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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 with preparations for membership, and that it would submit its first Report at the end of 1998.

The Luxembourg European Council decided that:

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

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second in October 1999, a third in November 2000, and a fourth in November 2001.

In its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that, given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2002, the European Council concluded that “in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports.” The Commission has prepared this fifth series of Regular Reports with a view to the Brussels European Council in autumn 2002.

The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. In line with previous Regular Reports, the present Report:

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

- addresses the question of Lithuania's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period until 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms referred to in the 2001 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides an overall assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Lithuania in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of Lithuania's track record since the 1997 Opinion. As regards the economic criteria, the report also provides a dynamic, forward-looking evaluation of Lithuania's economic performance.

For each of the negotiating chapters, this report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report contains a separate section examining the extent to which Lithuania has addressed the Accession Partnership priorities. This section also assesses the progress Lithuania has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various

stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the international financial institutions, as well as those of non-governmental organisations.

b) Relations between the European Union and Lithuania

Recent developments under the Europe Agreement (including bilateral trade)

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

The Association Council met in February 2002 and the Association Committee in June 2002. The system of sub-committees continues to function as a forum for technical discussions.

Since the last Regular Report, the Joint Parliamentary Committee comprising representatives of the Lithuanian and European Parliament has met in November 2001 and May 2002.

The Association Council decision establishing a Joint Consultative Committee with the Economic and Social Committee entered into force in September 2002.

Furthermore, the establishment of a Joint Consultative Committee with the Committee of the Regions is under preparation.

Lithuania's trade with the EC has continued to increase in 2001 (exports by 20% and imports by 18.4%). In 2001, Lithuanian exports to the EC accounted for 47.8% of total exports and imports from the EC accounted for 44% of total imports. EC exports to Lithuania stood at € 3.4 billion and imports at €2.6 billion. Looking at trade by sectors, machinery and vehicles represent the largest sectors for EC exports to Lithuania and textiles and mineral products the largest sectors for EC imports from Lithuania.

Under the agreement resulting from the first round of trade negotiations in the agriculture sector (adopted on an autonomous basis pending the conclusion of an Additional Protocol

¹ For the European Parliament the *rapporteur* is Mr Ioannis Souladakis.

to the Europe Agreement), approximately 90% of EC agricultural imports from Lithuania and 97% of EC agricultural exports to Lithuania are duty-free or benefit from preferential rates (average trade figures 1998-2000).

Negotiations on a further round of liberalisation, covering more sensitive sectors, began at the end of 2001 and were concluded in February 2002. The resulting agreement, in force from July 2002, enhances the existing agricultural trade preferences between the parties and promotes the full or partial lifting of import duties either within tariff quotas or for unlimited quantities in sectors such as cereals, dairy products, beef and sheep meat. It also includes a commitment by the parties to remove export refunds for certain sectors.

The Association Council Decision on the improvement of the trade arrangements for processed agricultural products provided for in Protocol 2 to the Europe Agreement was adopted in December 2001. The Decision entered into force in February, 2002. This agreement represents a significant step towards trade liberalisation for Lithuania.

Negotiations on reciprocal trade liberalisation in fish and fishery products have been successfully completed. The Additional Protocol to the Europe Agreement was signed in December 2001 and entered into force in February 2002

An anti-dumping investigation was launched in December 2001 concerning imports of certain filament yarn of cellulose acetate, which led to the imposition of provisional anti-dumping duties in September 2002. The investigation on imports of urea led to the imposition of definitive duties in January 2002.

In March 2002, in response to protectionist measures taken by the US, which greatly restricted access to their market and created the risk considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. In September 2002, these measures were partially confirmed.

The Protocol to the Europe Agreement on Conformity Assessment and Acceptance of industrial products (PECA) was signed in May 2002 and ratified by the Seimas in July 2002. The PECAs aim to extend internal market rules on conformity assessment for manufactured goods to the candidate countries before accession.

Accession Partnership

A revised Accession Partnership was adopted in January 2002. Its implementation is reviewed in Part D of this Report.

Action Plan for reinforcing administrative and judicial capacity

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and Lithuania jointly developed an Action Plan to strengthen Lithuania's administrative and judicial capacity, on which a common understanding was reached in April. The revised Accession Partnership adopted in January has served as the point of departure for this exercise.

The purpose of this Action Plan is to identify jointly the next steps required for Lithuania to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing

Lithuania with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and Lithuania, i.e. to ensure that Lithuania's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

National Programme for the Adoption of the Acquis

In February 2002, the Government adopted the revised annexes to the National Programme for the adoption of the *acquis* (which is called Lithuania's EU Accession Programme), namely the Law Approximation Action Plan and the *Acquis* Implementation Action Plan for the year 2002. These revised annexes were transmitted to the Commission.

Community assistance

Three **pre-accession instruments** have been financed by the European Community to assist the applicant countries of Central and Eastern Europe with their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. The support provided by these programmes is focused on the Accession Partnership priorities, which are intended to help the candidate countries meet the criteria for membership.

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

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

Phare provides the applicant countries of Central and Eastern Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and investment-support projects, to help these countries with their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. Phare also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investment and grant schemes) with a regional or thematic focus. In the context of the Action Plans for strengthening administrative and judicial capacity, particular emphasis is placed on the issue of institution building and associated investment intended to ensure compliance with the *acquis*. For 2002, the Commission has mobilised special financial assistance of up to €250 million to accompany negotiating countries' efforts, over and above the indicative annual allocations for each of the Phare countries, bringing total Community assistance for strengthening the administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

The Phare programme allocated commitments of €328 million to Lithuania during the 1992-1999 period, €50 million in 2000 and €48.5 million in 2001². The **2002 Phare Programme** for Lithuania consists of an allocation of € 43.7 million for the National Programme, complemented by €18.5 million under the Phare 2002 supplementary institution building facility. The 2002 Phare programme focuses on the following priorities:

- In the field of the internal market: strengthening the administrative and technical capacity of the standardisation bodies (€ 2.2 million); compliance with the acquis by developing the co-ordination system for social security schemes (€1.9 million); strengthening capacity to protect personal data, IT and electronic data (€1.7 million)
- Assistance with the establishment of the enterprise register and with the enforcement of intellectual property rights (€1.2 million)
- Further support for setting up the administrative structures and IT facilities needed for CAP measures (€6 million) and to strengthen the TSE control system (€1.8 million)
- Further reinforcement of the administrative capacity required to manage future support from the Structural Funds (€1.6 million)
- In the field of the environment: implementation of management plans for protected areas (€ 1.8 million) and development of an IT system for environmental management (€ 2.5 million)
- In the field of Justice and home affairs three projects were selected: (a) assistance to the tax police in implementing effective money-laundering prevention measures (€1.2 million); (b) strengthening migration and asylum management (€2.9 million); and (c) development of a Consular Information System (€0.9million)
- In the field of customs union: strengthening the operational capacity of the customs service (€1.6 million); ensuring IT aspects and interconnectivity with EC customs systems (€3.6 million), further modernisation of the State Tax Inspection (€4 million); continued assistance with the modernisation and capacity-building of the department of statistics (€2 million)
- Fiscal policy formation and planning structural reforms (€ 0.5 million)

An additional amount of €3 million was allocated for Lithuania's participation in the Baltic Cross-Border Co-operation programme. This includes a small project facility.

Approximately €15 million was set aside from the 2002 Phare allocation for investment in key areas for economic and social cohesion – business and SME infrastructure support, tourism development, promotion of innovation and information technologies, and pilot-testing of grant scheme procedures – which will be an integral part of future Structural Fund operations.

At the International Donors' Conference held in Vilnius in June 2000 on the decommissioning of Unit 1 of the Ignalina Nuclear Power Plant, the Commission, on behalf of the European Communities, pledged financial assistance amounting to a total of

² This includes an allocation of €3 million to Cross-Border Co-operation (CBC) Programmes.

€165 million within the current financial perspective (i.e. until 2006). This pledge is subject to annual budgetary allocations by the budgetary authority. The bulk of this contribution is delivered via the Ignalina International Decommissioning Support Fund managed by the EBRD. On the basis of a special national Phare programme to support decommissioning and subsequent measures in the Lithuanian energy sector, the following amounts have been allocated so far: €10 million in 1999, €35 million in 2000 and €55 million in 2001. The allocation for 2002 has not yet been finalised.

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

Furthermore, Lithuania participates in the following programmes: Leonardo da Vinci, Socrates, Youth, the Multi-annual Programme for Enterprises and Entrepreneurship, Raphael, SAVE II, Health and Social Policy, AIDS Prevention, Drug Dependence, Equal Opportunities and the Fifth Framework Programme for Research and Technical Development, and has participated in the European Environment Agency since January 2002.

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

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

For example, in Lithuania Phare has played a particularly important role in the following:

- The restructuring of Lietuvos Energija (€ 1.5 million; 25 September 2000 – 24 September 2002). The project assisted the restructuring of the Lithuanian Power Company by helping to draft the relevant legislation. Thanks to the project the role of Lietuvos Energija as a transmission system and market operator was clarified and developed in relation to other players. The issues of pricing and market orientation, electrical transmission network operation, planning and unbundling, international standards and audit were addressed. The emphasis was on staff training.
- The adoption and implementation of the Schengen *aquis* covering a twinning project to strengthen the administrative capacity as well as the establishment of a National Schengen Information System. Furthermore, four new border posts were built with the help of Phare. The Twinning project followed the process of needs identification, review and update of laws, elaborating and putting into place administrative and procedural reforms, complemented by intensive staff training for police, border guard, migration and customs officers.
- Through the special programme to support the decommissioning of nuclear plants and consequential measures in the energy sector, the EC has continued to support the Ignalina International Decommissioning Support Fund (IIDSF) managed by the

EBRD. In December 2001 a Project Management Unit was established at the plant, which will assist in the implementation of IIDSF financed projects. In June 2002 a donor assembly meeting was held. The assembly approved three projects: an investment project supporting a heat and steam source for Ignalina NPP and Visaginas; a support package for an interim storage for RBMK spent fuel assemblies from Ignalina NPP; and support for the modernisation of the technical archives. Through the Special Programme, the EC has also continued to support the development of the capacity of the Lithuanian nuclear safety regulator VATESI.

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

The Review also provided for the possibility of further decentralisation of Phare management, by waiving the requirement for *ex ante* approval by the Commission Delegations for tendering and contracting. For this to be possible, strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) should be put in place for each negotiating country at the latest by the time of accession. High-Level Working Groups are being established for each country to oversee this process, along with other key procedural steps in the run up to accession.

National aid co-ordination has been transferred from the Ministry of Foreign Affairs to the Ministry of Finance, with effect from September 2001.

During the period under review the implementation of the Phare programme has continued to experience difficulties. In particular contracting often occurs at a very late stage, putting projects at risk and reducing implementation periods. Deteriorating quality of the tender dossiers are a cause for concern at a point when Lithuania needs to soon be ready to manage the tendering and contracting process independently.

The Commission approved the Lithuanian **SAPARD** programme in November 2000. The indicative allocation for SAPARD in Lithuania for 2002 is € 31.3 million, at 2002 prices (allocation 2001: € 31 million at 2001 prices).

The main aims of the Lithuanian programme are: to strengthen the competitiveness of agricultural businesses, particularly family farms, through improving existing production and diversifying farm businesses; to develop higher value-added processed food products and improve efficiency in food processing through new technology and the introduction of quality management throughout the production process; to invest in rural infrastructure and promote new economic activities to increase the viability of rural communities; to introduce environmentally friendly production techniques for farming and forestry.

The *Multi-annual Financing Agreement* (MAFA), which sets out the rules for implementing SAPARD, and the *Annual Financing Agreement* (AFA) for 2000, which

sets out the Community financial commitment to Lithuania for the year 2000, are both in force since August 2001. The AFA 2001 was signed in April 2002 and entered into force in July 2002.

The following structures are responsible for the implementation of SAPARD: the National Fund, located within the Ministry of Finance, administers SAPARD funds under the responsibility of the National Authorising Officer (NAO) and is responsible for the national accreditation of the SAPARD Agency; the Managing Authority is the Ministry of Agriculture; the National Paying Agency, under the Ministry of Agriculture, has been designated as the SAPARD agency responsible for the implementation and financial management of the programme. The agency operates from its headquarters in Vilnius with 10 regional offices throughout Lithuania.

The Commission adopted a Decision in November 2001, provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the National Paying Agency of Lithuania, including approval of 5 out of 8 measures of the SAPARD Programme, covering 94% of the amount available for Lithuania. Simultaneously an initial payment on account was made to the National Fund.

Up to July 2002 the Lithuanian SAPARD Agency received 199 project applications from potential beneficiaries and approved contracts for the implementation of 111 selected projects, involving around € 30 million of EC support.

A Monitoring Committee has been established by the Managing Authority and has met twice.

The **ISPA** programming environment is governed by national strategy papers for transport and environment which the Lithuanian authorities finalised in 2000. In the case of transport, the priority is completing and improving the European Corridors that pass through Lithuania (I, IA, IXB, IXD). Special emphasis is placed on rail projects, with plans to completely renew the East-West Corridors IXB and IXD.

In the environmental field, the following sub-sectors have priority status: water, waste water, and solid waste. A strategy for air quality is now being developed and the first projects in this area are expected in 2003-2004. For water and waste water improvements, an approach by catchment/drainage area has been adopted and the first projects are due in 2002.

For the years 2000 and 2001, the full (mid-range) allocation for Lithuania has been committed, i.e. €102.7 million (€52.2 million in 2000 and €50.5 million in 2001). The allocation for 2002 will be between 4% and 6% of the overall allocation for ISPA, i.e. between €44 million and €65 million.

Seven environmental projects were approved in 2001: drinking and waste water projects in Jonava (with a total ISPA contribution of €3.8 million) and Neringa (€4.8 million), technical assistance (TA) for project preparation (€7 million), a sewage network treatment plant in Kaunas (€15.9 million) and three solid waste collection systems in Alytus, Taurage and Siauliai totalling €13.8 million. Three transport projects were approved in 2001, two of which concerned rail transport: TA with preparation for the development of the Crete corridor (€0.9 million) and modernisation of the Crete Corridor (€12 million). One road transport project was also approved, for the development of Corridor 1A (€19.8 million). Further projects are in preparation.

In 2001, the Commission approved a technical assistance package (with an ISPA allocation of €0.4 million) to prepare the Lithuanian authorities for the decentralisation process (EDIS) for the management of ISPA.

Contracts have been signed for four projects in the transport sector. The tenders for most remaining ISPA projects approved in 2000 are currently in preparation.

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building further, through the launch of the Action Plans for strengthening administrative and judicial capacity. The twinning process makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning, such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first-generation projects have already come to an end. Under Phare 1999, a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

For Lithuania, the total number of twinning projects implemented over the period 1998-2001 is 37. 16 are currently ongoing. In one project, the United Kingdom is providing assistance to strengthen external audit to bring it in line with international standards through staff training at the state control office. In another one, Lithuania will be given assistance in preparing for participation in the European employment strategy and the implementation of the European Social Fund.

A number of areas have been pinpointed for twinning assistance under the Phare 2002 budget: internal market (eg. standardisation, data protection), agriculture, tax administration, customs, statistics, Structural Funds, asylum, money laundering).

Negotiations

Since the opening of the accession negotiations, substantive discussions on the individual chapters of the *acquis* have started, and by June 2002, negotiations on all chapters (except Chapter 31 – Other) had been launched.

By end September 2002, the following 28 chapters were provisionally closed: free movement of goods; free movement of persons; freedom to provide services; free movement of capital; company law; competition; fisheries; transport policy; taxation; EMU; statistics; social policy and employment; energy; industrial policy; small and medium-sized enterprises; science and research; education and training; telecommunication and information technologies; culture and audio-visual policy; regional policy and co-ordination of structural instruments; environment; consumers and health protection; co-operation in the field of justice and home affairs; customs union; external relations; common foreign and security policy; financial control; institutions.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”³

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

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

There are no major problems over respect for fundamental rights.

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

In its 2001 Regular Report, the Commission found that:

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

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

³ In the meantime, through the entry into force of the Treaty of Amsterdam in May 1999, the political criteria defined at Copenhagen have been essentially enshrined as a constitutional principle in the Treaty on European Union. Article 6(1) of the consolidated Treaty on European Union reads: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." Accordingly, Article 49 of the consolidated Treaty stipulates that "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." More recently, these principles were emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

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

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

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

The section below provides an assessment of developments in Lithuania, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Such developments are in many ways closely linked to developments regarding Lithuania's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Lithuania's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1.* of this Report.

Recent developments

There has been no change in government during the reporting period. EU – accession remained high on the political agenda.

1.1. Democracy and the rule of law

Lithuania has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments since the last Regular Report.

The parliament

Parliament has continued to function smoothly. It has continued to give high priority to the adoption of EU accession-related legislation.

The executive

During the reporting period, Lithuania has made considerable progress in pursuing public administration reform.

In April 2002, the Seimas amended the Law on the Government in order to ensure a clear distinction between political posts and public administration posts within the ministries. As a result of the new legislation, only two political appointments remain (one minister and one vice-minister), whereas the other vice-ministerial posts, which used to be political, have been transformed into non-political posts for ministerial secretaries. These amendments should contribute to guaranteeing continuity and independence from undue influence in the ministries.

The reorganisation of the public administration has continued. Some ministries which had previously seen their competencies expanded (in particular the Finance Ministry), have been strengthened, in particular through the recruitment of additional staff.

A new Law on Civil Service was adopted by the Seimas in April 2002 and entered into force in July 2002. It aims to reinforce the rule of law, political neutrality, transparency and efficiency. The Law provides for the establishment, by 2003, under the Ministry of the Interior, of a National Public Administration Institute responsible for the management of the civil service. This will include the management of the register of Civil Servants and the approval of training programmes.

All secondary legislation required for implementing the provisions of the Civil Service Law was passed by the Government and entered into force in July-August 2002. Issues covered include: job descriptions and evaluations; procedures for recruitment to the Civil Service; regulations on ethics; procedures for imposing disciplinary sanctions; a strategy for the training of civil servants; the statute of the Register of Civil Servants; and the establishment of the National Public Administration Institute.

The new Civil Service Law introduces a new procedure for the annual evaluation of civil servants' performance and a more transparent remuneration system covering all categories of civil servant. The Law establishes a direct link between the category and level of qualification of the civil servant on the one hand and his or her salary on the other. This new system became operational in July 2002. All national and municipal institutions and agencies are now in the process of evaluating civil servants and classifying them by their level of qualification. The process is to be completed by December 2002.

The new legislation has brought significant progress in ensuring systematic training for civil servants. Under the Law on Civil Service, all government institutions have to allocate financial resources for this purpose, whereby each institution is obliged to allocate an amount equal to 1%-5% of the wage fund. The central role of the Lithuanian Institute of Public Administration (LIPA) has been strengthened and its relationship with line ministries clarified. The new Civil Service Law identifies LIPA as the National Training Agency responsible for co-ordinating the provision of general training courses and specialised courses delivered by specialist training agencies under the line ministries. LIPA receives funding from two main sources: the state budget (in 2002 LIPA was allocated LTL 1 million, i.e. € 0.29 million) and fees paid by government institutions for courses organised for their employees.

Over the past year, the number of courses organised by LIPA, including those on matters relating to EU accession, has increased significantly, as has the number of participants. LIPA training programmes are open to national civil servants (from line ministries and key sectoral agencies) and local civil servants, as well as to elected officials and representatives of the private sector. In the first half of 2002, local civil servants represented almost a quarter of all participants.

The new Civil Service Law and the related secondary legislation represent an important step forward. Now that this legislative framework is in place, it will be important to ensure that it is duly implemented in all services. So far, there have been some disparities in this regard, particularly in recently merged institutions. It is important that the reform process cover all sectors of the administration and the new system of management of the civil service become fully operational.

In addition, some issues will continue to require close attention. It needs to be ensured that systems, rules and procedures are fully adapted to the needs of EU membership and the proper implementation of the *acquis*. Improving inter-ministerial and inter-departmental co-ordination, guaranteeing appropriate working conditions, making a civil service career attractive in financial terms as well as in other ways and making provision for in-service training remain key challenges. It is important to secure adequate funding as a matter of priority.

The judicial system

During the reporting period, the reform of the judiciary entered its final stage. Significant further progress has been made in reforming the Lithuanian judicial system, consolidating the independence of the judiciary, and improving its functioning.

Considerable progress has been made in legislative terms. The Seimas adopted the new Civil Procedure Code in February 2002 and the new Criminal Procedure Code in March 2002. With a view to enhancing the efficiency of bailiffs' activities, in May 2002 the Seimas adopted the new Law on Bailiffs, as a result of which bailiffs no longer have civil servant status but are private persons on whom the state confers particular rights. In June, the Seimas adopted the Code of Execution of Judgements. These new laws will enter into force in January 2003, together with the new Criminal Code (which was adopted in 2001). The envisaged new Code of Administrative Offences is still under preparation, and work is in progress on new legislation on the Prosecutor's Office and on a new statute of service for the Office.

In a major development, the Seimas adopted the long-awaited new Law on Courts in February 2002. It entered into force in May 2002. The new law lays the foundation of an independent and efficient judiciary. It establishes the Council of Courts, with elected representatives of judges forming a majority of its members. According to the new law, the Council of Courts approves the budget of courts, which manage budgetary allocations independently; selects candidates; and advises the President of the Republic on the appointment and transfer of judges. The law mandates the Council of Courts to set up a number of new bodies with responsibility for specific administrative and regulatory activities. This process is underway. In May 2002, the Judicial Ethics and Discipline Commission and the Court of Honour of Judges were established. The Ethics and Discipline Commission is the sole body that has the right to institute a disciplinary case against judges. The Court of Honour hears such disciplinary cases. The Council of Courts

has the task of defining implementing regulations for the selection and promotion of judges. It is important that these should be transparent and based on merit. The self-governing bodies of the judiciary also have an important role to play in preventing and combating corruption in this domain. In March, Parliament adopted a Law on the National Courts Administration. This set up the National Courts Administration, which started operating in May 2002 as an independent institution, replacing the previous court administration structures under the Ministry of Justice. The National Courts Administration is in charge of providing the necessary assistance to the self-governing institutions of the judiciary. It is also responsible for providing technical services to the Courts, analysing Court proceedings and compiling statistics.

Following a ruling of the Constitutional Court, which had declared unconstitutional the reduction of the salaries of judges (applied since 2000), on the grounds that this might jeopardise their financial independence, judges' salaries were restored to their previous level in October 2001. In addition, the new Law on Courts grants judges higher pensions. Judges now earn considerably higher salaries than civil servants.

The total number of judges' posts remains the same as in 2001, i.e. 712, including 37 at the Supreme Court. A number of vacancies for judges have been filled. As of June 2002, there remained 55 vacancies, compared to 68 in 2001. Further progress has been made with the computerisation of the courts.

Progress has been made in reducing the backlog of cases.⁴ The number of criminal cases under investigation for more than six months in the courts of first instance fell from 595 on 1 January 2001 to 412 on 1 January 2002 (a decrease of 31%). The number of civil cases under investigation in the courts of first instance for a duration beyond that considered reasonable by the court fell from 1430 on 1 January 2001 to 964 on 1 January 2002 (a decrease of 33%). As regards the administrative cases, in 2001 the administrative courts received 14 121 cases and examined 13 471; in the first half of 2002, the administrative courts received 7 106 cases and examined 7 209. The professional capacity of judges and prosecutors has been further improved by training. Over the reporting period, the Judicial Training Centre has provided training for judges, bailiffs and staff from public institutions involved in judicial matters. In 2001, a total of 1215 participants attended various training courses for judges, including seminars on European Community law, human rights, asylum and bankruptcy. The training of judges in the field of judicial co-operation in criminal and civil cases started in 2002.

The new Law on Courts introduces compulsory in-service training for judges. Under the Law, the Minister of Justice and the Council of Courts are jointly responsible for the organisation and methodological preparation of the training programmes. In June 2002 the Council of Courts approved a long-term training programme for judges, drafted by the Ministry of Justice, which includes *acquis*-related matters. In order to ensure due funding for the training programmes, the new Law on Courts establishes that the training of judges is financed from the state budget, and that the allocations made available for training should amount to no less than 1.5 % of the amounts allocated for judges' salaries.

⁴ From 2001 onwards, "backlog" cases in Lithuania are not measured in terms of cases remaining unsolved at the end of a given calendar year, but, as regards criminal cases, in terms of cases under consideration for more than 6 months, and, as regards civil cases, compared to a reasonable duration as appreciated by the judge. Concerning administrative cases, the only statistics available are based on the number of cases received and examined during the reporting period.

While the Law on Courts does not specifically describe the role of the Judicial Training Centre the Centre's financial sustainability is expected to be secured by charging fees to carry out training programmes for judges within this framework.

The Training Methodology Division of the Prosecutor-General's Office, which is responsible for organising training for public prosecutors, organised more than 30 training programmes in 2001, in which over 400 prosecutors with a variety of specialisations took part. This includes joint training programmes for judges and prosecutors.

As reported last year, the Law on State-Guaranteed Legal Aid aims to ensure the provision of state-guaranteed legal aid in civil, administrative and criminal cases. Financial allocations for this purpose have significantly increased over the reporting period (*see below under Civil and political rights*).

Overall, substantial progress has been made in reforming the judiciary, based on a four-tier court system for the general jurisdiction (Supreme Court, Court of Appeals, district courts and local courts) and on a two-tier court system for administrative jurisdiction (Highest Administrative Court and district administrative courts). Most areas of concern referred to in last year's Regular Report have been addressed. In particular, decisive progress has been made in consolidating the independence of the judiciary, notably through the adoption and entry into force of the Law on Courts, and the restoration of high remuneration levels for judges. Due attention should be given to ensuring proper implementation of the new legislation. The increase in the number of judges recruited, and the reduction in the backlog of cases, have been further positive developments.

Further efforts are needed to improve the professional capacity of judges and prosecutors, especially those newly appointed, in particular as regards operational procedures and complex investigations, as well as in the area of judicial co-operation in criminal and civil matters. This is fundamental to guaranteeing the quality of legal proceedings and the respect of procedural rights as well as of professional ethics. Further progress is also required in expediting court proceedings, ensuring that judgements are enforced, and guaranteeing effective access to justice. The effective implementation of the new Criminal Code and Criminal Procedure Code, from 1 January 2003, will be particularly important in this respect.

The Prosecutor's Office needs to be further reinforced through the rapid adoption and effective implementation of relevant new legislation. In this respect, it should be ensured that the planned reorganisation of the Prosecutor's Office further strengthens the independence and professionalism of prosecutors. Further improvements still have to be made to ensure adequate working conditions and upgrade equipment.

Anti-corruption measures

Surveys indicate that corruption remains a source of concern, in particular in sectors such as customs, the police (notably the traffic police), and the health system. However, there has been considerable further progress in the fight against corruption at both legislative and administrative level.

In January 2002, the Seimas adopted a National Anti-Corruption Programme (comprising a National Anti-Corruption Strategy and an Action Plan for the implementation of the

Strategy). The Programme outlines practical measures and actions for preventing corruption, investigating corruption-related offences, and involving the public through anti-corruption awareness campaigns. Implementation of the Programme has now begun. Particular attention should be given to involving Customs fully in the implementation of the National Anti-Corruption Programme, and to strengthening the administrative capacity of the Customs Criminal Service.

In May 2002, the Seimas adopted the Law on Corruption Prevention. The Law establishes the main principles for preventing corruption in the private and public sectors, identifies preventive measures, determines which authorities are charged with the prevention of corruption, and defines their responsibilities.

In order to ensure alignment with the requirements of the *acquis* in the field of organised crime and corruption, in January 2002 the Seimas adopted amendments to the Criminal Code and the Code of Criminal Procedure as currently in force. These amendments extend the definition of a civil servant to encompass civil servants of international public organisations and foreign states; and establish criminal responsibility for passive and active corruption and trading in influence, as well as the criminal liability of legal persons in cases of corruption and money laundering.

As set out above, in June 2002 the Government adopted Regulations on Ethics for Officials. The Regulations, which have been in force since July 2002, lay down the main principles of ethics for civil servants. A Code of Ethics for Elected Officials and a Code of Ethics for Civil Servants have yet to be adopted.

The Special Investigations Service (SIS), an independent body and the key institution in the fight against corruption, is responsible for the implementation of the National Anti-Corruption Programme and for providing the necessary methodological assistance to other institutions. Its administrative capacity has improved markedly in 2001. The institutional set-up has been amended and a new unit responsible for public education and support activities has been established. In the period between February and April, the SIS signed co-operation agreements with the State Security Department, the Department of Intelligence Activities, the Ministry of National Defence, and the State Control Office. Co-operation between the SIS and civil society is developing.

In 2001, the SIS uncovered 193 corruption-related crimes, including 117 involving the Civil Service. During the period from January to August 2002, 91 corruption-related crimes were uncovered, including 59 cases involving the Civil Service.

On the basis of the new SIS staff training programme, most SIS staff have received specialised and general training, including seminars abroad. Training has focused on the development of anti-corruption awareness among the public and the preparation of related anti-corruption education programmes, the application of special software for data analysis, the conduct of undercover operations, and methods of investigation and interrogation.

Lithuania is a party to the Council of Europe's Convention on Laundering, Search, Seizure and Confiscation of proceeds from crime. In March 2002 Lithuania ratified the Council of Europe's Criminal Law Convention on Corruption and in April 2002 it signed the Council of Europe's Civil Law Convention on Corruption. Jointly with Estonia and Latvia, Lithuania continues to participate in the Baltic Anti-Corruption Initiative (BACI), which is supported by the OECD Secretariat.

As a member of the Council of Europe's Group of States Against Corruption (GRECO), Lithuania received a GRECO evaluation mission in October 2001. According to the report of this mission, which was adopted in March 2002 and subsequently made public, Lithuania seemed to be affected by corruption on a rather large scale, although it appeared to be among the least affected of the transitional countries of central and eastern Europe. The report added that there was widespread awareness among officials of the existence of corruption and its attendant problems, and that there was no doubt that Lithuania had come a long way in developing a framework of rules and a multifaceted system of institutions to combat corruption. The establishment of the Special Investigation Service was an important step forward. The report concluded that although the progress made was impressive, there was still room for improvement, in particular with regard to the prevention of corruption and overall co-ordination. GRECO addressed ten specific recommendations to Lithuania, which it is strongly encouraged to follow up.

Overall, there has been considerable progress in this area since the 2001 Regular Report, mainly in strengthening the institutional capacity of the Special Investigation Service and with the adoption of the National Anti-Corruption Strategy and the Law on Corruption Prevention. However, further efforts should be made by law enforcement bodies and line ministries to ensure the proper implementation of the National Anti-Corruption Programme, and to prepare sectoral anti-corruption strategies and implementation plans. Further efforts are also required to strengthen co-operation in practice between law enforcement bodies, and with the Prosecutor's Office. Public procurement procedures need to be applied with greater rigour and consistency, ensuring full transparency. Complaint mechanisms need to be implemented in an effective way by ensuring easier access for the public. Given that the present institutional set-up gives priority to repressive measures, more attention should be paid to prevention. Efforts over the past year to raise public awareness and involve civil society in the process are steps in the right direction. These should be continued and intensified.

1.2. Human rights and the protection of minorities

Lithuania continues to respect human rights and freedoms. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed over the past year. The following section focuses on the most significant developments since the last Regular Report.

Lithuania has ratified most of the major international conventions in the field of human rights (*see Annex*). In March 2002, Lithuania ratified the Second Optional Protocol to the International Covenant on Civil and Political Rights, on the abolition of the death penalty. In May 2002, Lithuania signed Additional Protocol No. 13 to the European Convention for the Protection of Human Rights and Fundamental Freedoms concerning the abolition of the death penalty in all circumstances.

In October 2001, a new legislation allowing for the reopening of criminal proceedings to give effect to judgements of the European Court of Human Rights finding violations of the European Convention on Human Rights entered into force. Since then there have been two criminal proceedings re-opened. The principle of non-discrimination, which is enshrined in the Constitution, provides the basis for various laws. The new Criminal Code, which is to enter into force in January 2003, contains provisions prohibiting discrimination on a wide range of grounds. No new developments are to be reported with

regard to the transposition of the EC *anti-discrimination acquis* (see Chapter 13 - Social policy and employment).

The Ombudsman system, which is highly developed, continues to function well.

Civil and political rights

Lithuania has addressed the issues identified in this area in the 2001 Regular Report, and positive developments can be reported in several areas. However, some problems persist.

There have been reports of cases of *degrading treatment by law enforcement officials*, in particular in the context of police custody. In June 2002, police officers were punished for the degrading treatment of people taking part in a peaceful picket. Training courses for the police on human rights and fundamental freedoms are being organised.

Trafficking in human beings remains an issue of concern. Lithuania remains a country of both origin and transit with regard to trafficking in women. The law enforcement services have stepped up the fight against such trafficking. In 2001 14 criminal charges were brought for trafficking in human beings, followed by five during the first quarter of 2002 alone. Earlier this year in Klaipėda and Kaunas the members of two criminal organisations received prison sentences for trafficking. The Organised Crime Investigation Service of the Lithuanian Criminal Police Bureau has specialised personnel responsible for combating trafficking in human beings. In addition, the Criminal Police Bureau's Crime Investigation Service has a specialised unit dealing with missing persons, as does each police commissioner's office.

The new Criminal Code provides for strict sentences (up to eight years of imprisonment) for trafficking in human beings, and provides separately for criminal liability for trafficking in children, which carries a custodial sentence of between two and ten years. Some progress can also be noted as regards protection for victims, in particular through the involvement of NGOs, which have also set up an intensive public awareness campaign aimed at preventing trafficking in human beings. In January 2002, the Government started to implement a new Programme of Control and Prevention of Prostitution and Trafficking of Human Beings, financed by the state budget. This includes financial support for NGO projects aimed at providing social assistance to victims of trafficking and helping them reintegrate into society.

Concerns remain about *pre-trial detention*. Although the number of cases in which pre-trial detention was ordered decreased by more than eight per cent in 2001 (to 764, compared to 839 in 2000), in some cases pre-trial detention is reported to have exceeded the maximum legal duration of 18 months. The new Criminal Procedure Code, which is to enter into force in January 2003, provides for a reduction to 12 months of the maximum pre-trial detention period for minors. Furthermore, by streamlining procedures, the new Code should shorten the time required for criminal investigations, and thus contribute to reducing periods of pre-trial detention in general terms.

Prison conditions remain a source of serious concern, in particular due to overcrowding and lack of appropriate health care. As of 1 July 2002, there were 10 435 persons serving prison sentences and 1 329 held in pre-trial detention. A Programme of Prison Renovation and Humanisation of Prison Conditions is in preparation, with the aim of bringing prisons up to European and international standards, in particular with regard to

medical care. This programme follows the recent publication of a report by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment. LTL 2.5 million has been allocated under the 2002 state budget for the construction of a rehabilitation centre for drug addicts and HIV-positive persons in Alytus Prison. Considerable investment is still needed to bring prisons up to acceptable standards.

While legal provisions guaranteeing *legal aid* in criminal, civil and administrative cases are in place, it is reported that counsels for the defence often fail to defend the rights of the persons concerned properly, as payment by the state for the legal aid provided by the counsels remains relatively low. However, funds made available for this purpose are increasing.

Lithuania has achieved a high level of alignment with European and international standards on *asylum*. Amendments to the Law on Refugee Status entered into force in February 2002, with the aim of introducing procedural guarantees for asylum seekers and speeding up procedures for the investigation of manifestly unfounded cases. Weaknesses remain in current legislation, notably as regards minimum guarantees for asylum procedures, the suspensive effect of an appeal during an admissibility procedure and the principle of *non-refoulement* in cases of alternative protection. Lithuania should fully respect the fundamental principle of *non-refoulement*. A comprehensive registration system should be established.

The Asylum Division of the Migration Department (under the Ministry of the Interior) needs to be further strengthened, and training of all concerned, including border guards and judges dealing with asylum cases, reinforced. Lithuania should further improve conditions of asylum seekers in the Pabrade Centre. There are reports that certain asylum seekers who had crossed the border illegally have been detained in detention centres instead of asylum reception centres, even if they appear to have good grounds for an asylum application.

As regards *crimes against humanity*, since July 2001 the Prosecutor's Office has submitted to the courts three criminal cases in which four individuals are charged with crimes against humanity committed during the soviet time. Proceedings continue.

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

The new Criminal Code, which is to enter into force in January 2003, eliminates the difference in the age of consent depending on *sexual orientation*, and includes provisions banning discrimination on that basis.

Economic, social and cultural rights

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

As regards *equal opportunities*, Lithuania has continued to make progress. In June, the Seimas adopted the Law amending the Law on Equal Opportunities, concerning positive action to promote gender equality and introducing the concept of indirect discrimination. The Office of the Ombudsperson for Equal Opportunities has continued to take decisive action and has been reinforced in terms of staff. It currently has seven employees.

Between July 2001 and July 2002, the Office handled 72 complaints, as compared to 25 indicated in the last Regular Report. Around 60% of the complaints were considered as well founded. In addition, the Office launched 7 investigation at her own initiative. There are 15 women who are members of the Seimas out of a total of 141 members. There are 3 women in the 14-member Government. The Inter-Institutional Commission of Equal Opportunities has continued its work. At the initiative of the Ministry of Social Security and Labour, efforts are underway to encourage and prepare women to run for local government and parliamentary elections. Further efforts are needed to promote economic and social equality in practice.

The Office of the Ombudsperson for *Children's Rights* has continued its activities. During 2001 it dealt with approximately 106 cases and in the period from January to September 2002, it handled 83 cases. The Ombudsperson also launched six investigations in 2001 at her own initiative. Four investigations have been carried out at her initiative at specialised children's care institutions. Another important investigation dealt with the violation of the right to education of minors detained in the Kaunas children's detention centre and educational labour colony. Further to this investigation, measures were taken to ensure that the right to education of the children concerned is duly respected.

Closer co-ordination between the activities of all the institutions (state, municipal, and non-governmental organisations) concerned, would increase effectiveness. As highlighted by the United Nations Committee on the Rights of the Child, due attention needs to be given to ensuring that all the Convention's provisions are respected.

At the legislative level, work was started to align legal acts relating to children's rights with the new Civil Code which entered into force in July 2001.

In February 2002, Lithuania signed the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict.

In May 2002, the Government approved a long-term National Programme for Social Integration of *Persons with Disability*. The Programme aims to guarantee the rights of disabled persons and ensure that they enjoy equal opportunities. The implementation of the programme will be funded from various sources, in particular the state budget, the State Social Insurance Fund, the Compulsory Health Insurance Fund, the Employment Fund and local administrations.

Trade union rights are generally respected. Restrictions remain on the right to join trade unions for limited categories of civil servants. There are concerns that legislation on union rights is not duly enforced in all cases.

Minority rights and the protection of minorities

Since the 2001 Regular Report, the overall situation with regard to the protection of minorities has continued to be satisfactory, and some further progress has been made in implementing integration programmes.

The Government has continued to support programmes promoting the economic, social and cultural development of Lithuania's minority communities. The two largest communities, the Russian and Polish ones, are well integrated, but the issue of Lithuanian language skills has sometimes reduced equal access to employment opportunities. The

issue of the legal obligation to use the Lithuanian alphabet in spelling the names of persons belonging to national minorities is being addressed constructively in particular in the framework of the co-operation between the Lithuanian and Polish authorities.

The Programme for Social and Cultural Integration of National Minorities continues to be implemented. Government funding for this purpose has fallen slightly compared to the previous year, when a major investment project concerning the construction of the Roma Community House was made. These funds serve to support the activities of NGOs representing national minorities, notably their cultural and educational projects, conferences and seminars; to cover the costs of Lithuanian language courses for persons on social support schemes; and to finance the operational costs of the House of Ethnic Minorities in Vilnius.

The capacity of the Department of National Minorities and Emigration has been reinforced through further training of its officials. These efforts should be continued.

Lithuania's Roma community, consisting of around 3000 persons mainly concentrated in the major cities of Vilnius, Kaunas and Panevezys, has continued to face difficult conditions. Acute problems include poor living conditions, a rather high unemployment level, difficulties with access to education and training and, due in a number of cases to the absence of appropriate identification documents, problems with access to social benefits and public health services.

The Government's 2000-2004 Programme for the Roma Community's Integration into Lithuanian Society seeks to address these problems. Financing is provided from the state budget for this purpose. Some measures have been taken to improve housing. As part of this programme, the Roma Community House was opened in Vilnius in September 2001. It will be important to fully involve the Roma community in drawing up and implementing measures under this programme, so as to enhance its ability to effectively tackle such key problems as employment and housing and address the problem of *de facto* discrimination.

