border with Belarus. As of March 2001, the total staff of the Border Guard Service was 4936. The majority (4016) are border police officers and border guards, 621 – are civilians and 299 – are conscripts.

In 2000, the border police detained 100 illegal immigrants at the external border (261 and 495 in 1999 and 1998, respectively). The number of offences at the state border has decreased from 1039 cases in 1999 to 797 in 2000, with 49 percent of offenders being detained at the border with Belarus. Over the past few years, illegal migration has decreased due to strengthened border control, stricter penalties for migrant trafficking and stronger international cooperation,

During 2000, a total of 430 border guards received some degree of professional training. During the first half of 2001, the figure is up to 600.

In 2000, the new computer-based State Border Guard Service Information System (SBGSIS) was installed with the network covering central administration, border police districts, stations, and checkpoints.

In November 2000, the State Border Guard Service signed a co-operation protocol with the Customs Department and the Police Department regarding inter-institutional co-operation. Furthermore, in February 2001, the Police Department, the Tax Police Department, Border Guard Service, the State Security Department, the Special Investigation Service, the Customs Department and the General Prosecutors Office signed an agreement on cooperation in operational activities.

There have been no legislative developments of note in the area of **migration**. Regarding administrative capacity, a police unit for combating illegal migration was established in December 2000.

In the field of **asylum**, a Ministerial Order was passed in October 2000 on the determination of the “safe country of origin” and “safe third country”, bringing legislation further into line with *acquis* provisions. During the reporting period, the staff of the Asylum Division of the Migration Department have attended a number of training courses and seminars on asylum, organised by several international organisations. In 2000, the Lithuanian authorities received 199 asylum applications. During the same time, 15 persons were granted refugee status.

As concerns **police co-operation and the fight against organised crime**, the new Law on Police Activities, which entered into force in December 2000 lays down provisions to ensure greater independence of the police service, to allow for its reorganisation and the transfer of certain functions to the civil service.

In November 2000, in addition to the agreement on cooperation in operational activities already mentioned, the Police, Border Police and Customs Departments signed a cooperation agreement on the fight against crime. The agreement also stipulates the exchange of information on crime and crime prevention, co-operation in carrying out operational activities and joint training exercises.

In February 2001, an inter-governmental agreement on cooperation in fighting organised crime, terrorism and other serious crimes was signed between the Ministries of the Interior of Lithuania and Germany. The agreement allows the Lithuanian Police, Tax Inspectorate and Border Police to apply directly to the German law-enforcement institutions for information and assistance in crime investigation. This creates a legal basis for information exchange in combating organised crime and trafficking in people, and ensuring victims' safety. In June 2001, the Heads of Police of Lithuania, Latvia, Estonia and Finland signed an agreement on co-operation in operational activities combating organised crime. Under the agreement, the parties will exchange relevant information, appoint contact officers, and organise joint seminars and training.

In 2000, 1,081 police officers (including policemen, police inspectors and commissioners) were trained. From January to May 2001, a total of 596 police officers enrolled for training. Police officers are trained at the Lithuanian Law University and Klaipeda Police High School. Development of professional police skills is provided by the Police Training Centre.

As regards the **fight against fraud and corruption**, in May 2001, the Lithuanian Parliament adopted a Resolution on the Fight against Corruption, which sets out a number of anti-corruption measures to be implemented by the Parliament, the Government and the Special Investigations Service (*see also Section B.1.1. - Democracy and the rule of law*). The

institutions involved in the fight against corruption have, in general, been strengthened in terms of staff training. The Code of Ethics for the staff of the Special Investigation Service (SIS) officers was adopted in 2001.

The National Anti-Corruption Strategy was approved by the Government in September 2001, but, along with the programme for its implementation, remains to be adopted by the Parliament. In December 2000, Lithuania signed the Council of Europe Criminal Law Convention on Corruption.

In January 2001, the Government approved an Action Plan for the implementation of the National **Drug** Control and Prevention Programme for 1999-2003. Also in January 2001, a new Inter-Governmental Drugs Control Commission was established, with the objective of coordinating inter-ministerial activities in the field of drug control and drug prevention. The Minister of Health chairs the Commission, which comprises representatives from various ministries such as the Ministry of Health, Interior, Social Security and Labour, Defence, Justice, Finance, Education and Science, and Agriculture as well as the Customs Department, and the AIDS prevention centre. The Secretariat of the Commission has been established within the Public Health Care Service and employs 15 people who are responsible for public health policy implementation, monitoring, public health promotion, health education, hygiene control, and a Tuberculosis Register.

In November 2000, the Narcotics' Control Board in the Police Department was set up. The Board is responsible for coordination of the law-enforcement institutions actions in combating trafficking and distribution of drugs. The Investigation Department of the Interior Ministry was incorporated into the Police Department at the end of 2000.

In July 2001 a special division within the customs department for the Control of Drugs and the Precursors of Narcotic Substances was established at the Fraud Prevention and Investigation Service of the Customs Department.

In 2000, 926 crimes related to illegal trade in narcotic and psychotropic substances were registered. This is a 33% increase compared to 1999 (701 crimes). In 2000, six illegal laboratories for the production of synthetic drugs were discovered.

In the area of **money laundering**, the Financial Unit of the Tax Police received 51 reports on suspicious transactions in 2000, compared to 66 reports in 1999. A total of 13 criminal proceedings relating to money laundering were initiated in 2000.

With regard to **customs co-operation**, there are no significant developments to report.

In the area of **judicial co-operation in criminal and civil matters**, a number of international conventions have been ratified. In November 2000, the Lithuanian Parliament ratified the International Convention against the Taking of Hostages, and the Additional Protocol to the Convention on Transfer of Sentenced Persons. The Convention of 2 October 1973 on the Law Applicable to Maintenance Obligations was ratified by the Parliament in March 2001.

Overall assessment

Lithuania has reached a reasonable degree of alignment with the *acquis*; however, whilst concerted efforts have been made regarding administrative capacity, enforcement capabilities across a number of areas of justice and home affairs continue to be rather weak.

Particularly significant are the efforts that have been undertaken to improve inter-agency cooperation. Whilst the legal framework for cooperation and coordination between the relevant bodies has been strengthened, it is too early to assess whether the *de facto* situation has significantly improved.

As regards data protection, whilst new legislation has entered into force, further secondary legislation for the implementation of this legislation should be adopted.

Following the ratification of the Convention on the Protection of Individuals with regard to automatic processing of personal data, relevant legal acts need to be amended accordingly. The Police Service should be strengthened and ensure proper implementation of data protection requirements.

In order to ensure proper personal data protection system, reorganisation of the State Data Protection Inspectorate should be speeded up. This would allow the Inspectorate more independence in its activities. In addition, the Programme on Data Protection Development, which would serve as the main policy framework during the coming years, needs to be finalised and adopted.

Lithuania needs to fully align its **visa policy** with the *acquis* including as regards countries with which visa-free regime exists, visa sticker, and establishment of a central visa database. The Lithuanian visa regime in respect of third country citizens, including those from Belarus and Russia, will need to be brought into line with the *acquis* by the time of EU accession.

Efforts have been made to ensure proper border control and unhampered movement of legitimate flows through borders via the strengthening of technical capacities and the installation of the online computerised border information system, which will serve as a part of the future Schengen Information System. Such efforts need to be sustained and improved. Border demarcation needs to be completed. An automatic data exchange network needs to be fully developed and the upgrading of technical equipment and infrastructure continued. Coordination between the State Border Guard Service and other law-enforcement bodies has improved but these efforts must be further sustained to ensure a sufficiently high level of border control.

The Schengen Plan needs to be implemented.

Some progress can be noted in the area of migration, particularly with regard to the implementation of readmission and expulsion procedures. Lithuania has signed 20 readmission agreements with EU Member States and third countries. Little progress however can be noted in extending readmission agreements to include Belarus and the Russian Federation. Lithuania needs to complete alignment with the *acquis*. Preparations should be made for the implementation of the new Convention on internal readmission of illegal immigrants. Inter-agency cooperation should be improved so that a coordinated approach to migration issues can be applied among migration, labour and law-enforcement institutions. Preparations for the

establishment of a Migration Register System should be stepped up. Further efforts should also be made in improving cooperation and coordination with neighbouring countries.

Lithuania has already achieved substantial alignment in the area of **asylum**, however there are still a number of shortcomings that need to be addressed to ensure that legislation is fully in line with European and international standards. These include, provisions on detention, admissibility procedures, the definition of “safe third country” and “safe country of origin”, exclusion and cessation clauses and the principle of ‘non-refoulement’. A Refugees Register has not yet been completed.

