

1999 REGULAR REPORT

FROM THE COMMISSION

ON

LITHUANIA'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

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

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*.” ... “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.”

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

This Regular Report on Lithuania follows the same structure as the Commission's 1997 Opinion. It

- describes the relations between Lithuania and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Lithuania's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Lithuania's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards as underlined by the Cologne European Council.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which

examines the extent to which Lithuania has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Lithuania's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between the countries in terms of concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* were additional sources of information. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

b) Relations Between the European Union and Lithuania

Developments under the EU-Lithuania Europe Agreement (including bilateral trade)

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

An Association Council was held in February 1999 and will next meet in February 2000. An Association Committee meeting took place in June 1999. The system of sub-committees continues to function as a forum for technical discussions.

Since the issuing of the last Commission's Report the Joint Parliamentary Committee comprising representatives of the Lithuanian and European Parliament met in February 1999.

Lithuania's trade with the EU has continued to increase. EU exports to Lithuania stood at €2.4 billion and imports at €1.4 billion during 1998. Looking at trade by sectors machinery and electrical goods represent the largest sector for EU exports to Lithuania. Textiles is the largest sector for EU imports from Lithuania. During 1998

¹ For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

Lithuanian exports to the EU increased and accounted for 37.4% of total exports. The share of imports from the EU also continued to climb, reaching 46.2%.

Under the Europe Agreement two adaptation protocols have entered into force in 1999. One covers in particular non-processed agricultural and processed agricultural products to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU. The other protocol provides for the liberalisation of trade in textiles.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture.

The Commission has initiated anti-dumping proceedings concerning imports of solutions of urea and ammonium nitrate and of certain cathode-ray colour television picture tubes originating, inter alia, in Lithuania.

Current discussions in the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership priorities (see below), and seek to achieve progress in areas like state aid, market surveillance, 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 EU.

Accession Partnership/ NPAA

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in chapter D of this Report.

In June 1999 Lithuania submitted a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnerships (see further chapter D).

Pre-Accession Aid: Phare

In 1999 Phare was the main instrument providing financial assistance to help Lithuania's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme allocated € 328 million to Lithuania during the period 1992-1999.

The 1999 Phare Programme for Lithuania consists of a national allocation (of €30 million), concentrated on the following priorities :

- the reinforcement of the institutional and administrative capacity by supporting Civil Service Training and the implementation of a financial control system (*€ 4,18 million*);
- the enforcement of the internal market acquis in the fields of competition, public procurement, customs and audio-visual policy (*€ 3,50 million*);
- the strengthening of the co-operation in the field of Justice and Home Affairs, such as the adoption and implementation of the Schengen acquis and the demarcation of the Eastern border of Lithuania with Belarus (*€ 6,00 million*);
- the support in the field of agriculture, such as phytosanitary and veterinary border control measures and the modernisation of the rural administration (*€ 4,50 million*);
- the transposition, implementation and enforcement of the energy acquis (*€ 3,25 million*);
- the enforcement of Occupational Safety and Health Policy as well as support to the State Social Insurance Fund Board (*€ 3,00 million*);
- the strengthening of environmental monitoring capacities (*€ 2,50 million*);
- participation in various Community Programmes (*€ 1,66 million*) and Tempus (*€ 0,5 million*) and in the 5th Framework Programme for Research and Technological Development (*€ 0,9 million*).

An additional € 3,0 million have been allocated in 1999 for a cross-border co-operation (CBC) programme within the Baltic Sea Region and €7,5 million to the Pre-ins Facility (Catch-up).

Lithuania also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAEIX, the Small and Medium-sized Enterprises programme and the Large Scale Infrastructure Facility (€14,4 million in 1999).

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

Overall the impact of Phare has been positive. Effective transfer of know-how and scarce 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, energy, land registration, etc. Phare support to agriculture and SME development has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms servicing enterprises in these sectors.

Phare has played a particularly important role in :

- the Banking sector, where a distance learning programme for the middle management of the banking community in Lithuania was supported. With the active involvement of local experts/trainers, 11 distance learning courses were

developed based on Western banking practice, which not only covers a real training need but also represents an unprecedented novelty in this area.

- the social sector, where Phare has successfully contributed to the development of the primary health care system in Lithuania at municipal level. As a result of the project, a primary health care implementation plan was developed and for five pilot primary health care centres in three Municipalities. The training of nurses and general practitioners not only improved their working relationship but also resulted in a change in attitudes and in the development of new management skills. The reaction to this concept was extremely positive, and the Phare support has continued to establish further primary health care centres.
- the energy sector, where Phare has contributed to the upgrading of energy infrastructure by supporting the construction of a gas pipeline from Panevezys to Siauliai. The aim of this pipeline is to provide low-pollution gas fuel at an accessible price, making it attractive to move away from other less environmental-friendly fuels - such as coal, wood or heavy oil – for heating needs. The project is a good example at how energy and environment issues are related, as the project is also expected to supply large industrial enterprises with heat and steam in a more ecologically sound way. Phare support also enabled the project to attract loans from the EIB, and other sources.

Phare Management System

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a centralised basis since it began and was gradually decentralised as of 1997. The authorities in the partner country are gradually taking over the responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

In the meantime, and in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting to its Delegations in the Candidate Countries.

Phare implementation structures have been rationalised in Lithuania to increase transparency and avoid dispersion of funds. This process increases the responsibility of the Candidate Countries by using, as far as possible, sustainable institutions and implementing agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

Since September 1999, a National Fund located within the Lithuanian Ministry of Finance is the central entity through which Phare and other EU funds will be

channeled. The National Fund has overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is proper project information system. A Central Finance and Contracting Unit has also been established in early 1998 within the Ministry of Finance to increase visibility and transparency in financial administration, accounting and payments. As regards the investment side of Phare, Lithuania has established one Implementing Agency in the Ministry of Transport which will be responsible for the implementation of transport infrastructure projects.

Pre-Accession Aid 2000

During the period 2000-2006, pre-accession aid to the applicant countries will be more than doubled. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

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

Twinning

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. 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, in particular through the long-term secondment of civil servants. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For Lithuania, five projects have so far been twinned under Phare. The National Standardisation Bureau and the National Accreditation Office will be strengthened with the support of Germany and Sweden, while another financial project on budget system development will be led by Denmark. In the sector of Justice and Home Affairs two projects were twinned; Germany and Sweden will provide training programmes for judges, whereas the training programme for the border police and the Customs Administration will be carried out by Finland. Finland is also leading a project to help prepare Lithuania for management of the Structural Funds.

Twinning is foreseen for 14 projects under the 1999 programme. These projects will cover a wider field, including support for adoption of the energy *acquis*,

environmental projects, the strengthening of internal financial control, competition policy, public procurement and the adoption of the Schengen Information System.

The screening process

The analytical examination of the acquis (screening) has been concluded for Lithuania except with regard to the agricultural acquis, which is foreseen to be held in autumn 1999.

B. Criteria for Membership

1. Political criteria

Introduction

In its 1998 Regular Report on Lithuania's application for EU membership, the Commission concluded that:

“Developments in Lithuania confirm the conclusion of the Opinion that Lithuania fulfils the Copenhagen political criteria. It should intensify the fight against corruption and pursue reforms in the judiciary.

Recent developments

The Government resigned at the beginning of May. A new Government took office on 10 June after receiving the Seimas' confidence. The new Government has confirmed Lithuania's commitment towards accession to the EU. The next parliamentary elections will take place in Autumn 2000.

1.1 Democracy and the Rule of Law

As mentioned in the last Regular Report, Lithuania has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year.

The Parliament

A new Statute of the Seimas has been approved with a view to improve the legislative process and strengthening transparency.

The Seimas has passed a Law on Funding of Political Parties to regulate the State and private funding of the parties and their expenditure.

The executive

Lithuania continues to make progress in the field of public administration. In July 1999, the Seimas approved a new Law on the Civil Service which aims to ensure the independence of civil servants and to improve the competence and efficiency of the public administration. Further efforts will be needed in order to ensure the effective implementation of this law.

Lithuania ratified the European Charter of Local Self Government in June 1999.

The Judiciary

Lithuania has made progress in coping with the excessive length of court proceedings due to the lack of qualified staff and organisational problems. This has allowed a reduction in the backlog of court cases, notably as regards criminal cases. This progress has been achieved through, in particular, the following majors :

- Out of the total number of posts for judge of 518, the number of vacancies was reduced from 101 to 33 by September 1999.
- In May 1999, the three-tier system of Administrative Courts started functioning. 30 out 50 judges foreseen by the law have been appointed.
- Efforts were made to achieve greater specialisation of judges in county and district courts according to the type of cases (especially, bankruptcy, competition, juvenile criminal cases and children rights)
- The Code of Civil Procedure has been revised in December 1998 to shorten the cassation procedures.
- In order to ensure the independence of the judiciary, in November 1998, a Judicial Court of Honour was established to deal with the issues of judicial accountability. In addition, high salaries have been maintained for judges.
- It was decided that starting from 1999 all candidates applying for the office of judge must qualify in the field of EU law.

Anti-corruption measures

While some measures have been taken, the fight against corruption needs to be further strengthened.

The Government has adopted a long term Programme of Prevention of Organised Crime and Corruption. In addition, the Law on Funding Political Parties should contribute to fight corruption.

With a view to monitoring the law on the Compatibility of Public and Private interests in the Public Service, the High Commission of Ethics in Office has become fully operational in the second half of 1998. Its recommendations were instrumental in the dismissal of a minister in November 1998.

The Special Investigation Service under the Ministry of Interior, the main Lithuanian anti-corruption agency, continued investigations on crimes against the civil service and cases of corruption. Corrupt officials were brought to trial. Between January and August 1999, 62 crimes against the civil service were detected and 71 officials were charged with offences against the civil service.

In January 1999 Lithuania signed, but did not yet ratify, the Criminal Law Convention against Corruption and became a member of the Group of States against Corruption (GRECO group).

Further efforts still need to be made in the fight against corruption. In particular, the definition of active and passive corruption should be reviewed, in order to clarify that both material and immaterial advantages are covered by the legislation. The indirect payment in favour of a third party, for example, a political party, must be incorporated, as must promises accepted by public officials. In addition, coordination among bodies responsible for the fight against corruption must be strengthened in order to be more effective.

1.2 Human rights and the protection of minorities

As mentioned in the last Regular Report, Lithuania continues to respect human rights and freedoms. The following section only concentrates on subsequent major developments.

Lithuania has acceded to most of the major human rights conventions (see annex).

After the Constitutional Court ruled that the death penalty was against the Lithuanian Constitution, the Seimas abolished it in December 1998. Lithuania has subsequently ratified the Protocol 6 on the death penalty of the European Convention for the Protection of Human Rights and Fundamental Freedoms.

The Framework Convention for the Protection of National Minorities has not yet been ratified. Lithuania has not yet signed the initial European Social Charter.

In December 1998, the Code of Civil Procedure was supplemented by a new chapter providing, inter alia, for renewal of a lawsuit if the European Court of Human Rights rules that a decision by a Lithuanian court contradicts the European Convention for the Protection of Human Rights and Fundamental Freedoms.

Civil and political rights

Lithuania has taken measures aimed at addressing some of the problems identified in the Opinion and 1998 Regular Report:

- Pre-trial detention has been reduced. According to the law, initial pre-trial detention may not be applied for more than six months. The maximum period of pre-trial detention is 18 months.
- A Government resolution passed in November 1998 approved the procedure for remuneration of attorneys providing legal assistance in criminal cases on the assignment of the investigator, prosecutor or the court. This procedure has provided for higher rates for attorneys working on such assignments. In January

1999, the Government of Lithuania decided that from March 2000, qualified citizens of EU member states can apply for a defence attorney license to practice in Lithuania.

- The provisions allowing nationals of the EU Member States to own non-agricultural land have entered into force in 1999. Pending the restitution of land to owners, foreigners are not allowed to buy agricultural land.
- Now under the responsibility of the Ministry of Justice, prison conditions have improved for juvenile and women offenders including mother and baby facilities for the latter. However overcrowding remains a source of concern. With only limited financial resources available for new facilities, structural solutions need to be found within the judicial process itself. The introduction of accompanying alternative measures such as probation need to be explored.
- The situation of the Pabrade foreigner registration centre, where conditions were reported to be very poor, has been improved.

Economic, social and cultural rights

Trade unions are having an increasing influence on public policy development. In February 1999, representatives of trade unions, employers' organisations and the Government signed a Tripartite Agreement. The Agreement obliges the Government to adopt decrees on labour, social and economic issues only after consideration in the Tripartite Council. The Tripartite Council also obtained a right to attach its conclusions to draft laws on these issues.

The Tripartite Agreement envisages that, by December every year, an annual agreement will be signed concerning minimum hourly and monthly wages, non-taxed wage ceiling and other important labour, social and economic issues.

In December 1998, the Seimas passed the Law of Equal Opportunities of Men and Women (in force from March 1999). It aims implement constitutional equal rights for both sexes. The Seimas appointed an Ombudsman of Equal Opportunities of Women and Men in April 1999.

Minority rights and Protection of Minorities

In 1998, Lithuania ratified the United Nations Convention on the Elimination of All Forms of Racial Discrimination.

The Government continues to finance programmes promoting economic, social and cultural development of Lithuania's ethnic communities.

Issues recently raised by Polish community in Lithuania (related to administrative-territorial reform, restitution of property in the Vilnius region, official spelling of Polish names, and retention of compulsory graduation examination of the Polish language in Polish schools) are being settled, notably through the bilateral

Commission for Ethnic Minority Affairs under the auspices of Lithuanian-Polish Governmental Co-operation Council.

1.3 General Evaluation

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

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”.

In its 1998 Regular Report, the Commission found that:

“the sustained implementation of the remaining reform agenda would complete the establishment of a functioning market economy, and enable Lithuania to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium term.”

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 1998 Regular Report.

2.2 Economic developments

Economic growth came to a halt in the second half of 1998, when the full impact of the external trade shock produced by the Russian crisis was felt in the Lithuanian economy. Unemployment rose and inflation fell to very low levels, partly because products meant for export flooded the domestic markets. In addition, the marked appreciation of the real effective exchange rate had a dampening effect on import prices. During 1998, the current account deficit continued to worsen in spite of a sharp reduction in domestic demand, but improved slightly in the first quarter of 1999. Sizeable privatisation deals boosted foreign direct investment inflows, providing the resources needed to finance the increasing external imbalance. As part of its response to the external shock, Lithuania loosened its fiscal policy. Structural reforms progressed but in some important sectors, such as energy, they remained incomplete.

Macroeconomic developments

In 1998, real GDP rose by 5.1% on the back of strong growth in consumption and investment during the first half of the year. However, after peaking at more than 10%

in the second quarter, year-on-year growth came virtually to a halt in the last quarter. Retail sales grew some 11% but began to contract last October. Sales from the mining and manufacturing sector grew by 7% but started to decline last December. Gross agricultural output declined by 3%, mainly due to a decline in crop production, as the falling demand from Ukraine and Russia took its toll on the Lithuanian agri-food sector.

In the first quarter of 1999, real GDP dropped by 5.7% year-on-year, due to the slowdown of external demand and to an interruption of oil supply to the Lithuanian oil refineries, which constitutes a significant share of industrial output. In the first five months of this year, industrial sales were 7.6% lower than in the same period of 1998.

The average registered unemployment rate rose to 7.9% in the first seven months of 1999, up from 6.6% in the corresponding period of 1998. Using the ILO definition, in 1998 the unemployment rate, at 13.3 %, was higher than registered unemployment but in a declining trend. However, by May 1999, it had increased to 14.0%.

The disruption of trade relations with Russia during the second half of 1998 was the main cause for the economic downturn. In 1998, exports declined by nearly 4% largely resulting from a 26% decline in exports to CIS, while exports to the EU rose by more than 12%, despite the appreciation of the litas against the euro. Imports expanded by 2.6% due to strong growth in the first three-quarters. In the first half of 1999, total exports declined by 23.4%, due to a decrease in exports of more than 60% to the CIS, and imports declined by 19.4%.

The trade deficit widened to 14 % of GDP in 1998, from about 12 % a year earlier. A small rise of nearly 1% of GDP in the service balance partially offset the widening of the deficit in goods trade. As a result, the current account deficit widened to more than 12% of GDP in 1998. In the first quarter of 1999 these trends reversed with the trade and current account deficit amounting to more than 11 % and nearly 10 % of GDP, respectively. Last year, net foreign direct investment rose sharply. Foreign direct investment flows covered a large part of the country's rising external financing needs. After peaking in July 1998, official reserves have been declining but continue to cover more than three months of imports of goods and services. During the first five months of 1999, Lithuania's foreign debt increased by more than one fifth in nominal terms after having remained unchanged during most of 1998.

Inflation has fallen drastically, reflecting the appreciation of the litas, the surplus supply of agricultural goods on the domestic market and global trends in commodity prices. In August 1999, 12-month inflation was -0.2%, compared to 3.6% in September 1998. Excise taxes and some of the regulated prices were raised, but falling food prices, which account for some 40% of the consumer price index, offset any inflationary pressure.