Lithuania is a party to the Council of Europe Framework Convention for the Protection of National Minorities. It submitted its first state report in October 2001. The Framework Convention's Advisory Committee has not so far adopted an opinion on Lithuania.

1.3. General evaluation⁵

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

Lithuania has made considerable progress in pursuing public administration reform, notably through the adoption of the new Civil Service Law and the related implementing legislation. Lithuania needs to ensure that the reform is duly implemented in all services and that adequate financing is secured as a matter of priority.

⁵ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Substantial progress has been made in reforming the judicial system, in particular, notably through the adoption of the Law on Courts. Due attention should be given to ensuring proper implementation of the new legislation. Further efforts are needed to improve the professional capacity of judges and prosecutors. This is fundamental to guaranteeing the quality of legal proceedings and respect for procedural rights and professional ethics. Further progress is required also in accelerating court proceedings and ensuring the enforcement of judgements.

Considerable progress has been made as regards the fight against corruption, mainly with the adoption of the National Anti-Corruption Programme and the Law on Corruption Prevention. Sustained efforts should be made by law enforcement bodies and line ministries to ensure the proper and effective implementation of measures against administrative corruption, which remains a cause for concern.

Lithuania continues to respect human rights and freedoms.

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 2001 Regular Report, the Commission found that:

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

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous annual Regular Reports. The analysis in this year's Regular Report takes stock of developments since the Opinion was drafted.

2.2. Summary of economic developments since 1997

Macroeconomic development has been generally positive. While the economy was severely affected in 1999 by the Russian crisis, there has been a strong recovery in recent years. The Russian crisis, and its impact on Lithuanian exports to Russia, led to a considerable fall of GDP in 1999. This was accompanied by a significant rise in the current account and budget deficit and increasing unemployment. The crisis also resulted in a considerable drop in investment, public consumption and external trade. Only private consumption remained relatively stable and stabilised aggregate demand. However, the economy recovered rapidly and strongly from that crisis, and has since then maintained strong growth. Furthermore macroeconomic stability has been restored. The recovery was mainly driven by a very strong export performance, which led to a significant decrease in the current account deficit in the recent years. The general government budget deficit declined subsequently as policies tightened appreciably. This policy stance was supported by the currency board arrangement and strong FDI inflows. According to preliminary estimates steady growth has continued in 2002.

Main Economic Trends								
Lithuania		1997	1998	1999	2000	2001	Average	2002 latest
Real GDP growth rate	per cent	7.3	5.1	-3.9	3.8	5.9	3.6	4.5 Q1
Inflation rate	per cent	8.8	5.0	0.7	0.9	1.3	3.3	1.8 July ^b
- annual average								
- December-on-December	per cent	8.2	2.4	0.3	1.3	2.1	2.9	0.3 July
Unemployment rate	per cent	14.1	12.5	10.2	15.6	16.5	13.8	:
- LFS definition								
General government budget balance	per cent of GDP	-1.1	-3.1	-5.6	-2.7	-1.9p	-2.9p	
Current account balance	per cent of GDP	-10.2	-12.1	-11.2	-6.0	-4.8	-8.9	
	million ECU/€	-865	-1,158	-1,120	-731	-641 ^c	-903	-433 Jan.-June ^c
Gross foreign debt of the whole economy	per cent of exports of goods and services	27.6	41.5	70.8	56.4	:	:	
- debt export ratio	million ECU/€	1,273	1,876 ^a	2,814	3,120	:	:	
Foreign direct investment inflow	per cent of GDP	3.7	8.6	4.6	3.4	3.7	4.8	
- balance of payments data	million ECU/€	313	826	456	410	498	501	378 Jan.-June ^c

Sources: Eurostat. National sources. OECD external Debt Statistics

^a series break as a result of some technical changes to the definition.

^b Moving 12 months average rate of change.

^c Source: Website of the National Bank.

Important steps have been taken in the area of structural reforms, although some of the reforms have progressed slowly. The privatisation process has been smooth, and is in its final stage. The successful privatisation of the banking sector, which is now completed, has supported the development of the sector. Significant progress has also been made with the restructuring of the energy sector, although this is still ongoing. However, restructuring of the enterprise sector as a whole has been slow. This has partly been due to the lack of efficient legislation. New bankruptcy and enterprise restructuring laws came into force in 2001. Their implementation has been successful and it should speed up the restructuring of the economy. Another important element in this process is the significant decline in state aid. Despite these important achievements administrative

capacity is still lagging in many areas of economic relevance. Reformation of the business environment has gained momentum, promoted by the launch of the Sunrise programme in 2000⁶. A new pension reform has been under elaboration since long. The parliament endorsed a plan in May 2002, incorporating a voluntary second pillar. The final plan is expected to be considered by the parliament during the 2002 fall session and it is expected to be implemented in January 2004.

The Lithuanian economy has made only some progress in catching up to EU income levels. The per capita GDP in terms of PPS was 37.6% of the EU average in 2001. Regional disparities in GDP per capita within the country are significant. Whereas Vilnius reached around 45% of the EU average in 1998 and 1999, other regions were far behind, some achieving less than half the GDP in Vilnius. Furthermore, the gap widened in the late nineties. The economic activity rate fell slightly from 72.1% in 1998 to 70.4% in 2001⁷. Rising unemployment led to an even faster fall in the employment rate from 62.9% in 1998 to 58.6% in 2001. The rise in unemployment has been particularly severe in small rural regions formerly dominated by manufacturing. In some of these areas, the registered unemployment rate has risen to close to 30%, increasing the regional disparities further. Extensive lay-offs in manufacturing and the expansion of services have resulted in a much more rapid increase in unemployment among men than among women. In 2001 the unemployment rate reached 19.4% for men, and 13.5% for women.

Main Indicators of Economic Structure in 2001		
Population (average)	Thousand	3,481
GDP per head ^a	PPS	8,700
	per cent of EU average	38
Share of agriculture ^b in:		
- gross value added	per cent	7.0
- employment	per cent	16.5
Gross fixed capital formation/GDP	per cent	19.4
Gross foreign debt of the whole economy/GDP ^c	per cent	25.5
Exports of goods & services/GDP	per cent	50.4
Stock of foreign direct investment	Million €	2,508 ^c
	€ per head ^a	720
Long term unemployment rate	per cent of labour force	9.3

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

⁶ The Sunrise Programme is the popular name for the Programme for Business Climate Improvement.

⁷ The activity rate is the ratio of employed plus unemployed to total population in a certain age group.

- ^b Agriculture, hunting, forestry and fishing.
- ^c Data refer to 2000.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

There has been a broad consensus about the main orientation of economic policy. Despite changing coalition governments, the Lithuanian authorities have maintained the policy approach adopted in the anti-crisis programme of December 1999 and enshrined in medium-term plans, such as the Joint Assessment of Economic Policy Priorities signed in May 2000 and the renewed IMF Stand-By Arrangement of August 2001. The latter was reviewed in June 2002, and it was found that all performance criteria had been met and that the programme remains on track. Lithuania has participated in the Pre-Accession Fiscal Surveillance Procedure. In particular, the most recent Pre-Accession Economic Programme of August 2002 indicated the commitment of the Lithuanian government towards further macroeconomic stabilisation and market-based structural reforms. Notwithstanding the broad consensus over the economic policy, the coalition government had difficulties in reaching an agreement on important measures, such as the pension reform. *The Lithuanian economy has been affected by but also managed successfully to cope with the difficult external environment.* On average, real GDP has grown by 3.6% annually. However, variations have been considerable, ranging from a growth rate of 7.3% in 1997 to a decline of 3.9% in 1999 as a consequence of the Russian crisis in 1998-99. This volatility is to some degree due to the fact that Lithuania's economy is small and open and operates under a currency board arrangement. The rapid recovery after the Russian crisis to a certain extent indicates the capacity to adapt to external shocks. Despite the effective appreciation of the litas, and the dramatic drop in external demand in 1999, growth has been driven mainly by exports. On average, exports have grown by 7.4% annually, resulting in a contribution to GDP of 4.3 percentage points. In spite of large fluctuations in the other demand components, the development of private consumption has been relatively stable. It has grown by 4.6% annually, with a contribution to GDP of 3.6 percentage points. The tight fiscal policy that has been conducted since 1999 is reflected in the development of public consumption, which has grown by no more than 1.3% annually. The growth of gross fixed investment has been volatile, ranging between -6.3% and 22.0%; average growth has been a fairly modest 6.5%. In 2001, growth was well above the average, driven mainly by exports and investment. Exports increased by 20.8%, and gross fixed investment by 10.6%. During the first half of 2002, growth has continued to be strong and amounted to 5.8% relative to the same period in the previous year.

The current account deficit has fallen significantly. In 1997 Lithuania had a large current account deficit, which widened further the following year, when external demand started to decrease. Since then, the current account deficit has decreased, from 12.1% of GDP in 1998 to 4.8% in 2001. Both a reduction in the trade account deficit and an increase in the surplus of the balance of services, mainly due to significantly rising income from transport services, have contributed to the overall improvement. At the same time as the current account balance has improved, the inflow of foreign direct investment (FDI) has

been relatively stable, implying that the share of current account deficit financed by FDI has increased. In 2001, FDI covered some 77% of the current account deficit. Another important, although quite volatile, source of financing has been the acquisition of Lithuanian government bonds by foreigners.

The economy has been burdened by high and increasing unemployment. A sharp reduction in employment, mainly in the agricultural sector, has resulted in a steady increase in unemployment. According to the Labour Force Survey, employment has decreased by 110,000 persons or 7%, and the unemployment rate has increased from 14.1% to 16.5% over the period. Unemployment would have risen even more if the activity rate had not declined as much as it did during the period. The activity rate fell from 72.1% in 1998 to 70.4% in 2001. A large share of total unemployment is long-term unemployment (56% in 2001), indicating that structural unemployment forms a large part of total unemployment and pointing to the need for active labour market measures to successfully reduce unemployment. However, reflecting the increased economic activity in 2001, the monthly data on registered unemployment indicates that the unemployment rate has started to decrease slowly.

Low and stable inflation has been one of the main achievements of economic policy. Inflation has been falling over the period in question. Whereas in 1997 it was still 8.8%, it fell quite rapidly to levels of around just 1% from 1999 onwards and to 1.3% in 2001. Average inflation between 1997 and 2001 was 3.3%. More than $\frac{3}{4}$ of total inflation during this period was due to increases in regulated prices. So far, the recent higher growth in GDP has not resulted in any inflationary pressure. Admittedly, year-on-year inflation rose in the second half of 2001. However, this was mainly due to a bad harvest, an increase in prices for communication services and a tax increase on telephone connection. In the first months of 2002, annual inflation was initially higher, driven up by high rises in food prices, but it has been falling since then and amounted to no more than 0.3% in July.

A sound monetary framework has contributed to lower inflation and macroeconomic stability. In this, the central bank has relied on a fixed exchange rate within a currency board arrangement. Up to 1 February 2002, the US dollar was the anchor currency. On 2 February 2002, it was replaced by the euro. In order to avoid uncertainty about the re-peg, the measure and how it was to be implemented was announced six months in advance. This resulted in a smooth change, without any strain on financial markets. The reason for changing the anchor currency was to better reflect actual trade flows, and to further promote integration into the EU economy. The fact that the US dollar appreciated against the euro as long as the litas was pegged against the US dollar, and that the euro has appreciated against the US dollar since the re-pegging, has significantly contributed to this very low level of inflation since 1999. This monetary policy framework has led to continuously falling money market rates from 1998 onwards. The sharp decline in inflation in 1999 led to an increase in real interest rates⁸, but since then they have also declined; in 1999 they stood at 5.6% and in 2001 at 2.1%.

Public finances have been characterised by fiscal discipline, but medium-term risks remain. In 1997, the budget deficit was only 1.1% of GDP in harmonised EU standards, ESA95, but the introduction of some costly measures and the impact of the Russian crisis

⁸ Money market rates, corrected for consumer price inflation (HICP)

caused the deficit to rise to 5.6% in 1999⁹. An anti-crisis plan was adopted, involving a tight fiscal policy. Since then, public finances have improved, and the deficit has been reduced to 1.9% of GDP in 2001. In order to achieve fiscal targets, all expenditure categories have been reduced, in particular public investment and wages in the public sector and some measures were postponed. The planned deficit for 2002 implies no further reduction, but is projected to remain at 1.9%. However, further improvements in the budget balance will be more difficult to attain. At municipal level, finances are burdened by the accumulation of expenditure arrears. Plans to introduce a funded pension scheme have still not been adopted. Once implemented, the pension reform will entail additional government expenditure, and the government is committed to resuming the savings restitution scheme that was considerably slowed down earlier. In addition, it has approved guidelines for a tax reform, which, at least in the short run, is likely to reduce tax revenues. In the medium term, the tax reform might have the reverse effect as it is expected to stimulate the supply side of the economy. General government debt increased rapidly in 1999, but since then has been relatively stable at about 23.5% of GDP, reflecting the improvement of the budget balance and a steady inflow of privatisation revenue.

The stable monetary framework of the currency board arrangement and sound fiscal policy have both contributed to the achievement of internal and external balance. Fiscal policy has responded to emerging macroeconomic imbalances. It was relaxed in the aftermath of the Russian crisis but, as a response to the sharp increase in the budget deficit in 1999, was tightened considerably in 2000. Since 2000, tight fiscal policy, in combination with a fixed exchange rate, has favoured export-generated growth, while inflation has been kept low and stable and the budget deficit has declined. The policy has also contributed to the improvement in the current account balance.

Prices were liberalised at the very beginning of the transition, and the list of regulated prices has remained stable since then. These include energy, water, rents for public apartments, refuse and sewage collection, some transport services, postal and telephone services, and some pharmaceutical products. The share of these goods and services in the CPI has increased from 16.8% to 21.5%. However, this rising share reflects only the increase in the weights of the items included in the list during this period, and not an increase in their amount.

The private sector represents a significant share of the economy, but efforts still have to be made in the area of land restitution. Estimates of the size of the private sector from the mid-90s are very uncertain. According to an official estimate about the situation in 1997, the share of the private sector in GDP was 69%. However, this number included enterprises which were partly state-owned. In 2001, 73% of GDP was produced in the private sector. The share of employment in the private sector has increased from 67.7% to 70.1%. The land restitution is advanced, but on the remaining land very little progress has been reported in the last few years. As of 1 May 2002, 80.6% of all land requested for restitution had been restored. To speed up the process, a deadline for the submission of applications for restitution of land has been fixed (31 December 2001), as well as a deadline for submitting all necessary documentation (1 July 2002).

⁹ The measures introduced were the savings restitution and the land restitution.

Privatisation of state-owned enterprises has proceeded successfully, and is now almost complete. The agricultural sector and small and medium-sized enterprises were privatised in the early 90s, and the companies still to be privatised are mainly a few large ones. With the sale of the Lithuanian Savings Bank in 2001 and the Lithuanian Agricultural Bank in 2002 the privatisation of the banking sector was completed, and all banks are now in private hands. According to the government plan, there are some enterprises in the energy and transport sectors still to be privatised. Privatisation of the Lithuanian Gas Company (AB Lietuvos Dujos) is ongoing and expected to be completed in the second half of 2002. The Lithuanian Electricity Company (AB Lietuvos Energija) has recently been reorganised, and preparations for its sale have commenced. Preparations for the sale of the last two shipping companies have started, and the sale is scheduled for the second half of 2002. Lithuanian Airlines' privatisation is targeted for the end of 2003 and a restructuring programme is under way for Lithuanian Railways.

Although, considerable progress has been made in the business environment and no significant barriers to market entry and exit remain, there is still significant room for improvement. The economy has had problems both as regards market entry and market exit. A lot of work has been undertaken to improve the situation, in particular as regards legislation. Recently, new bankruptcy, enterprise restructuring, and company laws were adopted. The previous lack of a functioning bankruptcy legislation has resulted in a huge backlog of ongoing bankruptcy cases. In July 2001, new bankruptcy and enterprise restructuring legislation came into force. Its introduction has had a dramatic effect on the number of bankruptcy cases initiated and completed. In 1997, only 17 cases were concluded, whereas during January to April 2002, 141 cases were completed. Further improvement of implementation is expected in 2003, when the provision of the law limiting the duration of proceedings to two years will be applied, provided that the administrative and judicial capacity is strengthened. The successful implementation of the company law was also an important step forward. A main tool in the attempt to identify and reduce regulatory barriers to business has been the Sunrise Programme, of which implementation began in 2000. The work involves representatives both from the authorities and from the business community. Several obstacles have been identified and removed in the fields of taxation, customs, land acquisition, construction regulation and labour markets. However, apart from the implementation of the above-mentioned laws, further intense efforts are needed to reinforce the administrative capacity of implementing legislation in general. In addition, administrative procedures are still sometimes complicated and not uniformly applied. In 2000, 10,000 enterprises were registered and 9,000 were de-registered. During 2001 the number of enterprises was relatively stable but with a slight tendency to decline; about 167,000 enterprises were registered, of which some 68,400 were operating.

Property rights are well established, although land reform is still ongoing. The adoption of the new Company Law in 2001 established a system of ownership rights in the field of company legislation in line with that in advanced economies. Land restitution is continuing, and measures are being taken that will speed up the process. Of all land in private hands, 87% was registered in May 2002, as compared to 81% in May 2001. As of July 2002, of all registered land, 94.3% was registered as private property.

Financial intermediation has grown only slowly, and remains at very low levels. It expanded significantly in 1997 and 1998, but came to a halt in early 1999. Following the banking crisis in 1995 and the Russian crisis in late 1998, banks became more cautious in their lending activities. Credit expansion was probably also constrained by the

restructuring of three of the largest banks in 2000. Financial intermediation was more or less constant during this period. Bank lending to the private sector accounted for just 11.5% of GDP in 2001, less than 1 percentage point more than in 1997. However, credit to the private sector has increased sharply since the third quarter 2001.

The structure of the banking sector has changed considerably in favour of higher efficiency and strengthened stability. The number of banks has remained roughly the same since 1997, but ownership structure has changed dramatically. Foreign ownership has increased from 32% of total capital in 1997 to 87.8% in early 2002. At the end of 1998, majority state-owned banks represented 45.3% of total bank assets, but today all banks are in private hands. Although the change in ownership structure has resulted in a restructuring of the sector, it has also been followed by increasing concentration. The share of the three biggest banks of total assets had expanded to 80.4% by May 2002, up from 57% in 1997. The average interest rate spread between loans and deposits from January 1997 to December 2001 was 6.7%. However, this has declined since early 2000. The share of non-performing loans is still high, but the trend is clearly downwards. It has fallen from 28% to 8.3%. The banking crisis in 1995 triggered a strengthening of the supervision of the sector with the main tasks shared between the Bank of Lithuania, the Lithuanian Securities Commission, and the State Insurance Supervisory Authority. Cooperation between these authorities was recently strengthened through a memorandum of understanding. A banking supervisory framework has been established in line with international and EU standards; prudential regulation and supervision largely conforms to the Basle Core Principles. The Bank of Lithuania has also implemented the EU directives on capital adequacy.

The size of non-bank financial markets is also fairly small. Stock market capitalisation was 26% of GDP on average, but fell considerably in 2001 to just 22% of GDP. Bond market capitalisation has been stable at about 3.5% of GDP on average. Institutional investors play only a marginal role on Lithuanian markets; assets of insurance companies amounted in 2001 to just 2% of GDP, and the development of pension funds is hampered by the lack of progress in the pension reform.

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

The 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

The existence of a market economy, with sufficient macroeconomic stability and progress on structural reforms has established a favourable environment for economic growth and competitiveness. On the whole, economic policy has been conducted with a sufficient degree of predictability to allow proper decision-making by economic agents. The Lithuanian economy has showed resistance to external shocks, as proved by its

reorientation of exports after the Russian crisis. Public finance has improved significantly since the budget deficit peak in 1999.

Overall, the labour force is well educated. Enrolment in higher education continues to rise. Since 1997 it has increased by 54%. A very rapid expansion of enrolment could easily result in a lowering of the success rate of graduates, but the number of graduates from higher education has actually increased by 57% during the same period, i.e. more than the increase in enrolment. A relatively large proportion of all graduates is in engineering, manufacturing, and construction, which should guarantee that industry is supplied with a well-educated labour force. However, a reluctance to update the existing curriculum and limited co-operation with the business sector mean that education is not always adapted to market requirements. The growth in expenditure on research and development (R&D) has been stable, though relatively low in international terms. On average, they equalled about 0.56% of GDP during the period 1997-2000. Expenditure in the business sector is particularly low. Despite a sharp increase in 2000, it represents only about one fifth of total expenditures on R&D.

High and persistent unemployment has called for a redirection of labour market policies. The restructuring of the economy and the drop in demand that followed the Russian crisis have pushed up the unemployment rate to rather high levels. Russia was an important export market for food products, and the drop in demand had a dramatic impact on employment in the agricultural sector, which fell by 18.5% between 1999 and 2001. To improve employability among the unemployed, labour market policies have been increasingly focused on active labour market policies. In 1997, 52 300 persons were involved in active labour market measures. This number had increased to 106 600 in 2001. In order to improve the matching process for employers and unemployed, the Labour Exchange works closely with employers, and a central computerised register of vacancies has been established. In December 2001, parliament passed amendments to the Law on Support of the Unemployed, designed inter alia to increase incentives for the unemployed to look for work. A further differentiation of minimum wages has also been introduced to facilitate the entry to the labour market for unskilled young people.

Although FDI flows have been strong, investment remains low, hindering the prospects for a stronger and more sustained growth performance. In an environment of weak economic growth with a very cautious banking sector, the share of private gross fixed capital formation in GDP has fallen every year between 1997 and 2000, from 22.2% to 16.2%. Contrary to this trend, public investment has been relatively stable. Hence total gross fixed capital formation fell during this period, from 24.4% of GDP to 18.7%. The trend was reversed in 2001, when total investment increased slightly, from 18.7% to 19.4%. The infrastructure is in general good, but the situation varies between urban and rural areas, where it can be very poor. In addition, Lithuania's role as an important transit country makes higher public investment in the transport infrastructure necessary. Unlike domestic private investment, FDI has not been on a downward trend. Average FDI amounted to 4.8% of GDP. Except for 1998, when FDI doubled because of the privatisation of Lithuanian Telecom, it has remained relatively constant. The major investors are from Denmark, representing 18.6% of the FDI stock, and Sweden (16.1%). The EU Member States together have invested 64.1% of total FDI. Except in 1998, FDI has far exceeded privatisation revenue. Moreover, genuine green-field investment is becoming more and more important and several projects are in the pipeline.

Enterprise restructuring, which was slow at the beginning of the transition process, now appears to be progressing faster. Lithuania's initial response to the Russian crisis was to dampen the negative impact and to postpone structural adjustment. In November 1999, it adopted a more liberal approach and, as a result, economic restructuring accelerated in 2000. Another obstacle to rapid restructuring has been the lack of efficient bankruptcy and enterprise restructuring laws. In July 2001, these laws were amended, and this was followed by a dramatic increase in the number of bankruptcy cases initiated. The amendments will facilitate the closing down of non-viable companies and the restructuring of troubled but in principle viable companies. There has also been a significant reduction of state aid to troubled companies and an increase in general support for enterprise start-ups. Sectors that are still in particular need of further restructuring are agriculture and the food processing industry. The transport sector and parts of heavy industry are also still in need of restructuring. The energy sector is undergoing restructuring, but this is still not completed.

The sectoral shift in the economy has been slowing down. In the early 90s, the structure of the economy changed rapidly, but this trend slowed down in the late 90s. The most pronounced change has been within the agricultural sector, which has continued to decline, from 11.7% of total gross value added in 1997 to 7.0% in 2001¹⁰. Industry declined also for several years, but the trend was reversed in 2000 and its share has started to increase quite rapidly. From 32.9% in 1997, it fell to 30.8 in 1999, and then increased again to 34.5% in 2001, a higher level than in 1997. It is mainly the growth in manufacturing that explains the reversed trend. The share of services has continued to increase, from 55.4% to 58.6%, mainly driven by expanding transport and communication services. A similar picture emerges for the sectors' shares in total employment. However, the share of the agricultural sector in terms of employment is much larger than in terms of gross value added, indicating the very low productivity levels in that sector. Its share in employment was 16.3% in 2001. This implies that a further reduction in employment in the agricultural sector could be expected.

The government is pursuing an active policy to promote small and medium-sized enterprises, but these still face problems. The SME management, expert and support institutions, which are responsible for SME policy, are now in place. Active steps to promote SMEs include the establishment of business information centres and business incubators. The growth of the SME sector is difficult to assess, as the number of SMEs declined sharply in 2000, due partly to simplified de-registration procedures. However, 2001 saw an increase of close to 4%. The share of SMEs in total exports was 22.1% in 2000, and in imports 36.5%¹¹. SMEs have long had serious problems with access to funds. However, the situation has started to improve; increased competition in the banking sector and the setting up of a new institution, INVEGA, providing guarantees for SME loans, have contributed to this development. Still, SMEs should benefit from further simplifications of administrative procedures and a more uniform implementation of laws and regulations.

Government intervention in the economy has decreased substantially. The privatisation process is almost completed; all banks are now privatised. Trade policy is liberal. State aid has been reduced, from 1.36% of GDP in 1997 to 0.23% of GDP in 2000. In

¹⁰ Including agriculture, forestry, hunting, and fishing.

¹¹ The Lithuanian definition of SMEs differs from the EU definition, as only enterprises with up to 49 employees are included.

particular, support to manufacturing has declined. Market regulations have been liberalised and the reduction of regulatory barriers continues.

The Lithuanian economy is a highly open economy, and the EU is becoming increasingly important as a trade partner. Lithuania is conducting a liberal foreign trade policy, aimed at finding new markets and enlarging its market share of existing ones. In May 2001, Lithuania became a member of the WTO. Import tariffs for industrial products are comparatively low (3.8% in June 2001) but relatively high for agricultural goods (18.7%). Because of external demand shocks, the ratio of exports plus imports to GDP has been very volatile, and has varied between 90% and 120%. The ratio was lower in 2001 than in 1997. However, it has increased since 1999, and amounted to 106% in 2001. Merchandise exports to the EU as a share of total merchandise exports increased rapidly between 1997 and 1999, which was very much a reflection of the fall in demand from Russia in 1998 and 1999. With the recovery of the Russian economy, that share has fallen somewhat, from 50.1% in 1999 to 47.8% in 2001. The share of merchandise imports from the EU has been more stable, and has only deviated slightly from the 1997-2001 average of 45.1%. Overall, the Lithuanian trade structure is still characterised by a relatively low share of manufactured goods. Mineral products and textiles constitute the most important exports. Together they account for 39.7% of total merchandise exports. Partly as a consequence of higher oil prices, the share of mineral products has increased, from 17.8% in 1997 to 23.4% in 2001, whereas the share of textiles initially increased, but later decreased, and eventually reached the same level in 2001 as in 1997, i.e. 16.3%. Machinery and electrical equipment, and chemical products are also important, although their share in trade has continued to decline; their combined share has decreased from 21.4% to 17.1%.

External competitiveness has been maintained by strong productivity growth and moderate wage increases. The very strong nominal appreciation of the litas against the currencies of Lithuania's main trading partners was successfully contained by relatively strong productivity growth. Labour productivity has been growing by 5.4% per year on average. The two last years in particular have seen very high productivity growth, 7.8% and 10.3% respectively, induced by an acceleration of structural reforms, restructuring of private enterprises and substantial labour shedding. Wages increased rapidly in 1997 and 1998, but the increase slowed down considerably in 1999, and declined by 4.2% in nominal terms in 2001. Since 1998, wages have increased by 1.1% per year on average. As a result, and in contrast to the very strong rise in the nominal effective exchange rate, the export price-based real effective exchange rate increased only very slightly by around 5%.

2.4. General evaluation¹²

The 1997 Opinion already acknowledged the reform efforts undertaken by the Lithuanian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, in particular the Russian crisis, economic performance has improved. Macroeconomic stability has been achieved, reforms have accelerated while the Lithuanian authorities' commitment to the economic requirements of EU accession has been sustained.

¹² See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Hence, it is concluded that Lithuania is a functioning market economy. The continuation of its current reform path should enable Lithuania to cope with competitive pressure and market forces within the Union.

Improvements can be made to the labour market by addressing the high unemployment. The management of public finances should be improved, in particular by addressing, at municipal level, the accumulation of expenditure arrears. Furthermore, the completion of the pension reform, by the planned introduction of a funded compulsory pension scheme, should make public finances more sustainable in the long term and support the development of financial markets. In addition, strengthening the administrative and judicial capacity, and simplifying procedures, in areas relevant for the business sector, including in bankruptcy and enterprise restructuring, would enhance market entry and exit of companies.

3. Ability to assume the obligations of membership

Introduction

This section addresses the question of Lithuania's ability to assume the obligations of membership – that is, the legal and institutional framework, known as the *acquis*¹³, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2001 Regular Report, this section seeks to provide an overall assessment of Lithuania's ability to assume the obligations of membership, and of what remains to be done. Furthermore, it includes an evaluation of Lithuania's track record since the 1997 Opinion. It also provides, for each of the negotiating chapters, a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted.

This section is structured in accordance with the list of 29 negotiating chapters, and incorporates an assessment of Lithuania's administrative capacity to implement the *acquis* in its various aspects. Lithuania's progress in translating the *acquis* into its official language is assessed in a separate section.

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

In June 2002, the Seville European Council repeated how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level. Building on the assessment of Lithuania's administrative capacity provided in the 2001 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures required for implementing the various aspects of the *acquis*.

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

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

In the 2001 Regular Report, the Commission found that :

¹³ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Lithuania's application for EU membership.

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

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

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

As regards agriculture, Lithuania has continued to make progress in reforming its structures in the agricultural field. However important measures remain to be taken in particular regarding the further strengthening of the land parcel identification system, the enforcement and practical application of the management mechanisms of the Common Agricultural Policy and the further preparations for the paying agency. Lithuania has continued to make progress as regards food safety and the veterinary and phyto-sanitary sectors but still needs to strengthen further the implementation structures. Limited progress has taken place as regards upgrading inspection arrangements at the external border. As regards fisheries, progress has been made, in particular in terms of administrative capacity, but significant further work is needed in terms of preparation for the structural actions and market policy.

In the area of transport, Lithuania has made good progress notably as regards road transport safety, railways restructuring and civil aviation, including strengthening of the

relevant administrative capacity. However, there are still areas where considerable further progress is required, notably in terms of inspection capacities. As regards the energy sector, Lithuania has achieved a reasonable level of alignment, but needs to sustain its efforts, notably in the area of the Internal Energy Market. Further work is required also in the field of nuclear energy. Lithuania must confirm and implement its closure commitments and ensure a high level of nuclear safety.

In the field of social policy, Lithuania has made steady progress in transposition and implementation of the acquis. However, the new Labour Code and Law on Public Health still need to be adopted. Implementation and enforcement need to be given further attention. The social dialogue needs to be reinforced.

Lithuania has made further progress in the field of environment, where most of the framework legislation is in place. Implementation remains a major challenge, in particular in areas which require heavy investments or investments by private enterprises.

In the area of telecommunications, some progress has taken place in terms of alignment of the regulatory framework. The regulatory authority has become operational but needs to be strengthened.

In the field of Justice and Home Affairs, improvements have been made in strengthening the external border and addressing shortcomings in inter-agency co-ordination. These efforts need to be sustained. Lithuania has adopted a Schengen Action Plan.

In the field of regional policy and co-ordination of structural instruments, important decisions concerning the institutional structure for the management of Structural Funds have been recently taken. These decisions need to be implemented urgently through the strengthening of the administrative capacity, the development of effective inter-ministerial co-ordination and establishment of the framework for programming and implementing Community support while respecting the principle of partnership.

While some progress has taken place in the area of financial control, Lithuania needs urgently to strengthen considerably its capacity to implement and enforce the legislation on public internal financial control. Lithuania has made some limited progress in the area of financial and budgetary provisions, where the implementation of the 2000 Law on budget needs to be followed by further considerable efforts.

While continuing to pursue a prudent budgetary policy, Lithuania has made progress as regards the building of the administrative capacity which is necessary to implement and enforce the acquis. However, this capacity is still fragile and can easily be reduced if organisational structures are modified without careful attention. Sustained efforts are required to keep the administrative capacity acquired and to further develop it.

Overall, Lithuania has made satisfactory progress in meeting the short-term and, to a lesser extent, the medium term priorities of the Accession Partnership. In particular Lithuania has largely met several short-term priorities concerning economic criteria, internal market, energy and environment. Some short-term priorities, notably in the field of agriculture, remain to be addressed in full. Lithuania has partially met most of the medium-term priorities, but further efforts remain to be made in particular as regards the management and control of EC funds."

3.1. The chapters of the *acquis*

As indicated, the following review of Lithuania's ability to assume the obligations of membership has been structured in accordance with the list of 29 negotiating chapters. Accordingly, this section opens with an assessment of progress relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of progress on each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Progress since the last Regular Report

Since last year's Regular Report, Lithuania has continued to make steady progress in this domain.

As for **horizontal and procedural measures**, progress has continued in upgrading the general framework for the *New and Old Approach Directives*. An amount of approximately €95 000 was allocated for 2002 to the implementation of the Conformity Assessment Infrastructure Development Programme. In the field of standardisation, the speed of implementation of European Standards has risen. In the area of market surveillance, the National Consumer Rights Protection Council has started to function effectively and the facilities of the State Non-Food Products Inspectorate (SNFPI) were strengthened.

There has been further progress in the adoption of **sector-specific legislation**. Lithuania achieved further alignment with the *New Approach Directives* as regards *in vitro* diagnostic medical devices, pressure vessels, gas cylinders, radio and telecommunications terminal equipment and equipment for use in potentially explosive atmospheres. The Law on Construction, adopted in November 2001, entered into force in July 2002.

As regards sectors governed by the *Old Approach Directives*, considerable progress has been made in aligning with the *acquis* in the areas of cosmetics and detergents by abolishing pre-market authorisations in January 2002. As for pharmaceuticals for human use, the Ministry of Health approved in December 2001 the general rules on marketing authorisation for medicinal preparations, thus further aligning them with the Community Code relating to medicinal products for human use. In the field of pharmaceuticals for veterinary use, the Directive on veterinary medicinal products has been transposed. In May 2002, the Parliament adopted the Law on pharmaceutical activities. As for chemicals, the Law on control of poisonous substances came into force in January 2002. A poison control and information Bureau was established at the State Public Health Centre in November 2001. In December, the Government approved the procedure for carrying out an inventory on new chemical substances placed on the Lithuanian market. Following this procedure, producers and importers are required to present necessary data to the SNFPI by October 2002. Provisions of the Directive on confidentiality of chemical names were transposed in February 2002.

Several directives in the area of legal metrology were transposed in December 2001, further aligning national legislation with the *acquis*. Further progress is also to be

reported in the field of motor vehicles (entry into force of agreement on technical prescriptions, road vehicles and their part type approval).

In the field of food safety (*see also Chapter 7- Agriculture*), Lithuania has made further progress in adopting legislation on flavourings and on food for particular nutritional uses. Under the newly amended Food Law of June 2002, the State Food and Veterinary Service has been given the sole responsibility for food control. The National Nutrition Centre carries legislative responsibility in the area of foodstuffs and the National Food and Veterinary Consultancy Centre was re-organised in January 2002. The food control laboratory, within the framework of the National Veterinary Laboratory, was accredited for a further 51 chemical and 7 microbiological techniques.

The Law on arms and ammunition control was adopted in January 2002. As for cultural goods, progress has been made but full implementation of the Directive on return of cultural objects unlawfully removed from the territory of another Member State is outstanding.

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

In October 2001, the Lithuanian Accreditation Bureau became a signatory of Multilateral Agreements of the European Accreditation Organisation in the fields of testing and calibration laboratories and products certification bodies. The implementing legislation on the principles of good laboratories and the inspection and verification of good laboratories practice was approved in November 2001. By May 2002, there were 42 testing laboratories, 23 calibration laboratories, 6 product certification bodies, one quality systems certification body and one inspection body. A quality management association was established as a non-profit organisation. It brings together on a voluntary basis, industry enterprises, consulting companies, science and research institutes and individual quality experts.

The Lithuanian Standards Board (LST) is the national standardisation body. It established two new technical committees (for a total number of 63) covering about 60% of the CEN technical committees' scope and 40% of that of the CENELEC. Since last year's Report, Lithuania has increased its rate of adoption and implementation of European standards: as of June 2002, 7848 European standards (CEN, CENELEC, ETSI) out of 13282 were adopted. All European harmonised standards are translated into Lithuanian. More than 60% of EC certification is implemented in Lithuania. The certificate division of the LST had issued 11 certificates of compliance by December 2001.

The State Non-Food Products Inspectorate, as the official TRAPEX (system for transitional rapid exchange of information) contact point, has received 122 notifications on non-safe products and issued 67 reactions and 6 notifications about non-safe electrical appliances and toys detected on the Lithuanian market. It conducted in 2001, 6894 checks on non-food products. During 2001, the SNFPI implemented one programme for market control and another for laboratory tests of non-food products. Two additional programmes for management of dangerous chemical substances and preparation and quality control were implemented in 2002. Within the context of enforcement of the Law on Chemical Substances, the SNFPI has purchased software intended for management of

dangerous chemical substances and laboratory equipment for conformity assessment (*see also Chapter 23- Consumers and health protection*).

As regards free movement of goods in the **non-harmonised sector**, a comprehensive list of existing non-tariff barriers has been identified, including licensing and labelling requirements as well as price control mechanisms in certain areas.

Amendments to the Law on **Public Procurement** were adopted in May 2002, thus bringing Lithuania's legislation closer with the *acquis* in this area. As for administrative capacity, little progress has been made in strengthening the Public Procurement Office. It comprises 36 staff members divided into 4 major departments for an annual 2002 budget of approximately € 379 000.

Overall assessment

As regards sector-specific legislation for areas covered by Old Approach Directives, the State Public Health Service has 25 employees. In particular, among these staff, 2 employees are working only on cosmetics. Besides, in the State Public Health Centre, a division of 4 employees is responsible for notification of cosmetics. The transposition of the New Approach Directives has continued to progress well. The New and Global Approach is generally well established in Lithuania.

Some progress can be noted in aligning implementing legislation in standardisation, market surveillance as well as in conformity assessment. The financial resources and information technology infrastructure of the body in charge of standardisation should be increased and better involvement in this process of industrial organisations should be ensured. The transformation of the Lithuanian Standards Board into a non-profit body, which is underway, should be completed by the end of 2002.

As for market surveillance, on-site visits and checking by the SNFPI should also be done at factories. Further efforts should be devoted to developing control based on risk assessment and to improving dialogue with producers, suppliers and NGOs. A joint information system should be created between all different market surveillance bodies with a stronger involvement of the National Consumer Rights Protection Council.

As regards food safety, the pre-market authorisation of foodstuffs and other forms of control prior to marketing have to be abolished before accession. Lithuania should focus on adopting labelling and irradiation legislation. The State Food Veterinary Service needs to ensure better guidance of and reporting on inspection activities between central control level and regional levels. The National Nutrition Centre lacks financial resources to ensure speedy completion of transposition. In the context of preparing participation in the Rapid Alert System for Foodstuffs and Feed (RASFF), efforts should be maintained to speed up communications in case of crises, to designate the laboratories involved in those cases and to define more clearly the responsibilities of all authorities involved. As regards novel foods, Lithuania will need to clarify the procedures for the co-ordination of the competent authorities in assessing, authorising and controlling the products, finalise setting up scientific assessment body and to designate the laboratory in charge of genetically modified foods with a view to staffing, equipping and accrediting them on time.

As regards the non-harmonised area, Lithuania's authorities should continue the systematic screening of legislation that might not be compatible with Articles 28 to 30 of the EC Treaty and should take steps to eliminate it. Lithuania has yet to define measures with regard to the transposition of the principle of mutual recognition. The system of safety controls on borders for products imported from non-EU countries remains to be established.

Public procurement legislation still needs some fine-tuning, especially in the sector of utilities. Lithuania needs to ensure that also private enterprises fall into the scope of the law and that a number of definitions are harmonised with the *acquis*. Public procurement rules should be applied with more transparency and effectiveness. The Public Procurement Office needs to be further strengthened.

Conclusion

In its 1997 Opinion, the Commission concluded that significant progress had been made in a number of fields. However, efforts were still required on the alignment of technical legislation and with respect to standardisation and conformity assessment. It should be ensured that, in areas not covered by Community harmonisation, national laws did not hamper trade. As for public procurement, the Commission concluded that the process of approximation needed to be strengthened and that further amendments were necessary to meet all the requirements of the public procurement directives. The Opinion also stated that free circulation of goods should be achieved in the medium term.