The reorganisation of the Asylum Division of the Migration Department in 2000 is a welcome development as it ensures a coordinated approach in dealing with asylum matters and decreases the potential for duplication. However, the Asylum Division lacks basic capacities to handle country-of-origin information. Current staffing levels in the Asylum Division may not be sufficient to deal with Dublin Convention cases on asylum applications. The judicial capacities to deal with asylum matters also needs to be considerably strengthened.

As concerns **police co-operation and fight against organised crime**, overall, some progress can be noted in terms of inter-agency and international cooperation. However, severe budgetary constraints have had a clear impact on the development of a modern, efficient and professional police service. The recent efforts for restructuring the police service need to be built upon, and the professional skills of the police force need to be further developed.

Preparations for full participation in the work of Europol should be continued, so that a cooperation agreement can be signed as soon as possible. In addition, a network of police liaison officers needs to be established under the common Schengen framework in order to reinforce bilateral cooperation with other EU countries for cross-border surveillance.

Police training has gone through many changes and adaptations over recent years. However, a complete and coherent professional training strategy for the police must be developed in the near future in order to ensure that police officers obtain specialised training, in particular on the specific types of crime as well as on specific actions needed for police cooperation according to the Schengen provisions.

An integrated computerised network should be established between the central police administration and regional commissariats with the aim of developing detailed information and criminal analysis. Furthermore, a common radio-network system needs to be established for the common cross-border surveillance purposes.

Trafficking in women continues to be a problem and stronger efforts to combat it should be made.

Good progress has been achieved at institutional and operational level in the **fight against corruption**. Since 2000, the Special Investigation Service and its regional offices have achieved important results in fighting corruption in budgetary, municipal, credit and financial institutions, as well as in fighting corruption among civil servants in public tendering, privatisation, local authorities, foreign investment, customs and law enforcement. Since its establishment, the SIS has improved the administrative capacity to combat corruption.

A new Law on Corruption Prevention has yet to be adopted. The Code of Ethics for Public Servants should be finalised in order to improve the fight against corruption within different state bodies. Furthermore, preparations for the National Anti-Corruption Strategy should be finalised and co-ordination amongst all bodies responsible for the fight against corruption needs to be stepped up. Lithuania has not yet signed the Council of Europe Civil Law Convention on Corruption.

In order to ensure the protection of the financial interests of the European Communities, Lithuania should continue to align its legislation with the 1995 Convention on the Protection of the Financial Interests of the European Communities and its protocols.

In the field of **drugs**, Lithuania is advancing towards a more coherent policy and legal framework. A national drug policy in the fields of drug control and drug prevention treatment and an Intergovernmental Drugs Control Commission are now established.

Particular attention should be paid to further strengthening coordination and cooperation between specialised units on drugs, financial intelligence, and organised crime, and the investigation services of the law-enforcement authorities. In order to improve cooperation with EU Member States, the legal framework for international cooperation needs to be completed. Furthermore, the establishment of an information system, formalising the setting-up of a National Focal Point and participation in the European Information Network on drugs and drug addiction (REITOX) at the European Monitoring Centre for Drugs and Drug Addiction should be speeded up. In addition, a national strategy on drugs supply reduction and drug demand reduction needs to be established.

While the administrative capacity of the police authorities, in terms of **money laundering**, has improved, cooperation between the Financial Intelligence Unit at the Ministry of the Interior and Customs, and the Border Police needs to be strengthened, especially in terms of information exchange and implementation of prevention measures. Due coordination should also be ensured with the relevant credit and financial institutions dealing with the prevention of money laundering. The independence of the Financial Intelligence Unit needs to be strengthened and further legislative measures are still required in order to ensure full alignment with the *acquis*.

In the field of **customs co-operation**, progress has been made in strengthening the role of the customs authorities in the fight against fraud. The newly reorganised Fraud Prevention and Investigation Service should play an important role in customs cooperation and enforcement and as such will need to be accorded the necessary resources. Inter-agency cooperation has undoubtedly improved, nonetheless there are still important shortcomings, particularly at border crossing points.

With a view to future cooperation with Europol, the customs service needs to improve its intelligence capacity and to be able to participate in joint projects using a multi-agency approach. Substantial training will be needed to meet these requirements.

Furthermore, with over 90% of all customs officials employed at the regional level and the border posts, an appropriate training and incentive strategy needs to be developed for Regional Customs Offices. This is essential for integrated border management, where customs will be working with veterinary, internal market and law enforcement/visa agencies.

In the area of **judicial cooperation**, the matter of administrative structures to allow for cooperation with Member States upon accession on the basis of international conventions, is gradually being addressed.

As regards judicial cooperation in civil matters, even though the major Hague Convention acts have already entered into force, awareness within the judiciary of these acts remains limited and needs to be addressed through appropriate training.

There have also been positive developments with regard to judicial cooperation on criminal matters. In most cases, requests received are promptly executed. Lithuania, however, needs to prepare the implementing provisions of the 2000 Mutual Assistance Convention (with regard to undercover operations and multinational investigative teams). Efficient structures for judicial cooperation on criminal matters, mainly at the central level, have to be built up by developing an instructor-training programme for personnel responsible for drafting and applying conventions both in the Ministry of Justice and in the Prosecutor General's Office. Adequate staffing also needs to be ensured so as to avoid delays in the execution of international letters of request. Training of judges, prosecutors and court personnel in the *acquis* must be continued systematically.

In the medium term, a comprehensive plan on administrative restructuring of judicial cooperation in criminal matters, in line with the *acquis* requirements, should be developed, including the establishment of national judicial contact points for the functioning of the European Judicial Network.

Lithuania is a party to all **human rights** instruments that are part of the Justice and Home Affairs *acquis*.

Chapter 25: Customs union

Since last year's Regular Report, Lithuania has made good progress in the area of customs.

Several pieces of implementing legislation were adopted, ensuring further alignment with the **EC Customs Code and its implementing provisions**, and the combined nomenclature of goods. These included measures on the application of simplified customs procedures, destruction, temporary admission and temporary exportation of goods. In September 2001, the Government further adopted Resolutions on the export of cultural valuables and on amending the customs transit procedure.

The Law on Free Warehouses also entered into force in January 2001.

As concerns the **customs *acquis* outside the Customs Code**, legislation governing the protection of intellectual property rights in the field of import and export of goods entered into force in January 2001. This new legislation gives the customs authorities the requisite powers to detain goods which are suspected of being counterfeit or pirated. (*See Chapter 5 - Company Law*)

A number of international agreements on mutual assistance were signed (or renewed) during the reporting period, notably with Poland, Russia and Uzbekistan. Agreements with Denmark, Georgia, the Netherlands and Turkey were ratified by the Lithuanian parliament. An agreement with the USA has been ratified but has not yet entered into force. The International Convention

on the Mutual administrative assistance for the prevention, investigation and repression of Customs Offences came into force for Lithuania in February 2001.

In January 2001, the Agreement on the Baltic Common transit procedure entered into force. At the same time, the central transit control office within the Customs Department was established. Joint Committees on Common Transit and on Simplification of Formalities granted Lithuania observer status in working groups as of January 2001.

During the reporting period, a number of important activities were carried out in order to improve the administrative and operational capacity of Lithuanian Customs.

In January 2001, the new revision of the Statute of Service with the Customs Department entered into force, with the aim of ensuring better selection and distribution of employees, more efficient prevention of corruption and reduced waiting times at the border. The new organisational structure of the Customs Department, based on best practice in EU Member States, came into force in July 2001.

In October 2000, the Government adopted a Resolution on operational activity. The Resolution grants the Customs Department and operational units of the territorial customs offices the rights and powers necessary to conduct operational activity, to investigate and prevent the violations of the law, and to implement the obligations of the international treaties on co-operation and mutual assistance.

Following the decision to transfer responsibilities in the fight against smuggling from the Ministry of Finance to the Customs Department, the Fraud Prevention Service was reorganised into the Fraud Prevention and Investigation Service, which consists of 4 units: anti-smuggling, intelligence analysis, procedures and tax control, and investigation. The anti-smuggling division has established branches in Vilnius, Kaunas, Klaipeda, Šiauliai, Panevežys and Marijampole regional customs offices. As for border controls, in February 2001, the Government approved the new rules for the activities of border control posts based on the "one stop – one check" formula. The border posts with Belarus and Kaliningrad have been continuously strengthened. The reconstruction of the Nida post was finished in November 2000, while the design of the Šalcininkai post was completed in May 2001.

In the field of computerisation, the computerised customs information system based upon the ASYCUDA software package was implemented at several sites of the Kaunas and Vilnius territorial customs offices. Working groups for the implementation of ASYCUDA were formed at the Šiauliai, Panevežys and Marijampole territorial customs offices. The ASYCUDA system has been backed up by the computerised tariff functions which allow users to perform the automatic calculation of customs duties and taxes.