The effective exchange rate appreciated markedly, not only due to the devaluation of the Russian rouble but also due to the peg of the litas to the US dollar, which appreciated significantly against the European currencies. The currency board arrangement survived the Russian crisis without much difficulty. Fuelled by foreign currency inflows, credit expanded rapidly. The Bank of Lithuania is cautiously preparing for a gradual exit from the currency board regime. In view of the situation

on the international financial markets, the Bank of Lithuania decided to delay the re-pegging of the litas to an euro-dollar basket till after 1999.

Fiscal policy loosened significantly in the second half of 1998. Current revenues fell short of their target as growth slowed while extra-budgetary expenditures were increased sharply, with one-off privatisation revenues being used as an immediate source of financing. The most significant measures contributing to this increase, were the Savings Restitution Plan and the support for enterprises hit by the Russian crisis. Under the savings restitution scheme, the equivalent of 2.5% of GDP has been transferred to households so far. In addition, on-lending operations also increased and amounted to 1.5% of GDP. As a result, the general government financial deficit rose from below 1% of GDP in 1997 to an estimated 5% in 1998.

In the first half of 1999, the government maintained its expansionary expenditure policy, while the tax base shrank as a result of the Russian crisis. The Lithuanian authorities planned a balanced budget for 1999, based on a optimistic growth forecast of 4%. But when revenues and expenditures turned out to miss their targets by more than 10% in mid-1999, the new government was obliged to take corrective measures. The new government has postponed the transfer of the third and last round of the savings restitution, equivalent to about 1.5% of GDP. The government is proposing to cut expenditures in the 1999 budget by about 6%. Adoption followed by full implementation of these measures could bring down the financial deficit to about 5% of GDP in 1999.

Soon after the Russian crisis the Lithuanian government re-entered international capital markets with two small Euro-bond issues of €50 million in late 1998. An issue of €200 million 5-year Euro-bonds in June 1999 carried an important increased in premium. In September, the government launched another issue of €250 million, in order to finance the repayment of external debts and the provision of loans to the oil refinery sector. This issue is scheduled to be completed within 4 to 6 weeks.

Main Economic Trends							
Lithuania		1995	1996	1997	1998	1999 latest	
Real GDP growth rate	per cent	3.3	4.7	7.3	5.1	-5.7	Jan-Mar
Inflation rate							
- annual average	per cent	39.6	24.6	8.9	5.1	0,9	Jan-Aug
- December-on-December	per cent	35.8	13.1	8.3	2.4	-0,2	Aug
Unemployment rate, end-year							
- ILO definition	per cent	17.5	16.4	14.1	13.3	14.0	May
General government budget balance	per cent of GDP	-1.6	-2.8	-0.7	:	:	
Current account balance	per cent of GDP	-10.2	-9.2	-10.2	-12.2	-9,6	Jan-Mar
	million ECU/€	-470	-569	-865	-1158	188.6	Jan-Mar

Foreign debt ²							
- debt export ratio	per cent	26	28	27	33	:	
	per cent	:	:	23	29	:	
- gross foreign debt	billion ECU/€	0.6	0.9	1.2	1.5	1.4	Aug
	billion ECU/€	:	:	1.1	1.4	:	
Foreign direct investment net inflow							
- according to EBRD	per cent of GDP	1.2	1.9	3.4	8.6	:	
- balance of payments data	million ECU/€	56	122	313	827	33	Jan-Mar

Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.

Structural reforms

The process of privatisation has continued to move forward, notably with the partial privatisation of the Lithuanian Telecom Company. In 1998, privatisation revenues accounted for 5.8% of GDP, which is five times higher than the year before. During the first 9 months of this year, privatisation revenues accounted for about 1.3% of GDP. However, the proposed sale of the only oil refinery in the Baltic countries, an oil terminal nearing completion and the oil pipeline connecting the two was not finalised, partly due to disrupted oil-supplies. Those projects are now in the process of being re-negotiated. The privatisation list still contains 2 500 enterprises with public shares to be privatised. However, in the case of more than 1 000 companies the state share is less than 30% and mainly a result of a conversion of the companies' debts into shares.. Out of the remaining 1 500, 242 enterprises are planned to be privatised by the end of this year, with the *Mazeikiai* refinery being the most important one..

In the financial sector, the authorities rapidly and successfully concluded the sale of the largest Lithuanian insurance company. The two remaining public commercial banks are now listed for privatisation. the Agricultural Bank is being prepared for sale again, after the attempt failed in the wake of the Russian crisis. Contrary to last year, the successful sale of the Agricultural Bank is no longer a pre-condition for the privatisation of the Savings Bank. The new privatisation strategy hinges upon the involvement of the EBRD.

As mandated by law, about two thirds of the privatisation revenues must be spent to compensate the households which lost their savings at the beginning of the decade. The remaining one-third of privatisation revenues can be allocated to finance economic programmes, such as public investment projects and infrastructure maintenance. However, in the wake of the Russian crisis, privatisation receipts were used as additional source of liquidity for government expenditures. Such use of privatisation funds needs to be temporary, as it tends to aggravate the current account imbalance and might mask necessary structural reforms of public finances.

In the budgetary area, the authorities have further increased excise rates on alcohol, tobacco and fuel products with the final goal of reaching the minimum rates

² The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

established in the EU. Budgetary procedures are being modified: programme budgeting was introduced and a five-year work programme for the consolidation of all budget funds at the national and municipal level has been established. Finally, with the exception of the Social Security Fund and the Health Insurance Fund, all extra-budgetary funds were centralised in the state treasury. The social security funds continue to be affected by liquidity problems. However, the reform of the social security system is moving forward with the approval by Parliament of a law on private pension funds due to enter into force next year.

In the banking sector, several foreign institutions opened local branches and representative offices. At the end of last year, the Bank of Lithuania adopted the supervisory requirements of the Basle Monitoring Committee. In May 1999, it formulated merger and acquisition rules as the process of banking sector consolidation accelerated. *Hermis Bankas*, the second largest private bank has bought *Industrias Bankas*, the smallest one and has also opened merger negotiations with the *Vilniaus Bankas*, the largest private bank. The Bank of Lithuania approved the merger in September, but the actual merger has not yet taken place. The *Vilniaus Bankas* has increased its capital at the end of 1998 through a new equity issue fully subscribed by a Swedish strategic investor.

A range of initiatives was taken to support the development of the non-banking financial sector. In April, the authorities began issuing retail government bonds with a very low face value aiming at diversifying capital market instruments and neutralising funds transferred through the savings restitution. In addition, the authorities improved the conditions for secondary trading of T-bills.

Private sector involvement in the energy industry increased through the acquisition of a minority stake in the Lithuanian Electricity Company by a foreign company. On the other hand, the original project for building a link between the Lithuanian and the Polish electricity networks fell through.

The process of land restitution continued but still remains far from completed. As of April 1999, private ownership was restored for 59% of all land for which restitution claims were made. In the same month, a new procedure for settling these claims was introduced. The government also undertook a financial commitment to complete restitution of the existing claims by 2006. The purchase of non-agricultural land by foreign entities is now allowed.

In the past year structural reforms have moved forward, notably with the privatisation of Lithuanian Telecommunication and the largest insurance company. The privatisation of the two large remaining public banks is needed to improve financial discipline in the private sector. In the public sector, amendments have been made to budgetary procedures and some steps towards social security and fiscal reform have been undertaken.

Main Indicators of Economic Structure in 1998		
Population (average)	thousand	3702
GDP per head	PPS-ECU	6200

	per cent of EU average	31
Share of agriculture ³ in:		
- gross value added	per cent	10.1
- employment	per cent	21.0
Investment-to-GDP ratio	per cent	25.8
Gross foreign debt/GDP	per cent	15.0
Exports of goods & services/GDP	per cent	47.4
Stock of foreign direct investment, according to EBRD	billion ECU ECU per head	1.3 355

2.3 Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

The prevailing consensus on the essentials of economic policy has allowed reforms to be oriented towards the establishment of a functioning market economy. There have been some controversies about privatisation, energy sector restructuring on the timing of the re-peg of the litas. However, the new government seems to be strongly committed to swiftly address the necessary reforms. At the end of July, the Lithuanian authorities presented a Medium Term Economic Strategy, defining policy priorities up to the year 2010. The strategy's lengthy development period hints at a difficult co-ordination between ministries, but the result is a good basis for the Joint Assessment of economic policies priorities, scheduled to be finalised by the end of the year.

Macroeconomic stability has been weakened due to the Russian crisis and the initial policy responses, these have led to a deterioration of the government's budget, and to the widening of external imbalances. The government tried to cushion the social and economic consequences by sharply increasing public expenditures. This may have delayed some of the immediate impact of the Russian crisis, but by doing so the government was also using scarce financial resources for the support of inefficient enterprises rather than for promoting investment and structural reform. The result of this policy choice has been a rapid deterioration of public finances.

³ Agriculture, hunting, forestry and fishing.

Inflation has been reduced to a very low level, as deflationary trends in some markets offset the upward adjustment of some regulated prices. Nominal and real wage growth has been steadily reduced towards levels that are closer to overall productivity growth. Nevertheless, wage growth has been too high in the public sector contributing to the rise in the fiscal and current account deficits. The present external imbalances are not sustainable in the medium term and reducing the large current account deficit must remain a priority.

The role played by private ownership and market forces in the Lithuanian economy is increasing. Some 70% of GDP is now produced by the private sector. The process of land restitution has moved forward slowly but steadily. Administered prices account for 16% of the consumer price index basket. Privatisation is continuing but in key areas, like the banking sector, the oil refinery sector and the energy sector, the pace is slow.

The legal framework related to market entry and exit has improved with the amendments to the Company Law, the enactment of the Law on Competition and the sustained implementation of the 1997 Bankruptcy Law. The number of bankruptcies has increased and steps have been taken to reduce the considerable backlog of bankruptcy cases. As of 1 September 1999, the number of companies that have entered bankruptcy proceedings has risen by roughly 60% to 477, which amounts to less than 1% of the total number of companies in Lithuania. The share of insolvent companies stand higher at about 2%. Cases completed have doubled but still account for little more than 20% of all those initiated. In many cases the liquidation of bankrupt enterprises continues to be a rather difficult and time-consuming procedure. A law on a guarantee fund has been drafted to accelerate bankruptcy procedures by improving the settlement of employee claims through a fund based on employers' contributions. **In addition, the Lithuanian authorities are preparing under international assistance improvements to the legislation of enterprise bankruptcies and restructuring.** However, frequent amendments of legislation, continue to cause unpredictability and hamper business development. Transparency could be further improved by simplifying the regulatory framework.

The Lithuanian banking sector has withstood the immediate fallout of the Russian crisis, but might still face difficulties, when their client companies having used up their reserves may be unable to reimburse credits. Audits of all banks reported profits in 1998. At over 20% their capital adequacy ratios are relatively high. The share of nonperforming loans in their portfolio has been declining since the banking crisis and was about 13% in 1998, after 28% in 1997. To a great extent, this is the result of the tightening of supervisory rules and the improvement in their implementation as well as the increasing role played by foreign investors. The two remaining public banks still collect roughly half of all deposits and account for some 40% of all loans, are not yet privatised. Their privatisation would greatly improve the functioning of the sector. Total credit still represents little more than 10% of GDP, and the sustained increase in loans– from 69% of deposits in 1997 to 77.2% in 1998 - was generated by the on-lending of funds raised through international long-term credit lines rather than by a genuine improvement in the mobilisation of domestic savings. Moreover, the spread between average lending and deposit rates remains high and has increased during the

period under review, reflecting a more prudent lending behaviour than before the banking crisis.

The situation of the non-banking sector has improved and its further development will help to mobilise domestic savings. The largest insurance company has been privatised and a law for private pension funds has been approved. However, the supervision of the non-banking financial sector will need increasing attention. The issue of retail government bonds with a very low face value is a positive development.

Lithuania continues to make progress in the establishment of a functioning market economy. The legal framework underpinning market entry and exit has improved and the privatisation process has moved forward, but the privatisation of large enterprises and banks needs to be speeded up. Nevertheless, the implementation of business laws needs to be made more transparent and bankruptcy procedures are not yet working properly. In view of the very sizeable increase in the government deficit, the Lithuanian authorities will need to take additional steps to ensure the medium term sustainability of public finance.

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

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

The progressive establishment of a functioning market economy - as demonstrated by the recent privatisation of a number of large industrial and infrastructure companies - and stable macroeconomic conditions has encouraged the process of economic restructuring.

Investment as a share of GDP has continued to increase in 1998, reaching 25.8 %. Foreign direct investment, at 8.6% of GDP, surged to record levels. Although about 80% of the total FDI inflows was the result of a single privatisation deal, quarterly data reveal a steady upward trend in foreign direct investment flows leading to the doubling of net inflows for the third year in a row. Such resilience in the face of a less forthcoming attitude of international investors towards emerging markets shows confidence in the transformation of the Lithuanian economy.

Economic restructuring is advancing. However, the picture across sectors remains mixed. Progress is relatively fast in industries such as textiles, where privatisation began early, and should pick up in the services sector (insurance, telecommunications

and transport). In the agri-food sector a sizeable part of the food and upstream industry has been privatised and the establishment of smaller processing companies is increasing competition. However, in view of the excess capacity of the sector, there remains a need to speed up this process.

Restructuring has been held back in the energy sector, where government initiatives have been slow to emerge. The government has allowed the accumulation of debts in loss-making energy companies instead of pushing for their restructuring. These are responsible for a large part of the build up of public debt. On the positive side, there has been a successful decentralisation of district heating to the municipal level, and a genuine interest of foreign investors in Lithuanian energy companies. The energy pricing commission has acquired a solid reputation but has only a limited competence.

Lithuania is a member of the Baltic Free Trade Area and is negotiating to become WTO member by mid-2001. Despite some recent reversals in the wake of the Russian crisis, the external trade regime continues to be very liberal. Except for agricultural commodities, the average rate of tariffs is rather low. Non-tariff barriers on imports are limited to licencing requirements for selected commodities, like petroleum, alcohol and tobacco, and to some restrictions on public procurement.

The re-direction of trade has been important. The changing pattern of Lithuanian trade reflects both on-going restructuring, - making the industries more competitive in EU markets - and the impact of the collapse of the CIS markets. Medium-high technology accounts for nearly 25% of Lithuanian EU-exports, making Lithuanian exports less sensitive towards price elastic. In addition, the share of medium-high technology is rather high in the case of Lithuanian exports to the EU.

Despite the appreciation of the litas against the euro, exports to the EU grew at double digits rates and on average accounted for 37.4% of total Lithuanian exports in 1998, up from 32.5% in 1997. The EU-share of exports increased to 50% in the first half of 1999, while exports to the CIS countries declined by more than 60%. Export to the EU of textiles, chemical products and machinery accounted for roughly half of the trade with the EU and other sectors began to redirect their sales towards the EU market. Exports of wood products, raw hides, plastics, vehicles and foodstuffs have also increased. The share of imports from the EU also continued to increase, reaching 46.2% in 1998, with machinery and vehicles continuing to be the two main components. In order to permanently establish their presence in the EU markets, Lithuanian exporters will have to continue to upgrade the quality and type of goods for exports, shifting towards higher value-added products.

Faced with the Russian crisis, the authorities have taken various measures to support companies in financial difficulties. They allowed companies to postpone payments to the social security fund, increased trade protection for certain products, and resorted to debt guarantees in particular to energy sector companies. Such discretionary interventions run the risk of wasting public funds in inefficient, non-viable enterprises and impede the adjustment of enterprises to market conditions. This support must be abolished as soon as possible and Lithuania should return to policies that permit the free play of market forces.

The large majority of private enterprises in Lithuania are small and medium-sized enterprises contributing about 70% to the economy's value-added. This constitutes an important development since 1991 when the contribution of small and medium-sized enterprises to GDP was 16%. However, the industrial sector still is dominated by some huge and outdated enterprises, which need either to be liquidated or restructured. The overall profitability needs improvement so that companies are able to compete in markets without government assistance.

In November 1998, the parliament adopted a law on small and medium-size enterprise development. A fund has been established to facilitate the start up of small or medium-sized enterprises and support their activities by business incubators, business advice centres, co-financing of innovative activities, re-qualifying employees etc. The fund provides financial support through partial coverage of interest costs and the insurance of investment credits. However, further steps should be taken to improve the coherence of small and medium-sized enterprise policy, to simplify legislation and the administrative environment, to strengthen support infrastructures and to open up access to finance.

Family farms use the majority of land and their share in total production further increased significantly in 1998; the average size of family farms was 12 hectares. Government support to agriculture took the form of interventions in agricultural markets, direct payments, input subsidies, and export subsidies. The Agricultural Loan Guarantee Fund expanded considerably to support investments in medium-term equipment. Agriculture still needs to undergo reform and reductions in employment – accounting for 18.6% of total employment in 1998 - will be inevitable.

Progress continues to be made in the restructuring of production in Lithuania and the reorientation of trade towards the West. However, the negative shock caused by the Russian crisis has revealed weaknesses and there have been some inappropriate policy responses. Enterprise reform must be enhanced to improve the enterprise productive efficiency and product quality. In the short term, the emphasis should be on the restructuring of the energy sector and the continued attraction of foreign direct investment which will help Lithuania to make progress necessary to cope with competitive pressures and market forces in the medium term.