Since the Opinion, Lithuania made steady progress in transposing legislation, although less so with regard to public procurement and food safety, and in reinforcing its testing and calibration capacities. Efforts to strengthen market surveillance were made. Further attention should be devoted to the non-harmonised sector and legislation on public procurement improved. Legislation is transposed to a broad extent, and the main administrative structures are in place but are not yet fully operational.

Negotiations on this chapter have been provisionally closed. Lithuania has been granted a transitional arrangement for the renewal of marketing authorisations for pharmaceuticals (until 1 January 2007). Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on completing alignment in the fields of motor vehicles, pre-packaging, electro-medical equipment in human/veterinary medicine, pressure vessels including aerosols dispensers, methods of inspection, seamless gas cylinders, and with regard to certain directives related to legal metrology and cableway installations. Lithuania's efforts also need to focus on developing infrastructure capacity in the areas of market surveillance and testing and certification.

Chapter 2: Free movement of persons

Progress since the last Regular Report

Since last year's Regular Report, Lithuania has further aligned its legislation with Community provisions.

In the area of **mutual recognition of professional qualifications**, further progress has been made in aligning national legislation on lawyers through the adoption, in December 2001, of the Law on the Bar, and on architects, through the adoption of the Law on Construction in November 2001. A working group for the preparation of the creation of a National Qualifications' Information Centre was set up in May 2002.

Good progress can be reported on **citizens' rights**. Since December 2001, procedures for issuing residence permits to EU nationals have been simplified. Important progress can be noted in the area of voting rights. Since the amendment of the Constitution in June 2002, all permanent residents of an administrative unit can vote in municipal elections. As far as the rights of EU citizens family members are concerned, Lithuania issued, from January to July 2002, 55 temporary residence permits to family members of EU citizens.

With the entry into force in January 2002 of the amendments to the Law on Legal Status of Aliens, Lithuania has made substantial progress in the area of **free movement of workers**. EU nationals and members of their families wishing to be employed in Lithuania no longer need to obtain a work permit.

Preparatory work has continued to facilitate Lithuania's participation in the European Employment Services system (EURES)

As regards preparations for the future **co-ordination of social security systems**, Lithuania has continued to apply its bilateral agreements with Finland and Sweden, which rely on the same principles as the Community rules in this area. This familiarises the administration with the procedures.

Overall assessment

Lithuania has achieved a relatively good level of alignment with the *acquis* in the area of mutual recognition of professional qualifications while some important work remains to be done. Primary legislation is largely in place and the process of adopting implementing legislation has started. However, further legislative work is necessary to achieve full alignment with the general system directives. Outstanding issues in the area of sectoral directives include alignment with EC legislation on certain specialised doctors, dentists, midwifery, nursing and architects. Shortcomings have been identified with regard to the curricula and training of these professionals and efforts will need to be deployed to align with Community requirements. Specific legislation is needed to enable midwives to work autonomously.

With respect to professional qualifications obtained before harmonisation, Lithuania needs to introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives. A major effort is needed in the short term to improve considerably training for nurses and midwives. By accession, it has to be ensured that all Lithuanian legislation is aligned with Community rules, in particular with respect to nationality, residence and language requirements. Legislation needs to be monitored to ensure that it distinguishes between academic and professional recognition and includes simpler procedures to allow for provisions of services.

The Ministry of Social Security and Labour co-ordinates the activities of the ministries and other institutions responsible for the recognition of professional qualifications. The Co-ordinating Commission in the field of Professional Qualification Assessment and

Recognition, established in 2001, co-ordinates the activities of institutions involved in this area. It prepares recommendations for government initiatives related to regulated professions. It also works on the establishment of a database on these professions and makes comparative analysis of qualifications requirements set in the *acquis*, and in the legal acts of Lithuania and other countries. The recently set up working group for the preparation of the creation of a National Qualifications' Information Centre should start operating without delay. Lithuania is starting to develop its capacity in this area and this work needs to continue.

With the adoption of legislation on voting and residence rights, Lithuania is now further in line with the *acquis* on citizens' rights. However, the legislation on voting rights still needs some fine-tuning in order to enable permanent residents to stand for municipal elections. In addition, legislation relating to voting rights in European Parliament elections must be finalised.

In the area of free movement of workers, Lithuania has reached a good level of alignment but the amendments to the Law on Trade Unions still need to be adopted and fully implemented.

Lithuania should continue efforts for future participation in the European Employment Services system (EURES), especially with regard to language training.

With a view to the future co-ordination of social security systems, further efforts are needed to develop an efficient social security co-ordination infrastructure. Administrative capacity, and especially the Lithuanian co-ordinating Commission, should be reinforced and contacts with present and future EU Member States intensified.

Conclusion

In its 1997 Opinion, the Commission concluded that the necessary structures were in place but that it was hard to assess their real effect and enforcement. It added that, from a technical point of view, adaptations of the regulations with regard to free movement of persons were feasible in the medium term.

Since the Opinion, Lithuania has made progress in aligning with the *acquis* in this area and has increased administrative capacity, including with regard to the mutual recognition of qualifications. The process of bringing Lithuania's legislation and structures in relation of free movement of persons into line with the *acquis* has developed satisfactorily. Lithuania has reached a reasonable level of alignment. Administrative structures are in place but are not yet operating satisfactorily.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangement in this area. Lithuania has agreed to a transitional arrangement in respect of free movement of workers put forward by the EU. Restrictions on the movement of workers from Lithuania to the EU will apply for a minimum two-year period as of the date of accession and may remain in force for a maximum of seven years. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on the adoption of outstanding legislation in sectoral professional areas, addressing

shortcomings in curricula and training and on ensuring appropriate administrative capacity with a view to the future co-ordination of social security systems.

Chapter 3: Freedom to provide services

Progress since the last Regular Report

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

In the field of the **right of establishment and the freedom to provide non-financial services**, there was no particular legislative progress.

In the field of **financial services** steady progress has been made in the area of *banking*. The Board of the Bank of Lithuania approved in October 2001 general provisions on stress testing and issued recommendations to the banks on the application and adoption of general bank risk management policy. It further implemented the directive on capital adequacy. In December 2001, the Board also approved the general provisions for organisation of bank internal control. The provisions define the purpose of bank internal control, extend its functions and ascertain the existing types of internal control. In January 2002, amendments to the general regulations on subordinated loans and the recording thereof in bank capital were approved. In February 2002, the Bank of Lithuania reduced commercial banks reserve requirements, thus continuing gradual alignment with the European Central Bank requirements.

As for prudential supervision, the Bank of Lithuania signed in December 2001 a co-operation agreement with the Federal Banking Supervisory Office of Germany and the Bank of Estonia. In November, the Bank carried out an assessment of the banking sector following the Basle Core Principles for Effective Banking Supervision. In this area, significant progress has been made in bringing the banking supervisory framework to a relatively high standard. However, the Bank of Lithuania should maintain regular dialogue with other supervisory bodies involved in banking supervision.

Concerning the **insurance sector**, much still remains to be done before full alignment is achieved. Progress has, however, been made with the adoption in September 2001 of the Rules on Compulsory Motor Third Party Liability Insurance of Vehicles Owners and Possessors. In November, the Bureau of Compulsory Motor Third Party Liability Insurance was established.

The Board of the State Insurance Supervisory Authority (SISA) adopted in December 2001 several regulations in the field of legal expenses insurance and rules on assistance insurance. The 1996 Law on Insurance, amended in February 2002, entered into force in June. It further aligns the legislation with the *acquis*. SISA issued 2 insurance licences between July 2001 and March 2002, 18 permits for insurance brokerage activities (one of which was revoked) and 94 permits for new products.

In the field of *investment services and securities markets*, the Law on Insurance Obligations of Commercial Banks and Investment Firms was adopted. It stipulates that the minimum coverage level on investor compensation required by EC legislation will be reached in 2008. The Law on Securities Markets was adopted in December 2001 and entered into force in April 2002, thus further aligning Lithuanian legislation with the

acquis in this area. The Lithuanian Securities Commission has the right to revoke investment firms' licences or restrict the scope of licensed services.

In the area of **protection of personal data and free movement of such data**, Lithuania ratified Convention 108 of the Council of Europe in June 2001 and signed, in November 2001, the Additional Protocol to this Convention regarding supervisory authorities and transborder data flows. Subsequently, the Law amending and supplementing the Law on Legal Protection of Personal Data was adopted in January 2002 in order to meet the requirements of the Convention. In February, the resolution on the reorganisation of the State Register of Personal Data Controllers, the approval of the regulations and the order on notification of personal data controllers about automatic processing of personal data came into force.

The State Data Protection Inspectorate has undergone a comprehensive restructuring: its staff has been significantly increased and it manages the State Register of Data Controllers, created in November 2001.

Some progress has been made in certain areas of **information society services** (in particular electronic commerce in the internal market) with the entry into force in April 2002 of the Regulation on certain aspects of information society.

Overall assessment

In the field of the right of establishment and the freedom to provide services, Lithuania has achieved a satisfactory level of alignment. Lithuania still has to identify and eliminate all potential obstacles to the provision of services in accordance with Articles 43 and 49 of the EC Treaty.

In the area of financial services, Lithuanian legislation is largely in line with the *acquis* and the Bank of Lithuania carries out satisfactorily its role of supervisory body in the banking sector.

In the field of insurance, the amendment of the Law on Insurance is a positive development but there are still shortcomings in the legislation in particular in the life and non-life sectors. The use of statistical data with regard to life insurance and motor vehicle insurance should be improved and widened. Regarding Third Party Liability Motor Insurance, the issue of appropriate insurance level against civil liability remains to be addressed. The 1998 insurance group directive still has to be fully implemented. The administrative capacity of the State Insurance Supervisory Authority should be strengthened and its independence guaranteed. A database containing general information about insurance companies under the early warning system has been created in order to reinforce administrative capacity. Closer co-operation among banking, insurance and securities supervisors is necessary to make the supervision effective and consistent.

As regards securities and investment services, the adoption of the Law on Securities Markets represents an important step forward towards full alignment with EC requirements. In contrast, the Law on Investment Undertakings does not yet fully implement the UCITS directive. The Lithuanian Securities Commission functions well, but efforts are needed to ensure that it has adequate enforcement powers and sufficient independence. Lithuania further aligned with the *acquis* by allowing the banks of

Member States to provide investment services once the Bank of Lithuania has licensed them. However, the Lithuanian Investment Fund Law still needs some fine-tuning.

As for data protection, Lithuania needs to conclude the work currently underway in order to amend the Data Protection Act and so to bring legislation fully in line with the *acquis*, including putting in place all the elements necessary for the complete independence of the data protection supervisory authority. The 2002-2004 Data Protection Development Programme, adopted in February 2002, needs to be effectively implemented. It aims to create an effective and reliable data protection system complying with EC requirements. It also intends to generate favourable conditions for individuals to protect the constitutional right of private life inviolability in the context of the information society, to promote the development of anti-piracy technologies and to create conditions for electronic public administration and electronic business. Lithuania should increase its on-going efforts on the training of officials dealing with personal data processing.

As for information society services, more work still needs to be done to further align with the *acquis*, especially in the field of conditional access.

Conclusion

In its 1997 Opinion, the Commission noted that full free establishment in the areas of banking, securities and insurance still had to be adequately introduced in the sectors' legislative frameworks and duly implemented. The Commission foresaw no major difficulties in achieving full compliance in financial services.

Since the Opinion, from a legislative point of view, Lithuania has made good progress in most areas of the chapter. Lithuania has achieved a good level of alignment in the banking field but more remains to be done in the area of services, in particular in the insurance sector. Legislation is aligned to a reasonable extent but administrative structures do not yet operate in a fully satisfactory manner.

Negotiations on this chapter have been provisionally closed. Lithuania has been granted an exemption for credit unions other than the Central Credit Union. Lithuania has also been granted transitional arrangements until 31 December 2007 for the implementation of the directives on investor compensation schemes and deposit-guarantee schemes. Lithuania is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts need to focus on alignment of its legislation and implementation regarding insurance services and data protection, including ensuring the independence of the data Protection supervisory authority. Further effort should also be devoted to aligning legislation in the field of information society services in particular as regards the transposition of the directive on the legal protection of services based on or consisting of, conditional access.

Chapter 4: Free movement of capital

Progress since the last Regular Report

Lithuania has made little further progress in terms of alignment with the *acquis* in this area since, in general terms, Lithuania has reached a high degree of alignment with the *acquis*.

As regards **capital movement and payments**, the amendment of the Law on Insurance of June 2002 and the Order of the Ministry of Finance of July 2002 abolished restrictions on insurance companies concerning, notably, investment requirements in state and municipality bonds, national investment requirements, regulation of investment of authorised capital and requirements concerning rating of foreign instruments. Through the amendment of the Law on Prevention of Money Laundering, which entered into force in July 2002, restrictions on the physical import and export of currency were abolished.

There has been no progress as regards **payment systems** during the reporting period.

There has been some progress as far as **the prevention of money laundering** is concerned. In March 2002 the Law on Prevention of Money Laundering was amended with a view to transposing the *acquis* requirements regarding the identification of bank customers. In April 2002, the Law establishing the Financial Crimes Investigation Service came into effect and the Financial Crime Investigation Service (FCIS) was established through a reorganisation of the Taxation Police Department under the Ministry of the Interior. The Law regulates the legal status and activities of the Service.

Overall assessment

As regards capital movement, Lithuania has achieved a high degree of liberalisation of capital movements and there are no restrictions on the inflow and outflow of capital by investment companies.

There is still a need to abolish the constitutional restrictions on the acquisition of agricultural land by foreigners and foreign legal persons and the authorisation procedures restricting the acquisition of non-agricultural land by foreigners. The other remaining restrictions are on the opening of accounts abroad for resident legal persons and entities without the status of a legal person, investment in the banking and lotteries sector, the application of special rights for the State in three privatised companies, cross-border operations of EC insurance companies, investment in foreign assets by Lithuanian pension funds and capital adequacy provisions for financial brokers concerning investments in EC markets.

With regard to payment systems, the level of alignment with the *acquis* achieved to date remains very limited. Substantial efforts need to be sustained with a view to aligning with the *acquis* and to ensuring the introduction and the effective operation of redress procedures as well as of a new interbank payment and settlement system, including a RTGS (Real Time Gross Settlement) system. The infrastructure in relation to payment and securities' settlement is in place.

As regards prevention of money laundering, in spite of some progress, Lithuania needs to further improve both its legislative framework and to reinforce its administrative

capacity. Efficient routines within the FIU in line with the requirements of the *acquis* should be established refocusing attention on predicative offences. Particular attention should be paid to the identification and the effective prosecution of suspicious transactions, notably related to drug trafficking. Lithuania needs to strengthen considerably the staffing and equipment of its FIU (which currently has only 8 officials). Training activities should be pursued for the FIU, Economic Police, prosecutors, customs officials, and bank managers and employees. Although the co-operation between the relevant authorities has been institutionalised, the reporting level from credit institutions to the FIU, in particular, needs to be increased.

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

Conclusion

In its 1997 Opinion, the Commission concluded that the Lithuanian government's efforts to liberalise its capital markets had met with success in some areas. The recommendations of both the White Paper and the Europe Agreement had largely been implemented. Further efforts were required in order to complete the liberalisation of Lithuania's capital markets, especially concerning cross-border restrictions on investment companies, but, given sufficient political will, this should not present a significant difficulty. Lithuania should have no difficulties in removing residual restrictions and assuming the Community *acquis* in the area of capital movement in the medium term.

Since the Opinion, Lithuania has made steady progress in aligning its legislation on capital movement and payments. Legislation is largely in line with the *acquis* as regards capital movement and payments while the alignment is still very limited in the area of payment systems and is not yet sufficient in the area of fight against money laundering. Administrative structures are mainly in place but they are not yet operating in a fully satisfactory manner.

Negotiations in this chapter have been provisionally closed. Lithuania has not asked for any transitional arrangements in this area. Lithuania is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on the abolition of the remaining restrictions to capital movement and, in particular, on the transposition and effective implementation of the *acquis* on payment systems and money laundering.

Chapter 5: Company law

Progress since last Regular Report

Since last year's Regular Report, Lithuania has made further progress in the area of company law and in the protection of intellectual and industrial property rights.

While Lithuanian legislation is largely in line with the *acquis*, no developments can be reported in the field of **company law** as such.

Further alignment on *accounting* was pursued through the adoption of the Law on Consolidated Financial Accounts and the Law on Financial Statements in November 2001. In January 2002, the Law on Financial Accounting came into force. In the area of *auditing*, the amended Law on Audit was adopted in May 2002. As of June, the Ministry of Finance certified 394 auditors and registered 202 companies. Since last year, the Chamber of Auditors has issued 17 audit standards.

As far as administrative capacity is concerned, the Government resolution of December 2001 established the Register of Legal Entities. In December 2001, the Institute of Audit, Accounting and Property Valuation was reorganised and the Institute of Accounting was established as a public institution with the responsibility of drawing up and publishing business accounting standards.

In the field of **industrial and intellectual property rights**, some progress has been made in the area of patent. The amended Patent Law entered into force in January 2002. These amendments transpose into domestic legislation the specific mechanism of the Supplementary Protection Certificate (SPC) for medicinal products and for plant products, thus further aligning national legislation with the *acquis*. The Law also provides for transposition of the *acquis* on legal protection of biotechnological inventions. The State Patent Bureau is responsible for the implementation of legislation on industrial property rights. It employs 63 specialists (16 in the trademark and industrial design Division). Since last year's Regular Report, it has granted 128 patents and extended 202 European patents in Lithuania.

As for intellectual property rights, the implementing legislation on reprographic reproduction and author's lending right was adopted in February 2002.

To enhance administrative capacity, the number of officers in the customs services has been increased by 22. Since April 2002, the responsibility for prosecution of infringements of intellectual property rights has been transferred from the Tax Police Department to the Board of Economic Crime Investigation Service and its territorial units. As for infringement, 37 criminal cases have been investigated, 186 administrative cases and 67 civil cases.

Since last year's progress report, the Strategy on the Protection of Copyright and Related Rights has focused on developing the enforcement system and on co-ordinating the activities of public administration institutions in this field.

As regards the **Regulation replacing the Brussels Convention**, on jurisdiction and enforcement of judgements in civil matters, the provisions of the Regulation have been incorporated into Lithuanian legislation through the new Code of Civil Procedure adopted in February 2002. No progress can be reported with the **Rome Convention** on the law applicable to contractual obligations.

Overall assessment

As regards Company law, Lithuania has increased the level of alignment although some discrepancies remain. The establishment of a Register of Legal Entities is a positive signal to the business community. However, the fact that the 60 municipalities still maintain a local register may prevent the Register of Legal Entities from functioning effectively. A register service network should also be established in order to apply the

principle of public disclosure of information on companies and the compulsory disclosure of information and documents by companies. As regards auditing and accounting, Lithuania has reached a fair level of alignment.

As regards industrial and intellectual property rights, Lithuania's Trademark and Patent Laws are well advanced. Lithuania should make sure that the latter also fully implements the Directive on legal protection of biotechnological inventions. The State Patent Bureau is responsible for the enforcement of these mechanisms. It has gained more importance since the Parliament now fixes registration fees for industrial products. In the field of trademark, the new version of the Law on Industrial Design needs to be adopted in order to further align with Community legislation and the TRIPS (Trade Related Aspects of Intellectual Property Rights) agreement on definitions of design, protection of design owners and licensing the design.

Further harmonisation is still required on provisions related to copyright in the information society and to the artist's resale right.

Training of officials and trademark enforcement have been improved notably following the signature in December 2001 of a memorandum of understanding with the Office of Harmonisation of Internal Market (OHIM). In 2001, the European Patent Organisation assisted the State Patent Bureau in introducing the new software for a registration system of inventions and trademarks.

With regard to intellectual property rights (IPR) enforcement, efforts have been made against piracy and counterfeiting thanks to the entry into force of the legislation on imports and exports of goods. Although training has taken place, administrative capacity is still insufficient. The Economic Crime Investigation Service is understaffed and under-experienced to deal with enforcement. To this extent, Lithuania should ensure that the shift of responsibility for enforcement of IPR from the Tax Police Department to the Board of Economic Crime Investigation Service does not entail a loss of expertise at the staff level. The Copyright and Related Rights' Division at the Ministry of Culture, which is responsible for horizontal enforcement, functions well but remains understaffed (it has only three employees).

There are two Lithuanian associations involved in the field of intellectual property: the Agency of Lithuanian Copyright Protection Association and the Agency of Related Rights Association. Their activities are carried out under supervision by the Ministry of Culture.

The situation regarding border controls and the extremely high level of pirated and counterfeit products remain a source of concern. Figures provided by the private sector indicate that pirated music in Lithuania is at 85%, pirated software at 56% and pirated videos at 90% (estimated). Weak border control encourages transshipment of pirated goods through Lithuania. Means of verification, training and resources of customs officials need to be strengthened as well as co-operation between the authorities involved in the enforcement of intellectual property rights. Public awareness should also be strengthened and right-holders further involved in the preparation of legislation. Court procedures should be simplified (judicial procedures are considered too lengthy and cumbersome) while sentences for intellectual property rights' infringements need to become more deterrent.

Conclusion

In its 1997 Opinion, the Commission stated that Lithuania had to make a big effort to adopt and implement intellectual and industrial property legislation to bring its laws in line with the *acquis*. It added that a smaller, but nonetheless significant, effort had also to be made on industrial property.

Since the Opinion, Lithuania has made steady progress in the field of company law and has improved the legal protection of intellectual and industrial property rights as regards criminal liability. Lithuania has reached a reasonable level of alignment and administrative structures are in place but are not yet operating in a satisfactory manner.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional agreement in this area. Lithuania has agreed to a proposal put forward by the EU relating to industrial property rights for pharmaceutical products and Community Trademark. Lithuania is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania needs now to focus on ensuring full alignment with the *acquis* in the area of industrial and intellectual property rights, on intensifying measures to combat piracy and counterfeiting, on strengthening border controls as well as training and more broadly, on further improving co-ordination between enforcement bodies (customs, police judiciary).

Chapter 6: Competition policy

Progress since the last Regular Report

Since last year's Regular Report, Lithuania has made further progress in this area.

In the **anti-trust** field, the *Competition Council*, which is the national anti-trust authority in Lithuania adopted, in December 2001, several block exemption acts in the insurance sector and issued a resolution implementing the principles of the Community's new policy on horizontal restraints. This resulted in further alignment and improvement of the anti-trust rules.

The Competition Council has continued to build on its enforcement record over the past year. In 2001, the Council adopted 73 anti-trust decisions, including 2 prohibitions (2 with fines). Recently, the main emphasis of the Council's anti-trust enforcement has been on infringements in markets for telecommunication, fuel and construction, with e.g. a fine for abuse of dominant position imposed on a company in the telecom sector in February 2002. During the most recent period, the Council has made an effort to increase its level of fines and has simplified investigation procedures.

In the field of **state aid**, on the legislative side, a number of implementing resolutions, notably on *de minimis* aid, were adopted during the reporting period. Lithuania has also proposed a compatible regional aid map for joint adoption by the Association Committee. The state aid report for 2000 follows the methodology and presentation of the "Survey on State Aid in the European Union".

The national state aid monitoring authority is the *Competition Council*. In 2001, a total of 7 state aid decisions were taken. Particular attention was paid to company restructuring. In January 2002, a first negative state aid decision was taken, and a second one followed in April.

Overall assessment

As regards antitrust, the overall assessment is positive, although further efforts are required. Lithuanian legislation was already largely in line with the *acquis*. The new Competition Law entered into force in 1999 and contains the main principles of Community anti-trust rules, as regards restrictive agreements, abuse of dominant position and merger control. As regards implementing legislation, Lithuania has introduced the main principles of the EC's new policies on vertical and horizontal agreements. The Competition Council is a fully independent authority. It has broad powers to enforce competition rules. Currently, the Council employs 55 civil servants (25 people are dealing with anti-trust, 7 with state aid and 6 (in the Legal Division) are involved in both). In the area of anti-trust, the most important challenge for the Competition Council is to continue to ensure the effective application and enforcement of the rules, giving priority to cases concerning the most serious distortions of competition. Efforts to create a more deterrent sanctions policy should be pursued. The rules governing the imposition of fines on companies breaching anti-trust laws should be improved. Increased awareness of the rules is important, especially among the business community. In view of the planned modernisation and decentralisation of the application of EC anti-trust rules, training efforts should be pursued, in particular with regard to the judiciary.

As regards state aid, further efforts are required. The Lithuanian Law on State Aid, which entered into force in 2000, contains the basic principles of EC state aid control. As for implementing legislation, most of the *acquis* has been implemented. The Competition Council has the necessary powers to enforce the state aid rules. Efforts to strengthen the administrative capacity of the state aid division should be continued (both in terms of expertise and number of staff members). Transparency in the field of state aid is satisfactory (thanks to the creation of a state aid register and to the annual state aid report). It is, however, necessary to ensure that all forms of state aid granted in Lithuania respect the transparency rules. In the area of state aid, the most important challenge for the Competition Council is to continue to ensure the effective application and enforcement of the rules, in particular in the area of the rescue and restructuring of ailing companies. Increased awareness of the rules is important, especially among aid grantors, the business community and the judiciary.

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania had made significant progress in satisfying the requirements as regards approximation of legislation whereas transparency was still lacking in the state aid field.

Since the Opinion, Lithuania has made steady progress in adopting anti-trust and state aid legislation and in developing the Competition Council's administrative capacity. Overall, on legislative alignment, administrative capacities and enforcement record Lithuania is reasonably advanced.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements in this area. Lithuania is generally meeting the commitments taken and the requirements for sufficient legislative alignment, administrative capacity and enforcement record, arising from the negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on ensuring that it continues to update its alignment as the *acquis* in the area evolves and, most importantly, on continuing to develop a track record of proper application and enforcement of both anti-trust and state aid legislation, notably in the area of rescue and restructuring aid.

Chapter 7: Agriculture

Progress since the last Regular Report

Since the last Regular Report, Lithuania has continued to make steady progress in the area of agriculture, both with aligning legislation and with strengthening administrative capacity.

In 2001, agriculture (including agriculture, forestry, hunting and fishing) accounted for 7 % of the gross value added as opposed to 7.7 % in 2000¹⁴. Employment declined slightly further accounting for 16.5 % in 2001 as opposed to 18.4 % in 2000¹⁵.

In 2001, overall agricultural trade¹⁶ between Lithuania and the EC increased significantly, largely due to the « double-zero-agreement » to liberalise trade in agriculture. EC imports of agricultural products originating in Lithuania increased by 42 % to € 187 million. EC exports to Lithuania increased by 4 % to € 276 million. The trade balance in favour of the Community amounted to € 89 million compared to € 134 million in 2000. EC imports were dominated by residues from food industries and dairy products. Miscellaneous edible preparations, fats and oils and fruit and nuts were the main export goods from the EC.

The new law on agriculture and rural development, adopted in June 2002 contains the main principles of agricultural and rural development policy and will bring Lithuania more closely in alignment with the EC Common Agriculture Policy. State budget allocations for agriculture, forestry, fisheries and veterinary matters for 2002 amount to almost € 191 million (LTL 659 million), out of which € 75 million (LTL 258 million) are allocated to the Special Rural Support Programme. The special rural support programme covers expenditures such as direct support of € 25 million (LTL 85.235 million), investment support of € 13 million (LTL 43.780 million), intervention support of 4.6 million (LTL 16 million) and the rural credit guarantee fund of € 2 million (LTL 7 million). State support to agriculture and fisheries accounts for 5.3 % of the 2002 state budget.

¹⁴ The source for all agricultural statistics is EUROSTAT unless otherwise specified

¹⁵ EUROSTAT Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

¹⁶ Source of trade figures: WTO definition of agricultural products, figures from EUROSTAT COMEXT (see U.E. 12/15: Commerce des produits agricoles 1998-2000, 1 Partie D.G. AGRI / G.2 Analyses quantitatives, prévisions, statistiques, études, 2001, pp. 10-57 et 86-89).

As regards land reform, during the reporting period the amount of land, for which ownership rights have been restored has increased from 79 % to 80.6 % (1 May 2002) (3.2 million hectares). The average number of land transactions has increased and is now approximately 2600 per month, representing on average 0.3 to 0.4 % of registered land. From July 2001 to June 2002 total land transactions (including leases) covered 314 400 hectares, representing around 10.8 % of registered land. Legal titles for farms have been issued for 2.91 million hectares (30 June 2002). The average farm size has increased from 12.6 to 17.2 hectares.

Horizontal issues

Lithuania has taken further steps in the implementation of the measures related to the *European and Agriculture Guidance and Guarantee Fund*.

As regards SAPARD, the Commission Decision conferring the management of aid to the SAPARD Agency, which will become the national paying agency upon accession, was adopted in November 2001. An action plan for the implementation of the necessary activities to operate and administer the *European Agricultural Guidance and Guarantee Fund* was approved in April 2002. Upon accession the current SAPARD Agency will assume the role of national paying agency. At present (June 2002) there are 60 persons employed at the headquarters and close to 80 persons at regional level. Since last year 10 additional persons have been employed to administer national pilot schemes and prepare for accreditation.

Lithuania has made good progress since last year in building up the *Integrated Administration and Control System*. Lithuania has opted for the methodology of physical blocks to build its land parcel identification system, i.e. blocks of parcels delimited by permanent boundaries such as roads, rivers, and forests. Lithuania already has aerial photographs covering its territory, with the exception of some border areas which are covered by satellite images. Blocks digitisation has begun in two pilot areas. The identification and registration of sheep and goats, which started at the end of 2001, is close to completion. The animal register is operational for bovine animals. However, certain deficiencies have been found in the database and the responsibilities of the competent authorities have not been fully defined. A working group on the register of agricultural and rural businesses has been established, but a governmental decision is expected before further steps can be taken.

Concerning *quality policy*, in December 2001 the Quality Division of the Ministry of Agriculture was charged with the task of preparing new legislation in line with the *acquis* regarding the protection of specific character, geographical indications and designations of origin for agricultural products and foodstuffs, as well as making the necessary preparations for the implementation thereof.

The legal acts for establishing the *Farm Accountancy Data Network (FADN)* have been in place since 2001. During the reporting period the technical facilities were upgraded in order to improve data collection, transfer, processing and quality. The national sample of farms increased to 1150 farms. The Government has set up a new schedule for the *agricultural census* with a view to completing it in 2003. It consists of the following different phases: technical, budgetary and methodological preparations, collection of data through a survey of land users, processing of data and publication of findings. During the first phase (June-September 2002) a pilot survey was conducted in three counties.

In March 2002 the *Organic Agriculture* Financial Order was reviewed and approved. An action programme is being developed to implement the rules. Currently there are 290 certified organic farms in Lithuania with a total certified area of 6450 hectares (compared to 230 farms and 4500 hectares in the previous year). The control of compliance with the rules is carried out once a year for farms. The frequency for inspections in processing establishments depends on the type of enterprise.

Common Market Organisations

Lithuania has made certain progress in approving rules and procedures in relation to intervention measures, sugar and animal products. Limited progress has been made in building up administrative capacity.

The Market Regulation Agency for Agriculture and Food Products is authorised to purchase, administer and sell surplus agricultural production. A staff training programme has been initiated. New procedures were approved in March 2002 for the payment of subsidies for cereals, potato starch, flax straw and milk and dairy products.

As regards *arable crops*, equipment was procured for assessing the quality indicators of grain and grain products. Subsidies for potatoes used for production of potato starch were set for the 2002 harvest.

The Law on charges in respect of white *sugar* in excess of the quota pursuant to the Law on sugar and the provisions of the sugar regime were adopted in January 2002. The procedures for intervention buying and selling of white sugar and for use of sugar for production of feeding stuffs were approved in November 2001.

In the area of *specialised crops*, the approval of mandatory quality requirements for fruit and vegetables continued during the period. At present 8 standards are being applied. The legal basis for implementing standards is in line with EC requirements. A decision to introduce a quality control system for imported and exported fresh fruit and vegetables and products supplied to the EU internal market was taken in January 2002. Training in quality inspection has been offered to some 40 inspectors of the State Plant Protection Service (SPPS) and the State Food and Veterinary Service (SFVS), and their respective administrative structures and procedures are being further developed. The existing two databases for traders of fruit and vegetables are located at the SFVS and SPPS respectively. At the moment there is no coordination between these databases. As regards producer organisations only a few fruit and vegetable cooperatives are operating.

As regards *wine*, a technical regulation amending the regulation passed in June 2001 on the terms, definitions and description of processes for alcoholic beverages entered into force in January 2002 and the main requirements for control and a single liaison body in the wine sector were approved by the joint order of the Minister of Agriculture and the Director of State Food and Veterinary Service. In May 2002, the Seimas passed the Law amending the Law on alcohol control, including amendments relating to documentation for the import of wine products into Lithuania.

As regards *animal products*, in December 2001 a number of rules regarding procedures for the calculation of the price for collected milk in accordance with the value of basic constituent parts, quality and other premiums were adopted. Requirements for keeping records of direct sales to consumers of milk and milk products and for applying reference methods for the analysis of milk and milk products were approved. Milk producers

selling milk directly to consumers were registered in the beginning of 2002. The national support scheme approved in March 2002 (investment support to farms with 5 or more milking cows and direct payments) aims to increase competitiveness of dairy farms and to facilitate the implementation of veterinary and hygiene requirements. A new standard for raw cow's milk, including stricter quality requirements for purchased milk, was approved by the Lithuanian Standardisation Department in April 2002.

Procedures partly in line with EC requirements for direct payments were also approved for ewes and suckler cows and for slaughtered adult bovine animals. The rules governing the pricing of cattle and pigs according to the weight and quality of carcasses were approved at the end of 2001. The legal basis for the introduction of the SEUROP system of classification of carcasses of pigs and cattle and a value-based payment system was adopted. As of May 2002, the classification of carcasses of pigs and bovine animals is obligatory for slaughter-houses with a certain capacity (weekly slaughtering capacity of 50 or more bovine animals and 100 or more pigs). Technical equipment for assessment of the quality of pig carcasses was purchased and installed in the relevant slaughterhouses. Training of pig- and cattle-carcass classifiers began in 2002 and 36 prospective classifiers have already received certificates.

Rural development and forestry

The most important achievement in this area was the accreditation of the SAPARD Agency in November 2001 (*see Section A.b. – Relations between the European Union and Lithuania*). The accreditation certified that the proper monitoring procedures had been established for the suitable functioning of the certifying body. *Agri-environmental* measures were implemented in two pilot regions. The requirements on the protection of ground water against pollution by nitrates from agricultural sources were approved.

During the period September-December 2001 25 courses were arranged for more than 700 farmers and agrarians by 24 specialised agricultural centres covering subjects such as new technologies and production methods, management of cooperatives, alternative economic activities in rural areas and agri-tourism, accountancy and management skills.

Veterinary and phytosanitary issues, including food safety

Some progress has been made in the veterinary field to ensure transposition of the acquis. Lithuania is currently adopting its technical legislation.

Veterinary control is implemented by the State Food and Veterinary Services, which are well equipped. The computerised systems are in place and reporting from different levels to central level is functional. The capacity of administrative structures was reinforced during the past year through training and the hiring of additional personnel.

As regards border inspection posts (BIP) the first (of 11) veterinary BIP constructed and equipped in accordance with the EC requirements, at Medininkai, was officially opened in October 2001. Construction is progressing well at some of the other border posts but is still in the planning stage in others. In 2001, 43 veterinary inspectors of the Border and Transport State Veterinary Service were trained in Lithuania on border veterinary control in line with EC requirements and 30 veterinarians were trained in EU Member States.

As regards the internal market control system, regional services and veterinary border inspection posts have been computerised and initial training was offered to the staff of

the central service and the regions in the beginning of 2002 in order to build up capacity for introducing the computerised network linking veterinary authorities ANIMO. The system encompasses 10 regional ANIMO units, the central veterinary service and 9 long-term veterinary border inspection posts. The register of animal dealers was established in October 2001, and the rules for purchasing animals intended for slaughter were approved.

In the field of control of *animal health*, contingency plans for control of foot-and-mouth disease and classical swine fever as well as rules for the development of programmes for the eradication and monitoring of certain animal diseases were approved in 2002. In January 2002 a link to the Animal Disease Notification System (ADNS) was established, enabling notification of animal diseases in line with the EC requirements. As regards *animal welfare* detailed controls at chicken, calf and pig farms were initiated in 2001.

The scope of accreditation of the Food Control Laboratory (within the National Veterinary Laboratory) was extended to 76 chemical and 37 microbiological methods for checks on foodstuffs of animal origin, and certain checks on foodstuffs and fodder of non-animal origin.

Until now only a small percentage of establishments (with more than 20 employees) followed HACCP principles. For smaller establishments the competent authorities consider that good manufacturing practices and good hygiene practices are sufficient. During the reporting period, two meat-processing establishments were granted the EC veterinary-sanitary numbers for the right to export. The three fresh-meat establishments that had received veterinary-sanitary numbers in the previous period for beef received approval for pigmeat, and 1 fish-processing enterprise was also granted the veterinary approval number.

Further improvements have been made in BSE testing by the introduction of new test methods. The major concern in this field is the rendering of *animal waste*. There are plans underway to reconstruct the existing rendering plant, which at present does not meet EC standards. In March 2002, the rendering plant was included into the list of privatisation subjects under fast track procedures.

Lithuania is also implementing a national plan for upgrading food establishments to meet EC requirements. All establishments that propose to operate after accession have been inspected by the competent authority and a plan to correct any deficiencies has been drawn up. Lithuania should ensure that all deficiencies are covered, and that upgraded plans fully reflect the relevant EC requirements.

In the **phytosanitary field**, legislative progress has been made with the entry into force of the Law on seed cultivation. Improvements have been made in the laboratory infrastructure and control measures for potato ring rot have been approved. The State Plant Protection Service organises and executes specialised courses and training for specialists each year.

In 2001 the Plant Protection Division of the State Plant Protection Service, responsible for the assessment of registered data on the plant protection products, was expanded by three posts. The procedure for the implementation of the registration of the phytosanitary register was approved in November 2001 and registration started early in 2002 of all importers of plants, plant products and other objects subject to phytosanitary control, producers of seed potatoes, owners of fruit tree nurseries and commercial gardens. During the reporting period, the material facilities of the State Plant Variety Testing

Centres were upgraded and information technology training offered. As a follow up to the control measures against potato ring rot which were adopted in the previous reporting period, measures enforcing the phytosanitary control of potato ring rot were adopted by ministerial order in July 2002. These measures include an action plan for the decimation of sources of potato ring rot.

The law on seed cultivation, establishing the principles of certification of *propagating material*, quality control in the domestic market and import requirements, entered into force in April 2002. The new mandatory quality requirements for vegetable seed are in force since February 2002. The quality-testing unit of the State Seed and Grain Service under the Ministry of Agriculture was accredited by the International Seed Testing Association (ISTA) in November 2001 and has been authorised to issue ISTA certificates. The technical facilities were improved by purchasing laboratory and computer equipment for testing and assessing the quality of propagating material.

As regards feedingstuffs, in the second half of 2001 a Commission for registration of new raw materials for and additives in feedingstuffs was set up, and additional implementing legislation in line with the *acquis* was adopted. The State Seed and Grain Service was authorised to issue production and marketing authorisations for entities engaged in activities related to the production, storage, use and placing on the market of feedingstuffs.

In November 2001, the Phytosanitary Research Laboratory of the State Plant Protection Service improved testing (introduction of polymerase chain reaction) for the diagnostics and identification of harmful organisms. In March 2002, the reduced list of quarantine weeds, covering 9 species of weeds, was approved.

Further strengthening of the administrative structures for border controls has taken place. Construction activities have started at five phytosanitary border posts.

As regards **food safety** (*see also chapter 1 - Free movement of goods*), the upgrading of food processing establishments has been progressing well, particularly in the milk sector, though the meat sector is less advanced. Lithuania has established a detailed action plan to tackle this problem and the establishments have produced upgrading plans in order to be in compliance by the date of accession. All state-owned processing establishments in the fruit and vegetables sector were restructured (privatised or liquidated) in 2000. As of January 2002 there were 15 fruit-and-vegetables processing enterprises operating in Lithuania.

BSE testing measures are being implemented and they have been increased considerably since the previous report. Training has been offered to officials, private practitioners and farmers. Further work is required to meet EC standards regarding animal waste processing, and to realise the plans to reconstruct the processing facility.