In January 2001 the IT unit of the Customs Department was reorganised into the independent customs institution. In February 2001, the Lithuanian Government approved an action plan for the introduction of the integrated customs information system.

In February 2001, the Customs Department approved the data formats of the electronic version of the integrated tariff, and in May 2001, the Lithuanian Ministry of Economy published the printed version of the integrated tariff.

Overall assessment

Overall, Lithuania has made concerted efforts to bring its legislation into line with the customs *acquis* and to continue the process of modernisation of the customs administration. Far greater attention, however, needs to be put on ensuring effective enforcement.

The alignment with the *acquis* is progressing at a satisfactory pace, and is near its completion. Specific measures still need to be taken, chiefly as regards the Single Administrative Document (SAD) and accession to the Common Transit Conventions.

A considerable amount of work still however remains to be done with regard to administrative and operational capacity, and in particular the IT/computerisation aspect, despite a number of important measures being undertaken. With regard to IT development, it must be emphasised that flawlessly functioning of EC-compatible IT systems should be in place at least one year before EU accession in order to allow a sufficient period of time for the test requirements and to guarantee interconnectivity with the EC customs computerised systems.

Enforcement measures need to be improved, especially as regards the fight against customs fraud, and greater efficiency is needed to avoid unreasonable waiting times at borders, without undermining the quality of control. Lithuania must also actively address the problem of corruption within the customs administration.

Active co-operation with other services (e.g. Border Guard, veterinary and phytosanitary inspectors etc.) must continue to be strengthened.

Chapter 26: External relations

Since the last Regular Report, Lithuania has continued to make progress in aligning with the *acquis* with regard to the common commercial policy. Lithuania acceded to the World Trade Organisation in May 2001.

As regards the **common commercial policy**, Lithuania will be required to align its tariffs with those of the EC on accession. Lithuania's applied tariffs currently average 5,4% on all products, 15,2% on agricultural products, 4,1% on fishery products and 2,5% on industrial products. By comparison the EC tariffs²³ currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

During the reporting period Lithuania acceded to the World Trade Organisation (31 May, 2001). Lithuania has joined all mandatory WTO agreements without transitional periods. The plurilateral WTO Agreement on Trade in Civil Aircraft was ratified with the WTO accession package and entered into force for Lithuania in June 2001.

As regards **bilateral agreements with third countries**, a Free Trade Agreement between Lithuania and Bulgaria was signed in May 2001, and negotiations on a Free Trade Agreement with Romania have been completed. Changes to the definition of the rules of origin and methods of administrative cooperation have been made to Lithuania's Free Trade Agreements with the

²³ WTO bound tariffs after full implementation of all concessions including – where possible – estimated ad valorem equivalents of specific and compound tariffs.

European Community, European Free Trade Association (EFTA), Latvia, Estonia, Poland, the Czech Republic, Slovakia, Slovenia, Turkey and Hungary during the reporting period.

Co-operation among the Baltic States in implementing gradual liberalisation and regional integration policies is developing and a Baltic Common Economic Area is being introduced. The Baltic Free Trade Agreement covers industrial and agricultural goods, and negotiations on the liberalisation of the services market are proceeding.

No particular development can be reported as regards **development policy** and **humanitarian aid**.

Overall assessment

Lithuania is advanced in aligning with the *acquis* in this area.

Lithuania is a party to the Information Technology Agreement (ITA). Lithuania has yet to join the plurilateral WTO Agreement on Government Procurement to which it currently has observer status. Further cooperation is needed to ensure the alignment of Lithuania's GATS commitments with EC commitments and MFN exemptions. With regards to the WTO Agreement for Textiles and Clothing (ATC), further progress is due. Consultations took place with Lithuania regarding its proposal for the alignment of its integration programmes for stages 1, 2 and 3 on those of the EC, in order notably to avoid the integration of products not yet integrated by the EC.

Lithuania currently has FTAs with the Czech Republic, EFTA, Estonia, Hungary, Latvia, Poland, the Slovak Republic, Slovenia, Turkey and Ukraine. Lithuania has progressed in aligning its international commitments to those of the EC in respect of Free Trade Agreements. However, it should continue its review of its bilateral and multilateral trade agreements, including its bilateral investment treaties with third countries. Any international agreement, which is incompatible with the obligations of membership, will have to be re-negotiated or renounced prior to accession. Lithuania should continue to keep the European Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country.

Lithuania needs to keep the European Union informed about its ability to implement the new EC Regulation on Dual Use Goods.

Where medium and long term Export Credits are granted, further efforts are necessary to align with the *acquis*.

Regarding development policy, Lithuania needs to introduce the Generalised System of Preferences (GSP) in its trade with third countries and to prepare for future participation in the financing of the European Development Fund.

The institutional infrastructure required for implementation and enforcement of the *acquis* is in place and is operational. The administrative infrastructure which needs to be in place as regards customs services is addressed under *Chapter 25 – Customs union*. The Ministry of Foreign Affairs is responsible for negotiations and supervision of agreements in the fields of trade and international economic relations, and also administers development and humanitarian aid. The Ministry of Foreign Affairs has sufficient administrative capacity to ensure coordination with the

other ministries and departments responsible for external relations. For the purpose of Lithuania's future financial contribution to the European Development Fund, Lithuania's management of its national budget organisation and management of flow of funds to the EC budget is addressed under *Chapter 29 – Financial and budgetary provisions*.

Chapter 27: Common foreign and security policy

Since the previous Regular Report, Lithuania has continued to align its foreign policy with that of the European Union and has participated constructively in the framework of the Common Foreign and Security Policy.

The regular **political dialogue** established by the Association Agreement with Lithuania is proceeding smoothly and the country continues to orient its foreign and security policy towards the Union.

Lithuania has shown a keen interest in the development of European Security and Defence Policy (ESDP) as part of the CFSP. It has actively participated in the exchanges in this context with the EU and, for the ESDP, in the EU+15 format meetings (i.e. with non-EU European NATO members and candidates for accession to the EU). Lithuania has participated in all relevant meetings, including those at Political Directors', European correspondents' and working group levels.

Lithuania continued to align itself regularly with **EU statements, declarations, common positions, joint actions** and other CFSP instruments when invited to do so, including negative measures. Since October 2000, it associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia. Lithuania played an active role in the first Capabilities Commitment Conference in November 2000. It pledged armed forces to the EU Rapid Intervention Force missions from 2003. A Crisis Management Centre has been set up to organise civilian contributions to international stability and security enforcement measures.

Lithuanian experts participated in a series of meetings in the framework of OSCE and WEU peacekeeping and observer activities.

Lithuania's relations with its neighbours continued to be good. In its relations with Russia, Lithuania has continued to emphasise the development of cross-border co-operation with the Kaliningrad region.

Overall assessment

The policy pursued by Lithuania is largely in conformity with the CFSP *acquis*.

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

It has developed good and constructive relations with all the neighbouring states and is an active proponent of regional co-operation, notably in the framework of the Council of the Baltic Sea States. Lithuania has aligned itself to the content and principles contained in the EU Code of

Conduct on Arms Exports. Lithuania needs to pass the Law on International Economic Sanctions with a view to the obligatory enforcement of EU sanctions applied to third countries.

Concerning the administrative capacity to implement the provisions relating to the CFSP, the Lithuanian MFA has structures compatible with CFSP requirements. The Ministry is connected to the Associated Correspondents' Network information system through which the EU communicates within the CFSP with the associated partners.

Chapter 28: Financial control

Since last year's Regular Report, progress has been achieved in the area of financial control.

In the field of **Public Internal Financial Control** (PIFC), the Government Resolution on Internal Audit of State Enterprises and Establishments was amended in October 2000. As a result, the conditions under which national budget spending institutions (*inter alia* ministries, state agencies and enterprises) must establish internal audit services were improved. The Ministry of Finance is responsible for establishing internal audit services in line with international standards. In January 2001, the Ministry of Finance adopted an Internal Audit Manual and in September 2001, the Government adopted a Resolution on Internal Audit Standards, aligning its internal audit standards with international standards.

In October 2001, a Central Harmonising Department was established within the Ministry of Finance. It is responsible for developing methodology for financial management and control as well as for internal audit and for providing guidance to budget spending centres. The Department includes also a unit which is responsible for the assessment of internal audit quality throughout the government. The department has currently eight posts of which five have been filled.

For the purpose of monitoring and co-ordinating the development of the internal audit system in the public sector, the Government set up a Permanent Inter-ministerial Commission (PIC) which became operational in March 2001. Decisions by the Commission are, however, non-binding.