2.4 General Evaluation

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.

Macroeconomic stability was preserved even though it has been made more vulnerable partly as a result of the policy response to the Russian crisis. The government's attempts to dampen the negative external shock led to a serious deterioration of the fiscal and external balances to levels that may become unsustainable.

Priority must be given to measures to cut the fiscal deficit, also as a means of bringing the high current account deficit under control, completing structural reform and to forcefully implementing ongoing reforms. In particular, financial sector privatisation should be completed and the energy sector should be restructured in line with the important decisions recently taken by the government. Lithuania should continue efforts in re-orienting its trade towards the European Union and other developed markets. It should also invest in the infrastructure and develop the skills of the labour force so as to sustain the long-term growth in productivity and to continue to make Lithuania an attractive destination for foreign direct investment.

3. Ability to assume the obligations of membership

This section aims to update the Commission's Regular Report of 1998 as concerns Lithuania's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, through which the Union implements its objectives.

In the 1998 Regular Report on Lithuania's progress towards accession, the Commission concluded that :

" Lithuania has a mixed record in legislative transposition and implementation. Efforts need to be stepped up to complete the legislative framework and strengthen the institutions in the internal market area. In other areas, such as environment, where the pace of transposition has been good, there is a need to ensure that the implementation and enforcement structures are adequate to permit the application of the laws.

Lithuania has taken steps to address some of the Accession Partnership short-term priorities. However, significant efforts are still needed to fully address priorities in the areas of energy (establishment of a comprehensive long term energy strategy including the question of Ignalina); economic reform (establishment of a medium term economic programme); administrative capacity (especially public administration reform); internal market (public procurement, competition, state aids) and JHA (improvement of border management)."

The presentation set out below follows the same structure as the 1998 Regular Reports and focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

3.1 Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

In the area of *public procurement*, Lithuania has made progress with the adoption in June 1999 of an amended Law on Public Procurement. It has expanded the scope of public procurement rules to the water management, energy, transport and telecommunications sectors and provides that most public procurements will be conducted through open tenders. This law is largely in line with the *acquis*. Additional measures will be necessary to ensure full compliance, however. The law will provide from 1 January 2000 a new procedure for consideration of complaints and a new institution – the Independent Commission for Consideration of Complaints on Public Procurement – will be established.

Public procurement markets are in principle open to EU companies, but some preferences clauses have still to be abolished. In 1998, the total number public procurements was 5321, of which 68.6 % were conducted through open tenders.

During the first 6 months of this year 117 complaints were handled by the Public Procurement Office. This led to the cancellation of 16 tender evaluations and further review of 37 tender results. For further details see the chapter on administrative capacity.

In the field of *intellectual property rights*, in May 1999, the Law on Copyright and Neighbouring Rights was adopted. This law is in line with the *acquis*. However, further measures are required to regulate the administrative and criminal liability in case of violation of this law.

The Seimas ratified the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations in December 1998.

Up to now, the level of piracy has remained unacceptably high. Remedies and penalties that have been available have not provided sufficient deterrent to the companies and individuals engaged in piracy. Delays in prosecution are still too long. More co-ordination at administrative level and between the law enforcement authorities is required.

As regards *industrial property rights*, Lithuania is largely in line with the *acquis*, however some further amendments are required both in the field of patents and trade mark law. The Law on the legal protection of topographies of semiconductor products, which entered into force in December 1998, is in line with the *acquis*.

The State Patent Office has received an increased number of applications, in particular, trademark applications. Although the State Patent Office has been strengthened, further efforts are needed to ensure protection of industrial property rights.

Concerning *data protection*, several administrative measures implementing the existing data protection legislation were adopted by the competent Minister and by the Data Protection Inspectorate since mid-1998. Further legislative fine-tuning is required to achieve full alignment with the *acquis*. Lithuania has not yet signed the Council of Europe Convention on data protection.

In the field of *company law*, Lithuanian legislation is largely in line with the *acquis*. However, further alignment is required in particular to allow foreign enterprises to open branches in Lithuania and to improve shareholders' rights.

As regards *accounting*, while Lithuanian legislation is in line with the basic principles of the Directive on the annual accounts of certain types of companies, there are still gaps. No new legislation on accounting has been adopted since mid-1998.

In June 1999, the Seimas adopted a new Law on *Audit* transposing the provisions of the Council Directive on the approval of persons responsible for carrying out the statutory audits of accounting documents. The law raises qualification and professional requirements for applicants to the audit profession. In the law, the oversight of performance of individual auditors and audit companies is institutionally separated from the training function. The two functions will be allocated to separate institutions. The Law also envisages establishment of a professional body, the Chamber of Auditors.

The four freedoms

In its Opinion, the Commission indicated that Lithuania had made some progress in aligning the legislation on the liberalisation of capital markets and to a certain extent in the area of free movement of goods. The Opinion also pointed out that efforts to align legislation were needed in the areas of standardisation, conformity assessment and financial services.

The assessment of the Regular Report focused on the need to rapidly adopt laws on conformity assessment and standardisation and noted the efforts made to align with the *acquis* in the area of free movement of services.

Free movement of goods

In October 1998, the Seimas passed a Law on Conformity Assessment which sets the main principles of conformity assessment as well as functions and responsibilities of the participants in the system. The Law creates the legal basis to harmonise the conformity assessment procedures with the ones applied in the EU.

In the field of standardisation, while the transposition of European standards has continued, the basic legislation still needs to be aligned. The Law on Product Safety was adopted in June 1999 and covers some aspects of market surveillance.

Progress has been made in establishing the general framework including the general principles for the New and Global Approach. There is a need to pay further attention to the organisation of market surveillance both in regard of the general approach and the implementation in different sectors.

As regards specific New Approach directives, very limited progress in transposition has been made during the past year. Progress in aligning the legislation in sectors covered by the Old Approach has been made in the area of foodstuffs, chemicals, pharmaceuticals and footwear. In the areas of cosmetics and detergents, pre-marketing

registration procedures, which are contrary to EC rules, still need to be removed. The existence of a mandatory certification procedure for electrical appliances and electronic equipment and for construction products should also be noted. There is a lack of strong co-ordination between different players who have to adopt and implement the legislation. This is especially true for the area covered by New Approach where an integrated approach is needed. As regards market surveillance sectoral ministries do not show a convincing understanding of the challenges at stake and a lack of a co-ordinated overview can be observed.

Free movement of capital

The liberalisation process in Lithuania is well advanced, with only a small number of restrictions remaining. Since the last Regular Report no new liberalisation measures have entered into force.

The remaining restrictions apply mainly to inward direct investment in a few sectors (national security and defence, narcotic and poisonous substances and the organising of lotteries); acquisition of agricultural land by non-residents; outward portfolio investment by insurance companies and private pension funds; and restrictions on capital transfers due to restrictions on foreign insurance companies' right to conclude insurance contracts in Lithuania.

Free movement of services

In the 1998 Regular Report it was mentioned that Lithuania had already made important efforts to align legislation with the *acquis* in this area.

Since mid-1998, important progress in fine-tuning the transposition of different *banking* directives has been accomplished. A major part of the *acquis* is now implemented. Only the post-BCCI Directive and Capital Adequacy Directives are only partially transposed.

The Law on the Prevention of Money Laundering is in line with the Council Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering. A Financial Intelligence Unit (FIU) is established in the Tax Police Department.

In the *insurance* sector, since mid-1998 several prudential regulations have been adopted by the Insurance Supervisory Authority which complete the transposition of the European Insurance Directives as regards the solvency requirements and the coverage of technical provisions. However, it has to be noted that the law on civil liability mandatory insurance of the owners and users of transport vehicles has not yet been adopted. The Insurance Supervisory Authority carried out 57 on-site inspections of insurance companies and insurance brokers and sanctions were imposed in 25 cases during 1998.

In the *securities* market sector, the Lithuanian Securities Commission approved in December 1998 a new version of the Rule on Securities Registration and Offering. This measure brought Lithuanian rules into line with Council Directives relating to listing prospectuses and public offer prospectuses. Rules on Disclosure of Periodic

Information in line with the *acquis* were approved in January 1999. In addition, the Securities Commission adopted a substantial number of resolutions during 1998-1999 designed to enhance the smooth operation of the securities market. The Lithuanian Securities Commission conducts around 150 on-site inspections per year. Between January and July this year administrative penalties were imposed in 50 cases. For further information see the chapter on administrative capacity.

In the field of *payment systems*, Lithuania continues to make good progress. As for the payments infrastructure, the Bank of Lithuania has implemented the first two stages of the project on the new Inter-bank Funds Transfer System (IFTS). This system includes a real time gross settlement (RTGS) system for large value payments and a Designated-time Net Settlement (DNS) system for retail payments. The implementation of IFTS will allow Lithuania to further progress toward the integration of its payment system in line with those of the Member States of the European Union.

Free movement of persons

Since mid-1998, some progress has been made with regard to *acquis* alignment in the field of mutual recognition of professional qualifications. The adoption of a Government Decree in August 1998 concerning regulations on recognition of foreign qualifications was an important step, since it created conditions to ensure the enforcement of the principles of the free movement of students. However, this decree is not enough in itself to ensure full implementation of the *acquis* in this field. Current efforts must be sustained to comply with the *acquis* in the medium term.

Competition

The new Law on Competition entered into force in April 1999. The law is closely aligned to the *acquis* and contains the basic concepts of the EC *anti-trust* rules (anti-competitive agreements, abuse of dominant position and merger control).

The new Law will replace the State Competition and Consumers Protection Office by a Competition Council, which will be more independent and have more powers than the Office. In particular, the Competition Council has the right to demand financial and other documentation from businesses and to conduct on the spot investigations.

The Competition Council will also have the task of examining whether legal acts or other resolutions issued by public administration and local authorities comply with the requirements of the law.

During 1998, 107 investigations were carried out resulting in 20 infringement cases, mainly in the industry sector. Penalty charges to € 125000 were imposed on 23 enterprises for infringement of the Law on Competition..

The decision on the appointment of the members of the Competition Council is pending. The government has yet to decide on the administrative set up.

In the field of *State aid*, only minimum legislative provisions exist on State aids monitoring. It appears that State aid award provisions have been only partially aligned with the acquis. However, some progress was made in April 1999 with the adoption of monitoring rules. They give a more comprehensive definition of State aid and determine more clearly procedural rules for State aid control. The State Competition and Consumer Protection Office has prepared forms for notification and reporting purposes and issued a guide to State aid rules (sectored, horizontal, regional) in May 1999.

The Office has updated its inventory on existing aid, which it started compiling in 1997. The inventory provides information on the type of aid granted, recipients, aid-granting body, volume of aid etc. On the basis of the inventory, the annual report on aid granted during 1997, which provides for a good level of compliance with the Commission survey, was prepared. In the field of State aid, only one decision on compatibility has been taken so far. Current resources and staffing are not sufficient in the State aid field.

Conclusion

Lithuania has generally made progress in meeting the short-term priorities of the Accession Partnership in the area of Internal Market.

Progress has been made in terms of transposition concerning public procurement, intellectual property, company law and auditing. However, enforcement capacity, especially in as concerns the fight against piracy, still needs to be reinforced.

While in the field of free movement of capital and services Lithuania has already made good progress, in the area of free movement of goods the situation is mixed. Lithuania has made progress as regards conformity assessment but further efforts are required in the field of standardisation and market surveillance. As regards free movement of persons, some progress can be reported in the area of mutual recognition of professional qualifications.

In the field of competition, while Lithuania has met the short-term priority of the Accession Partnership with the adoption of the new competition law and with the introduction of transparency in the State aid field, there is not yet any control of State aid. There is a need to align existing legislation on State aid, to adopt a proper legal framework for monitoring of aid and enhance the enforcement of the State aid rules. The State aid monitoring authority needs to be strengthened with a view to ensure the ex-ante assessment of aid plans.

3.2 Innovation

Information society

Representatives of Lithuania have played an active role in the Joint High Level Committee meetings between the Commission and candidate countries. Progress has been made with the implementation of the 1996 State "Programme for the Development of Communications and Informatics". The Commission for co-

ordination of state information policy has been created to co-ordinate development of the Information Society across government departments. Lithuania has continued the modernisation of the State information system.

Education, training and youth

The reform of education system, including vocational education and training has started. In particular, in February 1999, the Ministry of Education issued guidelines for the reorganisation of the general education system.

Since November 1998, Lithuania has been participating in the Community Programmes Leonardo da Vinci, Socrates and Youth for Europe.

In 1998-99, 432 students have benefited from Erasmus mobility grants to study in EU countries and 1177 young Lithuanians have taken part in the Youth for Europe programme. In 1998, 154 Lithuanians participated in exchanges within the framework of the Leonardo programme (vocational training).

Research and technological development

The present Community *acquis* does not require transposition into the national legal order. However, the compatibility of the general legal order with the Community *acquis* needs to be ensured.

The association of Lithuania with the 5th Framework Programme (1999-2002) has entered into force in October 1999. In order to prepare the successful association several structures have recently been established in Lithuania. The real implementation capacity will be tested during the association with the 5th Framework Programme. Lithuania has also decided to open its corresponding research activities to enterprises, researchers and universities from the Member States.

Telecommunications

The Lithuanian telecom market is liberalised except for the provision of fixed public telephone networks and services, which were made exclusive to *Lietuvos Telekomas* (Lithuanian Telecom) by the 1998 telecom law until the end of 2002. The general legal framework for implementing the *acquis* is in place, but secondary legislation is still missing. Relatively slow growth in the field of fixed telecommunications network continued up to the end of 1998 and modernisation remained one of the lowest of the region. Growth in mobile was better, reaching 7 per 100 inhabitants. Considerably more progress with the rebalancing of tariffs in the direction of cost orientation will be needed in the period before the market is opened.

Although legislation provides for an independent regulatory authority, regulatory functions are, at present, with the Ministry of Transport and Communication. Setting up of an independent body should be a top priority.

Lithuania needs to clarify which infrastructure data transmission service providers are permitted to operate and whether they are entitled to interconnection agreements with *Lietuvos Telekomas*.

As regards postal services, a new law entered into force in July 1999. This law is partially aligned with the *acquis*. Some postal services (issuing of pensions and courier) have been liberalised. The state enterprise *Lietuvos Paštas* (Lithuanian Post) is obliged to provide general postal services. Further alignment is needed as regards *inter alia* definition of reserved area limits, universal service extension, and customers' complaints procedure mechanism.

An independent postal regulatory body has not yet been established but it has been decided that there will be a single regulatory agency dealing with both the postal and telecommunications sectors.

Audiovisual

The *acquis* in the field of audiovisual (the Directive "Television Without Frontiers") has not yet been transposed.

In May 1999, the Seimas aligned the legislation on tobacco control with the Directive on advertising and sponsorship of tobacco products.

Conclusion

Lithuania is making progress in the areas of information society, education, training and youth. Progress has been achieved in the field of research and technological development with the full association to the 5th Framework Programme. However, significant efforts are still needed in this sector. Continued efforts are needed to implement the telecommunications legislation and to bring the postal legislation in line with the *acquis*. No progress has been made in transposing the audio-visual *acquis*.

3.3 Economic and fiscal affairs

Economic and Monetary Union

Lithuania has indicated that it accepts and will comply fully with EMU *acquis* as defined by title VII of the EC treaty and the other relevant texts. Lithuania has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Lithuania has made progress in its preparation for participation in the Economic and Monetary Union. In particular, for the *acquis* that has to be implemented before accession, some modifications to the statute of the Central Bank, - like the guarantee of the personal independence of the Board members - are required to be fully in line with the Treaty. Although direct financing of the public sector by the central bank is excluded in practice, it will also be banned in a revision of the statute of the Central

Bank. According to the Lithuanian authorities, the public sector does not have access to financing from financial institutions on preferential terms.

Compliance with the EMU *acquis* is conditional on completion of the process of liberalisation of capital movements, which is examined under the section on free movement of capital.

Taxation

The Lithuanian taxation regime is not yet in line with the *acquis*. Both the systems of indirect taxation and excise duties need to be substantially reformed. In particular, the VAT exemptions that are not in line with the *acquis* need to be removed and the excise tax warehouse system needs to be developed.

Major efforts will be necessary to complete the ongoing overall fiscal reform.

The Revenue Department at the Ministry of Finance, responsible for indirect taxation was established at the end of last year. The reorganisation of the territorial structure of the tax administration which took place in January 1999 should help to centralise administrative functions, simplify management and improve tax administration and the services provided to taxpayers.

In the field of administrative cooperation, an agreement between all three Baltic States entered into force in June 1999 on cooperation in the organisation of simultaneous audits of direct taxes. This agreement envisages broader possibilities for cooperation between tax administrations with regard to effective control of taxpayers in the Baltic States.

Conclusion

The Lithuanian taxation regime needs major efforts to be brought in line with the *acquis*.

Statistics

Lithuania has made progress in some areas of statistics; however, further alignment and significant resources are still needed. Much progress has been achieved in some central areas of statistics, notably through the introduction of various classifications.

