

**Comprehensive monitoring report
on
Lithuania's
preparations for membership**

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A. INTRODUCTION

The accession negotiations with Lithuania were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. In a referendum held on 10-11 May 2003, a majority of Lithuanians expressed their support for membership of the European Union. Following ratification of the Treaty of Accession, Lithuania will join the EU on 1 May 2004.

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports, the Commission stated that:

“Acceding countries need to implement the acquis by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the acquis. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament.”

The Copenhagen European Council in December 2002 concluded that:

“Monitoring up to accession of the commitments undertaken will give further guidance to the acceding states in their efforts to assume responsibilities of membership and will give the necessary assurance to current Member States.”

and the Thessaloniki European Council in June 2003 stated that:

“...the ten acceding States are encouraged to keep up their efforts so that they are fully prepared to assume the obligations of membership by accession. This also includes the necessary translation of the Community acquis. With a view to making a success of enlargement, the monitoring of these preparations has been intensified on the basis of reports submitted regularly by the Commission.”

As the accession date of 1 May 2004 draws closer, this report presents a comprehensive state of play of the findings of the regular monitoring carried out by the Commission, building upon the findings of the 2002 Regular Report for Lithuania. The report contains two main parts.

The first part deals with economic issues. It describes briefly economic developments in Lithuania, and then goes on to assess the implementation of the necessary economic reforms in the areas highlighted in the conclusions of the 2002 Regular Report for Lithuania as being in need of further improvements.

The second part gives an overview of where Lithuania stands in implementing all commitments and requirements arising from the accession negotiations for each *acquis* chapter, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement. In view of their importance for the implementation and enforcement of the *acquis*, the overall state of readiness of the public

administration and the judicial system and the development of effective anti-corruption measures are assessed in an introductory section to this part.

This report reflects the situation at the end of September 2003. It records decisions actually taken, legislation actually adopted, measures actually implemented and structures actually in place and functioning by that date.

For each chapter of the *acquis*, this report identifies the areas in which Lithuania is expected to be, or is already, in a position to implement the *acquis* and the areas where further action is still needed. Where relevant, the report also points out issues where lagging or deficient preparations are a cause of serious concern. This assessment starts from the premise that Lithuania must be prepared for membership from the date of accession. In cases where transitional arrangements have been agreed in the accession negotiations, their effect on Lithuania's obligations is duly reflected in the assessment.

Numerous sources of information have been used to compile this report. Lithuania was invited to provide information on its state of preparedness. The Report also draws on information provided by Lithuania within the framework of the Association Agreement and the accession negotiations, as well as on peer reviews that have taken place to assess its administrative capacity in specific areas. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting it.¹ Where relevant, the Commission has also drawn on assessments made by various international organisations such as the Council of Europe, the OSCE and the international financial institutions, and by non-governmental organisations.

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

B. ECONOMIC ISSUES

In its 2002 Regular Report, the Commission 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.”

The principal purpose of this part of the Comprehensive Monitoring Report is to assess the implementation of recommendations for improvements in the areas identified in last year’s Regular Report. The focus is on the change since last year and not on the overall degree of functioning of the market economy or degree of competitiveness. The assessment can be found in Section 2. Section 1 briefly describes recent economic developments in Lithuania including the continuation of the reform path since last year’s Report.

1. Economic developments

In spite of lacklustre growth in the EU, macroeconomic performance in Lithuania remained particularly strong during 2002. Real GDP continued to grow unabated, reaching some 6.7 percent in 2002, aided by strong growth in domestic demand—particularly investment and private consumption. Growth accelerated further to 9.4% in the first quarter of 2003, compared with the same quarter of 2002. Strong productivity growth, moderate wage inflation, and the large appreciation of the Litas—first during the peg against the dollar and subsequently the euro—all contributed to the fall in prices by almost 1% in 2002. The trend persisted during 2003, and inflation fell by some 1.0% in August compared with the same month one year earlier. The situation in the labour market improved markedly, with a higher employment rate (at 59.9%) and a decrease in the unemployment rate from 17.4% in 2001 to 13.8% in March 2003. The authorities remained firmly committed to the fiscal consolidation programme, and accordingly the general government deficit declined further to 1.7% of GDP in 2002, according to recently updated data. The current account balance deteriorated somewhat from 4.8% of GDP in 2001 to 5.3% in 2002, mainly as a result of a worsening in the trade balance and the balance of current transfers. Foreign direct investment inflows grew by nearly 50% in 2002 and, represented some 5.3% of GDP, thus fully covering the current account deficit.

| Main Economic Trends | | | | | | | |
|---|---|-------|-------|-------|-------|------------------|------------------------------|
| Lithuania | | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 latest |
| Real GDP growth rate | per cent | 7.3 | -1.8 | 4.0 | 6.5 | 6.7 | 9.4 Q1 |
| Inflation rate | per cent | 5.0 | 0.7 | 0.9 | 1.3 | 0.4 | -1.0 |
| - annual average | | | | | | | August ^a |
| - December-on- | per cent | | | | | | -0.9 |
| December | | 2.4 | 0.3 | 1.3 | 2.1 | -0.9 | August |
| Unemployment rate | | 11.8 | 11.2 | 15.7 | 16.1 | 13.1 | 13.8 Q1 |
| - LFS definition | per cent | | | | | | |
| General government budget balance | per cent of GDP | -3.1 | -5.7 | -2.6 | -2.2 | -2.0 p | |
| Current account balance | per cent of GDP | -11.9 | -11.2 | -6.0 | -4.8 | -5.3 p | |
| | Million ECU/Euro | | | | | | -462 Jan.- July ^b |
| Gross foreign debt of the whole economy | Per cent of exports of goods and services | 36.4 | 61.6 | 56.4 | 48.8 | : | |
| - debt export ratio | Million ECU/Euro | 1 646 | 2 450 | 3 120 | 3 293 | : | |
| Foreign direct investment in flow | Per cent of GDP | 8.5 | 4.6 | 3.4 | 3.7 | 5.3 p | |
| - balance of payments data | Million ECU/Euro | 826 | 456 | 410 | 497 | 772 ^b | 184 Jan.- July ^b |

Sources: Eurostat. National sources. OECD external Debt Statistics

^a Moving 12 months average rate of change.

^b Source: Website of the National Bank.

P= provisional figures

The authorities actively pursued their reform path, although a number of areas— including pension and fiscal structural reform — still require progress. The privatisation of state-owned enterprises advanced significantly, and in some sectors (e.g., the banking sector) is complete. Considerable progress has been achieved in revamping the legal framework for bankruptcy and enterprise restructuring. Recently enacted legislation will facilitate entry and exit from the market, and stimulate further the business environment and more generally the labour market. The planned pension reform is a positive development, but the proposed changes seem unambitious and fall short of what is needed for establishing a well-capitalised contribution-defined second pillar. The completion of the current reform programme depends on a continued broad consensus on the main orientations of economic policy.

| Main Indicators of Economic Structure in 2002 | | |
|--|--------------------------|-------|
| Population (average) | Thousand | 3,469 |
| GDP per head ^a | PPS | |
| | Per cent of EU average | 39 |
| Share of agriculture ^b in: | | |
| - gross value added | Per Cent | 7.1 |
| - employment | Per Cent | 18.6 |
| Gross fixed capital formation/GDP | Per Cent | 21.5 |
| Gross foreign debt of the whole economy/GDP ^c | Per Cent | 24.8 |
| Exports of goods & services/GDP | Per Cent | 54.1 |
| Stock of foreign direct investment ^d | Million Euro | 2508 |
| | Euro per head | 723 |
| Long term unemployment rate | Per Cent of labour force | 7.0 |
| <i>Source: Eurostat</i> | | |

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

b Agriculture, hunting, forestry and fishing.

c Data refer to 2001.

d Data refer to 2000.

2. Implementation of recommendations for improvements

Although *fiscal policy* remains firmly committed to further consolidation, several factors could put at risk the government's fiscal objective, and hence call for the formulation of a comprehensive fiscal strategy that takes into account all pending financial obligations of the central and local governments. In particular, the state of municipal finances, the potential costs of pension reform, and plans to proceed with the savings and real estate restitution scheme are likely to strain the public finances in the medium term. Recent changes in the funding procedures for municipalities — which essentially raise the share of government transfers relative to other income from direct taxation, and improve the equalisation mechanism intended to help poorer municipalities — should support (particularly smaller) municipalities, and assist them in formulating and executing their budgets. The reforms set out a repayment strategy for the municipalities' arrears, which in 2002 amounted to 200 million Litas (or some 0.5 % of GDP), but do not provide solid measures to dissuade local governments from accumulating new arrears.² Hence, although some progress has been made, the finances of the municipalities continue to pose a major risk to the government's fiscal strategy. Progress towards fiscal consolidation masks, to some extent, lack of progress in pension reform. The decision to proceed with a voluntary contribution-defined second pillar could postpone the fiscal costs of the reform, which are likely to be significant. Furthermore, sizeable liabilities related to the savings and real estate restitution, which amount to 6.8% of GDP, will have to be financed over the next few years; with 105 million Litas—a mere 0.2 % of GDP — budgeted for repayment for saving restitution in 2003.³ Revenue collection is another key issue in Lithuania as a result of pervasive tax evasion, and of loopholes in the tax system. It is imperative that the government outlines in its medium-term fiscal plan all financial

² Some 65 million Litas out of the transfers from the central government is now earmarked for a repayment of municipalities arrears in 2003.

³ The financial obligation include 3.7% of GDP for the savings restitution plan, and some 3.1% of GDP for real estate restitution.

obligations (e.g. total cost of pension reform, the costs related to the savings restitution program, etc.), and presents detailed plans for financing in the medium term. The credibility of such a medium-term plan would be enhanced if it were supported by solid measures to improve tax collection (including tackling tax evasion, and simplifying the tax code to close holes in the system), and restraint spending by the municipalities.

*The problem of high and persistent **unemployment** is being addressed through active labour market policies but implementation of these policies is crucial.* Solid employment growth in 2002 and early 2003, combined with a small decline in the labour force, contributed to a significant fall in the unemployment rate from 17.4% in 2001 to 13.8% in March 2003 (as measured by the ILO definition). The recovery in the labour market in 2002 was the result of a buoyant economy and, to some extent, recent policy measures that were aimed at tackling the unemployment problem. In particular, new measures have been introduced to stimulate employment in depressed areas (e.g., new amendments to the Law on Support to the Unemployed) through subsidised job creation, and other policies which are aimed at reinvigorating local economic activity. Several policies have been identified, particularly in the “Joint Assessment of Employment Policy Priorities and the subsequent progress reports, which address a number of key issues in the labour market in Lithuania. The large share of the long-term unemployed suggests that structural unemployment could become a serious hurdle to any further improvement in labour market in Lithuania, and hence implementation of these policies is key in bringing about a long-lasting recovery in the labour market

Pension reform has advanced with the adoption of legislation by the parliament, but the current plans fail to address the problem of an impending social security deficit. The law on pension reform adopted by parliament in December of 2002 established a voluntary contribution-defined second pillar contrary to the government’s original plan for a system with compulsory participation — at least, for specific (e.g. younger) age groups — and established the contribution rate pertaining to the second pillar; initially at 2.5% of earnings, although this is set to increase to 5.5% by 2007. Both decisions, to opt for voluntary second pillar participation and to set a rather low contribution rate for the second pillar, are problematic and could significantly delay any meaningful reform. Such a reform should entail compulsory participation of younger-age cohorts, and a gradual adjustment of contribution rates to the second pillar to ensure a stable and acceptable pension level for retirees. At the same time — and in order to enhance transparency and the credibility of the government’s fiscal policy objectives — the fiscal costs related to the reform ought to be integrated in the government’s medium-term fiscal plan.

Considerable progress has been achieved in improving **administrative and judicial capacity**, specifically pertaining to the legal framework for bankruptcy and enterprise restructuring and market entry, but the authorities must proceed to complete their reform programme without delay. Simplified bankruptcy procedures were introduced in December of 2002, and a manual on bankruptcy procedures was prepared, while the Bankruptcy Law was amended in order to enhance the process of appointing administrators. In addition to legal and institutional changes, the authorities made significant progress in strengthening administrative capacity through the training and development of staff. These improvements have already had a noticeable impact on the pace of bankruptcy proceedings and should contribute further to creating a dynamic and efficient business climate in Lithuania. Progress has been made also toward the simplification of administrative procedures for market entry and these developments are likely to stimulate further economic activity, and employment growth. The government is indeed committed to completing this reform.

C. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS

As we approach the actual date of accession and the entry into force of the mutual rights and obligations enshrined in the Treaty of Accession, it is necessary to focus efforts on ensuring that Lithuania is fully prepared in all areas of the *acquis* from the start of its membership. In other words, Lithuania must meet its commitments and requirements arising from the accession negotiations.

In the 2002 Regular Report on Lithuania, the Commission found that:

“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.”

As regards the administrative capacity to implement the *acquis*, the overall findings were as follows:

*“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.”*

As part of its continuous monitoring, the Commission services addressed a letter to Lithuania in February 2003 expressing concern over its preparedness in the field of capital movements and payments systems within the chapter on free movement of capital and calling for urgent action to remedy these shortcomings.

In order to give further guidance to Lithuania in its preparation efforts and to give the necessary assurance to current Member States and other future Member States, this part of the comprehensive monitoring report, in Section 2, gives an overview of where Lithuania currently stands in implementing all commitments and requirements arising from the accession negotiations for each of the 29 chapters of the *acquis*. It covers the whole body of *acquis*, on a chapter-by-chapter basis, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement.

The principal commitment undertaken by Lithuania in the accession negotiations is to be fully prepared for membership in all areas by the date of accession. In a number of areas, however, commitments were made to put in place and implement the *acquis* according to specific timetables even before accession. This report examines the extent to which these commitments have been met, and where delays have occurred, but the principal focus of the assessment remains the requirement that Lithuania must be fully prepared as from accession. Naturally, in cases where transitional arrangements have been agreed, their effect on Lithuania's obligations is duly reflected in the assessment. On the other hand, it should be underlined that, in order for Lithuania to make effective use of its eligibility for Community structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from 1 January 2004 in relation to the implementation of structural funds actions⁴.

For each chapter, a conclusion is provided, which is structured in the following way.

Firstly, it identifies those areas where Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be, or is already, in a position to implement the *acquis* from accession. This does not exclude the possibility that certain actions are still to be taken, but these should under foreseeable circumstances not pose particular difficulties.

In a *second* paragraph, the assessment identifies any areas where important further action is still needed in order to complete preparations for membership. In some cases these preparations are ongoing, but enhanced efforts or quicker progress may be called for. These are issues which can still be remedied taking into account the accession date of 1 May 2004 but which require the special attention of the authorities.

Thirdly, where relevant, the assessment also identifies issues that are of serious concern. These are areas where serious shortcomings exist which are likely to persist after accession unless immediate remedial action is taken. These issues require the urgent attention of the authorities. In view of their importance for the implementation and enforcement of the *acquis*, the *overall* state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures, together with the question of the translation of the *acquis* into Lithuanian, are evaluated in a separate Section 1.

⁴ See also the Commission Communication "on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on Chapter 21 - Regional policy and coordination of structural instruments", 16 July 2003 (COM(2003) 433 final).

1. Administrative and judicial capacity

Public administration

The reform of the public administration is well on track, notably in terms of increased stability and professionalism of the civil service. Continued efforts and resources remain necessary to consolidate the administrative system, which is still fragile.

The legal framework of the civil service is in place. The 2002 Civil Service Law and the subsequent implementing legislation reinforced the application of the principles of rule of law, political neutrality, equality and transparency. This reform led, in particular, to a clear distinction between political posts and career posts. The recruitment system was reformed successfully, notably by increasing the objectivity and the transparency of the examination procedures. As regards the promotion system, the new legislation has introduced an annual performance-based evaluation procedure; however, the reliability of this evaluation procedure needs to be proven. The remuneration system has improved but managers still have wide discretionary power in interpreting the remuneration parameters and determining the actual pay of civil servants.

Thanks to the reforms, the public sector is becoming increasingly attractive to highly qualified specialists. Nevertheless, a number of them subsequently leave for the private sector where higher salaries are available. Better remuneration would help retain skilled professionals and together with the effective implementation of the Rules of Ethics that were adopted in 2002 would contribute to curbing petty corruption. Continued attention should be paid to improving the quality of the local administration in the ten counties and sixty municipalities of Lithuania.