In September 2001, the Law on Municipal Government was amended to reinforce internal audit capabilities in local municipalities and ensure that they fall under the methodological guidance of the Ministry of Finance.

A number of training sessions were organised in the first half of 2001, covering financial management, control and audit methodology.

By January 2001, internal audit units had been established in all Ministries, 95 percent of state institutions subordinate to the Ministries, 9 out of 10 administrations of the county governors and 60 percent of other state institutions. Of the total of 222 internal audit positions established, 141 were filled. The Ministries filled 64 percent of internal audit staff positions, state institutions subordinate to ministries – filled 71 percent, administrations of the county governors - 50 percent, and other state institutions - filled 66 percent.

There are no particular legislative developments to report in the area of **external audit**. As regards administrative capacity, the State Control Office (SCO) established 3 new units: the Control, Expertise, Prevention and Methodology Unit, the Unit for Control and Operational

Audit, and the International Relations Unit. In September 2001, the SCO adopted a Development Plan covering the period 2003-2006.

As regards **control of structural action expenditure**, the Lithuanian Government adopted a Resolution in July 2001 with the objective of defining the role and responsibilities of state institutions as regards the implementation of the EC Structural Funds. With regard to EC pre-accession funding, an audit trail has been prepared for the SAPARD programme. The SAPARD agency was accredited at the national level.

There are no particular developments to report in the area of **protection of financial interests of the European Communities**.

Overall assessment

Concepts and legislation regarding Public Internal Financial Control are largely in line with the *acquis*, although the present range of Government Resolutions and amendments would require consolidation into a new global PIFC Act. Since the establishment of the new implementing structures is very recent, their implementation capacity remains to be tested. A well-defined strategy plan for the further implementation of public internal financial control systems should be prepared and implemented.

The efficiency of the financial management and control of national budget income and spending appears to remain relatively weak; basic accounting systems and practices have not reached acceptable standards.

A Financial Management Control manual should be finalised, including a control framework, and measures for reporting, monitoring and accounting of national and EC funds.

The establishment of a single Central Methodology Department within the Ministry of Finance is a welcome development, even though the Department is not yet fully operational. The Internal Audit Manual should be revised in accordance with the recently adopted Internal Audit Standards. More staff needs to be recruited and trained in the internal audit units within the Ministries and relevant state bodies.

Further progress and improved capacities are still needed with a view to Lithuania's future responsibilities in terms of public internal financial control of both national and EC structural and other funds.

As regards external financial control, the legal framework regarding the mandate and activities of the State Control Office (SCO) should be adopted in order to meet internationally accepted and EU-compliant standards of supreme audit institutions within the EU. In particular, its independent financial status needs to be strengthened. Further improvements are also required in both the formal and working relationship between the SCO and the Lithuanian Parliament. In addition, the audit manual should be developed and implemented to assure alignment with international and EU-compliant standards.

Audit trails need to be prepared for all pre-accession funds, to ensure proper control of structural action expenditure. Whilst the Government Resolution of July 2001 was a positive development, the definition of responsibilities throughout the entire management line of

implementation of EC pre-accession funds remains untested. National Fund and Implementing Agency staff resources and skills need to be strengthened.

Lithuania should nominate, as soon as possible, in consultation with OLAF, an institution or administrative structure capable of co-ordinating investigations into cases of fraud and irregularities affecting the Communities' financial interests and of acting as a single contact point in relations with OLAF.

Chapter 29: Financial and budgetary provisions

Since the last Regular Report limited further progress can be reported in this area.

The focus has been on implementation of the new **Budget** Law. For the first time the ministries have prepared the budget on basis of the new Budget Law and the approved strategic planning methodology.

In March 2001 the Government approved a Resolution on the Plan for Preparation of the drafts of the State and Municipal Budgets and financial indicators for 2002. According to this Resolution the budgetary process is scheduled both in terms of deadlines and a clear distribution of roles of line ministries. In April 2001 another Resolution on the Procedure for Evaluation of Programme Implementation by Appropriation Managers of the State Budget was approved. It establishes evaluation of programme implementation as a constituent part of internal audit.

As regards control of payments and spending, a computerised standard accounting system is being developed and implemented. However, at present this system covers only around 85 % of all public institutions. The system does not allow for cost accounting at the program level.

As concerns future **own resources**, a working group has been set up at the Ministry of Finance to develop the own resources system and to enhance administrative capacity in this area.

Overall assessment

While the basic principles and provisions for the preparation, the approval, the execution and the control of the budget are enshrined in the Budget Law, considerable further efforts will be required.

The notion of a multi-annual budget formally introduced through the Law needs to be made operational in the process of budget planning and execution. The same is true for the co-ordination and integration of the Public Investment Programme and the National Development Plan with the State Budget. The Resolution adopted in March 2001 which specifies the roles of different line ministries will have to be implemented in practice.

The Budget Law does not specify in detail the concept and system for national co-financing of EC programmes from the point of view of procedures and availability of funds. Appropriations for the co-financing of EC structural financial instruments should be approved for inclusion in the state or municipal budgets or in other state funds, and made available on a multi-annual basis. In parallel work on improving macro-economic forecasting and drawing up a medium-term budget strategy should continue.

The budget planning documents should be further aligned with the standard practice of EC financial planning and the content of state and municipal budgets and the structures and budget lines should be further rationalised.

The procedures for selecting, monitoring, evaluating and reporting public investments and expenditure programmes need to be strengthened in order to improve the process of allocation of resources. The Resolution concerning evaluation adopted in April 2001 is a step in the right direction. In order to be able to carry out the necessary tasks, the corresponding analytical capacity should be increased in the Ministry of Finance and the spending Departments. Performance indicators should be made more result-oriented than the existing indicators, which mainly focus on input demand.

The present computerised system (Navision) should be further developed to enable cost accounting and classification below the programme level, and to handle non-numerical data. The accounting basis should be improved. Improvements to the Treasury system are required. For more efficient performance measurement, an open and transparent system for reporting performance information relating to spending centres should be established urgently.

As regards own resources and administrative infrastructure, considerable progress is still required. Payments of own resources to the Commission should eventually be handled centrally to minimise the risk of errors and the need for corrections. VAT- and GNP-based contributions will have to be processed as new items of expenditure in the State Budget. The capacity to calculate in a reliable, accurate and transparent way the level of customs duties and VAT collected by Lithuania needs to be improved to allow calculations to be made in a harmonised and controllable way. The co-operation between the Ministry of Finance and the Department of Statistics will have to be enhanced to improve the calculation of VAT- based payments. Stronger co-ordination will be required between the State Tax Inspectorate, Customs Department and the Department of Statistics. Adequate staffing levels need to be ensured. Adequate administrative capacity to duly collect and transfer in a timely manner all own resources to the Community budget will need to be established prior to accession, as well as the ability to accurately and regularly report to the Commission on the situation with regard to each of the types of own resources. Efforts should be made to set up effective instruments to combat fraud relating to VAT and customs duties so that the protection of the financial interests of the EC can be assured.

In addition to the need for central co-ordination of the proper collection, monitoring and payment and control of funds to and from the EC budget, administrative capacity should be strengthened in the context of the relevant policy areas described elsewhere in this report, such as Financial Control, Customs, Taxation, Regional Policy and Agriculture.

3.2. Translation of the *acquis* into the national languages

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of Central and Eastern Europe.

The service in charge of translation of the *acquis* into Lithuanian is the Translation, Documentation and Information Centre. For this task, the centre has received a budget allocation of €190,000 (LTL 700 000). As of September 2001, the number of pages of the Official Journal translated into Lithuanian was around 28 500, of which over 20,000 pages had been fully revised. This compares to January 2000, when the number of pages of the Official Journal translated into Lithuanian was around 20 000, of which 10% had been fully revised. Without prejudice to the outcome of the accession negotiations, considerable further efforts are required in this area.

Due attention must also be given to the training of conference interpreters.

3.3. General evaluation²⁴

Lithuania has made significant progress in terms of transposition and implementation in most areas of the *acquis*. While the degree of progress varies, the gaps are being reduced and in some areas Lithuania has achieved a high level of alignment. The areas where considerable efforts are still required are notably those related to the use of EC funds. Overall, the administrative capacity has improved, although in some areas where administrative structures have been changed over the past year it has been challenging to re-build the necessary capacity.