Social statistics in Lithuania are good. However, there are insufficient resources to conduct some complicated and costly surveys. In this context, the postponement of the population census is regrettable. Important efforts will be required in the area of business and agricultural statistics. As for regional statistics, regions according to EU methodology (NUTS II) are now defined. For macro-economic statistics, sustained effort is required for improving national accounts and especially in achieving sufficient availability and quality of basic data. In the field of public debt and deficit statistics, a high degree of independence of statistics production from policy-making instances is desirable and should be achieved through appropriate organisational

arrangements. As for external trade, the customs based statistics follow international recommendations and comply in general with EU rules. However, some special flows like transit will require more attention.

Sustained efforts are needed to maintain and extend the current statistics production namely in agricultural and business statistics as well as to improve the relations with other administrations.

3.4 Sectoral policies

Industry

Lithuania's approach to industrial policy entered a new phase in 1999. The Russian crisis and the related loss of CIS outlets have revealed some serious competitiveness gaps. While many companies have successfully adapted their production to new markets, others have faced huge difficulties in competing in the global market. Hence the government has decided to focus its action on industrial restructuring.

This new approach has been defined in an industrial policy concept paper, the '*Lithuanian Medium-term Industry Development Policy and its Implementation Strategy*'. The main aim of the strategy is to make sure that in the medium term Lithuanian industry can cope with the competitive pressure of the EU market and that industry will continue to recover so as to reach a weight in the economy similar to that of other industrialised countries. Although some objectives and the instruments for implementation are to be refined, the existence of this concept paper demonstrates the government's will to tackle the competitiveness issue seriously.

Some progress has been made in improving the overall industrial organisation and efficiency, including in the challenge to close non-viable enterprises. However these efforts should be strengthened. In particular it is important that the government puts more emphasis on the future economic viability criterion when stimulating business activities. In this respect, an important dimension of the industrial policy is the control of state aid (see competition chapter).

Progress has also been made in adopting both the legislative framework and a number of programmes which aim at improving the business environment. Further sustained efforts still have to be made to restructure Lithuanian industry as well as to promote and implement a market-based industrial policy in line with the *acquis*. The recent commitments taken by the Lithuanian authorities to eliminate distortion by speeding up the implementation of bankruptcy procedures and better controlling state aid are an encouraging sign.

During the period under review, investment in the manufacturing sector has continued to increase. This is a sign of a favourable operating environment. Branches that have comparative advantages such as the forest-based industry (including furniture) and the oil refining industry have successfully managed to stand up to external shocks. On the other hand, the food processing sector, which is the largest industrial sector in Lithuania, has been particularly hit by the Russian crisis and needs further restructuring.

Agriculture

Agricultural situation

In 1998 agriculture and the food industry combined accounted for 34% of GDP. Agriculture alone accounts for 10% of GDP (it was 12% in 1997) but 21% of employment. Gross Agricultural output fell by 3% due to a fall in both crop and livestock production. In 1998, crop production fell by about 9% if compared with 1997 due to a combination of adverse weather conditions and fewer sown areas. The downward trend in the livestock sector continued with a decline by about 4% in 1998.

In 1998, EU imports of agricultural products originating in Lithuania increased by 7.4% to €79 million. EU exports to Lithuania decreased by 1.1% to €240 million. The trade balance in favour of the Community amounted to €160 million compared to €170 million in 1997. The most important import increase was registered in the product group fodder. The bilateral agricultural trade balance remains positive for the EU side.

The land reform has not yet been completed and the date for completion has been set by 2000. Nevertheless, it is progressing. As of January 1999, total agricultural land in Lithuania covered 4 million hectares. At present 2,3 millions hectares of agricultural land (59% of those indicated in the applications of citizens) have already been restituted and is used by private citizens. However, legal titles have been issued so far for only 1.5 million hectares.

The land market is still underdeveloped. However, it is progressing. 60,000 hectares were the subject of transactions in 1998. 35,000 hectares were the subject of transactions in the first semester 1999.

Concerning farm structure, small and medium sized family farms tend to be dominant. The number of individual private farms increased by 8%, while the number of household plots and agricultural partnerships declined by 10 and 6% respectively. The average size of registered private family farms was 12 hectares.

Categories of full time and part time farmers have not yet been defined. No precise date has been fixed yet for carrying out the agricultural census.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance progressive and orderly liberalisation of bilateral trade

Agricultural policy

The financial position of agricultural producers deteriorated in 1998 as farm gate prices fell for main agricultural products and input prices rose. The largest price falls occurred for grains and sugar beet. However, due to new support policies the income remained stable for the latter. Fixed minimum prices were applied for livestock and milk.

Lithuania increased overall budgetary expenditure on agriculture substantially in 1998. Support for agricultural and rural development is extended through the Rural Support Fund. Though the initial budget allocated in 1998 decreased slightly, additional allocations from the privatisation fund and other sources brought it up to 10% of the state budget. The biggest part of total assets of the Rural Support Fund was allocated to agro-food market regulation and export support. Other important support measures were investment schemes, research, training and advisory services and a loan guarantee scheme.

The Lithuanian Market Regulation Agency was established in 1998. The Agency uses loans of commercial banks for buying-in excess agricultural and food products. Loans are taken up to the amount guaranteed by Agricultural Loan Guarantee Fund (€ 60 millions in 1998). Over 90% of these loans were granted to purchase surpluses from the 1998 harvest after the collapse of the Russian Market. In 1999, the Government increased the guaranteed limit to €73.5 millions.

One area of growing concern is the large and increasing level of under-utilisation in the food-processing sector. Also, one of the main problems in the agro-food sector continues to be the rather heavy debt overhang.

No major changes took place in the privatisation of upstream and downstream industries, with the exception of the sugar industry. The lowest level of privatisation is in the processing industry for canned fruit and vegetables. The process of restructuring the downstream sector, (except for certain dairy companies, breweries, confectioneries and sugar industry), has so far been low. Privatisation of the agro-food sector and change in ownership of food processing enterprises has been quite rapid but there has been little change in the management and marketing structures or in the modernisation of their plant and equipment. Moreover there are over-capacity problems, as well as lack of investment (except for a few exceptional cases), which continue to impede the development of a modern, efficient agro-food sector.

In the field of Rural Development, a special programme, which was financed by the Rural Support Fund, was launched in 1998 to create off-farm activities in rural areas and to promote alternative sources of income.

Lithuania has also introduced agro-environmental policies, which encourage farming practices that will lead to a reduction in the use of chemical inputs and the development of more sustainable farming practices.

Noticeable efforts have been made towards the alignment with the *veterinary acquis*. Sustained efforts in improving hygiene and quality standards finally resulted in the approval of additional milk and dairy products establishments for exports to the EU. Twelve establishments are currently authorised to export to the EU. Export authorisation has also been granted to a game meat processing company.

Veterinary border posts, notably along the Eastern border, are being rationalised and reinforced.

Rules for Plant protection products and lists of harmful organisms in line with EU requirements have recently been adopted. A list of quarantined organisms was

approved in December 1998. Two Regulations for registration and employment of chemical and biological plant protection measures were approved in May 1999.

Animal identification has begun and continues to be carried out. A Livestock Registration and identification Program has been approved. However, neither herd registration nor animal identification have been completed yet. Livestock identification and registration tasks have been attributed to the National Veterinary service and the State-owned enterprise “Livestock Production Control”. In accordance with a recent Government Resolution, the Rural Business Development and Information Center is responsible for managing the central livestock register.

Conclusion

Lithuania has continued to make efforts to tackle priorities identified in the Accession Partnership.

Momentum in the land reform should be maintained in order to speed up the creation of an efficient farming sector. Efforts must be continued to modernise the agro-food sector and to develop environmental and rural development policies. Efforts made over the past years to improve hygiene and quality standards were fruitful and resulted in an increased number of establishments authorised to export to the EU. In the veterinary and phyto-sanitary sectors, administrative capacity has been strengthened. However, implementation of core decisions should be improved.

Fisheries

The fisheries sector account for about 0.04 % of the Lithuanian GDP. Fisheries fleet consist of 75 boats : 65 in the Baltic Sea (average capacity 200 tons) and 10 ocean boats (average capacity 1000 tons).

While some measures have been adopted concerning fisheries statistics and fish and fish products quality, Lithuania has still considerable efforts to make as concerns common fisheries control, market regulation and capacity management. The Fishing Vessels Register has not yet been set up.

In May 1999, the Government gave the responsibility for fisheries policy, administration and integration of this sector in the EU to the Ministry of Agriculture. The responsibilities for fishing control in the Baltic Sea and in internal waters, establishment of limits and protection of resources, evaluation of damage to fish resources and application of compensatory measures were given to the Ministry of Environment. However, major efforts are still needed to improve decision-making capacity, notably in order to avoid conflicts of competence between the ministries involved.

Energy

Energy policy

On 5 October, the Seimas adopted a new energy strategy which sets out legislative and restructuring plans for the sector. .

Concerning liberalisation of the energy sector in accordance with the *acquis*, the energy strategy should be further developed and effectively implemented.

With regard to the electricity and gas directives, monopolies have to be adjusted and definitive choices have to be made on such matters as the regime for the network. The full independence of the intended transmission network operator has to be confirmed. International relations for interconnecting electricity systems need to develop. An appropriate and efficient mechanism for regulation as required under the gas and electricity directives is to be set up.

The development of the power sector should take place in line with EU competition rules and the rules of the internal energy market.

A key prerequisite for achieving a single energy market is the commercial viability of the energy utilities, in particular the existing monopolies. This entails separation from political influence, and the creation of a regulatory framework and regulation bodies, with regulatory rather than direct management roles over the new commercial entities. Transparency, achieved for electricity through accounts and management unbundling, is also a critical objective of the single energy market, to which Lithuania must devote more efforts. EU Phare technical assistance to help achieve this separation and transparency is anticipated in 1999 and 2000.

Concerning oil stocks, Lithuania has to speed up the transposition of the *acquis* and to find appropriate solutions for building up the required 90 days of stocks according to a suitable timetable.

Cooperation with neighbouring countries continued and promises to provide a suitable framework for the reform of the sector.

Nuclear energy

The Cologne European Council emphasised the importance of high standards of nuclear safety in Central and Eastern Europe and stressed the importance of this issue in the context of the Union's enlargement. It called on the Commission to examine this issue thoroughly in its next regular progress reports on the candidate countries. The present section is a response to this request.

Lithuania has two non-upgradable reactors (RBMK-1500 series) of 1300 MW located at the Ignalina Nuclear power plant, close to the town of Visaginas. In 1998, the share of nuclear energy in electricity production was of 77%.

The Nuclear Safety Account Agreement signed in 1994 stated, inter alia, that the lifetime of Units 1 and 2 must not be extended beyond the time at which their fuel channels should be replaced. At the time, the lifetime of the fuel channels for Unit 1 was expected to expire between 1998 and 2004.

In Agenda 2000 (July 1997), the Commission called upon the candidate countries operating non upgradable reactors to close them at the earliest practicable dates. For Lithuania, considering that the original timing had slipped, it took the view that Ignalina unit 1 could close in 2004 and Ignalina unit 2 in 2008 at the latest if certain criteria were fulfilled.

The Accession Partnership for Lithuania (March 1998) required, as a short-term priority, that a comprehensive, long-term energy strategy and a decommissioning plan for the Ignalina nuclear power plant be established according to commitments entered into in the Nuclear Safety Account Agreement.

In its 1998 Regular Report (November 1998), the Commission repeated this request and expressed its concern over the absence of a satisfactory energy strategy.

In December 1998 the Council emphasised that, for the countries which operate reactors which cannot be upgraded to internationally acceptable levels of safety at a reasonable cost, the energy sector strategies must provide for the earliest practicable closure of those reactors, including an agreed timetable for closure consistent with Accession Partnership priorities and the Nuclear Safety Account Agreement. In March 1999, the European Parliament called on Lithuania to comply with its commitment under the Nuclear Safety Account Agreement. A similar approach has been adopted by the Nuclear Safety Account Contributors.

In January 1999, the Lithuanian Government adopted a draft Energy Strategy that did not meet the Accession Partnership since it envisaged two options, i.e. the early closure of Ignalina or its operation until the end of the design lifetime which would imply rechannelling. In April 1999, the Seimas returned the draft to the Government asking to propose only one solution.

In March 1999, the Commission and the Lithuanian Government agreed to set up a Joint Energy Working Group. This Group had substantial discussion on the Lithuanian energy sector. It analysed the first estimates of Lithuania's financial needs related to a new energy strategy, including the modernisation of management, gradual opening of the sector to competition and the closure and decommissioning of Ignalina.

As noted above, the Seimas adopted a new version of the Energy Strategy on 5 October 1999. In line with the Nuclear Safety Account Agreement, Unit 1 will be closed down before the year 2005. Similarly, the conditions of the final closure of Unit 2, taking into account the difference in age with Unit 1, shall be decided upon in the next National Energy Strategy (2004).

Units 1 and 2 should remain subject to appropriate review by VATESI. For unit 2, the installation of a fully diverse (second) shutdown system should be finalized by 2002, and an adequate safety case should be made for the remaining time of operation. Due to the interval (up to several years) between the preparatory work for the decommissioning and the first physical works to be performed, the first phase of the decommissioning of unit 1 - overall planning and licensing work – should be started immediately in accordance with Lithuania's decision, taking into account the result of the first, Phare funded decommissioning study.

Concerning the role of the Safety Authority (VATESI), its human and technical resources as well as its independence need to be further strengthened to enable it in particular to handle all regulatory issues without excessive foreign assistance. The role played by VATESI in the recent past can be highlighted by the following: the Lithuanian Nuclear Safety Authority (VATESI) decided not to allow further operation of this unit 1 by the deadline of 17 May 1999 stipulated in the NSA agreement. Consequently, unit 1 was shut down from end of May until early August when VATESI effectively issued a license. In this licensing process, VATESI has been assisted by western experts through the Licensing Assistance Project.

On nuclear safeguards, no major difficulties are foreseen for compliance with Euratom provisions, although exchanges on the relevant *acquis* may be useful, in particular on reporting.

The attention of Lithuania is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the emphasis put by the Council on the need to develop further methods relevant to the realisation of a high level of nuclear safety. In this context, Lithuania, its nuclear regulatory authorities and nuclear operators are invited to provide regular information in response to corresponding requests from the Commission.

Conclusion

Lithuania has made significant progress in the field of energy. Further attention is needed on the preparation of the internal energy market (electricity and gas directive) including the adjustment of monopolies, access to the network, pricing and establishment of an appropriate and efficient mechanism for regulation; emergency preparedness including the building up of mandatory oil stocks and improvement of energy efficiency.

The Commission welcomes the adoption of the energy strategy by the Seimas, in response to the short and medium-term priorities in the energy field of the Accession Partnership. This decision is a major sign of Lithuania's European integration efforts as well as a very important precedent for the safe use of nuclear energy in Central and Eastern Europe.

The Commission has noted that the NSA Agreement will be respected and that no rechannelling will be done at Ignalina. Unit 1 at Ignalina will be closed down before the year 2005. Similarly, the conditions of the final closure of Unit 2, taking into account the difference in age, shall be decided upon in the next National Energy Strategy (2004). The Commission considers that this will lead to the closure of Unit 2 by 2009.

In line with the above commitments of Lithuania, the European Commission can already propose its Euratom Loan financing facility and additional major grant funding from the PHARE Programme, even starting in 1999, over and above the annual allocations under the Pre-Accession Policy. The Commission is ready to associate other donors in the mobilisation of additional funding.

The Nuclear Safety Authority (VATESI) should be further strengthened.

Transport

Lithuania has a well-developed transport infrastructure especially in the road sector. The port in Klaipeda, which is one of the few ice-free ports in the region, is an important ferry port for transit.

Lithuania has continued to make progress on alignment mainly at the level of secondary legislation. It has continued to pursue the objectives and tasks defined by the National Transport Development Programme.

In the area of *road transport*, the Lithuanian government has implemented previous framework legislation and brought it partially into line with the *acquis* in certain areas like international freight and passenger transport, drivers' licences and the transport of dangerous goods. Lithuania has not yet begun to restructure and adapt its system for vehicle taxation and road user charges, which form a central element of fiscal harmonisation in this sector.

Some technical rules to facilitate access to, charging and use of *railway* infrastructure were adopted. Efforts have to be continued to achieve full alignment.

Although *inland waterway* transport is of very limited importance, the Lithuanian government has begun to establish the required legal system for inland navigation, notably by adopting rules on licensing of carriage of passengers and goods and rules on the issue of diplomas and qualification certificates.

The adoption of a considerable number of ministerial orders on *maritime* safety, mainly on certificates, ships inspection, training and reduced seaport charges for double hull tankers, underlines the attention given by the government to improving maritime safety. However, despite many regulatory measures to strengthen flag state control, the safety of ships under Lithuanian flag remains a matter of concern. Data for the three most recent years shows deterioration in the safety performance of Lithuanian registered vessels.

Efforts have concentrated on the negotiations on a multilateral European Common *Aviation* Agreement (ECAA), which covers in particular the specific timing for the progressive implementation of the *acquis* in the technical and safety field. Lithuania is gradually implementing legislation in order to prepare for membership of the Joint Aviation Authorities (JAA).