The new legislation set up a Department of Public Administration under the Ministry of the Interior. This department, which became operational in December 2002, is responsible for formulating policy proposals, drafting implementing legislation, approving training programmes and managing the register of civil servants, which is currently being set up. This institutional set-up should help ensure that the civil service reform is properly implemented throughout all services and that further developments of the public administration system take place in a structured way.

Although the situation has improved, most ministries are still understaffed and are likely to face challenges when implementing the acquis and managing of Structural Funds after accession. This is primarily due to lack of funds, but also sometimes to the fact that strategic management is still at an early stage. Although inter-ministerial co-operation has, in general, improved, the situation in this field is still not satisfactory, as co-operation is rarely systematic, either on the political or on the senior management level.

Significant progress has taken place as regards training. All government institutions have to allocate for training between 1 and 5 % of the amounts allocated for salaries. However, actual spending for training has fallen short of this objective. The Lithuanian Institute of Public Administration, which is the national training agency, has significantly increased its capacities. The training courses cover a wide range of issues: improvement of management skills, European affairs and strategic management for Structural Funds. The training courses are open for national and local civil servants as well as for elected officials and representatives of the private sector. In addition, in the framework of the training programme for those civil servants that will represent Lithuania in European institutions, around 300 civil servants are expected to be trained by the end of 2003.

As regards the internal co-ordination on EU affairs, the European Committee under the Lithuanian Government which has played a key co-ordination role during the EU accession negotiations will be transformed into a new “Government EU Affairs Secretariat” under the Prime Minister’s office. This body will be responsible for strategic planning in EU-related matters, for preparing a common Lithuanian position in EU matters and for identifying the competent institution for the implementation of EU policies. It is important that the new structure become operational in time. The competencies of the former European Committee related to the setting up of the Single Market will be handed over to the Ministry of Economy.

Judicial capacity

The reform of the legal system and of the judiciary is almost completed. The 2002 Law on Courts has significantly contributed to consolidating the independence of the judiciary, and improving its functioning. The judiciary should be further strengthened, through additional staff, training and equipment. Sustained efforts need to be devoted to the respect of professional ethics.

The new Code of Civil Procedure entered into force on 1 January 2003 and the Code of Criminal Procedure, Criminal Code and the Code of Enforcement of Punishment entered into force on 1 May 2003. The new criminal legislation introduces the pre-trial judge, speeds up the proceedings, secures the rights of the defendant more efficiently than the present legislation and provides for alternative sanctions. According to the new procedures, the higher courts will play a stronger role in guaranteeing uniform court practice. While it is still early to assess the impact of the new codes, in particular on reducing the duration of court procedures and the backlog of cases, particular attention should be paid to the effective implementation of the new rules, in particular on pre-trial investigation and on cross-examination. The new Code of Administrative Offences has been adopted recently.

The introduction of compulsory in-service training has further improved the professional capacity of judges. The Judicial Training Centre has confirmed its key role by providing training courses on the new codes, the acquis and human rights law. According to the law, the State budget allocations made available for training should amount to no less than 1.5 % of the amounts allocated for judges' salaries. However, actual spending falls short of the set targets. The Ministry of Justice and Council of Courts need to work constructively together with the Judicial Training Centre to co-ordinate the development and delivery of judicial training.

The planned development of the court information system needs to be carried out on time as it will be of great importance in improving the management of the judicial workload.

The newly established institutions ensuring judicial autonomy, notably the Council of Courts, have started operating successfully, with the administrative support of the National Court Administration. A new procedure for drawing up courts' budgets was established to ensure the budgetary autonomy of the courts.

The procedure for appointing judges has been reformed, notably through amendments to the Law on Courts in January 2003, which established a Selection Committee in order to increase the transparency and professionalism of the appointment process: judges are appointed by the President of the Republic on the advice of the Council of Courts.

Judicial positions have been made more attractive, particularly in terms of salary. The number of vacancies in courts is therefore further decreasing: in May 2003, there were about 50 judicial vacancies out of 718 positions. However, some judges are still relatively young and inexperienced.

Much of the working capacity of judges is still absorbed by administrative work. Therefore, in October 2002, the Council of Courts adopted a Resolution whereby an assistant will be appointed for every judge. While the Supreme Court, the Court of Appeals and the Supreme Administrative Court have a sufficient number of court assistants, the number of assistants in district and county courts is very low. Adequate funds should be allocated for the recruitment of more court assistants.

Concerning the quality of proceedings, respect of procedural rights and professional ethics, some district court judges are reported to still have the tendency to blur their function with those of the public prosecutor. The situation regarding access to legal aid, particularly in civil and administrative cases, is still unsatisfactory, due to the complexity of the procedure. The new Law on Bailiffs, which entered into force in January 2003, is expected to significantly improve the effective enforcement of judgements.

In March 2003, the Seimas amended the Constitution in order to strengthen the independence of the public prosecutors. Accordingly, in April 2003, it also amended the Law on Public Prosecution, clarifying the status and the functions of the public prosecutor, who will be the head of the pre-trial investigation and responsible for the supervision of the investigators. The procedures for the recruitment of public prosecutors are satisfactory. However, prosecutors are frequently appointed as judges and therefore tend to stay in public prosecution for a rather short time.

The Training Methodology Division of the Prosecutor General's Office, which is responsible for organising training for public prosecutors, has organised courses - sometimes in co-operation with judges - on the new codes as well as on the acquis. However, training needs to be strengthened especially as the new criminal code and criminal procedure code particularly impact on the public prosecution. Prosecutors in particular need to be supported to perform their important new role as the head of pre-trial investigation. Another issue is the lack of computer equipment for the prosecution. Working conditions are expected to improve, especially further to the government decision to create 107 prosecutor's assistants posts, but results have yet to be delivered.

Anti-corruption measures

As acknowledged by the Lithuanian authorities, corruption remains a source of concern, in particular in the customs, public procurement, traffic police and health sectors as well as in the judiciary. Particular attention should therefore be paid to the tackle corruption problems in a systematic and effective way and to ensure adequate prevention.

Overall, the anti-corruption policy, including the legal framework and institutional set-up, is well on track and administrative capacity in the anti-corruption field is being strengthened. The Special Investigation Service (SIS) is actively supervising and monitoring the implementation of the national anti-corruption programme. In this context, the line ministries have approved the sectoral anti-corruption strategies and action plans. However, further efforts are needed to speed up implementation of the national and sectoral programmes, with a focus on the municipal level, and to ensure

sufficient financial resources. A Code of Ethics for the Lithuanian Customs Officials was adopted in October 2002. Law enforcement institutions (in particular customs, the Special Investigations Service and the Financial Crime Investigation Service) have signed inter-agency agreements in order to create effective mechanisms for co-operation and exchange of information in detecting and investigating corruption-related offences. However, further efforts have to be made in order to establish a proper and efficient network for effective exchange of information.

The Seimas and government are expected to adopt, respectively, the Code of Conduct for Politicians and the Code of Conduct for Civil Servants in the second half of 2003.

The administrative capacity of the SIS has been further strengthened, including in terms of training. However, more systematic joint training sessions with prosecutors and judges could be organised in order to facilitate their co-operation.

The SIS has continued to uncover corruption-related crimes, notably fraud, abuse of office and forgery of official documents in relation to land restitution and land acquisition. In October 2002, the SIS initiated an anti-corruption awareness campaign. Increased efforts need to be devoted to the development of anti-corruption control, based on risk assessment. Moreover, further awareness activities with the involvement of civil society and adequate financial resources would contribute to prevention and education.

Lithuania has ratified the Council of Europe conventions relating to the fight against corruption, and participates 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. The mission report, which was adopted in March 2002, formulated a number of recommendations aiming, in particular, at improving overall co-ordination of anti-corruption policies and strengthening preventive measures. These recommendations are being addressed by Lithuania notably through the National Anti-Corruption Programme and sectoral strategies and actions plans. GRECO invited Lithuania to present a report on the implementation of the recommendations before the end of 2003.

Translation of the acquis into Lithuanian

In accordance with Articles 2 and 58 of the Act of Accession, all acts adopted by the Union's institutions and the European Central Bank prior to accession become applicable to the new Member States and are to be published in the Official Journal of the European Union in the new official languages. While the EU institutions take responsibility for the final revision of the translations and of their publication, it falls to the acceding states to produce the translations and to ensure a thorough legal and linguistic revision.

The Lithuanian authorities were warned by the Commission in May that they were lagging behind as far as the number of acts provided for finalisation was concerned. Unfortunately, the situation has not since improved sufficiently to be declared safe. The small number of staff employed by the Lithuanian Translation Coordination Unit, and especially the lack of any legal revision until recently, have resulted in a considerable backlog of unrevised texts. Insufficient coordination between the Translation Coordination Unit and the respective ministries has also hampered the translation and revision process. The process of finalising the texts in the EU institutions cannot proceed

on a regular basis, and as a result the number of finalised acts has not reached a satisfactory level yet. The Lithuanian Translation Coordination Unit is aware of the risk of missing the deadline for the production of the Special Edition of the Official Journal in Lithuanian and is increasing the workflow by recruiting a large number of new staff, including legal revisers. An energetic push in revision work will be required for Lithuania to catch up.

The number of revised texts coming from Lithuania must increase greatly in the coming weeks, otherwise the publication of the Special Edition of the Official Journal in Lithuanian may not be completed in time for accession.

2. 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 *acquis* chapters. Accordingly, this section opens with an assessment of the *acquis* relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of 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

The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors, this general principle is supplemented with a harmonised regulatory framework, following the "old approach" (imposing precise product specifications) or the "new approach" (imposing general product requirements). The transposition of harmonised European product legislation represents the vast majority of the content of this chapter. In addition, efficient administrative capacity to apply horizontal and procedural measures in areas such as standardisation, certification and market surveillance is essential. This chapter also covers detailed EC rules on public procurement, requiring specialised implementing bodies.

The **horizontal and procedural measures** necessary for the administration of the Community product *acquis* in the new approach sector are in place. The transposition of the horizontal framework has been completed. The implementation structures for metrology, accreditation, conformity assessment and market surveillance are all in place but need to be strengthened both in terms of training and equipment. The establishment of the Lithuanian Standards Association, which is foreseen for 2004, is under preparation. The Lithuanian Standard Board was accepted as a full member of CEN and CENELEC in May 2003 and the Lithuanian Accreditation Bureau is a signatory to multilateral agreements of the organisation European Accreditation.

Lithuania has transposed all the *acquis* of the **sectoral legislation** under the **new approach** and in general the legislative transposition has been found to be in line with the *acquis*. Transposition of the rules on pressure equipment, medical devices for veterinary use and recreational crafts has been completed ahead of the target date for transposition. The infrastructure regarding their implementation is at a reasonable level. The Ministry of Economy, responsible for the implementation of most of the new approach legislation, should be further strengthened in order to ensure better co-operation between market surveillance bodies. Testing capacities should be reinforced.

The transposition of the **old approach** directives is progressing without specific problems and it is expected to be completed at the latest by the date of accession even though certain delays have occurred. Transposition of the *acquis* on legal metrology, pre-packaging and chemicals (except for the *acquis* on explosive for civilian use) is in progress and close to completion. Transposition is not yet completed in the field of cosmetics although pre-marketing authorisations were duly abolished. Implementing legislation on motor vehicles (type approval for motor vehicles, two or three-wheeled motor vehicles and agricultural/forestry vehicles) remains to be adopted.

Lithuania has taken the necessary steps to ensure the creation, reinforcement and operational capacity of the institutions required to manage the *acquis* in nearly all the sectors covered by the old approach directives. However, close attention should be paid to complaints of corruption or administrative malpractice.

As regards foodstuffs, considerable progress has been achieved in the adoption of legislation. Lithuania now needs to make additional efforts to transpose, in good time, the *acquis* adopted from 2001 onwards. Progress has been made with regard to the removal of incompatible pre-marketing authorisations of foodstuffs. Some amendments are still expected to complete alignment.

Further attention is required as regards strengthening inter-institutional co-operation in the field of food safety. This includes such issues as the need to provide sufficient funding for staff, sampling and analysis (implementation of new analytical methods), to develop and perform adequate sampling programmes for contaminants and to ensure that the laboratories meet all the requirements. Lithuania also needs to implement Hazard Analysis Critical Control Points (HACCP) principles, notably by reinforcing training of audit inspectors, and to ensure appropriate control of genetically modified and novel food. Preparations for participation in the Rapid Alert System for Foodstuffs and Feed are on track. Aspects of food safety are also covered under *Chapter 7- Agriculture*.

Transposition of pharmaceuticals legislation has been completed with the exception of the *acquis* on good manufacturing practice. Further improvement is needed in the area of inspection, post-marketing control, pharmacovigilance and supervision of advertising of medicinal products. In the course of the accession negotiations, Lithuania has been granted a transitional period relating to the renewal of marketing authorisations for pharmaceutical products until the end of 2006.

In the field of **public procurement**, the new Law on Public Procurement and its implementing legislation, which entered into force in March 2003, further aligned Lithuanian legislation with the *acquis*. Some minor amendments are required as regards in particular some definitions relating to coverage. The Public Procurement Office has been established and is operational but its operational tools (handbooks, practical guidelines) as well as relevant training of its staff should be further developed.

In the **non-harmonised area**, Lithuania has identified a list of barriers possibly in contradiction with the principle of free movement of goods; this list needs to be updated and the identified barriers must be removed, particularly as regards import or export licences of oil products, alcohol products, tobacco and tobacco products. Lithuania has undertaken satisfactory measures in view of introducing a mutual recognition clause covering existing legislation. The national act transposing the *acquis* on control of the acquisition and possession of weapons entered into force in July 2003 but implementation remains to be completed. The *acquis* on cultural goods is transposed to a large extent but remains to be completed. Legislation was adopted on the control of product safety at external borders. Furthermore, preparations to enforce the regulation have started and an agreement between customs and market surveillance bodies was signed in December 2002. Nevertheless, efforts need to be stepped up.

Conclusion

Lithuania has met its commitments arising from the negotiations as regards the **horizontal and procedural measures** necessary for the management of Community

legislation. Lithuania has essentially met its commitments in the fields of **sectoral legislation** under the **new approach, public procurement**, and the **non-harmonised area**. Minor amendments are still needed to the legislation on public procurement and the operational tools of the Public Procurement Office should be further reinforced. Lithuania is expected to be in a position to adopt and implement the remaining *acquis* from accession. In the non-harmonised area, incompatible import and export licences and other identified barriers to trade need to be abolished.

Lithuania is partially meeting the requirements in respect of the **old approach sectoral legislation**. Transposition of the foodstuff *acquis* must be completed and further efforts are required for its implementation. Lithuania needs to give priority to completing alignment also with the old approach directives covering industrial products. As far as administrative capacity is concerned, Lithuania should strengthen its market surveillance and certification structures.

Chapter 2: Free movement of persons

The *acquis* under this chapter provides for non-discriminatory treatment of workers who are legally employed in a country other than their country of origin. This includes the possibility of cumulating or transferring social security rights, which requires administrative cooperation between Member States. In order to facilitate the practice of certain professions, the *acquis* under free movement of persons also includes specific rules concerning mutual recognition of qualifications and diplomas; for certain professions a harmonised training curriculum must be followed to be able to use the professional title. Furthermore, this area also covers the residence and voting rights of EU citizens in any Member State.

In the field of **mutual recognition of professional qualifications**, Lithuania's legislation is not yet in line with the *acquis*. In particular, legislation on the general system of recognition remains to be adopted. Furthermore, legislation on lawyers and to a certain extent on commercial agents shows substantial shortcomings. As regards the professions with specific directives on co-ordination of training (doctors, dentists, general care nurses, midwives, veterinarians, pharmacists and architects), the requirements on co-ordination of training have in general been implemented. Lithuania has adopted several Government Orders aiming at transposing the *acquis* on recognition of qualifications in the healthcare sector. Implementation of the relevant sectoral legislation on the recognition of qualifications needs to be ensured. The necessary administrative structures for implementation are in place but need to be strengthened, in particular through training targeted on the precise tasks which will need to be performed as from accession.

In the area of **citizens' rights** legislative alignment has been largely completed, except on the introduction of a legal status for foreigners, amendments to the procedure for employment of foreigners and legislation on the right to participate in the European Parliament elections. The main administrative structures for implementation are in place.