In the field of the *internal market*, Lithuania has continued to make progress as regards the *free movement of goods* in terms of transposition of the *acquis* and strengthening of the institutions (especially for standardisation and accreditation). While alignment on public procurement remains to be completed, there has been progress in implementing the existing legislation. The administrative capacity of the Public Procurement Office has improved, although it needs further strengthening. As regards *free movement of persons*, the legislation on citizen's rights is largely in line with the *acquis* and the progress made concerning the mutual recognition of professional qualifications needs to be continued. In the area of *freedom to provide services* advancement of legislative alignment has been accompanied by concerted efforts to strengthen administrative capacity, particularly in the financial services sector. Further progress has taken place in the area of *free movement of capital*, where Lithuania had already achieved a high degree of liberalisation. In the area of *competition policy*, the quality of the alignment achieved is reflected in an enforcement record of the Lithuanian Competition Council which has so far been reasonably successful. As regards *company law*, whereas good progress has been made notably in terms of legislative alignment on the protection of intellectual and industrial property rights, the effective enforcement of this legislation needs to be considerably improved.

In the area of *economic and monetary Union*, Lithuania, through the adoption of the new law on the Central Bank, has achieved a high level of alignment. As regards *taxation*, Lithuania has made progress in the alignment with the *acquis* on indirect taxation and has improved the administrative capacity. Further modernisation of the IT systems of the Tax Inspectorate is needed to allow for the interconnection with the EC systems. Good progress on alignment has taken place in the area of *Customs union* but this needs to be accompanied by a considerable

²⁴ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

strengthening of administrative and operational capacity, notably as regards the development of IT systems to allow for the interconnection with the EC customs systems.

As regards *agriculture*, Lithuania has continued to make progress in reforming its structures in the agricultural field. However important measures remain to be taken in particular regarding the further strengthening of the land parcel identification system, the enforcement and practical application of the management mechanisms of the Common Agricultural Policy and the further preparations for the paying agency. Lithuania has continued to make progress as regards food safety and the veterinary and phyto-sanitary sectors but still needs to strengthen further the implementation structures. Limited progress has taken place as regards upgrading inspection arrangements at the external border. As regards *fisheries*, progress has been made, in particular in terms of administrative capacity, but significant further work is needed in terms of preparation for the structural actions and market policy.

In the area of *transport*, Lithuania has made good progress notably as regards road transport safety, railways restructuring and civil aviation, including strengthening of the relevant administrative capacity. However, there are still areas where considerable further progress is required, notably in terms of inspection capacities. As regards the *energy* sector, Lithuania has achieved a reasonable level of alignment, but needs to sustain its efforts, notably in the area of the Internal Energy Market. Further work is required also in the field of nuclear energy. Lithuania must confirm and implement its closure commitments and ensure a high level of nuclear safety.

In the field of *social policy*, Lithuania has made steady progress in transposition and implementation of the *acquis*. However, the new Labour Code and Law on Public Health still need to be adopted. Implementation and enforcement need to be given further attention. The social dialogue needs to be reinforced.

Lithuania has made further progress in the field of *environment*, where most of the framework legislation is in place. Implementation remains a major challenge, in particular in areas which require heavy investments or investments by private enterprises.

In the area of *telecommunications*, some progress has taken place in terms of alignment of the regulatory framework. The regulatory authority has become operational but needs to be strengthened.

In the field of *Justice and Home Affairs*, improvements have been made in strengthening the external border and addressing shortcomings in inter-agency co-ordination. These efforts need to be sustained. Lithuania has adopted a Schengen Action Plan.

In the field of *regional policy and co-ordination of structural instruments*, important decisions concerning the institutional structure for the management of Structural Funds have been recently taken. These decisions need to be implemented urgently through the strengthening of the administrative capacity, the development of effective inter-ministerial co-ordination and establishment of the framework for programming and implementing Community support while respecting the principle of partnership.

While some progress has taken place in the area of *financial control*, Lithuania needs urgently to strengthen considerably its capacity to implement and enforce the legislation on public internal financial control. Lithuania has made some limited progress in the area of *financial and*

budgetary provisions, where the implementation of the 2000 Law on budget needs to be followed by further considerable efforts.

While continuing to pursue a prudent budgetary policy, Lithuania has made progress as regards the building of the *administrative capacity* which is necessary to implement and enforce the *acquis*. However, this capacity is still fragile and can easily be reduced if organisational structures are modified without careful attention. Sustained efforts are required to keep the administrative capacity acquired and to further develop it.

Overall, Lithuania has made satisfactory progress in meeting the short-term and, to a lesser extent, the medium term priorities of the *Accession Partnership*. In particular Lithuania has largely met several short-term priorities concerning economic criteria, internal market, energy and environment. Some short-term priorities, notably in the field of agriculture, remain to be addressed in full. Lithuania has partially met most of the medium-term priorities, but further efforts remain to be made in particular as regards the management and control of EC funds.

C. Conclusion²⁵

In its 1997 Opinion, the Commission concluded that Lithuania fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Lithuania continues to fulfil the political criteria.

Lithuania has made some progress in reforming the public administration and the judiciary, where the administrative court system has been re-organised. The legal system has improved with the entry into force of the new Civil Code. The capacity to fight corruption has been strengthened. The active role of the ombudsman in the field of equal opportunities and, more recently, children's right is noteworthy.

Sustained efforts are required to further advance the process of reform of the public administration, covering all different sectors of the administration, while creating the conditions for the necessary continuity and stability of the administration. Adequate financial resources should be secured, inter-departmental co-ordination must be further reinforced and training should become more systematic. As regards the judicial system, the new Law on Courts urgently needs to be adopted. Adequate budgetary resources and the managerial competencies which are necessary for the administration of the court system need to be secured. The adoption of the Code of Criminal Procedure must be speeded up in order to allow for the implementation of the new Criminal Code.

In the field of the fight against corruption, the efforts made over the past year should be sustained and reinforced, through the adoption of the National Anti-Corruption Strategy and its Implementation Programme by the Parliament, and with the adoption of a new Law on Corruption Prevention. As regards the continued concern over administrative corruption, further progress in ensuring the transparent application of administrative procedures is required, and the co-ordination among the agencies combating corruption should be further strengthened.

Lithuania has made progress towards meeting the accession priorities related to the political criteria. It has made limited progress in implementing the public administration law and the civil service law. The Government has approved the National Anti-Corruption Strategy which now needs to be adopted by the Parliament and implemented. A training programme for judges, covering various aspects of EC law and *acquis* enforcement, has started and needs to be continued.

Lithuania is a functioning market economy. Provided that it makes further substantial efforts to continue with the vigorous implementation of its structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

²⁵ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

Lithuania has preserved macroeconomic stability, improved the fiscal and external imbalances and reduced state interference. The privatisation of banking, other sectors and land is nearing completion. New bankruptcy and enterprise restructuring laws finally came into force.

However, unemployment remains high and the structural problems on the labour markets will have to be addressed. While important laws to restructure and liberalise the energy market were adopted, further acts need to be adopted and effective implementation needs to be ensured. Financial intermediation continues to be low and inefficient. Domestic and foreign investment remains at relatively low levels. The authorities need to properly implement the new legal framework for business, specifically the bankruptcy laws. The planned pension reform must be advanced and implemented. Fiscal discipline must continue and the sustainability of public finances in the medium-term must be ensured, also to keep the current account deficit under control in the context of currency board.

Lithuania has made significant progress in terms of transposition and implementation in most areas of the *acquis*. While the degree of progress varies, the gaps are being reduced and in some areas Lithuania has achieved a high level of alignment. The areas where considerable efforts are still required are notably those related to the use of EC funds. Overall, the administrative capacity has improved, although in some areas where administrative structures have been changed over the past year it has been challenging to re-build the necessary capacity.

In the field of the *internal market*, Lithuania has continued to make progress as regards the *free movement of goods* in terms of transposition of the *acquis* and strengthening of the institutions (especially for standardisation and accreditation). While alignment on public procurement remains to be completed, there has been progress in implementing the existing legislation. The administrative capacity of the Public Procurement Office has improved, although it needs further strengthening. As regards *free movement of persons*, the legislation on citizen's rights is largely in line with the *acquis* and the progress made concerning the mutual recognition of professional qualifications needs to be continued. In the area of *freedom to provide services* advancement of legislative alignment has been accompanied by concerted efforts to strengthen administrative capacity, particularly in the financial services sector. Further progress has taken place in the area of *free movement of capital*, where Lithuania had already achieved a high degree of liberalisation. In the area of *competition policy*, the quality of the alignment achieved is reflected in an enforcement record of the Lithuanian Competition Council which has so far been reasonably successful. As regards *company law*, whereas good progress has been made notably in terms of legislative alignment on the protection of intellectual and industrial property rights, the effective enforcement of this legislation needs to be considerably improved.