Overall assessment

In terms of preparations to apply the Common Agricultural Policy, Lithuania has taken further steps to build up the required administrative capacity and information systems to implement the *acquis*.

As regards land reform, slow progress is still a strain on the development of the agricultural sector in Lithuania, and on adequate identification of land for CAP purposes. Effective ways of moving the process forward need to be found. There is still a need to abolish the constitutional restrictions in the acquisition of agricultural land by foreigners and foreign legal persons.

With regard to **horizontal issues**, continued efforts are needed to strengthen the capacity of the future national paying agency. Although the setting up of the Integrated Administration and Control System has advanced, further efforts are still needed to implement the Land Parcel Identification System and to carry out the digitalisation of land parcels. This matter needs to be given urgent attention as a key factor in ensuring that Lithuania has a functioning IACS by the date of accession.

The competent authorities for the database for bovine animals should be clearly defined and the coordination between different authorities improved. The database needs to be further developed and the deficiencies corrected. The development of the register of agricultural and rural businesses (farm register) should proceed. The capacity of the Market Regulation Agency for administering trade mechanisms should be strengthened.

In relation to **Common Market Organisations**, procedures have been approved for establishing support schemes that are more in line with the EC requirements for a number of product groups. However, besides cereals the existing national support schemes do not correspond to EC requirements. More progress is needed in setting up the necessary administrative structures for the management of the CAP, and to increase capacity at the Market Regulation Agency through training. Capacity in the field of quality evaluation, control system and marketing requirements needs improvement in terms of training, development of infrastructure and control documentation. Co-ordination should be achieved between the two databases on traders in fruit and vegetables and the development and implementation of rules (risk analysis and inspection) and standards (for potatoes) in this area should continue.

Lithuania is well advanced in building up administrative capacity for implementing **rural development** policies, as a result of the accreditation of the SAPARD Agency. Practical progress in implementation of rural development measures can be noted too, in particular with the implementation of the pilot agri-environmental measures, which will assist in the preparation of full-scale post-accession measures. Lithuania should continue development of its Rural Development Plan and Structural Funds' rural development priority.

As regards the **veterinary field**, while Lithuania is well advanced in the transposition of legislation, implementation of the *acquis* still needs further attention, in particular in the field of animal waste and establishments.

Additional efforts are needed to complete the upgrading of the inspection arrangements at future external borders, including the adequate application of EC procedures as well as construction of technical facilities.

The legal basis for implementing the ANIMO system needs to be established.

As regards animal health and animal diseases Lithuania needs to proceed with the establishment of contingency plans and to create a reserve fund covering compensation expenses in the event of an outbreak of an infectious disease.

Considerable steps have been taken with setting up plans for upgrading food establishments. This issue will require further efforts and the national plan will have to be updated on a continuous basis. In addition, the upgrading plans will require review. Close monitoring from the Lithuanian State Food and Veterinary Service will need to be ensured. Particular attention should be paid to adhering to the strict timetable that has been set for the reconstruction of the animal-waste treatment plant and to adopting the necessary legislation.

The identification and registration of sheep and goats is close to completion. The identification and registration of pigs remains to be completed. As regards the setting up of the bovine database there are still problems to be overcome in order to align with the *acquis*.

In the **phyto-sanitary** domain, the State Plant Protection Service, responsible for implementing the national plant health policy measures, has a clear structure and is providing certain working instructions to the regional level. However, its coordination and evaluation tasks should be reinforced. Although improvements have been made in the phytosanitary research laboratory, further upgrading of facilities and an increase in staff numbers will be required. Phytosanitary control on the internal market needs to be strengthened.

As regards plant health protection a clear distribution of the responsibilities of the different authorities regarding the authorisation of plant-protection products is required and sufficient resources guaranteed for assessment work. The plant passport system has to be set up.

The introduction of the requirements concerning control of potato ring rot needs to be supervised carefully.

The process for the establishment of phytosanitary border inspection posts in line with the *acquis* has started, but the process needs to be very considerably speeded up, if these are to be operational by the date of accession.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), considerable steps have been taken, particularly regarding the upgrading of food establishments and the increase in measures to deal with BSE, although further improvements are needed to the level of targeted testing. Supervision needs to be reinforced to guarantee uniform implementation of control measures. The developments in food establishments should be monitored closely. Rationalisation of the work of laboratories dealing with food safety controls could further improve effectiveness in this area.

Conclusion

In its 1997 Opinion, the Commission concluded that substantial sustained efforts of alignment to the *acquis* were still necessary although progress had been made in adopting the measures mentioned in the White Paper. Particular efforts were needed in relation to implementation and enforcement of veterinary and phytosanitary requirements and upgrading of establishments to meet EC standards (an aspect of particular importance with regard to the inspection and control arrangements for protecting the EU external border); strengthening of the administrative structures to ensure the necessary capacity to implement and enforce the policy instruments of the CAP, and further restructuring of the

agri-food sector to improve its competitive capacity. The Commission further pointed out that since only a limited number of the mechanisms of the common agricultural policy existed a fundamental reform of the agricultural policy would be needed, and a substantial effort would be necessary to prepare for accession in the medium term.

Since the Opinion, Lithuania has made considerable progress towards alignment with the EC *acquis*, in particular over the past two years, and has also recently progressed with developing the necessary administrative capacity to implement the *acquis* in this area. Transposition of legislation is proceeding well. Administrative structures are partly in place and further efforts are needed to strengthen the administrative capacity.

Negotiations on this chapter continue, although all negotiation issues in the veterinary and phytosanitary fields have been clarified. Lithuania has been granted transitional arrangements for public health in a number of slaughterhouses and meat, poultry, dairy and fishery plants (until three years after the date of accession), a transitional arrangement for the implementation of full control of potato ring rot (until two years after the date of accession), and a transitional arrangement related to plant variety rights (until seven years after the date of accession, to be dealt with under the appropriate procedures). Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on finalising alignment; further reinforcing the administrative capacity to implement and enforce the *acquis*, in particular as regards the Integrated Administration and Control System, the paying agency and intervention measures; and concluding the process of agricultural reform. In the veterinary field and that of food safety, particular attention should be given to ensuring that animal waste treatment, the establishments and inspection arrangements at the external borders are duly upgraded to meet Community Standards.

Chapter 8: Fisheries

Progress since the last Regular Report

Since the last Regular Report, Lithuania has made some progress in terms of alignment and administrative capacity; however many issues still remain to be addressed.

As regards **resource management, inspection and control**, progress has been made. In the field of management and conservation of fishery resources, further to an order of the Minister of Agriculture in December 2001, all Lithuanian vessels fishing in high seas are obliged to fill fishing logbooks and to submit the copies of logbook sheets to the Fisheries Department. In April 2002, an Order of the Minister of Agriculture on Regulations of First Sales of Fish was issued. By this order, sale notes in line with the EC requirements will be introduced from January 2003. The Vessel Monitoring System has become operational, although software compatible with EC specifications still has to be installed for the Fisheries Monitoring Centre.

The administrative capacity in the fisheries sector was strengthened by establishing the Klaipeda Division of the Fisheries Department under the Ministry of Agriculture in March 2002. The main functions of this division are to control utilisation of fishing quotas, maintain the Fisheries Monitoring Centre, gather and analyse the data on the

utilisation of fishery resources, and to co-operate with fish processing companies and producer organisations in the fisheries sector. In order to further strengthen co-ordination between the Ministries of Agriculture and Environment, in May 2002, a co-operation plan in the fisheries field between two Ministries was approved by a joint order of the Ministers of Agriculture and Environment.

As regards **market policy**, in April 2002 the Minister of Agriculture issued the Order on the Common Organisation of the Market in Fishery products in line with the *acquis*, introducing market intervention mechanisms, guide, withdrawal and selling prices, financial compensation, compulsory marketing requirements and requirements regarding consumer information about fisheries products offered for retail sale. This Order will come into force upon accession.

In the field of **structural actions**, a fleet management plan is being prepared. By Order of the Minister of Agriculture of March 2002 on the Fishing Vessel Register, a vessel registration form was created (for the purpose of entering a vessel into the register). However, the Fishing Vessel Register has not yet been completed.

As regards **state aid to the fisheries sector** and **international fisheries agreements** there has been no development.

Overall assessment

Further efforts are needed in order to finalise the necessary legislation on market and structural policy. In particular, the procedures and requirements for the recognition of producers' organisations are not yet in line with the *acquis*.

The Centralised Fisheries Data Base on the utilisation of fishery resources needs to be established. The Fisheries Monitoring Centre and the Marine Environment Protection Agency need to be strengthened. The staff in the Klaipeda Fisheries Scientific Research Laboratory needs to be increased and the equipment modernised. Co-operation among all the authorities involved in fishing activities has to be strengthened in order to ensure efficient management of resources. More efforts are needed to improve control and inspection functions, in particular through the completion of construction of a new port and facilities in Klaipeda and the acquisition of new navigation equipment and inspection vessels. Lithuania still needs to strengthen inspection capacity, in particular by upgrading and intensifying inspections and controls and improving capacity for controls on the high seas. Lithuania still needs to finalise the installation of the fishing vessel register and the training of staff to operate it.

The policy aiming at upgrading production quality must be pursued: up to now only 9 out of 58 processing enterprises have been granted an EC export certificate.

Legal acts on structural measures in the fisheries sector still need to be adopted. The preparation of programming documents within the Single Programming Document has been initiated.

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

Lithuania is a member of several regional fisheries organisations, in particular, the International Baltic Sea Fisheries Commission and the North Eastern Atlantic Fisheries

Commission, and has bilateral fisheries agreements with the Russian Federation, the United States and Canada.

Conclusion

In its 1997 Opinion, the Commission concluded that significant efforts were needed to adapt the sector for accession. The integration of the Lithuanian fisheries sector into the Common Fisheries Policy was not expected to cause major problems.

Since the opinion, Lithuania has progressed, though not consistently so. In particular, progress has been slow in establishing the Fishing Vessel Register and, more generally, as regards implementation and enforcement. Legislation has been aligned to a reasonable extent although there are gaps notably as regards market and structural policy. The administrative structures have been partially established.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements in this area. Lithuania is meeting the majority of the commitments it has made in the accession negotiations in this field. However, delays have occurred on the completion of the fishing vessel register. This issue must be addressed.

In order to complete preparations for membership, Lithuania's efforts now need to focus on adopting the outstanding legislation notably as regards market policy and structural actions, as well as to further reinforcing its capacity for implementation and enforcement, in particular as regards control and inspection functions.

Chapter 9: Transport policy

Progress since the last Regular Report

During the past year, Lithuania has continued to align its legislation with the *acquis* and made further progress, particularly in the field of road and maritime transport, as well as strengthening administrative capacity in those fields.

As regards **Trans-European Transport Networks**, during the last year investment in transport infrastructure under the State Investment Programme amounted to LTL 226 million (€65.5 million).

In the **land transport** sector, progress was achieved in the field of *road transport*, also through the adoption of secondary legislation. In December 2001 the Law on the Financing of Road Maintenance and Development was adopted, aligning Lithuanian vehicle taxes with the fiscal harmonisation *acquis* on charging for heavy goods vehicles. In March 2002 the Law on Transport Activity was amended, stipulating principles of public administration in transport and regulating transport activities, notably in the field of public service obligations. Furthermore, in March 2002 an Amendment to the Road Transport Code introduced a licensing system for domestic road haulage operators. If engaged in domestic transport, operators will have to fulfil the relevant professional competence criterion under secondary legislation still to be issued. With regard to transport of dangerous goods, an important step forward was the adoption of the Law on Carriage of Dangerous Goods by Roads, Railways and Inland Waterways in December 2001 and the adoption of further secondary legislation. In October 2001, Lithuania

ratified the INTERBUS Agreement on the international occasional carriage of passengers by coach and bus. The State Road Transport Inspectorate performs key supervisory and control functions and an increase of staffing levels by 14 additional experts has been approved for 2002.

On *railways*, restructuring of the JSC Lithuanian Railways continued on the basis of the restructuring programme approved by the Minister of Transport and Communications in June 2001. Further alignment with the *acquis* took place through the adoption of secondary legislation delegating regulatory functions to the State Railway Inspectorate. The State Railway Inspectorate has started to recruit its new staff. It currently has 13 employees and will recruit another 11.

On *inland waterways* transport, more secondary legislation was passed, in particular concerning conditions for obtaining national boatmaster's certificates.

As regards **air transport**, Lithuania had already aligned its legislation with a substantial part of the aviation *acquis*. More secondary legislation was approved and Lithuania continues to progressively incorporate the Joint Aviation Requirements (JARs) into its legal system. The reorganised Civil Aviation Authority (CAA) functions smoothly. In January 2002 new rules on Investigation of Aircraft Accidents and Incidents were approved, which if need be are applied by the independent Civil Aviation Accident Investigation Commission.

As regards **maritime transport**, Lithuania has made progress, including with regard to maritime safety issues. Further alignment with the *acquis* took place through the adoption of secondary legislation, as the Order on Certification of Maritime Equipment and the Order on Registration of Sea-going vessels.

In March 2002 the Government approved the "Lithuanian Shipping Development Strategy", which aims at introducing a broad and fundamental policy approach in the field of maritime transport. The strategy covers the commitment to adhere to and implement all international maritime safety regulations, to ensure fair competition in the shipping market, and to further develop seafarer's training.

In June 2002 the new independent body of the 'Lithuanian Maritime Safety Administration' (LMSA) was established, with the status of a budgetary institution. All functions relating to maritime safety that previously came within the responsibility of Klaipeda State Seaport Authority have been transferred to the LSMA. It currently has more than 60 employees and the employment of another 50 is scheduled during the next three years, especially with a view to strengthening the quality of Port State control and Flag State control by the Maritime Inspectorate. In co-ordination with the department of International Relations, the Maritime Inspectorate will also have to draft national requirements in the field of maritime safety and pollution prevention.

According to 2001 statistics under the Paris Memorandum of Understanding, the percentage of Lithuania flag vessels detained following Port State control was 7.4%, a further decrease compared with 2000 (8.3%) and 1999 (9.8%). This compares with an average for EU-flagged vessels of 3.14% in 2001.

Overall assessment

As regards Trans-European Transport Networks, Lithuania has a well developed network and should continue with the further modernisation and development of both the priority transport infrastructure along transit corridors I and IX as well as the main transport infrastructure network. The capacity of the Ministry of Transport to prepare, manage and monitor transport projects should be strengthened as particular problems were encountered with the projects in the rail sector.

As regards road transport, Lithuania is now well advanced in terms of legal alignment with the relevant *acquis*. Further efforts are still to be made with the transposition and implementation of social rules (admission to the occupation and driving times and rest periods), in particular for domestic road transport operations. Administrative capacity should be strengthened, in particular through the continuation of specialised staff training and the upgrading of technical office equipment. The increase of staffing levels in the State Road Transport Inspectorate by 14 experts in 2002 and the plans to recruit another 14 experts in 2003 are satisfactory.

In the railways sector, considerable further efforts are necessary in order to allow for the implementation of the revised railway *acquis*. Legislative alignment needs to be completed, special attention should be paid to how the essential functions of infrastructure management are organised and carried out. The restructuring and modernisation of the sector should continue in order to make rail transport more competitive and cost-effective. The capacity of the State Railway Inspectorate and other railway administrations needs to be strengthened.

As regards the inland waterways sector, alignment with the applicable *acquis* is practically completed. The sector consists only of an inland waterway fleet with limited tonnage, as Lithuania has a non-connected network of navigable inland waterways.

As regards air transport, administrative capacity is satisfactory, thanks to the effective functioning of the Civil Aviation Administration; however, special attention should be paid to additional training of specialised staff. Lithuania incorporates the Joint Aviation Requirements (JARs) into its legal system according to a fixed timetable until the end of 2003.

As regards maritime transport, the progress made through the adoption of the 'Lithuanian Shipping Development Strategy' and the recent setting up of the 'Lithuanian Maritime Safety administration' is encouraging. Lithuania is committed to continuing legislative alignment and to strengthening the enforcement of EC legislation on maritime safety. Despite a constant decrease since 1998, Lithuania flag vessel detention rates as a result of Port State control inspections under the Paris Memorandum of Understanding are still well above the average for EU-flagged vessels. The strengthening of Flag State implementation policy and resources remains an area for special attention.

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania was likely to be able to comply with most of the Community transport *acquis* (air, rail, road, maritime) in the medium term. The Commission encouraged Lithuania to devote adequate attention in the pre-accession period to safety improvements (particularly in maritime safety),

harmonisation of environmental standards in transport (air pollution, noise), and *acquis* implementation for road transport of goods and for railways. The Commission added that it would also be necessary to make sure that the resources were available to lay the foundation for extension of the Trans-European transport network to the acceding countries, and that Lithuania's administrative structures should be reinforced, including the supervisory bodies.

Since the Opinion, Lithuania has made steady progress in aligning legislation. Its legislation in the transport sector is now to a great extent in line with the EC *acquis*; the relevant framework laws are in place and only a limited amount of secondary legislation remains to be implemented. Administrative structures are largely in place, but need further strengthening.

Negotiations on this chapter have been provisionally closed. Lithuania has been granted transitional arrangements on the introduction of the financial standing criterion for domestic road transport operators (until 31 December 2006), the installation of tachographs for vehicles produced before 1987 and exclusively operating on the domestic market (until 31 December 2005), and the use of Kaunas International Airport by noisy aircraft (until 31 December 2004). Lithuania has agreed to a transitional arrangement put forward by the EU concerning the gradual reciprocal access to the cabotage market in the road haulage sector. Lithuania is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on the implementation of the fiscal and social/technical *acquis* in the road sector, further legislative alignment in the rail sector, progressive transposition of the Joint Aviation Requirements (JARs) and continuous improvement of the maritime safety record. Particular attention will need to be paid to further strengthening the maritime safety authorities, and guaranteeing their independence.

Chapter 10: Taxation

Progress since the last Regular Report

Since the last Regular Report, Lithuania has made significant progress with aligning its tax legislation with the *acquis*. The reform of Lithuania's tax administration has also made some progress.

In the area of **indirect taxation**, a new Law on VAT was adopted in March 2002 and came into force in July 2002. The Law defines the concept of taxable scope, taxable persons and taxable transactions and sets steps towards abolishing the present exemptions and reduced rates incompatible with the *acquis*. Some exemptions were abolished as of the entry into force of the Law. The Law also regulates the VAT refund scheme for foreign taxable persons not registered in Lithuania and the reverse charge mechanism. As for excise duties, the Law on Excise Duties was adopted in October 2001 and entered into force in July 2002. The Law regulates the introduction of the tax warehouse and duty suspension system as well as the introduction of combined excise duty rate for cigarettes in October 2002.

In the field of **direct taxation**, the new Law on Profit Tax was adopted in December 2001 and came into force in January 2002. The corporate profit tax rate was reduced from 24% to 15%. The new Law on Personal Income Tax was adopted in July 2002.

As regards **administrative co-operation and mutual assistance**, there is no progress to report.

Some measures have been taken to reform and strengthen Lithuanian's tax administration with respect to tax audit performance, application of sanctions, examination of tax disputes, enforcement and postponement of debts. Progress can also be noted in the development of the Integrated Tax Information System. As from May 2002, the data warehouse of the State Tax Inspectorate (STI) is fully operational. The newly developed data warehouse includes VAT and income declarations, customs data, and information from audits and payments. The implementation of the new Excise Information System started in April 2002.

In February 2002, an International Information Exchange Division was established at the STI in order to ensure effective exchange of information with foreign tax administrations. In addition to its established functions for mutual assistance in the field of direct taxation, this division will be responsible for implementing the *acquis* on administrative co-operation in the field of indirect taxation. This division will then function as a Central Liaison Office and an Excise Liaison Office. A co-operation agreement with the Financial Crime Service of the Ministry of Interior represents a further development in terms of inter-agency co-operation.

During the reporting period, a pilot version of the centralised taxpayer register was introduced in all county tax inspectorates, along with optical symbol recognition and scanning technologies, in order to accelerate the processing of data from VAT declarations. The establishment of Taxpayer Supervising Units in all county tax inspectorates was completed by January 2002. Their main tasks are to improve the collection of information on taxpayers, to examine taxpayers' business activities in a more effective manner and to analyse the risks of tax evasion and avoidance.

A new system was introduced in February 2002 for local tax authorities to process and report information concerning tax fraud cases disclosed and sanctions applied on the basis of information request responses submitted by foreign tax authorities. In January 2002, special anti-fraud units (VAT Control Units) started functioning. Their main task is to investigate tax fraud and criminal activity related to VAT refunds. Furthermore, a Methodology on Control of VAT Refund was approved by an order of the Head of the STI in January 2002.

Overall assessment

With regard to alignment of indirect tax legislation, further efforts are still required. As regards VAT, some exemptions and the application of the reduced rates on certain goods and services will have to be abolished before accession. As regards excise, the rates on mineral oils should be increased in order to reach the EC minimum levels, and provisions on the registration of traders should be introduced. Further alignment is necessary with respect to the legislation on free economic zones. Therefore, it is important that the necessary amendments to the tax legislation should be adopted.

As regards direct taxation, Lithuania needs to further align its legislation with the *acquis*. Action will have to be taken to amend the legislation to eliminate potentially harmful tax measures, so as to comply with the Code of Conduct for Business Taxation to the same extent as current Member States upon accession. The Commission's initial technical assessment of potentially harmful measures applied in Lithuania is ongoing.

There is still a need to strengthen capacity in the tax administration in order to effectively implement the tax *acquis*. Considerable efforts are required to improve the tax collection capacity and efficiency of the STI, in particular as regards revenues from VAT. The process of strengthening and modernising the STI requires recruitment of additional staff. Training and human resource development should continue to be seen as a priority, particularly in the areas of audit and tax collection enforcement. Monitoring and auditing functions should be strengthened, especially as concerns tax warehouses. The integrated tax information system and the new excise information system should also be further developed and need to be made fully operational.

Conclusion

In its 1997 Opinion, the Commission concluded that the *acquis* in respect of direct taxation should present no significant difficulties, and that where indirect taxation was concerned, Lithuania should be able to comply with the *acquis* on VAT and excise duties in the medium term, provided a considerable effort was made. The Commission added that it should be possible for Lithuania to start participating in mutual assistance as the tax administration developed its expertise in this respect.

Since the Opinion, and especially over the last two years, Lithuania has made significant progress in aligning with the *acquis* on taxation, although some weaknesses remain to be addressed. Lithuania has also made good progress with developing the necessary administrative capacity to implement the *acquis* in this area. Lithuania has reached a good level of alignment and administrative capacity is largely in place but needs further strengthening.

Negotiations on this chapter have been provisionally closed. Lithuania was granted, for an indefinite period of time, the right to apply a VAT registration and exemption threshold of LTL 100 000 (€ 28 962) for small and medium-sized enterprises and a transitional period until end 2009 to reach the EC minimum excise duty levels on cigarettes. Lithuania is generally meeting the commitments it has made in the context of the accession negotiations.

In order to complete preparations for membership, Lithuania should focus further efforts on completing transposition - except for areas where transitional arrangements were agreed - in the areas of VAT and excise duties, including intra-Community transactions, and direct taxation. Lithuania should also give attention to further pursuing the measures taken to modernise and reinforce the tax administration, in particular as regards tax revenue collection.

Chapter 11: Economic and Monetary Union

Progress since the last Regular Report

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

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

As regards **prohibition of direct public sector financing by the central bank**, no developments have taken place during the reporting period.

As regards the **prohibition of privileged access of the public sector to financial institutions**, restrictions on insurance companies concerning, notably, investment requirements in state and municipality bonds, national investment requirements, regulation of investment of authorised capital and requirements concerning rating of foreign instruments have been abolished.

Concerning the **independence of the central bank**, no developments have taken place during the reporting period.

Overall assessment

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

As regards prohibition of direct public sector financing by the central bank, Lithuanian legislation is in line with the *acquis*.

In the area of central bank independence, Lithuania has already achieved a significant level of alignment. A final specific amendment to the central bank law is needed before accession, in order to safeguard against possible conflicts of interest relating to the duties of Members of the Board.

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

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania's central bank was largely independent from the government in terms of the appointment procedure of the governor and the conduct of monetary policy, but that the law on the Central Bank did not explicitly prohibit the financing of the budget deficit.

Since the Opinion, progress was initially slow, but a major step forward was taken in 2001. Lithuania has achieved a high level of alignment with the EMU-related *acquis*. The administrative structures are in place and operational.

Negotiations in this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements in this area. Lithuania is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Lithuania's efforts should focus on completing alignment concerning the few remaining issues related to central bank independence and privileged access of public sector authorities to financial institutions.

Chapter 12: Statistics

Progress since the last Regular Report

Lithuania has continued to make good progress over the past year.

As regards **statistical infrastructure**, the Statistical Council, established in 2001, has taken up its function and the organisation of "Statistics Lithuania" (the national statistical office) has been further strengthened. Staff training and management receive high attention in the Strategy for the Development of Statistics for 2002-2004, which was adopted in 2002 and sets out training needs, the main challenges ahead, and policies for staff selection and career development.

Concerning **classifications**, national classifications, providing direct implementation of European economic classifications and nomenclatures, are in force and continued to be applied in statistical surveys.

Concerning **demographic and social statistics**, further progress has been made. The results of the census of population and housing, which was carried out in April 2001, have become available in 2002 and serve as a basis for the whole statistical system. The labour cost survey was introduced in 2002 and data transmission is continuing. The frequency of labour force surveys has been increased.

As regards availability of statistics at **regional** level, a quite large number of indicators (GDP per capita, demographic data, unemployment data) have continued to be stored in, and disseminated through, a regional data base.

In the field of **macro-economic statistics**, a complete set of statistics is being produced. "Statistics Lithuania" continues to be co-ordinator for the implementation of the European System of Accounts (ESA-95), including debt and deficit of the state.

For **business statistics**, considerable efforts comprising the extension of types of units in the business register, production statistics and short-term statistics have been made. Some progress had been made as regards tourism statistics, notably as regards the conduct of regular surveys on rural tourism and outgoing tourism.

For **transport statistics and external trade**, while no major legal developments have taken place, good quality statistics have continued to be produced.

For **agricultural statistics**, the agricultural census which was due to take place in 2002 has been postponed to 2003, mainly because of shortage of the necessary budgetary resources. The necessary technical and budgetary preparations of the agricultural census according to a new timetable are well under way. In terms of administrative capacity, good progress has been made to strengthen the administrative infrastructure, including co-ordination with other competent bodies.

Overall assessment

As regards statistical infrastructure, the legal and institutional framework of the Lithuanian statistical system is now well established and is largely in line with the *acquis* requirements, including in terms of the required human resources.

Important efforts have borne fruit concerning organisation, strategic orientation and staff development. Due attention needs to be paid to the implementation of the recently adopted Strategy for the Development of Statistics. Co-operation with universities will strengthen the scientific capacity of “Statistics Lithuania”.

The regional organisation of “Statistics Lithuania”, with a quite high number of county, town and district statistical offices, may require a review in the long run depending on the needs and development of statistical production.

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania would need to make a sustained effort to comply with EU requirements in the medium term.

Since the Opinion, Lithuania has made good progress, especially in the last two years, in particular in aligning its legislation, in conducting a population census and in developing the necessary administrative capacity. Legislation is now largely in line with the *acquis* and the administrative structures are in place and operational.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements in this area. Lithuania is meeting the majority of its commitments made in the accession negotiations in this field. However, a delay has occurred as regards the agricultural census. This needs to be duly addressed.

In order to complete preparations for membership, Lithuania’s efforts should now focus on improving the quality and coverage of macro-economic statistics with a view to fully implementing the European System of Accounts (ESA 95); introducing INTRASTAT, the mechanism to measure trade between Member States; improving the quality and timeliness of business statistics; eliminating the gaps in information concerning the

expenditure on infrastructure of road, water and rail transport; and making sure that the agricultural census is duly conducted in 2003

Chapter 13: Social policy and employment

Progress since the last Regular Report

Lithuania has continued to build on the good progress reported in the last report with the adoption of legislation in the areas of labour law and public health and in making preparations for the European Social Fund.

In the field of **labour law**, a major step was taken with the adoption of the Labour Code in June 2002. The Labour Code transposes the bulk of the labour law *acquis*, with the exception of provisions on European Work Councils and posting of workers, for which supplementary legislation will need to be introduced.

In the field of **equal treatment** for women and men, the law on support of the unemployed (*see below*) ensures equal opportunities for both parents bringing up children to the age of 8 to receive employment support and unemployment benefits. In addition, the Law on Amendments to the Law on Equal Opportunities concerning direct and indirect discrimination was adopted in June 2002. The Office of the Ombudsperson for Equal Opportunities continues to operate actively in this field. In 2002 the Office was reinforced and currently it has 7 employees.

As regards **health and safety at work**, alignment has been essentially completed with the transposition of the *acquis* on chemical, physical and biological agents, indicative limit values, banning of certain specified agents or certain work activities, metallic lead, asbestos and carcinogens. The Government also approved rules concerning registration of potentially hazardous equipment. In May 2002 the Government approved the National Programme on Safety and Health at Work, which aims to implement the *acquis*. The programme provides for concrete measures to improve safety and health at work and to reduce the number of occupational accidents and incidence of occupational diseases. A committee for the co-ordination of activities in this field between the Ministry of Social Security and Labour and the Ministry of Health was established in April 2002. The National Labour Inspectorate was further upgraded technically, and staff received training in risk assessment, *inter alia*.

In the area of **social dialogue**, the amendments and supplements to the Law on collective agreements and collective labour agreements were adopted in October 2001. This Law sets the legal framework for the activities of the tripartite councils and of the bilateral institutions of social partners and regulates issues of negotiation, signing and implementing of regional and branch collective agreements.

In the field of **public health**, as a follow-up to the National Public Health Strategy adopted last year based on EC requirements on public health policy, a three-year National Health Action Plan was approved in December 2001. In addition, the Law on prevention and control of communicable diseases was adopted. It provides for setting up a network for the epidemiological surveillance and control of communicable diseases as required by the *acquis*. In May 2002, the Seimas adopted the Law on Public Health Surveillance and in July the Law on Public Health Monitoring. The National Drug Information Centre established in November 2001 was moved to the State Public Health Service in April

2002. Progress has been made in developing a health monitoring system to obtain health data and indicators comparable with the Community health monitoring. The health status of the population is still lower than the EU average. In addition, the incidence of some communicable diseases gives rise to concern.

In the area of **employment**, the Joint Assessment Paper (JAP) was jointly signed by the Commission and the Lithuanian authorities in February 2002. As its contribution to the overall monitoring process of the Employment Policy Reviews, in June 2002 Lithuania sent a complete set of labour market indicators, together with updated information on progress since signature. In April 2002 a strategy for 2002-2004 and a new regulation on implementation of local employment initiatives were approved. The capacity of the Public Employment Services has been strengthened through training. The situation in the labour market deteriorated further during 2001, with an unemployment rate of 16.5% in 2001. Unemployment rate for men is at 19.4% higher than for women at 13.5%. However, reflecting the increased economic activity in 2001, the monthly data on registered unemployment indicates that the unemployment rate has started to decrease slowly in 2002. The high and increasing share of long-term unemployment at 56.2% is of great concern.

Further progress was made in the preparations for the implementation of the European Social Fund (ESF), particularly in developing the capacity of the Ministry for Social Security and Labour to act as future Paying Authority for ESF. In June 2002, the European Social Fund Agency was established by formal agreement between the Ministry of Social Security and Labour (MSSL) and the Ministry of Education and Science, with budgetary resources for 5 people. The two ministries are preparing for joint responsibility for the future Human Resources Development priority in the Single Programming Document for Lithuania. The administrative capacity of these institutions is developed through training and counselling.

As a follow-up to the Gothenburg European Council, where the EU invited the candidate countries to translate the EU objectives into their national policies, the Commission and Lithuania have initiated a joint co-operation exercise to prepare for future participation in the EU **social inclusion** process after accession. This exercise consists in joint identification of the social exclusion challenges and relevant policy responses. The Statistical Office of Lithuania co-operates with Eurostat to produce data on poverty and social exclusion. Preliminary figures suggest that overall income disparities seem to be rather high, as is the poverty rate after social transfers (18.5%). Poverty is most widespread amongst the unemployed, farmers and rural residents. Building on efforts launched in 2000, a Task Force under the Ministry of Social Security and Labour drew up a Programme for the implementation of the Poverty Reduction Strategy (2002-2003) in April 2002.

As regards other areas of **social protection**, in February 2002 the Government approved the concept of the reform of social services provision. In May 2002 the Government approved the National Programme for Social Integration of Persons with Disability. The Programme aims at ensuring rights and equal opportunities of persons with disability as set out in the *acquis*. The discussions on the pension reform are still on-going.

No particular developments can be reported with regard to **anti-discrimination** (*see also section B.1.2 Human Rights and Protection of Minorities*).

Overall assessment

In the area of labour law Lithuania has reached an advanced stage. However, the European Works Councils and posting of workers Directives still have to be transposed as do the Directives related to the involvement of workers in the European Company and the right to information and consultation of workers.

Regarding equal treatment for women and men, Lithuania is well advanced concerning transposition, implementation and enforcement. Further alignment has been achieved with the recently adopted amendments to the Law on equal opportunities. Lithuania's legislation is now almost fully in line with the *acquis*.

Regarding health and safety at work, transposition advanced well in 2000, 2001 and during the first months of 2002. The most important part of the safety and health *acquis* has been transposed. Efforts are still required to effectively enforce the *acquis* also by strengthening the administrative capacity. Particular attention should be paid to the protection of health and safety of workers against risks related to chemical agents at work. More emphasis should be placed on optimising and rationalising the activities of a number of national, regional and local state institutions. Increased financial resources should be devoted to practical prevention and risk assessment measures.

Structural and management reform of the public health system including capacity building is under way; however, health care expenditure is below the EU average. Despite the considerable initiatives undertaken with regard to legislation, efforts need to be pursued for its implementation. Transposition and implementation of the tobacco legislation has to be completed. With regard to communicable disease surveillance and control, Lithuania has taken important steps through the adoption of the Law on the Public Health Surveillance and the Law on Prevention and Control of Communicable Diseases which brings legislation in line with current EC requirements in the area of communicable diseases prevention and control. Significant administrative and capacity building efforts are required in order to fully implement these requirements. Lithuania should pursue its efforts to develop a health monitoring system in order to obtain health data and indicators comparable with the Community health monitoring system. Efforts to improve the health status of the population need to be pursued, and provision of adequate resources to the health sector should be ensured.

Steps should be taken to actively promote further sound developments in social dialogue. Autonomous social dialogue, especially at sectoral and enterprise level, should be promoted and its coverage extended, both in terms of enterprises and of percentage of the labour force covered. Social partners should make more use of their autonomy to conclude agreements among themselves. The newly adopted provisions on collective agreements and collective labour agreements should improve the basis for concluding collective agreements at sectoral and enterprise level. The registration of collective agreements by the Government could also be improved. Strengthening the administrative capacity of both the social partners and the Government would also help them to find ways of progressing towards more effective modes of operation. The social partners should be helped to build up their own research and negotiation capacities. At the tripartite level, ensuring due process within the existing tripartite structures and extending the process to other policy areas would contribute to restoring confidence. In this context, the statutes and procedures of these structures deserve particular attention.

Regarding employment, the Joint Assessment of the Employment Policy Priorities for Lithuania (JAP), represented an important step in the preparations for accession. Progress in the implementation of these policies is assessed. It will now be important to effectively monitor implementation of the priorities and commitments contained in the JAP. There is a need for a more active and preventive approach targeted on most disadvantaged job-seekers. It will also be important to enhance the incentives for unemployed and inactive people in taking up jobs. As regards the institutional structure, the roles of different labour market institutions (Labour Market Training Authority and Labour Exchange) need to be clarified and the capacities of the public employment services strengthened both at central and local level. Further delegation and decentralisation of responsibilities to regional or local level could be beneficial to improve effectiveness.

The capacity of the Ministry of Social Security and Labour (the future Paying Authority and one of the intermediate bodies for the human resource development programme) should be strengthened to effectively monitor, evaluate and financially manage the fund, as should the capacity of the other intermediate body, the Ministry of Education and Science. The role of the ESF Agency acting as a final beneficiary should be further developed. Attention should also be devoted to building up a project pipeline for projects that can be co-financed by future Structural Funds interventions, in particular the development of local initiatives in areas with the highest unemployment.

A national integrated strategy for promoting social inclusion, taking into account the EU objectives, needs to be developed. As poverty and social exclusion are multi-dimensional by nature, it is important to promote an integrated approach mobilising various governmental bodies and all relevant stakeholders in the process. It is also crucial to improve and develop social statistics systems on poverty and social exclusion in line with the EU commonly agreed indicators on social inclusion.

As regards other areas of social protection, sustained efforts are required to adopt and implement the planned reforms, including the social security reform, which will help to further improve the level and efficiency of social protection. The strategic aims of the National Programme for Social Integration of Persons with Disabilities should be pursued, in particular the goals of facilitating social integration and equal opportunities.

Finally, further efforts are needed to ensure alignment with the *acquis* on anti-discrimination and to implement the *acquis* in this field. The Equality Body required by the *acquis* has to be established.

Conclusion

In its 1997 Opinion, the Commission concluded that, provided that Lithuania pursued its efforts, it was possible to take on the obligations of EU membership in the social area in the medium term. In order to achieve this, Lithuania needed to pursue social reform, significantly improve the public health system and to further develop the social dialogue. In addition, Lithuania would need to make substantive efforts to ensure realignment of its legislation in areas such as health and safety, labour law and equal opportunities and to continue to develop the structures needed to ensure effective implementation of legislation.

Since the Opinion, Lithuania has made good overall progress in aligning with the *acquis* in all areas. In particular, good progress has been made in the spheres of labour law, equal

treatment of men and women, health and safety, and the adoption of a public health strategy and action plan. Legislation has been transposed to a large extent. Administrative structures are largely in place but need further strengthening.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field

In order to complete preparations for membership, Lithuania's efforts should now focus on completing transposition (European Works Councils, posting of workers, tobacco and anti-discrimination) and effectively implementing the *acquis* in the areas of public health and health and safety at work, on developing social dialogue and social protection in line with EU practice, and on further strengthening the administrative structures to be involved in the management of the European Social Fund.

Chapter 14: Energy

Progress since the last Regular Report

Since the last Regular Report, which concluded that a reasonable alignment level had been achieved but that efforts needed to be maintained, Lithuania has made important progress in the energy sector. In particular, Lithuania took the necessary decision regarding the closure of Unit 2 of the Ignalina Nuclear Power Plant . Developments regarding this plant remain a core element of the evolution of Lithuania's energy policy.

With respect to **security of supply**, and in particular oil stocks, the Law on the State Oil Product Stocks was adopted and entered into force in July. In December 2001 the new Lithuanian Oil Product Agency, owned by the Ministry of Economy, was established through the merger of two companies. It is responsible for the accumulation and management of the state owned oil stocks. The Ministry of Economy's State Reserves Division and Fuel Strategy Division is responsible for drafting legislation and for supervision of oil stocks matters, for which two persons have been recruited.

Lithuania's energy sector (particularly oil, gas and nuclear fuels) remains heavily dependent on Russian supplies, while the country's electricity and gas networks are currently not interconnected to Member States. Lithuania has continued to address related concerns. In the oil sector the part-privatisation of the refinery is being completed, thus securing a second oil supply source. In June the Seimas adopted amendments to the Law on the reorganisation of Butinge Nafta terminal, Mazeikiu Nafta and Naftotiekis companies, as well as to the Law on state obligations related to investments in Mazeikiu Nafta and the State budget law in order to increase the state guarantee limit for 2002 by 300 million litas (€87m), which created the framework for the abovementioned privatisation process. A study was launched assessing the possibilities for an electricity interconnection between Lithuania and Poland.

In the field of **competitiveness and the internal energy market** (notably the Electricity and Gas Directives), the regulatory body, the National Control Commission for Prices and Energy, approved new electricity and gas price methodologies according to the legislation.

In the *electricity* sector a set of implementing legislation to the Electricity Law was adopted in December, while the Electricity Law entered into force in January. 20 % of the market is now open, while further steps are planned as follows: 26 % of the market open as from 2003; 33% as from 2004; and full opening as from 2010. The reorganisation of the Lithuanian Electricity Company was completed in December on the basis of a Government reorganisation project, adopted in October. The restructuring resulted in the separation, as from January, of the Lithuanian Electricity Company into five joint stock companies: the transmission company Lietuvos energija, two generators (Lithuanian and Mažeikių power plants) and two distributors (East and West Electricity Distribution Companies). Lithuania has furthermore taken steps to prepare the privatisation of the electricity sector. Privatisation of the distribution sector, with the state keeping 34% of the shares, should be completed by 2003.