As for **free movement of workers** a transitional arrangement has been agreed. For the first two years following accession, current Member States will apply national measures, or bilateral agreements, to regulate the access of workers from Lithuania to their labour markets. These arrangements may continue up to a maximum of seven years. Lithuania's legislation in the area of free movement of workers is almost fully in line with the *acquis*. Alignment is to be completed with the adoption of the Law on Trade Unions.

With regard to **co-ordination of social security systems** no transposition into national legislation is needed to achieve alignment with the *acquis*, but appropriate administrative capacity needs to be ensured. Bilateral agreements with a number of Member States, which rely on the same principles as the EU rules in this area, reflect that Lithuania's administration is acquainted with the administrative procedures.

Conclusion

Lithuania is essentially meeting the commitments and requirements in the area of **citizens' rights, free movement of workers and co-ordination of social security systems**. Some adjustments need to be made as soon as possible to the legislation on foreigners to allow EU citizens to stay and work freely in Lithuania, and to participate in the European Parliament elections of June 2004. Subject to the above adjustments, Lithuania is expected to be in a position to implement the *acquis* in this area from accession. The on-going measures to ensure adequate administrative capacity in these areas should continue.

Lithuania is partially meeting the requirements for membership in the area of **mutual recognition of professional qualifications**. Enhanced efforts should be made to complete the alignment in these sectors. The administrative capacity to implement the *acquis* in this area needs also to be reinforced.

Although progress was made with the recent adoption of legislation concerning mutual recognition of qualifications in the health care sector, the absence of complete transposition of the requirements relating to legislation on the general system of recognition, and on mutual recognition relating to lawyers, dentists, veterinary surgeons, pharmacists and architects gives rise to serious concern. Unless immediate action is taken, Lithuania will not meet the requirements for membership in this area by accession.

Chapter 3: Freedom to provide services

Under this chapter, Member States must ensure that the right of establishment and the freedom to provide services anywhere in the EU is not hampered by national legislation. In some sectors, the *acquis* prescribes harmonised rules which must be respected if the internal market is to function; this concerns mainly the financial sector (banking, insurance, investment services and securities markets) but also some specific professions (craftsmen, traders, farmers, commercial agents). Harmonised rules concerning personal data protection and certain information society services must also be respected.

In the field of **the right of establishment and the freedom to provide financial services**, Lithuania is essentially meeting its commitment as regards the elimination of remaining legal and administrative restrictions. One potential barrier has been identified so far concerning registration of foreign companies. However, the screening process needs to be finalised as regards other legislative or administrative restrictions which are not compatible with the principle of free provision of services in the light of the relevant case law of the European Court of Justice, and the identified restrictions will need to be removed upon accession in order to ensure the free provision of services. Furthermore, alignment with the *acquis* on commercial agents needs to be completed.

In the field of financial services, legislative alignment has been largely completed in the **banking sector** since July 2003, but the directive on e-money has yet to be fully

transposed. Lithuania should be in a position to implement the relevant *acquis* from the date of accession.

The central bank essentially has the required infrastructure and human resources to deal with the *acquis*-related tasks as a supervisory authority in the field of banking. However, closer co-operation among banking, insurance and securities supervisors is required.

As regards the **insurance sector**, Lithuania has partially transposed the *acquis* and needs to complete alignment in the fields of motor insurance (4th motor insurance directive) and the insurance group directive. The procedure for Lithuania becoming a signatory of the 'green card' Multilateral Guarantee Agreement, as foreseen in the 1st motor vehicle directive, still needs to be finalised and efforts should be made to cope with the responsibilities linked to this status. The administrative capacity of the State Insurance Supervisory Authority needs to be further strengthened and the qualifications and staffing levels in the Deposit Insurance Fund remain to be improved.

In the field of **investment services and securities markets**, legislation is partially in line except for the recent directives on undertakings for collective investment in transferable securities: the Law on Collective Investments Undertakings transposing the directives was adopted by the Parliament in July 2003 but is not yet in force. Further legislative changes to transpose other legislation in this area are needed; the investment services and insider dealing directive have been transposed, but more needs to be done before Lithuania can be perceived as fully compliant with EU securities *acquis*. The Lithuanian Securities Commission functions well but its powers as well as its independence need to be reinforced.

Lithuania has been granted transitional periods to reach the minimum level of coverage of deposit guarantee schemes as well as investor compensation schemes by the end of 2007.

Concerning the **protection of personal data and the free movement of such data**, the new version of the Law on Personal Data Protection, adopted in January 2003, further aligns Lithuanian legislation with the *acquis*, but some fine-tuning is still required. The Data Protection Development Programme should be effectively adopted. Priority should be given to the strengthening of the independence of the Data Protection Inspectorate, notably by recruiting additional staff.

As regards **information-society services**, Lithuania has reached a high level of alignment. Some fine-tuning is needed in the field of e-commerce, since the relevant law omits certain key provisions. The administrative capacity is in place.

Conclusion

Lithuania is essentially meeting the requirements for membership in the **banking sector**, regarding the **right of establishment and the freedom to provide non-financial services** and as regards the **protection of personal data** and **information-society services**, and is expected to be in a position to implement this *acquis* from the time of accession. Preparations in these areas should continue. The independence of the Data Protection Inspectorate requires strengthening.

Lithuania is meeting the majority of the commitments and requirements arising from membership in the **insurance sector** and **investment services and securities markets**.

In order to complete preparations for accession, a number of major directives still need to be transposed in these areas. Overall administrative capacity should be strengthened.

Chapter 4: Free movement of capital

Under this chapter, Member States must remove all restrictions in national law on the movement of capital between themselves, but also with third countries (with some exceptions) and adopt EU rules to guarantee the proper functioning of cross-border payments and transfers of all forms of capital. The *acquis* under this chapter also includes harmonised rules on payments systems and the fight against money laundering, requiring adequate enforcement capacity.

In the area of **capital movements and payments**, Lithuania is to a large extent in line with the *acquis*. The restrictions concerning the calculation of the capital adequacy of financial brokers were abolished in June 2003. Restrictions on investment in the lottery sector were abolished through the adoption of the Law on Lotteries and amendments to the Law on Investments. The restrictions on the conclusion of insurance contracts in Lithuania by foreign insurance companies and restrictions on investment in banking (acquisition of 10% or more of a bank's share capital) have not been removed. Likewise, the restriction related to nationality and residency requirements for the council members of the insurance undertaking which manages the Deposit Insurance Fund and the Fund of Insurance of Liabilities needs to be abolished. The remaining special rights for the state in privatised companies have been abolished. Finally, Lithuania needs to ensure that its privatisation legislation is in line with the *acquis*.

In accordance with the transitional arrangement it has been granted, Lithuania will remove restrictions on the acquisition of agricultural land and forests by EU nationals and by EU companies by May 2011 at the latest. In agreement with the Constitutional Law of 2003, restrictions on real estate, not covered by the transitional arrangement, will not apply as from accession.

The *acquis* on **payment systems** is largely in place. A new interbank payment and settlement system, including a real time gross settlement (RTGS) system, remains to be introduced. Lithuania needs to introduce adequate and effective redress procedures and the relevant administrative structures for the settlement of disputes between banks and customers.

In the area of **money laundering**, legislation needs to be completed in line with the most recent *acquis*. Moreover, Lithuania needs to ensure full compliance with the recommendations of the Financial Action Task Force. To effectively implement the *acquis*, the Financial Intelligence Unit (FIU) needs considerable strengthening in terms of staff and equipment, in particular the IT system. Training is needed for the FIU, economic police, prosecutors, customs officials and bank staff (*see also chapter 24 – Justice and home affairs*).

Conclusion

Lithuania is essentially meeting the requirements for membership and is expected to be in a position to implement the *acquis* in the area of **capital movements and payments** from accession. A limited number of specific issues will still need to be addressed in this area.

Lithuania is partially meeting the commitments and requirements concerning **payment systems** and **money laundering**. In order to complete preparations for membership in the area of money laundering, Lithuania must enhance efforts to finalise legislative alignment and further reinforce its administrative capacity to effectively implement the *acquis*. As regards payment systems, Lithuania must introduce a RTGS system.

Chapter 5: Company law

Under this chapter, Member States must adopt and apply harmonised rules required for the proper operation of companies in the internal market. They concern five legislative fields: company law in the strict sense, accounting law, intellectual property rights, industrial property rights, and the recognition and enforcement of judgements in civil and commercial matters as well as of contractual obligations.

In the field of **company law** as such, legislation is largely in line although some important discrepancies remain to be addressed as regards the Law on the Supplement to the Law on Companies. Administrative capacity has improved and the Central Register of Legal Entities has been established. It will start operating from 1 January 2004. However, the action plan on the transfer of the registration functions, data, infrastructure and materials from the existing enterprise register to the Central Register needs to be finalised. Other institutions, especially municipalities, which are currently managing their own register, need to transfer it to the central body.

With regard to **accounting**, Lithuania is meeting the majority of the commitments but the national audit law remains to be further aligned with the *acquis* as regards in particular the scope of audits and practical training (amendments are under preparation). The amended Law on Audit on quality assurance for the statutory audit in the EU has been adopted. Administrative capacity is adequate.

In the field of **protection of intellectual and industrial property rights (IPR)**, legislation is close to full alignment. The new Law on Copyright and related Rights adopted in March 2003 further aligned national legislation with the *acquis*. However, Lithuania should adopt, upon accession, the principle of EC exhaustion of rights. Implementation of the *acquis* in the field of copyright and neighbouring rights is far advanced. The new law transposes the information society directive but secondary legislation remains to be transposed. The new version of the design law entered into force in March 2003. Implementing legislation on copyright remuneration for printing, recording or broadcasting of artistic works was also adopted and will be in force from 2004.

The regulations on Community trademarks and Community design are already implemented to a large extent but some additional procedural adjustments will be necessary upon accession. Legislation on satellite broadcasting and cable retransmission is close to full alignment. Lithuania still has to complete preparations for its accession to the European Patent Organisation. Legislation is complete as far as the legal protection of biotechnological inventions is concerned.

Special transitional rules will apply in relation to pharmaceutical product patents, involving the non-applicability of Community exhaustion to certain exports from Lithuania, as regards the granting of supplementary protection certificates for medicinal and plant protection products, as well as in relation to the extension of registered or pending Community trademarks to the territory of Lithuania.

As regards enforcement of IPR, Lithuania has adopted civil, administrative and criminal measures to fight copyright infringement. The new Criminal Code that entered into force in May 2003 establishes criminal liability for the infringement of industrial property owners' rights. However, piracy is still a serious problem. Administrative structures are in place but lack co-ordination. Co-operation between enforcement bodies (police and local government) has been improved but should be reinforced with a view to coping with the high level of pirated and counterfeited products. Means of verification, training and resources for customs officials should also be strengthened. Court procedures are generally too lengthy and cumbersome.

Legislation similar to the **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters has been adopted and the Regulation will be directly applicable upon accession. Membership of the **Rome Convention** will only be possible upon accession. Lithuania should designate the relevant courts or other authorities to ensure swift implementation of these provisions (*see also Chapter 24 - Justice and home affairs*).

Conclusion

Lithuania is essentially meeting the requirements for membership, and is expected to be from accession in a position to implement the *acquis*, in the areas of **company law and accounting**, and the **Regulation replacing the Brussels Convention** and the **Rome Convention**. The transposition of the company law and accounting *acquis* will need to be completed.

The majority of commitments and requirements arising from the accession negotiations in the field of the **protection of intellectual and industrial property rights** have been met. Further legislative alignment is required in the field of information society, Community trademarks, copyright and related rights. Although the legislation is mostly in line, enhanced efforts must be made to strengthen enforcement of intellectual and industrial property rights, especially to cope with the high level of pirated and counterfeited goods. Co-ordination among enforcement bodies (mainly customs, police and judiciary) needs further improving and further training of these enforcement bodies is required. The efficient functioning of the judiciary should be given particular attention.

Chapter 6: Competition Policy

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), and to prevent governments from granting state aid which distorts competition in the Internal Market. Generally, the competition rules are directly applicable in the whole Union, and Member States must fully co-operate with the Commission on the enforcement of these rules.

In the **anti-trust** sector, Lithuania is completing legislative alignment with EU rules. Legislation containing the principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control has been adopted. However, Lithuania still needs to ensure that its legislation is not in contradiction with the more recent Community block exemptions.

Lithuania has the necessary implementing structure in place. The Competition Council is able to effectively enforce the law on competition but its internal rules concerning the co-

ordination of work between competition authorities and the EC remains to be improved. Special training for judges should be further developed.

The enforcement record is generally satisfactory. Priority should be given to cases that most seriously distort competition. In addition, a more deterrent sanctioning policy should be adopted and rules governing the imposition of fines on companies breaching anti-trust laws remain to be improved.

In the field of **state aid**, the Lithuanian Law on State Aid contains the basic principles of EC state aid control.

The necessary implementing structures are in place and function well but efforts to strengthen the administrative capacity, both in terms of expertise and human resources, should be continued. Business society and interest groups' awareness has been further improved.

Lithuania needs to continue to develop a track record of proper application and enforcement of state aid legislation, notably in the area of rescue and restructuring aid.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations as regards **competition policy** and is expected to be in a position to implement this *acquis* from accession. In completing preparations for membership, Lithuania should adopt a more deterrent sanctioning policy and should further strengthen its enforcement record. In addition, Lithuania must develop a track record of proper application and enforcement of state aid legislation, notably in the field of rescue and restructuring aid.

Chapter 7: Agriculture

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement by an efficient public administration are essential for the functioning of the common agricultural policy. This includes the setting up of management systems such as a Paying Agency and the Integrated Administration and Control System, which are covered under "horizontal issues" below, and also the capacity to implement rural development actions. The acceding countries must be ready to be integrated into the common market organisations for a range of agricultural products, including arable crops, fruits and vegetables, and meat. Finally, this chapter covers detailed rules in the veterinary field, which are essential for safeguarding animal health and food safety in the internal market, as well as in the phytosanitary field, including issues such as seed quality, harmful organisms and plant protection products.

Horizontal issues

A national **Paying Agency** should be established under the supervision of the Ministry of Agriculture but no legal act has yet been adopted to this effect. Considerable work remains to be done (such as conclusion of agreements with delegated bodies, written procedures, staff recruitment and training, and development of IT systems) if Lithuania is to have a functioning paying agency by the date of accession.

With regard to the **Integrated Administration and Control System (IACS)**, Lithuania has made good progress so far, but much remains to be done if Lithuania is to have a fully functioning system by accession. The necessary administrative structures have been set up but further work must be carried out, in particular to ensure that proper IT systems are put in place.

The National Paying Agency will be responsible for the administration of **trade mechanisms**. The relevant control tasks will be under the responsibility of the customs services and the State Food and Veterinary Service. Certain legislative measures remain to be completed and the development of administrative procedures in most fields needs to be accelerated. Inter-institutional co-operation needs to be further improved.

The responsibility of **quality policy** and **organic farming** rests with the Ministry of Agriculture, which will need to be further strengthened in terms of staffing and training. As regards organic farming, administrative structures are in place but need to be strengthened.

Lithuania has met the commitments and requirements arising from the accession negotiations in the area of the **Farm Accountancy Data Network (FADN)** and is expected to have implemented the FADN by accession.

State aid measures in the field of agriculture remain to be brought in line with the *acquis* by the time of accession.

As concerns direct payments to farmers, Lithuania has not yet decided whether or not to apply the single area payment scheme (SAPS).

Common market organisations (CMOs)

The Market Regulation Agency will be responsible for intervention measures and the National Paying Agency will be responsible for inspection and authorisation of payments for **arable crops**. The establishment of the actual structures, including storage premises and intervention centres, needs to be accelerated.

Legislation concerning **sugar** has been partly transposed. Further rules are necessary for full harmonisation. The administrative structures for the management of the sugar CMO have been clearly designated but capacity may need to be reinforced in order to ensure proper management. A system of sugar quotas is already in place but needs to be fully harmonised.

Implementing legislation as regards marketing standards for **fruit and vegetables** as well as the establishment of producers organisations has been adopted.

In the area of **wine and alcohol**, the CMO for wine is in place. Legislation on quality standards for spirit drinks has been adopted. However, further efforts are needed to comply fully with the wine labelling *acquis* in particular for sparkling wines. The institution controlling the use of geographical designation for spirits remains to be designated.

A temporary **milk** quota system was introduced in 2003 and responsible institutions for its management were defined. In order to ensure full compliance of the quota system further legislation has to be adopted and enforced. The administrative structures of the National Paying Agency, including its regional units, and of municipalities, which will

be responsible for the quota system need to be substantially strengthened in order to ensure proper milk quota management. Further efforts are also necessary with regard to other parts of the CMO, such as the preparation of disposal measures.