In 1998 Lithuania continued to invest in the modernisation of its transport *infrastructure* in both North-South (Corridor I, Via Baltica) and East-West directions (Corridor IX). Lithuania has identified priority projects in the context of the Transport Infrastructure Needs Assessment (TINA) with a view to investments under ISPA.

Conclusion

The transport infrastructure is an important asset of the Lithuanian economy. Lithuania has made further progress in implementing the transport *acquis* particularly in road transport and maritime safety. Nevertheless, further and more effective efforts are necessary, particularly in fiscal harmonisation in road transport and in maritime safety, in order to align the national legislation and administration more closely with the *acquis*. The implementation of the aviation *acquis* is causing some problems for Lithuania, especially regarding technical harmonisation, due to the costs involved. Lithuania needs to continue the reform of its aviation organisation and infrastructure, which will require it to make available additional financial and human resources.

Small and medium-sized enterprises

Small and medium-sized enterprises account for 70% of the GDP (according to Lithuanian statistics). Legislation on SME Development which sets out a support framework and entered into force in January 1999 is a step forward.

Lithuania has confirmed its interest in taking part in the Third Multiannual Programme for SMEs.

Some progress has taken place as regards improving the business environment, notably in relation to access to finance for personal enterprises and authorisation for trading activities. However, further steps should be taken to refine and improve the coherence of SME policy, to simplify legislation and the administrative environment, to strengthen support infrastructures and to further develop SMEs' access to finance.

3.5 Economic and social cohesion

Employment and Social Affairs

The unemployment rate in 1998 was 13.5% (ILO-methodology). In 1998, the Government labour market policy focused on the integration of young people into the labour market. In January 1999, Measures Providing Incentives for Employers to Employ the Youth were introduced by a decree of the Minister of Labour and Social Security.

In the area of *social dialogue*, in February 1999 the Government signed an improved agreement on three-way co-operation with trade unions and employers' organisations. With this agreement, the government commits itself to review any labour, social and economic resolution in the Tripartite Council before adoption, and submit the conclusions of the Tripartite Council to the Seimas together with the draft laws.

As regards *health and safety* legislation, several new laws were adopted, resulting in the transposition of the requirements of eight EU directives (personal protective equipment, manual handling of loads, workplaces, mobile construction sites, mineral extracting industries, biological agents, lead and vinyl monomer). On the other hand, the framework directive on safety and health at work still needs to be fully transposed. The implementation and enforcement capacities of the State Labour Inspectorate are

being strengthened. However, significant problems remain, particularly as regards the recruitment of skilled personnel.

Further alignment is needed in the field of *labour law*, particularly as concerns the introduction of procedures for informing and consulting workers' representatives.

Progress has been made in the area of *equality of treatment* for men and women. In December 1998, the Seimas adopted the Law on Equal Opportunities for Men and Women (in force since March 1999), aimed at implementing the constitutional principle of equal treatment. An Ombudsman for Equal Opportunities was appointed in April 1999. Lithuania takes part in the Fourth Community Action Programme on equal opportunities for women and men.

In the field of *social protection*, reform efforts are continuing. A Government resolution adopted in March 1999 has extended the State basic pension insurance to all social groups. Amongst the newly adopted legislation is the Law on Pension Funds (June 1999) which provides for the establishment of private pension funds. The State Securities Commission will supervise the activities of these funds.

As regards *public health*, in May 1999 the Seimas aligned the legislation on Tobacco Control with the Directive on advertising and sponsorship of tobacco products. The only provision of the tobacco directives still to be transposed concerns the maximum tar yield of cigarettes.

Conclusion

Progress has been made both in terms of the *acquis* transposition and reinforcement of the administrative capacity. However, this effort needs to be sustained. In particular, Lithuania's capacity to enforce the social *acquis* once adopted still constitutes a source of concern. As concerns the social dialogue, while there are encouraging signs of the government's commitment to the development of tripartite structures, it would be advisable for Lithuania to put some more emphasis on the development of bipartite (employers – trade unions) collective bargaining.

Regional Policy and Cohesion

The Union supports the strengthening of cohesion, mainly through the Structural Funds. Lithuania will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

Starting from a low level of preparations, Lithuania was expected to take major steps in 1999 towards establishing the legal, institutional and budgetary structures required for participation in EU structural policy.

Lithuania's regional GDP per capita in the reference year 1994 corresponded to 29 % of the EU average, with variations between 35% in Vilnius and 22% in Taurages region. It is still to be decided whether the whole territory of Lithuania will be

considered as one region (NUTS II) in accordance with EU methodology of designing region.

Further to the Government decree of 1998 which defined the basic objectives and implementation principles, the Government took a resolution on the implementation of Lithuania's regional policy in May 1999. This resolution sets out measures for the implementation of regional policy guidelines including a plan which lays down the priorities for the years to come and gives to the Ministry of Public Administration Reforms and Local Authorities the overall responsibility for the general co-ordination of regional and structural policy in Lithuania. With regard to a genuine legal basis, Lithuania has decided to introduce a specific law on regional development which needs to be rapidly adopted.

Lithuanian co-financing of EU structural programmes will mostly originate from the State budget. Currently, public investments are planned through the Public Investment Programme. Financial and budget procedures need to be established in line with EU requirements such as commitment and payment procedures, organisation of financial flows, multi-annual budget planning.

In May 1999, the Government approved the establishment of the National Agency for Regional Development, which will prepare the National Development Plan, the regional programmes and planning activities related. It will start operations in 2000.

Lithuania needs to strengthen the institutional framework needed to prepare for the implementation of EU structural policy and improve its inter-ministerial coordination capacity at national level and between national and regional level.

Lithuania has only limited experience in appraisal and evaluation procedures.

Conclusion

Lithuania has made some progress towards developing its regional policy. However, much remains to be done, in particular as regards the decision making process and forward planning, inter-ministerial co-ordination procedures at national and between national and regional level, administrative capacity, co-financing, budgetary and financial control procedures. Lithuania has started to address the short-term priority related to this area as identified in the Accession Partnership.

3.6 Quality of Life and Environment

Environment

Lithuania has a good understanding of the environmental acquis as well as of the administrative and financial needs required to implement it. It has further progressed in the environmental field especially as regards legal transposition.

In October 1998, the Ministry of Environment adopted the Strategy for Approximation in the Environment Sector which defines transposition priorities in each environmental sector, points out the main implementation measures and target

dates, presents relevant cost estimations and provides for the need to reinforce the institutional infrastructure.

In this strategy, Lithuania has also addressed the issue of the Integration of environment into other sectors. This Strategy states that the Environmental Policy should be an integral part of all national economy and territories strategies. Lithuania is taking part in the work on Agenda 21 for the Baltic region. The emphasis of Baltic 21 is on regional co-operation and on the environment and its bearing on economic and social aspects of sustainable development.

In the field of *horizontal legislation*, Lithuania has, by adopting the Law on Civil Protection, established the legal and organisational structures of civil protection and rescue system. The government has approved a new plan for the protection of the population in case of a radiological accident in Ignalina Nuclear power plant and the emergency planning in the districts around Ignalina has been reinforced. Lithuania has signed the Aarhus Convention on access to information, public participation and access to justice in environmental matters. Lithuania needs to speed up the work on adopting the environmental impact assessment requirements.

A strategy for the approximation in the *water* sector was adopted. By adopting the Hygienic Norm on Drinking Water, most of the EU legal requirements on parameters, values and monitoring are met. The norm also sets the implementation timetable for the improvement of the monitoring. Major gaps remain as for the transposition of the other main directives in this sector. The administrative structure needs to be re-organised and new institutions established. Major investments are needed to achieve full alignment with the acquis.

In order to speed up the implementation of the Law on *Waste* Management, the Government adopted the National Waste Management Strategy and Action Plan in May 1999. The Strategy has been developed according to the requirements of the main waste management-related directives. In December 1998, the Seimas ratified the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and their Disposal. Major efforts are still necessary in terms of transposition. The administrative structure needs to be reformed and strengthened and major challenges are expected in the implementation, i.e. of the landfill directive.

Industrial *pollution control* and *risk management* are areas where very much still remains to be done. Some steps have been taken to introduce the Eco-management and audit standards in Lithuania. Regarding the integrated pollution prevention provisions only limited progress has been achieved and Lithuania needs to speed up the work.

In *air protection*, new regulations on the maximum permissible concentration of chemicals polluting air in residential areas partially meet the requirement of the air framework directive. Also some of the laboratory methods have been streamlined to meet EU requirement. A strategy for the approximation was adopted in 1998. Major gaps still remain in this sector. Lithuania needs to adopt a framework law and secondary legislation in order to transpose limit values and monitoring requirements and to prepare the necessary action plans.

As for the *chemicals*, an increased rate of compliance has been achieved by adopting regulations on the import and export of dangerous chemicals substances. These measures list banned and restricted substances and regulate the trade and storage of dangerous chemicals. A high degree of alignment has been achieved regarding the provisions on import and export of ozone depleting substances. Lithuania is now fully in line with the requirements for the protection of experimental animals. Additional efforts are needed to introduce legislation on genetically modified organisms and establish authorisation and enforcement institutions.

As for *nature protection*, in June 1999 the Seimas passed a Law on Wild Flora, The framework legislation is in place but major gaps still exist concerning the classification of protected areas, criteria to establish protected areas, adjustment of hunting rules and provisions on trade of endangered species.

The implementation of the environmental *acquis* is costly, especially in the water, waste and IPPC sector. The cost for the full implementation is estimated at about €1 billion. During 1997-98, about €50 million were invested mainly in the water sector.

In relation to radiation protection and nuclear safety, significant progress has been made. In January 1999, the Seimas approved a law on Radiation Safety which is in line with the *acquis*. It transfers the state supervisory and control functions in the field of radiation safety to the Radiation Safety Centre. In May 1999, the Seimas passed the law on the management of radioactive waste. The law provides for the establishment of an agency that will be responsible for safe storage of all radioactive waste produced in Lithuania and maintenance of disposals. The two laws are complemented by a number of regulations on shipment of radioactive substances and radioactive waste, training requirements, radiation safety standards and control of standards on radiation sources, safety equipment and other devices. However, further alignment is still needed. Solutions for long-term management of operational waste accumulated at the Ignalina site need to be found.

The issue of nuclear safety is dealt with in the energy chapter.

Conclusion

Lithuanian has substantially met the short-term priorities of the Accession Partnership in this area. However, the level of formal compliance between Lithuania and EU environmental legislation varies greatly from sector to sector. Lithuania has adopted some sectoral strategies and a programming document. It should now focus on the implementation of those programmes both as regards transposition as well as implementation. More effort should be put on the transposition of legislation in the air and water sector and in the field of Integrated Pollution Prevention and Control.

Significant work remains to establish a structure that can fully apply and enforce the *acquis*. Many authorities and institutions with unclear responsibilities are involved in the implementation and enforcement of the environmental legislation. Lithuania needs to put additional effort in a restructuring of administrative structures.

Consumer Protection

In June 1999, the Law on Product Safety was adopted. The Law is to a large extent in line with the Directives on general product safety and product liability. The law ensures effective product safety control and sets liability of producers, importers, retailers and service suppliers in case of damage incurred to the consumer through unsafe products.

Further attention needs to be paid to the organisation of market surveillance in Lithuania.

As to the enforcement of consumer policy, much remains to be done. The competence of the National Consumer Protection Council which will be responsible for the enforcement and protection of consumer rights still needs to be developed.

The awareness of consumer policy among the Lithuanian public is still very low.

3.7 Justice and home affairs

The 1998 Regular Report did not see progress in the field of justice and home affairs including border controls and fight against organised crime, two short term priorities of the Accession Partnership. The Report therefore called upon Lithuania to pay more attention to justice and home affairs issues, speed up work to improve border controls and improve the effectiveness of the forces fighting organised crime. Progress was carefully monitored during the past year to ensure that complete information would be available for the current report.

Immigration/border control

As far as *immigration* is concerned, Lithuania abolished visa requirements for all Schengen states in 1998 and this came into force fully following ratification by Belgium in June 1999. The visa stickers are properly protected and meet EU standards. The visa legislation is, therefore, generally in line with EU requirements. The derogation concerning the provisional agreements on visa free crossings to the border region in Belarus and the Russian citizens of the Kaliningrad region will be abolished in the future. Lithuania should continue progressive alignment of visa legislation and practice with that of the EU. . Provisions for Airport Transit Visas will be needed by the time of accession although in practice, few flights transit via Lithuania and transit passengers are escorted.

A new Law on the Status of Foreigners entered into force in July 1999. This makes the alignment in the migration area almost complete, for example by introducing carrier sanctions. Rules on illegal employment is in conformity with EU requirements apart from a minor procedural adjustment concerning checks on unemployed residents.

Lithuanian has signed six re-admission agreements. However, it has not been able to obtain any formal readmission agreement with Russia. The practical arrangements on readmission of persons who enter illegally from Russia are the same as those of Finland, Estonia and Latvia.

As far as *border controls* are concerned, Lithuania has achieved substantial results with increased investments, training and professionalism of the border police. The number of illegal migrants passing through Lithuania is significantly lower than in previous years reflecting the effectiveness of the measures of detection and return operations established by the Lithuanian authorities. Lithuanian frontiers are well guarded. As regards the Lithuanian/Belarus border, Lithuania, which has completed the demarcation of its own part, is also actively contributing to the demarcation of the remaining part of the border which would normally fall under Belarussian responsibility. The Russian (Kaliningrad) border is marked throughout almost its entire length by a natural river boundary and is guarded by both sides. Formal demarcation is expected to follow the Russian ratification of the agreement signed in 1997.

Asylum

The new Law on the Status of Foreigners mentioned above, also made great progress concerning asylum, for example, by introducing the possibility of obtaining residence permits on humanitarian grounds and by providing protection to vulnerable groups. Generally, Lithuania is very close to alignment with the EU *acquis*. There are no legal constraints to a future ratification of the Dublin Convention. Although no immediate increase is likely in the numbers of asylum seekers, the necessary work has begun on refurbishment of the existing Lithuanian facilities.

However, more precise and faster procedures to treat appealed asylum cases are needed and the pre-screening procedure for admission according to Article 4 of the Refugee Law has to be reviewed. Also, the legal structure concerning the Appeal Council should be reconsidered in order to guarantee its independent status. The possibility of getting legal aid for the asylum seekers should be formally guaranteed.

Police

Lithuania has signed and ratified the main international conventions concerning police matters. Current police legislation is being reviewed with the aim of improving it. A network of liaison officers is being established. The police has an adequate assessment of the criminal threats to Lithuanian society. Its enforcement capacity is good as shown by the fact that it was the only police force of the region to co-operate with Member States police and Europol in a joint operation during 1999.

Lithuania should accelerate the adoption of a Criminal Code and introduce elements of the *acquis* still missing such as the criminal responsibility for legal persons involved in organised crime. Concerning trafficking in children there is a need to criminalise any type of trafficking, not that for gainful purposes. The same is true of the possession for personal use of child pornographic material. The extension of the scope of Lithuanian laws to include all illegal acts relevant to trafficking in works of art ought to be considered at the same time.

Drugs

Lithuania is a party to all the main international conventions and has implementing legislation generally in compliance with the EU instruments. In June 1999, the Government adopted a National Programme for Control of Drugs and Prevention of Drug Addiction for 1999-2003.

In May 1999 the Seimas adopted the Law on the control of precursors of drugs. Presently, drugs are not a major problem in Lithuania. Lithuania, however, has to improve co-ordination among various bodies involved in the fight against trafficking. The fight against drugs should remain high on the political agenda and special attention paid to measures to reduce demand.

Judicial Cooperation

The Joint Action on Money Laundering of December 1998 needs to be adopted, in particular with respect to specific aspects of seizure.

In civil matters, no principal problems have been noted in the area of judicial cooperation. Foreign judgements may be recognised and executed.

In the field of criminal matters, Lithuania has a good track record concerning speedy handling of Mutual Legal Assistance. Lithuania has proven to be a reliable and efficient partner for both EU and non-EU states in the domain of Mutual Legal Assistance over the past year.

Nevertheless, regarding the Second Protocol to the Convention on the Protection of the European Communities' financial interests, Lithuania should use a broad definition and make sure that fraud against EU customs is covered.

Regarding extradition, the introduction of a simplified procedure required by the EU-*acquis* is not yet in place. Lithuania should review certain extradition aspects such as the ban on extradition of own nationals, the exception for political offences and the ban on extradition on the basis of prescription.

Lithuania has already introduced several provisions, which go a long way to meet the requirements of the *acquis* on driver's licence disqualification.

Lithuania has signed in January 1999 the Council of Europe's Criminal Law Convention on Corruption.

Conclusion

Lithuania has made rapid progress in taking on board the JHA-*acquis* and towards meeting the Accession Partnership short-term priorities. The areas of migration, asylum and border control (notably as regards the border with Belarus), show impressive results regarding legislation and institutional capacity. Further improvement will still be needed in: training, the installation of equipment, coordination of various agencies and initiatives and, in particular, in operational contacts with EU countries.