In the *gas* sector, the Minister of Economy adopted in February various pieces of implementing legislation to the Law on Natural Gas. It is recalled that the Russian Federation remains the sole gas supplier. The Government approved in November a programme aiming at the privatisation of 34% of shares of Lietuvos Dujos, the Lithuanian Gas Company. The Government decided in June to continue privatisation and to sell by the end of 2002 an additional 34% stake. Ultimately the Government will retain 24%, while 8 % of the shares is currently owned by small shareholders.

The role and the independence of the National Control Commission for Prices and Energy - the regulatory authority in the electricity, gas, heat and water sectors - have been further enhanced, in particular through the adoption in May of an amendment of the Energy Law as well as through the entry into force of the Electricity Law. Its main competencies include pricing, licensing and dispute settlement. In October 2001 a new licensing department was established within the National Control Commission. The five members of the Commission, including the chairman, are appointed by the President for a fixed period and the Commission reports directly to the Seimas. The National Control Commission employs 47 persons while 12 posts are currently vacant. Its budget, an integral part of the state budget, was approximately € 0.5 million in 2002.

In the area of **energy efficiency and renewable energy**, the Minister of Economy adopted a revised National Energy Efficiency Programme as well as implementing measures for the period 2001-2005. Regarding legal alignment, Lithuania adopted in May amendments to the Law on Energy, addressing issues related to energy conservation. Furthermore, the Government adopted in February and May technical regulations on energy efficiency and labelling of household appliances and hot water boilers. For the year 2002 an amount of € 0.4 million was set aside for the implementation of the Programme. The Energy Agency, the key institution in this area which is owned by the Ministry of Economy, is responsible for energy efficiency and the enhancement of renewable energy sources. It employs 30 persons and has a budget of € 0.3 million for 2002. The State Energy Inspectorate is in charge of state supervision and control of state-owned energy entities, with the aim of ensuring safe, efficient and reliable use of energy resources and energy supply. Its budget for 2001 was € 800 000 and it has 100 employees.

With regard to **nuclear energy**, Lithuania operates, at the Ignalina Nuclear Power Plant, two RBMK-type reactors with an initial nominal capacity of 1500 MW each.

In June Lithuania took the very important step of formally confirming that Unit 1 of the plant will be closed before 2005 and formally committing to close Unit 2 by 2009. The EU, for its part, recognised that the decommissioning of the Ignalina Nuclear Power Plant will have to continue beyond the current financial perspectives and that this effort represents for Lithuania an exceptional financial burden not commensurate with the size and economic strength of the country. The EU expressed its readiness, on the basis of Community solidarity, to continue to provide adequate additional Community assistance to the decommissioning effort also after Lithuania's accession.

Lithuania's closure commitments are based on a Seimas Resolution adopted in May. This Resolution called on the Government to submit, in the second quarter of 2002, amendments to the National Energy Strategy setting the terms and conditions of the closure of Unit 2 and to submit a draft law on the additional social and employment guarantees for the employees of the Ignalina NPP who become redundant as a result of the closure of the plant. Subsequently, in July, the Government submitted relevant amendments to the Seimas for its approval.

During the reporting period, Lithuania took various steps to prepare the closure of the Ignalina NPP. Through the Ignalina International Decommissioning Support Fund, managed by the EBRD, 14 contributors provide support for the Lithuanian decommissioning efforts. In December a project management unit was established at the plant to assist in the implementation of projects financed through the Fund. In June a meeting of the Assembly of Contributors to the Fund approved three further projects: an investment project supporting a back-up heat and steam source for the Ignalina NPP and the town of Visaginas; a support package for the interim storage of spent fuel assemblies from the Ignalina NPP; and support for the modernisation of the technical archives. The Commission representing the European Community as the main contributor to the Fund chairs the assembly.

In April the Government adopted the statutes of the (national) Ignalina NPP Decommissioning Fund, covering the principles of the fund's management, the use of its resources and the manner in which allocations from the fund can be made. In February, with a view to managing the socio-economic consequences of decommissioning, the Government designated the area surrounding the nuclear power plant as a special "target region of Ignalina NPP".

Lithuania made progress in improving **nuclear safety**, but considerable further efforts by all involved bodies need to be put into the preparation and implementation of the closure and decommissioning of the Ignalina NPP.

Ignalina NPP continued to implement its second nuclear safety improvement programme 1997-2005 (SIP-2). During 2001, the Ignalina NPP implemented 17 measures under this programme, while another ten were being reviewed by the nuclear safety regulator, VATESI. Approximately €15 million (LTL 59 million) was spent on the programme in 2001. Up to the first quarter of 2002, an amount of € 100 million has been devoted to implementing the measures. In February, the Minister of Economy approved the updated 2002 version of the programme. According to the updated programme, 52 measures are to be implemented by 2005.

Lithuania took further steps to prepare the safety analysis report for Unit 2 (SAR-2), with a view to licensing the continued operation of Unit 2. VATESI completed the preparatory

work for the review of the report. After considerable delays, the Lithuanian authorities concluded an important works contract in July 2002, covering the instrumentation and control element of the diverse second shutdown system (DSS), scheduled to be in place at Unit 2 of the Ignalina NPP by July 2004, which is later than initially expected. Lithuania continued to co-operate with a series of IAEA reviews and missions in 2001.

VATESI, the nuclear safety authority of Lithuania, increased its staff levels in 2002 by 5 positions to a total of 53 posts; 45 posts are currently occupied and 8 are vacant. In December 2001, VATESI adopted a quality assurance system that has yet to be fully implemented.

The Lithuanian Electricity Company continued the re-payment of arrears to the Ignalina NPP, reducing them from a level € 37.5 million to € 11.3 million. The debts have been redistributed, after the reorganisation of the Electricity Company, to the five newly-formed electricity companies, with the distribution company, Lietuvos Energija, taking the largest share.

In the area of radioactive waste management, VATESI approved a set of regulatory documents. In May 2002, the regulatory body strengthened its own capacities regarding decommissioning and radiation protection by increasing staff numbers in that area. In February 2002, the Government approved a radioactive waste management strategy and an action programme for 2002-2004, prepared by the Radioactive Waste Management Agency. This agency, recently established under the Law on Radioactive Waste Management, employs seven persons and is responsible for the long-term storage and disposal of radioactive waste. The agency's budget allocation is approximately € 0.13 million for 2002.

Overall assessment

Lithuania is well advanced in addressing security of supply concerns by, *inter alia*, the ongoing assessment of the feasibility of an electricity and gas link with Poland and by ensuring a stable oil import source. Regarding oil stocks, Lithuania made important steps through the adoption of the Law on the State Oil Product Stocks but needs to complete alignment by adopting the necessary implementing legislation, while the financial means for the necessary investments in building up oil stocks should be ensured.

Lithuania achieved a high level of alignment on the internal energy market (electricity and gas directives) by creating the necessary market conditions. The restructuring of the electricity and gas sectors has been largely completed, while privatisation has advanced. Privatisation needs to be enhanced in the electricity sector, while the second phase of the privatisation in the gas sector needs to be completed. The transmission system operator and the market operator should be further strengthened. Furthermore, legal alignment has been achieved, while effective market opening for electricity and gas has started, ahead of accession. It is noteworthy that 80 % of the gas market is open for competition. The current market opening plans for electricity would satisfy the requirements of the Electricity Directive. The National Control Commission for Prices and Energy, the independent regulatory body, is well established. Further strengthening is necessary in view of its upcoming functions under the internal energy market directives. As indicated in last year's Regular Report, despite the fact that the National Control Commission has a separate line in the state budget, negotiations on the budget may prove to be a strain on its

independence. Removal of remaining price distortions in the energy sector should continue while the possible handling of any "stranded costs" may require attention.

Lithuania achieved good results in the area of energy efficiency and enhancing the use of renewable energy. Lithuania is near to achieving full alignment with the *acquis*, although it should now complete the alignment process. Full implementation of the updated National Energy Efficiency Programme 2001-2005 with sufficient financial means is also needed, while the Energy Agency should be strengthened.

The European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This Report contains recommendations to all candidate countries to continue their national safety improvement programmes, including the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors. During the first half of 2002, a special Peer Review on nuclear safety assessed the progress made by candidate countries in implementing the 2001 Report's recommendations. This exercise under the auspices of the Council resulted in a Status Report, which was published in June 2002.

The Status Report concludes that Lithuania has accepted and addressed all recommendations contained in the Report on Nuclear Safety in the Context of Enlargement of June 2001. Most of the recommendations have been adequately addressed. Lithuania should devote further attention to three recommendations, namely, Lithuania should reaffirm the action plan to increase the resources of VATESI, develop a consistent action plan for the operational safety of Ignalina NPP Units 1 and 2 during the remaining operating time, and clarify its position to operate Unit 2 beyond 2003 without the second diverse shutdown system (DSS) as well as develop an action plan in case the DSS is further delayed beyond May 2004. The Report recommends further monitoring with regard to eight recommendations, concerning the resources of VATESI and of the Ignalina NPP operator, the installation of the DSS, an action plan for operational safety, the amendment of emergency operating procedures, and the development of the safety analysis report.

The Status Report furthermore emphasised the great importance of Lithuania's closure commitments for the Ignalina NPP, and the need for special attention to measures aimed at improving the prevention of accidents during the remaining operating time, such as the timely installation of the second diverse shutdown system at Unit 2. The Report expressed serious concerns regarding the delay beyond 2003 of the installation of the DSS.

As Lithuania now has formally confirmed its 1999 commitment to close Unit 1 before 2005, and committed itself to closing Unit 2 by 2009, these commitments must be respected and therefore duly included in the Accession Treaty. In view of these developments, Lithuania should also adopt an updated National Energy Strategy, fully reflecting the said closure commitments.

While noting the efforts undertaken over the past years, Lithuania is encouraged to further ensure the independence, competence and capacity of VATESI, including adequate staffing levels. It is important to maintain adequate levels of nuclear safety during all phases until the decommissioning of the Ignalina NPP, *inter alia*, by ensuring the high technical quality and good motivation of its staff. In this respect, recent staff

increases at VATESI are welcomed. In addition, Lithuania will need to devote considerable attention to developing a credible strategy to address the socio-economic consequences of closure. Lithuania should also ensure adequate capacities at the competent ministries and other authorities involved with the closure of the Ignalina NPP.

Radioactive waste and spent fuel management will need continued attention. In this respect, the recent start of the Radioactive Waste Management Agency's activities is welcomed. The agency should fully implement the Radioactive Waste Management Strategy and the action programme for 2002-2004. Lithuania should ensure that the agency is sufficiently funded and staffed with adequately trained employees, and that appropriate measures are taken to improve current management practices for all kinds of radioactive waste generated during the operation of the Ignalina NPP and by various institutions. In this context, particular attention should be paid to the definition of waste acceptance criteria for storage and disposal operations and to the construction and/or modernisation of the corresponding facilities.

Lithuania will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention must be given to preparing the implementation of Euratom Safeguards, in particular the reporting of nuclear material flows and inventories directly by the persons or undertakings operating nuclear installations or storing nuclear materials. It should be recalled that Lithuania has concluded a Full Scope Safeguards Agreement with the IAEA, while an Additional Protocol to this Agreement has been in force since July 2000.

Conclusion

In its 1997 Opinion, the Commission concluded that, provided Lithuania's efforts were intensified, no major problems were foreseen to approximate progressively to the then existing EC *acquis* in the medium term, adding that aspects such as the adjustment of monopolies, access to networks, energy pricing, emergency preparedness (including the building-up of mandatory oil stocks) and the development of energy efficiency remained of specific importance in the pre-accession period. The Commission further pointed out that, although no major difficulties were foreseen regarding compliance with Euratom provisions, the implementation of certain international nuclear regimes or their implementation in the national legal order needed attention. The Commission also noted that the safety of the Ignalina Nuclear Power Plant required continued particular attention as well as the rapid implementation of the programmed closure of the plant, while longer-term solutions for waste needed to be found.

Since the Opinion, steady progress has been made, notably with regard to oil stocks, the internal energy market, particularly the electricity and gas sectors, the improvement of energy efficiency and the promotion of renewable energy, nuclear issues, and the gradual development of administrative capacity. Lithuania has achieved a good level of legislative alignment, while administrative structures are largely in place, but some further progress remains necessary.

Negotiations on this chapter have been provisionally closed. Lithuania has been granted a transitional arrangement for the building-up of oil stocks (until 31 December 2009). Lithuania is generally meeting the commitments it has made in the accession negotiations in the energy field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on ensuring full and timely implementation of legislation in this area; on the progressive building up of oil stocks; on energy efficiency; on nuclear safety and the preparation of the closure and decommissioning of the Ignalina NPP; and on strengthening the administrative capacity of the newly established bodies (in particular the energy regulator and the nuclear safety authority).

Chapter 15: Industrial policy¹⁷

Progress since the last Regular Report

Since the 2001 Regular Report, Lithuania has made progress in the promotion of competitiveness, including the efficient implementation of the new bankruptcy law. Substantial steps have been taken in the preparations for structural funds.

As regards **industrial strategy**, Lithuania continued the implementation of the objectives of the Medium-term Industrial Development Policy and its strategy through its five horizontal programmes in the areas of innovation, national quality, conformity assessment infrastructure development, export promotion and development strategy, and the SME development strategy. Efforts were made to improve the co-ordination of initiatives and to consult the business community. More resources were devoted to the implementation of the policy (€ 9.8 million - LTL 34 million). Increased emphasis has been put on innovation, and in particular on the strengthening of technology infrastructure (science and technology parks, business indicators, and innovation information centres).

After less than one year of operation of the reformed Business Development Council, the Ministry of Economy's advisory body in the area of enterprise policy, it is still difficult to judge its effective impact, notably in its monitoring role.

In the area of investment promotion, the strengthening of the banking sector and the related improved access to long-term credit (+20% of the corporate loan portfolio in 2001) have had a positive impact on investment. Investment levels have increased, in particular in the textile, electrical and optical equipment industries. Investment by enterprises in IT has also increased significantly. In 2001 Lithuania invested € 182 million in the development of the IT sector. Manufacturing industry continues to attract high levels of foreign direct investment (FDI) (+27% in 2001). The positive trend in reinvested earnings from foreign investors was again confirmed. Several greenfield investments, e.g. in the sectors of packaging and metal products, are in the pipeline. The Government has taken several pro-active measures designed to continue attracting foreign investors, notably through the simplification of land acquisition and construction permits. In April 2002 a Governmental Regulation was adopted, establishing a programme of improvements to be made in the regulatory environment in the fields of construction and land acquisition, for example in streamlining procedures and methodology of valuation of land, preparation of territorial planning documents, definition of requirements for property development and procedures for compensation. In general, efforts to simplify the business environment have continued but further steps are

¹⁷ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see *Chapter 16 - Small and medium-sized enterprises*).

needed. No particular developments can be reported concerning consultation of foreign investors (*see Chapter 16 – Small and medium-sized enterprises*).

In 2001 Lithuania witnessed steady growth in both domestic and foreign investments with an increase of FDI of 17.7% [net FDI=16.9%] compared to 2000. In 2001 the real growth rate of gross fixed capital formation was 10.6% and the share of gross fixed capital formation in GDP reached 19.4%. Investment levels have increased but are still not sufficient to create new jobs and offset the lay-offs induced by the continuous industrial restructuring.

Since last year's Regular Report, progress can be noted in the area of **restructuring**. Following the adoption of the legislation on bankruptcy and restructuring, the implementing legislation necessary for implementing the new laws has been adopted. A Joint Committee bringing together all public institutions, consulting companies and experts involved in implementation was set up in January 2002 with a view to monitoring the process and drawing up recommendations. Few restructuring cases (7) have been initiated since the entry into force of the law in July 2001. This is mainly due to the recent adoption of the Law on Restructuring and prolonged negotiations with creditors on enterprise restructuring plans. As anticipated, the new bankruptcy law has further speeded up proceedings, especially for small companies. In the first quarter of 2002, the number of cases initiated already represented almost 40% of the cases opened in the whole of 2001 and the number of cases completed was more than 50% of the cases completed during 2001. The ratio of completed cases to initiated cases reached 64%. The amendments to the law of the Guarantee Fund (adopted in February 2001) are meant to provide minimal financial assistance to the employees of bankrupt companies. Progress has been made in building the capacity to enforce the laws. As of May 2002, 88 legal persons were accredited to administer enterprises under bankruptcy, 16 legal persons and 62 natural persons had been trained to administer enterprises under restructuring. More than 600 stakeholders had been trained. There are plans to meet further training needs, especially those of judges in regional courts. The government resolution on transfers of creditors' rights to Turto Bankas was adopted in July 2002. The **privatisation** process is almost completed. As much as 98% of companies are in private hands [out of 9 395 legal entities in the register of enterprises only 43 are state controlled (50%+1 share)]. The private sector accounted for 75% of industrial output in 2001, as against 70% in 2000. The selling of the shares of two state-controlled banks in 2001 completed the privatisation of the financial sector (*See section 2 – Economic criteria*).

Overall assessment

A lot of progress has been made in policy-making and a significant change can be noted in Lithuania's approach to enterprise policy since 1997. State interventions in the form of direct aid to industrial sectors was discontinued and replaced by the development of an enabling environment for restructuring, private-sector development and innovation.

The challenge still lies in implementation with a view to integrating the enterprise sector in the Single Market. The dialogue between industrialists and public authorities has been further intensified by the creation of provisional working groups. The Government should continue its efforts and set clear priorities in collaboration with the business community and the financial sector. Business development projects should lead to more public-private partnerships. Further efforts are needed in associating foreign investors with this process.

A lot has been done to increase investment levels. During the last couple of years investments in manufacturing has increased, but both foreign and domestic investors still require simplification of administrative procedures and a uniform implementation of regulations. More information is also needed at enterprise level on the Single Market obligations.

Privatisation of industry is close to completion. There have been some delays in structural reforms, but these are now bearing fruits (with painful social consequences in the regions). Further restructuring of a few large industrial companies inherited from the past is still needed.

The implementation of the bankruptcy and restructuring laws seems effective. As of May 2002, nearly one third of some 1800 cases initiated since the beginning of transition (the majority of these cases were initiated in or after 2000) have been completed. Effectiveness of bankruptcy procedures could further increase in 2003, when the provision of the law limiting the duration of proceedings to two years will be applied. Efforts to strengthen administrative capacity and increase skills for enforcement, including those of Regional Courts, notably in the field of risk assessment and the evaluation of enterprise restructuring plans, should be continued.

The central body responsible for the formulation and co-ordination of industrial policy is the Ministry of Economy. The line ministries that are responsible for managing specific industrial branches also participate in the policy-making process. The Ministry of Economy needs to strengthen its role as co-ordinator. The other agencies and governmental bodies involved in the implementation process are the Business Development Council, Lithuanian Development Agency, Lithuanian Innovation Centre, Lithuanian Small and Medium-size Enterprises Development Agency, the State Tourism Department under the Ministry of Economy and the Competition Council. The administrative structures have improved, but the enforcement capacity remains largely untested. There is a need to put in place an efficient system of monitoring and evaluation.

It should be noted that an important element of any industrial policy is the control of state aid and the compatibility of support schemes with EC rules (*see Chapter 6 - Competition policy*).

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania would be able to cope with integration into the EU in this area, provided that current positive trends in restructuring and privatisation continued. It also stated that the domestic financial system could not yet provide medium- to long-term capital and that growth prospects were being hampered by an inadequate framework and administrative system for FDI.

Since the Opinion, Lithuania has continued to make good progress in most areas, and has made a complete change in its approach to enterprise policy. Lithuania's policy towards industry generally complies with the principles of EC industrial policy, i.e. it is market-based, stable and predictable. The political, legal and administrative framework for facilitating the in-depth restructuring and improving the competitiveness of Lithuania's industry is in place.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on the simplification of administrative procedures, the improvement of the dialogue with industry and the strengthening of the capacity for enforcement of the new policy, including the restructuring and bankruptcy legislation.

Chapter 16: Small and medium-sized enterprises¹⁸

Progress since the last Regular Report

Since the last Regular Report the most notable progress can be recorded in the areas of access to finance, development of business support infrastructure and preparations of structural funds. Efforts to improve the business environment have continued.

Lithuania has continued its progress in implementing its **SME policy**. The network of business information centres has further expanded to 13 centres. The small business agency has continued implementing the programme of subsidised advisory and training services in the regions, putting increasing emphasis on the needs of each individual company. The access to finance for SMEs has improved through the setting up of dedicated credit lines in commercial banks and the setting up of a new public institution to provide guarantees for SME loans – INVEGA. Since its creation, INVEGA has signed co-operation agreements with the seven largest banks operating in Lithuania.

The institutional framework to formulate and implement SME development policy was reorganised in early 2002. Capacity was strengthened in the Ministry of Economy, and in the Small- and Medium-sized Enterprise Development Agency (SMEDA). Additional posts and training have been provided. A permanent SME committee was set up in November 2001 under the Business Development Council to ensure an open dialogue between the Government and business representatives on business support measures. This committee analyses and assesses issues relating to SME and tourism, as well as monitors the implementation of programmes.

The Government adopted in July 2002 a revised Action Plan for 2002-2004. It focuses on the improvement to the business environment, the strengthening of the business support infrastructure, the extension of business services to SMEs, and the promotion of innovation and IT.

In April 2002, Lithuania endorsed the European Charter for Small Enterprises as the basis for its action to support and develop small enterprises. The European Charter, adopted by the European Council in June 2000, is the reference document in the field of enterprise policy within the socio-economic strategy set up at the Lisbon European Council. The reporting process on the implementation of the European Charter in Lithuania started in May 2002.

¹⁸ Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (*see Chapter 15 - Industrial policy*).

Lithuania has made further progress with the improvement of the **business environment**. Company law is being implemented successfully (*see also Chapter 5 – Company law*). The time needed to register a company has been reduced (target is maximum 10 days). The programme of subsidised advisory and training services in the regions has continued. Training of business advisors was also carried out in the context of targeted regional projects. The Lithuanian authorities continue to maintain a dialogue with the business community. The Sunrise initiative launched in 2000 to streamline the procedures dealing with business was reactivated in 2001 and a Standing Committee for Improvement of the Business Environment was set up, accountable to the Government and not only, as earlier, to the Ministry of Economy. The major function of this committee is to consider various measures for business environment improvement developed by separate business confederations and associations.

Lithuania is ready to adopt legislation aligning the Lithuanian SME definition with the Commission Recommendation. The new legislation is to introduce the distinction between micro and small and medium-sized enterprises and the criterion of financial independence, which are important for State-aid purposes.

Overall assessment

For many years, limited resources and the Government's difficulties to find appropriate delivery mechanisms have continued to hinder the effective implementation of SME policy. However, the situation has improved with the provision of direct allocation from the state budget to SME policy and should further improve with a view to the implementation of structural funds. There is a need to set up an efficient system of monitoring and evaluation to make sure that resources are available for priority actions.

Despite the Government's efforts to improve the business environment, complex administrative procedures constitute obstacles to SME creation and development. A systematic analysis of legal and administrative barriers to SMEs and an action plan to eliminate unnecessary bureaucracy are still needed. Business associations representing SME interests should be involved in this process. Further efforts are still needed to improve information to enterprises. As in the previous years, business should continue to be involved in the law-making process, and procedures should be set up to ascertain that the results of consultations are reflected in the legislation to be adopted.

The central body responsible for the formulation and co-ordination of enterprise and SME policy is the Ministry of the Economy. While the basic institutional structure for SME promotion is in place at both national and regional level, more efforts are needed in terms of clarifying the division of responsibilities between different institutions and improving co-ordination in order to prepare Lithuania's SME sector for integration into the European Union. Though the creation of the Business Development Council and capacity strengthening at the Ministry of Economy and SMEDA are positive steps. In addition, further efforts will be required to strengthen the capacity of the relevant institutions with a view to the effective and efficient use of the support provided under structural funds.

The SME definition should soon be fully in line with the EC recommendation.

Conclusion

In its 1997 Opinion, the Commission concluded that the basic structures for SMEs were in place in Lithuania, but that it was necessary to further strengthen the support structures as well as simplify the legal and administrative environment so as to make it more SME-friendly, and to make efforts to improve SMEs' access to financing.

Since the Opinion, Lithuania has made good progress in formulating an SME policy that is in line with the approach promoted at EU level. Recently, there have also been improvements in the business environment, particularly with regard to access to finance. Lithuania's policy towards SMEs is generally in line with the principles and objectives of EU enterprise policy and the basic institutional structure is in place.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on reinforcing the delivery mechanisms for promoting entrepreneurship and on continuing the simplification of the legal and administrative conditions for enterprises.

Chapter 17: Science and research

Progress since the last Regular Report

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

In October 2001, a Plan for the Restructuring of State Science and Higher Education Institutions was approved by the Government. In January 2002, an order on the allocation of assignments of science and higher research institutions was approved by the Ministry of Education and Science. In March 2002, a number of expert groups was set up to evaluate the system of state science and higher education institutions and to determine the priority trends of science and science-applied activities. The aim is the further integration into the European Research Area. Further progress has been made in strengthening co-operation between research and development institutions and SMEs. A Concept Paper on Science and Technology Parks was adopted and widely discussed by the academic and business communities. A new science and technology park, *IT Visoriai*, is being set up in Vilnius. In January 2002, the Memorandum on Establishing a Science and Technology Park in Kaunas was signed.

During the reference period, Lithuania continued to be associated with the Fifth EC **Framework Programme**. Lithuania has expressed interest in being associated with the Sixth Framework Programme (2002-2006).

Overall assessment

The framework for co-operation in the field of science and technology (including National Contact Points) is well established. Lithuania's research-related administrative capacity and infrastructure needs, however, to be improved.

To develop the sector further and effectively integrate Lithuania into the European Research Area, it is important to increase gross domestic expenditure on research and technological development. Promoting science and research in Lithuania will, in particular, require a further increase in business expenditure on research and development (BERD), i.e. spending on science and research activities by industry, small and medium-sized enterprises and the private business sector in general. Greater participation of the enterprise sector, including SMEs, should be encouraged. Furthermore, measures are needed to further encourage research that supplies relevant technology to small and medium-sized enterprises and to increase European co-operation in this field. Legislation to facilitate the creation of high tech industries is necessary, in particular to attract foreign investment.

Conclusion

In its 1997 Opinion, the Commission concluded that no major problems were expected in this field. Accession would be of mutual benefit.

Since the Opinion, Lithuania has made further progress and has strengthened co-operation with the EU in this field.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Lithuania's efforts now need to focus on reinforcing research-related administrative capacity and infrastructure, as a key factor in ensuring Lithuania's successful participation in the Communities' Framework Programmes.

Chapter 18: Education and training

Progress since the last Regular Report

Some further progress has been made in this area over the past year.

During the reference period, Lithuania continued to participate in the second generation of the Leonardo da Vinci, Socrates and Youth **Community programmes** (*see section A.b - Relations between the European Union and Lithuania*).

Lithuania has continued to make progress in building up the awareness of the **Directive concerning education of children of migrant workers**. Work on creating a practical mechanism for its practical implementation in future is underway.

Lithuania has made some progress with **reforming its education and training system**. In order to create the evaluation system of vocational training standards, in November and December 2001, 15 vocational training standards were approved by the Ministry of Education and Science. The Governmental Resolution on the Reform of the Financing of General Education Schools was adopted in December 2001. As regards training, in April 2002 the Strategy on Schools for IT Training was approved by the Ministry of Education and Science.

Overall assessment

The participation in the Community Socrates and Leonardo da Vinci programmes is satisfactory, and the existing national agencies are operational.

Relevant amendments to the Law on Education, aimed at ensuring full alignment with the Directive concerning the education of children of migrant workers by providing conditions for children under 18 year of migrants with the right to reside permanently or temporarily in Lithuania, to learn the Lithuanian language, study in Lithuania and, where possible, learn their mother tongue, are pending.

Conclusion

In its 1997 Opinion, the Commission concluded that no major problems should be expected in these fields.

Since the Opinion, Lithuania has achieved further progress, including its participation in relevant Community programmes. Lithuania's legislation is globally in line with the *acquis* in this area. The administrative structures in this field are broadly in place.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Lithuania's efforts now need to focus on completing transposition and ensuring implementation of the Directive on education of children of migrant workers, on developing adequate administrative capacity in the Ministry of Education and on further developing the strategies for continuing training, guidance and counselling.

Chapter 19: Telecommunications and information technologies

Progress made since the last Regular Report

Since last year's Regular Report, Lithuania has made further progress in aligning with the *acquis* both in the area of telecommunications and in that of postal services.

Concerning **liberalisation of the telecommunications market**, no development can be reported as regards the liberalisation of fixed telephony. In this sector the incumbent operator, Lietuvos Telekomas, remains the sole fixed telephone network operator and service provider until December 2002.

As regards the **regulatory framework**, the Law amending the Telecommunications Law was adopted in July 2002. The Law specifies the functions of the Communications Regulatory Authority (CRA), simplifies access to the telecommunications market and eliminates the licensing of telecommunications activities. In February 2002, three implementing legislative acts were adopted. In March 2002, the CRA adopted a Procedure for Settling Disputes between Telecommunications Operators.

As regards administrative capacity, the number of staff in the CRA was increased to 113 in April 2002. Furthermore, training was carried out, notably in the area of digital telecommunications technologies.

As regards **postal services**, in October 2001 the Seimas adopted the Law amending the Postal Law. It entered into force in January 2002. The Law establishes the legal base of postal activities and regulates the relations between providers and users of postal services. The Law also designates additional functions for the CRA. In order to enable the CRA to carry out these additional tasks, a Postal Regulation Section with five employees was established within the CRA in April 2002.

Overall assessment

Lithuania has achieved a fair level of alignment with the *acquis* in the field of telecommunications and the independence of the CRA has been substantially strengthened. However, further rapid progress is now needed with the remaining pieces of implementing legislation that are required for the market to be properly and fully regulated and effectively opened to investors and operators. Lithuania will need to transpose the updated telecommunications *acquis* before accession and to complete the implementation procedures as soon as possible afterwards

In particular, liberalisation of the fixed telephony sector needs to take place effectively. Penetration in mobile services has reached 30%. There are three GSM operators but UMTS licences have yet to be issued. Fixed network penetration reached 34%. Fixed network modernisation and price rebalancing still have some way to go. Lithuania has not yet been able to evaluate the economic implications of fully implementing the universal services *acquis* so as to achieve affordability and a decision on this point remains outstanding.

The administrative capacity of the CRA is not sufficient to implement and enforce the legislation needed to comply with the *acquis*. More resources are needed to work on economic and legal aspects of regulation in an efficient and independent way.

As for postal services, Lithuania has made some progress but needs to ensure compliance of the new Law on postal services with the EU postal *acquis* and to strengthen the postal services unit within the CRA. The Postal Section should be sufficiently qualified and staffed to effectively fulfil those additional tasks that were assigned to it under the new Law.

Conclusion

In its 1997 Opinion, the Commission concluded that subject to maintaining the current efforts, there were prospects for telecommunications in Lithuania to comply with EC Law. Greater competitiveness of the public operator needed to be achieved to attract the investment needed to modernise and face up to competition.

Since the Opinion, Lithuania has made good progress in aligning the legislation in this field with the *acquis*. The telecommunications market has been liberalised, except for fixed line telephony communications. Lithuania has reached a good level of alignment but implementing legislation remains to be transposed. Institutional structures are in place but administrative capacity requires considerable strengthening.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on completing the transposition of the *acquis*. In particular, considerable efforts are needed on tariff rebalancing, interconnection, universal services and licensing. The Communications Regulatory Authority will need to act decisively to ensure efficient implementation of the regulatory framework and to prepare the market for full liberalisation.

Chapter 20: Culture and audio-visual policy

Progress since the last Regular Report

Since last year's Regular Report, some further developments have taken place as regards culture and audio-visual policy. However, as regards the **audio-visual** *acquis*, there was no particular legislative progress.

The Radio and Television Commission (RTC) is the main institution involved in the regulation and monitoring of the audio-visual sector. Progress has been made on the development of its monitoring facilities and procedures. In March 2002, a monitoring room within the RTC was established in order to develop specific tools and methodology for monitoring the content of TV programmes.

In February 2002 the RTC adopted a decision concerning, amongst other things, the license fee for cable TV operators and approved two types of standard license formats for cable television activities.

Lithuania has taken steps to participate in the Community Media Plus and Media Training programmes as of 2003.

In the field of **culture**, the Association Council decision allowing Lithuania to participate fully in the "Culture 2000 Programme" as from 2001 was adopted in October 2001.

Overall assessment

Following the adoption in October 2000 of legislation amending the Laws on Provision of Information to the Public and on National Radio and Television, Lithuanian legislation is largely in line with the *acquis*. However, the enforcement and sanctioning powers of the Radio and Television Commission need to be strengthened.

Three institutions are involved in the administration and implementation of this sector. The Ministry of Culture is responsible for the implementation of the provisions of the European Convention on Transfrontier Television and its amending Protocol. The Council of National Radio and Television is responsible for the regulation of the activities of the national radio and television. The Radio and Television Commission is responsible for the regulation of the activities of commercial radio and TV stations, cable networks and microwave multi-channel systems.

In 2001 the RTC issued 9 warnings, but does not yet have the powers necessary to impose fines. Amendment of the Code of Administrative offences is necessary as are further developments concerning transparency, classification of violations and fines and licence renewal for cable operators. Work is also under way to introduce codes on programming and advertising ethics, which may be covered by self-regulation of broadcasters. Lithuania should continue to work towards strengthening and improving implementation in this sector, based on effective, independent regulation. The independence of the Radio and Television Commission needs to be ensured.

Lithuania is party to the Council of Europe Convention on Transfrontier Television and has ratified its amending Protocol.

Conclusion

In its 1997 Opinion, the Commission concluded that provided that the necessary legislative measures were pursued in line with the timetable foreseen and were accompanied by the necessary structural adaptation of this industry, Lithuania should be able to meet EC requirements in the audio-visual sector in the medium term.

Since the Opinion, Lithuania has made significant progress, especially through the adoption in October 2000 of legislation amending the Laws on Provision of Information to the Public and on National Radio and Television. Legislation is aligned to a large extent. The necessary administrative structures are in place.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements in this area. Lithuania is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania should now focus on ensuring the proper functioning of the relevant administrative bodies so as to guarantee effective regulation and keep close attention to the implementation of legislation.

Chapter 21: Regional policy and coordination of structural instruments

Progress since the last Regular Report

Since the last Regular Report, significant progress has been made in preparing for the implementation of structural policies.

Concerning **territorial organisation**, in December 2001 Lithuania reached a formal agreement with the European Commission on the provisional NUTS classification (the whole country at level I and II, the ten counties at level III, municipalities at level 4 and neighbourhoods at level 5).

Concerning the **legislative framework**, Lithuania adopted the Law on Approval of Financial Indicators for State and Municipal Budgets for 2002, which allows the Government or its designated institution to transfer funds between different budget lines during the implementation of programmes or projects co-financed by the EC. This will provide the basis for a subsequent amendment to the Law on Budget Structure for the same purpose by the end of 2003.

With regard to **institutional structures**, there have been no changes of the responsibilities decided upon in the first half of 2001, except for a perceived shift in the role of the Ministry of Interior. This ministry is now focussing on strengthening the regional and local actors in terms of being associated to the programming process and preparing projects. In the Ministry of Finance, Managing Authority for the Single Programming Document and the Cohesion Fund, a Structural Funds Division has been set up. Similar divisions have been established in the line ministries. Some progress has been made in identifying second level intermediate bodies, such as the SME Development Agency under the Ministry of Economy, the National Paying Agency (current SAPARD Agency) under the Ministry of Agriculture and the ESF Agency (established in June 2002) under the Ministry of Social Security and Labour. A resolution on strengthening administrative capacity of institutions involved in the management of Structural Funds was adopted. The administrative capacity of the line ministries designated as future intermediate bodies is being developed through training and counselling. The precise administrative arrangements and tasks of the first and second level intermediate bodies still need, however, to be further defined and decided upon.

With regard to **programming**, Lithuania has submitted its National Development Plan 2002-2004 to the Commission in January 2002. This document has been established with a view to pre-accession instruments and the respective national co-financing. Its preparation followed, however, some of the principles of programming under the Structural Funds regulations and did, therefore, represent a useful experience with a view to preparing the draft Single Programming Document (SPD). The preparation of the latter started at the end of 2001. A methodological guidance document (SPD manual) has been elaborated. In April-May 2002 the line ministries submitted their contributions to the analysis and the development strategy to the Ministry of Finance.

In order to ensure inter-ministerial co-operation and the application of the **partnership principle** during the programming process, the SPD Supervisory Commission and Working Group was established in February 2002. The SPD working group includes representatives of most line ministries, regional and local authorities as well as socio-economic partners. The regional and local, economic and social partners are informed on and associated with the preparation of the draft SPD in a systematic and comprehensive manner through the SPD working group, line ministries (on the respective area placed under their competence), targeted conferences and a website.

Furthermore, some training and technical assistance have been provided with a view to the technical preparation of projects to be co-financed by the Structural and Cohesion Funds.

With regard to **monitoring and evaluation**, the work on the ex-ante evaluation of the draft SPD is proceeding. Training has been provided to the Structural Funds Division in the Financial Assistance Department of the Ministry of Finance, which has set up an evaluation working group.

In the field of **financial management and control**, a multi-annual approach to the Public Investment Programme, has been successfully introduced in 2002. In April 2002, a study on Lithuania's capacity to absorb Structural and Cohesion Funds assistance has been finalised, which suggested a methodology for the verification of the additionality principle and proposed various possibilities to increase Lithuania's absorption capacity (including possible reallocation of public finance both among and within state investment

sectors). Internal audit units have been set up in all ministries and public spending entities to be involved in the implementation of Structural and Cohesion Funds assistance. A specialised unit (Internal Audit Methodology Division) has been set up to deal with the development of systems and standards. The majority of auditors are trained through a variety of training modules.

As regards **statistics**, quite a large number of indicators are stored and disseminated in a regional data base. The compilation of regional data for analysis, evaluation and monitoring has continued.

Overall assessment

Lithuania has already organised its territory into units corresponding to the NUTS classification and has adopted the major part of the framework legislation needed to implement the *acquis* covered by this chapter. A new version of the Law on Regional Development, in line with the *acquis*, is being prepared.

Concerning the institutional structures, the strengthening of the capacity needs to be sustained and completed on the basis of the final decisions on the implementation structure. The Ministry of Finance has made good progress towards preparing the role as Managing Authority. The relationship between the Ministry of Finance, the Ministry of Economy and the Ministry of Interior and their respective responsibilities and tasks have been further clarified. Core capacities have been developed for the ERDF Paying Authority and the EAGGF. Other line Ministries, like the Ministry of Economy and the Ministry of Social Security and Labour, have to further increase efforts to develop their capacity. More attention is needed to develop capacity in relation to business aid and local development and the necessary structures and co-ordination mechanisms to manage financial assistance from the European Social Fund by strengthening the ESF Paying Authority. The list of intermediate bodies needs to be completed and the tasks to be performed by them on behalf of the managing authority defined. Furthermore, Lithuania needs to give careful consideration to improving the conditions for recruiting and maintaining qualified staff in the ministries involved in the management of the Structural and Cohesion funds.

With regard to programming, further efforts need to be made to adopt the draft Objective 1 Single Programming Document on the basis of the timetable agreed with the Commission and well established co-ordination and consultation mechanisms. Efficient and effective inter-ministerial co-operation and partnership should be secured throughout the whole programming process. In this context, particular attention should be given to the need to prepare an integrated and coherent development strategy.

Further progress must be made with the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline). The capacity of regional and local actors as well as other relevant partners to prepare, and implement projects, needs to be considerably strengthened. Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes.

Work on ensuring compliance with the *acquis* requirements for monitoring and evaluation must continue, in particular as regards the ex-ante evaluation of the draft Single Programming Document and the definition of key indicators. To ensure effective

and efficient implementation of the Structural Funds programmes, it is crucial that an effective monitoring system should be operational upon accession.

In the field of financial management and control Lithuania still needs to complete the legislative framework and finalise the specific procedures for financial control, auditing and certification of expenses and correction of irregularities specifically applicable to the Structural and Cohesion Funds. The appropriate systems and procedures need to be developed and strengthened, in particular as regards the Managing and Paying Authorities. The internal audit departments still need to be strengthened and adequately staffed and common guidelines drawn up to ensure operational capacity and effective implementation. The training of internal auditors should continue. Lithuania has introduced multi-annual planning of budgetary expenditure. Its budgetary provisions already provide for sufficient flexibility for transferring the matching national co-finance of programmes co-financed by the EC and will be amended accordingly with a view to Structural and Cohesion Funds assistance.