In the area of *economic and monetary Union*, Lithuania, through the adoption of the new law on the Central Bank, has achieved a high level of alignment. As regards *taxation*, Lithuania has made progress in the alignment with the *acquis* on indirect taxation and has improved the administrative capacity. Further modernisation of the IT systems of the Tax Inspectorate is needed to allow for the interconnection with the EC systems. Good progress on alignment has taken place in the area of *Customs union* but this needs to be accompanied by a considerable strengthening of administrative and operational capacity, notably as regards the development of IT systems to allow for the interconnection with the EC customs systems.

As regards *agriculture*, Lithuania has continued to make progress in reforming its structures in the agricultural field. However important measures remain to be taken in particular regarding the further strengthening of the land parcel identification system, the enforcement and practical application of the management mechanisms of the Common Agricultural Policy and the further preparations for the paying agency. Lithuania has continued to make progress as regards food safety and the veterinary and phyto-sanitary sectors but still needs to strengthen further the implementation structures. Limited progress has taken place as regards upgrading inspection arrangements at the external border. As regards *fisheries*, progress has been made, in particular in terms of administrative capacity, but significant further work is needed in terms of preparation for the structural actions and market policy.

In the area of *transport*, Lithuania has made good progress notably as regards road transport safety, railways restructuring and civil aviation, including strengthening of the relevant administrative capacity. However, there are still areas where considerable further progress is required, notably in terms of inspection capacities. As regards the *energy* sector, Lithuania has achieved a reasonable level of alignment, but needs to sustain its efforts, notably in the area of the Internal Energy Market. Further work is required also in the field of nuclear energy. Lithuania must confirm and implement its closure commitments and ensure a high level of nuclear safety.

In the field of *social policy*, Lithuania has made steady progress in transposition and implementation of the *acquis*. However, the new Labour Code and Law on Public Health still need to be adopted. Implementation and enforcement need to be given further attention. The social dialogue needs to be reinforced.

Lithuania has made further progress in the field of *environment*, where most of the framework legislation is in place. Implementation remains a major challenge, in particular in areas which require heavy investments or investments by private enterprises.

In the area of *telecommunications*, some progress has taken place in terms of alignment of the regulatory framework. The regulatory authority has become operational but needs to be strengthened.

In the field of *Justice and Home Affairs*, improvements have been made in strengthening the external border and addressing shortcomings in inter-agency co-ordination. These efforts need to be sustained. Lithuania has adopted a Schengen Action Plan.

In the field of *regional policy and co-ordination of structural instruments*, important decisions concerning the institutional structure for the management of Structural Funds have been recently taken. These decisions need to be implemented urgently through the strengthening of the administrative capacity, the development of effective inter-ministerial co-ordination and establishment of the framework for programming and implementing Community support while respecting the principle of partnership.

While some progress has taken place in the area of *financial control*, Lithuania needs urgently to strengthen considerably its capacity to implement and enforce the legislation on public internal financial control. Lithuania has made some limited progress in the area of *financial and budgetary provisions*, where the implementation of the 2000 Law on budget needs to be followed by further considerable efforts.

While continuing to pursue a prudent budgetary policy, Lithuania has made progress as regards the building of the *administrative capacity* which is necessary to implement and enforce the *acquis*. However, this capacity is still fragile and can easily be reduced if organisational structures are modified without careful attention. Sustained efforts are required to keep the administrative capacity acquired and to further develop it.

Overall, Lithuania has made satisfactory progress in meeting the short-term and, to a lesser extent, the medium term priorities of the *Accession Partnership*. In particular Lithuania has largely met several short-term priorities concerning economic criteria, internal market, energy and environment. Some short-term priorities, notably in the field of agriculture, remain to be addressed in full. Lithuania has partially met most of the medium-term priorities, but further efforts remain to be made in particular as regards the management and control of EC funds.

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

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

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

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

1. Accession Partnership

Short-term priorities

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnerships highlighted in italics.²⁶

Economic criteria. Lithuania has successfully reduced the *fiscal deficit* further. The scheduled *large scale privatisations* have advanced further with very few large companies still to be privatised. The *banking sector* has continued to be restructured. *Bankruptcy legislation* has been implemented in a more determined way and the legal amendments which are necessary to streamline implementation further have been adopted. As regards the *promotion of competitiveness* through market-based enterprise restructuring in the industry sector with particular attention to SMEs, still little has been done in terms of implementation of the relevant strategies. The adoption of a law on enterprise restructuring is an important step. *Land registration* is closer to completion. With the proviso concerning promotion of competitiveness, **this priority continues to be largely met.**

Internal Market

- Continued progress has been made in meeting the priorities related to the internal market.
- Progress has been made on implementing legislation on *public procurement*. The Public Procurement Office has been strengthened but this process needs to be continued and the remaining shortcomings in the legislation need to be fully addressed.
- As regards *intellectual and industrial property rights*, Lithuania has achieved further alignment with particular regard to trademarks and import and export of goods. More

²⁶ Council Decision 1999/856/EC, OJ L 335, 28/12/1999

concerted efforts still need to be made, however, on the enforcement side of the fight against piracy and counterfeiting..

- As regards *free movement of goods*, considerable progress has been made in transposing both *New and Old Approach* legislation, and in strengthening the necessary framework institutions regarding in particular, standardisation and accreditation. Further efforts are still needed to ensure progress towards full membership in the European standardisation bodies (CEN/CENELEC). *Market surveillance* continues to be strengthened.
- As regards *capital movement*, while the legislation on *direct investment* and on operation of foreign *insurance companies* has been substantially aligned, there is still a need to abolish the restrictions on cross-border transfer of *means of payment* and on *investment rules for pension funds and insurance companies*.
- In the area of *competition*, antitrust and state aid legislation is being implemented in a satisfactory fashion and several pieces of secondary legislation have been adopted ensuring further alignment. The *State aid* monitoring authority is being reinforced. The *state aid inventory* is updated on a regular basis.
- In the field of *telecommunications*, Lithuania has established an independent regulatory authority which has started to be operational but needs further strengthening. Lithuania has achieved a high degree of alignment of the legislation on *audiovisual policy*.
- As regards *taxation*, both the VAT and excise system have been reformed to a large degree although this process must be continued to ensure full alignment. Lithuania has started to comply with the principles of the Code of Conduct for business taxation. Good progress has been made on alignment in the area of *Customs union* but this needs to be accompanied by a considerable strengthening of administrative and operational capacity to further reinforce the fight against *fraud* and *corruption*. Therefore, **this priority continues to be largely met.**

Agriculture

- Lithuania has continued to make progress as regards the priorities related to *veterinary and phytosanitary* sector notably by continuing alignment. Limited progress has been made as regards the upgrading of inspection arrangements and the pace of implementation still needs to be stepped up, in particular at the future external borders. As regards the *food processing* sector, while the restructuring of the *milk sector* has continued and the restructuring of the *meat sector* has been initiated, much progress is still needed. Lithuania continues to fulfil the priority concerning the reduction of *support to ailing enterprises*. **Therefore, this priority continues to be only partially met.**

Transport

- Lithuania has made further progress in aligning its legislation on *maritime safety* with the *acquis*, while further efforts will be necessary as regards administrative structures and capacity to implement the *acquis*. With this proviso, **this priority continues to have been met as regards some substantial elements of the acquis.**

Energy

- Lithuania has started implementing a comprehensive *energy strategy* in line with the NSA agreement, in particular, through the adoption of an Action Plan. It has started the legal and technical preparation for the *definitive closure and decommissioning of Ignalina Nuclear Power Plant unit 1*. In this regard, relevant laws, programmes and a list of measures were adopted. Lithuania has steadily continued implementing the necessary *improvements in nuclear safety* resulting from the comprehensive Safety Analysis Report for the Ignalina Nuclear Power Plant. The efforts to strengthen the *nuclear safety authority*, including in terms of staff numbers, need to be sustained and even intensified, in view of the forthcoming workload for the licensing of the planned decommissioning process. Progress has been made towards the establishment of a *radioactive waste management institution* which has effectively been established although it needs to be strengthened. In addition, the reform of the *conventional power sector* is being prepared. This reform targets the administrative and managerial independence of the *energy utilities*. **Therefore, this priority continues to be largely met.**

Employment and social affairs

- Lithuania has made some further progress as regards the preparation of the national *employment strategy*; in this regard, work has started on a joint employment review. No development has taken place concerning the *bipartite social dialogue*, which, however, still remains at an early stage of development. **Therefore, this priority continues to be partially met.**