Legislative measures have been adopted regarding carcass classification and price reporting for **beefmeat, sheepmeat and pigmeat** as well as for beefmeat labelling. The establishment of appropriate administrative structures is progressing but further preparations are needed, in particular as regards classification controls and the price reporting system. However, enhanced efforts need to be undertaken for beef.

For **eggs and poultry**, legislative measures remain to be put in place as regards marketing standards, price reporting and the reporting of production statistics.

Rural development

The SAPARD Agency will be the paying agency for rural development and will be responsible for implementation of the measures. The Agency already has substantial experience with the implementation of SAPARD, which has made good progress with the commitment of funds to beneficiaries. A draft Rural Development Plan for expenditure under the Guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF) has been submitted to the Commission.

Legislation on forest fire prevention has been adopted along the lines of the *acquis* and legal acts concerning protection of forests against fire are in place. Administrative capacity for forest fire prevention is fully in place and operational.

Veterinary and phytosanitary issues

Transposition of legislation on transmissible spongiform encephalopathies (**TSEs**) and **animal by-products** has been partly achieved. Implementation, however, needs to be accelerated. TSE surveillance needs to be upgraded, in particular testing of risk animals. A collection system for cadavers is not yet in place and rendering plants remain to be upgraded. A total feed ban has been implemented.

The establishment of the **veterinary control system in the internal market** is not completed. Lithuania has not yet joined the computerised network linking veterinary authorities, ANIMO. Regarding identification and registration of animals legislation remains to be completed. A central computer database for bovine animals is operational but needs upgrading in particular with regard to transmission of information. The law on financing veterinary inspections and controls has been transposed but the level of fees has to be adjusted. Transposition regarding veterinary checks of imports from third countries and rules for imports has largely been completed. Further work is needed to bring border inspection posts into compliance with EU requirements, in particular as regards rail connections at the Kena and Pagegiai posts, and with regard to road access to the Panemune post.

Regarding **animal disease control** measures, national contingency plans on foot and mouth disease and classical swine fever have been provided, but remain to be prepared for Newcastle disease and avian influenza. Lithuania has joined the Animal Disease Notification System (ADNS) on a voluntary basis.

Steps have been taken to align the Lithuanian legislation on **trade in live animals and animal products** with the *acquis*.

Legislation on **public health** protection has been transposed but needs to be adjusted. The upgrading of establishments needs to be accelerated, in particular in meat and dairy plants. Transitional arrangements have been granted for certain meat and milk establishments until the end of 2006. Products from these establishments will be restricted to the national market.

The *acquis* on **common measures** (including zoonoses) has been transposed but needs adjustments. A programme for monitoring Salmonellosis is in place. The residue-monitoring programme does not meet EU requirements.

The *acquis* in the field of **animal welfare** has been transposed but only partially implemented. Action is needed to ensure that laying hen holdings comply with the EU requirements. Administrative structures and capacity are in place but further training in implementation of animal welfare knowledge and legislation is needed.

In the field of **zootechnics**, steps have been taken to align the Lithuanian legislation with the *acquis*.

The *acquis* for **animal nutrition** has been transposed but further work is required for the practical implementation of the legislation. Further efforts will be needed in this field to build up the capacity of the inspection and control bodies. In particular, co-operation and agreement between these bodies in the implementation of feed legislation should be further developed and enhanced.

In the field of **phytosanitary** legislation, the Law on Seed Cultivation to a large degree transposes the *acquis* on quality of seeds and propagating material. However, in the area of harmful organisms, legislation on protected zones, imports for scientific purposes and plant passports remains to be adopted. Plant passports will not be adopted before accession. Lithuania has been granted a transitional arrangement until 1 January 2006 for potato ring rot and until the end of 2010 for remuneration for plant variety rights. The *acquis* for plant protection products has been transposed but amendments remain to be adopted.

Lithuania has to ensure that international veterinary and phytosanitary agreements are brought into compliance with the *acquis* by accession.

In order to ensure a comprehensive approach to enhancing food safety throughout the food chain, the Food Safety Council was established under the joint authority of the Ministry of Agriculture and the Ministry of Health. Aspects of food safety are also covered under *Chapter 1 – Free movement of goods*.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations, among the horizontal issues as regards **quality policy** and **organic farming**, the **Farm Accountancy Data Network (FADN)** and **state aid**; among the common market organisations (CMOs) as regards **arable crops, sugar, fruit and vegetables, wine, sheep and pigmeat** and **eggs and poultry**; and as regards **rural development**. In the veterinary and phytosanitary field, the requirements in the areas of

animal disease control measures, trade in live animals and animal products, zootechnics and animal nutrition are essentially met. Subject to good progress being maintained in these areas, Lithuania should be in a position to implement this *acquis* from accession.

Lithuania is partially meeting the commitments and requirements for membership in the areas of the **Paying Agency, the Integrated Administration and Control System (IACS), trade mechanisms, the CMOs for milk and beefmeat**, and in the veterinary field as regards **TSEs and animal by-products, veterinary control systems in the internal market, public health** (particularly as regards the upgrading of agri-food establishments), **common measures, animal welfare** and in the **phytosanitary** field. Unless efforts are accelerated in these areas, there is a risk that functioning systems will not be in place at accession.

Chapter 8: Fisheries

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (in the areas of market policy, resource and fleet management, inspection and control, structural actions and state aid). In some cases, existing fisheries agreements or conventions with third countries or international organisations need to be adapted.

In the field of **resource and fleet management, and inspection and control**, legislation has been brought in line with the *acquis*. Alignment with regard to the Vessel Monitoring System (VMS) has been completed. Lithuania has created the necessary institutions in the field of fleet management resources, inspection and control of fishing activities. As regards resource and fleet management, the operational capacity of these institutions still needs to be reinforced. The Fishing Vessel Register is in place, but few vessels have been registered and data is incomplete. Re-measurement of fishing vessels is reported to be completed. Satellite monitoring of fishing is operational and the Fishing Vessels Monitoring Centre (FMC) has been modernised. According to the latest figures, all vessels operating in the Baltic are equipped with satellite tracking devices (VMS). However, the system is at present not capable of generating the data needed for Lithuania to fulfil its reporting obligations, and new software must be installed. Co-operation between institutions has to be further strengthened. Further efforts need to be made as regards staffing levels and training. As regards inspection and control, sustained efforts are needed to reinforce the operational capacity of the institutions. The financial means available for control and inspection are very limited. The staff available mainly for port controls is not adequate for the number of landings carried out. The activities of the Lithuanian high seas fishing fleet, which has been considerably increased following the recent re-flagging from Cyprus, are not adequately controlled.

In the area of **structural actions**, Lithuania has submitted the draft Single Programming Document (Development Plan) to the European Commission. The data on fishing vessels with fishing licences, operating in the Baltic Sea (currently 71 fishing vessels) and high seas (25 fishing vessels) for commercial purposes, are available. However, additional staff needs to be allocated to the Fisheries Department of the Ministry of Agriculture for the effective administration of the Financial Instrument for Fisheries Guidance (FIFG).

Regarding **market policy**, Lithuania has adopted legislation on Common Organisation of the Market in Fishery products, including recognition of producers' organisations, aimed

at aligning with the *acquis* has been adopted. However, producers' organisations have not been established.

As regards **state aid** to the fisheries sector, Lithuania allocates aid to the fisheries sector with the annual state support programme for agriculture. The aid measures must be brought into conformity with the *acquis* by accession.

Concerning **international fisheries agreements**, a solution has been found between Lithuania, Estonia, Latvia and Russia on the division of the North Atlantic Fisheries Organisation (NAFO) of the block quotas. Lithuania has not yet withdrawn from the International Baltic Sea Fisheries Commission (IBSFC) or NAFO.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement by accession the *acquis* in the areas of **state aid** and **international agreements**.

Lithuania is partially meeting the commitments and requirements for membership in the areas of **resource and fleet management and inspection and control, structural actions** and **market policy**. In order to complete preparations for membership Lithuania, the administrative capacity needs to be strengthened and the Fishing Vessel Register has to become fully operational. In addition, Lithuania must raise the number of staff in bodies administering the Financial Instrument for Fisheries Guidance (FIFG) and transpose implementing legislation on marketing of fishery and aquaculture products. Furthermore, the administrative structures need to be set up as regards producers organisations.

There are serious concerns in the field of inspection and control, where special action is required to strengthen the human resources available and to control the landings and the activities of the high seas fishing vessels. Unless immediate action is taken, Lithuania will not be able to implement this *acquis* by accession.

Chapter 9 Transport

EC transport legislation aims at improving the functioning of the Internal Market by promoting efficient and environment- and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, aviation, maritime transport and inland waterways. Member States are required to adopt and implement legislation concerning technical and safety standards as well as social standards. In order to further develop the European Single Transport Market, EC legislation also includes rules on market liberalisation. An important aspect of EC maritime policy is the establishment of Union-wide maritime safety standards.

As far as the **trans-European transport networks** are concerned, the necessary administrative capacity (in both qualitative and quantitative terms) needs to be reinforced beyond its present level in order to prepare for the significant investments that will be needed in transport infrastructure.

Within the land transport sector, the transposition of the **road transport** *acquis* continues. The framework legislation has been transposed. Some implementing legislation, especially in the technical field, remains to be adopted, notably for technical

road side inspections and transportable pressure equipment. Two transition periods have been granted to Lithuania in this area. The installation of tachographs for vehicles produced before 1987 and operating exclusively on the domestic market is to be accomplished by December 2005, and the introduction of the financial standing criterion for domestic road transport operators needs to be completed by January 2007. The necessary administrative structures in this area are in place, with the State Road Transport Inspectorate performing key supervisory and control functions. However, as regards the implementation of social rules, the level of checks has to be increased in order to meet *acquis* requirements, and attention needs to be paid to the co-operation with the Labour Inspectorate and the Police. Administrative capacity should be strengthened in the Ministry of Transport, the Road Administration, the State Road Transport Inspectorate and the Labour Inspectorate. Lithuania has agreed to a transitional arrangement put forward by the EU concerning gradual reciprocal access to the cabotage market in the road haulage sector (for a maximum duration of five years).

Transposition of the **rail transport** *acquis* remains to be completed with regard to the revised railway *acquis* of February 2001, in particular the provisions such as separation of accounts between infrastructure manager and operator(s), charging, capacity allocation and rail regulatory functions, as well as the interoperability directives. In the framework of the ongoing reorganisation process, the capacity of the State Railway Inspectorate and the other railway administrations needs to be further strengthened.

On **inland waterway transport**, legislative alignment is completed. Administrative structures in this area are in place and satisfactory.

In the area of **air transport**, the relevant framework legislation has been transposed and is essentially in line with the *acquis*, but some modifications are needed with regard to licensing. Implementing legislation is still being adopted. Lithuania has been granted a transitional arrangement on the use of Kaunas International Airport by noisy aircraft until the end of December 2004. Administrative capacity needs some further strengthening. Full membership of the Joint Aviation Authorities remains to be achieved, and efforts will need to be made in order to become full member before accession as required by the *acquis* and irrespective of the setting up of the European Aviation Safety Agency (EASA).

In the field of **maritime transport**, framework legislation is in place and in line with the *acquis*. However, the adoption of implementing legislation remains to be completed, in particular in relation to the *acquis* adopted under the “Erika” packages, and with regard to the latest amendments to the *acquis* on passenger ships, fishing vessels. The relevant administrative structures in this area are in place, and the ship inspection system has been set up. However, the Lithuania Maritime Safety Administration needs further strengthening. Lithuania has increased systematic port state control inspections. According to statistics for 2002 under the Paris Memorandum of Understanding, the percentage of Lithuanian flag vessels detained following Port State control was 6.25%. This compares with an average for EU-flagged vessels of 3.5% in 2002. The Lithuanian flag has been moved from the black list to the grey list of the Paris MOU. In addition, Lithuania adopted in January 2003 a complementary action plan in order to further reduce the detention rate of Lithuanian flagged ships.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the **transport sector**, and is expected to be in a position to implement the *acquis* from the time of accession, provided that the current pace of progress is maintained. In completing preparations for membership, Lithuania must complete the transposition of the railway *acquis*, in particular as regards interoperability, and strengthen administrative capacity. In the areas of road and maritime transport, Lithuania needs to adopt implementing legislation and further reinforce its administrative capacity. In the area of air transport, Lithuania needs to strengthen administrative capacity and become a full member of the Joint Aviation Authorities before accession.

Chapter 10: Taxation

The *acquis* on taxation largely covers the area of indirect taxation, as concerns VAT (value-added tax) and excise duties. It lays down definitions and principles of VAT. Excise duties on mineral oils, tobacco products and alcoholic beverages are regulated at EU level as concerns the structure of the duty, the level of minimum rates and the holding and movement of excisable goods. As concerns direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at removing obstacles to cross-border activities between enterprises. Finally, the Community legislation in the area of administrative co-operation and mutual assistance provides tools to prevent intra-Community tax evasion and tax avoidance on both direct and indirect taxation.

In the area of indirect taxation, transposition of the *acquis* on **VAT** is taking place according to schedule. In order to complete alignment Lithuania should transpose the intra-community VAT scheme and align the scope of the reduced VAT rates and exemptions, except in the area where it has obtained a derogation (see below). Lithuania also remains to address minor remaining discrepancies in the area of taxable transactions, the place of supply and the special scheme for second-hand goods. In the accession negotiations, Lithuania has obtained derogations to apply a VAT exemption and registration threshold of €28 962 for small and medium sized enterprises and VAT exemption on international passenger transport.

The necessary administrative structures in this area are in place and actions to reform and modernise the tax administration are ongoing. Further extensive efforts are required to improve the tax collection capacity and enhance the efficiency of the Tax Directorate, particularly as regards the improvement of control procedures and audit functions. Training and human resource development is a priority, mainly in audit and tax collection enforcement.

As concerns **excise duties**, further efforts are still required to reach the EU minimum excise rates on some products in all excisable product categories, and to align a certain limited number of exemptions on mineral oils. Lithuania also needs to address discrepancies as concerns the definitions of some products in all excisable categories and the duty structure for some mineral oils. Furthermore, Lithuania should extend the domestic duty-suspension scheme for the harmonized excisable products to intra-community movements. The gradual increase of excise duties on cigarettes is proceeding according to schedule, in order to reach the minimum rate level on 31 December 2009, as agreed in the accession negotiations. Lithuania has the required administrative structures in this area, but it should continue the on-going efforts to strengthen control and audit functions.

In the area of **direct taxation**, Lithuania needs to transpose the directives on interests and royalties and on taxation of savings income. In order to comply with the principles of the Code of Conduct for Business Taxation, Lithuania should amend its legislation on free economic zones by removing the additional benefits for non-residents and the possibility for businesses to perform banking and insurance activities. Notwithstanding the ongoing actions, the tax collection capacity and efficiency of the tax administration require further strengthening in order to ensure proper implementation of the acquis.

On **administrative co-operation and mutual assistance**, legislative alignment remains to be completed. A suitably staffed Central Liaison Office (CLO) was set up and will also carry out the function of the Excise Liaison Office (ELO). Urgent attention must be paid to the development of the VAT Information Exchange System (VIES), which started recently. Lithuania should be in a position to meet the essential part of its commitments by accession, provided that the current pace of progress is accelerated. Further efforts are required as regards the setting up of the System for Exchange of Excise Data (SEED).

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **VAT, excise duties and direct taxation** and is expected to be in a position to implement this acquis from accession. Lithuania needs to adopt legislation to complete alignment in the areas of VAT and excise duties, and to continue efforts to modernise and strengthen its tax administration, in particular as concerns tax collection, audit and control procedures in the area of VAT.

In the area of **administrative co-operation and mutual assistance**, Lithuania is only partially meeting its commitments. Lithuania must urgently accelerate the preparations for setting up the VIES and SEED systems in order to ensure basic interconnectivity by the date of accession. Any further slippage in the project could imply the risk that Lithuania might not be in a position to implement the acquis in this area upon accession.

Chapter 11: Economic and monetary union

EC legislation on Economic and Monetary Union (EMU) contains specific rules ensuring the independence of central banks in Member States, prohibiting indirect financing of the state by the central bank, and disallowing privileged access of the public sector to financial institutions. These rules must be transposed into the national legislation, despite the fact that Lithuania will not yet adopt the euro as a currency from accession. EMU policy also includes the co-ordination of exchange rate and economic policies, adherence to the stability and growth pact and the statutes of the European System of Central Banks.