As far as statistics are concerned, work should continue to achieve the level required for programming, monitoring and evaluation.

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania's progress in establishing a differentiated development policy addressing rising regional disparities was clearly limited. It added that a general framework for an integrated development strategy, which, given its size could constitute an integrated part of a national development strategy, should be introduced. Moreover, its administrative capacity to manage integrated regional development programmes clearly needed to be improved. Hence, significant reforms needed to be implemented before Lithuania would be able to apply the Community rules and to channel effectively the funds of the EC structural policies.

Since the Opinion, Lithuania has made important progress in legislative terms, and, more recently, made good progress in programming and partnership, and has moved forward with developing the necessary administrative capacity. The institutional framework is largely in place but the administrative capacity and the technical preparation of projects have not yet reached the level required.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania should now focus efforts on completing the programming documents in accordance with the timetable agreed through continued inter-ministerial co-operation and association of the relevant partners, clearly defining the final implementation structures and further reinforcing their administrative capacity as well as the systems and procedures for ensuring the efficiency and correctness of management and implementation of Structural and Cohesion Funds assistance through effective monitoring, financial management and control.

Chapter 22: Environment

Progress since the last Regular Report

Since last year's report, progress can be noted in terms of legislative alignment through the adoption of a number of legislative acts, and steps have been taken to strengthen the administrative capacity.

With regard to the **integration of the environment into other policies**, the National Sustainable Development Commission has established a special working group for preparation of a sustainable development strategy.

As regards access to environmental information under **horizontal legislation**, the framework Law on Environmental Protection was amended in December 2001 and entered into force in January 2002. The information management programme to ensure reporting was approved in May 2002.

In the field of **air quality**, progress has been achieved since last year's report regarding alignment with the *acquis* on ambient air quality and reduction of volatile organic compound emissions from storage and distribution of petrol. With regard to sulphur content of liquid fuels, studies were carried out to determine the technical options to ensure compliance. As regards monitoring capacity in the air sector, by April 2002 a list of necessary laboratory equipment as well as an investment plan had been developed. Further monitoring equipment and a software programme, which will ensure rapid information flows from monitoring stations to regional departments and the Joint Research Centre, have been installed. Traffic counters/classifiers for assessment of emissions from cars in cities have been acquired.

In the area of **waste management**, legislative progress has been made over the past year. Major new legislation adopted includes the amendment of the framework Law on Environmental Protection (December 2001) and of the law on waste management (July 2002), three ministerial orders on packaging waste (end of June 2002) and the new law on pollution-related charges, introducing charges on certain goods and packaging (January 2002). In April 2002 the national waste management plan was approved. However, Lithuania has not yet developed a truly effective approach to the management of hazardous waste, and only temporary storage is available. The staff resources seem insufficient to handle the bulk of work related to waste management. Regular training activities are arranged for staff at municipalities dealing with waste management issues. Regulations on waste shipments were adopted in October 2001. Amendments to the existing regulations on closure of existing landfills and rules for construction of inert landfills were adopted (October 2001 and March 2002). Preparations have continued to establish regional waste management systems. An order on batteries and accumulators was approved (December 2001).

As regards **water quality**, progress towards alignment has been achieved. The legislation adopted includes rules on waste water management (October 2001) and on calculation of pollutants discharged into the environment (January 2002). In relation to the requirements on dangerous substances a number of ministerial orders were passed at the end of 2001 and beginning of 2002. This included rules for protection of groundwater, requirements and rules for the establishment of an inventory on dangerous substances and designation of the responsible institutions. Regulations on reduction of surface water pollution by List

I and List II dangerous substances were issued as were recommendations for development of pollution reduction programmes. In addition, rules for the exchange of information on surface water quality were decided upon, a system of information exchange established and a monitoring programme approved. A joint order on water protection from nitrates was approved at the end of 2001. Surface water bodies were classified by the Water Resources Department in July 2002. An action plan for the reduction of fluoride in drinking water was approved in April 2002 as a result of an analysis carried out of pollutants in drinking water and their impact on human health.

As regards **nature protection**, in December 2001 the Seimas adopted amendments to several laws on habitats and wildlife, including birds. Implementing legislative acts were issued concerning data on fauna and flora species of Community importance (December 2001) and on a list of proposed sites of Community importance (April 2002). A number of scientific and administrative activities took place in relation to identification of NATURA 2000 sites and preliminary areas have been selected. In October 2001 the order on import, export, re-export and trade in wild animals was adopted. Management and scientific authorities were designated for the implementation of the convention on international trade in endangered species of wild fauna and flora. Training was arranged.

In the field of **industrial pollution control and risk management**, rules on integrated permitting and on collection of emissions data were approved (in February and March 2002 respectively). Preparations for applying new permitting provisions have been initiated. As regards volatile organic compound emissions due to use of solvents, the programme for approximation and implementation was approved in April 2002. In March 2002 an implementation programme to enable voluntary participation by organisations in the eco-management and audit scheme (EMAS) was approved. During the reporting period a number of rules were adopted concerning eco-labelling. In September 2001, an order on large combustion plants was adopted. Three studies have been carried out for the implementation of the new directive and recommendations prepared on the implementation of the new LCP directive and its sulphur dioxide requirements.

As regards management of **genetically modified organisms (GMOs)**, a consultative committee on GMO management was established and requirements for issuing certificates for the use of GMOs and their products were issued. The issuing of certificates has been delegated to the Nature Protection Department of the Ministry of Environment, where a division for genetically modified organisms was established at the beginning of 2002. The transposition of EC legislation on **chemicals** is underway. In December 2001, regulations on safety data sheets were approved. Test methods for determination of eco-toxicity of chemical substances and preparations were approved in January 2002. At the end of last year, a procedure for carrying out an inventory of new chemical substances placed on the Lithuanian market was approved, according to which producers and importers need to present the necessary data by October 2002. Provisions on collection, processing and dissemination of data, accessibility to databases and confidentiality have been in place since February 2002. Lithuania is in the process of implementing a national programme for the phasing-out of ozone depleting substances; the national licensing system on their import and export was updated in March 2002. In order to strengthen the administrative capacity for chemicals management, an ozone unit was established at the beginning of 2002 and continuous training is taking place. As regards biocides, the State Public Health Supervisory Authority was designated the competent authority to implement requirements on biocides, under the auspices of the Ministry of Health, which is responsible for co-ordination.

As regards **noise**, an impact study has been finalised. No progress has taken place as regards legislation.

With regard to **radiation protection and nuclear safety**, during the reporting period the agreement on the exchange of radiation monitoring data between countries of the Nordic and Baltic Sea Region was ratified. This agreement establishes the necessary legal and administrative basis for improved exchange of radiological data in ordinary situations and in cases of nuclear or radiological accidents or incidents. The Nuclear Energy Safety Inspectorate was appointed as the competent authority for evaluation of radiological emergencies at nuclear facilities. The plan for management of radiological emergencies at the Ignalina NPP was tested during an emergency management exercise in February 2002 in order to improve the readiness for management of possible accidents and co-operation between the relevant institutions. An order concerning the description of medical procedures for the use of ionising radiation was adopted in December 2001. Amendments to the basic safety standards were issued. The Radiation Protection Centre extended the number of staff responsible for state radiation protection supervision and control at the Ignalina NPP as well as for radioactive waste management (*see also Chapter 14 – Energy*).

A number of activities have been carried out to enhance **administrative capacity** in the field of the environment. The capacity of the Ministry of Environment has been strengthened through training activities. Its capacity for the development and management of EC-funded environmental projects improved as a result of the establishment of the ISPA implementing agency. Extensive training programmes for inspectors have been developed and carried out. Various training activities for local staff were carried out.

As regards the issuing of permits, Lithuania has a long tradition of media-based permitting, using a single permit with different parts for different environmental media. This practice is in fact not far from integrated permitting. The approach is however still rather sectoral within the single permit and so far there is little experience of integration, but Lithuania has taken its first steps towards integrated permits. The division of roles between the different institutions involved are clear and co-operation appears to work well.

As regards planning and programming, Lithuania has prepared programmes for air, water and industrial pollution, as well as a national waste management plan. However, there is no truly functioning approach to hazardous waste yet. The counties are responsible for planning municipal waste management at the regional level, while the municipalities are responsible for municipal planning and implementation at the local level.

As regards monitoring, Lithuania has made important investments in the fields of air and water quality and a new laboratory at the Joint Research Centre was established in March 2002. Inspections continue to be carried out regularly. As regards enforcement, non-compliance with environmental standards is subject to fees and fines.

Overall assessment

Considerable alignment has been achieved with the environmental *acquis*, but Lithuania still needs to adopt several implementing legislative acts to complete transposition in the fields of chemicals (biocides) and genetically modified organisms (risk assessment,

notification, labelling, information and public participation in granting authorisations, establishment of database, security expertise of food stuffs, import and export), industrial pollution (waste incineration, emissions of VOC in industry, guidance on application of permitting), waste (packaging, waste oils), and nature protection (habitats, birds). Particular efforts are required in the area of noise, where the relevant *acquis* has not yet been transposed. Close attention is required to implementation of the *acquis* with regard to waste management (solutions for hazardous waste management, administrative capacity at ministerial and regional levels), water quality (drinking water requirements, review of permits, establishment of pollution reduction programs), industrial pollution control (permits, large combustion plant requirements), chemicals and GMOs (administrative capacity) and nature protection (management and protection of habitats and species).

Lithuania is in line with the requirements of the Kyoto Protocol on Climate Change which was ratified in 1998.

The principle of integration requires continuous attention both at national and at Community level. Lithuania needs to continue integrating environmental protection requirements into the definition and implementation of all other sectoral policies so as to promote sustainable development.

The development of Lithuania's administrative capacity to implement the EC environmental *acquis* still requires close attention. In general, Lithuania has reached a reasonably good level of staffing, which in many cases seems to be adequate. However, reinforcement of capacity and raising awareness of the EC requirements at central, regional and local level will be required in certain sectors, notably for nature protection, waste management, integrated permitting and BAT, and chemicals. In Lithuania, tasks are often divided between numerous agencies and administrative levels, and in certain cases this has led to unclear responsibilities. There are a number of different bodies which are responsible for setting objectives, issuing permits, monitoring, inspection and administering financial instruments. Co-ordination and co-operation between these institutions need to be secured.

As regards the issuing of permits, strengthening co-ordination and information flow between central and regional level is crucial. In order to advance with integrated permits it will be necessary to increase the capacity at regional level. As regards best available technologies (BAT), in general there is a lack of information at all levels, including industry, and extensive training and information programs are required to remedy this situation. The plan to establish a BAT centre can be a useful step in this respect.

As regards planning and programming, it is important to strengthen capacity at the central and regional level. This is essential to ensure that the necessary programming capacity is in place at accession. Lithuania still needs to reinforce its monitoring capacity further. Progress has been achieved in the field of air, but monitoring infrastructure and equipment still need to be upgraded and modernised. The co-ordination of monitoring and reporting procedures could also benefit from further improvement.

The inspection system seems adequate, but it still needs to adopt a fully integrated approach, and the capacity at local level needs to be enhanced. Laboratories and equipment could also be improved further.

As regards enforcement, fines are an effective source of income and provide an incentive for operators to agree on improvement programmes. Lithuania continues to make investments in the field of the environment. However, it needs to continue its efforts to establish comprehensive investment strategies, which would improve investment efficiency by focusing the available resources on implementing the requirements of the EC *acquis*. The enforcement authorities need to be strengthened.

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

Conclusion

In its 1997 Opinion the Commission concluded that with current trends and the recent acceleration in legislative and policy reforms, transposition of the environmental *acquis* in Lithuania could be achieved in the medium term. However, effective compliance with a number of pieces of legislation (e.g. drinking water, aspects of waste management and air pollution legislation) could only be expected in the long term, and would require a significant increase in environmental investment, as well as a major effort to reinforce administrative capacity.

Since the Opinion, Lithuania has achieved considerable progress in aligning with the EC environmental *acquis*, and has progressed in developing the necessary administrative capacity to implement the *acquis* in this area. Transposition has reached a relatively good level, but implementation is not yet fully satisfactory. Lithuania continues to make investments in this area.

Negotiations on this chapter have been provisionally closed. Lithuania has been granted transitional arrangements for certain implementation provisions mainly related to investment, with regard to volatile organic compound emissions from storage of petrol (until 31 December 2007), aspects of waste management relating to packaging (overall recovery rate until 31 December 2006), and urban waste water treatment (until 31 December 2009). Lithuania is meeting the majority of the commitments it has made in the accession negotiations in this field and the implementation schedule has been respected to a great extent. However, delays have occurred in the areas of waste (packaging) and chemicals (biocides). This needs to be urgently addressed.

In order to complete preparations for membership, Lithuania's efforts need to focus on finalising transposition (waste, industrial pollution and nature protection) and on strengthening overall administrative capacity. Continued efforts should be made to implement provisions with regard to volatile organic compound emissions from storage of petrol, waste management relating to packaging and urban waste water treatment.

Chapter 23: Consumers and health protection

Progress since last Regular Report

During the reference period, progress has been made in the area of consumer and health protection.

In the field of **safety related measures**, the Government adopted in April 2002 the resolution on the Procedure for the application of restrictive measures for placing products on the market.

Further progress has taken place in the area of **non-safety related measures**, especially regarding the implementation of the provisions of the new Civil Code on Economic Interests of Consumers. Provisions of implementing legislation were adopted to further align with the consumer protection *acquis* (in particular in the areas of sale of consumer goods and associated guarantees, doorstep and distance contracts). The Government approved the regulations on retail trade and the regulations for return and replacement of goods. The regulations on labelling and indication of prices of articles (goods) for sale in Lithuania, adopted in May 2002, aim at further aligning Lithuanian legislation with the *acquis* on indication of prices.

In order to improve control of package travel, package holidays and package tours, the Government partially amended in April 2002 its resolutions on the rules for financial guarantees for travel organisational services.

From January 2001 to January 2002, 13 cases of misleading advertising were investigated. Since January 2002, the Competition Council has launched 11 cases related to misleading or comparative advertising. In 9 cases, companies were warned and obliged to cease immediately such advertising and to retract its claims publicly.

Some progress has been made in developing a **functioning market surveillance mechanism**. The institution in charge of consumer protection is the National Consumer Rights Protection Council under the Ministry of Justice. 13 specialists were employed in 2002. Between September 2001 and April 2002, the Council investigated 148 consumer complaints. In November 2001, a consultative body, the Consumer Protection Commission, was established under the National Consumer Rights Protection Council. It is composed of representatives from the ministries, NGOs, consumer and business organisations.

In 2001, the State Non-Food Product Inspectorate (SNFPI), which is in charge of market surveillance activities and is the official TRAPEX (system for transitional rapid exchange of information) contact point, conducted 6894 checks on non-food products (9% were conducted on the basis of consumer complaints). 162 checks following public requests have been performed. Following the Code of Administrative Violations, 427 managers were reprimanded. The SNFPI structure was revised in October 2001: it now consists of the Central Headquarters in Vilnius and 10 structural units in the regions. This re-organisation allows a more effective implementation of the preventive market surveillance of non-food products and examination of consumer complaints. The SNFPI also carries out information activities for economic operators and the general public on consumer-related issues.

Overall assessment

In the area of safety related measures as well as in the area of non-safety related measures, legislative alignment is advanced. However, amendments to existing non-safety measures are needed in order to fully align with the *acquis*, in particular with respect to misleading advertising and package travel.

In the area of market surveillance, co-operation between bodies involved in market surveillance activities should be reinforced and the role of customs in performing checks on the safety of imported products highly increased. The range of products controlled by market supervision authorities should be widened in type and quantity with a view to include more products falling under the coverage of *acquis* on general product safety. There is also a need to increase the volume on products tested by the laboratories. The administrative capacity of market surveillance bodies should be strengthened in terms of human and financial resources and further training provided to agents performing market surveillance activities, including customs agents. An increase in the staff of the National Consumer Rights Protection Council is still necessary.

Further support for consumer associations is needed since the consumer movement is still at an early stage in Lithuania. Therefore, it is important that Lithuania pursues its efforts and supports the development of a strong consumer protection as well as a consumer education policy. This will require greater involvement of representatives of business and consumer associations in the standardisation process.

Conclusion

In its 1997 Opinion, the Commission concluded that there were important gaps in Lithuanian consumer protection legislation compared to EC Directives, particularly on general product safety. Although Lithuania had created the institutional structures to implement legislation on consumer protection, enforcement of existing legislation appeared to be a pressing problem. But, provided that the harmonisation efforts were continued, Lithuania should be ready to take on the EC *acquis* on consumer protection in the medium term.

Since the Opinion, Lithuania has continued to progress although the strengthening of institutional structure for consumer protection was rather difficult. Lithuania has achieved a fair level of alignment with the *acquis*, in particular with the safety related area, but some additional measures are still needed and the enforcement side remains to be strengthened.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it made in the accession negotiations in this domain.

In order to complete preparations for membership, Lithuania's efforts need now to focus on completing alignment with the consumer protection *acquis* and on strengthening the administrative capacity of the main bodies in charge of enforcing legislation. A programme aiming at raising consumer and business operators' awareness about their rights and responsibilities should be developed.

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

Progress since the last Regular Report

Lithuania has made considerable progress since last year's Regular Report in the area of justice and home affairs by adopting, inter alia, the Schengen Action Plan, the Anti-Corruption Programme and legislation in various sub-sectors under this chapter.

In the area of **data protection**, the Director of the State Data Protection Inspectorate approved in February the Data Protection Development Programme 2002-2004, which constitutes the framework for actions in this area. The Parliament adopted in January amendments to the Law on Legal Protection of Personal Data, thus ensuring that the Law meets the requirements of Europol and of the European Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data. Furthermore, Lithuania signed in November the Additional Protocol to the above-mentioned Convention regarding supervisory authorities and transborder data flows.

At the end of September 2001, the Government adopted a Resolution on the Structural Reform of the State Data Protection Inspectorate and took a set of other decisions in this area, on the basis of which the Inspectorate was subsequently restructured into an independent governmental institution. The Inspectorate supervises and controls the implementation of the Law on Legal Protection of Personal Data and is responsible for the implementation of the European Convention. During 2002 staff numbers of the Inspectorate are being increased to 19, while in 2003 this number will reach 22. The Inspectorate's 2002 budget is approximately € 200 000. The computerised information system of the Register of Personal Data Controllers has been operational since November 2001. (*see also chapter 3 - Freedom to provide services*)

Regarding **visa policy**, Lithuania signed during the reporting period visa-free agreements with the Republic of Korea, Hong Kong, Macao and Mexico (with the latter for diplomatic passports holders). In January the Regulations for the Issuance of Visas were amended and as a result the airport transit visas were effectively introduced in April 2002. In November Lithuania requested permission from the Russian Federation to open a consulate in Sovetsk (Kaliningrad) and from Belarus to open a general consulate in Grodno, but no reply has yet been received.

Lithuania adopted in October 2001 its **Schengen** Action Plan, which was subsequently updated in July. Lithuania continued practical preparations for its participation in the Schengen Information System. The new Law on the Control of Weapons, which was adopted in January and is to enter into force in July 2003, largely ensures alignment with the weapons and ammunition control *acquis*. Lithuania completed in October 2001 the reorganisation of the Police Department at the Ministry of the Interior and established the Lithuanian Criminal Police Bureau. The Bureau includes the International Relations Service consisting of the Lithuanian National Interpol Bureau and is in future to include the SIRENE National Bureau. It has been decided that the International Relations Service will be responsible for police co-operation in accordance with Articles 39-46 of the Schengen Convention.

As concerns the **external borders**, Lithuania has made good progress in implementing the Strategic Plan for Development of the Border Guard Stations and Infrastructure in 2001-2010, adopted in September 2001. Both the green and blue borders are being equipped with adequate infrastructure.

The State Border Guard Service, reorganised a year ago, functions under the Ministry of the Interior. A large scale training programme was conducted for staff from July 2001-May 2002 on a wide range of specialised issues. The Service continued to gradually reduce the number of military conscripts and is replacing them, by autumn 2002, with professional officers. In April the Document Investigation Centre at the Border Guard Service was established, which will serve as the contact point for exchange of national

and international information on travel documents and should become part of the FADO European false documents data base network. In October 2001 the Government approved the Strategic Development Plan on Border Crossings, which enhances inter-agency co-operation between border guards, customs, veterinary, phytosanitary and transport services. Furthermore, in May the Border Guard Service, the Police and Customs signed a trilateral co-operation agreement with the aim to strengthen operational activities against illegal migration, smuggling, and other border-related crimes. International co-operation with the border guards of Latvia and Estonia has improved. Security along the eastern frontiers was further strengthened while border crossing procedures between the Baltic states were improved. Co-operation at the Lithuanian-Polish border has improved as well and in March the first joint checkpoint was opened at Kalvarijos-Budzisko. Border demarcation with Belarus continued on the Lithuanian side. Lithuania again drew the attention of the Russian authorities to the need for the Russian Federation to ratify the Border Agreement.

The State Border Guard Service increased its staff levels from 4996 in 2001 to 5079 posts in July 2002. Approximately 500 posts are currently vacant. Lithuania has further increased staff at the borders with the Russian Federation and Belarus, the future external borders, which are guarded by the larger part of the staff. The borders with Latvia and Poland (future internal borders) deploy the remaining part of the staff. Lithuania decided to increase the number of border guards at the external borders by 80 by January 2004. After the abolition of border checks at the future internal borders the State Border Guard Service plans to deploy more than 70 percent of the staff to the external borders.

Lithuania adopted in November the new Law on Passports. New passports will be in conformity with the security features of the *acquis* and the requirements set by the International Civil Aviation Organisation (ICAO) for machine-readable travel documents. New passports will be issued as from the end of 2002 at a rate of 400 000 per year. Old passports should be withdrawn from the circulation by the end of 2007.

In 2001, the border police detained 107 illegal immigrants at the external border (100 in 2000 and 495 in 1999). The number of offences at the state border increased to 998 cases in 2001, with 54% of the offenders being detained at the border with Belarus.

In the field of **migration**, the Parliament adopted in November the Law on Identification Cards, providing for the issuance of identification cards to all citizens. In December the Government adopted new Rules Regulating the Issuance, Replacement and Repeal of Permits for Foreigners to Reside in Lithuania and amended the Rules regulating Foreigners' Arrival to Lithuania, Residence, Transit and Departure from Lithuania. Also in December, a readmission agreement was signed with Moldova and the Instruction for Decision-Making and Implementation on Aliens' Obligation to Depart or be Expelled from Lithuania was approved.

The Government adopted in November a Resolution on co-ordinating the control of illegal employment, which defined the competencies of the institutions in this area. The State Labour Inspectorate is the co-ordinating body, while the State Tax Inspectorate under the Ministry of Finance, the Tax Police Department and the Police Department also play their role. The Government sets an annual quota for employment of foreigners. Current requests represent half of the 2002 quota of 1 300 foreigners. The Government decided to increase the staff of the State Labour Inspectorate from 156 to 200 in 2003. In 2001 the State Labour Inspectorate carried out 6 155 inspections related to control of

illegal employment and established 659 violations in 2001 (266 in 2000). In December the Centre for Issuing Identification Documents under the Ministry of the Interior was established. The staff of the Migration department continued to benefit from specialised training including language courses.

In the area of **asylum**, amendments to the Law on Refugee Status entered into force in February, providing for the introduction of procedural guarantees for asylum seekers and for speeding up procedures for the investigation of manifestly unfounded cases. The Government adopted in January a Resolution on Approval of Order and Conditions for Temporary Accommodation of Foreigners in the Registration Centre, providing the basis for the management of the Foreigners' Registration Centre. The Foreigners' Registration Centre can accommodate 200 asylum seekers and 300 illegal migrants. Lithuania received in 2001 a total of 425 asylum applications of which 269 were accepted, 58 rejected and 97 were closed e.g. because the applicant had left Lithuania. Training for staff at key institutions, including the Asylum Division of the Migration Department, continued during the reporting period.

As concerns **police co-operation and the fight against organised crime**, in May the 2000 United Nations Convention against Transnational Organised crime (Palermo Convention) was ratified. In April, Lithuania signed the Protocols against the trafficking of persons and the smuggling of migrants, supplementing this Convention. The abovementioned police reform, based on the Law on Police Activities, introduces a more efficient management structure and demilitarises the police. Autonomy at regional and municipality level is increased and more resources are directed towards the performance of primary police tasks. The Police Department ensures overall management, while the Criminal Police Bureau and the Public Police Bureau are responsible, inter alia, for the investigation and prevention of crimes, operational activities, protection of the witnesses and victims, criminal intelligence and licensing. Lithuania also took further steps to start cooperation with Europol. The Head of Police adopted in January a Strategic Plan for the Police Activities for 2002-2004. In 2002 a total of € 116 million is available from the state budget for the implementation of the relevant programmes. Specialised training on a wide range of issues was conducted at various training centres including the European Police College Association (CEPOL). In July the Government adopted a Resolution regarding the principles and the plan for the setting up of national colleges, which foresees *-inter alia-* the establishment, in 2004, of the College of Internal Affairs. This College will be responsible for training police officers.

Since January, the Government has been implementing a new Programme of Control and Prevention of Prostitution and Trafficking of Human beings with a budget of more than € 100 000. 14 criminal charges were brought for human trafficking in 2001, and an additional five in the first quarter of 2002. Lithuania also participates in the Nordic Baltic information campaign against trafficking of women.

In January the Government adopted the National Programme for the **fight against terrorism**. The State Security Department coordinates the implementation of the Programme. The Programme includes a set of legal, administrative and operational measures aimed at fighting terrorism including those related to the prevention of terrorism financing. The new Code of Criminal Procedure, adopted in March, takes into account the instruments on judicial cooperation in criminal matters including the EU Convention on Mutual Assistance in Criminal Matters and its Protocol.

As regards the **fight against fraud and corruption**, in January, Lithuania adopted the National Anti-Corruption Programme comprising the National Anti-Corruption Strategy and its Action Plans and started its implementation. The Seimas adopted in May the Law on Corruption Prevention, aiming at establishing the main principles for prevention of corruption in the private and the public sectors. In January the Seimas adopted amendments to the Criminal Code and the Code of Criminal Procedure, aimed at aligning with the *acquis*. Furthermore, in March the Council of Europe Criminal Law Convention on Corruption was ratified; the Convention entered into force in July. In April Lithuania signed the Council of Europe Civil Law Corruption Convention. The Special Investigations Service (SIS) remains the key institution in this area and is responsible for the implementation of the National Anti-Corruption Programme. Its capacity was further strengthened by intensive specialised staff training and the establishment of a new unit for public education and support activities. In 2001, 193 corruption-related crimes were disclosed, including 117 crimes involving the civil service. During the period from January to August 2002, 91 corruption related crimes were disclosed, including 59 crimes involving the civil service (*see also Section B.1.1 - Democracy and the rule of law*).

Regarding **drugs**, Lithuania established in November a National Focal Point for cooperation with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), which became operational in April. It is established at the State Public Health Service and has five staff members. In March Lithuania signed the 1995 Agreement on Illicit Traffic by Sea, implementing Article 17 of the UN Convention. Staff of key institutions were given further training. In June the Government reorganised the Governmental Drug Control Commission, in which the Parliament, the Special Investigation Service and the Criminal Police Bureau are now represented. In 2001, 1 039 crimes related to illegal trade in narcotic and psychotropic substances were registered, an increase of 12% compared to 2000.

In the area of **money laundering** the Seimas adopted, in March, the Law on Financial Crime Investigation Service. This Law provides the legal basis to convert, since April, the Tax Police Department into a new Financial Crime Investigation Service (under the Ministry of Interior). The crime investigation function of the new Service has been taken over from the State Tax Inspectorate. In March the Law on Amendment to the Law on Prevention of Money Laundering was adopted, ensuring alignment with the *acquis* on the identification of the customer. Staff of the Financial Crime Investigation Service participated in an extensive training programme.

The Service employs 240 persons and, according to its strategic plan for 2003-2005, additional staff will be recruited. It received 83 reports on suspicious transactions in 2001, compared to 51 reports in 2000. A total of 9 criminal proceedings were initiated in 2001 (*see also chapter 4 - Free movement of capital*).

With regard to **customs co-operation**, in January the Fraud Prevention and Investigation Service of the Customs Department was reorganised into the Customs Criminal Service. (*see also Chapter 25 - Customs union*). There has been some progress in co-operation between the Customs Department and other national institutions involved in the fight against fraud.

In the area of **judicial co-operation in criminal and civil matters**, the Seimas adopted in February the Code of Civil Procedure and in March the Code of Criminal Procedure (both to enter into force in 2003). The Seimas ratified in March the Hague Convention on

the Civil Aspects of International Child Abduction and in April the Hague Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Co-operation in respect of Parental Responsibility and Measures for the Protection of Children.

Overall assessment

As regards **data protection**, Lithuania is now well advanced. However, the Data Protection Development Programme 2002-2004 needs to be implemented. The *acquis* on the use of personal data in the police information system, including the Council of Europe Recommendation n°87 and the relevant provisions of the Europol Convention, should be implemented. Progress has been made in strengthening the independence of the State Data Protection Inspectorate, but these efforts need to be sustained, while inter-agency cooperation needs to be stepped up. In this respect amendments to the Law on Legal Protection of Personal Data should be adopted. Furthermore, awareness among key administrations, data controllers and the public of data protection should be enhanced.

Lithuania has largely aligned its **visa policy** with the *acquis*. Efforts should focus on the full implementation of the new visa regulation, in particular regarding the list of countries whose nationals are exempt from visa obligations. Lithuania also needs to introduce a uniform format for visas in line with the *acquis* and further align with the Common Consular Instructions. It should also ensure the proper functioning of the visa issuing procedures, administrative management and organisation. The establishment of an on-line Visa Register as a constituent part of the Foreigner's Register and the stepping up of the connection of all border checkpoints and diplomatic and consular institutions also need continued attention.

The preparations for the introduction of transit visas for train passengers and lorry drivers crossing the territory of Lithuania to and from Kaliningrad as of 1 January 2003 are key developments. The Lithuanian decision on the general introduction of visa requirements for the residents of Kaliningrad as from 1 July 2003 should be implemented. Visas will also be introduced for nationals of Belarus and Ukraine as of 1 January 2003. Lithuania should continue its efforts to open and enlarge its consular facilities in Kaliningrad, in mainland Russia and in Belarus. It should however be noted that the success of these efforts depends, inter alia, on cooperation by the countries concerned.

Lithuania has made key progress with the adoption (and subsequent updating) of its **Schengen** Action Plan, but implementation should be stepped up and the necessary financial means should continue to be ensured. Lithuania should continue the practical preparations for the Schengen Information System (SIS II) by integrating the current set of national registers into a single system. Lithuania should furthermore complete the alignment with the weapons and ammunition control *acquis* as well as with Article 5 of the Schengen Convention on the entry conditions for foreigners. Its plan to issue new passports in conformity with the *acquis* and withdraw old passports from circulation should be fully implemented. In general, Lithuania should adequately prepare the International Relations Service of the Criminal Police Bureau for its tasks under Articles 39-46 of the Schengen Convention.

Lithuania has considerably strengthened its borders and notably the future **external borders** of the Union with the Russian Federation (including the sea) and Belarus through the installation of the necessary infrastructure including IT technology, and specialised large-scale training of the border guards. The establishment and

implementation of a comprehensive sea surveillance system should be continued. Lithuania needs to continue to transfer Border Guard staff to the future external borders. Key steps have been taken to enhance the co-ordination between the State Border Guard Service and other relevant bodies (e.g. customs and veterinary/phytosanitary agencies). These efforts including the need to adopt amendments to the Law on State Border and Protection and to the Law on State Border Guard Service must be further sustained to ensure a sufficiently high level of border protection, to promote inter-agency co-operation and to enable cross-border police co-operation. Lithuania is encouraged to continue to provide the necessary equipment and high level training, to improve living conditions and to further ensure international co-operation. Lithuania is encouraged to develop a State Border Guard System Development Programme, which should enhance the state border guards as part of the overall national security system. Efforts made by Lithuania as regards border demarcation with Belarus are appreciated and Lithuania is encouraged to complete them. In this context it should be noted that the Russian Federation still has to ratify its border agreement with Lithuania.

Lithuania is well advanced in the area of **migration**, particularly concerning alignment and the implementation of legislation as well as the strengthening of the administrative capacity. Lithuania has signed 21 readmission agreements but has not yet succeeded in doing so with the Russian Federation or Belarus. In addition, four non-visa regime agreements contain readmission provisions. Lithuania needs to complete alignment with the *acquis* particularly by amending the Administrative Code to provide for carrier liability. The envisaged new Law on the Legal Status of Foreigners should be adopted in order to align with the *acquis*, namely on residence permits, on the limitation of admission of third country workers and on asylum procedures. Additionally, amendments to the Law on the Legal Status of Foreigners according to which EU citizens are entitled to the right of family reunification need to be implemented. Cooperation among the key institutions is generally satisfactory, although efforts in this area need to be sustained among the migration, labour and law-enforcement institutions in order to fight illegal immigration and employment. Preparations for the establishment of a Migration Register System need to be enhanced.

Lithuania has achieved a high level of alignment in the area of **asylum**. Alignment should be completed in particular by amendments to the Law on Refugee Status for processing asylum applications in accordance with the criteria and mechanisms for determining the responsible Member State (Dublin Convention) and by adopting a law ratifying the Dublin Convention. Weaknesses remain in the current legislation notably regarding minimum guarantees for asylum procedures as regards the suspensive effect of appeal during an admissibility procedure and on the principle of *non-refoulement* in cases of alternative protection. In general, Lithuania should fully respect the fundamental principle of *non-refoulement*.

The Asylum Division of the Migration Department (under the Ministry of the Interior) needs to be further strengthened. In particular Lithuania should implement its plans to establish a unit in the Migration Department responsible for the implementation of the criteria and mechanisms for determining the responsible Member State (Dublin Convention) and to establish the Register of Foreigners. The current database of fingerprints should be restructured in accordance with the EURODAC requirements thus ensuring an effective application of the Dublin Convention. There is a clear division of responsibilities among the key institutions and co-ordination among them improved over the reporting period, but this matter needs continued attention. The staff numbers of the

asylum division need to be increased, while training needs to be sustained, in particular for the judges dealing with asylum cases. Lithuania should continue to improve the conditions of asylum seekers including in the Pabrade Centre and fully ensure that they are detained separately from irregular migrants. Furthermore, Lithuania should ensure that passengers of transit trains are admitted to the asylum procedures as appropriate.

As concerns **police co-operation and the fight against organised crime**, good progress can be noted particularly on the institutional side and in respect of international co-operation and enhancing the professional capacity of police officers. The Law on the Activities of the Police and the Strategic Plan for the Police Activities for 2002-2004 should be implemented, while the Programme on Police System Development 2002-2010 should be adopted. Lithuania should pursue the enhancement of professional skills of the police force through a focused training system. Police forces should be enabled, through adequate staffing and equipment, to combat more efficiently specific forms of organised crime such as trafficking in human beings, trafficking in drugs and new types of crime (financial crime, money laundering and "high-tech" crime). Statistical instruments for measuring the crime rate should be improved, while new methods of technical crime investigation, including forensic investigation should be developed. Preparations for full participation in the work of Europol, including the signature of a co-operation agreement, should continue and a liaison officer should be posted. The National Europol Bureau should be established. Lithuania should amend its legislation regarding the secondment of liaison officers in order to allow the State Border Guard Service, the Police Department and the Customs Department to post liaison officers abroad directly. Lithuania is encouraged to implement its plan to renew existing international agreements and to sign agreements with Poland and Latvia. Lithuania should sign and ratify the Protocol on firearms, supplementing the UN Convention against Transnational Organised Crime; and ratify the two other Protocols to this Convention.

Despite some progress including in terms of the involvement of NGO 's, trafficking in women remains an area of concern and Lithuania should sustain its efforts to combat it. Trafficking destinations include certain Member States.

Lithuania needs to implement the National Programme for the **Fight Against Terrorism** and start early preparations for the implementation of the EU Convention on Mutual Assistance in Criminal Matters and sign and ratify its Second Additional Protocol.

Furthermore, it should align with the *acquis* and other international standards on the fight against the misuse of the financial system, in particular money laundering, including *the acquis* on prevention of the use of the financial system for the purpose of money laundering, and terrorism financing. It should furthermore ratify the UN Convention for the Suppression of the Financing of Terrorism.

Further alignment has been achieved in the **fight against fraud and corruption**. Lithuania should implement the recently adopted Law on Corruption Prevention. Sectoral strategies should be prepared to support the implementation of the National Anti-Corruption Programme. Lithuania should pay more attention to the fact that prevention through transparency and accountability standards is as important as repressive tools. Lithuania still needs to ratify the Council of Europe Civil Law Convention on Corruption and prepare for ratification of the Convention on the Fight Against Corruption involving Officials of the European Communities or Officials of Member States of the EU. Furthermore, it should ratify the Convention on the Protection of the EC's financial

interests and its Second Protocol. Lithuania should adopt amendments to the Criminal Code in order to fully align with the provisions contained in this Convention and its Protocols, in particular regarding the definition of fraud, the notion of bribe, criminal liability of heads of businesses and the liability of legal persons.

The Special Investigation Service should be further strengthened. Inter-agency cooperation should be improved, while the Code of Ethics for Public Servants should be finalised in order to enhance the fight against corruption within different state bodies.

Regarding **drugs**, Lithuania has generally advanced in the institutional field, international cooperation and the implementation of its drug policy. Lithuania should further implement its National Programme on Drug Control and the Prevention of Drug Addiction 1999-2003 and ensure full participation in the European Information Network on Drugs and Drug Addiction (Reitox) of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). The (new) National Focal Point should confirm its own functioning and adequate staff numbers and resources should be ensured. Co-operation with the Member States in this field should be stepped up and the possibilities for co-operation with Europol should be fully used. The Governmental Drug Control Commission should be further strengthened in order to ensure effective inter-agency cooperation. The 1995 Agreement on Illicit Traffic by Sea, implementing Art.17 of the 1988 UN Convention should be ratified.

Lithuania has achieved a good level of alignment in the area of **money laundering** at legal, institutional and policy level. However, the Money Laundering Prevention Act still needs to be amended to align with *the acquis*. The capacity of the Financial Crime Investigation Service should be further reinforced by increasing staff levels, providing training and by ensuring adequate equipment. Training programmes and guidelines should also be further developed for other actors in this area including the economic police, prosecutors, customs officials and the managers and employees of financial institutions. Although the co-operation between the relevant authorities has been institutionalised, in particular the reporting level from credit institutions to the FIU needs to be increased.

In the field of **customs co-operation**, progress has been made in strengthening institutional capacities. Lithuania should prepare for accession to and implementation of the Convention on Mutual Assistance and Co-operation between Customs Administrations (Naples II) and the 1995 Convention on the Use of Information Technology for Customs Purposes. Efforts should focus on development of an Integrated Customs Information System (ICIS). Furthermore, it should strengthen administrative capacity - including the recently established Customs Criminal Service - through adequate staffing and equipment, to properly combat and prevent smuggling and deal with controlled deliveries. Also, inter-agency co-operation between the Customs Board, Border Guard, Police, security police and Prosecutors General Office should be stepped up. Further Memoranda of Understanding should be concluded to establish proper forms of co-operation with business organisations. Appropriate measures should be taken to fight against fraud and corruption within the customs administration.

In the area of **judicial cooperation** in civil and criminal matters, steady progress has been made and no major difficulties are to be noted. Lithuania should implement the new Civil Procedure and Criminal Procedure Codes, in order to enable the implementation of the relevant conventions. The Council of Europe Convention on Cybercrime has yet to be

signed and ratified. Lithuania should take further measures to ensure implementation of the Community instruments in the area of judicial co-operation in civil matters, notably as regards mutual recognition and enforcement of judicial decisions. Direct contacts between competent judicial authorities should be made possible.

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

Conclusion

In its 1997 Opinion, the Commission concluded that, given the scale of the problems facing Lithuania in the justice and home affairs field, a significant, sustained effort would be needed if it were to meet the justice and home affairs *acquis* (present and future) in the medium term. The Commission noted that Lithuania had made some progress in important areas such as asylum.