3.8 External policies

Trade and international economic relations

The average MFN duty applied by Lithuania is 5.14% (2.5% for industrial goods).

Lithuania is still negotiating its accession to the WTO. Bilateral market access negotiations are not yet concluded, the agricultural sector being the most difficult. Lithuania has almost completed the amendment of its trade policy regime to bring it into conformity with WTO rules.

In view of the forthcoming New Round negotiations, Lithuania is working with the European Commission towards an alignment of policies and positions.

Trade with countries with which Lithuania has signed free trade agreements now accounts for over 70% of total Lithuanian external trade. A free trade agreement with Hungary has been signed but the ratification is not finalised. A free trade agreement with Romania has been negotiated and consultations on an agreement with Bulgaria have been opened. Consultations have been opened with Ukraine on replacing the current free trade agreement with a new one more in line with international standards. Lithuania is seeking to become a CEFTA member.

Development

Lithuania currently does not apply a preferential trade regime to countries which are signatories to the Lomé Convention.

Customs

The Lithuanian customs code, modelled on the Community customs code, came into force in January 1998. Provisions for duty relief remain broader in Lithuania than in the Community. Certain implementing provisions have been adopted, however, gaps still exist e.g. for simplified procedures, or customs procedures with economic impact. Legislation remains only partially compatible on counterfeit and pirated goods.

Binding Tariff Information has been in use for one year; however, the Integrated Tariff is not yet finalised. In the field of Origin, Lithuania now participates in the pan-European system of cumulation, which has been applied since January 1999.

In the field of administrative cooperation, an agreement between all three Baltic States entered into force in June 1999 on cooperation in the organisation of simultaneous audit of taxes. This agreement envisages broader possibilities for cooperation between tax administrations with regard to effective control of taxpayers in the Baltic States.

The Baltic Transit Convention between Estonia, Latvia and Lithuania came into force in June 1999 (implementation is planned for early 2000). The Baltic system is based

on the EU/EFTA Common Transit Agreement. Three free zones will have been set up in Lithuania by the beginning of 2000. None are currently operational and the legislation is only partially compatible with EU legislation.

The Customs Department, under the Ministry of Finance was reorganised in August 1998. In May 1999, the Seimas amended the legislation to confer enforcement powers on the customs authorities. At the end of 1998, various new sub-units in the customs administration were established, including for Audit and Customs Valuation. Lithuania has made progress in computerisation, and 60% of customs offices are now connected to the Customs Information System. At the end of 1998, a computerised customs information and control system (ASYCUDA) was being tested in pilot phase in three locations. Local computer networks have been installed in the Siauliai, Vilnius and Klaipeda territorial customs posts as well as in the central Customs Department.

Conclusion

Lithuania has made progress in the development of secondary legislation, administrative modernisation and computerisation. More progress must be made as regards enforcement. The establishment of a Co-ordination Commission on Smuggling was a step forward, however, further progress is necessary. The development of legislation compatible with the *acquis*, and particularly its application, and the strengthening of operational capacity and human resources should be monitored.

The decision to confer the necessary enforcement powers on the customs authorities is positive. The fight against fraud and corruption must be strengthened.

Common foreign and security policy

Lithuania continues to orient its foreign and security policy towards the EU and NATO. It participates actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings at political directors', European Correspondents' and Working Group level. Lithuania has regularly aligned its positions with those of the EU and, whenever invited, adhered to the Union's statements, declarations and demarches, including in the context of the UN and OSCE. Thus it joined the Common Position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia.

In the Kosovo crisis, Lithuania supported NATO operations against the FRY, sent a team of doctors to Albania and provided humanitarian assistance to refugees. Lithuanian forces participate in the Kosovo peacekeeping mission as well as in SFOR.

Lithuania strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation in the Baltic Sea region, for example as an active member of the Council of the Baltic Sea States (CBSS) which it chaired in the period from July 1998 to June 1999. In its relations with Russia it puts specific emphasis on developing cross-border co-operation with the Kaliningrad area. A long-outstanding sea border agreement with Latvia was signed in July 1999.

3.9 Financial questions

Financial control

As regards *external* control, the execution of the state and municipal budgets continued to be controlled by the State Control Office.

Internal financial control is not in line with good practice in Member States. The Seimas adopted a revised Law on National Treasury in March 1999. The law contains some provisions elaborating the internal audit system and procedures, but they are far from establishing the general framework for an internal audit system which would enable the necessary controls for the disbursement of pre-accession funds.

In April 1999, the Government adopted the Resolution on the establishment of the National Fund within the Ministry of Finance for the implementation of the EU aid programmes in Lithuania. The State Control acts as financial control, which is independent from the benefiting agency and is also responsible for auditing under a specific agreement with the Ministry of Finance. This is a temporary arrangement until proper internal audit legislation and structures are adopted.

Conclusion

There has been very little progress in establishing the legislative framework and institutions for financial control.

The roles and responsibilities of the Ministry of Finance and the internal audit units in other line ministries still need to be developed as well as the relations between these institutions. The independence of internal auditors *vis-à-vis* authorising officers in these institutions still has to be carefully scrutinised.

The State Control Office of Lithuania needs to undertake a review of its management and audit procedures in order to assess relevance and effectiveness of its activities. In particular, it should not be asked to carry out internal audit functions. For both internal and external control, extensive training in the application of internationally accepted audit standards and the development of audit manuals have become urgent.

3.10. General evaluation

Lithuania has made progress in most areas of the internal market, in particular in public procurement, intellectual and industrial property, conformity assessment, free movement of capital and services, as well as in anti-trust legislation. However, enforcement capacity should be strengthened, in particular as regards the fight against piracy. State aids control continues to be a matter of concern and further alignment of legislation and stricter control procedures are needed. Further efforts are also needed in the area of the free movement of goods (standardisation and market surveillance). No progress has been made in the audiovisual sector and major efforts are required to bring taxation into line with the *acquis*.

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

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

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

4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. 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 Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, and, even more importantly 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.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“A number of important agencies and institutions have been established since the Opinion. It is too early to judge their capacity to implement the *acquis* effectively. The tempo of institution building and strengthening of administrative capacity needs to pick up in order to keep pace with the rate of transposition, particularly in the internal market and environment sectors. There is a widespread need for training to improve staff qualifications.

The capacity of the judiciary to apply the *acquis* should be strengthened through enhancing the status of the profession, through training and ensuring that vacancies are filled promptly.”

4.1 Administrative structures

The Law on Public Administration was adopted by Seimas in June 1999. The law defines internal control of public institutions, administrative procedures and obligations and rules on investigating into complaints regarding behaviour of civil servants. The Law on Civil Service has been adopted by Seimas on 8 July 1999. The law will ensure impartiality when appointing civil servants, reinforce the career principle in civil service and ensure the autonomy of civil servants from political interference. It also takes into account more specific laws such as the law on Diplomatic service. It needs to be supplemented by a specific law on salary of judges.

The Lithuanian Institute of Public Administration was established in January 1999 and started its activities in April 1999. There are 26 currently employed in the Institute. It is charged with designing, developing and implementing training modules for civil servants. The Institute is expected to be fully operational by 1 January 2000 and to have a department for the development of training in EU issues.

4.2 Administrative and judicial capacity: key areas for the implementation of the *acquis*

The uniform application of EC law: Progress has been made concerning improvement of the court system and the creation of specialised courts. In January 1999, the Seimas adopted the Law on Establishment of Administrative Courts and the Law on the Legal Proceedings. Administrative courts began functioning in May 1999. Administrative courts are arranged in a three-tier system which consists of a Division of Administrative Cases at the Appeal Court, the Higher Administrative Court, and 5 county administrative courts. The President of Lithuania has already appointed 30 judges (out of 50 needed) to serve in administrative courts. In the period 1 May-15 August 1999, 2338 cases were filled with the administrative courts and 1065 were solved.

In the period October 1998 - September 1999, 68 new judges have been appointed. The total number of judges of general competence (i.e. non-specialised) is 518, however there are still 33 vacancies. These are planned to be filled by the end of 1999. In the first half of 1999, 8677 criminal cases were received and 9492 were solved, which indicate a reduce backlog. As for civil law, 65952 cases were received and 65669 were solved.

In May 1999, two new divisions (the Division of Economy and the Division of Personnel) were established at the Department of Courts. The Personnel Unit is responsible for setting up the reserve of judges and court bailiffs, selecting candidates, establishing the Judicial and Bailiffs' Training Strategy, organising examinations and judicial and bailiffs' certification. The Division of Economy is responsible for the analysis of financial needs.

In March 1999, the Minister of Justice instructed the chairs of regional and district courts to appoint first instance judges as well as appeal hearings in the juvenile criminal cases and cases related to childrens' rights (child adoption and paternity matters). As of the end of April 1999, 85 specialised judges had been appointed to such positions. This should ensure greater specialisation of judges in district courts

according to the types of cases (especially bankruptcy, competition and children rights cases).

In January 1999, the Government of Lithuania adopted the qualification requirements for the candidates who apply for the office of judge. Starting from 1999 judges will have to be qualified in the fields of EC Law and International Public Law.

The composition of the Supreme Court was completed by Parliament's with the appointment of eleven new judges of Supreme Court in June 1999. The Judicial Training Centre established in 1997 organises training courses for judges, technical staff of courts and court bailiffs, notably in the field of the application of the EC Law.

In November 1998, the re-organisation of the Prosecutor's General Office was carried out. The criminal prosecution function has been decentralised and the criminal prosecution workload has been distributed.

Although a number of actions have been taken to improve the functioning of the judiciary (court system reforms are being implemented and specialised courts have been established) further efforts in this area will be necessary. To further reduce the backlog of court cases, computerisation of courts needs to be introduced and proper documentation centres established. There has been some progress in improving the functioning of the Prosecutor's General Office, in particular regarding criminal prosecution function.

Training in EC Law for judges is included in the Judicial Training Programme but judges' attendance tends to be low. The effective administration of the acquis in this area will require greater human and technical resources, strengthening judiciary capacity, enhancing external oversight functions, continuing the reform of the court system as well as further steps to combat corruption.

Single Market : In 1999, the status, functions and authority of the Enterprise Bankruptcy Management Department at the Ministry of Economy were upgraded. The current number of employees is 20, which is a marked increase from its 1998 staffing level of 6 employees. Employees work in three sections within the Department: bankruptcy, supervision of unprofitable enterprises, analysis and conclusions.

Taking into account bankruptcy cases initiated after October 1997 on the basis of the new Bankruptcy Law, 236 bankruptcy proceedings were initiated mostly in the industry and trade sectors, of which only 11 cases were completed (mainly by liquidation) by September 1999. This is an increase relative to last year, when by July 1998, none of the bankruptcy cases initiated under the new bankruptcy law had yet been completed.

The *Public Procurement* office began its operations in July 1997. As of 1999 it has 35 employees, which is an increase in staffing from its 1998 level of 28 employees. It drafts regulations and prepares materials on methodology, stores and supplies information about public procurement. Tender announcements are published in the supplement of the Official Journal "Information Bulletin". In 1998, the total number

of public procurement was 5321 for an amount of €490000. Out of this total amount, 68.6 % were conducted through open tenders.

In 1998, 118 complaints, were handled by the Office, of which 19 tender evaluation results were annulled by the Office, in 22 cases procurement agents were asked to further discuss tender results and 63 complaints were dismissed as unfounded. In terms of types of procurement, in 1998 procurement of supply for works accounted for a major part (38 %) of complaints, followed by procurements of medical equipment (15%), procurement of computer equipment and software (8%). In terms of methods of public procurement, open tenders accounted for the largest proportion of received complaints (95 %).

During the period January –June 1999, 117 complaints were dealt with, of which 16 tender evaluations were cancelled, in 37 cases procurement agents were offered to further discuss tender results and 47 complaints were rejected as having no sufficient grounds for complaint. The complaints on public procurement were made mainly by local companies. Out of 117 complaints, only 5 complaints were received by foreign companies.

The new Law on Public Procurement provides for the establishment of an independent complaints commission starting in January 2000. The Public Procurement Office has been strengthened compared to last year. However, the new law will require further strengthening in administrative capacity particularly in the area of staff responsible for enforcement and training on international tendering procedures and EC Law.

A Unit for the Protection of *Intellectual Property* Rights exists at the Tax Police Department (under the Ministry of the Interior). Its main functions are crime investigation and tax collection. Between January and April 1999, the Tax Police filed 31 cases against violators of intellectual property rights, mainly in the areas of pirated CDs and videos, and forwarded them to the courts.

A considerable effort is still needed in developing adequate implementation and enforcement structures in the area of protection of intellectual property. Training is also needed for special police units and specialised courts.

The State Patent Bureau has the responsibility for the EU integration policy in the field of protection of *industrial property*. A Patent Information Centre was established in the National Technical Library with the aim of accumulating and disseminating information to the public about the protection of industrial property rights.

In May 1999, 100 civil servants were employed in the area of industrial property protection and 45 patent agents registered in the private sector.

Progress can be noted in setting up institutional structures for industrial property as the State Patent Bureau has been reinforced in terms of staff and budget. More training is needed.

The State *Data Protection* Office employs 8 persons. The Office is undergoing re-organisation into an independent supervisory authority. Its tasks include monitoring

the lawfulness of disclosing and using personal data stored in the national and local government information systems as well as to issuing permits to release personal data to foreign states. As of June 1999, 85 personal data managers and 753 data managing institutions were registered with the State Data Protection Office.

In order to meet EU requirements in this area, it will be necessary to improve the overall qualification of staff through training. The State Data Protection Office has been strengthened compared to last year. However, the scope of data protection is not yet fully comprehended in society at large, particularly in the judiciary and amongst other institutions dealing with state security.

Since January 1998, three separate institutions deal with standards, accreditation and metrology.

The Lithuanian *Standardisation* Department has 45 employees. Its main task, as national standardisation institution, is the implementation of a long-term Programme for the Adoption of Basic European Standards as Lithuanian Standards to ensure efficient implementation of the *acquis*.

The National *Accreditation* Bureau was strengthened with increased staff positions from 7 to 10 in 1999 and with considerably increased budget of € 107000 for 1999 compared with € 34000 in 1998. It has become member of the European Accreditation Association in 1999. It assesses and accredits the conformity assessment institutions (testing laboratories, calibration laboratories, certification bodies for products, quality systems and personnel as well as inspection bodies) and supervises their activities. From 1 July 1998 to 17 May 1999, the Bureau accredited 7 testing laboratories and 3 calibration laboratories. At present, 25 testing laboratories, 13 calibration laboratories and 3 product certification bodies have been accredited in Lithuania.

The State *Metrology* Service employs 8 persons. It is responsible for the transposition and implementation of 26 EU Directives in the area of free movement of goods. In 1998, the Metrology service expanded its operations to cover industrial metrology (calibration of measuring instruments).

The institutions responsible for standardisation and accreditation are functioning well. In order to strengthen its autonomy, the Standardisation Department should be re-organised from a state institution into a Public Association of Standardisation as soon as possible. Efforts are also needed to speed up the establishment of a Quality System Certification Body and to privatise its management.

The *Credit Institutions Supervision Department* of the Bank of Lithuania is responsible for the licensing of credit institutions and for the supervision of their activities.

The *Lithuanian Securities Commission (LSC)* established in 1992 is responsible for the regulation and supervision of public trading in securities. The LSC has 5 members nominated by the Seimas for 5 years and presently has 46 employees. The LSC carries out on-site supervisions. It has the right of investigation, access to premises and seizure of documents. The LSC can impose fines of up to € 115 000 or up to

three-fold the amount of an illegitimate income. Around 150 inspections are conducted per year. Between January and July this year almost 80 inspections were carried out and administrative penalties were imposed in 50 cases.

The tasks of the State *Insurance* Supervision Service include calculation of solvency reserve ratios for insurance companies, calculations of technical provision, values of insurance and the requests of public announcement of financial statements. In July 1999, a new division responsible for the alignment of national legislation with the insurance *acquis* was set up. Currently the State Insurance Supervision Authority has 37 employees and the Director is appointed by the Minister of Finance. During 1998, they carried out 57 on-site inspections of insurance companies and insurance brokers and sanctions were imposed in 25 cases.

The necessary administrative infrastructure for the financial services sector has been created. Regulatory and supervisory authorities are in place and functioning.

Competition: The State *Competition* and Consumer Protection Office is responsible for competition, state aids, anti-dumping and consumer protection. On the competition side, it employs 56 people, of whom 30 are working on competition, as it is a priority area within the office.

During 1998, 107 investigations were carried out resulting in 20 infringement cases, mainly in the industry sector. Penalty charges amounting to € 125000 were imposed on 23 enterprises for infringement of the Law on Competition. Nine enterprises have been fined for violation of the provisions on concerted practice, restricting or hindering competition. In addition, four enterprises have been fined for violation of the article on unfair competition. Finally, ten enterprises have been fined for violation of the provisions on control of concentration of market structures.

The *State Aid* Monitoring Department within the State Competition and Consumer Protection Office, established in 1997, acts as National Monitoring Authority with 6 staff members. Annual reports on State Aids are available for 1996 and 1997. The State Aid Report for 1998 is under preparation. In the field of State aid, only one decision on compatibility has been taken so far.