In the area of **prohibition of direct financing of the public sector** Lithuania has met the commitments and requirements arising from the accession negotiations, and is in a position to implement the relevant acquis as from accession.

In the area of **prohibition of privileged access of the public sector to financial institutions**, Lithuania has met the commitments and requirements arising from the accession negotiations, and is in a position to implement the relevant acquis from accession, since legislation abolishing restrictions on investment rules for pension funds has been adopted.

In the field of **independence of the national central bank**, all legislation is in place and in line with the *acquis* except for the adoption of a final specific amendment to the Central Bank Law *inter alia* in order to safeguard against possible conflicts of interest relating to the duties of Members of the Board. The necessary administrative structures are in place and function adequately.

Conclusion

Lithuania has met the commitments and requirements arising from the accession negotiations in the fields of **prohibition of direct financing of the public sector** and **prohibition of privileged access of the public sector to financial institutions**. Lithuania is essentially meeting the requirements arising from the negotiations in the area of **independence of the national central bank** and is expected to be in a position to implement the *acquis* from accession. Lithuania needs to adopt an amendment to its Central Bank Law.

Chapter 12: Statistics

The *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics. It also covers methodology, classifications and procedures for data collection in various areas such as statistical infrastructure, macro-economic and price statistics, business statistics, transport statistics, external trade statistics, demographic and social statistics, agricultural statistics and regional statistics. The focal point of the statistical system of a country is the National Statistical Institute, which acts as the reference point for the methodology, production and dissemination of statistical information.

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **statistics** and is expected to be in a position to implement the *acquis* as from accession. However, Lithuania needs to improve the quality and the timeliness of data in certain domains such as business statistics and to improve the coverage of regional and macro-economic statistics. Lithuania also needs to make further efforts as regards the production of data on income and living conditions and the processing of data stemming from the recent agricultural census.

Chapter 13: Social policy and employment

The *acquis* in the social field includes minimum standards in fields such as labour law, equal treatment of women and men in employment and social security, and health and safety at work. Specific binding rules have also been developed in public health (on tobacco control and surveillance and control of communicable diseases) and recently also with respect to non-discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The European Social Fund (ESF) is the main financial tool through which the EU supports the implementation of its Employment Strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 21, which deals with all structural instruments). The acceding countries are expected to be able to participate in social dialogue at European level, and in the EU policy processes in the areas of employment, social inclusion and social protection.

Lithuania is completing legal alignment in the field of **labour law**, but legal adjustments are still necessary in the following areas: European Works Councils, posting of workers

part-time and fixed time work. The transposition of the new *acquis* concerning information and consultation of workers and involvement of workers in the European Company is foreseen after accession. The independent guarantee fund for employees is in place.

Lithuania has transposed most of the legislation in the field of **equal treatment of women and men**, and in general, the legislative transposition is in line with the *acquis*. However, requirements on parental leave (minimum period of three months) and the burden of proof remain to be complied with before accession. The pensionable age for male and female civil servants will have to be equalised upon accession, when the pension scheme constitutes pay within the meaning of the Treaty and EC case law. Implementing structures are in place and are functioning well.

In the area of **health and safety at work**, legal alignment is almost completed. The National Labour Inspectorate is in place, but further strengthening, in terms of staffing and technical facilities (especially in the field of health issues), as well as introduction of new inspection methodologies based on the risk assessment concept are needed. The use of risk premiums for hazardous working conditions should be abolished and collective preventive measures should be more emphasised within the risk assessment framework.

As regards **social dialogue**, the institutional and administrative framework is in place, but the administrative capacity of both the social partners and the Government should be strengthened. Bipartite social dialogue needs to be further promoted.

In the field of **public health**, the transposition of the tobacco legislation needs to be finalised. Lithuania's legislation with regard to communicable diseases prevention and control is in line with EC requirements, although EU case definitions should also be taken over. However, significant administrative, technical and capacity building efforts are required in order to fully implement these requirements. The structural reform of the public health system is being implemented. Attention should be paid to raising health care expenditure and to improving the health status of the population. The incidence of some communicable diseases also gives rise to concern. As for administrative capacity, the National Center for Public Health Research was established in July 2003 in order to co-ordinate State-sponsored research in Lithuania.

Concerning **employment policy**, progress has been achieved (overall reduction of unemployment) but efforts are still needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP). Attention must be paid to focusing on a more active and preventive strategy, to enhancing incentives for job creation and people to take up jobs and mobility. The modernisation and strengthening of the capacity of the public employment services need to be continued. Important efforts are needed to improve policy co-ordination and ensure appropriate financial resources.

As regards the **European Social Fund (ESF)**, the administrative framework is in place. However, the capacity of the Ministry of Social Security and Labour should be strengthened to effectively monitor, evaluate and financially manage the fund, through expansion of its ESF Unit (currently four persons). The tasks of the other intermediate body, the Ministry of Education and Science, have been clarified thanks to the establishment of its own ESF unit. Its staff (currently three persons) should be reinforced. Additional capacity building in the Ministry of Finance is also required to effectively administer the financial side of ESF assistance. Co-operation between these bodies

should also be improved. Preparations for participation in the transnational operations of the EQUAL initiative need to be intensified.

The Commission and Lithuania are finalising the Joint memorandum on social inclusion (JIM), which identifies key challenges and possible policy orientations for promoting **social inclusion**. On this basis, an integrated strategy and a National Action Plan on social inclusion will have to be developed. Analytical work and social statistics systems on poverty and social exclusion should continue to be developed in line with EU commonly agreed indicators on social inclusion.

In the field 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. Furthermore, sustained efforts are required to adopt and implement the social security reform and the pension reform. Lithuania is preparing its full participation in the open method of co-operation on pensions. The amendments to the Law on Pension System Reform were adopted in July 2003.

Concerning **anti-discrimination**, draft legislation is before the Parliament. The Equality Body required by the *acquis* needs to be established.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the fields of **labour law, equal treatment of women and men, health and safety at work, social dialogue, employment policy, social inclusion and social protection** and is expected to be in a position to implement this *acquis* from accession. Certain specific aspects of the *acquis* in these fields still need to be adopted and overall administrative capacity needs to be strengthened. Concerning health and safety at work, further legal alignment will be necessary in order to ensure full compliance with the *acquis*. As regards employment policy, the effective implementation of the priorities identified in the Joint Assessment Paper is necessary to prepare for full participation in the European Employment Strategy.

Lithuania is meeting the majority of the requirements for membership in the areas of **public health**, especially as regards the tobacco legislation, **European Social Fund and anti-discrimination**. In order to complete preparations for membership, Lithuania needs to complete legislative transposition in the field of public health. Attention must be paid to reaching the necessary capacity to be able to meet Community requirements in the area of communicable diseases surveillance and control. With regard to European Social Fund, including EQUAL, while considerable progress has been achieved during the last few months, further efforts are urgently needed in order to strengthen the administrative capacity for management, implementation, monitoring, audit and control at both national and regional level. Furthermore, attention must be given to alignment with the anti-discrimination *acquis*.

Chapter 14: Energy

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (for example, opening up of the electricity and gas

markets, promotion of renewable energy sources, crisis management and oil stock security obligations), nuclear energy and energy efficiency. This chapter also covers important aspects of the safety of nuclear installations.

Regarding **security of supply**, and in particular oil stocks, framework and implementing legislation is in place in Lithuania. The administrative capacity required has been established - the Lithuanian Oil Products Agency and a group within the Ministry of Economy, but these need to further confirm themselves in their role. Building up of oil stocks is essentially taking place in accordance with the transitional arrangement Lithuania has been granted, namely to reach the 90 days of oil stocks required by the *acquis* by the end of 2009.

In the field of **competitiveness and the internal energy market** (electricity and gas), *acquis* transposition is taking place according to schedule. Framework legislation, the Law on Electricity and the Law on Gas, and implementing legislation are in place. Market opening in the gas and electricity sectors takes place in line with the commitments made in the negotiations. Presently 26% of the electricity market and 80% of the gas market are open for competition. The regulatory body, the National Control Commission for Prices and Energy, whose task is to oversee the gas and electricity markets, is established and functions well, but needs to be further strengthened. Lithuania should transpose the recently adopted electricity and gas directives in line with the timetable foreseen by this *acquis*.

Lithuania completed transposition in the area of **energy efficiency and renewable energy**, except for the newest *acquis*, which should be transposed according to the timetables provided for in the directives. Administrative structures, the Energy Agency being the main institution, are in place but need to be further strengthened. Lithuania is implementing an updated national energy efficiency programme 2001-2005, covering also renewable energy issues.

In the field of **nuclear energy and nuclear safety**, Lithuania meets the commitments and requirements arising from the accession negotiations and is in a position to implement the Euratom *acquis* as from the date of accession. During the accession negotiations, Lithuania committed itself, at the EU's request, to closing Unit 1 of the Ignalina Nuclear Power Plant (NPP) before 2005 and Unit 2 by 2009. The EU, for its part, committed itself to continuing, even beyond 2006, to support Lithuania's decommissioning efforts. In the accession negotiations, Lithuania furthermore committed itself to providing additional information on measures taken to implement the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement. Lithuania provided such information in October 2001 and in March 2002. In June and September 2003, Lithuania submitted additional information covering recent progress made in various fields of nuclear safety, including *inter alia* its preparation for the closure and decommissioning of the Ignalina NPP, safety improvements, the new law on social guarantees, the diverse shut down system, the staffing situation and activities of the nuclear regulatory authority VATESI and the radioactive waste management agency RATA, and the radioactive waste management strategy. In view of the considerable tasks posed by the decommissioning of the Ignalina NPP in the next decades, Lithuania should continue to pay attention to further strengthening of the capacity of the nuclear regulatory authority and, given that agency's recent creation, the radioactive waste management agency.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the **energy** sector and is expected to be in a position to implement the *acquis* from accession. Lithuania needs to continue to progressively build up oil stocks in line with the schedule agreed during the negotiations. It also needs to continue to further strengthen administrative capacity in the energy sector and its efforts to respect the closure commitments for the Ignalina NPP.

Chapter 15: Industrial policy

EC industrial policy seeks to enhance industrial competitiveness and rates of employment, whilst operating in markets open to international competition. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative and to the development of undertakings throughout the Community. EC industrial policy mainly consists of policy principles and horizontal and sectoral industrial policy communications.

Lithuania's **industrial strategy** essentially complies with the concepts and principles of EC industrial policy, i.e. it is market-based, stable and predictable. The industrial policy guidelines should be further implemented. The necessary administrative structures in this area are in place, but are still weak.

In the area of **privatisation and restructuring**, the implementation of the restructuring policy in a manner that conforms with the competition and state aid *acquis* remains an area for special attention so as to create efficient and competitive firms. The necessary administrative structures in this area are in place, but strengthening has to be continued.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the **industrial policy** chapter and is expected to be able to implement the *acquis* as of accession. Lithuania should continue to strengthen administrative capacities.

Chapter 16: Small and Medium-sized Enterprises

SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation fora and Community programmes, as well as of communications, recommendations and exchanges of best practices.

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations relating to **small and medium-sized enterprises**. Alignment with the new Commission recommendation on the SME definition should be carried out. Further efforts are required to strengthen the administrative capacities to implement business support measures. The implementation of the European Charter for Small Enterprises should be maintained.

Chapter 17: Science and research

Due to its specificity, the *acquis* in the field of science and research does not require any transposition in the national legal order. However, the necessary implementing capacity needs to be created to allow for effective participation in activities under the Framework Programmes in the field of research.

Lithuania has met the commitments and requirements arising from the accession negotiations in the area of **science and research** and will be in a position to implement the *acquis* as from accession.

Chapter 18: Education and training

Education, training and youth is primarily the competence of the Member States. The Community's *acquis* consists of a directive on education of the children of migrant workers, and of action programmes and recommendations. The necessary implementing capacity needs to be in place to allow for effective participation in the Community programmes related to this chapter (Leonardo da Vinci, Socrates and Youth).

Lithuania has met the commitments and requirements for membership in the area of **Community programmes**, and will be in a position to implement this *acquis* from accession. The implementing capacity for Community programmes will need to be enhanced to benefit from additional allocations for decentralised actions following accession.

In the area of **education of children of migrant workers**, measures for the implementation of the *acquis* have been taken, and amendments aimed at aligning with the *acquis* have recently been adopted. However, due implementation of the *acquis* needs to be ensured.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **education and training** and is expected to be in a position to implement this *acquis* from accession. Efforts to implement the *acquis* on education of children of migrant workers should continue.

Chapter 19: Telecommunications and information technologies

The *acquis* in the field of telecommunications consists mainly of the 1998 regulatory framework and a 2000 regulation, and is aimed at the elimination of obstacles to the effective operation of the single market in telecommunications services and networks, and the achievement of universally available modern services. A new regulatory framework on electronic communications was adopted in 2002 and must be implemented. As regards postal services, the objective is to implement the single market by opening up the sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service (1997 and 2002 *acquis*).

In the field of **telecommunications**, Lithuania's legislation is in line with the *acquis* adopted in the period 1998 to 2000. The 2002 *acquis* remains to be transposed. Implementing legislation has been adopted but remains to be implemented in the fixed telephony sector. While competition in the market has begun, following market opening

in January, approved fixed interconnection prices of the incumbent have yet to be oriented towards cost on the basis of long-run average incremental cost methodology. Local loop unbundling needs to be implemented. Moreover, fixed network modernisation and price re-balancing should be continued. While the necessary administrative capacity of the Communications Regulatory Authority (CRA) is in place, resources are too limited and staff training in the telecommunication legal framework needs to be strengthened. In particular, the CRA needs to give particular attention to the achievement of universal service.

In the area of **postal services**, Lithuania's legislative alignment remains to be completed. The implementing legislation defining the main characteristics of postal network and quality requirements, has been adopted, but further amendments are required to complete the transposition of the postal *acquis* as regards reserved services and universal service. The administrative capacity in this sector needs to be strengthened through further staffing and training in order for Lithuania to be able to implement the *acquis* adequately. The 2002 *acquis* remains to be fully transposed and implemented.

Conclusion

Lithuania is partially meeting commitments and requirements arising from the accession negotiations in the **telecommunications** and **postal services** areas. Attention must be given to the transposition and implementation of the *acquis* in the telecommunications area, *inter alia* by setting reasonable terms for interconnection and by implementing the principle of universal services. The effectiveness and independence of the regulator in the telecommunications sector needs to be ensured. Further efforts must be made with regard to completing the transposition of the *acquis* in the postal sector and to ensuring its implementation. Lithuania must also ensure the correct application of the universal service *acquis*.

Chapter 20: Culture and audio-visual policy

The culture and audio-visual policy chapter requires legislative alignment with the Television without Frontiers directive and contains the community programmes Culture 2000, Media Plus and Media Training. Alignment with the Television without Frontiers directive creates the conditions for the free movement of television broadcasts within the Community. It implies basic common requirements concerning advertising; the protection of minors and public order; and the promotion of European works.

Whilst legislation is largely in line with the **audio-visual policy** *acquis*, transposition remains to be completed through an amendment to the Code of Administrative Offences, which is required to provide for adequate penalties for broadcasters infringing the law and their licence obligations. Administrative capacity for implementation of the audio-visual *acquis* should be further strengthened, notably by reinforcing the sanctioning and enforcement powers of the Radio and Television Commission (RTC). The Radio and Television Commission should also reinforce its effectiveness in guaranteeing adequate implementation of the *acquis*, including satellite broadcast licensing.

Lithuania meets the requirements for participation in Community activities in the field of **culture**.

Conclusion

Lithuania has met the commitments and requirements arising from the accession negotiations in the field of **culture**. Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations on **audio-visual policy** and is expected to be in a position to implement the *acquis* by accession. The legislative amendment to the Code of Administrative Offences to provide for adequate sanctioning remains to be adopted. Administrative enforcement powers should be strengthened.

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

The *acquis* under this chapter consists mostly of regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds programmes and Cohesion Fund actions. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. It is essential that Member States respect Community legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects, and have the necessary institutional structures in place to ensure implementation in a sound and cost-effective manner from the point of view of both management and financial control.

Lithuania has agreed with the Commission on a NUTS classification of its **territorial organisation**.

The essential feature of the **legislative framework**, i.e. the ability to ensure multi-annual budget programming, is in place. The legislation provides as well some flexibility for the Government or its designated institutions to shift funds between investment areas or sectors.