Since the Opinion, significant progress has been made both in terms of legal alignment and administrative capacity. Lithuania has achieved significant legislative alignment, while administrative structures are principally in place, although further efforts are necessary.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements in this field. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on finalising alignment (notably visa, Schengen, asylum, money laundering and protection of the financial interests of the European Communities) and further reinforcing the law enforcement agencies, with particular attention to the bodies in charge of data protection, protecting the external border and the fight against corruption.

Chapter 25: Customs union

Progress since the last Regular Report

Lithuania has made further progress in the customs field since the last Regular Report.

As regards the **customs *acquis***, Lithuania made further progress in aligning its legislation. The Law on Amendment and Supplement of Certain Articles of the Customs Code was adopted in December 2001 and entered into force in June 2002. New Legislation has been adopted in the field of simplified procedures, export, temporary exportation, temporary admission, customs warehouses, destruction of goods under customs control, repayment or remission of duties, transit, dual use of goods, cultural goods and binding origin information. Regarding duty reliefs, the Law on Customs Tariffs was amended to fully comply with the *acquis* and was adopted in June 2002. The Government Resolution on the implementation of processing under customs control was approved in March 2002. In June 2002, the Government Resolution on non-preferential rules of origin entered into force and the Government Resolution on the administration of tariff quotas of import and export of goods was adopted. In July 2002, the Governmental Resolution on transit procedures was adopted.

As far as **administrative and operational capacity** to implement the *acquis* is concerned, moderate progress has been made. The Business Strategy and the Operational Management Plan for 2002 was approved in January 2002. From July 2002, the ten territorial customs offices in operation were reduced to five. Training sessions were organised to ensure the effective implementation of the Law on Protection of Intellectual Property Rights.

In October 2001, the Strategic Development Plan on Border Crossing was adopted, which enhances inter-agency co-operation between border guards, customs, veterinary, phytosanitary and transport. In April and May 2002 the Customs department signed three co-operation agreements with other border-related institutions.

As regards the identification and detection of smuggling and other customs frauds, the Customs Criminal Service was established in January 2002, on the basis of the former Fraud Prevention and Investigation Service. New staff were also recruited in this area. In the field of fight against corruption, in January 2002, the government ratified the Council of Europe Criminal Law on Corruption and the Customs Department Anti-Corruption strategy was adopted in February 2002. At the same time, the Internal Investigation Division of the Customs Department was provided with the right to carry out operational activities in the field of combating corruption. In July 2002, Internal Investigation divisions were established in all five territorial customs posts. There are 25 staff posts, five per territorial customs post, of which 11 were filled in July 2002.

Regarding computerisation, an entry-processing system has been partly implemented, and processes over 50 per cent of export and import declarations. In February 2002, the Customs Department adopted the New Computerized Transit System (NCTS) implementation plan.

Overall assessment

The current provisions of the Lithuania Customs Code are largely in line with the provisions of the EC Customs Code. A large number of legal acts were adopted in order to amend the Customs Code. However, as the full range of EC commercial policy measures and export refunds will not apply until accession and these affect the context in which the provisions in areas such as non-preferential origin, inward and outward processing are applied, Lithuania will have to take steps in these areas. Improvements have been made in the reorganisation of the customs offices and in inter-agency co-operation at the borders. After reducing the number of customs regions from 22 to 5, Lithuania should also reduce the number of inland customs offices and customs warehouses. Lithuania should continue its efforts to tackle the problem of waiting times at borders, to reduce customs fraud and economic crime, and to improve co-operation by the customs administration with other enforcement bodies. Limited progress has been made with ensuring full interconnection of the national systems with EC customs IT systems. Therefore, Lithuania should pay particular attention to the development of IT systems that will both allow computerised data exchange between the EC and Lithuania and generalise computerised customs processing. Although Lithuania's customs improved administrative capacity through intensive training of staff and the purchase of new computers, further efforts are needed in administrative and enforcement capacity as well as in training on IT systems for staff. An increase in IT staff should require to meet the demands of the interconnectivity projects foreseen over the next two years.

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania would need to continue major efforts to align its organisation and staff to the duties that have to be carried out by a modern customs administration. If it did so it might be able to meet EC requirements in the medium term.

Since the Opinion, Lithuania has made steady progress in aligning with the *acquis*. Continued progress can also be noted in the Customs Department but more improvement is needed in strengthening administrative and enforcement capacities. Legislation is to a large extent aligned and administrative capacities are partially in place.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts should now focus on completing the alignment with EC customs legislation, ensuring full interconnection of its national systems with the EC customs information technology systems and implementing infrastructure investments at border posts. Measures should be taken to reduce staff turn-over in order to stabilise IT services with a view to tackling the important tasks ahead. Further efforts should focus on applying inter-agency co-operation, enforcing existing provisions on fraud, intellectual property rights and anti-corruption, and on the necessary steps to prepare for the application of measures and provisions that will be introduced only at the time of accession.

Chapter 26: External relations

Progress since the last Regular Report

Since the last Regular Report, Lithuania has continued to align with the *acquis* on common commercial policy and to co-ordinate positions and policies within the World Trade Organisation (WTO) with the EU, in particular with regard to the Doha Development Agenda negotiations.

As regards the **common commercial policy**, Lithuania is required to align its tariffs with those of the EC on accession. Lithuania's applied tariffs currently average 5.3% on all products, 15% on agricultural products, 3.8% on fishery products and 2.4% on industrial products. By comparison the EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

As regards **bilateral agreements with third countries**, a Free Trade Agreement between Lithuania and Bulgaria entered into force in March 2002, and a Free Trade Agreement with Romania was ratified by the Lithuanian Parliament (Seimas) in March 2002. A Free Trade Agreement between Lithuania and Croatia was initialled in May 2002.

As regards **development policy** and **humanitarian aid**, a division responsible for development policy was established in the Economic Department of the Ministry of Foreign Affairs of Lithuania at the end of 2001. The budgetary line for the technical assistance to third countries was established and the amount of LTL 100,000 (€29,000) was allocated for 2002.

Overall assessment

The EU and Lithuania have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. Lithuania has been supportive of EU policies and positions within the WTO framework, in particular also during the preparation for and the launching of the Doha Development Agenda. This close co-operation should continue. Close co-ordination is needed and should continue to ensure the smooth alignment of Lithuania's GATS commitments with the EC's commitments and MFN exemptions, and steps have been defined to this extent.

Lithuania is a party to the Information Technology Agreement (ITA), a member of the WTO plurilateral agreement on trade in Civil Aircraft and an observer to the WTO plurilateral agreement on Government Procurement. With regard to the WTO Agreement on Textiles and Clothing (ATC), exchanges of information have taken place on Lithuania's third stage of integration under the ATC, although some discrepancies remain.

Progress has been made within the reporting period but Lithuania needs to continue to keep the European Commission informed on its plans to align fully to the *acquis* on export control of dual use goods. Full alignment to the *acquis*, in particular the general export authorisations, can only take place upon accession. Lithuania keeps the industry regularly informed of developments in this field and has developed bilateral contacts with the EU Member States to exchange best practices on export control issues.

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

Lithuania currently has free trade agreements with Bulgaria, the Czech Republic, EFTA, Estonia, Hungary, Latvia, Poland, Romania, the Slovak Republic, Slovenia, Turkey and Ukraine. Lithuania is negotiating a Free Trade Agreement with the Faroe Islands and has initialled a Free Trade Agreement with Croatia. Lithuania needs to ensure that the European Union is kept fully informed about existing trade agreements and about any negotiations aimed at the conclusion of new trade agreements with a third country. Prior to accession, Lithuania will need to renegotiate or renounce all international agreements concluded with third countries that are incompatible with its future obligations as an EU Member State. Decisive steps are needed, as a matter of urgency, to bring bilateral investment treaties in conformity with the Treaty obligations. Failure to do so will mean that the conflict between the bilateral investment treaties and Treaty obligations will need to be resolved in the Accession Treaty.

Regarding development policy, Lithuania needs to prepare for future participation in the financing of the European Development Fund.

The institutional infrastructure required for implementation and enforcement of the *acquis* is in place and is operational. The administrative infrastructure, which needs to be in place as regards customs services, is addressed under *Chapter 25 – Customs union*. The Ministry of Foreign Affairs is the key institution in the field of external relations and it is in charge of supervision of agreements in the fields of trade and international economic relations.

Conclusion

In its 1997 Opinion, the Commission concluded that Lithuania should be able to meet Community requirements in the field of trade and international and economic relation in the medium term, while it could confront some difficulties in applying at that time the Lomé Convention, the preferential trade regime with developing countries, integrally from the date of accession.

Since the Opinion, Lithuania has made steady progress in the area of external relations. Legislation is aligned to a large extent and administrative structures are in place.

Negotiations in this chapter have been provisionally closed. Lithuania has not requested any transitional arrangement in this area. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus on finishing the process of legislative alignment, on taking decisive steps, as a matter of urgency, towards the renegotiation or abrogation of its bilateral investment treaties in full conformity with its EU membership obligations, as well as on ensuring that the capacity exists to fully implement and enforce the EC *acquis* in this field upon accession.

Chapter 27: Common foreign and security policy

Progress since the last Regular Report

Since the previous Regular Report, Lithuania has continued to position its foreign and security policy in line with that of the European Union.

The regular **political dialogue** established by the Association Agreement with Lithuania is proceeding smoothly and Lithuania has played a constructive role within the framework of the Common Foreign and Security Policy (CFSP), including meetings at the level of Political Directors, European Correspondents and Working Groups.

Lithuania has shown a keen interest in pursuing active participation in political dialogue with the EU, including on ESDP developments. It has actively participated in the exchanges in this context with the EU and, for ESDP, in the EU+15 format meetings (i.e. with non-EU European NATO members and candidates for accession to the EU). Lithuania has continued to align regularly with **EU statements, declarations, common positions, joint actions** and other CFSP instruments when invited to do so, including negative measures. While no progress has been made as regards the alignment of specific legislation concerning economic sanctions, Lithuania has continued to comply with **international sanctions and restrictive measures** imposed by the UN and the EU.

Lithuania confirmed its preparedness to contribute both to EU Rapid Intervention Force missions and to EU civilian instruments for crisis management. It participated in the Capabilities Improvement Conference in November 2001 and the EU +15 Defence Ministers' meeting in May 2002. It is presently examining the possibility of participating in the forthcoming EU Police Mission (EUPM) in Bosnia and Herzegovina.

Lithuanian experts participated in a series of meetings in the framework of OSCE and peacekeeping and observer activities. In particular, Lithuania has been participating in KFOR (Kosovo) with 30 troops and in SFOR with 95.

On the bilateral level, Lithuania has continued to develop good relations with neighbouring countries. In particular, in its relations with Russia, Lithuania has continued to emphasise the development of far-reaching cooperation with the Russian region of Kaliningrad in order to help address the issues related to this region in a comprehensive way.

Lithuania signed the Rome Statute establishing the International Criminal Court but still needs to ratify it. It has passed new anti-terrorism legislation including measures against the financing of terrorism. It has aligned with the EU Plan of Action of September 2001 and the four Common Positions on combating terrorism. Lithuania has signed most of the international conventions related to fight against terrorism.

Overall assessment

Lithuania has developed good and constructive relations with all neighboring states and is an active proponent of regional cooperation, notably in the framework of the Council of the Baltic Sea States.

Lithuania has subscribed to the content and principles contained in the EU Code of Conduct on Arms Exports.

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

As regards administrative capacity to implement the provisions relating to the CFSP, the Lithuanian MFA has structures compatible with EU CFSP structures, including the posts of Political Director and European Correspondent. The Ministry is connected to the Associated Countries Network information system through which the EU communicates within the CFSP with the associated partners.

Conclusion

In its 1997 Opinion, the Commission concluded that the assessment of Lithuanian foreign and security policy to date led to the expectation that as a member it could fulfil its obligations arising under the CFSP.

Since the Opinion, Lithuania has made steady progress in aligning with the CFSP *acquis*; its legislative alignment is in general satisfactory at this stage and the administrative structures are in place.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements in this area. Lithuania is generally meeting the commitments it made in the accession negotiations in this domain.

In order to complete preparations for membership, Lithuania's efforts now need to focus on ensuring that its foreign policy orientation remains in line with the Union's developing foreign and security policy, adopting the legislation on economic sanctions and finalising

the development of the necessary administrative structures. In particular, Lithuania should ensure that its national policies and practice conform to the EU's common positions, should defend these positions in international fora, and should ensure that all sanctions and restrictive measures can be duly implemented.

Chapter 28: Financial control

Progress since the last Regular Report

Since last year's Regular Report, Lithuania has made some progress in this area.

Lithuania has made limited progress in the legislative alignment of its **Public Internal Financial Control** (PIFC) systems. Implementing legislation and tertiary regulations are under consideration. In October 2001, the Ministry of Finance established the Financial Control Methodology Department as the central unit for harmonisation of PIFC methodology throughout the public sector. A financial management and control manual was prepared in December 2001 and is currently being revised. Lithuania has made some progress in the area of **external audit**. The amended Law on State Control came into force in March 2002. The Law reinforces the financial and institutional independence of the State Control Office (SCO) and repeals the right of the SCO to impose fines on the auditees. In February 2002, the National Government Auditing Standards were approved by an Order of the State Controller. The standards are applied to any government audit carried out by the SCO officers. A financial audit manual is under preparation. A new organisational structure of the SCO was established in March 2002 and now comprises 10 Financial Audit Departments and 4 Performance Audit Departments.

Lithuania has made progress in the area of **control over structural action expenditure**. Functionally independent internal audit units have been established in all major ministries which will manage the Structural and Cohesion Funds. The Department for EC Funds and Aid Audit was established in the SCO under its new organisational structure in March 2002. The main objective of this Department is to audit the use of the EC funds allocated to Lithuania and the implementation of programmes in which Lithuania participates. Manuals for all pre-accession funds were approved in January 2002. The Strategic Audit Plan and Internal Audit Manual for the National Fund have been prepared. With respect to ISPA, Lithuania has made significant efforts in setting up adequate management and control system that can ensure proper implementation of the ISPA assistance. Generally, good progress has been made but further steps need to be taken to meet the requirements for internal financial control and internal audit. In November 2001, the Commission adopted a Decision provisionally conferring management authority for SAPARD, on a fully decentralised basis, on the SAPARD Agency. Its audit trail was performed in March-April 2002. Lithuania has started the gap assessment exercise which is the first step leading to the extended decentralised implementation system (EDIS).

There have been developments regarding **protection of the financial interests of the European Communities**. In March 2002, the Law on the Financial Crime Investigations Service (FCIS) was adopted. The Law defines the objectives and functions of the FCIS and sets the provisions for FCIS co-operation with other institutions. In May 2002, the Lithuanian Government designated the Financial Crime Investigation Service under the Ministry of the Interior as the anti-fraud co-ordinating service, responsible for the co-

ordination of all legislative, administrative and operational activities related to the protection of the Communities' financial interests.

Overall assessment

With regard to Public Internal Financial Control, the PIFC Policy Paper, which assesses the present characteristics of Lithuania's control systems and provides guidance for further development required, should be finalised and adopted. On the basis of that document Lithuania needs to complete and adopt its PIFC legislative framework. Implementing legislation on PIFC is in place covering the most important elements of internal audit. However, existing relevant laws and regulations will have to be brought in line with the new PIFC Act. In this respect Lithuania will have to find a way to clearly separate between the duties of the authorising officer and of the financial controller. Furthermore, Lithuania needs to define appropriate working methods for the Central Harmonising Unit (CHU) of the Ministry of Finance. Both the internal audit units and the CHU need to be staffed with well-trained and experienced personnel to ensure minimum operational capacity and implementation. Tertiary regulations (Manuals for Financial Management and Control as well as for internal audit, Code of Ethics for internal audit) need to be developed or, where existing, revised.

In the area of external audit, Lithuania has achieved a fair level of alignment. The SCO has adopted the internationally accepted external auditing standards. Its implementation as well as the introduction of performance audits requires guidance from an audit manual and specialised training. The formal mechanism to discuss the SCO's recommendations in Parliament needs to be established.

With regard to the control of structural action expenditure, further efforts need to be made in order to enhance Lithuania's capacity to manage pre-accession funds and future structural funds, in particular through the establishment of clear, public, internal financial control rules and procedures. Lithuania needs to reinforce and accelerate efforts leading to the extended decentralised implementation system before mid 2003 in order to allow EDIS accreditation to be achieved in the second semester of 2003.

With a view to ensuring suitable protection of the Communities' financial interests, Lithuania needs to review its legislation, and verify whether any adaptations are needed in order to allow its anti-fraud co-ordinating service to carry out its co-ordinating functions. This should enable effective co-operation with OLAF and other Lithuanian institutions and bodies involved in the protection of the Communities' financial interests to be implemented in practice.

Conclusion

In its 1997 Opinion, the Commission concluded that this field did not appear to present major obstacles for accession in the medium term, although considerable preparations were still necessary to establish the necessary management and control mechanisms.

Since the Opinion steps forward have been taken. However, substantial efforts are still required. Legislation has been transposed to a limited extent and administrative structures are partially in place.

Negotiations on this chapter have been provisionally closed. Lithuania has not requested any transitional arrangements. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to be ready for membership, Lithuania will need to give urgent attention to consolidating its fragmented regulations relating to Public Internal Financial Control (PIFC) into a single comprehensive Law. Lithuania needs to implement its new legislation and strengthen and develop adequate PIFC systems, as well as to strengthen and develop its legislative framework and administrative capacity to protect the Communities' financial interests. The Lithuanian authorities should also consider establishing sustainable training facilities to improve the competence of financial managers and controllers as well as internal auditors. Full implementation of the measures foreseen in the Action Plan with regard to the implementation of a methodology for financial management and control, for internal audit throughout the Government, and for training of human resources would go a long way to ensure that the current gaps in administrative capacity and implementation of the *acquis* are filled.

Chapter 29: Financial and budgetary provisions

Progress since the last Regular Report

Lithuania has made some progress in this area since the last Regular Report.

Further progress has been achieved concerning the **national budget and EC co-financed measures**. A multi-annual approach to the Public Investment Programme, which was previously budgeted on an annual basis, was successfully introduced in 2002. By adopting the Law on Approval of Financial Indicators for State and Municipal Budgets for 2002, the Government or its designated institution are allowed to transfer funds between different budget lines during the implementation of programmes or projects co-financed by the EC. The supplements to the Strategic Planning Methodology were approved by the Government in June 2002 bringing the budget planning documents further in line with standard of EC financial planning practice. These provisions include the definition of three-level results: results of the implementation of the goal (outputs); results of the implementation of programmes (results) and activity results (impact). An action plan for 2002-2003 for further developments in the area of financial and budgetary provisions was prepared in January 2002. Work is continuing on setting up the computerised government budgeting, accounting and payments system and on developing its payment module in relation to decentralised spending centres, which is so far non-existent. Several county administrations and municipalities are further developing their budgetary systems to become fully integrated into the computerised system. It is now possible to prepare the state budget expenditure at a lower-than-programme numerical level and to assess activity results in the form of non-numerical data at the lowest organisational level, where the accounting also takes place. The selection, monitoring and reporting of public investment has been improved. In addition to the Strategic Planning Methodology approved in June, new procedures for planning and selecting public capital investment were approved in May 2002.

As regards the **own resources system**, some further progress can be noted. In March 2002 an order on the establishment of a working group responsible for the development of the own resources system was adopted. The co-ordination of the working group is

ensured by the Financial Assistance Department in the Ministry of Finance which is also in charge of co-ordinating the contacts and reporting to the EU. In order to strengthen the administrative capacity, additional personnel was hired during the reporting period to the Ministry of Finance (Budget, Fiscal and Customs Departments) and the State Tax Inspectorate. A detailed action plan has been approved indicating the measures to be taken to meet the administrative conditions, implementation dates and those responsible.

An important step forward was made by the last amendment to the VAT Code which was adopted in March and entered into force in July 2002. The changes mainly provide for effective taxation of transactions previously exempt from VAT, not in line with the *acquis*; the introduction of a refund scheme for foreign taxable persons; the taxation of building land; and the exclusion of the right to deduct input VAT on purchases of business cars and leasing costs related to such cars. In addition, some changes in the rate structure were made.

From July 2002 a national sugar levy will be collected; however the collection system (based on the sugar sold) differs from the Community system for the sugar production levy.

For the purposes of calculating the GNP resource, a complete set of statistics is being produced. Statistics Lithuania continues to be co-ordinator for ESA-95 implementation, including debt and deficit of the state. As regards the administrative capacity necessary to co-ordinate financial relations with the EC, additional personnel has been recruited.

Overall assessment

The legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place. The mechanism for programming medium-term budget expenditure has been established. The methodology for co-financing and a system of monitoring and control are being elaborated. The integration of the medium-term financial outlook into the 2002 budgetary process is a positive step in this context.

Overall preparations for application of the *acquis* on own resources are underway, although there is room for further improvement.

As regards traditional own resources, Lithuanian customs legislation is already largely in line with the EC *acquis*. However, the new customs clearance system, based on IT-processing, has yet to be implemented in all territorial customs offices and their customs posts. Furthermore, Lithuania needs to develop its reporting system on cases of fraud and irregularity, and certain other reporting and accounting requirements (the 'A' and 'B' accounts) still need to be set up in time for accession. Also, the systems and procedures necessary for A and B accounts for traditional own resources and sugar levies are not yet in place. The responsible service for collecting sugar levies has to be determined and the necessary procedures including control have to be set up.

Concerning VAT, Lithuania has achieved a good degree of alignment, although a number of issues remain to be tackled. For the purposes of own resources, considerable efforts are required in order to be able to calculate the weighted average rate (WAR) in accordance with ESA-95 and to determine the impact on the VAT base of any special arrangements agreed under the Taxation Chapter. Lithuania should continue to participate in the VAT

simulation exercise, which is the key tool for effectively testing Lithuania's capacity regarding the VAT resource. Sustained efforts are also needed to improve the actual collection of VAT and to enforce VAT debts.

As regards the GNP resource, the level of compliance has been substantially improved. Lithuania should continue implementation of the ESA-95 concept, with the ongoing process of quality and reliability improvements in the calculation of GNP and the national accounts, including enhancing their exhaustiveness. Training of staff and increasing human resources is important in order to fulfil the tasks in this area.

With regard to administrative capacity, all the institutions necessary for applying the own resources system already exist. In some cases, however, the assignment of duties and the type of organisational changes to be made remain to be specified. The statistics department is not represented in the working group and the necessary procedures for assigning its tasks and responsibilities have not been established. Considering the extremely important role of the Statistics Department in the field of the GNP and the VAT resource, Lithuania should proceed without any further delay with the official assignment of duties (including a timetable for implementation) and with taking the necessary steps to ensure effective co-operation between the Ministry of Finance and the Statistics Department.

The Financial Assistance Department is co-ordinating the establishment of the necessary procedures, infrastructure and capabilities to fulfil the administrative conditions in the area of own resources. Further capacity-building efforts will be particularly important in view of the required improvements referred to above. A decision has to be taken with regard to the setting-up of a more permanent structure which will be operational after accession for the calculation, control and payment of own resources.

With regard to the control of future EC own resources, Lithuania should continue its efforts to set up effective instruments to combat VAT and customs duty fraud so that the financial interests of the EC can be protected.

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

Conclusion

In its 1997 Opinion, the Commission concluded that, in order to ensure that own resources were established, monitored and made available in line with Community regulations, Lithuania would have to overhaul its current customs system. Furthermore, for the purposes of accurately calculating the GNP resource, considerable improvements would have to be made to the national accounts to ensure that they were reliable, homogeneous and complete. The Commission added that improving the statistics would also be essential for drawing up the VAT own resources base, which would mean bringing Lithuania's VAT system fully into line with the Community directives.

Since the Opinion, Lithuania has in general made progress in these areas, in particular during the last year. The legal framework for budgetary management and for the

transparency and efficiency of financial flows to and from the EC budget is largely in place. The level of administrative capacity requires further improvements.

Negotiations on this chapter continue. Lithuania is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Lithuania's efforts now need to focus in particular on improving its calculation of the VAT base, assigning the responsible service and establishing the necessary procedures for collecting sugar levies and guaranteeing the exhaustiveness of the national accounts for determining the GNP resource together with completing the implementation of the ESA95 methodology, so as to ensure the capacity to establish properly and make available the country's contribution to each of the own resources of the Communities. Further efforts are needed with a view to securing co-ordination between the relevant services and setting up a permanent resource unit that will be responsible for the calculation, control and making available own resources by the date of accession.

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

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of texts, roughly estimated at 60 000-70 000 pages of the Official Journal. In the framework of the translation of the *acquis*, the Court of Justice has defined a set of key judgements to be translated as a priority (representing about 15 000 pages). To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a dedicated database has been set up to act as a repository of all translated acts and as a tool through which candidate countries forward their translations to the Commission and the Council. The legal revisers of the Commission and the Council vet the submitted texts; they meet regularly and liaise with representatives of the centralised Translation Coordination Units in each country.

The Translation, Documentation and Information Centre, which is the service in charge of translation of the *acquis* into Lithuanian, has received budgetary allocations amounting to LTL 950 000 (€275 000) per year for the implementation of the *acquis* translation programme for 2002-2003.

As at September 2002, almost 6 000 pages of revised text were registered in the dedicated Commission database. According to Lithuanian sources, the total number of Official Journal pages translated into Lithuanian up to June 2002 was around 35 000, of which over 26 000 pages had been fully revised. This compares to September 2001, when 28 500 of the Official Journal pages had been translated into Lithuanian, of which over 20 000 had been fully revised. Lithuania should significantly step up its efforts in this area.

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

3.3. General evaluation¹⁹

Since the Opinion, Lithuania has made significant progress in terms of both transposition of the *acquis* and administrative capacity. While the initial efforts were unsystematic, in recent years the pace and scope of transposition has considerably improved and increasing efforts have been devoted to the challenging task of building up the necessary administrative capacity.

Over the past year, Lithuania has further advanced in its accession preparations, in particular in the areas of free movement of goods, free movement of persons, competition, energy, regional policy and justice and home affairs. Limited progress has been made in the areas of financial control and fisheries. Although progress was made in the areas of agriculture and environment, continuous efforts are still needed.

Overall, Lithuania has achieved a good degree of alignment with the *acquis* across most fields, and in some areas the level of alignment is now high. Lithuania has set up most of the administrative structures which are necessary to implement the *acquis*; however, further sustained efforts to reinforce the administrative capacity are required, notably as regards training and retaining qualified staff and ensuring effective inter-agency co-ordination. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Lithuania has continued to make progress in the area of the internal market. In the field of *free movement of goods* the legislation is aligned to a large extent. The main administrative structures are in place but these are not yet fully operational. As regards market surveillance, efforts are needed to further develop the infrastructure, notably in the areas of testing and certification. In the field of food safety, progress has been made in terms of alignment and administrative capacity, but further efforts are required as regards the abolition of pre-market authorisation of foodstuffs. Legislation on public procurement has been further aligned but still needs some fine-tuning, and the public procurement office needs to be further strengthened. As regards *free movement of persons*, Lithuania has reached a good level of alignment, while the administrative structures in place are not yet operating satisfactorily. In the area of mutual recognition of qualifications, major efforts remain to be made in the area of medical professions. In the area of *freedom to provide services*, legislation is aligned to a reasonable extent, but administrative structures do not yet operate in a fully satisfactory manner. Good progress has been made in the fields of banking and securities. Legislation concerning the insurance sector and data protection should be further aligned, notably to guarantee the independence of the supervisory bodies. Co-operation between supervisory institutions should be strengthened. Further progress has taken place in the area of *free movement of capital*, where Lithuania had already achieved a high degree of liberalisation. Further sustained efforts are needed as regards payment systems and the fight against money laundering.

As regards *company law*, Lithuania has reached a reasonable level of alignment and administrative structures are in place but not yet fully operational. Further alignment has been achieved concerning patent and intellectual property rights. The fight against piracy and counterfeiting needs to be significantly intensified, as does co-operation between the authorities involved in the enforcement of intellectual property rights. In the area of

¹⁹ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

competition policy legislation is aligned to a broad extent and administrative structures are in place and are operational. Lithuania should continue to develop a track record of proper application and enforcement of its legislation. The Competition Council should focus on a more deterrent sanctions policy in the field of anti-trust and pay close attention to rescue and restructuring aid.

As regards *taxation*, Lithuania has reached a good level of alignment and administrative capacities are largely in place but need further strengthening. Lithuania has made significant progress in aligning its tax legislation although further alignment is required in the areas of VAT and excise duties. The tax administration reform has also made some progress. In the area of *customs union*, Lithuania has achieved a good degree of alignment and administrative capacities are partially in place. However, further efforts remain to be made in strengthening inter-agency co-operation and in enforcing existing provisions on fraud, intellectual property rights and anti-corruption. For both areas, particular efforts are necessary to ensure adequate information technology systems so as to allow the exchange of data with the EC and its Member States.

As regards *agriculture*, transposition of legislation is proceeding well. Administrative structures are partly in place but further improvements are needed. Lithuania should focus on border inspection posts, the Integrated Administration and Control System, administrative capacity to manage the Common Agriculture Policy, paying agency, upgrading of establishments, and animal waste treatment.

As regards *fisheries*, legislation has been aligned to a reasonable extent, although there are gaps, notably as regards market and structural policy. The administrative structures have been partially established. Further efforts are needed to develop market and structural policy and reinforce the control and inspection functions. The establishment of the fishing vessel register needs to be finalised.

Legislation in the *transport* sector is now to a great extent in line with the *acquis*, although further efforts are needed as regards rail transport. The relevant framework laws are in place and only a limited amount of implementing legislation remains to be implemented. Administrative structures are largely in place, but need further strengthening. In the *energy* sector, Lithuania has achieved a high level of legislative alignment, while administrative structures are largely in place but need further strengthening. Progress regarding the internal energy market has been good. As regards nuclear safety, Lithuania took the very important step of formally confirming that Unit 1 of the Ignalina NPP will be closed before 2005 and formally committing to close Unit 2 of this plant by 2009. The EU expressed its readiness, on the basis of Community solidarity, to continue to provide adequate additional Community assistance to the decommissioning effort after Lithuania's accession. Lithuania's efforts now need to focus on ensuring full and timely implementation of legislation; on nuclear safety, including the timely installation of a diverse second shutdown system at Unit 2 of the Ignalina NPP, and the preparation of the closure and decommissioning of this NPP; and on strengthening the administrative capacity, in particular the energy regulator and the nuclear safety authority.

In the field of *social policy*, legislation has been transposed to a large extent and administrative structures are largely in place but need further strengthening. Progress has taken place with the adoption of the Labour Code and of the new provisions on collective agreements. Lithuania needs to complete transposition and effectively implement the

acquis in the areas of public health and health and safety at work, including through the strengthening of relevant institutions; develop social dialogue and social protection; and further strengthen the administrative structures to manage support from the European Social Fund. In the field of *environment*, transposition has reached a relatively good level, but implementation is not yet fully satisfactory. Lithuania needs to focus on finalising the transposition and strengthening the overall administrative capacity. Close attention is required to implementation of the *acquis* with regard to waste management, water quality, industrial pollution control, chemicals and GMOs and nature protection.

In the area of *telecommunications*, Lithuania has reached a good level of alignment but implementing legislation remains to be transposed. Administrative capacities are in place but not yet fully operational. The independence of the Communication Regulatory Authority has been substantially strengthened. Further efforts remain to be made on completing legislative alignment and preparing for full liberalisation and strengthening the administrative capacity of the regulator.

In the field of *justice and home affairs*, Lithuania has achieved significant legislative alignment. Administrative structures are mainly in place, although further efforts are still necessary. Lithuania has updated and has continued to implement the Schengen Action Plan. Lithuania needs to focus on finalising alignment (notably on visas, Schengen, asylum, money laundering and protection of the financial interests of the European Communities) and on further reinforcing the law enforcement agencies, in particular as regards data protection, the protection of the external border and the fight against corruption.

In the field of *regional policy and co-ordination of structural instruments*, the institutional framework is largely in place, but the administrative capacity and the technical preparation of projects have not yet reached the level required. Administrative capacity has been strengthened, inter-ministerial co-ordination improved and good progress has been made as regards programming and partnership. Lithuania should focus efforts on completing the programming documents, defining the final implementation structures and further reinforcing the administrative capacity, in particular as regards technical preparation of projects eligible for Community funding, monitoring, financial management and control.

In the area of *financial control*, while the *acquis* has been transposed, further efforts are required to consolidate the fragmented legal provisions relating to public internal financial control into a single comprehensive law. The administrative structures are partially in place but not yet fully operational. They need to be strengthened considerably, in order to implement effectively the consolidated legislation. Ongoing work on the audit manuals should be finalised. Full implementation of the measures foreseen in the Action Plan with regard to the implementation of a methodology for financial management and control, for internal audit throughout the Government, and for training of human resources would go a long way to ensure that the current gaps in administrative capacity and implementation of the *acquis* are filled. In the area of *financial and budgetary provisions*, the legal framework is largely in place but the administrative capacity needs further improvement, in particular as regards the calculation, control and provision of own resources by accession.

As regards *administrative capacity*, Lithuania has achieved a sufficient, though still rather fragile, capacity to ensure effective implementation and enforcement of the *acquis*,

notably in the area of internal market and the various Community policies. Lithuania needs to ensure the administrative structures are fully operational, in particular with a view to guaranteeing the uniform and predictable implementation of the *acquis*. Particularly close attention is required regarding the structures which are necessary to implement that part of the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations, 28 chapters have been provisionally closed with Lithuania. Lithuania is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to fisheries (completion of the fishing vessels register), statistics (conduct of the agricultural census) and environment (legislation on packaging and on biocides). These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity which Lithuania has achieved at this stage, and Lithuania's track record in implementing the commitments it has taken in the negotiations, the Commission considers that Lithuania will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Lithuania needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

C. Conclusion²⁰

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

Lithuania has made considerable progress in pursuing public administration reform, notably through the adoption of the new Civil Service Law and the related implementing legislation. Lithuania needs to ensure that the reform is duly implemented in all services and that adequate financing is secured as a matter of priority.

Substantial progress has been made in reforming the judicial system, in particular, notably through the adoption of the Law on Courts. Due attention should be given to ensuring proper implementation of the new legislation. Further efforts are needed to improve the professional capacity of judges and prosecutors. This is fundamental to guaranteeing the quality of legal proceedings and respect for procedural rights and professional ethics. Further progress is required also in accelerating court proceedings and ensuring the enforcement of judgements.

Considerable progress has been made as regards the fight against corruption, mainly with the adoption of the National Anti-Corruption Programme and the Law on Corruption Prevention. Sustained efforts should be made by law enforcement bodies and line ministries to ensure the proper and effective implementation of measures against administrative corruption, which remains a cause for concern.

Lithuania continues to respect human rights and freedoms.

The 1997 Opinion already acknowledged the reform efforts undertaken by the Lithuanian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, in particular the Russian crisis, economic performance has improved. Macroeconomic stability has been achieved, reforms have accelerated while the Lithuanian authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that Lithuania is a functioning market economy. The continuation of its current reform path should enable Lithuania to cope with competitive pressure and market forces within the Union.

Improvements can be made to the labour market by addressing the high unemployment. The management of public finances should be improved, in particular by addressing, at municipal level, the accumulation of expenditure arrears. Furthermore, the completion of the pension reform, by the planned introduction of a funded compulsory pension scheme, should make public finances more sustainable in the long term and support the development of financial markets. In addition, strengthening the administrative and judicial capacity, and simplifying procedures, in areas relevant for the business sector,

²⁰ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

including in bankruptcy and enterprise restructuring, would enhance market entry and exit of companies.

Since the Opinion, Lithuania has made significant progress in terms of both transposition of the *acquis* and administrative capacity. While the initial efforts were unsystematic, in recent years the pace and scope of transposition has considerably improved and increasing efforts have been devoted to the challenging task of building up the necessary administrative capacity.

Over the past year, Lithuania has further advanced in its accession preparations, in particular in the areas of free movement of goods, free movement of persons, competition, energy, regional policy and justice and home affairs. Limited progress has been made in the areas of financial control and fisheries. Although progress was made in the areas of agriculture and environment, continuous efforts are still needed.

Overall, Lithuania has achieved a good degree of alignment with the *acquis* across most fields, and in some areas the level of alignment is now high. Lithuania has set up most of the administrative structures which are necessary to implement the *acquis*; however, further sustained efforts to reinforce the administrative capacity are required, notably as regards training and retaining qualified staff and ensuring effective inter-agency co-ordination. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Lithuania has continued to make progress in the area of the internal market. In the field of *free movement of goods* the legislation is aligned to a large extent. The main administrative structures are in place but these are not yet fully operational. As regards market surveillance, efforts are needed to further develop the infrastructure, notably in the areas of testing and certification. In the field of food safety, progress has been made in terms of alignment and administrative capacity, but further efforts are required as regards the abolition of pre-market authorisation of foodstuffs. Legislation on public procurement has been further aligned but still needs some fine-tuning, and the public procurement office needs to be further strengthened. As regards *free movement of persons*, Lithuania has reached a good level of alignment, while the administrative structures in place are not yet operating satisfactorily. In the area of mutual recognition of qualifications, major efforts remain to be made in the area of medical professions. In the area of *freedom to provide services*, legislation is aligned to a reasonable extent, but administrative structures do not yet operate in a fully satisfactory manner. Good progress has been made in the fields of banking and securities. Legislation concerning the insurance sector and data protection should be further aligned, notably to guarantee the independence of the supervisory bodies. Co-operation between supervisory institutions should be strengthened. Further progress has taken place in the area of *free movement of capital*, where Lithuania had already achieved a high degree of liberalisation. Further sustained efforts are needed as regards payment systems and the fight against money laundering.

As regards *company law*, Lithuania has reached a reasonable level of alignment and administrative structures are in place but not yet fully operational. Further alignment has been achieved concerning patent and intellectual property rights. The fight against piracy and counterfeiting needs to be significantly intensified, as does co-operation between the authorities involved in the enforcement of intellectual property rights. In the area of *competition policy* legislation is aligned to a broad extent and administrative structures are in place and are operational. Lithuania should continue to develop a track record of

proper application and enforcement of its legislation. The Competition Council should focus on a more deterrent sanctions policy in the field of anti-trust and pay close attention to rescue and restructuring aid.

As regards *taxation*, Lithuania has reached a good level of alignment and administrative capacities are largely in place but need further strengthening. Lithuania has made significant progress in aligning its tax legislation although further alignment is required in the areas of VAT and excise duties. The tax administration reform has also made some progress. In the area of *customs union*, Lithuania has achieved a good degree of alignment and administrative capacities are partially in place. However, further efforts remain to be made in strengthening inter-agency co-operation and in enforcing existing provisions on fraud, intellectual property rights and anti-corruption. For both areas, particular efforts are necessary to ensure adequate information technology systems so as to allow the exchange of data with the EC and its Member States.

As regards *agriculture*, transposition of legislation is proceeding well. Administrative structures are partly in place but further improvements are needed. Lithuania should focus on border inspection posts, the Integrated Administration and Control System, administrative capacity to manage the Common Agriculture Policy, paying agency, upgrading of establishments, and animal waste treatment.

As regards *fisheries*, legislation has been aligned to a reasonable extent, although there are gaps, notably as regards market and structural policy. The administrative structures have been partially established. Further efforts are needed to develop market and structural policy and reinforce the control and inspection functions. The establishment of the fishing vessel register needs to be finalised.

Legislation in the *transport* sector is now to a great extent in line with the *acquis*, although further efforts are needed as regards rail transport. The relevant framework laws are in place and only a limited amount of implementing legislation remains to be implemented. Administrative structures are largely in place, but need further strengthening. In the *energy* sector, Lithuania has achieved a high level of legislative alignment, while administrative structures are largely in place but need further strengthening. Progress regarding the internal energy market has been good. As regards nuclear safety, Lithuania took the very important step of formally confirming that Unit 1 of the Ignalina NPP will be closed before 2005 and formally committing to close Unit 2 of this plant by 2009. The EU expressed its readiness, on the basis of Community solidarity, to continue to provide adequate additional Community assistance to the decommissioning effort after Lithuania's accession. Lithuania's efforts now need to focus on ensuring full and timely implementation of legislation; on nuclear safety, including the timely installation of a diverse second shutdown system at Unit 2 of the Ignalina NPP, and the preparation of the closure and decommissioning of this NPP; and on strengthening the administrative capacity, in particular the energy regulator and the nuclear safety authority.