The new Law on Competition foresees reorganisation of the State Competition and Consumer Protection Office by establishing the Competition Council and an administrative agency under it. In September 1999, the Government submitted to the President of the Republic the list of nominees for the positions of the Chairperson and members of the Competition Council. The decision on the appointment is pending.

The Government has yet to decide on the administrative set up.

Current resources and staffing are not sufficient in the State aid field.

Telecommunications: The Law on Telecommunications adopted in June 1998 foresees the establishment of a new independent regulatory body, the Communications Regulation Authority. However, this Authority has not yet been established. Its functions, (e.g. overseeing telecommunications, supervising licensing conditions, settling disputes among telecommunication operators and controlling the

use of telecommunication networks and radio communication) are currently attributed to the Communications Department within the Ministry of Transport and Communications.

It has been decided that the Communication Regulatory Authority will also be responsible for postal services.

The establishment of the Communications Regulation Authority needs to be speeded up. Adequate training should be provided for its staff.

Audiovisual services: The *Radio and Television Commission* (established in 1996 as an independent non-profit, non-budget organisation financed by the owners of broadcasting services) is appointed by and answerable to the Seimas. It consists of 11 members divided into three Working Groups. The main purpose of this body is to regulate radio and television stations and the licensing of cable television.

This body continues to work effectively within the limit of existing legislation. However, its technical, financial and human resources are rather limited.

Taxation : The Ministry of Finance is responsible for indirect taxation. In November 1998, the Revenue Department was established with the Ministry of Finance, which includes an Indirect Taxation Division, (in charge of drafting taxation legislation and ensuring its harmonisation with the *acquis*) as well as a Tax administration division.

In January 1999, 56 territorial tax inspectorates were reorganised into 10 county tax inspectorates. Reorganisation of the territorial structure of tax administration should help to centralise administrative functions, simplify management and improve tax administration and services provided to taxpayers.

*The tax administration in Lithuania needs to be modernised and strengthened. The reorganisation of territorial tax inspectorates should help. However, in order to ensure the effective administration of the *acquis* in this area it will be necessary to consolidate and improve the overall professional standards of the staff, notably through training and improvements in pay.*

Agriculture: In December 1998, the European Integration Department at the Ministry of Agriculture was re-organised to include separate divisions on EU Agricultural Policy, Harmonisation of Legislation, Co-ordination of Pre-accession Assistance and Information. The total number of staff in the European Integration Department increased from 10 to 30. Two new departments have also been established in the Ministry, the Land Management Department (responsible for the land restitution process) and the Rural Business Development Centre with 30 employees. About forty seminars and training activities were organised by the Ministry of Agriculture during 1998.

The Market Regulation Agency for Agriculture and Food Products, set up in July 1998 under the Ministry of Agriculture, has been financed from the Privatisation Fund. The Agency has the task of preparing administrative capacity for implementing CAP

measures. In 1999, it has provided subsidies to sugar and dairy producers, particularly those hit by loss of export revenues due to the Russian crisis.

The State *Veterinary* Services report directly to the government. As of January 1999, the Service employed 23 staff in headquarters (5 in European Integration Division) and a further 577 employees in its regional branches. In April 1999, the State Veterinary Service approved the Continuous Training Programme geared towards veterinarians from milk-processing enterprises. The implementation of this programme started in May 1999.

In 1999, the Lithuanian State Scientific Laboratory of Veterinary Preparations Control was re-organised by creating three new divisions (the Standardisation Division, the Control Laboratory and the Analysis Laboratory). In April 1999, three additional staff positions were allocated to it.

In March 1999, the statute of the Veterinary Border Inspection was brought in line with EU requirements. Staff of the Veterinary Border Inspection received extensive training notably on the application of the relevant *acquis*.

Progress has taken place in the implementation of a strategy for reinforcing veterinary border posts. This strategy includes a plan to rationalise the number of border posts along the external border, i.e. the Eastern border. Preparatory works are under way to start construction of the Medininkai Veterinary Border Post. The modernisation of Veterinary Border Control Posts at Lavoriskes, Kybartai, Klaipeda and Salcininkai, is underway and their computerisation has already started.

The Plant Protection Service under the Ministry of Agriculture monitors plant protection in Lithuania. The number of staff in the Plant Protection Service was increased from 200 to 246 in 1999. The Central Laboratory of the State Plant Protection Service is undergoing modernisation. In March 1999, the Vilnius branch of the State Seed Inspection Service and the State Seed Inspection Laboratory were re-organised into the State Seed Inspection Certification Centre. Training activities targeted at plant protection and quarantine inspectors are being carried out. In 1999 regional and border inspectors received training for the first time. Staff of the Lithuanian Institute of Horticulture took part in several training activities.

Progress has been made in setting up administrative structures for veterinary control, as well as in strengthening veterinary border posts along the Eastern border. Administrative structures dealing with veterinary issues have been rationalised, training has been provided on a large scale and financial resources have been made available to improve veterinary laboratories.

The Market Regulation Agency needs to be oriented towards the administration of CAP.

Fisheries: In May 1999, the Government passed a Resolution on the restructuring of administration of fisheries. Reorganisation of fisheries administration includes the measures aimed at strengthening management functions, like market organisation and structural policy. Measures need be taken to ensure the establishment of the satellite

monitoring system of the fishing vessels. For these purposes as well as the control of the fresh fish sales and transportation, the control institution will be established in Klaipeda.

Major efforts are needed to prepare administrative structures to implement the Common Fishery Policy and to improve decision-making capacity, notably in order to avoid conflicts of competence between the ministries involved.

Energy: There are several institutional bodies assuring management and regulation of the energy sector, as well as coordination and implementation of the EU *acquis*.

The Department of Energy Development and the Department of Energy Resources in the Ministry of Economy (staff includes 37 employees) is responsible for the strategy and policy of development of the energy strategy. The State Enterprise 'Energetikos Agentura' assists the Ministry of Economy in drafting and implementing the Energy Strategy and the National Energy Efficiency Enhancement Programme, and in seeking foreign assistance for the implementation of such programmes. The State Energy Inspectorate under the Ministry of Economy is responsible for observing the technical requirements and regulations of exploitation;

The State Commission for the Control over Prices of Energy Resources and Energy Activities formed by Presidential Decree and reporting to the Seimas is responsible for the approval of the prices of electricity, heat and natural gas as well as for the control of economic activities of enterprises.

The State Nuclear Power Safety Inspectorate (VATESI) (staff includes 34 employees) is responsible for the safety of installations and operations in the nuclear energy sector, as well as for the control and supervision over accounting of nuclear substances.

The administrative structures in the energy sector have made positive efforts in deal with the issues related to Ignalina Nuclear Power Plant. With a view to the decommissioning process and the restructuring of the energy sector, these administrative structures need to be reinforced. In particular, there is the need to move forward setting up the appropriate regulatory mechanisms. The Price Commission is playing an important role in adjusting tariff policy and its structure needs to be strengthened. The State Nuclear Power Safety Inspectorate, has carried out with professionalism the important task of issuing the license for Unit 1 of Ignalina. However, its human and technical resources as well as its independence need to be further strengthened to enable it in particular to handle all regulatory issues without excessive foreign assistance.

Transport: In the field of *Road Transport*, the Ministry of Transport and Communications (MoTC) Department for Road Transport, Transit and Environmental Affairs is responsible for the general road transport policy and – through the Traffic Safety Unit established in 1998 - the coordination of road traffic safety operations. Separate authorities under the MoTC, each with 70 specialists, handle the technical details of approximation of legislation and its implementation. The Lithuanian Road Administration deals with road infrastructure maintenance and development, and the establishment and administration of road taxes, while the State Road Transport

Inspection handles controls, the review of technical inspections of transport facilities, examination of carriers, the control of driver training, and the issue of licences and other transport documents. The second will soon be further expanded.

Part of the functions related to the transport *acquis* are the responsibility of the Ministry of Internal Affairs (establishment of traffic regulations, examination of drivers, issuing of driving licences, registration of transport facilities, accident data base and road traffic control).

As regards *railways*, the structure and tasks of the railway authorities have not changed significantly in the past few years. The Railway Transport Department of the Ministry of Transport and Communications covers the establishment and implementation of railway policy, while the subordinate State Railway Inspection is responsible for the technical control of the railway infrastructure, rolling stock and containers, technical maintenance and safe carriage of dangerous goods.

Lithuania intends as a short-term measure to reorganise and strengthen its *maritime* administration structures. A Safe Shipping Administration, on the basis of the Klaipeda State Seaport Authority, will be set up to supervise the implementation of the safe shipping regulations. Furthermore, the Lithuanian Government is considering significant measures to combat substandard shipping, including the withdrawal of flag certificates.

In the field of *air* transport, with a view to the envisaged progressive integration of Lithuania in the European Common Aviation Area, the civil aviation authorities need to be restructured and modernised. The necessary modifications to the Civil Aviation Law to establish a new Civil Aviation Department under the MoTC, taking over tasks from the latter and the Civil Aviation Directorate, are already in preparation and should be approved by the Parliament. In addition, the same measure will establish an independent Commission for the Investigation of Aircraft Accidents, in compliance with the *acquis* in this field.

Lithuania needs to continue the reform of its maritime administration and its aviation organisation and infrastructure, which will require it to make additional financial and human resources available.

Further adaptation to the acquis will require a more substantial restructuring and strengthening of the railway authorities, although this would not necessarily require the creation of a separate regulatory body.

Employment and social policy: Labour policy of Lithuania is implemented by the following institutions: the Lithuanian Labour Exchange, the Labour Market Training Office, and the State Labour Inspectorate.

The Lithuanian Labour Exchange is comprised of the National Labour Exchange and 47 territorial (city and district) labour exchanges. It drafts and implements national and regional employment programmes, enforces state employment guarantees on the labour market, manages the funds of the Employment Fund, and distributes them to territorial (city and district) labour exchanges.

The Lithuanian Labour Market Training Office is a system for vocational training and counselling of adults which covering the whole country. The system is comprised of 15 Labour Market Training Centres, 6 Regional Counselling Offices and the Central Office in Vilnius. A new Youth Training Centre has recently been opened in Vilnius. It is intended to develop a network of such training centres throughout Lithuania.

The Labour Inspectorate, operating under the legal supervision of the Ministry of Welfare and reporting directly to the Prime Minister, controls and supervises compliance with labour and occupational health legislation, and it is empowered to apply fines. It currently has 222 employees, of which 147 inspectors.

To acquaint Lithuanian enterprises with new legal provisions in the area of *health and safety* at work, the State Labour Inspectorate organised several training seminars in 1999. The implementation of health and safety at work legislation will be facilitated through the activities of the recently established State Health and Safety at the Workplace Information Centre and through the training programme geared towards safety committees of Lithuanian enterprises.

In the area of employment and social affairs, the State Labour Inspectorate requires further reinforcement of staff resources and expertise. Progress is also required in setting up implementation structures for Health and safety at Work legislation.

Regional policy and cohesion: The development of regional policy is co-ordinated by the Ministry of Public Administration Reform and Local Authorities. In February 1999, the Department of Regional Development was established within the Ministry of Public Administration Reforms and Local Authorities. The main tasks of the Department include: coordination of activities of administrations of county governors, examination the effectiveness of the legislation related to activities of administrative units and ministries, coordination of the formation and implementation of structural and regional policy and approximation of national law with the EC Law in the field of structural and regional policy. They have established two monitoring committees, one for regional development, another for SPP. The Department has 8 staff members.

In July, the Government established the National Agency for Regional Development. It will be responsible for the preparation of the National Plan for Social and Economic Development. It will also be in charge of co-ordinating the preparation of regional development programs and of related planning documents. However, it is expected to start operations in 2000.

At the moment, five regional development agencies (RDA) (Vilnius, Klaipeda, Siauliai, Panevezys, Marijampole) have been established to promote local business. However, not all five RDAs are functioning yet. The most advanced Lithuanian RDA is the one in Klaipeda.

Further reinforcement and specialised training for staff will be necessary to meet the ambitious goals of the new institutions. Of particular importance will be the ability to translate, at the local level, central initiatives taken by newly established institutions, such as the Department of Regional development and the National Regional Development Agency.

Environment: The main institution in the area of environmental protection is the Ministry of the Environment with 109 subordinate institutions. The central body of the Ministry has a staff of 181, and the following departments: Environmental Quality Department, Environmental Strategy Department, Biological Diversity Department, Housing and Technical Regulation Department, and Territorial Planning Department. The Department of Forests and Protected Areas under the Ministry of the Environment is responsible for the state regulation of forests and protected areas. The total staff of all the subordinate institutions is about 10,300 employees.

The supervision of the enforcement of the environment-related legal requirements is the responsibility of the State Environmental Protection Inspectorate at the Ministry of the Environment, 8 regional departments and 53 agencies, all together employing more than 230 environmental inspectors. Another important institution in the enforcement of the environment-related requirements is the Joint Research Center. This institution, together with 8 regional laboratories, is responsible for state laboratory control.

The Ministry of Environment has been strengthening and a training programme is on-going for the staff involved in the approximation. A large number of authorities and institutions are involved in the implementation and enforcement of the environmental legislation. Lithuania has identified the need to restructure and clarify their respective responsibilities. Some steps have been taken concerning the establishment of new/restructured institutions. The institutional capacity has also been substantially strengthened in the protection of experiment animals and animal welfare. There still remains significant work to establish a structure that can fully apply and enforce the Acquis.

Consumer protection: Consumer protection tasks are performed by a variety of institutions and agencies. Currently, the main responsibility lies with the State Competition and Consumer Protection Office, which has a Quality Control Office reporting to it. In the Office, there are 7 staff working on consumer protection and 240 staff throughout the regions. In 1998, the State Quality Inspection made 15,000 checks leading to identification of 13,000 infringements, mostly on food product quality. In non-food products area, the biggest share of infringements on quality related to childrens' toys, light industry and shoes. Penalty charges have been imposed on 12, 786 executives of businesses and 1, 859 have been given a warning.

The control over the safety of goods is carried out by regional branches of the State Hygiene Inspectorate under the Ministry of Health (11 territorial public health centres and 39 branches in the regions). Only one non-governmental Consumer Association is functioning under the Representative Office of Trade Unions. Since 1998, it was reinforced by establishing branches in the Kaunas and Klaipeda regions.

Currently consumers' protection is under the responsibility of the Competition and the consumers' protection office. However, the new law on competition foresees the reorganisation of the body. The law on Product Safety foresees establishment of food and non-food inspections, thus streamlining the current scattered set-up.

Justice and home affairs: Local police commissariats and border guards have the competence to receive *asylum* applications, which are then forwarded to the central institution – the Migration Department at the Ministry of Interior, which takes a decision on admission of the person to the territory of Lithuania. A separate Country of Origin Information Centre was set up within the Migration Department since June 1998 to assist the interviewers by providing updated information on the countries, from which the asylum seekers originate. During 1998, 28 persons were granted refugee status and 104 were refused by the asylum institutions.

In order to strengthen state *border control* and combat against smuggling and illegal migration, the Government adopted a resolution establishing special border police units which will be located in seven territorial Border Police Districts (Vilnius, Varena, Siauliai, Klaipeda, Ignalina, Lazdijai, Pagineiai).

Under the programme for control over migration processes, a special unit was established within the Police Department under the Ministry of Interior to handle matters related to foreigners. Additional staff positions were allocated to the Division of Refugees within the Migration Department. The total number of staff positions amounts to 9. Infrastructure improvements at the Pabrade Foreigners Registration Centre are underway, including modernisation of sanitary facilities and construction of new building.

Some 3,647 individuals work in the border police (1,170 officials; 2,477 border guards). To fight corruption in the Border Police, a special department, a General Inspection, was established by the Ministry of Interior for inspection, legal control and internal investigation of Border Police. It controls the activities of border police and collects and collates information about corruption and abusive practices. A special telephone line was installed to report confidentially on abusive practices. A three-year program has been designed for the conversion of the border police into an entirely professional service staffed with civil servants.

A number of the border police guards took part in training and seminars notably on requirements for the EU external border control, usage of navigation equipment, border control management and planning, budget planning, illegal migration. The Border Police Department organises regular foreign language courses, including English and German, for border guards.

In April 1999 the Government established an interdepartmental working group which is charged with the task of co-ordination various agencies involved in the new Anti-corruption Strategy. The working group is headed by the Chancellor of the Government. The main agency dealing with the fight against corruption is the Special Investigation Service (SIS). However, it cannot operate fully until the Law on the activities of the Service is approved.

The *Police* Department, which used to be part of the Ministry of Interior, is now an independent structure under the Ministry. On 10 March 1999, the Government adopted the Programme of Additional Measures to Combat Organised Crime and allocated LTL 3.35 million for its implementation in 1999. The programme outlines a co-ordination procedure among various agencies involved in the fight against organised crime and established 20 mobile groups formed of officials of the Police

Department under the Ministry of Interior, the Prosecutor General's Office and the State Security Department. Currently, these mobilised groups are investigating the activity of the more than 20 main criminal gangs operating in the country. From the commencement of activity of mobilised groups, preventive measures were applied in 68 cases under the Law on Prevention of Organised Crime, 11 persons were charged with administrative responsibility and 27 criminal cases were started against members of criminal gangs. The Police Department is being restructured through the separation of the uniformed and the criminal police.