The legislative framework for financial control and compliance with other Community policies is monitored in other chapters. However, in order for Lithuania to make effective use of its eligibility for structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from that date.

The necessary **institutional structures** for the preparation and implementation of the Structural and Cohesion Funds are all in place. However, the division of responsibilities between the Managing Authority and the intermediate bodies, and between the intermediate bodies and the implementing agencies, needs to be further clarified and should be set out in the procedure manuals under preparation.

Lithuania has made considerable efforts to recruit and retain qualified staff. At present there are 312 members of staff working directly with pre-accession assistance or preparation for Structural Funds management or in units to be used for Structural Funds administration (e.g. internal audit units). Capacity-building efforts are being made. A detailed training plan has been developed.

Effective inter-ministerial co-ordination and setting-up of the delivery structure placed under the responsibility of the Managing Authority as well as of the functions of the Paying Authority require close attention.

The bodies responsible for implementation of the specific financial control provisions, including the 5% and 15% on-the-spot checks, have been designated. Training of internal auditors in all bodies, and in particular in the State Control Office, needs to continue.

As regards **programming**, the Single Programming Document (SPD) was submitted in March 2003. The programme complement preparations started in parallel to SPD preparations, and the draft programming complement has been submitted. The ex-ante evaluation was submitted at the end of March and its conclusions integrated into the SPD.

A SPD working group was established to ensure application of the partnership principle. It is divided into thematic sub-groups, with wide participation from central, regional and local actors and from civil society. Information on the SPD process is given through regional workshops and is widely available through an interactive website managed by the Ministry of Finance.

A single management and monitoring information system for the Structural Funds is under development and Lithuania plans to have the system operational by April 2004. The implementation contract was signed only in July 2003. Given the key importance of this system, the progress of implementation should be closely monitored.

Considerable and sustained efforts are needed to establish a pipeline of projects that are ready to be implemented in technical and financial terms so that to enable Lithuania to benefit fully from Community funds as soon as the programme starts.

As regards **financial management and control**, specific provisions are laid down in the Law on Internal Control and Internal Audit, adopted in December 2002. These provisions need to be translated into specific procedures for financial control, auditing and certification of expenses, and correction of irregularities. The Structural Funds and Cohesion Fund procedure manuals setting out the duties of the various actors and detailing the procedures to be followed and the financial flows should be completed as soon as possible. Training of concerned staff remains a matter of priority.

Additionality must be verified before approval of the Single Programming Document. A study organised by Lithuania for the ex ante verification of additionality has been completed.

Conclusion

Lithuania is essentially meeting the requirements for membership in relation to **territorial organisation**, the **legislative framework**, and **programming**. Provided its further work programme is carried out as envisaged, Lithuania is expected to be in a position to implement the *acquis* in these areas from the start of the programme. Concerning the legislative framework Lithuania needs to make sure that final beneficiaries will be in a position to effectively apply the rules and procedures resulting from the new public procurement law. In addition, Lithuania needs to focus on establishing an adequate pipeline of well-prepared projects and on setting up a functioning computerised monitoring system.

The commitments and requirements in the field of **institutional structures** and **financial management and control** are only partially met. As regards institutional structures, Lithuania needs to finalise the design of the delivery system, clearly define the tasks of the various actors and ensure that adequately qualified staff is recruited and retained.

Continued attention must also be paid to ensure co-ordination among the various concerned authorities. In the area of financial management and control, urgent attention should be paid to finalising, as a matter of priority, the specific procedures for financial control, auditing and certification of expenses, and correction of irregularities, and ensuring the allocation of the required resources once responsibilities have been defined.

Chapter 22: Environment

Community environment policy aims to promote sustainable development and protect the environment for present and future generations, and is based on the integration of environmental protection into other Community policies, preventive action, the polluter pays principle, fighting environmental damage at source, and shared responsibility. The *acquis* comprises over 200 legal acts covering horizontal legislation, water and air pollution, management of waste and chemicals, biotechnology, nature protection, industrial pollution and risk management, noise, and radiation protection. Ensuring compliance with the *acquis* requires significant investments, but also brings significant benefits for public health and reduces costly damage to forests, buildings, landscapes and fisheries. A strong and well-equipped administration at national, regional and local level is imperative for the application and enforcement of the environment *acquis*.

Horizontal legislation is in place and is in line with the *acquis*, except for the recent *acquis* on strategic environmental impact assessment, which needs to be transposed and implemented by July 2004 in line with the Directive, and exemptions under environmental impact assessment which need to be completed by accession. While the relevant administrative capacities are in place and function adequately, the competent authority for strategic environmental impact assessment needs to be designated.

In the **air quality** sector, legislation is in place and is in line with the *acquis*. Administrative capacities are in place and function adequately. Air quality plans and programmes have been developed, but the identification of zones and agglomerations where thresholds are exceeded needs to be re-evaluated by accession. Monitoring needs to be enhanced by accession. As regards volatile organic compound emissions from the storage and distribution of petrol, a transitional arrangement until 31 December 2007, with intermediate targets, has been agreed for certain installations in Lithuania.

In the field of **waste management**, legislation is in place and is in line with the *acquis*, except for the recent *acquis* on end-of-life vehicles and PCB/PCT, which need to be completed by accession. Administrative capacities are in place and function, but require strengthening at regional and local levels. The preparation of waste management plans and the setting-up of a supervision system for waste shipments need to be completed by accession. Close attention needs to be paid to hazardous waste management. A permit and deregistration system for end-of-life vehicles also needs to be set up by accession. The establishment of collection systems and recovery and disposal facilities needs to continue. As regards packaging waste, a transitional arrangement until 31 December 2006, with intermediate targets, has been agreed.

In the area of **water quality**, legislation is in place and is in line with the *acquis*, except for the recent framework *acquis* on water, for which the process is well advanced and needs to be completed by accession. Administrative capacities in this area are in place, but require continuous attention, especially as regards drinking water. Drinking water monitoring needs to be enhanced by accession. Programmes for dangerous substances need to be finalised and adopted. Lithuania needs to continue taking steps to resolve the

issue of non-compliance of drinking water, including excess fluoride levels. As regards urban waste water, a transitional arrangement until 31 December 2009, with intermediate targets, has been agreed.

In the field of **nature protection**, legislation is in place and is in line with the *acquis*, except for implementing legislation on habitats and birds. Further efforts are needed to finalise the preparation of a list of proposed sites of Community interest and the designation of special protection areas by accession, and to apply relevant protection measures. Administrative capacity at local and regional levels needs to be further strengthened. Close attention needs to be paid to ensuring proper consultation while avoiding delays.

The legislation on **industrial pollution and risk management** is in place and is in line with the *acquis*, except for the recent *acquis* on large combustion plants and national emission ceilings, which needs to be transposed by accession. Permits for installations subject to the rules on integrated pollution prevention and control (IPPC) need to continue to be issued and complied with according to *acquis* deadlines (until October 2007). While administrative capacities are in place and function, the capacity to issue integrated permits for IPPC installations needs to be increased. The transposition and implementation of provisions on major accident hazards need to be completed by accession. As regards air pollution from large combustion plants, transitional arrangements until 31 December 2015, with intermediate targets, have been agreed for certain installations in Lithuania.

The *acquis* on **chemicals and genetically modified organisms** has been transposed and is in line with the *acquis*, except for biocides where Lithuania still has to adopt the rules on monitoring. Administrative capacities are in place and function. An action plan for strengthening the institutions has been developed. Implementing measures in the area are proceeding as planned. Co-ordination between the organisations involved needs to continue to be enhanced.

Transposition of the *acquis* on **noise** is proceeding according to schedule, and the legislation is in line with the *acquis*, except for the recent *acquis* on ambient noise, which needs to be completed by July 2004 in line with the Directive. Administrative capacities are in place and function.

As regards **nuclear safety and radiation protection**, legislative alignment has been completed and the legislation is in line with the *acquis*. Administrative capacities in this area are in place and function adequately.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in all areas of **environment** policy by accession. Lithuania needs to finalise the legal alignment as regards the following areas: horizontal legislation, waste management, water quality, nature protection, industrial pollution and risk management, chemicals and noise. It needs to complete air quality plans and programmes and continue to enhance air quality and water quality monitoring. Moreover, Lithuania must pay particular attention to implementation in the water sector, especially as regards drinking water quality, and finalise the programmes for discharges of dangerous substances to water. In addition, Lithuania must make further efforts to finalise its lists of proposed nature protection sites

and special bird protection areas. In this context, close attention needs to be paid to ensuring proper consultation while avoiding delays. As regards industrial pollution and risk management, permits for IPPC installations need to be issued and complied with according to the *acquis* deadlines, and the implementation of provisions on major accident hazards must be completed. Attention must be paid to hazardous waste management. Waste management plans, at regional and local levels, need to be completed, and a supervision system for waste shipments set up. The establishment of waste collection systems and recovery and disposal facilities needs to continue. Administrative capacity still requires strengthening in some sectors, in particular at regional and local levels in the areas of waste management, water quality and nature protection. Also the capacity to issue integrated permits for IPPC installations needs to be increased.

Chapter 23: Consumer and health protection

The *acquis* covers protection of the economic interests of consumers (concerning misleading and comparative advertisements, price indication, consumer credit, unfair contract terms, distance and doorstep selling, package travel, timeshare, injunctions for the protection of consumers' interests, and certain aspects of the sale of consumer goods and associated guarantees) as well as the general safety of goods (liability for defective products, dangerous imitations and general product safety). Recently adopted legislation includes rules on general product safety and distance marketing of consumer financial services. The acceding countries need to effectively enforce the *acquis* through

appropriate judicial and administrative systems, including market surveillance and a role for consumer organisations.

With regard to **safety-related measures**, Lithuania has largely completed alignment. However, transposition of the revised general product safety directive remains to be achieved. The administrative structures are in place, but need to be strengthened in terms of both financial and human resources. **Market surveillance** relating to general product safety is only partly developed. Lithuania has created the relevant policy, management structures and information system. Co-operation agreements have been signed between the State Non-Food Products Inspectorate, the State Labour Inspectorate, customs and the Financial Crime Investigation Services. However, co-operation between the different market surveillance bodies should be further improved and opened to other bodies (e.g. customs whose role in performing checks on the safety of products imported from third countries should be greatly increased). The range of products controlled should be widened. A market surveillance information system remains to be created.

As regards **non-safety related measures**, Lithuania is fairly advanced in legislative alignment. However, amendments to the existing non safety-related measures are needed in particular with respect to injunctions for the protection of consumers' interests. The relevant institutional and administrative framework is in place but human resources need to be further enhanced. In particular, more efforts are needed to develop a national database of the market for consumer goods and services. There is a need to further develop and strengthen the administrative structures with regard to arbitration bodies, which play an important role in solving consumer cases.

The role of **consumer organisations** remains to be further promoted. Consumer associations should take an active part in the implementation of the foreseen National Strategy for Consumer Protection and the National Consumer Education Programme.

The activities of the Consumer Protection Commission, the consultative body to the National Consumer Rights Protection Council, need to be promoted as well. There is also a need for improvement with respect to the level of awareness of consumers' and businesses' rights and responsibilities.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **safety-related** legislation and **consumer organisations** and is expected to be in a position to implement this *acquis* as from accession. Lithuania needs to complete the alignment with the *acquis* of the revised general product safety directive.

Lithuania is meeting the majority of the requirements for membership in the area of **market surveillance** and **non-safety related measures**. In order to complete preparation for membership Lithuania needs to complete alignment in the non-safety related area and to improve market surveillance to ensure the proper enforcement of legislation on safety and non-safety related areas including by strengthening the administrative capacity and structures.

Chapter 24: Justice and home affairs

The most developed part of this chapter is the Schengen *acquis*, which entails the lifting of internal border controls. However, much of this *acquis* will not apply to the acceding countries upon accession, but only after a later separate Council Decision. The Schengen Implementation Action Plan aims at preparing this on the basis of a credible schedule for the introduction of the Schengen provisions. Binding rules which must be put in place as from accession include part of the rules on visas, rules on external borders and the *acquis* on migration, asylum, police co-operation, combating organised crime, fight against terrorism, fraud and corruption and drugs, customs co-operation as well as human rights legal instruments. On issues such as border control, illegal migration, drugs trafficking and money laundering, organised crime, police and judicial co-operation, data protection and the mutual recognition of court judgements, acceding countries need to be equipped to meet adequate standards of administrative capacity. The establishment of an independent, reliable and efficient judiciary and police organisation are also of paramount importance.

Lithuania's preparation regarding Schengen provisions (**Schengen Action Plan**) relevant to accession remains essentially satisfactory, but continued significant efforts will be needed after accession to prepare for the lifting of internal borders and full implementation of the Schengen *acquis* on the basis of a further decision to be taken by the Council. Lithuania needs to complete alignment with Article 5 of the Schengen Convention on the entry conditions for foreigners. The implementation of the separation of traffic at air- and seaports requires continued attention. Although participation in SIS II will not be possible upon accession, preparations for integration into the Schengen Information System (SIS) II should continue. The establishment of a SIRENE bureau as well as the development of the necessary information technology infrastructure and national registers should continue as a matter of priority.

The legislation in the field of **data protection**, including the use of personal data by the police, is in place. The independent State Data Protection Inspectorate remains the key body in this *acquis* area; inter-agency co-operation needs continued attention.

On **visa policy** Lithuania is continuing to align its legislation with the *acquis*. Lithuania needs to align with the Common Consular Instructions and be in full conformity with the so-called "positive" visa lists where negotiations are still ongoing with 13 countries. Lithuania should also ensure alignment regarding the uniform visa format following the transmission of the relevant technical specifications by the EU in August 2003. As regards implementation and administrative capacity, sustained efforts are needed in relation to infrastructure, recruitment of staff, training, the installation of information technology and the establishment of a national visa register. This visa register needs to be connected, in a secure manner, to all diplomatic and consular posts.

As regards the management of the future **external borders**, Lithuania has in general aligned its legislation on border control and border surveillance. The border agreements with the Russian Federation have been ratified and thus remaining matters regarding border demarcation can be addressed. Lithuania has largely demarcated its border with Belarus. Co-operation with Poland and Latvia in managing the common border is further improving. Implementation of the national strategies (the State Border Protection Development Programme and its implementation plan, and the Strategy for Development of Border Crossing Points) and the relevant parts of its Schengen Action Plan are ongoing. However, continued staff training and the allocation of adequate financial means to fully implement the Lithuanian plans remains necessary. Further enhancing the ongoing inter-agency co-operation, which is based on co-operation agreements, also requires efforts. Lithuania is in the process of upgrading its equipment for surveillance both at the green and blue borders, while border posts at future external borders are being reinforced. Continuous efforts are needed to ensure timely implementation of Lithuanian plans, in particular regarding the surveillance of illegal entry of small vessels from the Russian Federation (Kaliningrad).

In the area of **migration**, Lithuania is advanced as regards alignment with the *acquis*. It needs to complete alignment by adopting an Administrative Code providing for carrier liability. Lithuania must also adopt a new Law on the Legal Status of Foreigners in order to align with the *acquis* on the right of family reunification, residence permits and access to employment. Furthermore, Lithuania should transpose the recent *acquis* on the uniform format for residence permits, and the mutual recognition of expulsion decisions. Lithuania is taking action to conclude readmission agreements and has now concluded such an agreement with the Russian Federation. However further efforts are required with Belarus among others. Administrative structures (the Migration Department of the Ministry of Interior, the State Labour Inspectorate etc) are essentially in place and cooperation among the key institutions is satisfactory, but needs to be sustained.

In the field of **asylum**, further efforts are needed to complete alignment. Alignment with the Dublin Regulation (asylum procedures) should be ensured through the entry into force of the above-mentioned Law on the Legal Status of Foreigners. The same Law should ensure full alignment concerning minimum guarantees for asylum procedures as regards the suspensive effect of appeal during an admissibility procedure and concerning the principle of "non-refoulement" in cases of alternative protection. Lithuania is encouraged to further enhance cooperation between the institutions dealing with refugee matters, to create within the Asylum division a sub-unit for Dublin Regulation matters, to restructure its data base of asylum seekers in accordance with EURODAC rules and to further improve the reception conditions for asylum seekers. Furthermore, considerable preparations, including the signing of a Memorandum of Understanding, are still required for the establishment of National Access Points for Dublinet and EURODAC.