In the field of *social policy*, legislation has been transposed to a large extent and administrative structures are largely in place but need further strengthening. Progress has taken place with the adoption of the Labour Code and of the new provisions on collective agreements. Lithuania needs to complete transposition and effectively implement the *acquis* in the areas of public health and health and safety at work, including through the strengthening of relevant institutions; develop social dialogue and social protection; and

further strengthen the administrative structures to manage support from the European Social Fund. In the field of *environment*, transposition has reached a relatively good level, but implementation is not yet fully satisfactory. Lithuania needs to focus on finalising the transposition and strengthening the overall administrative capacity. Close attention is required to implementation of the *acquis* with regard to waste management, water quality, industrial pollution control, chemicals and GMOs and nature protection.

In the area of *telecommunications*, Lithuania has reached a good level of alignment but implementing legislation remains to be transposed. Administrative capacities are in place but not yet fully operational. The independence of the Communication Regulatory Authority has been substantially strengthened. Further efforts remain to be made on completing legislative alignment and preparing for full liberalisation and strengthening the administrative capacity of the regulator.

In the field of *justice and home affairs*, Lithuania has achieved significant legislative alignment. Administrative structures are mainly in place, although further efforts are still necessary. Lithuania has updated and has continued to implement the Schengen Action Plan. Lithuania needs to focus on finalising alignment (notably on visas, Schengen, asylum, money laundering and protection of the financial interests of the European Communities) and on further reinforcing the law enforcement agencies, in particular as regards data protection, the protection of the external border and the fight against corruption.

In the field of *regional policy and co-ordination of structural instruments*, the institutional framework is largely in place, but the administrative capacity and the technical preparation of projects have not yet reached the level required. Administrative capacity has been strengthened, inter-ministerial co-ordination improved and good progress has been made as regards programming and partnership. Lithuania should focus efforts on completing the programming documents, defining the final implementation structures and further reinforcing the administrative capacity, in particular as regards technical preparation of projects eligible for Community funding, monitoring, financial management and control.

In the area of *financial control*, while the *acquis* has been transposed, further efforts are required to consolidate the fragmented legal provisions relating to public internal financial control into a single comprehensive law. The administrative structures are partially in place but not yet fully operational. They need to be strengthened considerably, in order to implement effectively the consolidated legislation. Ongoing work on the audit manuals should be finalised. Full implementation of the measures foreseen in the Action Plan with regard to the implementation of a methodology for financial management and control, for internal audit throughout the Government, and for training of human resources would go a long way to ensure that the current gaps in administrative capacity and implementation of the *acquis* are filled. In the area of *financial and budgetary provisions*, the legal framework is largely in place but the administrative capacity needs further improvement, in particular as regards the calculation, control and provision of own resources by accession.

As regards *administrative capacity*, Lithuania has achieved a sufficient, though still rather fragile, capacity to ensure effective implementation and enforcement of the *acquis*, notably in the area of internal market and the various Community policies. Lithuania needs to ensure the administrative structures are fully operational, in particular with a

view to guaranteeing the uniform and predictable implementation of the *acquis*. Particularly close attention is required regarding the structures which are necessary to implement that part of the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations, 28 chapters have been provisionally closed with Lithuania. Lithuania is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to fisheries (completion of the fishing vessels register), statistics (conduct of the agricultural census) and environment (legislation on packaging and on biocides). These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity which Lithuania has achieved at this stage, and Lithuania's track record in implementing the commitments it has taken in the negotiations, the Commission considers that Lithuania will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Lithuania needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

D. Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment

Lithuania's progress and overall state of preparation in respect of the Copenhagen criteria has been examined and conclusions drawn above. The present section assesses the extent to which the priorities of the Accession Partnership have been met and the measures foreseen under the Action Plan implemented according to schedule. It should be noted that both the Accession Partnership and the Action Plan have a time perspective of two years covering 2002 and 2003, providing for another 15 months for priorities to be met. Furthermore, much has already been achieved based on previous Accession Partnerships. The present one focuses on remaining specific and well-circumscribed topics identified as requiring more work to prepare Lithuania for membership. Therefore the analysis below only focuses on these specific topics and does not give an overall picture of the state of preparation of Lithuania in each domain.

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

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

The Accession Partnerships are revised on a regular basis, to take account of progress made, and to allow new priorities to be set. The Council adopted a revised Accession Partnership for Lithuania in January 2002, based on a proposal from the Commission.

The revised Accession Partnership has served as the point of departure for the Commission and Lithuania to develop jointly an Action Plan to strengthen Lithuania's administrative and judicial capacity.

The purpose of the Action Plan is to identify jointly the next steps required for Lithuania to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Lithuania with targeted assistance in areas that are essential for the functioning of an enlarged Union.

Developing adequate administrative and judicial capacity for EU membership is a demanding and wide-ranging task, which requires detailed preparations in each and every domain covered by the Union's policies and legislation. In preparing individual Action Plans, the Commission has taken a comprehensive approach. All priorities from the revised Accession Partnerships which relate to the development of administrative and judicial capacity have been included in the Action Plans. Each of these priorities is treated separately in the Action Plans, and specific measures have been designed to address each of them.

In the following, progress in addressing each of these priorities is reported. For ease of reference and to avoid repetitions, wording from the *Accession Partnerships* is rendered in italics. As regards the measures foreseen by the Action Plan, implementation is checked against timetables and reported.

Political criteria

In accordance with the Action Plan, Lithuania has made considerable progress in pursuing public administration reform with a view to *consolidating a modern, professional and efficient civil service that is independent from undue influences*, although some disparities persist among the various sectors of the administration. While efforts have been made as regards *training* (by starting implementing the measures foreseen in the Action Plan) and *remuneration* levels, these issues continue to require close attention. Sustained efforts need to be made to improve inter-ministerial and *inter-departmental co-ordination*.

The *judicial reform* has entered its final stage *in particular through the adoption of the new Law on Courts and the adoption of the new Code of Criminal Procedures*. As also foreseen in the Action Plan, the *training of specialised judges and prosecutors including in acquis-related matters has continued*. Efforts to improve working conditions and infrastructure to ensure the proper functioning of courts need to be sustained. As regards *legal aid*, the increase in funds made available for this purpose should continue so as to widen the availability of legal aid.

Lithuania has further strengthened the fight against corruption by adopting and starting implementation of the *anti-corruption strategy* and by adopting and starting implementing a new law on corruption prevention. *The Code of Ethics for Civil Servants* remains to be adopted. It has *ratified relevant international anti-corruption conventions*, notably the Council of Europe's criminal law and civil law conventions on corruption. Overall, the Accession Partnership priorities related to the political criteria have been largely met. The implementation of measures under the Action Plan is well on track.

Economic criteria

Lithuania has taken *measures to reduce unemployment, in particular long-term unemployment, notably by promoting adequate re-training and improving the business environment with a view to attract green-field investments and enhance the creation of new enterprises*. However, these efforts need to be stepped up. Lithuania has *completed the large-scale privatisation process, including the last remaining State-owned bank*. Important progress has also been made as regards the privatisation of *the energy utilities*, in particular the privatisation of the gas company is close to being finalised and the electricity company has been restructured and prepared for privatisation. Significant progress has been made as regards the *implementation and enforcement of the enterprise restructuring law and the legislation on bankruptcy*. In this respect, *training efforts* undertaken in accordance with the Action Plan should continue. Lithuania has started *implementing the strategies adopted for the development of industries and small and medium-sized enterprises (SMEs)* and has *continued improvement of business support infrastructure*, in particular by strengthening the administrative capacity as foreseen in the Action Plan. Limited progress has been made as regards the *completion of the remaining part of land titling and registration and further support land market development and the consolidation of small land tenures*. Limited progress has been made towards achieving *social security reform in a sustainable way for public finances, with a view to ensuring medium-term sustainability of public finances*. Overall, the Accession Partnership priorities related to the economic criteria have been met to a significant extent, while further efforts are necessary in

particular as regards the unemployment and the social security reform. The implementation of the measures under the Action Plan is on track.

Ability to assume the obligations of membership

Chapter 1: Free movement of goods

Lithuania is fairly advanced in *transposing Old and New Approach directives* although alignment is not yet completed. Some progress has been made as regards *pre-market authorisation* by abolishing authorisation on detergents and cosmetics but not yet on foodstuffs. Some legislative developments have taken place with a view to *gradually replacing the old market authorisations on pharmaceuticals* (especially pharmaceuticals on human use) with the new ones complying with the *acquis*. The Lithuanian Standards Board and the Lithuanian Accreditation Bureau function satisfactorily. Although Lithuania has accredited a great number of laboratories, their administrative and calibration capacities remain to be improved. Further progress has been made towards the *complete adoption of EN standards*. In accordance with the Action Plan, a cycle of seminars in the field of standards has been carried out in main Lithuanian cities. As for metrology, the strengthening of calibration laboratories is proceeding. In the *non-harmonised area*, some progress has been made as regards the elimination of remaining barriers to trade as well as licensing. Co-operation between the institutions involved in market surveillance is being improved in accordance with the Action Plan measures. As regards *public procurement*, while Lithuania's *legislation* has been further aligned with the *acquis*, little progress has been made in strengthening the *Public Procurement Office*. As foreseen in the Action Plan, the equipment of the State Non-Food Products Inspectorate has been improved as well as institutions involved in the implementation of the programme on conformity assessment infrastructure. As far as food safety is concerned, although the State Food and Veterinary Service is well equipped, further training is being delivered as foreseen in the Action Plan. Overall, the Accession Partnership priorities in the field of free movement of goods have been met to a large extent. The implementation of the measures under the Action Plan is well advanced.

Chapter 2: Free movement of persons

Although good progress has been made in the field of free movement of persons, much work remains to be done as regards *mutual recognition of certain sectoral professions*. As concerns professional qualifications obtained before harmonisation, measures should be introduced to ensure that all Lithuania's professionals can, as of accession, meet the requirements laid down by the Directives. *Education and training programmes* need to be significantly strengthened. As stipulated in the Action Plan, a co-ordination institution under the Ministry of Social Security and Labour in the field of professional qualification assessment and recognition has been established. It works on the establishment of a database of the regulated professions. As foreseen in the Action Plan, further training of Lithuanian officials in the field of co-ordination of social security systems has occurred. The staff of the legal unit at the State Board Insurance Fund and the staff of the international relations unit of the State Patient Fund have been increased by one person each. The staff of the international co-operation unit of the Ministry of social Security and Labour still has to be increased. Notwithstanding recent efforts, *co-ordination of social security systems* still has to be ensured. Overall, the Accession Partnership priorities in the area of free movement of persons have been partially met. The implementation of the measures under the Action Plan is on track.

Chapter 3: Freedom to provide services

Lithuania has achieved a reasonable level of alignment in the area of freedom to provide services and some fine-tuning is needed in implementing the *Law on Third Party Liability Motor Insurance*. Qualifications and staffing levels in the state enterprise “Deposit Insurance Fund” remain to be improved. Current efforts towards the strengthening of *co-operation between supervisory authorities* should be pursued. In particular, in accordance with the Action Plan, the State Insurance Supervisory Authority (SISA) under the Ministry of Finance should be enabled to ensure effective supervision of the activities of insurance companies. Legislation on *data protection* is not yet fully in line with the *acquis* and *Data Protection Inspectorate* still has to be strengthened. The legislation on data protection is being amended in order to meet the priority laid down in this field by the Action Plan and the number of staff has been increased. Overall, the Accession Partnership priorities in the area of freedom to provide services have been met to a limited extent. The implementation of the measures under the Action Plan is on track

Chapter 4: Free movement of capital

Lithuania has *abolished the restrictions on cross-border transfer of means of payment and on investment rules for insurance companies*, but not yet on the investment rules for *pension funds*. The Seimas has not yet adopted *the constitutional amendment on access to farmland ownership as planned*. Efforts have been made to *strengthen and improve co-ordination of the institutions responsible for the enforcement of the prevention of money laundering*. In particular, in accordance with the Action Plan, the Financial Crimes Investigation Service has been established. However, significant work remains to be done to reinforce this Service and to increase the reporting level from credit institutions. *The alignment of legislation with the second Directive against money laundering* needs to be completed. Further efforts need to be made to *comply with the recommendations of the Financial Action Task Force*. Overall, the priorities in the area of free movement of capital have been partially met. The implementation of measures under the Action Plan is on track.

Chapter 5: Company Law

In accordance with the Action Plan, the *Central Register of Legal Entities* has been established but its efficient functioning remains untested. Lithuania has reached a fair level of alignment in the area of *accounting*. The Institute of audit, accounting and property valuation has been reorganised and the Institute of Accounting was established in accordance with the Action Plan requirements. Preparations on the *national standards of accounting* are on schedule. Steady progress has been made in the area of *patents*. While some progress has been made in the area of *intellectual and industrial property rights*, which is in need of particular urgent action, Lithuania should continue to *strengthen administrative capacity of enforcement bodies* involved (especially at border points) and to ensure *better co-operation* between these bodies. This implies further training for enforcement bodies. In accordance with the Action Plan, the State Patent Bureau is responsible for issuing supplementary protection certificates of patents for biotechnological inventions. *Training* of officials as well as trademark enforcement has been improved by the signature of a memorandum of understanding with the Office of Harmonisation of Internal Market. As foreseen in the Action Plan, the number of officials at territorial customs has been increased by 22. Further training is being delivered to intellectual property rights bodies as well as campaigns to raise public awareness on IPR (intellectual property rights) issues. The strengthening measures in the Action Plan to

reinforce the strategy on protection of *copyright and related rights* and the IPR enforcement bodies have to be further implemented. The measure concerning the staff increase of the copyright division within the Ministry of Culture remains to be assessed. The Economic Crime Investigation Service, that has replaced the Tax Police Department's IPR unit, is understaffed and under-experienced. The Accession Partnership priorities in the area of company law have been met to a large extent as regards accounting and auditing and to a correct extent as regards intellectual and industrial property rights. Implementation of the measures under Action Plan is on track.

Chapter 6: Competition policy

The *Competition Council*, which has been further strengthened in accordance with the Action Plan, functions well. The level of *enforcement of rules in antitrust and state aid* areas is satisfactory. A *state aid inventory* is being maintained. As foreseen in the Action Plan, *awareness of the rules among all market participants* should be further promoted and further *training of the judiciary* is required to ensure direct effect of EC law after accession. In the field of competition policy, the Accession Partnership priorities have been met. The implementation of measures under the Action Plan is largely on track.

Chapter 7: Agriculture

Limited progress has been made in upgrading the capacity of the *Market Regulation Agency* and completing the *enforcement and practical application of the management mechanisms*. Good progress has been made in building up the *IACS* but a lot of work remains, and the *paying agency* has been strengthened further. According to the Action Plan the animal register and the register of arable land and land parcels have been strengthened as has the national paying agency, and digitalisation is on-going. A training programme for the Market Regulation Agency has been initiated, equipment for the market information system has been installed, staff has been hired and trained in control over wine manufacturing, the function of the State Plant Protection Service has been expanded to perform verification of quality and training has been undertaken. Significant progress has been made in building up administrative capacity for implementing *rural development* policies as a result of the accreditation of the SAPARD agency and the strengthening measures foreseen in the Action Plan are being implemented. Good progress has been made in *aligning the veterinary and phytosanitary legislation* and continued efforts made in *upgrading the inspection arrangements*, although additional efforts are needed. The measures in the Action Plan for strengthening the State and Food Veterinary Service and the State Plant Protection Service by setting up and equipping border posts are being pursued. The *identification and registration* of sheep and goats is close to completion, with the identification of pigs still pending. As regards the reinforcement of *the technical capacity of testing laboratories in order to ensure their accreditation in order to implement the Hazard Analysis Critical Control Point (HACCP) requirements*, the scope of the accreditation of the Food Control Laboratory has been extended for checks on foodstuff and the implementation of HACCP requirements in food processing establishments has continued. The *restructuring of food processing establishments including meat* has continued and all state-owned establishments in the *fruit and vegetables* sector have been either liquidated or privatised and the upgrading is underway. The measure in the Action Plan to develop social infrastructure and modernise the agri-food sector by using SAPARD funds has continued. Further steps have been taken to *implement the food safety strategy* particularly regarding the upgrading of food establishments and the increase in measures to deal with *BSE*,

although further improvements will be necessary. Overall, the Accession Partnership priorities in the area of agriculture have been partially met, although significant work remains to be done in particular as regards IACS, paying agency and the market management mechanisms. Implementation of the measures foreseen in the Action Plan is on track.

Chapter 8: Fisheries

Some progress has been made as regards the *establishment of adequate administrative structures and equipment at central and regional level that can ensure the implementation of the common fisheries policy*. In accordance with the Action Plan, the Vessel Monitoring System has become operational, although, for the Fisheries Monitoring Centre, software compatible with the *acquis* will have to be installed. The administrative capacity in the fisheries sector was strengthened by establishing the Klaipeda Division of the Fisheries Department under the Ministry of Agriculture in March 2002. However, further efforts are needed in particular as regards *market and structural* policy. Lithuania still needs to finalise the establishment of the fishing vessel register and the *management plan for the fleet capacity in accordance with available resources*. Overall, the Accession Partnership priorities in the area of fisheries have been partially met. Implementation of the measures foreseen in the Action Plan is on track.

Chapter 9: Transport

Alignment of legislation is well advanced in the *road transport and aviation sectors* and is progressing well in the *maritime sector*; efforts should now concentrate on completing legislative alignment in the rail sector. As foreseen in the Action Plan the State Road Transport Inspectorate and State Railway Inspectorate have been strengthened through personnel increases and the training to improve the qualification of staff in the Road Transport, Civil Aviation and Railway Transport departments of the Ministry of Transport and Communications has started. Training of *maritime safety* personnel is ongoing. Following the recent setting-up of the independent 'Lithuanian Maritime Safety Administration' as foreseen by the Action Plan, the staff levels will have to be increased, particularly in order to further improve the *flag state performance in the field of maritime safety*. Overall, Accession Partnership priorities in this area have been partially met. The implementation of the measures foreseen in the Action Plan is on track.

Chapter 10: Taxation

Lithuania has achieved a good level of *alignment* in indirect tax legislation, although further efforts are still required regarding *VAT exemptions and levels of excise duties*. There is still a need to *strengthen the administrative capacity and control procedures* in order to be able to implement the tax *acquis*. The State Tax Inspectorate requires recruitment of additional staff as well as further training in order to improve staff qualifications as foreseen in the Action Plan. Considerable efforts are required to *develop IT systems to allow for exchange of data with member states*. Review of legislation to ensure compliance with the Code of Conduct for Business Taxation is in process. Lithuania has made progress in the transposition of the *holding and movement directive*, but further efforts will be needed to ensure full implementation by the day of accession. Overall, Lithuania has partially met the Accession Partnership priorities in the area of taxation. The implementation of the measures under the Action Plan is well on track.

Chapter 12: Statistics

Lithuania has *further improved quality and coverage of statistics*. This effort needs to be continued. In accordance with the Action Plan, Lithuania has further strengthened the Statistical Office-. *Adequate resources* are being provided in particular to conduct the agricultural census that had been postponed. Overall, Lithuania has met the Accession Partnership priorities in the area of statistics to a large extent. The implementation of the Action Plan is well on track.

Chapter 13: Employment and social policy

The new *Labour Code* has been adopted and the capacity of *labour inspectorates* has been strengthened. Legislation concerning *equal treatment for women and men* is almost fully in line. The adoption of legislation against *discrimination* and a timetable for its implementation is awaited. As foreseen in the Action Plan, training of the State Labour Inspectorate has taken place and will be continued in 2003. New legislation has been adopted (collective agreements) that provides for improving *social dialogue*, and some steps have been taken to increase the capacity for *implementing employment and social policy*. As planned, activities mentioned in the Action Plan have taken place to strengthen administrative capacity needed in relation to the preparations of participation in the *European Social Fund*. The *Public Health Law*, law on *health monitoring* and law concerning *communicable diseases* have been adopted and a national *health care* action plan approved. Lithuania is participating in the dialogue on *social inclusion* and a joint memorandum on social inclusion is being prepared. The preparations for implementing the Poverty Reduction Strategy as mentioned in the Action Plan are on-going. Steps have been taken to *further develop and implement a national employment strategy*. According to the Action Plan a joint assessment of employment policy priorities has been carried out and the Joint Assessment Paper has been signed. Overall, Lithuania has met the Accession Partnership priorities in the area of social policy and employment to considerable extent. The implementation of the measures under the Action Plan is well on track.

Chapter 14: Energy

Lithuania continued to implement the *National Energy Strategy* and started the process of its *urgent revision*. In particular Lithuania took the very important steps of formally confirming that *Unit 1 of Ignalina Nuclear Power Plant (INPP)* will be closed before 2005 and formally committing to close *Unit 2* by 2009. Furthermore, the Government adopted a *revised Energy Strategy*, which will set the terms and conditions of the closure of Unit 2, and submitted it to the Seimas. It also continued the *legal, technical, economic and social preparation for the definitive closure and decommissioning of Unit 1 of INPP, inter alia*, through the start of the implementation of projects in the frame of the Ignalina International Decommissioning Support Fund. Lithuania *has accepted the recommendations contained in the Council report on "Nuclear Safety in the Context of Enlargement" and is implementing them*; it has *further strengthened the nuclear safety authority (VATESI)* and given due attention to *maintaining a high level of nuclear safety throughout the decommissioning phases* of INPP. In this respect the ongoing implementation of the second Safety Improvement Programme (SIP-2) and progress in the review of the Safety Assessment Report for Unit 2 (SAR-2) are to be noted. Furthermore, the staff increases of VATESI and the strengthening of its decommissioning capacities are noteworthy and in line with the Action Plan. Progress has been made in the area of radioactive waste management with the preparation by the Government of a

strategy and action programme. After delays, the Lithuanian authorities concluded a contract to install the instrumentation and control part of the diverse second shutdown system at Unit 2 of Ignalina NPP. In addition, Lithuania made important steps towards *alignment with the conventional energy acquis (oil stocks and the internal energy market including gas and electricity)*, progressed in *ensuring the actual constitution of emergency stocks and further strengthened*, in line with the Action Plan, *the energy regulator* (National Control Commission for Prices) and *the administrative capacity in the area of oil stocks*. Lithuania gave continued attention to the *improvement of energy efficiency and the use of renewable energy sources*. Overall, the Accession Partnership priorities in the energy sector have been met to a large extent. The implementation of the Action Plan is on track.

Chapter 19: Telecommunications and information technologies

Lithuania has achieved a fair level of *compliance with the telecommunications acquis*, although in some areas, notably as regards *interconnection procedures and universal service*, further work is necessary. Implementing legislation remains to be transposed. Some progress has been made to ensure the *effective functioning of the Communications Regulatory Authority* and to strengthen its administrative capacity. However, delays have occurred in the issuance of UMTS licences. As foreseen in the Action Plan, a Postal Regulation Section has been established, responsible for the regulation of postal services. Further improvement in the qualifications of the employees in the postal and communication areas has been achieved by extensive training. Also, the Communication Regulatory Authority has increased in personnel, up to 113 in April 2002. Overall, the Accession Partnership priorities in the area of telecommunications and information technologies have been partially met. The implementation of measures under the Action Plan is progressing.

Chapter 20: Culture and audio-visual policy

Lithuania has continued to *strengthen administrative capacity* of the Radio and Television Commission (RTC), in accordance with the Action Plan. In order to implement the measures laid down in the Action Plan, a monitoring room within the Radio and Television Commission has been set up but a database of the radio and television market is still missing. Efforts should now focus on ensuring that the RTC is able to exercise effective sanctioning powers. Further developments are needed on classification of violations of broadcasters' activities and licenses conditions. Overall, the Accession Partnership priorities in the area of culture and audio-visual policy have been met to a reasonable degree. Implementation of the measures under the Action Plan is largely on track.

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

Most of the *legal framework* is in place and the main bodies have been designated, however, legislation on *financial management and control* still needs to be transposed and the systems and procedures to be developed. The design of the *administrative structure* needs to be finalised by completing the list of intermediate bodies. According to the Action Plan training has been provided in the field of evaluation. An *effective inter-ministerial co-ordination and appropriate partnership* is ensured in the *programming* through well established co-ordination and consultation mechanisms and considerable progress can be noted in *implementing* the partnership principle. The capacity of the

Ministry of Finance as the co-ordinator has been strengthened as mentioned in the Action Plan. Preparations on the draft *Single Programming Document* and the work on the *ex-ante evaluation* of the draft Single Programming Document are proceeding according to the timetable and the corresponding measure in the Action Plan is being implemented. The capacity of the *designated managing authority and paying authorities* is gradually being built up in order to enable them to fulfil their tasks according to the *Structural Funds Regulation*. The capacity of the managing and paying authorities is being strengthened as foreseen in the Action Plan. However, capacity is far from being sufficient and further measures will, therefore be required. In the field of *evaluation and monitoring*, as foreseen in the Action Plan, training has been offered to a recently set up evaluation group and the *ex-ante evaluation* is in the process. As regards the *technical preparation of projects*, training and technical assistance have been offered, but considerable improvements in this area will be required. Overall, Lithuania has partially met the Accession Partnership priorities in the area of regional policy and co-ordination of structural instruments. Further efforts are needed in particular with regard to the capacity of the designated managing authority and paying authorities and the technical preparation of projects. The implementation of the measures under the Action Plan is well on track.

Chapter 22: Environment

As regards *transposition of the acquis*, considerable alignment has been achieved in a number of areas, but secondary legislation remains still to be issued in certain areas (chemicals and genetically modified organisms, industrial pollution, waste, noise and nature protection). The *implementation of the acquis* has continued and a number of steps have been taken to address *sulphur content in liquid fuels, volatile organic compounds* resulting from storage and distribution of petrol, *landfills, packaging and packaging waste, urban waste water treatment, drinking water, discharges of dangerous substances* and *the preparation of a list of sites of Community importance and designating special protection areas in the area of nature protection*. However, further steps are still required, in particular as regards waste, industrial pollution prevention and control, nature protection and chemicals and GMOs. The *administrative and monitoring capacity at central and local levels* has been strengthened through training programmes and recruitment. Overall, this priority has been met to a considerable extent, but in particular in the area of *chemicals and GMOs* further efforts are required. With regard to the measures foreseen in the Action Plan, a number of training measures have been implemented; investment programmes continued in the water sector, preparations continued for establishing regional waste management plans, preliminary areas of special protection and conservation were selected and a new laboratory was established in the Joint Research Centre. Although further steps have been taken in *integrating environmental protection requirements into all sectoral policies*, continuous attention is needed both at a national and local level. Overall, the Accession Partnership priorities in the area of environment have been met to a large extent. The implementation of the measures in the Action Plan is largely on track.

Chapter 23: Consumer and health protection

Lithuania has made good progress in *further strengthening* and training the *market surveillance institutions* even though fine-tuning is still necessary. In accordance with the Action Plan, the *National Consumer Rights Protection Council* has been strengthened by the creation of a consultative body consisting of representatives from ministries and civil

society, but it remains understaffed. As foreseen in the Action Plan, economic interests of the consumers should be further promoted. Thus, the Accession Partnership priorities in the field of consumer and health protection have been met to a considerable extent. Implementation of the measures under the Action Plan is largely on track.

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

Lithuania made key progress with the adoption of the *Schengen Action Plan* and has started, in line with the Action Plan, its *implementation*, which however should be stepped up. As foreseen by the Action Plan, progress was made in *preparing for the future participation in the Schengen Information System*, but more needs to be done by integrating the *various national registers* into one system. Lithuania continued *border demarcation with Belarus* and drew the attention of the Russian authorities to the need for Russia to ratify the border agreement. Good progress was made in *strengthening border control, including the maritime border*. In this respect, Lithuania ensured, in accordance with the Action Plan, large scale *training for border guards* on a wide range of specialised issues and equipped both the green and blue borders with *adequate infrastructure and equipment*. Lithuania *stepped up its efforts in the fight against trafficking in human beings inter alia* through the implementation of a new Programme of Control and Prevention of Prostitution and Trafficking of Human beings. Lithuania is on its way to *completing alignment with the acquis on visa policy, asylum and migration and to reinforcing*, in accordance with the measures foreseen in the Action Plan, the *administrative capacity of competent bodies in this area*. Regarding these matters, Lithuania should, *inter alia*, introduce a uniform visa format and carriers liability and it should provide minimum guarantees for asylum procedures as regards the suspensive effect of appeal during an admissibility procedure and on the principle of *non-refoulement* in cases of alternative protection. Lithuania has largely *completed the reorganisation of the police service* through the establishment of the Lithuanian Criminal Police Bureau and provided, in line with the Action Plan, large scale specialised *training for the police*. Adequate attention should be further devoted to the *establishment of a network of police liaison officers*, and the *strengthening of co-operation among all competent bodies in the fight against organised crime*, while also *bilateral co-operation with EU countries needs to be further reinforced*. Lithuania has progressed in combating *money laundering*, but it should complete alignment. The *conclusion of a co-operation agreement with Europol* is still pending. Lithuania should further devote attention to the *implementation of its national drugs strategy*. *Administrative capacity* in this field has been *strengthened*, as foreseen in the Action Plan, through the recent *establishment of the National Focal Point* but *participation in the work of the European Information Network on drugs and drug addiction* should still be ensured. *In the area of judicial co-operation* steady progress has been made, while the ratification of the European Convention on Cybercrime is still pending. Further alignment with the *Convention on protection of the Communities' Financial Interests and its Protocols* is also necessary. Overall, the Accession Partnership priorities in this field have been partially met. Implementation of the measures under the Action Plan is on track.

Chapter 25: Customs union

Alignment of legislation with the *acquis* has been achieved to a large extent, while the process of *restructuring of regional customs offices* is lagging behind. As foreseen in the Action Plan, the administrative and operational capacity of the territorial customs offices has been partially strengthened. The Business Strategy and Operational Management Plan

for 2002, adopted in January 2002, has not been adequately implemented in the reorganisation of the customs territorial offices. Further training, increase in personnel and reallocation of duties has not been fully addressed. The urgent priority *to implement the IT strategy and to develop IT systems for the exchange of computerised data between the EC and Lithuania* has been only partially met. Limited progress has been achieved in administrative and enforcement capacities, as well as in training on IT systems for staff. As regards the reinforcement of *customs activities and co-operation of other services at the border*, fair progress has been achieved. Inter-agency co-operation between border guards, customs, veterinary and phytosanitary services and transport activities, as well as co-operation agreements among institutions are established. Regarding *customs ethics policy*, the customs anti-corruption strategy and its implementing measures have been approved, as it is foreseen by the Action Plan. Investigation units in territorial customs are established as well. Overall, the Accession Partnership priorities in the area of customs have been only partially met. Implementation of the corresponding measures under the Action Plan is delayed.

Chapter 26: External relations

Lithuania has continued to inform the Union of negotiations aimed at the conclusion of new trade agreements with third countries. international agreements and treaties. However, Lithuania needs to make further efforts to take the necessary measures to renegotiate or to renounce all *international agreements or treaties* concluded with third countries, *including bilateral investment treaties*, that are incompatible with its future obligations as an EU Member State . Overall, this Accession Partnership priority has been partially met.

Chapter 28: Financial Control

The *legislative framework of the State Control office* including its independent status has been adequately completed with the adoption of the amended Law on State Control. The *fight against fraud* has been strengthened by the designation of the Financial Crime Investigation service as the anti-fraud co-ordinating service. The *legislative and administrative framework* should now be further developed in order to allow this service to play its co-ordinating role and to co-operate effectively with OLAF. As regards *Public Internal Financial Control (PIFC)* the policy paper which is to provide the base for comprehensive new legislation, has not been approved yet. The priority concerning the *training of human resources in the area of public internal financial control* has not been met due to the delays of the policy paper foreseen by the Action Plan. Limited progress has been achieved in the implementation of a *methodology for financial management and control and for internal audit throughout the government*. As foreseen in the Action Plan, further training of officials in the Financial Control Methodology Department should be pursued. The Policy Paper on Public Internal Financial Control should be finalised and adopted. The evaluation, monitoring and control of *Community pre-accession funding* have been improved through the preparation of the Strategic Audit Plan and Internal Audit manual for the National Fund. Thus, the Accession Partnership priorities in the field of financial control have been met only to a limited extent. Implementation of the corresponding measures under the Action Plan is delayed.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
15 September 2002***

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

	1997	1998	1999	2000	2001
Basic data	in 1000				
Population (average) f)	3,575	3,549	3,524	3,500	3,481
	in km²				
Total area	65,300	65,300	65,300	65,300	65,300
National accounts	1000 Mio Litas				
Gross domestic product at current prices	38.3	43.0	42.7	45.1	48.0
	1000 Mio ECU/euro				
Gross domestic product at current prices	8.5	9.6	10.0	12.2	13.4
	ECU/euro				
Gross domestic product per capita a) at current prices	2,400	2,700	2,800	3,500	3,800
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	7.3	5.1	-3.9	3.8	5.9
Employment growth	0.6	-0.8	-0.5	-3.7	:
Labour productivity growth	6.6	5.9	-3.4	7.8	:
	in Purchasing Power Standards				
Gross domestic product per capita a) at current prices	6,900	7,400	7,300	8,100	8,700
Structure of production	% of Gross Value Added b)				
- Agriculture	11.7	10.3	8.4	7.7	7.0
- Industry (excluding construction)	25.2	23.9	22.9	25.8	28.4
- Construction	7.7	8.6	8.0	6.1	6.1
- Services	55.4	57.3	60.8	60.4	58.6
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	84.0	87.5	87.7	85.9	83.9
- household and NPISH	65.1	63.1	65.5	64.5	63.8
- general government	19.0	24.4	22.2	21.4	20.1
- Gross fixed capital formation	24.4	24.3	22.1	18.5	19.4
- Stock variation c)	2.2	0.1	0.6	2.0	2.1
- Exports of goods and services	54.5	47.2	39.7	45.3	50.4
- Imports of goods and services	65.1	59.1	50.1	51.7	55.9
Inflation rate	% change over the previous year				
Consumer price index	8.8	5.0	0.7	0.9	1.3
Balance of payments	Mio ECU/euro				
- Current account	-865	-1,158	-1,120	-731	-641i
- Trade balance	-1,012	-1,354	-1,318	-1,195	:
<i>Exports of goods</i>	3,697	3,534	2,952	4,385	:
<i>Imports of goods</i>	4,709	4,888	4,269	5,579	:
- Net services	119	215	286	411	:
- Net income	-175	-228	-242	-210	:
- Net current transfers	203	210	153	263	:
<i>-of which: government transfers</i>	89	92	55	68	:
- FDI (net) inflows	313	826	456	410	498
Public finance	in % of Gross Domestic Product				
General government deficit/surplus d)	-1.1	-3.1	-5.6	-2.7	-1.9p
General government debt	15.7	17.1	23.0	24.0	23.1p
Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy e)	15.1	19.6	28.1	25.5	:
	as % of exports				
Gross foreign debt of the whole economy e)	27.6	41.5	70.8	56.4	:

	1000 Mio ECU/euro				
Monetary aggregates					
- M1	1.2	1.2	1.3	1.5	1.9
- M2	1.6	1.8	2.2	2.8	3.6
- M3	:	:	:	:	:
Total credit	1.1	1.4	1.8	1.9	2.1
Average short-term interest rates	% per annum				
- Day-to-day money rate	:	6.1	6.3	3.6	3.4
- Lending rate	13.8	11.5	12.6	11.8	9.4
- Deposit rate	7.9	6.0	4.9	3.8	2.9
ECU/EUR exchange rates	(1ECU/euro=Litas)				
- Average of period	4.536	4.484	4.264	3.695	3.582
- End of period	4.417	4.667	4.017	3.723	3.523
	1993=100				
- Effective exchange rate index	441.8	547.0	786.7	920.2	955.1
Reserve assets	Mio ECU/euro				
- Reserve assets (including gold)	964	1,254	1,243	1,464	1,895
- Reserve assets (excluding gold)	915	1,208	1,190	1,409	1,837

	Mio ECU/euro				
External trade					
Trade balance	-1,573	-1,858	-1,717	-1,783	-1,977
Exports	3,404	3,310	2,818	4,124	5,117
Imports	4,977	5,168	4,535	5,907	7,094
	previous year=100				
Terms of trade	102.6	100.7	100.8	101.1	100.6
	as % of total				
Exports with EU-15	32.5	38.0	50.1	47.9	47.8
Imports with EU-15	44.3	47.2	46.5	43.3	44.0

	per 1000 of population				
Demography					
Natural growth rate	-0.9	-1.1	-1.1	-1.3	-2.5
Net migration rate (including corrections)	-6.0	-5.9	-5.7	-5.8	-0.7
	per 1000 of live-births				
Infant mortality rate	10.3	9.2	8.6	8.5	7.8
Life expectancy :	at birth				
Males:	65.9	66.5	67.1	67.6	65.9
Females:	76.8	76.9	77.4	77.9	77.4

	% of population				
Labour market (Labour Force Survey)					
Economic activity rate (15 - 64)	:	72.1	72.6	71.5	70.4
Employment rate (15-64), total	:	62.9	65.0	60.1	58.6
Employment rate (15-64), male	:	67.6	68.9	61.8	59.8
Employment rate (15-64), female	:	58.5	61.4	58.5	57.4
Average employment by NACE branches	in % of total				
- Agriculture and forestry	20.7	20.7	21.4	18.4	16.5
- Industry (excluding construction)	21.5	21.6	20.0	21.5	21.2
- Construction	6.9	6.7	6.5	5.9	5.9
- Services	50.9	50.9	52.1	54.2	56.3
	% of labour force				
Unemployment rate, total	14.1	12.5	10.2	15.6	16.5
Unemployment rate, males	14.2	14.1	11.2	17.9	19.4
Unemployment rate, females	13.9	10.8	9.2	13.1	13.5
Unemployment rate of persons < 25 years	25.2	23.7	21.3	27.5	30.9
	as % of all unemployed				
Long-term unemployment share	:	62.8	38.8	52.4	56.2

Infrastructure	in km per 1000 km²				
Railway network	40	40	38	38	26
	km				
Length of motorways	410	417	417	417	417

Industry and agriculture	previous year=100				
Industrial production volume indices	103.3	108.2	88.8	105.3	116.9
Gross agricultural production volume indices	108.6	94.8	85.5	105.4	91.5

Standard of living	per 1000 inhabitants*				
Number of cars	248.0	277.0	310.0	336.0	326.0
Main telephone lines	294.0	314.0	326.0	338.0	329.0
Number of subscriptions to cellular mobile services	42.0	76.0	98.0	146.0	293.0
Number of Internet subscriptions g)	:	:	28.0	61.0	68.0

p=provisional figures

- a) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.
- b) Including FISIM.
- c) These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.
- d) data for 1997-2000 are not strictly in accordance with ESA95 methodology in terms of treatment of accrued expenditure. The impact on the deficit is not known.
- e) series break after 1997.
- f) The number of population was revised according to the population census data.
- g) Source: Statistics in Focus; Theme4 -17/2002
- h) Data recalculated on the basis of the Population Census 2001.
- i) Source: Website of the National Bank.

Methodological Notes

Inflation Rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

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

Imports and exports with EU-15. Data declared by the Republic of Lithuania.

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$. 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

The European Labour Force Survey is conducted in spring each year in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. A detailed description of the sampling methods, the adjustment procedures, the definitions and the common Community coding currently used in the labour force survey is presented in the publications 'Labour Force Survey – Methods and definitions, 1998' and 'Labour Force Survey in central and east European countries – Methods and definitions, 2000'.

All definitions apply to persons aged 15 years and over, living in private households. The concepts and definitions used in the survey follow the guidelines of the International Labour Organisation. Persons carrying out obligatory military service are not included.

Persons in employment were those who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are included.

As from 2001 (Commission Regulation (EC) No 1897/2000 of 7 September 2000), unemployed persons comprise persons aged 15 to 74 who were:

- (a) without work during the reference week, i.e. neither had a job nor were at work (for one hour or more) in paid employment or self-employment;
- (b) currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week;
- (c) actively seeking work, i.e. had taken specific steps in the four weeks period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of at most three months.

Comparability with results prior to 2001: unemployment results used to refer to persons aged 15 and more. Persons who found a job to start later used to be considered as unemployed with the unique condition to have no job in the reference week.

Duration of unemployment is defined as:

- (a) the duration of search for a job, or
- (b) the length of the period since the last job was held (if this period is shorter than the duration of search for a job).

The active population is defined as the sum of persons in employment and unemployed persons.

Inactive persons are those who are not classified as persons in employment nor as unemployed persons.

Employment rates represent employed persons aged 15-64 as a percentage of the same age population.

Unemployment rates represent unemployed persons as a percentage of the active population aged 15 years and more.

Economic activity rates represent the active population aged 15-64 as a percentage of the population of the same age.

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 previous year.

Standard of living

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

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

Telephone subscribers. Only main telephone lines per 1000 inhabitants, excluding mobile phone subscriptions.

Sources

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

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