Environment

- Lithuania has completed the transposition of the *Environmental Impact Assessment Directive* and it has started to enforce it. The transposition of the *framework legislation* has continued as regards *air, water, waste, radiation protection* and *nature protection*. Increased attention has been paid to the development of plans for *financing investments* (directive specific), however there is still a need for cost assessments for a number of sectors. The *administrative capacity* at central level has been strengthened and efforts have been made at local level. These efforts need to be sustained, notably as regards the local level and the *Radiation Protection Centre*. **Therefore, this priority has been largely met.**

Justice and home affairs

- The law on National *Border Control* has entered into force and the *demarcation of the border with Belarus* has continued, primarily on the Lithuanian side. *Border demarcation with Kaliningrad* has not yet started as the border treaty has not yet been ratified by the Russian Parliament. Concerted efforts have been made to improve coordination among *law enforcement bodies* however these efforts need to be further developed. As regards the *judiciary*, efforts need to be stepped up. The national *anti-corruption strategy* has been approved by the Government; its programme for implementation remains to be adopted by Parliament, and implementation of the Strategy needs to begin. Lithuania has not yet acceded the OECD convention on bribery. Further strengthening is needed as regard the capacities to deal with *money laundering*. The *border and migration legislation* continues to be implemented correctly to prevent illegal immigration and to enable full participation in the

Schengen Information System. Lithuania has made considerable progress in aligning its *asylum* legislation, (including the improvement of the legal structure of the Appeal Council, improved access to legal aid and the elimination of the pre-screening procedure). Further efforts shall be needed to ensure full alignment. **Therefore, this priority continues to be partially met.**

Reinforcement of administrative and judicial capacity, including management and control of EC funds:

- Lithuania has further developed the *National Development Plan* and it has established the *Rural Development Plan*; it has made significant progress towards the establishment of a *functioning paying agency for SAPARD*. Further steps are required as regards the legal, administrative and budgetary framework (*audit manual and audit trail*) to programme and manage ISPA and SAPARD, including the introduction of *environmental impact assessments* and EC compatible *public procurement rules* for projects co-financed by Community Funds.
- As regards *financial control*, Lithuania has further aligned its legislation with the *acquis* however limited progress has been made regarding implementation of legislation and the set-up of the necessary administrative structures.
- The implementation of the *National Training Strategy* has continued and training has been provided in EC law for police, border guards and customs.

This priority continues to be partially met.

Medium-term priorities

Economic criteria

- *Restructuring* has been proceeding, notably in the *banking sector* (*see corresponding short-term priority*). An annual fiscal surveillance procedure has been established. The reform of the social security has continued, but its pace has slowed down. **Therefore, this priority has been partially met.**

Internal Market

- Lithuania has made significant progress in meeting the priorities in several areas of the internal market.
- Legislation on *public procurement* is largely in line with the *acquis*, however a number of shortcomings need to be addressed so as to ensure full alignment.
- As concerns *intellectual and industrial property rights*, the administrative capacity of the relevant institutions needs to be further strengthened to ensure an effective level of enforcement.
- Although some progress has been made in the area of *data protection*, legislation is still not fully in line with the *acquis* and the data protection inspectorate needs to be strengthened and its independence ensured.

- In the area of free movement of goods, progress has been made regarding the transposition of *sectoral* measures, and the *standardisation* and *accreditation* structures continue to be upgraded. The adoption of the EN standards, whilst progressing well, is still far from being complete.
- Lithuania has made reasonable progress in aligning its legislation with the *acquis* on *free movement of persons*, however further efforts are still needed as regards mutual recognition in particular the adoption of important legislation.
- In the area of *competition* law, the Competition Council is developing a satisfactory enforcement practice and legislation is largely in line with the *acquis*. State aid and anti-trust authorities have been strengthened but further efforts are needed especially in terms of specialist training.
- Lithuania has made good progress in the area of *taxation*, as regards both VAT and excise legislation, as well as administrative capacity. Further legislation needs to be adopted however to ensure full alignment with the *acquis*.
- In the area of *consumer protection*, the market surveillance system is functioning, following its overhaul; however its administrative capacity needs to be considerably strengthened.
- As regards *customs*, Lithuania has made progress in developing an *integrated tariff*, however this process is not complete and there are still differences with the EU system. The process of developing an efficient modern *border control* system is ongoing. Far greater efforts are needed in reinforcing *administrative and operational capacity*, with particular regard to computerisation.

This priority has been partially met.

Agriculture

- Lithuania has made some progress in laying the legal and administrative basis to prepare for *participation in the Common Agricultural Policy*, but much progress is still needed in terms of both alignment and administrative capacity.
- Lithuania has continued to make progress as regards the priorities related to *veterinary and phyto-sanitary sector* notably by continuing alignment. Lithuania has made progress concerning *animal identification*. As regards the *quality control* system, implementation of the majority of legal acts regulating quality is closely linked with the accreditation of testing laboratories and their technical capacity to conduct quality analysis. The upgrading of inspection arrangements, in particular at the *future external borders*, has started, but the pace of implementation needs to be stepped up. Concerning the *phytosanitary* sector, while the core legislation has been transposed, Lithuania needs to make additional efforts especially as regards alignment with the *acquis* on control of imports, and the control of domestic production. The preparations for the agricultural *census* due in 2002 are ongoing. As regards *enterprise restructuring*, progress has been limited. **This priority has been partially met.**

Fisheries

- Lithuania has started to develop its capacity in the field of *common fisheries policy*, as regards resource management. Further progress is required as regards the fishing vessel register requirements. **This priority has been partially met**

Energy

- Lithuania has started implementing a comprehensive *energy strategy* in line with the NSA agreement. (See short-term priority). As regards the *diverse second shut-down system* on unit 2 the preparations are taking place, but full support by the operator needs to be ensured. Preparations for a comprehensive *safety analysis report* for Unit 2 (SAR-2), due by 2002, have started. As regards the *internal energy market*, Lithuania adopted two major pieces of legislation, the Electricity and Gas Laws. Sufficient funding and staffing will need to be ensured for the administrative and regulatory institutions required for a proper functioning of a liberalised energy market. Such funding has to be secured against the background of an austerity budget. Removal of remaining price distortions needs continued attention. Lithuania has not yet aligned with *oil stocks/crisis management rules* but preparations are advanced. A definitive investment plan should be prepared to build up progressively the 90 days of stocks. Lithuania adopted an updated *energy efficiency* strategy, but needs now to focus on its implementation and the use of renewable energy.
- As regards *radiation protection*, Lithuania has, in general, made a considerable effort to comply with the EC *acquis*. The administrative capacity needs to be enhanced. **Overall, this priority has been met to a satisfactory degree, although not in all areas.**

Transport

- Lithuania continued to align its legislation with the *acquis* and achieved significant progress in particular in the fields of *road transport safety* and *air transport*. While progress is good, efforts should now concentrate on fiscal harmonisation in road transport and *maritime safety*. **This priority has been partially met**

Employment and social affairs

- Lithuania has made steady progress in transposition and implementation of the social *acquis*, particularly in the field of *equal treatment for women and men*, where transposition is almost completed and the Ombudsman Office has proved effective on the enforcement side. Good progress was made in the field of *health and safety at the workplace*. In the area of *labour law*, the Labour Code, however, still needs to be adopted. The *public health* reform programme is being implemented. The institutional framework for reforming the *social security system* is in place. However, sustained efforts are needed in implementing the reforms that have been introduced. **This priority has been partially met.**

Economic and social cohesion

- Decisions have been taken aiming at defining the responsibilities for management and implementation of Structural Funds, but these need to become operational in practice. The legal basis for the budgetary system has been improved but substantial efforts will be needed

to have the necessary structures, including appraisal and evaluation, in place by accession. **This priority has been partially met.**

Environment

- The transposition of the *framework legislation* has continued as regards *air and water, waste, nature protection and GMOs*. Efforts are being made to strengthen local authorities in respect of investment planning and implementation *monitoring*, especially in the field of water protection. As regards *institutional strengthening*, a rather high number of authorities and institutions are involved in the implementation and enforcement of environmental legislation, therefore continued rationalisation is a necessity. With regard to integration of the environment into other policies, Lithuania has started to implement the action programme for *sustainable development*. **This priority has been partially met.**

Justice and home affairs

- Lithuanian *visa* legislation is close to being in line with EU requirements and complete alignment should be pursued. The *Police* Department is, in general, undergoing reform and preparations for participation in Europol have begun. Further efforts need to be made in view of fighting organised crime, with particular regard to smuggling and *trafficking in human beings, drug trafficking and money laundering*. Progress was also made on the implementation of readmission and expulsion procedures. The *border and migration* legislation is being correctly implemented to prevent illegal immigration and to enable full participation in the Schengen Information System. The *inter-agency structure* for fighting corruption is being streamlined. Lithuania has made considerable progress in aligning its *asylum* legislation, however the remaining shortcomings need to be addressed to ensure full alignment. The National Anti-Corruption Strategy has been approved by the Government but its Programme for implementation remains to be adopted by Parliament. Integrated cooperation in the fight against corruption has improved in particular since the establishment of the Special Investigation Service. These efforts need to be sustained. **This priority has been partially met.**

Reinforcement of administrative and judicial capacity, including management and control of EC funds:

- Lithuania has made some limited progress in *implementing the public administration law and the civil service law*. As regards *financial control*, a number of Internal Audit Units have been established however they remain weak due to insufficient skilled staff and requisite training. A training programme for judges on various aspects of the EC law and *acquis* enforcement is under implementation. The administrative capacity of the Department of *Statistics* has been developed: its staff is highly qualified and well trained. **This priority has only been partially met.**

2. National Programme for the Adoption of the Acquis

Lithuania presented a revised version of the National Programme for the Adoption of the *Acquis* in June 2001. This document was called Lithuania's European Union Accession Programme. The revised version takes into account the recommendations made by the Commission in the 2000 Regular Report.