In the area of **police co-operation and combating organised crime**, legal alignment is near to completion. The Protocol to the UN Convention against transnational organised crime on the illicit manufacturing of and trafficking in firearms, their parts, components and ammunition needs to be ratified. Despite good progress, efforts are still required, on the basis of the Strategic Plan for the police, to ensure that Lithuania has an accountable, reliable and fully co-ordinated police organisation by accession. Continuous attention is needed for smooth co-operation and co-ordination between the police and the prosecuting and judicial bodies. Sharing information on combating economic and organised crime needs attention and sufficient financial means are necessary to implement all the envisaged measures. International co-operation is increasingly well established but the relevant co-operation agreements need to be completed (Poland, Latvia). The signing of an agreement with Europol is still pending. Once concluded, attention should be paid to the timely preparation of national procedures in order to ensure the swift ratification of the Europol Convention upon accession to the EU. Inter-agency co-operation needs to be further strengthened, police training needs to be improved, the College of Internal Affairs established, and a criminal intelligence system needs to be developed which can provide intelligence products for operational purposes.

In the **fight against terrorism**, Lithuania has aligned with most of the *acquis* and has ratified the key Conventions in this area, in particular the 1999 UN Convention for the Suppression of the Financing of Terrorism. Lithuania needs to accede to the Convention on Mutual Assistance in Criminal Matters between the EU Member States upon accession. Lithuania has also continued to develop its capacity to combat terrorism through the implementation of the National Programme to Fight against Terrorism.

As regards the **fight against fraud and corruption**, Lithuania needs to complete alignment with the *acquis*. Full alignment with the provisions of the 1995 Convention on the protection of the European Communities' Financial Interests and its Protocols, and with the Council Framework Decisions on the protection of the euro against counterfeiting, should be ensured. Lithuania has yet to designate a National Central Office, dealing notably with banknote and coin analysis. The ratification of the 1997 Convention on the Fight Against Corruption involving Officials of the European Communities or Officials of Member States of the EU is outstanding. Despite encouraging progress and success regarding the uncovering of cases in various areas, enhanced implementation of the National Anti-Corruption Programme and continued strengthening of the involved institutions remains necessary. The recently operational new Code of Criminal Procedure, which substantially changed the institutional responsibilities for pre-trial investigation by establishing the prime competence of prosecutors in these investigations, requires adaptation of all relevant institutions. As regards *corruption*, see also *Section C.1. — Administrative and judicial capacity*.

On the **fight against drugs**, Lithuania has largely completed its legislative measures. It is implementing the National Drugs Control and Drug Prevention Strategy and is developing a new strategy for 2004-2008. The institutional infrastructure and capacity of the National Focal Point for the future co-operation with the European Monitoring Centre for Drugs and Drug Addiction needs to be strengthened considerably. Inter-agency co-operation and co-ordination also needs to be enhanced, including through the strengthening of the Governmental Drug Control Commission.

Lithuania has still to amend its legislation on **money laundering** to allow for the seizure and confiscation of criminal assets. A Financial Intelligence Unit (FIU) has been established within the Financial Crime Investigation Service. It should be provided with

the necessary staff and equipment in order to cope with the rising workload. In addition, information technology systems should be further developed and training on money laundering issues for the FIU, the police customs officials judges and public prosecutors needs to be enhanced (*see also Chapter 4 – Free movement of capital*).

In the area of **customs co-operation**, Lithuania is in the process of aligning its legislation with the *acquis*. It needs to accede to the Convention on Mutual Assistance and Co-operation between Customs Administrations (Naples II); and to the Convention on the use of information technology for customs purposes. Inter-agency co-operation is ongoing but needs to be further improved. Co-operation with businesses on the basis of memoranda of understanding is provided for. The development of an integrated customs information system and staff training is to be pursued.

In the area of **judicial co-operation in civil and criminal matters** legislative alignment, where still necessary, is ongoing and Lithuania should be ready upon accession to apply it and accede to the relevant conventions. Particular attention should be paid to alignment with the Council Framework Decision of 13 June 2002 on the European arrest warrant and the surrender procedure between Member States. Administrative structures for direct contacts between competent judicial authorities are in place and need to be further strengthened.

As regards the *reform of the judiciary* in general, an analysis is provided in *Section C.1. – Administrative and judicial capacity*.

The **human rights legal instruments** under the justice and home affairs *acquis* have been ratified by Lithuania.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the area of Justice and Home Affairs and is expected to be in a position to implement from accession the *acquis* in the areas of the **Schengen Action Plan, data protection, visa policy, external borders, the fight against terrorism and drugs, customs co-operation, judicial co-operation in civil and criminal matters and human rights legal instruments**. Lithuania should take care, regarding external borders, to make good progress in ensuring sufficient and adequate staff and equipment. Lithuania should also ensure the necessary budgetary means to comply with its commitments, *including* as regards the Schengen Action Plan.

Lithuania is partially meeting the commitments and requirements for membership in relation to **migration, asylum, police co-operation and combating organised crime, the fight against fraud and corruption and money laundering**. Overall, Lithuania needs to adopt and implement the necessary remaining legislation. The actual implementation of policies, including the anti-corruption strategy, needs to be pursued. Particular attention must be given to the technical and organisational preparations necessary to fully implement EURODAC and Dublin II. Institutions, inter-agency co-operation and co-ordination structures need further strengthening.

Chapter 25: Customs union

The Customs Union *acquis* consists almost exclusively of legislation which is directly binding on the Member States and does not require transposition into national law. It

includes the Community's Customs Code and its implementing provisions; the Combined Nomenclature, Common Customs Tariff and provisions on tariff classification, customs duty reliefs, duty suspensions and certain tariff quotas; and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors and cultural goods and on mutual administrative assistance in customs matters as well as Community agreements in the areas concerned, including transit. Member States must ensure that the necessary enforcement capacities, including links to the relevant EC computerised customs systems, are in place.

Lithuania's **customs legislation** is largely in line with the *acquis* up to 2002 except, i.a. with regard to the application of simplified procedures. Implementation of the entire *acquis* will take place upon accession, when the EC customs legislation becomes directly applicable. National provisions superseded by the *acquis* are to be repealed at the time of accession and agreements on mutual administrative assistance in customs matters are to be amended as necessary.

Concerning **administrative and operational capacity**, a functioning customs administration is in place; however, some significant delays have occurred in the development of interconnectivity and operational capacity. Lithuania should continue to carry out its Business Strategy and Operational Management Plan for 2003, which already involved reducing the rather large number of small customs posts. The action plan for reorganisation in terms of closure of customs offices and redeployment of staff as a result of accession, when the volume of customs work decreases owing to the conversion of external to internal trade, has been approved and should be carried out. The necessary preparations for the application of measures and provisions that will be introduced only at the time of accession should also be completed. In particular, training of customs officials remains to be completed in order to ensure correct application of these Community measures at the time of accession. Customs offices' capacity to combat fraud and economic crime and imports of counterfeit or pirated goods in close co-operation with other enforcement bodies, as well as to fight corruption, should be improved and effectively implemented.

Enhanced measures must be taken to complete the development and implementation of the computerised customs system and solve all other interconnectivity-related issues. In particular, Lithuania must speed up the development, procurement and implementation of the contingency solutions for two accession-essential projects, namely the Tax Calculation Module (TCM) and the Tariff Quota and Surveillance System (TQS): apart from the contractual arrangements needed to procure the necessary services, which have been finalised, work on these contingency solutions had not begun during the reporting period. In addition, the software necessary to link the entry-processing system to the integrated tariff system must be developed or procured without delay.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **customs legislation**.

Lithuania is partially meeting the requirements for membership concerning **operational and administrative capacity**, where significant additional efforts are required in the area of computerisation and interconnectivity, along with secure financial resources and qualified staff, to ensure that work on the duty calculation module and quota-management system is completed in time, as well as to implement an EC-compatible

version of the entry-processing system used in Lithuania. Enhanced measures must be taken, to make up for delays, and avoid any risk of disruption of the operation of Community systems at the time of accession.

Chapter 26: External relations

The main element in this chapter, the common commercial policy, is made up of directly binding EU legislation, which does not require transposition into national law. The acceding countries were requested to align before accession with the *acquis* on dual use goods and, where applicable, export credits. Acceding countries committed themselves to ensure compatibility with the *acquis* of their bilateral agreements with third countries. In the area of humanitarian aid and development policy, countries need to ensure the capacity to participate in the EC's development and humanitarian policies.

The administrative structures for dealing with the issues related to the **common commercial policy** are in place and sufficient.

Lithuania has co-ordinated its positions and policies with the Commission with regard to the Doha Development Agenda. Lithuania should continue close co-ordination and co-operation with the Commission, mainly in order to carry on preparing the convergence of its GATS commitments and Most Favoured Nation exemptions into the EU ones (consolidation EU 25), to be finalised upon accession. Lithuania has used its third stage of integration to align its list of integrated products under the Agreement on Textiles and Clothing with the Community, although some discrepancies remain.

On trade in dual-use goods, Lithuania has reached a high degree of alignment with the *acquis*. However, further alignment, in particular regarding the list of dual-use items, needs to be achieved, as export control regimes continue to adopt decisions, which the EU integrates into its legislation. Membership in all export control regimes is a crucial factor enabling implementation of exports controls by Lithuania. Based on the Thessaloniki Action Plan to support the acceding countries' membership in export control regimes, the EU supports Lithuania's accession to the regimes to which it has already applied but is not yet a member. The Commission reiterates its support to Lithuania's renewed intentions to apply to the Wassenaar regime and Australia group before its accession to the EU. Full alignment as regards the Community general export authorisation can only take place upon accession.

Legislative alignment in the area of export credits needs to be completed. Administrative structures are in place and sufficient.

Lithuania needs to confirm that its **bilateral agreements with third countries** are in conformity with the *acquis*, and to terminate or renegotiate those international agreements that are found to be incompatible with the *acquis*. Following the successful signature of the Memorandum of Understanding regarding the bilateral investment treaty (BIT) between Lithuania and the USA, Lithuania must ensure swift ratification of the Additional Protocols to the BIT, which were also signed with the US, in order for the adaptations to enter into force by the date of its accession to the EU.

In the area of **humanitarian aid and development policy**, there is no policy framework in force yet. Lithuania needs to pursue the shaping of a development policy in line with EU principles, in particular with the guidelines laid down by the OECD Development Assistance Committee as well as the commitments and objectives that Lithuania has

approved in the context of the UN and other international organisations. Lithuania also needs to ensure the necessary administrative capacity to participate in the EU's development and humanitarian policies.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement the *acquis* on the **common commercial policy** and **humanitarian aid and development policy**. Lithuania should take further steps to provide itself with a development policy framework in line with EU principles.

Lithuania is meeting the majority of the commitments and requirements for membership in relation to **bilateral agreements with third countries**. In order to complete preparations in the area of bilateral agreements with third countries, Lithuania must take decisive steps towards renegotiating or terminating its bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

Chapter 27: Common foreign and security policy

The *acquis* related to the common foreign and security policy (CFSP) is essentially based either on legally binding international agreements or on political agreements to conduct political dialogue in the framework of CFSP, to align with EU statements, and to apply sanctions and restrictive measures where required.

Lithuania has the required administrative capacity to participate in the **political dialogue**.

With regard to alignment with **EU sanctions and restrictive measures, statements, declarations and démarches**, Lithuania still needs to adopt the law on international economic sanctions. The administrative structures in this area in Lithuania are in place and function adequately.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter on the **common foreign and security policy**, and is expected to be able to participate in the political dialogue and to align with EU statements, sanctions and restrictive measures by accession. The alignment concerning international economic sanctions needs to be completed.

Chapter 28: Financial control

The *acquis* under this chapter consists mostly of general, internationally agreed and EU-compliant principles of public internal financial control that need to be transposed into the control and audit systems of the entire public sector. In particular, the *acquis* requires the existence of adequate ex ante financial control and functionally independent internal audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure; and arrangements on the protection of EC financial interests. In addition, an anti-fraud co-ordination service, capable of co-operating with the Commission's Anti-fraud Office OLAF at an operational level, is to be designated.

In the area of **public internal financial control**, Lithuania has put framework and implementing legislation in place which is in line with the *acquis*. The establishment of all public internal financial control related organisational structures has been completed, but administrative capacity should be reinforced.

In the field of **external audit**, legislative alignment and implementation has been completed. The State Control Office (SCO) needs to continue to incorporate international audit standards into its current work. The SCO is functionally and operationally independent and its audit services satisfactorily cover all public and EU funds. The parliamentary Audit Sub-committee could be upgraded to a standing committee for discussion of the SCO audit reports.

As regards **control over EU pre-accession funding and structural action expenditure**, framework and implementing legislation in Lithuania is in place and in line with the *acquis*. Appropriate administrative structures are being set up and Lithuania should continue to enhance its administrative capacity to manage the pre-accession funds and future structural and cohesion funds in order to fully meet the requirements for financial control and internal audit. In particular, recruitment of additional staff for the pre-accession funds, and for the structural and cohesion funds, should be reinforced and accompanied by training measures. Lithuania needs to reinforce and accelerate efforts to implement the extended decentralised implementation system (EDIS) for ISPA and Phare.

In the area of the **protection of EC financial interests**, Lithuania needs to complete the framework and implementing legislation, in particular with a view to specifying the powers of the anti-fraud co-ordination service with regard to Community funds. Lithuania has designated the Financial Crime Investigation Service within the Ministry of Interior as the anti-fraud co-ordinating service (AFCOS). Agreements with other law enforcement agencies have been put in place. Operational co-operation with OLAF through the AFCOS has been initiated.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **public internal financial control**, **external audit** and **protection of EC financial interests** and is expected to be in a position to implement the *acquis* in these fields from accession. However, in the area of public internal financial control, administrative capacity needs further strengthening. In the area of the protection of EC financial interests, the focus should be placed on further refining the legislative framework and on continuing to ensure the anti-fraud co-ordinating service's full operational capacity.

Lithuania is meeting the majority of the commitments and requirements arising from accession negotiations in the area of **control over structural action expenditure**. In order to complete preparations for membership, attention must be paid to strengthening administrative structures. Enhanced efforts must be made to complete the extended decentralised implementation system.

Chapter 29: Financial and budgetary provisions

Chapter 29 covers the rules concerning the financial resources necessary for the funding of the EC budget ('own resources'). These own resources are made up mainly from

contributions from Member States based on 1) traditional own resources from customs and agricultural duties and sugar levies, 2) a resource based on VAT and 3) a resource based on the level of gross national income (GNI). Member States must ensure the creation of appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules.

As regards the **traditional own resources (TOR)**, a national reporting system on cases of fraud and irregularity exists but will need to be developed further in order to comply with the procedures for reporting to the Commission in line with the OWNRES system. Lithuania plans to keep the A and B accounts in a new central accounting system 'MAKIS', which will be directly linked to the customs clearance system. However, it is very likely that the new accounting system will not be operational by accession. Therefore, a contingency plan has been devised by Lithuania to ensure that the A and B accounts can be properly drawn up from accession. It should be noted that any delays in fully and accurately applying EC customs rules will impact on the accuracy of TOR calculations. The procedures and structure concerning sugar levies have been established but need to be developed further. Some of the current accounting procedures (e.g. for anti-dumping duties and incomplete declarations) still need to be adapted to comply with Community legislation.

Considerable efforts are required by Lithuania for the correct calculation of the **VAT-based resource**, in particular concerning the calculation of the weighted average rate in accordance with ESA95.

For calculation of the **GNI-based resource**, continued efforts are needed to further implement ESA95 and improve the quality and reliability of the national accounts and GNI calculations, including their exhaustiveness.

All institutions necessary for application of the own resources system exist. A small permanent unit has been established and is responsible for co-ordination of the calculation, collection, payment and control of own resources. Further strengthening of the administrative capacity is needed.

Conclusion

Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial and budgetary provisions** and is expected to be in a position to implement from accession the relevant *acquis*. Lithuania now needs to focus its attention on improving the calculation of the VAT-based resource, further developing the procedures for keeping the A and B accounts and the system of reporting to the European Commission on fraud or irregularities (OWNRES). The development of the new 'MAKIS' central accounting system and the accuracy of traditional own resources calculations requires close attention.