Progress has been made in Border Management along the Eastern border. The establishment of a professional body for border police (these used to be military conscripts) should facilitate the fight against corruption. However, further specialised training for border police and guards is needed to increase the level of expertise and coverage of the computer network needs to be improved. In particular, training skills on identification of forged documents and interviewing techniques is lacking.

The capacity to handle asylum and migration questions has improved further with the creation of a refugees division within Migration Department, and facilities for refugee reception are being built up. Infrastructure improvements at the Pabrade Foreigners Registration Centre are underway. Regarding asylum, the lack of a computerised network connecting all asylum institutions to one database is significant, as it leads to delays in transferring the cases. Accordingly, co-ordination among all the institutions involved in asylum procedure needs to be improved.

A clear political will and priority exists in reinforcing structures for the fight against Organised Crime and Corruption. Institutional capacities to fight corruption are present, but co-ordination mechanisms among all institutions involved need to be strengthened. The capacity of the Special Investigation Service needs to be strengthened in terms of staff training given that the institution is rather young and lacks experience. The police service is being restructured to help tackle organised crime, but needs further strengthening, especially as regards cooperation among different police units and customs. In the field of organised crime and corruption, success in implementing the Programme for the Prevention of Organised Crime and Corruption will depend partly on funds available.

Customs: The Customs Department under the Ministry of Finance was reorganised in August 1998. In November 1998, the Customs Department further streamlined its institutional set-up by re-organising Control, Procedures and Taxation divisions as well as the Information Centre. In May 1999 the Ministry of Finance approved the establishment of an Anti-Smuggling and Internal Control Office within the Customs Department to reinforce the fight against smuggling.

In order to strengthen the customs information system, Lithuania's customs institutions have been connected to the state administration computer network since October 1998. In the Medininkai customs road post a computer and communication network was installed. Local computer networks have been installed in the Siauliai, Vilnius and Klaipeda territorial customs posts as well as in the Customs Department.

In the Kaunas territorial customs post, information infrastructure works were completed.

Progress has taken place in building up administrative capacity, particularly in computerisation, at the Customs Department. However, problems arise in regard to co-ordination, particularly in performing operational matters. The establishment of a Co-ordination Commission on Smuggling is thus a positive development in this regard. Further strengthening of the institutions will be necessary to ensure an effective implementation of the acquis and to provide valuable input in anti smuggling activities.

Financial control: The main body for *external* control in Lithuania is the State Control. The State Control has a central office (174 employees) which includes 7 audit departments: Audit Department of Order, Law and Defence Institutions, Audit Department of State Property, Audit Department of State Budget, Audit Department of Industry, Communication and Energy, Audit Department of Land and Forestry, Audit Department of Construction and Transport, Audit Department of Budgetary Enterprises. Four regional departments of audit function in Alytus, Šiauliai, Klaipeda and Utena. In total about 130 staff of state control are employed in the regional departments.

The State Controller heads the institution with two deputies. The major decisions are made by the Board of State Control, which is composed of Heads of audit Departments and the Deputies of State Controller. The State Controller is a chairman of the Board.

It monitors revenue collection and expenditure as well as the management and use of state property. It prepares an Annual Report on the Execution of the State Budget. A Parliamentary State Control Supervision Commission with 9 members started operations in 1998.

Regarding *internal* control, an Internal Control Department was set up in the Treasury section of the Ministry of Finance in January 1999. However, it has no enforcement powers.

Procedures for the management and control of present and future EU-funds through the mechanisms of the National Fund/CFCU/Implementing Agencies have not yet been finalised in sufficient detail.

The task of external financial control needs to be separated from the internal audit functions. Regarding internal control, there is no linkage of internal audit in line ministries to the central system. Thus, considerable efforts are still needed to develop an efficient internal financial control system to enable Lithuania to monitor the use of Community funds.

C. Conclusion

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

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.

Macroeconomic stability was preserved even though it has been made more vulnerable partly as a result of the policy response to the Russian crisis. The government's attempts to dampen the negative external shock led to a serious deterioration of the fiscal and external balances to levels that may become unsustainable.

Priority must be given to measures to cut the fiscal deficit, also as a means of bringing the high current account deficit under control, completing structural reform and to forcefully implementing ongoing reforms. In particular, financial sector privatisation should be completed and the energy sector should be restructured in line with the important decisions recently taken by the government. Lithuania should continue efforts in re-orienting its trade towards the European Union and other developed markets. It should also invest in the infrastructure and develop the skills of the labour force so as to sustain the long-term growth in productivity and to continue to make Lithuania an attractive destination for foreign direct investment.

Lithuania has made progress in most areas of the internal market, in particular in public procurement, intellectual and industrial property, conformity assessment, free movement of capital and services, as well as in anti-trust legislation. However, enforcement capacity should be strengthened, in particular as regards the fight against piracy. State aids control continues to be a matter of concern and further alignment of legislation and stricter control procedures are needed. Further efforts are also needed in the area of the free movement of goods (standardisation and market surveillance). No progress has been made in the audio-visual sector and major efforts are required to bring taxation into line with the acquis.

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

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

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

D. Accession Partnerships and National Programmes for the Adoption of the *Acquis* : Global Assessment of Implementation

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 Opinions,
- the financial means available to help candidate countries implement these priorities,
- the conditions which will apply to this assistance.

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership: Assessment of short and medium-term priorities

Short-term priorities

The short-term priorities of the Accession Partnership⁴ and an assessment of the progress made concerning their fulfilment are indicated below.

- **Economic reform:** *establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe Agreement; acceleration of large-scale privatisation and progress towards the restructuring of the banking, energy and agri-food sectors, enforcement of financial discipline for enterprises.*

Assessment: Lithuania has established a medium term economic strategy. It has continued to make progress as regards the large-scale privatisation, the restructuring of the banking sector and the enforcement of the financial discipline for enterprises. However, major efforts continue to be needed in the restructuring of the energy and agri-food sector. Therefore, this priority has been partially met.

- **Reinforcement of institutional and administrative capacity:** *major efforts in particular on: public administration reform, border control, customs, taxation and finance, as well as preparation of training strategy for civil servants and the judiciary, veterinary and phytosanitary administrations, particularly facilities at the external borders, institutional strengthening in the area of environment, begin to set up structures needed for regional and structural policy.*

⁴ Council Regulation 622/98, OJ L85 of 20 March 1998

Assessment: Significant progress has taken place in the areas of the Public Administration reform and border control. In the field of customs, where some efforts have been undertaken, there is still the need for vigorous reinforcement. The tax administration has been reorganised. Training of civil service and judiciary has been developed. Efforts have been made in the areas of veterinary administration and in the environmental field; however, in the latter, reinforcement is still necessary at the central and local level. Setting up the structures needed for regional and structural policy has slowly begun but major efforts are still required. Therefore, this priority has been partially met.

- **Internal market:** *including further alignment in the areas of intellectual and industrial property, public procurement, financial services, phytosanitary and veterinary administration, and upgrading of independent standardisation and conformity assessment structures. Adoption of new competition law and establishment of transparent State aid inventory.*

Assessment : Progress has been made concerning alignment in the areas of public procurement and intellectual property. In the field of competition, significant progress has taken place as regards anti-trust while a proper State aid control is still lacking. In the field of financial services Lithuania had already made good progress. Lithuania has made progress as regards conformity assessment but further efforts are required in the field of standardisation and market surveillance. Therefore, this priority has been met to a large extent.

- **Justice and home affairs:** *in particular, further efforts to implement measures to combat corruption and organised crime and improve border management in facilities for refugee reception.*

Assessment : While some measures have been taken, the fight against corruption needs to be pursued further. Progress has been made in improving border management in facilities for refugee reception. Therefore, this priority has been partially met.

- **Environment:** *continue transposition of framework legislation, establishment and commencement of implementation of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.*

Assessment : Lithuania, which had already made good progress in this field, has continued to align its legislation and to prepare for implementation. Therefore, this priority has been met.

- **Energy:** *in particular establishing a comprehensive, long-term, energy strategy and decommissioning plan for the Ignalina nuclear power plant according to commitments entered into in the Nuclear Safety Account Agreement.*

Assessment : Lithuania has made considerable progress in the energy field, notably through the adoption of a comprehensive energy policy including the plans for the decommissioning of INPP taking into consideration the NSA Agreement. Therefore, this priority has been met.

Progress can be reported on the way Lithuanian has addressed some of the short-term priorities concerning, in particular, the reform of the public administration, anti-trust, conformity assessment, border control, establishment of a medium term economic strategy, veterinary administration, public procurement, intellectual property and environment. However, Lithuanian has not satisfactorily addressed short term priorities concerning restructuring the energy and agri-food sector, customs, regional and structural policy, state aids, standardisation, the fight against corruption and nuclear safety.

Medium-term priorities

As concern medium-term priorities, progress can be reported in particular in the fields of visa policy, equal opportunities for women and alignment with the agricultural acquis (including veterinary matters, in particular external border controls),

2. National Programme for the Adoption of the Acquis – Assessment

A revised version of the National programme for the adoption of the acquis (re-named Lithuania's EU Accession Programme) was presented by Lithuanian authorities on 7 June 1999. The revised version takes into account the recommendations made by the Commission in the 1998 Regular Report.

The programme is well structured. It includes a descriptive policy section and two action plans. For each piece of the acquis taken into consideration, the law approximation action plan specifies the transposition measure envisaged, the responsible institutions 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 reflects the accession partnership priorities adequately. However, the coverage of the acquis still needs to be completed, for example in the audiovisual, environment and transport sectors. As for the administrative and financial needs and timetables, the degree of precision and realism varies from one sector to another. For example, while the administrative capacity needs in the transport sector are sufficiently elaborated and realistic, Lithuania seems to underestimate the administrative efforts required in the field of regional policy. In the case of agriculture, the plans for the approximation of legislation are often vague.

Lithuanian authorities envisage updating the programme in order to take into account the results of the whole screening process and the Commission's comments.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,
JUNE 1999**

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LIT	MT	PL	RO	SK	SV	T
ECHR (European Charter for Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	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	O	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	O	O	O	O	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	O	X	O	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 ICCPR (abolition death penalty)	X	O	O	O	X	O	O	X	O	X	O	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
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

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

Annex

STATISTICAL DATA

STATISTICAL DATA

	1994	1995	1996	1997	1998
	in 1000				
Population (average)	3 721	3 715	3 710	3 706	3 702
	Km ²				
Total area	65 301	65 301	65 301	65 301	65 301
National accounts	1000 Mio Lit				
Gross domestic product at current prices	16.9	24.1	31.6	38.3	42.8
	1000 Mio EURO				
Gross domestic product at current prices	3.6	4.6	6.2	8.5	9.5
	EURO				
Gross domestic product per capita⁵ at current prices	1000	1200	1700	2300	2600
	% change over the previous year				
Gross domestic product at constant prices (nat.)	-9.8	3.3	4.7	7.3	5.1
	in Purchasing Power Standards				
Gross domestic product per capita¹ at current prices	4600	4800	5300	5800	6200
Structure of production	% of Gross Value Added⁶				
- Agriculture	10.7	11.7	12.2	11.7	10.1
- Industry (excluding construction)	27.0	26.1	25.8	25.2	23.6
- Construction	7.2	7.1	7.1	7.7	7.9
- Services	55.1	55.0	54.9	55.4	58.3
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	87.6	87.1	85.3	84.0	83.7
- household and NPISH	68.0	67.4	66.4	65.0	64.3
- general government	19.6	19.7	18.9	19.0	19.4
- Gross fixed capital formation	23.1	23.0	23.0	24.4	25.8
- Stock variation ⁷	-4.7	1.7	1.5	2.2	2.5
- Exports of goods and services	55.4	53.0	53.4	54.5	47.4
- Imports of goods and services	61.4	64.8	63.2	65.1	59.4
Inflation rate	% change over the previous year				
Consumer price	72.3	39.6	24.6	8.9	5.1
Balance of payments	Mio EURO				
- Current account	-76	-470	-569	-865	-1158
- Trade balance	-169	-534	-706	-1012	-1354
<i>Exports of goods</i>	1707	2069	2688	3697	3534
<i>Imports of goods</i>	1877	2602	3394	4709	4888
- Services, net	-46	-10	95	119	215
- Income, net	7	-10	-72	-175	-228
- Net current transfers	132	84	113	203	210
<i>of which government transfers</i>	99	47	57	89	92

⁵ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁶ Including FISIM.

⁷ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

	1994	1995	1996	1997	1998
	% of Gross Domestic Product				
General government deficit/surplus	-1.7	-1.6	-2.8	-0.7	:
	% of Gross Domestic Product				
Financial indicators					
Gross foreign debt of the whole economy	11.8	12.1	14.1	13.4	15.0
	1000 Mio EURO				
Monetary aggregates					
- M1	0.5	0.7	0.7	1.2	1.2
- M2	0.9	1.1	1.1	1.6	1.8
- Total credit	0.6	0.6	0.7	1.0	1.0
	% per annum				
Average short-term interest rates⁸					
- Lending rate	62.3	18.4	12.5	15.0	12.6
- Deposit rate	48.4	20.1	13.6	8.1	6.5
	(1EURO=..National currency)				
EURO exchange rates					
- Average of period	4.732	5.232	5.079	4.536	4.484
- End of period	4.920	5.257	5.012	4.417	4.667
	June 1993=100				
- Effective exchange rate index	:	259.1	270.6	300.1	353.0
	Mio EURO				
Reserve assets					
- Reserve assets (including gold)	480	615	665	964	1254
- Reserve assets (excluding gold)	422	562	611	915	1208
	Mio EURO				
<i>External trade</i>					
Imports	1978	2790	3590	4976	5168
Exports	1706	2069	2643	3406	3310
Balance	-272	-721	-947	-1570	-1858
	corresponding period of the previous year = 100				
Terms of trade	:	:	:	:	:
	as % of total				
Imports with EU-15 (EU-12 in 1994)	26.4	37.1	42.4	46.5	50.2
Exports with EU-15 (EU-12 in 1994)	25.7	36.4	32.9	32.5	38.0
	per 1000 of population				
Natural growth rate	-1.1	-1.1	-1.0	-0.9	-1.0
Net migration rate	-0.6	-0.5	-0.2	0.0	0.2
	per 1000 live-births				
Infant mortality rate	14.2	12.5	10.1	10.3	9.3
	at birth				
Life expectancy :					
Males	62.8	63.6	65.0	65.9	:
Females	74.9	75.2	76.1	76.8	:

⁸ Break of series: 1994-IMF; From 1995 - Eurostat.

	1994	1995	1996	1997	1998
	% of labour force ⁹				
Economic activity rate	67.9	66.9	65.4	61.2	61.4
Unemployment rate, total	17.3	17.5	16.4	14.1	13.3
Unemployment rate of persons < 25 years	32.1	31.6	27.4	26.2	22.2
Unemployment rate of persons >= 25 years	15.1	15.1	14.8	12.3	12.0
	% of total				
Average employment by NACE branches					
- Agriculture and forestry	22.9	21.0	21.0	20.6	21.0
- Industry (excluding construction)	21.0	20.9	20.7	21.6	21.2
- Construction	6.2	6.7	6.9	6.9	6.4
- Services	49.9	51.4	51.4	50.8	51.3
	Km per 1000 Km ²				
Infrastructure					
Railway network	41	41	40	40	40
	Km				
Length of motorways	394	394	404	410	417
	previous year = 100				
Industry and agriculture					
Industrial production volume indices	73.4	105.3	105.0	103.3	107.0*
Gross agricultural production volume indices	80.0	106.0	110.3	106.4	97.0*
	per 1000 inhabitants				
Standard of living					
Number of cars	176	194	212	238	265
Telephone subscribers	241	254	268	283	300
Number of Internet connections	2 87 ¹⁰

* provisional

: not available

⁹ In % of total population 14 and over.¹⁰ Source: United Nations.

Methodological Notes

National account

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

Inflation rate

Consumer price. The EU Member States have designed a new consumer price index in order to meet the obligations in Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. 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. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

Finance

Sources

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

Method

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

General government deficit / surplus is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the

consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

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

Exchange rates Where available, the EURO exchange rates are those officially notified. The effective exchange rate index is weighted by major trading partners, with a base year of June 1993.

External trade

Imports and exports (current prices). The data is based upon the general trade system. Trade Classification: Merchandise trade flows are 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: $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$. This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour force

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

Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed: all persons aged 14+, 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.

Average employment by NACE branches. Data include all employed in civil sector 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, included to 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.

Working age begins from 16 years, with the consent of parents or custodian, young people may start working from 14 years. Therefore, residents who are 14 years and older are under LFS coverage. LFS data refer to September 1994-1997, May and November 1998. (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).

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

- (i) have no work,
- (ii) are actively seeking a job and
- (iii) are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology). Percentage of the unemployed labour force. This rate is derived from LFSS (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 calculation 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, labour market, industry and agriculture, standard of living (except Internet connections): **National sources.**

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