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

The programme is consistent with commitments taken on by Lithuania. It has been adjusted in order to take into account the developments in the Accession Negotiations. The programme is becoming a tool for the co-ordination of the relevant policies, notably when deciding the budget priorities. The programme reflects the Accession Partnership priorities adequately. The coverage of the *acquis* has further improved compared to last year. As for the administrative and financial needs and timetables, the degree of precision and realism still varies from one sector to another. In particular, as regards administrative capacity, further attention should be paid to data protection and intellectual property. Concerning financial needs, the methodology and the assumptions on which the estimates are based should be more explicit, in particular in sector of environment. The Lithuanian authorities envisage updating the financial estimates once the budget for 2001 is adopted. The realism of the deadlines would benefit from the indication of intermediate steps.

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

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
30 September 2001***

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

	1996	1997	1998	1999	2000
Basic data	in 1000				
Population (average)	3.710	3.706	3.702	3.700	3.696
	in km²				
Total area	65.300	65.300	65.300	65.300	65.300
National accounts	1000 Mio Litass				
Gross domestic product at current prices	31,6	38,3	43,0	42,7	44,9
	1000 Mio ECU/euro				
Gross domestic product at current prices	6,2	8,5	9,6	10,0	12,2
	ECU/euro				
Gross domestic product per capita ²⁷ at current prices	1.700	2.300	2.600	2.700	3.300
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	4,7	7,3	5,1	-3,9	3,3
	in Purchasing Power Standards				
Gross domestic product per capita ²⁸ at current prices	5.300	5.900	6.300	6.200	6.600
	% of Gross Value Added²⁹				
Structure of production					
- Agriculture	12,2	11,7	10,3	8,4	7,6
- Industry (excluding construction)	25,8	25,2	23,9	22,9	26,2
- Construction	7,1	7,7	8,6	7,9	6,2
- Services	54,9	55,4	57,3	60,8	59,9
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	85,3	84,0	87,5	87,7	85,8
- household and NPISH	66,4	65,0	63,1	65,5	64,3
- general government	18,9	19,0	24,4	22,2	21,5
- Gross fixed capital formation	23,0	24,4	24,3	22,1	18,8
- Stock variation ³⁰	1,5	2,2	0,1	0,6	1,9
- Exports of goods and services	53,4	54,5	47,2	39,7	45,5
- Imports of goods and services	63,2	65,1	59,1	50,1	51,9
Inflation rate	% change over the previous year				
Consumer price index ³¹	24,7	8,8	5,0	0,7	0,9
Balance of payments	Mio ECU/euro				
-Current account	-569	-865	-1.158	-1.120	-725
-Trade balance	-706	-1.012	-1.354	-1.318	-1.186
Exports of goods	3.279	3.697	3.534	2.952	4.354
Imports of goods	3.394	4.709	4.888	4.270	5.540
-Net services	95	119	215	287	409
-Net income	-72	-175	-228	-242	-208
-Net current transfers	113	203	210	153	261
-of which: government transfers	57	89	92	55	68
- FDI (net) inflows	123	321	793	484	410
Public finance	in % of Gross Domestic Product				

²⁷ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁹ Including FISIM.

³⁰ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

³¹ Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

General government deficit/surplus	-2,8	-1,1	-3,1	-5,7	-3,3
General government debt	:	15,7	16,7	22,5	23,7

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	13,8	15,1	17,5	26,5	28,5
	as % of exports				
Gross foreign debt of the whole economy	25,9	27,6	37,1	66,7	62,7
Monetary aggregates	1000 Mio ECU /euro				
- M1	0,7	1,2	1,2	1,3	1,5
- M2	1,1	1,6	1,8	2,2	2,8
- M3	:	:	:	:	:
Total credit	0,8	1,1	1,4	1,8	1,9
Average short-term interest rates	% per annum				
- Day-to-day money rate	:	:	6,1	6,3	3,6
- Lending rate	12,5	13,8	11,5	12,6	11,8
- Deposit rate	14,0	7,9	6,0	4,9	3,8
ECU/EUR exchange rates	(1ECU/euro=..Litas)				
- Average of period	5,079	4,536	4,484	4,263	3,695
- End of period	5,012	4,417	4,667	4,018	3,723
	1993=100				
- Effective exchange rate index	380,0	441,8	547,0	786,7	920,2
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	671	964	1.254	1.242	1.464
-Reserve assets (excluding gold)	616	915	1.208	1.190	1.409

External trade	Mio ECU/euro				
Trade balance	-948	-1.573	-1.858	-1.718	-1.784
Exports	2.642	3.404	3.310	2.818	4.124
Imports	3.590	4.977	5.168	4.536	5.908
	previous year=100				
Terms of trade	:	102,6	100,7	100,8	101,1
	as % of total				
Exports with EU-15	32,9	32,5	38,0	50,1	47,9
Imports with EU-15	39,8	44,3	47,2	46,5	43,3

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

Labour market (ILO methodology)	% of labour force				
Economic activity rate	65,4	61,5	61,7	61,9	60,3
Unemployment rate, total	16,4	14,1	13,3	14,1	16,0
Unemployment rate, males	:	14,2	14,3	15,6	18,4
Unemployment rate, females	:	13,9	12,2	12,6	13,4
Unemployment rate of persons < 25 years	27,4	25,2	22,3	26,3	29,3
Unemployment rate of persons >= 25 years	14,8	12,2	12,0	12,4	14,3
	as % of all unemployed				
Long-term unemployment rate	:	:	55,0	38,7	53,0
Average employment by NACE branches	in % of total				
- Agriculture and forestry	21,0	20,7	21,0	20,2	18,0
- Industry (excluding construction)	20,7	21,5	21,3	20,5	21,2
- Construction	6,9	6,9	6,4	6,2	6,1
- Services	51,4	50,9	51,3	53,1	54,7

Infrastructure	in km per 1000 km²				
Railway network	40	40	40	38	38
Length of motorways	km				
	404	410	417	417	417
Industry and agriculture	previous year=100				
Industrial production volume indices	105,0	103,3	108,2	88,8	107,0
Gross agricultural production volume indices	112,6	108,6	94,8	85,5	105,4
Standard of living	per 1000 inhabitants				
Number of cars	212	238	265	295	317
Main telephone lines	267,6	282,9	299,7	309,5	319,6
Number of subscriptions to cellular mobile services	13,7	40,7	72,3	92,8	137,8
Number of Internet subscriptions	:	:	:	:	:

Methodological Notes

Inflation Rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

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

Imports and exports with EU-15. Data declared by the Republic of Lithuania.

Demography

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

Labour force

Economic activity rate - Percentage of labour force in the total population aged 14+ (from year 2000 – aged 15+). This rate is derived observing the following ILO definitions and recommendations:

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

The employed: all persons aged 14+ (from year 2000 – aged 15+), who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of co-operatives or contributing family workers. Women on child-care leave are included. Persons in compulsory military service are excluded.

LFS data refer to September 1995-1997, May and November 1998 and 2000. (Due to the fact that LFS are not carried out periodically the indicator has been estimated from the number of employed which was calculated on the base of reports provided by enterprises and organisations).

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

The unemployed. All persons aged 14+ (from year 2000 – aged 15+), who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

- have no work,
- are actively seeking a job and
- are ready to take up a job within a fortnight.

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

Unemployment rate (by ILO methodology). Percentage of the unemployed in labour force. This rate is derived from LFS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above).

Infrastructure

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

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

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

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

Industry and agriculture

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

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

Standard of living

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

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

Telephone subscribers. Only main telephone lines per 1000 inhabitants, excluding mobile phone subscriptions.

Sources

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

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