D. CONCLUSION

In spite of lacklustre growth in the EU, macroeconomic performance in Lithuania remained particularly strong during 2002. The authorities actively pursued their reform path, although a number of areas — including pensions and fiscal structural reform — still require progress.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. Although fiscal policy remains firmly committed to further consolidation, several factors could put at risk the government's fiscal objective, and hence call for the formulation of a comprehensive fiscal strategy that takes into account all pending financial obligations of the central and local governments. The problem of high and persistent unemployment is being addressed through active labour market policies but implementation of these policies is crucial. Pension reform has advanced with the adoption of legislation by parliament, but the current plans fail to address the problem of an impending social security deficit. Considerable progress has been achieved in improving administrative and judicial capacity, specifically pertaining to the legal framework for bankruptcy and enterprise restructuring and market entry, but the authorities must proceed to complete their reform programme without delay.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Lithuanian public administration and judiciary but there is room for further improvements. In the field of public administration, a number of areas should receive particular attention. These include the recruitment and retention of both skilled professionals, and lower-ranking and local civil servants, to implement the *acquis* including the management of the Structural Funds. Additional staff, training and equipment are needed to complement recent reforms of the judiciary and legal system, which are now nearing completion. The fight against corruption should continue to receive high priority. While the legal framework and institutional setting is being strengthened, efforts should be maintained to tackle corruption in a systematic and effective way and to ensure adequate prevention. As far as translation of the *acquis* into Lithuanian is concerned, the number of revised texts prepared by Lithuania must increase greatly in the coming period up to accession.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Lithuania has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, new approach sectoral legislation as well as public procurement and the non-harmonised area in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems in terms of *free movement of persons*; the banking sector, the right of establishment and the freedom to provide non-financial services as well as the protection of personal data and information society services in the area of *freedom to provide services*; capital movements and payments in the field of *free movement of capital*; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Lithuania is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas. It is also expected to be in a position to implement the *acquis* in most common market organisations, in rural development and in certain veterinary

issues, notably animal disease control measures, trade in live animals and animal products, zootechnics and animal nutrition; and in *fisheries*, in the areas of state aid and international agreements.

Lithuania is also expected to be in a position to implement the *acquis* by accession in : the *transport* sector; in most areas in the field of *taxation; economic and monetary union; statistics*; labour law, equal treatment of women and men, health and safety at work, social dialogue, employment policy, social inclusion and social protection in the field of *social policy and employment*; in the *energy* sector; *industrial policy; small and medium-sized enterprises; science and research; education and training; culture and audio-visual policy*; the legislative framework and programming in the field of *regional policy and co-ordination of structural instruments*; the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; many aspects of *justice and home affairs*; customs legislation in the field of *customs union*; the common commercial policy, the humanitarian aid and development policy in the *external relations acquis*, the *common foreign and security policy*; most aspects of *financial control; financial and budgetary provisions*.

Secondly, in certain areas, Lithuania partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*; in the area of *free movement of services*, the fields of insurance, investment services and securities markets; in the field of *free movement of capital*, the completion of alignment in the area of payment systems and the reinforcement of efforts in the fight against money laundering; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area, it concerns the Paying Agency, the Integrated Administration and Control System (IACS), trade mechanisms, the common market organisations for milk and beefmeat, transmissible spongiform encephalopathies (TSEs) and animal by-products, the veterinary control system, public health in agri-food establishments, common measures, animal welfare and the phytosanitary field; and structural actions and market policy in the *fisheries* policy.

This also includes the fields of: *taxation*, as regards administrative co-operation and mutual assistance; public health, European Social Fund and anti-discrimination in the area of *social policy and employment; telecommunications and information technologies*, including the postal sector; finalising the delivery system of its institutional structures and finalising its procedures for financial management and control in the field of *regional policy and co-ordination of structural instruments*; market surveillance and non-safety measures in the area of *consumer and health protection*; migration, asylum, police co-operation and the fight against organised crime, money laundering, and fraud and corruption in the area of *justice and home affairs*; operational and administrative capacity in the field of *customs union; external relations* as regards bilateral agreements with third countries; and control over structural action expenditure in the area of *financial control*.

Thirdly, Lithuania must take immediate and decisive action to address two issues of **serious concern** in two chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to Lithuania's preparations for mutual recognition of qualifications. It also concerns the area of *fisheries*, as regards inspection and control in relation to resource and fleet management.

STATISTICAL ANNEX

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|-------------------------|--------------------------|--------|--------|--------|--------|
| Basic data | in 1000 | | | | |
| Population (average) a) | 3,549 | 3,524 | 3,500 | 3,481 | 3,469 |
| | 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 | 43.6 | 42.6 | 44.7 | 47.5 | 50.7 |
| | 1000 Mio ECU/euro | | | | |
| Gross domestic product at current prices | 9.7 | 10.0 | 12.1 | 13.3 | 14.6 |
| | in ECU/Euro | | | | |
| Gross domestic product per capita b) at current prices | 2,700 | 2,800 | 3,500 | 3,800 | 4,200 |
| | % change over the previous year | | | | |
| Gross domestic product at constant prices (nat. currency) | 7.3 | -1.8 | 4.0 | 6.5 | 6.7 |
| Employment growth | -0.8 | -0.5 | -3.7 | -4.0 | -8.1 |
| Labour productivity growth | 8.2 | -1.3 | 8.0 | 11.0 | 16.1 |
| Unit labour cost growth | 2.0 | 7.6 | -6.4 | -6.4 | 0.0 |
| | in Purchasing Power Standards | | | | |
| Gross domestic product per capita b) at current prices | 6,000 | 7,300 | 8,000 | 8,900 | 9,400 |
| | in % of EU-15 average | | | | |
| GDP per capita b) at current prices in PPS | 32 | 34 | 35 | 38 | 39 |
| Labour productivity (GDP per person employed in PPS) | 30 | 32 | 34 | 39 | 43 |
| Structure of production | % of Gross Value Added c) | | | | |
| - Agriculture | 10.0 | 8.5 | 8.0 | 7.2 | 7.1 |
| - Industry (excluding construction) | 23.7 | 23.3 | 24.4 | 25.4 | 24.3 |
| - Construction | 8.6 | 7.8 | 6.0 | 6.1 | 6.5 |
| - Services | 57.8 | 60.5 | 61.6 | 61.3 | 62.2 |
| Structure of expenditure | as % of Gross Domestic Product | | | | |
| - Final consumption expenditure | 85.4 | 87.2 | 86.3 | 84.5 | 83.1 |
| - household and NPISH | 60.7 | 64.6 | 64.2 | 64.3 | 62.6 |
| - general government | 24.7 | 22.6 | 22.1 | 20.2 | 20.4 |
| - Gross fixed capital formation | 24.6 | 22.6 | 19.2 | 20.6 | 21.5 |
| - Stock variation d) | 1.7 | 0.5 | 1.0 | 0.4 | 1.1 |
| - Exports of goods and services | 46.6 | 39.8 | 45.7 | 50.9 | 54.1 |
| - Imports of goods and services | 58.3 | 50.1 | 52.2 | 56.4 | 59.8 |

| Inflation rate | % change over the previous year | | | | |
|-----------------------|--|-----|-----|-----|-----|
| Consumer price index | 5.0 | 0.7 | 0.9 | 1.3 | 0.4 |

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|------------------------|--------|--------|--------|---------|
| Balance of payments | in Mio ECU/euro | | | | |
| -Current account | -1,158 | -1,120 | -731 | -641 | -772 g) |
| -Trade balance | -1,354 | -1,318 | -1,195 | -1,237 | : |
| <i>Exports of goods</i> | 3,534 | 2,952 | 4,385 | 5,459 | : |
| <i>Imports of goods</i> | 4,888 | 4,269 | 5,579 | 6,696 | : |
| -Net services | 215 | 286 | 411 | 510 | : |
| -Net income | -228 | -242 | -210 | -201 | : |
| -Net current transfers | 210 | 153 | 263 | 288 | : |
| <i>- of which: government transfers</i> | 92 | 55 | 68 | 39 | : |
| - FDI (net) inflows | 826 | 456 | 410 | 497 | 772 g) |

| Public finance | in % of Gross Domestic Product | | | | |
|------------------------------------|---------------------------------------|------|------|------|-------|
| General government deficit/surplus | -3.1 | -5.7 | -2.6 | -2.2 | -2.0p |
| General government debt | 17.1 | 23.4 | 24.3 | 23.4 | 22.7p |

| Financial indicators | in % of Gross Domestic Product | | | | |
|---|---------------------------------------|-------|-------|-------|---------|
| Gross foreign debt of the whole economy | 16.9 | 24.5 | 25.8 | 24.8 | : |
| | as % of exports | | | | |
| Gross foreign debt of the whole economy | 36.4 | 61.6 | 56.4 | 48.8 | : |
| Monetary aggregates | 1000 Mio ECU/euro | | | | |
| - M1 | 1.2 | 1.3 | 1.5 | 1.9 | 2.4 |
| - M2 | 1.8 | 2.2 | 2.8 | 3.6 | 4.3 |
| - M3 | : | : | : | : | : |
| Total credit | 1.4 | 1.8 | 1.9 | 2.1 | 2.6 |
| Average short-term interest rates | % per annum | | | | |
| - Day-to-day money rate e) | 6.1 | 6.3 | 3.6 | 3.4 | 2.6 |
| - Lending rate | 11.5 | 12.6 | 11.8 | 9.4 | 6.9 |
| - Deposit rate | 6.6 | 7.6 | 7.2 | 5.2 | 3.1 |
| ECU/EUR exchange rates | (1ECU/euro=..Litas) | | | | |
| - Average of period | 4.484 | 4.264 | 3.695 | 3.582 | 3.459 |
| - End of period | 4.667 | 4.017 | 3.723 | 3.523 | 3.453 |
| | 1993=100 | | | | |
| - Effective exchange rate index | 547.0 | 786.7 | 920.2 | 955.1 | 1,034.5 |
| Reserve assets | Mio ECU/euro | | | | |
| -Reserve assets (including gold) | 1,254 | 1,243 | 1,464 | 1,895 | 2,319 |
| -Reserve assets (excluding gold) | 1,208 | 1,190 | 1,409 | 1,837 | 2,260 |

| External trade | Mio ECU/euro | | | | |
|-----------------------|--------------------------|--------|--------|--------|--------|
| Trade balance | -1,895 | -1,764 | -1,826 | -1,989 | -2,421 |
| Exports | 2,881 | 2,585 | 3,855 | 4,781 | 5,537 |
| Imports | 4,776 | 4,349 | 5,681 | 6,770 | 7,958 |
| | previous year=100 | | | | |
| Terms of trade | 100.7 | 100.8 | 101.1 | 100.6 | 99.9 |
| | as % of total | | | | |
| Exports with EU-15 | 38.0 | 50.1 | 47.9 | 47.8 | 48.4 |
| Imports with EU-15 | 47.2 | 46.5 | 43.3 | 44.0 | 44.5 |

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|----------------------------------|------|------|------|------|
| Demography | per 1000 of population a) | | | | |
| Natural growth rate | -1.1 | -1.0 | -1.3 | -2.5 | -3,2 |
| Net migration rate (including corrections) | -6.2 | -5.9 | -5.8 | -0.7 | -0.6 |
| | per 1000 live-births | | | | |
| Infant mortality rate | 9.2 | 8.6 | 8.5 | 7.8 | 7.9 |
| Life expectancy : | at birth | | | | |
| Males: | 66.0 | 66.4 | 66.8 | 66.0 | 66.2 |
| Females: | 76.7 | 77.0 | 77.5 | 77.6 | 77.6 |

| Labour market (Labour Force Survey) | % of population | | | | |
|--|---|------|------|------|------|
| Economic activity rate (15-64) | 72.1 | 72.6 | 71.5 | 70.4 | 69.8 |
| Employment rate (15-64), total | 63.2 | 64.0 | 60.1 | 58.4 | 59.9 |
| Employment rate (15-64), males | 67.8 | 67.5 | 61.9 | 59.9 | 62.7 |
| Employment rate (15-64), females | 58.9 | 60.7 | 58.5 | 57.1 | 57.2 |
| | as % of the total population of the same age group | | | | |
| Employment rate of older workers (55-64) | 40.5 | 42.4 | 41.6 | 39.3 | 41.6 |
| Average employment by NACE branches | in % of total | | | | |
| - Agriculture and forestry | 20.7 | 21.4 | 18.4 | 16.5 | 18.6 |
| - Industry (excluding construction) | 21.6 | 20.0 | 21.5 | 21.2 | 20.0 |
| - Construction | 6.7 | 6.5 | 5.9 | 5.9 | 7.3 |
| - Services | 50.9 | 52.1 | 54.2 | 56.3 | 54.0 |
| | % of labour force | | | | |
| Unemployment rate, total | 11.8 | 11.2 | 15.7 | 16.1 | 13.1 |
| Unemployment rate, males | 13.1 | 12.3 | 17.9 | 18.4 | 13.3 |
| Unemployment rate, females | 10.4 | 10.0 | 13.4 | 13.8 | 13.0 |
| Unemployment rate of persons < 25 years | 23.7 | 21.3 | 27.5 | 30.9 | 20.4 |
| Long-term unemployment rate | 7.4 | 5.0 | 8.3 | 9.0 | 7.0 |

| Social cohesion | ratio of top quintile to lowest quintile | | | | |
|--|---|-----|------|------|------|
| Inequality of income distribution | 4.8 | 5.0 | : | : | : |
| | % of population aged 18-24 | | | | |
| Early school-leavers | : | : | 17.2 | 14.2 | 14.3 |
| | % of population aged 0-65 | | | | |
| Population in jobless households (persons aged 0-65) | 11.4 | 9.6 | 10.2 | 11.2 | 10.2 |

| Standard of living | Per 1000 inhabitants a) | | | | |
|---|--------------------------------|-----|-----|-----|-------|
| Number of cars | 277 | 310 | 336 | 326 | 341p |
| Main telephone lines f) | 314 | 326 | 338 | 329 | 268.0 |
| Number of subscriptions to cellular mobile services | 76 | 98 | 146 | 293 | 471p |

| Infrastructure | in km per 1000 km² | | | | |
|-----------------------|--------------------------------------|-----|-----|-----|-----|
| Railway network | 40 | 38 | 38 | 26 | 27 |
| | Km | | | | |
| Length of motorways | 417 | 417 | 417 | 417 | 417 |

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|--------------------------|------|-------|-------|-------|
| Industry and agriculture | previous year=100 | | | | |
| Industrial production volume indices | 112.1 | 90.1 | 102.2 | 116.0 | 103.1 |
| Gross agricultural production volume indices (in prices 1993) | 94.8 | 85.5 | 105.4 | 94.6 | 106.0 |

| Innovation and research | as % of GDP | | | | |
|---|-----------------------------|------|------|-------|---|
| Spending on Human Resources (public expenditure on education) | 6.83 | 6.19 | 6.04 | 5.90E | : |
| | as % of GDP | | | | |
| Gross domestic expenditure on Research & Development | 0.57 | 0.52 | 0.60 | 0.68 | : |
| | per 1000 inhabitants | | | | |
| Level of Internet access – households | : | : | 2.3 | 3.2 | : |

| Environment | tonnes CO2 equivalent per capita | | | | |
|----------------------------------|--|---------|-------|------|---|
| Total greenhouse gases emissions | 46.3 | 46.3 | 46.3 | : | : |
| | kg of oil equivalent per 1000 euro of GDP | | | | |
| Energy intensity of the economy | 1,071.2 | 1,025.7 | 926.9 | : | : |
| | as % of total electricity consumption | | | | |
| Share of renewable energy | 3.6 | 3.8 | 3.4 | : | : |
| | as % of total freight transport | | | | |
| Modal split of freight transport | 40.4 | 49.6 | 46.5 | 51.7 | : |

p=provisional figures

E=estimated data

a) Data recalculated on the basis of the Population Census 2001.

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

c) Including FISIM.

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

e) Series break after 2001.

f) Data without pay-phones.

g) Source: Website of the National Bank

Methodological notes

Inflation rate

For details please refer to the following link to the Eurostat website:
http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac_ir.htm

Finance

Public finance: The general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending (EDP B.9) of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value.

External trade

Imports and exports (current prices). The data is based upon the special 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 Lithuania.

Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2nd quarter of the respective year. The

results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

Social cohesion

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

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). Production volume indices are calculated at constant prices 2000 and out of them monthly changes and indices of production are derived.

Gross agricultural production volume indices. Gross agricultural production volume indices are calculated in constant prices of previous year.

Innovation and research

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

Environment

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

Sources

Total area, External trade, Demography, Standard of living, Infrastructure, Industry and agriculture: National sources. Other indicators: Eurostat.